



Australian Government

Department of the Environment,
Water, Heritage and the Arts

WATER for the **FUTURE**

COMMONWEALTH ENVIRONMENTAL WATER HOLDER 2009-10 Business Plan

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1. The Business Plan

1.1 Purpose

This business plan has been prepared for the use of the Commonwealth Environmental Water Holder (CEWH) and the Department of the Environment, Water, Heritage and the Arts (the Department) to:

- Guide the CEWH's activities in 2009-10, ensuring that
 - the most effective use is made of available environmental water;
 - obligations under the *Water Act 2007* (the Act) and other relevant legislation are met;
- Provide a basis for business plans in subsequent years; and
- Communicate with stakeholders about the approach that is being taken.

This plan builds on the first business plan released by the CEWH in 2008-09, noting the development of and changes that have occurred since that time. The plan is a dynamic document and activities will change within 2009-10 and for future years.

Any comments on this plan or on CEWH activities can be forwarded to cewh@environment.gov.au.

1.2 Objectives of the Commonwealth Environmental Water Holder

The objectives of the CEWH are set out in Part 6 of the Act. They are:

- to manage the Commonwealth environmental water holdings (the holdings) on behalf of the Commonwealth; and
- to administer Environmental Water Holdings Special Account (the Special Account) on behalf of the Commonwealth.

The holdings are to be managed to protect or restore the environmental assets of the Murray-Darling Basin, and other areas outside the Basin where the Commonwealth holds water; so as to give effect to relevant international agreements. The CEWH must also manage the holdings in accordance with the Murray-Darling environmental watering plan once it comes into effect.

In meeting these objectives in 2009-10, the CEWH will:

- use robust and transparent decision making processes to determine the most effective use of the Commonwealth environmental water holdings;
- continue to implement cooperative arrangements to use water from the holdings by:
 - shepherding water through watercourses;
 - applying environmental water to environmental assets;
- improve available information on the environmental assets which are in scope for environmental watering;
- further evaluate the outcomes of using Commonwealth water in the environment;
- work with the Murray-Darling Basin Authority (MDBA) in providing information on the development of the environmental water plan;
- effectively administer the Commonwealth environmental water holdings; and

- build and maintain productive relationships with stakeholders.

1.3 Context

The management of water entitlements for environmental watering is a rapidly evolving field in Australia. The CEWH will build on the experiences of 2008–09, when the holdings were used for the first time to provide water to environmental assets.

In 2009–10, the CEWH will be receiving significantly larger volumes of water entitlements from the *Water for the Future* programs. Given low storage levels in the Murray-Darling Basin and drought conditions, the allocations against these entitlements in 2009–10 are expected to be low, although these could vary substantially during the course of the year.

Key factors which will influence the functions of the CEWH in 2009–10 include:

- an increasing portfolio of water holdings across the northern and southern Murray-Darling Basin;
- continuing variation in water management arrangements between the various classes of water entitlements and the states;
- a variety of water and environmental water management bodies whose activities may intersect with the CEWH;
- the development of a Murray-Darling Basin Plan, and
- increasing community awareness of environmental water management.

In this context, we will broadly approach 2009-10 so that we:

- retain flexibility – both within the year and in regard to future years;
- identify opportunities for longer term agreements to deliver water to particular sites;
- explore the options for using larger volumes of water during environmental watering events, including for restoration of in-stream flows and connected system benefits;
- seek to use holdings in the northern Murray-Darling Basin for the first time;
- improve the provision of information about the potential use of the environmental water as well as the actual use and results from these actions; and
- continue to develop working relationships with jurisdictions and local environmental water managers.

1.4 Content and Structure of the Business Plan

Section 2 deals with the nature, functions and relationships of the CEWH. These define its characteristics, objectives and resources.

Section 3 deals with activities relating to using water.

Section 4 deals with managing the holdings.

Section 5 deals with governance and financial management arrangements of the CEWH, including the operation of the Special Account, record of holdings, the Annual Report and other administrative issues.

2. The CEWH – Nature, Functions and Relationships

2.1 Nature of the Commonwealth Environmental Water Holder

The CEWH is appointed under s115 of the Act with statutory functions set out in Part 6 of the Act, which are performed on behalf of the Commonwealth. The position holder must be engaged under the *Public Service Act 1999*. The appointee can delegate any of his or her powers under the Act to an employee of the Senior Executive Service (s117).

In 2008, the Secretary of the Department (the Secretary) appointed Mr Ian Robinson, to the position of the CEWH. Mr Robinson also holds the position of the First Assistant Secretary of the Water Governance Division.

There are legislative limits on directions that the Minister or Secretary can give to the CEWH. Any directions must be reported in the CEWH Annual Report (s114) (refer section 5.4.3). The Minister may also, with Parliament's approval, make operating rules (s109) about water trading. Operating rules are intended to provide general direction on water trading.

2.2 Functions and Activities of the Commonwealth Environmental Water Holder

The statutory functions of the CEWH are (s105(1)):

- managing the holdings on behalf of the Commonwealth; and
- administering the Special Account on behalf of the Commonwealth.

Managing the holdings involves two core **operational activities**:

- establishing the holdings and refining the holdings over time to ensure that they can efficiently service environmental water priorities (s105(2)(a-b)); and
- making water allocations available for use in environmental watering activities (s105(2)(d-e)).

Managing the holdings includes three core **administrative activities**:

- managing the Special Account (s111-s113);
- maintaining a record of the holdings (s105(2)(c)); and
- producing an Annual Report (s114).

As part of due diligence, it is important for the CEWH to undertake monitoring and reporting on operational outcomes, practice good governance and risk management processes, and actively engage with internal and external stakeholders.

The functions of the CEWH are to be performed for the purpose of protecting or restoring the environmental assets of the Murray-Darling Basin (the Basin), and other areas outside the Basin where the Commonwealth holds water, so as to give effect to relevant international agreements referred to in s4 of the Act. The CEWH must manage the holdings in accordance with relevant environmental water plans (the Basin environmental watering plan and plans listed in regulations), the Minister's operating rules and environmental watering schedules to which the CEWH is party (s105(4)).

2.3 Organisational Relationships

2.3.1 The CEWH and the Environmental Water Branch

The CEWH is supported by Departmental officers (s116) from the Environmental Water Branch within the Water Governance Division of the Department.

The Environmental Water Branch comprises three sections: Environmental Water Policy, Environmental Water Delivery and the Water Shepherding and Holdings section. These sections report through the Assistant Secretary (Environmental Water Branch) to the CEWH.

The Environmental Water Policy section provides advice on the development of improved business and operational frameworks for the CEWH, provides the secretariat to the Environmental Water Scientific Advisory Committee (EWSAC), and coordinates input to the MDBA's development of the Environmental Water Plan.

The Environmental Water Delivery section manages key discussions with the states and others about environmental watering options, provides advice to the CEWH on environmental priorities to which water should be allocated, and manages the CEWH's delivery arrangements.

The Water Shepherding and Holdings section provides advice on the protection of environmental water in unregulated systems, is responsible for coordinating the advice to the Water Efficiency Division on water acquisitions, and manages the holdings and the Special Account.

The Environmental Water Branch has a staffing complement of 25 officers and the Department meets the costs of employing these staff.

2.3.2 Relationships within the Department

The Department's Water Group comprises three divisions: Water Governance, Water Efficiency and Water Reform.

The Water Efficiency Division manages the *Restoring the Balance in the Murray-Darling Basin* program that is part of the Government's *Water for the Future* plan. The entitlements purchased under this program become part of the Commonwealth environmental water holdings. The Water Efficiency Division also manages the *Sustainable Rural Water Use and Infrastructure* program, with a portion of the water savings from projects funded under this program forming part of the CEWH's holdings.

The Water Reform Division is responsible for coordinating a national approach on research and modelling strategies for water. It is also responsible for developing frameworks for monitoring river and wetland health (including as they relate to Australia's international obligations) and for the identification of high conservation value aquatic ecosystems and providing advice on the water market, charge and trading rules. The Water Reform Division also coordinates Departmental input to the MDBA in the development of the Basin Plan and to the Basin Officials Committee on review of the Murray-Darling Basin Agreement.

Close consultation occurs across the Water Group and more broadly across the Department, to ensure that the necessary information is available for each area to perform its role.

2.3.3 Relationships with the Murray-Darling Basin Authority

The Murray-Darling Basin Authority (MDBA) is responsible under the *Water Act 2007* for the Murray-Darling Basin Plan, which is a strategic plan for the integrated and sustainable management of water resources across the whole Basin. The Basin Plan will include an environmental watering plan (EWP) to

optimise environmental outcomes for the Basin to be developed by 2011. The CEWH must manage the holdings in accordance with the EWP (s105(4)(a)), once the Basin Plan is adopted. The MDBA must consult the CEWH, and other environmental water managers in developing and implementing the EWP (s28 and 29).

The MDBA is responsible for identifying and accounting for environmental water under the Basin Plan and performing monitoring against targets that measure progress towards achieving environmental objectives.

The MDBA also manages the *Living Murray Initiative*, which aims to achieve a healthy working River Murray system. The Environmental Water Branch is a member of the *Living Murray's* Environmental Watering Group, which decides the use of *Living Murray* water. This relationship assists with the consultation on possibilities for coordinated use of the Commonwealth, *Living Murray* and state environmental water.

2.3.4 The Environmental Water Scientific Advisory Committee

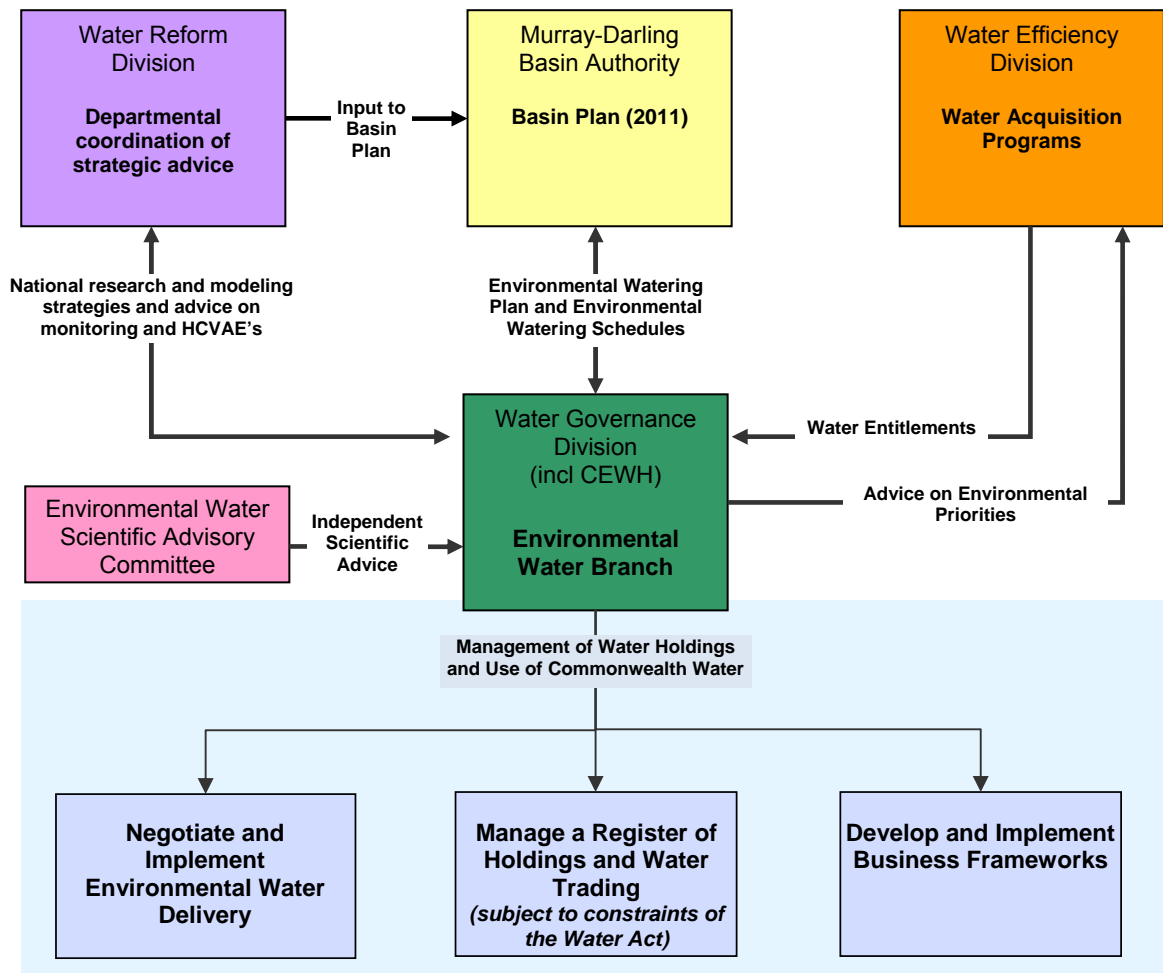
The Environmental Water Scientific Advisory Committee (EWSAC) has been established to advise the CEWH and the Department on the use of environmental water including:

- methods for determining relative priority of environmental assets;
- areas which merit additional investigation, including additional research; and
- assessing the benefits of the use of environmental water.

The EWSAC is chaired by Professor Barry Hart, and comprises eminent scientists and experts in fields such as hydrology, limnology, river operations management, river and floodplain ecology and the management of aquatic ecosystems.

Figure 1 shows the distribution of responsibilities within the Water Group of the Department together with the role of the MDBA.

Figure 1: Key Environmental Water Responsibilities – Department and MDBA



3. Water Use

The functions of the CEWH are to be performed for the purpose of protecting or restoring the environmental assets of the Murray-Darling Basin, and other areas outside the Basin where the Commonwealth holds water, so as to give effect to relevant international agreements.

The CEWH must manage the holdings in accordance with relevant environmental water plans (the Basin environmental watering plan and plans listed in regulations), the Minister's operating rules and environmental watering schedules to which the CEWH is party.

3.1 Defining Environmental Assets

Under the Act, environmental assets are defined as:

- water-dependent ecosystems;
- ecosystem services;
- sites with ecological significance.

The relevant international agreements are the Convention on Wetlands of International Importance (the Ramsar Convention), the Convention on Biological Diversity (Biodiversity Convention), the Convention to Combat Desertification, the Climate Change Convention, the Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention) and migratory bird agreements Australia has signed with China, Japan and, South Korea. The Act further defines relevant international agreements as any other international convention to which Australia is a party and that is relevant to the use and management of the Murray-Darling Basin's water resources and is prescribed by the Act's regulations.

The range of actions that would give effect to these agreements is very broad — for example, while specific wetlands in the Basin are listed under the Ramsar Convention, the Convention requires signatory states to generally promote wise use of all wetlands within their territory. Similarly, the Biodiversity Convention is also broad and requires signatory states to promote the protection of ecosystems, natural habitats and maintenance of viable populations of species in natural surroundings.

International agreements provide guidance on the definition of environmental assets for the purposes of the CEWH. Consequently, potential environmental assets may include but are not limited to: the List of Wetlands of International Importance (the Ramsar List), wetlands listed on the Directory of Important Wetlands of Australia, and aquatic ecosystems that are known to support listed threatened species and communities, including migratory birds, or the waterways that support the function of these ecosystems.

In 2009-10, the Environmental Water Branch will be improving the available information on the environmental assets that are in scope for watering in the Murray-Darling Basin. The Branch will undertake this work with the MDBA and consult closely with other Commonwealth entities, state governments, environmental managers, landholders and research institutions.

3.2 Environmental Asset Priorities in Acquisition Programs

Water acquisitions will be guided by the need to ensure that Commonwealth water can be delivered to support a diverse range of environmental assets and ecological values across the Basin, ranging for example, from terminal wetlands in the northern Basin, to critical floodplain wetlands and associated remnant River Red-gum forests of the River Murray system.

In 2009-10 the Environmental Water Branch will continue to provide the Water Efficiency Division with advice on environmental priorities to inform water entitlement acquisitions under the *Restoring the Balance in the Murray-Darling Basin* and *Sustainable Rural Water Use and Infrastructure* programs. This approach is designed to ensure that as far as possible, acquisitions match the environmental priorities to which the CEWH will allocate water. Further information on the acquisition programs is provided at Sections 4.1.1 and 4.1.2.

3.3 Prioritising Environmental Water

3.3.1 2009-10 Climate Outlook and Water Holdings

As at July 2009 the outlook for inflows into the Basin, and therefore any increase in low storage levels, is poor. Allocations in most valleys, have started 2009-10 at zero per cent, with allocations reliant on inflows during late winter/spring.

At the beginning of 2009-10, the Commonwealth held 63.6 gigalitres (GL) of water entitlements, comprising a mix of high, medium and low security entitlements across the Basin. The size of these holdings will continue to increase as the year proceeds, including from the finalisation of offered entitlements as part of the 2008-09 water buybacks tender process.

While the dry outlook means that allocations against water rights may continue to be low, the magnitude of the increased holdings suggests that overall volumes of allocated and deliverable environmental water will increase significantly, relative to 2008-09 volumes. The range of environmental assets considered to be in scope for watering in 2009-10 will broaden accordingly.

3.3.2 Decision Making Process

In 2009-10 the CEWH expects to be able to consider a wider range of environmental assets for water delivery as a result of the availability of further information, ongoing engagement with delivery partners and larger volumes of Commonwealth water throughout the Basin.

The decision making process will be a robust and transparent process to determine the best use of Commonwealth environmental water holdings. In 2009-10 the CEWH will work with jurisdictions to identify important environmental assets and their watering requirements. States have been asked to provide information to assist with prioritising the use of Commonwealth water. Information requested includes environmental asset characteristics, ecological objectives, water requirements, monitoring approach, and costs and management regimes associated with watering actions.

In addition to this information, the CEWH will also draw on existing plans that identify environmental priorities across the Basin. These include the Water Use Plans and annual environmental watering plans for inland regulated rivers in NSW, the Regional River Health Strategies and annual operating plans in Victoria, the Murray River Plan in South Australia, and site specific environmental water management plans such as those prepared for the Living Murray icon sites.

Proposals will then be assessed against criteria agreed by the Environmental Water Scientific Advisory Committee to ensure the best use of the available Commonwealth water, that is:

- the ecological significance of the asset (s);
- the expected ecological outcomes from the proposed watering action;
- the potential risks of the proposed watering action at the site and at connected locations;

- the long-term sustainability of the asset (s) including appropriate management arrangements; and
- the cost effectiveness and operational feasibility of undertaking the watering.

Further details on the selection criteria are at [Attachment 1](#).

Due to the continuing dry climatic outlook, in 2009-10 the CEWH will prioritise watering actions consistent with objectives for extreme dry conditions as specified in the draft document, *A Framework for Determining Commonwealth Watering Actions* (DEWHA 2009), which includes:

- avoiding critical loss of threatened species;
- avoiding irretrievable damage or catastrophic events; and
- providing drought refuges to allow re-colonisation following drought.

Should the climatic conditions improve and water resource availability and flow conditions change, these objectives would be adjusted as outlined in Table 1.

Table 1: Proposed ecological watering objectives under different water resource availability scenarios

Ecological watering objectives	Extreme Dry	Dry	Median	Wet
	Avoid damage to key environmental assets	Ensure ecological capacity for recovery	Maintain ecological health and resilience	Improve and extend healthy and resilient aquatic ecosystems
Management objectives	<ul style="list-style-type: none"> - Avoid critical loss of threatened species and communities - Maintain key refuges - Avoid irretrievable damage or catastrophic events 	<ul style="list-style-type: none"> - Support the survival and growth of threatened species and communities including limited small-scale recruitment - Maintain diverse habitats - Maintain low flow river and floodplain functional processes in sites and reaches of priority assets 	<ul style="list-style-type: none"> - Enable growth, reproduction and small-scale recruitment for a diverse range of flora and fauna - Promote low-lying floodplain-river connectivity - Support medium flow river and floodplain functional processes 	<ul style="list-style-type: none"> - Enable growth, reproduction and large-scale recruitment for a diverse range of flora and fauna - Promote higher floodplain-river connectivity - Support high flow river and floodplain functional processes
Management actions	<ul style="list-style-type: none"> - Water refugia and sites supporting threatened species and communities - Undertake emergency watering at specific sites of priority assets - Use carryover volumes to maintain critical needs 	<ul style="list-style-type: none"> - Water refugia and sites supporting threatened species and communities - Provide low flow and freshes in sites and reaches of priority assets - Use carryover volumes to maintain follow-up watering 	<ul style="list-style-type: none"> - Prolong flood/high-flow duration at key sites and reaches of priority assets - Contribute to the full-range of in-channel flows - Use carryover to provide optimal seasonal flow patterns in subsequent years 	<ul style="list-style-type: none"> - Increase flood/high-flow duration and extent across priority assets - Contribute to the full range of flows incl. over-bank - Use carryover to provide optimal seasonal flow patterns in subsequent years

The assessment of priorities will also take into account the total volume of water available from the CEWH holdings, input provided by state governments and local site managers, as well as advice from

the Environmental Water Scientific Advisory Committee. The Department will also continue to consult closely with state jurisdictions and environmental asset managers to ensure that prioritisation is robust and responsive to changes in environmental conditions.

3.3.3 The Basin Plan / Environmental Watering Plan

The Murray-Darling Basin Authority began operation on 8 September 2008, and is responsible for the preparation and implementation of the first Murray-Darling Basin Plan, which includes an Environmental Watering Plan (EWP) by 2011. The CEWH is required to act in accordance with the EWP once developed. The objectives of the Basin Plan - to protect and restore key environmental assets and key ecosystem functions - are already strongly aligned with those of the CEWH. This consistency in objectives, and the intent of the CEWH and MDBA to work collaboratively on matters of mutual interest, will ensure that there is a smooth transition in the CEWH's operations during and after the Basin planning process.

3.4 Environmental Water Delivery

In 2009-10 the CEWH will deliver water through environmental watering arrangements that provide sound governance and water management arrangements.

Watering actions will be undertaken at times, and in ways, that reflect the natural hydrological cycles of environmental assets. For most assets, this will require water to be delivered during spring/early summer and/or autumn, though there is some flexibility in timing, depending on asset location within the Basin. Watering decisions will also recognise the requirement for drying sequences, which are equally important for the integrity of many ecological communities, and incorporate these requirements into future decision processes.

Water allocations against the holdings will, where possible, build on other environmental water to deliver the most effective overall environmental outcome. This will involve regular review of options throughout the year with ongoing advice being obtained on the condition of environmental assets and their relative needs. The Commonwealth will generally undertake its watering activities in conjunction with existing environmental water managers as delivery partners.

While taking a planned and long-term approach to watering, the CEWH will develop streamlined decision mechanisms and maintain flexibility to respond quickly as conditions change, allowing maximum benefits to be achieved when local conditions change.

3.4.1 Institutional Arrangements for Environmental Water Delivery

The Australian Government is working closely with state governments to ensure that appropriate institutional arrangements are in place under the Basin Plan, state water management regimes and the Murray-Darling Basin Agreement, to optimise the delivery of water for the environment.

- In regulated rivers, water is currently delivered to the location of priority environmental assets using water trading. As the volume of water held for the environment increases, in-stream watering will become critical to efficient delivery of water to meet environmental objectives. This means that increasingly, environmental watering will need to be integrated into river operations.
- In unregulated rivers, water shepherding (used in conjunction with water trading) will be required to ensure that in-stream environmental flows are directed to priority environmental needs and protected from consumption.

During 2009-10, the CEWH will be working with jurisdictions and river operators to put in place appropriate arrangements to ensure that the holdings can be delivered in a manner that maximises the environmental benefits.

3.4.2 Cooperative Arrangements for Water Delivery

The Commonwealth approach to environmental water use involves cooperative watering with other environmental water holders and managers. In 2009-10 the CEWH will consider entering into long-term arrangements for the cooperative delivery of environmental water at particular high priority environmental assets and for broader management arrangements across jurisdictions. The content of these arrangements may include:

- general recognition of the priority status of the site/complex;
- ecological objectives and targets;
- agreed watering plans (e.g. volume, frequency, timing);
- commitments on respective volumes/ratios of water to be delivered, given water availability;
- agreement on mechanisms for the transfer of water allocations to partners' accounts;
- delivery arrangements (eg.operation of pumps or other infrastructure);
- monitoring, evaluation and reporting arrangements; and
- agreements on cost distribution.

3.5 Evaluating Environmental Outcomes

Performance monitoring, evaluation and reporting of the use of the holdings will be used to assess the effectiveness of watering strategies and to further develop watering priorities. The information gathered will be useful for evaluating the outcomes of environmental watering policies; enable adaptive management of watering events; and assist in refining future prioritisation processes.

For the CEWH's watering actions in 2008-09, site monitoring and evaluation provided by delivery partners and environmental site managers, such as state agencies and catchment management authorities, was generally used to determine action. This monitoring focused on the effect of the watering event. A similar process will be employed for the monitoring and evaluation of spring watering in 2009.

During 2009-10, existing monitoring, evaluation and reporting activities undertaken by partners and other environmental site managers will be assessed and consider what additional arrangements may be required for autumn watering in 2010. This information will help inform a longer term monitoring and evaluation framework for Commonwealth environmental water.

During 2009-10 the CEWH will also prepare an inaugural monitoring and evaluation report on watering actions and the environmental outcomes from Commonwealth environmental watering.

4. Managing the Holdings

Water rights acquired by the Commonwealth under *Water for the Future* programs become part of the holdings. The CEWH will use water rights that become part of the holdings to protect or restore environmental assets.

The function of managing the holdings comprises two core operational activities:

- Establishing and managing the holdings; and
- Making holdings allocations available for environmental watering activities.

In 2009-10 these two core operational activities will be undertaken with the objective of optimising the composition and administration of the holdings.

4.1 Building the Holdings

The holdings are defined (s108) as water rights, water delivery rights, irrigation rights, similar rights, interests in relation to such rights, and rights held in trust or donated, owned by the Commonwealth for the performance of functions related to the Act. The holdings will include all Commonwealth water acquired or held for the purpose of protecting or restoring the environment. The sources of holdings are:

- Commonwealth purchases of water rights;
- water savings from Commonwealth funding of irrigation improvements; and
- donations.

4.1.1 Commonwealth Purchases of Water Rights

The Water Efficiency Division is managing the acquisition of water rights on behalf of the Commonwealth. Water rights acquired under the \$3.1 billion *Restoring the Balance in the Murray-Darling Basin* program will become holdings for the purposes of Part 6 of the Act when ownership is transferred to the Commonwealth¹. Some acquired holdings may require additional transactions (such as conversion from shares in an irrigation corporation to State issued water rights) to ensure that they can be effectively used. These processes will be managed by the Water Efficiency Division but will be subject to consultation with the CEWH.

Proposed acquisitions are reviewed by an assessment panel using criteria agreed by the Minister. The *Restoring the Balance in the Murray-Darling Basin* program is an administered program managed by the Department (not the CEWH) under guidelines approved by the Australian Government.

The criteria currently used in Commonwealth acquisition assessments consider the:

- capacity of the right to service priority environmental assets;
- security of the entitlement;
- watering needs of the environmental assets that the right can service; and
- value for money – the financial cost of acquiring and managing the right.

¹ More information about this program is available at <http://www.environment.gov.au/water/mdb/entitlement-purchasing/index.html>.

Amongst other factors, these criteria ensure that the programs are acquiring entitlements that can be effectively used to meet environmental objectives.

4.1.2 Acquisition of Water Rights from Investments in Water Savings

The *Sustainable Rural Water Use and Infrastructure* program is a national program where the Australian Government has allocated \$5.8 billion to fund infrastructure improvements within, and outside, of the Basin.

A portion of the water savings from these projects will become part of the Commonwealth environmental water holdings and be managed by the CEWH.

The Minister has indicated that projects must:

- secure a long-term sustainable future for irrigation communities, in the context of climate change and reduced water availability into the future;
- deliver sustainable and lasting returns of water to the environment to secure real improvements in river health; and
- deliver value for money in the context of the first two conditions.

Water recovered from these projects are expected to begin accruing to the holdings from 2009-10.

4.1.3 Donations

The Water Act provides for the crediting of the Environmental Water Holdings Special Account with gifts or bequests, and the Commonwealth water holdings could possibly include water rights donated by private individuals and the states. In September 2008, the Queensland Government announced a gift of 10.6GL of water from the Warrego, Nebine, Moonie and Border Rivers catchments. During 2009-10 the CEWH will develop a donations policy which will define the most effective mechanisms to receive and manage future financial donations and gifts of water.

4.2 Managing Holdings Allocations

The CEWH will collect and regularly update data on acquisition of entitlements under the *Restoring the Balance in the Murray-Darling Basin* program and ensure that the Commonwealth environmental water holdings register (section 5.2) is kept up-to-date. Water allocations accruing to the holdings, transfers and water use are reported on water accounts for each licence (water right) issued by the relevant state agency or irrigation corporation. The CEWH will regularly review these accounts and use them to update the holdings register at least once a month.

The holdings register will be used in conjunction with allocation announcements and forecasts made by state agencies, historic allocation announcements and climate forecasts to predict likely future water holding positions. These forecasts will be kept updated and will assist with determining the most effective watering opportunities.

4.2.1 Managing Water Accounts

Water accounts for each licence in the holdings will have different characteristics with respect to factors including:

- conditions on using allocations;
- processes for ordering water;

- linkage to water use approvals;
- rules and processes for trading water allocations; and
- water accounting rules such as carryover, maximum use provisions and water order debiting.

The 2008-09 Business Plan identified the need for the CEWH to gain an understanding of these factors for each water right acquired; seeking external advice as necessary and in 2009-10 the CEWH will continue to build on this understanding.

Given the larger volume of water forecast in the holdings, transfers of allocations between licences in the holdings are expected to become increasingly important in 2009-10. This will be of considerable importance in the southern-connected rivers of the Basin to enhance water delivery capacity, to enable the CEWH to take advantage of water carryover, and to reduce the constraints imposed by any jurisdictional and/or institutional boundaries.

4.2.2 Making Water Available for Use

Arrangements for making water available for use under different delivery partnerships will depend on the rules of the relevant jurisdiction or corporation, the preferences of the delivery partners, the location of the watering activity, and trade offs between efficiency and flexibility. Developing a comprehensive understanding of these requirements and documenting them will be a major component of the CEWH's work plan in 2009-10, and will build on the experiences with the delivery arrangements established in 2008-09.

One approach to making water available in situations where holdings are located in the same jurisdiction is to link the holding account to the delivery partner's works or water delivery approval, and thus allow the partner to order water under the terms of an agreement.

Alternatively, the CEWH may use allocation transfers to:

- transfer allocations to a partner's account, providing them with authority to use it under an agreement; and
- recover water from a partner's account where it cannot be used under the agreement within a water accounting period.

A further option is to use term transfers or tagged trading to transfer allocations to a watering partner and to allow them to use water under the terms of an agreement.

Table 2 identifies some of the positives and negatives associated with the different methods of making holdings allocations available to a partner (or their works). During 2008–09 the principle method of making water available for use was through trade allocation transfers. In 2009–10, the various options in Table 2 will again be assessed to determine the optimal methods for individual watering events, and the method(s) most suitable for longer term arrangements.

Table 2: Methods of making water available to a partner's works

Method of making water available	Positives	Negatives
Administrative - linking the holdings account to the partners works	Requires no dealings.	Opportunities limited by State borders, institutional arrangements and trading restrictions/ embargoes.
Trade - Allocation transfers (temporary trade) – debits water from the holdings account and credits the partner	Allows the transfer of holdings allocations through most institutional, jurisdictional and physical trade barriers. Allows for transfers between different types of holdings accounts for end of year banking.	Approval can take several weeks. May need to undertake several transfers if they are not well planned. Must actively recover any unused water from partner's account.
Trade - Tagged trading - equivalent to assignment between valleys or jurisdictions – similar in effect to multiple allocation transfers and when allocations accrue	Reduces the number of allocation trades and the need for active management.	May be assessed on similar terms to a permanent trade and take several weeks (or months) for approval. Must actively recover any unused water from partner's account.
Trade - Term transfer – provides the partner with all allocations accruing to the Holding for a defined period of time	Reduces the number of allocation trades and the need for active management.	May be assessed on similar terms to a permanent trade and take several weeks (or months) for approval. Must actively recover any unused water from partner's account.

4.2.3 Works and Measures to Deliver Water

During 2008-9 the CEWH consulted with delivery partners on measures such as pumping to deliver water to some environmental assets. During 2009-10 it is possible that pumping and the use of minor diversion structures may be necessary for some of the watering actions, particularly during the ongoing drought conditions when river levels are low. Works and measures are less likely to be required where the target of watering is an in-stream asset or a terminal wetland.

The Australian Government currently contributes funds to works and measures associated with watering undertaken in the southern connected part of the Basin through *The Living Murray Initiative*.

4.3 Reviewing and Optimising the Holdings

The Act allows the CEWH to sell water rights, provided that it uses the proceeds to buy water that better meets environmental objectives. That is, the CEWH may only dispose of water (seasonal allocations) and holdings (entitlements) if:

- the seasonal allocations are not required to meet environmental objectives in a given water accounting period and cannot be carried over to the next accounting period [s106(1)]; or
- the proceeds of the disposal (of either seasonal allocations or entitlements) are used to purchase water (either seasonal allocations or entitlements) that improves the capacity of the holdings to meet the environmental objectives [106(2)].

The CEWH will review the holdings over time with respect to their adequacy in meeting environmental objectives in an efficient manner. During 2009-10 it is not anticipated that review of the holdings will result in sale of water rights because purchases to date have been aligned with current environmental objectives and are predominantly in regulated river licences that provide security and flexibility of use.

The holdings will be managed with the goal that unused allocations accrued in 2009-10 will be carried over to the 2010-11 water year.

4.4 Operating Rules

The Act allows the Minister to make operating rules by legislative instrument that may relate to the trading of the holdings. These rules would provide a general framework rather than providing specific direction. As trading in entitlements is unlikely to occur in 2009-10 it is not expected that there will be a need for operating rules this year. This position will be kept under review and advice provided, as required.

5. Governance and Financial Management

5.1 Budget and Financial Management

The CEWH is a statutory position in the Department. The Special Account is a Department account established under s111 of the Act as a Special Account for the purposes of the *Financial Management and Accountability Act 1997*. The holdings and any contractual commitments will be administered assets and liabilities of the Department.

The functions and activities of the CEWH will be conducted inline with established Departmental financial arrangements. Given these arrangements, the CEWH will have the resources, staff and support of the Department to effectively manage the Special Account. The Department has made arrangements to support the CEWH in the following areas: financial systems for managing expenses, the holdings register and the special account; legal and technical advice on the CEWH's functions; staffing and the provision of funding for Departmental expenses.

In 2009-10, the emphasis of the CEWH's work in financial management will continue to be on refining estimates of the costs of the holdings, delivery and trading water and ensuring that adequate funding is available to meet such costs.

5.1.1 2009-10 Budget

A budget for 2009-10 has been prepared for the Environmental Water Branch and for the management of the holdings. These budgets will be monitored during 2009-10 against actual water rights acquisitions, water allocations and expenditure. Holding and usage costs comprise fixed and variable components. The variable component depends on the annual amount of water allocated to the entitlement and the amount of water used. The budgets will be updated in accordance with Departmental processes and timelines and any changes to funding arising from those processes. During the year, the Environmental Water Branch will develop the budget for 2010-11 and forecasts for later years.

5.1.2 The Environmental Water Holder Special Account

The *Water Act 2007* specifies that the CEWH is to administer the Environmental Water Holdings Special Account on behalf of the Commonwealth. The CEWH may delegate some or all of this administration to an Senior Executive Officer in accordance with s117 of the Act.

Section 112 of the Act specifies the allowable credits, which are: appropriations for the special account; amounts received by the Commonwealth in the performance of the CEWH's functions; amounts received from Basin States; amounts received from the sale of property paid for from the Special Account; and donations.

Allowable debits are specified in s113 (2-3) of the Act and comprise the costs and expenses incurred by the CEWH in performing his/her statutory functions and meeting the expenses of administering the Special Account. The salary costs of the CEWH and Departmental officers assisting the CEWH cannot be paid from the Special Account and are therefore paid from Departmental funding.

The Department will support the operation of the Special Account through its financial management and reporting functions. At the beginning of the 2009-10 Financial Year, the Special Account had a balance of \$3.8 million.

The *Water Act 2007* requires the CEWH to report annually on the management of the Special Account. The CEWH will undertake this function in conjunction with the Department, which is required to report on the Special Account in its financial statements.

The Special Account will be audited as part of the audit of the Department's financial statements.

5.1.3 Financial Commitments / Obligations

Holding and using water, and agreements with watering partners, will create financial obligations for the Commonwealth in the form of holding and delivery charges, (potential) agreements to provide funding for the delivery of water, and other contractual commitments.

5.2 Asset Management

5.2.1 Accounting, Valuation and Reporting of the Holdings

The CEWH and the Chief Financial Officer of the Department will work closely to ensure the holdings are appropriately recorded and reported.

Rights acquired for the holdings are intangible assets in accordance with the Australian Accounting Standard on Intangible Assets (AASB 138). These will be recognised on the Department's balance sheet, if they meet the recognition criteria in AASB 138: that it is probable that expected future economic benefits will flow to the entity from the rights and that the cost of the rights can be measured reliably.

Rights that are recognised will be valued at cost (or fair value for assets acquired at no or nominal cost). If an active market exists then the standard AASB 138 requires entitlements to be valued using the revaluation model.

An active market is a market in which all the following conditions exist:

- the items traded in the market are homogenous,
- willing buyers and sellers can normally be found at any time, and
- prices are available to the public.

During 2008-09, the Department received advice from KPMG confirming that water markets do not, at present, meet the criteria for an active market. The Australian National Audit Office has accepted this view and as such, water rights will be valued using the cost model. Under this model, water rights will be annually tested for impairment using the AASB 136 Impairment of Assets standard. Any significant or prolonged decline in the market price of the rights acquired will result in a write-down in the value of the rights on the Department's balance sheet.

Water allocations will not be identified as separate assets. Consistent with the classification of the permanent water licences as intangible assets, the water allocation is considered analogous to a future income stream 'built in' to the value of the underlying water entitlement asset. In other words, the value of the water licence equals the discounted expected value of future water allocations.

In 2009-10, the Environmental Water Branch will prepare a pilot report in accordance with the Australian Water Accounting Standard that is being developed.

Details of the Commonwealth's environmental water holdings are available on the Department's website and are updated on a monthly basis.

5.2.2 Holdings Register

The CEWH is required to maintain an up-to-date record of the holdings (s105(2)(c)).

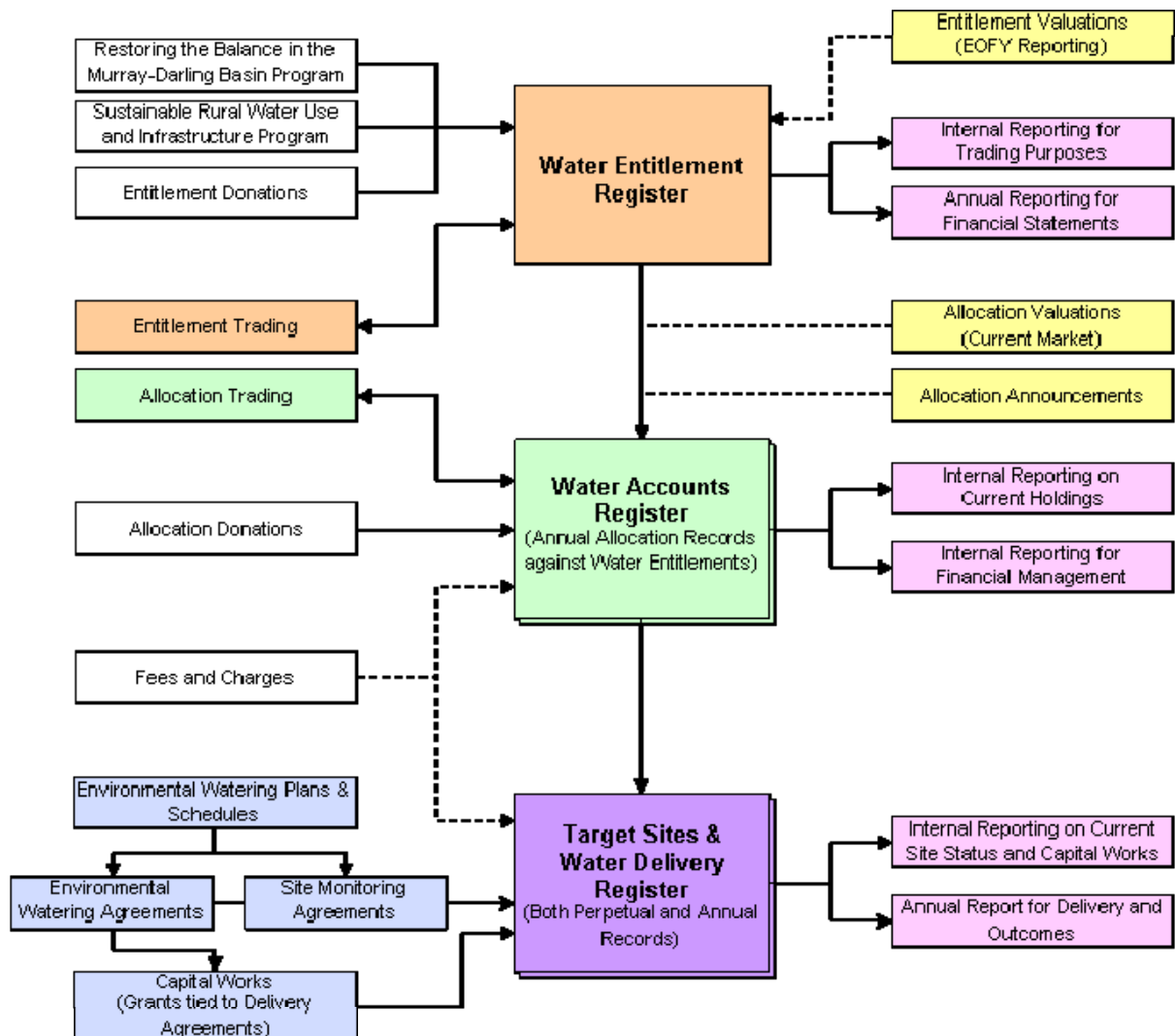
The CEWH will maintain an up-to-date record in the form of a register of holdings. The register is a list of the entitlements held and the credits available to their associated water allocation accounts; an Entitlement Register and a Water Account Register.

The register of holdings will provide information on:

- water delivery activities;
- transfer and trading records;
- allocation account management; and
- costs incurred in managing the holdings.

A register was in place for 2008-09. In 2009-10 the adequacy of this register will be reviewed to ensure it continues to meet the CEWH's needs. [Figure 2](#) is a schematic diagram of the register.

Figure 2: Information Management and Data Flow Schematic



5.2.3 Market Information

Data on the trade in water entitlements and allocations is recorded in state managed registers. The CEWH will utilise this data to ensure that up-to-date information is available on the volume and price of water traded in areas where holdings are held or being acquired. This market information will be:

- used in the valuation of the holdings;
- used in identifying opportunities for trading allocations and entitlements; and
- used in responding to requests for information.

5.3 The Annual Report

The CEWH is required to provide the Minister with an Annual Report as soon as practicable following 30 June (s114(1)). The Annual Report must provide information on the achievements against the objectives of 'the environmental watering plan', management of the Special Account, and all directions that the Minister and the Secretary gave to the CEWH (s114(2)).

The Minister is required to table the Annual Report in Parliament and cause a copy to be provided to each of the Basin States. The Annual Report will be published in volume two of the Department's Annual Report, which provides a number of annual reports on legislation administered by the Department.

5.4 Governance

5.4.1 Confidentiality of Information and Conflicts of Interest

The CEWH will observe the Australian Government's and Departmental procedures and policies for the handling of confidential information and conflicts of interest.

5.4.2 Record Keeping and Documentation

The CEWH will maintain records in accordance with established Departmental and Australian Government requirements. The records to be maintained include:

- directions from the Minister or the Secretary and the response to those directions;
- watering agreements, the activities undertaken through those watering agreements, and their outcomes;
- dealings in holdings and holdings allocations; and
- advice received on environmental watering priorities.

5.4.3 Directions from the Minister and the Secretary

Any direction from either the Minister or the Secretary will be formalised in writing to ensure that these are implemented consistent with the limits/ requirements of legislation.

5.4.4 Internal Reporting

The CEWH will ensure that the Water Group executive, Deputy Secretary, Secretary and the Minister are kept regularly informed about:

- the use of Commonwealth environmental water holdings;
- forecast positions in relation to the holdings and their use;
- the development of tools and resources to assist the CEWH in meeting any statutory requirements.

5.4.5 Risk Management

The Department has an internal risk identification and management process that involves a regular formal review. Risks to the CEWH's operations will change over time as the holdings, watering arrangements and systems mature.

5.5 Communications and Stakeholder Engagement

The CEWH engages with a range of external stakeholders (particularly environmental water managers) in establishing its watering partnership arrangements and in developing its long-term strategy for watering arrangements.

In 2009-10 the CEWH will continue to revise and update a detailed web page (on the Department's website) to assist in communicating the use of its holdings. The web page will include:

- the location of environmental assets in the Murray-Darling Basin;
- the sites, volumes and outcomes of environmental watering conducted by the CEWH; and
- the location and volumes of Commonwealth environmental water holdings at a catchment scale.

The web page will also continue to be supplemented with information sheets and a "frequently asked questions" fact sheet.

6. Glossary

allocation

The volume of water allocated for use in any year under a *water right*.

Basin Plan

The plan for water management in the MDB under the Part 2 of the Act, to be developed by the MDBA and made as a legislative instrument by the Minister.

entitlement

Common name for a *water right* issued under State legislation.

environmental watering plan

Part of the *Basin Plan* that deals with managing water designated to protecting and restoring environmental assets (s28 of the Act).

holdings

All *water rights* owned by the Commonwealth, except those that are not for the purpose of water management under the Act. The holdings include all Commonwealth owned water rights that are held for the purpose of protecting or restoring environmental assets.

gigalitres (GL)

1 billion litres.

operating rules

The Minister may, with Parliament's approval, make operating rules (s109 of the Act) that provide general direction to the CEWH around *water trading*.

planned environmental water

Water or *water rights* designated for specific environmental purposes under State water management regimes.

southern-connected rivers

Rivers located within the southern part of the MDB with permanent (or near to permanent) hydrologic connection allowing water from upstream catchments to be used in downstream catchments. The major southern-connected rivers include:

1. Murray River
2. Murrumbidgee River
3. Darling River downstream of Menindee Lakes
4. Goulburn River
5. Other rivers of northern Victoria within the MDB

Special Account

The Environmental Water Holdings Special Account established under s111 of the Act, which is to be managed by the CEWH.

tagged trading

A trading arrangement under which every allocation under a *water right* is made available for use in a catchment that is different from the source catchment.

- The *water right* retains its original source location and characteristics.
- A person who has obtained a *water right* by tagged trading owns the water right in the source catchment but may also need a water use right in the delivery catchment.
- Intrastate tagged trades are made under State legislation. Interstate trades are made under State legislation and the Murray Darling Basin Agreement.

term transfer

A fixed term transfer of allocations under a water right to another person.

water right

Any right (or share in a right) conferred under State law to hold or take a nominal volume of water from a water resource, usually in the form of an annual *allocation*. The actual volume of the *allocation* varies from year to year depending on the amount available.

Water rights issued in each State are referred to by different names:

- entitlement (NSW)
- water share (Victoria)
- supplemented allocation (Queensland)
- water holding allocation (South Australia)

water trading

Transfer of water or a *water right* from one person to another. This includes purchasing, disposing of, and otherwise dealing in, water and *water rights*.

water year

The 12 month period during which a volume of water is allocated to a *water right*. The water year is typically 1 July to 30 June with some exceptions in the northern Murray-Darling Basin.

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Criteria for Assessing 2009–10 Environmental Watering Actions

In undertaking its activities the Commonwealth Environmental Water Holder (CEWH) is required to act consistently with the requirements of the *Water Act 2007* (relevant functions are outlined in sec 105). This includes a requirement that the environmental water holdings be managed in accordance with the environmental watering plan of the Murray-Darling Basin Authority (MDBA). Close consultation is occurring with the MDBA to ensure that use of Commonwealth water is consistent with the emerging objectives of the environmental watering plan that is currently being developed.

A long-term framework for the prioritisation of environmental water allocations is being prepared in consultation with delivery partners, interested stakeholders / experts and with the Environmental Water Scientific Advisory Committee (available at www.environment.gov.au/water/policy-programs/cewh).

The framework proposes CEWH ecological objectives that will change under different water availability scenarios (extreme dry, dry, median, wet). Proposed watering actions will need to be supported by the adequate provision of available evidence and be consistent with the current water availability scenario and the framework. Through adaptive management processes, the CEWH will consider any opportunities for a more informed and diverse range of water uses as knowledge and modelling improves. 2009-10 proposals will be assessed against the following criteria.

1. The ecological significance of the asset(s).

Issues to be considered will include:

- the presence of threatened species and ecological communities, and listed migratory species; and
- the ecological and conservation values of the assets(s) including those recognised by international agreements.

2. The expected ecological outcomes from the proposed watering action.

Issues to be considered will include:

- how well defined and realistic the objectives are for the proposed watering action;
- the consistency of these objectives with the overall CEWH ecological objectives for the current forecast water availability scenario;
- the current health of the asset(s);
- the improvement in health of the asset(s) expected from the watering action;
- the basin-wide significance of the ecological response from the watering action;
- any secondary environmental effects expected to result from the watering action (e.g. connected system benefits); and
- the change in the health of the asset(s) expected if environmental water is not provided.

3. The potential risks of the proposed watering action at the site and at connected locations.

Issues to be considered will include:

- how thoroughly the potential risks have been assessed for the proposed watering;
- the adequacy of measures proposed to minimise these risks; and
- the likelihood and consequence of variance from the expected ecological outcome (including negative impacts on biota and water quality).

4. The long-term sustainability of the asset(s) including appropriate management arrangements.

Issues to be considered will include:

- the adequacy of long-term management arrangements;
- the existence of complementary natural resource management activities supporting the long-term management arrangements, including those that improve water quality; and
- the effectiveness of monitoring, evaluation and reporting arrangements for the watering activity including clear links to the defined objectives.

5. The cost effectiveness and operational feasibility of undertaking the watering.

Issues to be considered will include:

- the amount of Common wealth water and resources needed, including relative to the contribution of the State and delivery partner to (i) the watering event and (ii) subsequent monitoring of actions and outcomes;
- the arrangements for the delivery of water to the asset(s), including the potential for transmission losses and the adequate accounting of flows;
- opportunity to supplement natural flows or other water releases; and
- the operational feasibility of undertaking the watering action (e.g. channel capacity, infrastructure constraints, etc).

COMMONWEALTH ENVIRONMENTAL WATER HOLDER
2009-10 BUSINESS PLAN

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