Australian Government
Department of Agriculture

Water Valuation Strategy

Water Efficiency Program

Introduction

The aim of this strategy is to ensure that in assessing projects under the Water Efficiency Program a consistent and reliable methodology is applied for determining the market value for eligible water entitlement rights.

It will also enable the Department of Agriculture to fulfil the Australian Government's commitments and obligations to run an efficient, fair and transparent procurement process that achieves value for money for the taxpayer.

The methodology will support the program by:

- determining a market value for each eligible water right that reflects contemporary market prices and recognises changes in market conditions
- informing the department's evaluation of projects, in particular, their value for money by determining a fair price the department is willing to contribute (funding for projects will not exceed 1.75 times the value of the water entitlements to be recovered), and
- providing greater transparency for the development of project proposals by project partners and delivery partners, in particular, for determining project values.

In applying this methodology, the department will:

- ensure its approach for valuing and assessing water is transparent
- make program price information publicly accessible as contracts are awarded, and
- seek independent valuation advice when required.

This water valuation strategy will operate until 30 June 2024. Any modifications to this strategy will be announced via the website.

Approach

A. The department will use the following approaches, as relevant, to determine water entitlement prices for the program:

   a. be informed by published market values of the water right on offer when assessing registrations of interest and tenders; and

      i. derive a market value by considering the volume weighted average price* and price range of trades recorded on the relevant state government water register, or other market data sources over the preceding 12 months, excluding outliers (e.g. zero-dollar trades) and government program-related trades; or

      ii. derive a market value for conveyance water rights by considering the volume weighted average price* and price range of comparable regulated water rights in the relevant catchment and apply a discount or premium to reflect any relative difference in reliability;

      *Note: Volume weighted average price is calculated as follows: each trade has the volume of water traded multiplied by the price of the water traded. The sum of these numbers is divided by the sum of the volume of the trades.

   b. where there are insufficient or no published market values on the relevant state government water register or other market data sources to derive a market value, the department will procure external valuation advice from an industry-accredited valuer, or use existing relevant, recent external valuation advice previously obtained.

B. In registering a project, a proponent must outline the value they have put on the water right they are proposing to offer to the department and how they have derived that value.

C. The department may liaise with a project proponent on the value of a water right where it has a different valuation or where an external valuation is required.

D. The water value determined at the time of registration will not be binding and subject to review at the time of assessing the tender The water value at the time of tendering will be binding throughout the period of the contract.

E. The department will publish the per-megalitre price agreed for each contract awarded under the program.

F. Project Partners with water rights (but not entitlements) can apply with water volumes and details about the water rights, and a proposed process for conversion to entitlements. This would be subject to agreement by the relevant water authority.

G. The department reserves the right to adjust its valuation methodology at any time, by providing advice on its website.

Background

This strategy will allow the program to use the valuation tool most appropriate to the water rights offered under the program and their market conditions. Where a water right is frequently traded, the program may derive a fair market price from published market data. Where a water right is infrequently traded, there would be insufficient published market data to derive a fair value so the program would draw on independent advice. This approach is similar to that applied in previous water recovery programs.

This approach will also allow for the timely launch and efficient administration of the program. It is not possible, nor cost-effective, to derive a current market value for every water right in the Murray–Darling Basin that may be offered under the program. Similarly, it would not be efficient for the department to maintain a list of market values for every potential water right across the Basin for the duration of the program.

The program can provide further transparency by publishing the per-megalitre price for each contract awarded under the program on the department's website. These reports would be in addition to the mandatory reporting of total contract values on Austender. By publishing per megalitre values when contracts are signed, the market will receive price data much earlier than usual; per-megalitre prices are usually published on state water registers after trades are settled, which can be months after contracts are signed.

By disclosing the department's method for deriving values at the outset of the program, and releasing information on prices used for successful projects this strategy will encourage transparency and reduce participation costs for proponents. The department recommends that project proponents have regard for the program's published approach when developing project proposals and consider all available public data, including the monthly water market reports published on the department's website. Project proponents should also consider seeking their own professional valuation advice when preparing their project proposals.