

Heads of Agreement

AN AGREEMENT SUPPORTING THE VICTORIAN FOOD-BOWL MODERNISATION PROJECT

Outcomes for sustainable irrigation, communities and the environment

The Commonwealth and Victorian Governments are committed to implementing rural water infrastructure projects and water reforms in the Murray Darling Basin which deliver the following outcomes:

- a healthy, working river system in the Murray Darling Basin;
 - sustainable food production; and
 - strong regional communities
- 2) The largest rural water infrastructure project being funded under the Australian Government's *Water for the Future* initiative is Stage 2 of the Northern Victorian Irrigation Renewal Project (NVIRP2). In November 2010, the project was approved by the Australian Government for funding of \$953 million, following due diligence assessment of the Victorian business case for the project.
 - 3) NVIRP2 has already been assessed as providing water savings of at least 204GL (long term cap equivalent¹ (LTCE)) through modernisation of the irrigation delivery systems and connections in northern Victoria. The project will remove stranded assets, reduce inefficient system losses and provide the improved service levels required by modern on-farm irrigation technology.
 - 4) The commitments set out in this Heads of Agreement, implemented together, are intended to support the final Basin Plan and reflect the Parties desire to move to a more outcomes based approach to infrastructure project funding and implementation.
 - 5) The commitments will provide a more secure footing for the irrigated agriculture industry and the associated communities in northern Victoria, facilitate the adjustment of the irrigation sector to a future with less water, and build a more resilient sector capable of using water more efficiently and competing on world food markets by:
 - a) providing irrigators across northern Victoria with the service levels needed to invest in modern, efficient on-farm irrigation technology;
 - b) providing the certainty necessary for the private investment in sustainable irrigated foods production;
 - c) increasing the amount of water supplied to the environment from non-productive uses, thereby reducing the amount of water transferred from consumptive to environmental use;
 - d) reducing the risk of stranded assets; and
 - e) maintaining the international competitiveness of Victorian irrigators.

¹ Or equivalent concept in the Murray-Darling Basin Plan

- 6) The Commonwealth intends that water sale offer arrangements will be available for Basin State Governments. A schema for how such transactions are intended to work is at Annex A.
- 7) This document sets out the key elements of an agreement associated with a new Victorian Food-Bowl Modernisation Project (VFMP). The VFMP will include:
 - a) A revised project structure for NVIRP2 which will, by mutual agreement of the Australian and Victorian Governments, be changed to streamline delivery of the project, underpinned by an outcomes-based delivery framework;
 - b) A commitment of Australian Government funding of \$43.7 million (the remainder from the original \$1 billion commitment to NVIRP2), for a project re-scoped under the Water Management Partnership Agreement supporting on-farm irrigation modernisation integrated with the roll-out of NVIRP2. This project will yield 10 GL (LTCE) of additional water savings to be transferred, from individual irrigators participating in the project, as water shares to the Commonwealth. The parties will make every effort to complete a contractual schedule for this project within 20 business days of the signing of this Agreement;
 - c) A sale offer of 102 GL (LTCE) of water shares by the Victorian Government to the Commonwealth. This water is to be progressively sourced from the NVIRP2 project based on the changed distribution of water savings as per clause 9(b) below;
 - d) Victoria creating an exemption to allow approval without delay of water trades as set out in item 18 of this Agreement;
 - e) Victoria continuing to work cooperatively with the Commonwealth Environmental Water Holder to facilitate arrangements for environmental water delivery, which includes the undertaking set out in item 20 of this Agreement;
 - f) A commitment from the Commonwealth to developing, in consultation with Victoria and other Basin States, a water recovery strategy, including water purchasing, which provides for fair burden sharing between jurisdictions, with a steady pace and proportional volume of water recovery towards meeting the Commonwealth's 'bridging the gap' commitment; and
 - g) In the meantime, the Commonwealth will continue its water purchase program in Victoria in a way which is consistent with the intent of (f) above, providing for fair burden sharing terms of the pace and volume of water purchase in Victoria in comparison to other Basin States.
- 8) At a later stage, and not necessarily connected with this Agreement, officials will consider options for expenditure of the up to \$103 million remaining in Commonwealth funding commitment for Victorian State Priority Projects.

Elements of the VFMP

Agreed change to NVIRP2

- 9) The NVIRP Stage 2 project will proceed as previously approved, with Commonwealth funding of \$953m and 102GL of water savings transferred to the Commonwealth, with the following changes to the project structure:

- a) The project schedule under the relevant Water Management Partnership Agreement is to be streamlined to provide for annual payments and delivery of water shares and other project outcomes as outlined in the project schedule.
 - b) The Victorian Government has proposed that the 50% share of water savings previously intended to be shared amongst irrigators in the Goulburn Murray Irrigation District (the 'second 50% share') will be retained by the Victorian Government and sold and, in return, irrigators will not be levied with increased water charges to fund Victoria's \$106 million contribution to NVIRP2.
 - c) Victoria takes full public responsibility for the change to water saving sharing arrangements for NVIRP2 on the basis that it has secured the support of the Victorian irrigation community. In that context, the Commonwealth takes note of the letter from Minister Walsh at Annex B.
- 10) On this basis, the Commonwealth agrees to the water sharing arrangements for NVIRP2 being changed from those which were proposed in the Business Case for the Project and assessed in due diligence.

Standing Invitation for Water Sale Offer

- 11) The Commonwealth has received and considered an offer from Victoria to sell to the Commonwealth the 'second 50%' water realised by the restructuring of NVIRP2, as Victorian high and low reliability water shares amounting to 102 GL LTCE at a total cost of \$219,221,000 (Annexe C). The Commonwealth has accepted this offer (Annexe D) on the following basis:
- a) Any such transaction will be separate and distinct from the conduct of the NVIRP2 State Priority Project, and would form part of the Commonwealth water purchase program;
 - b) The water shares transferred will be unencumbered, tradeable and sourced from the consumptive pool;
 - c) The type, trading zone and volume of the transferred water shares, the factors used to convert from LTCE and the terms of the purchase transaction, determined for the transaction as a whole, are set out in Annexe D;
 - d) The timing, volume, reliability and character of the water savings already agreed to be transferred under the State Priority Project (the 'first 50%' from NVIRP2) are not adversely affected;
 - e) The water from the "second 50% share" of NVIRP2 cannot be offered by way of water transfer to the Commonwealth in relation to any other water infrastructure project for which Victoria is seeking funding.
- 12) Victoria has published the required public notices pursuant to section 33P of the *Water Act 1989* (Vic) in accordance with that section.

Delivery of the On-Farm Irrigation Modernisation project

- 13) Victoria has submitted a summary business case for an on farm water efficiency project totalling \$48.5 million and yielding 10 GL (LTCE), to be integrated with the roll-out of NVIRP2. The Commonwealth commits funding of up to \$43.7 million for this re-scoped project subject to a 10% co-contribution, which will come from individual irrigators participating in the project (\$4.8 million). Delivery of this project will be under the Water Management Partnership Agreement, and the parties will make every effort to complete the project schedule for this project within 20 business days of the signing of this Agreement.

Delivery of the NVIRP2 project

- 14) The Commonwealth will provide funding for the NVIRP2 project in a manner that allows appropriate cash flow for the project to be delivered. Apart from reasonable 'start-up' funds for this purpose, funding will be provided as annual payments on delivery of water shares and other project outcomes as outlined in the project schedule.
- 15) Victoria will manage program delivery risks and guarantee to provide permanent water shares to the Commonwealth annually from 2012 until 2017, to meet the agreed 102 GL LTCE Commonwealth share of savings from the NVIRP2 project. The timing, high reliability/low reliability mix, and trading zones of all water savings for the project are set out in the Project Schedule for NVIRP2.
- 16) The parties agree that Victoria will provide appropriate reporting on the project progress, water savings and other relevant outcomes. The reporting framework will be consistent with relevant provisions of the Victorian/Commonwealth Water Management Partnership Agreement.
- 17) If long term cap equivalent factors² for Victorian high and low reliability water shares are finalised by the Murray Darling Basin Authority for the purposes of the Final Murray Darling Basin Plan and they differ from those used to calculate the water shares for NVIRP2 at the time this agreement is signed, the parties will apply the new factors to calculate the water shares for NVIRP2 from that time forward.

Other Elements of this Agreement

- 18) Victoria will create an exemption to allow for:
- a) approval without delay, upon resubmission of new applications by no later than 28 February 2012, for all trades to the Commonwealth which were submitted for the July 2011 ballot and which were not approved due to the application of the 4 per cent limit (this will cover approximately 55 GL of transaction); and
 - b) approval without delay, upon submission by no later than 28 February 2012, for all remaining trades to the Commonwealth from water purchase tenders in 2010-11 which, when submitted for trade approval during 2011-12, would otherwise not have been approved at the time of submission due to the application of the 4 per cent limit (this will cover approximately 33GL of transactions).
- 19) Victoria agrees to remove the 4 per cent limit on out of district trade by 30 June 2014;

² See Footnote 1.

20) Subject to Murray-Darling Basin Authority approval of water accounting rules and acceptable third party impacts, Victoria guarantees to allow the transfer, upon request, of allocations granted to the entitlements recovered through NVIRP2, to Victoria's environmental entitlements to enable return flows to be used multiple times and in line with entitlement conditions.

21) The Commonwealth commits to:

- a) developing, in consultation with Victoria and other Basin States, a water recovery strategy, including water purchasing, which provides for fair burden sharing between jurisdictions, with a steady pace and proportional volume of water recovery towards meeting the Commonwealth's 'bridging the gap' commitment; and
- b) in the meantime, the Commonwealth will continue its water purchase program in Victoria in a way which is consistent with the intent of (a) above, providing for fair burden sharing terms of the pace of water purchase in Victoria in comparison to other Basin States.

22) This Agreement will be made publicly available on signature.

Done at on

Signed



Prime Minister of Australia

Premier of Victoria

Annexes:

- A – Framework for the Consideration of State and Territory Water Sale Offers
- B – Letter from Minister Peter Walsh regarding revision of NVIRP stage 2 Package
- C – Letter from Minister Peter Walsh proposing water sale offer
- D – Letter from Minister Tony Burke accepting water sale offer

20) Subject to Murray-Darling Basin Authority approval of water accounting rules and acceptable third party impacts, Victoria guarantees to allow the transfer, upon request, of allocations granted to the entitlements recovered through NVIRP2, to Victoria's environmental entitlements to enable return flows to be used multiple times and in line with entitlement conditions.

21) The Commonwealth commits to:


- a) developing, in consultation with Victoria and other Basin States, a water recovery strategy, including water purchasing, which provides for fair burden sharing between jurisdictions, with a steady pace and proportional volume of water recovery towards meeting the Commonwealth's 'bridging the gap' commitment; and
- b) in the meantime, the Commonwealth will continue its water purchase program in Victoria in a way which is consistent with the intent of (a) above, providing for fair burden sharing terms of the pace of water purchase in Victoria in comparison to other Basin States.

22) This Agreement will be made publicly available on signature.

Done at on

Signed

Prime Minister of Australia



Premier of Victoria

Annexes:

- A – Framework for the Consideration of State and Territory Water Sale Offers
- B – Letter from Minister Peter Walsh regarding revision of NVIRP stage 2 Package
- C – Letter from Minister Peter Walsh proposing water sale offer
- D – Letter from Minister Tony Burke accepting water sale offer

Framework for the Consideration of State and Territory Water Sale Offers

Constraints and Exclusions

When considering the purchase of state and territory Government held water entitlements a number of constraints and exclusions are to be applied as follows:

- the minimum parcel size will be twenty (20) gigalitres of entitlements;
- only offers from state and territory Governments within the Murray-Darling Basin will be considered;
- entitlements offered for sale must be permanent, unencumbered and tradeable and be capable of directly contributing to 'bridging the gap' to the new sustainable diversion limits under the Basin Plan;
- offers may be for entitlements immediately available for purchase or for entitlements available over a number of years; and
- there is a finite budget for the RtB program. Offers may only be pursued within the available budget for the relevant financial year(s).

Evaluation Criteria

Three criteria are used in the assessment process to determine the extent to which each sell offer represents a value for money acquisition.

1. *The extent to which the entitlements offered for sale can meet unmet environmental watering needs*

The findings of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) *Sustainable Yields Study* and the Murray-Darling Basin Commission (MDBC) *Sustainable Rivers Audit* show that most catchments in the Murray-Darling Basin are highly developed and are in poor or very poor environmental health. Under best estimates, the volume of surface water available for the environment and for consumptive use is forecast to decline in all catchments over the period to 2030 due to climate change and other factors such as the development of farm dams.

The findings of these and other Basin wide scientific studies on water availability and ecosystem health, as well as information on the specific needs of particular environmental assets, will provide guidance on the immediate water needs of the environment and will be considered in the assessment against this criterion.

The Department is seeking to purchase water in those catchments where the best available information, including the MDBA's draft and final Basin Plan, indicates that additional water needs to be returned to the environment. Consideration will be given to current and anticipated environmental water recovery when assessing unmet environmental needs.

2. *The capacity to use water allocated to the entitlements*

The Department will consider the immediate and long-term factors that affect the capacity of the Commonwealth Environmental Water Holder to use water entitlements being considered for purchase to protect and restore the environment including:

- whether the entitlement and its allocation is able to provide water where and when it is needed;
- the management arrangements and infrastructure required to deliver and use the water entitlement for environmental benefit;
- possible water losses through seepage, evaporation and extraction by other licensed water users; and
- the relevant state legislation and water sharing plan which govern the use of the water entitlement and provide security over the property right.

3. *The cost of purchasing the entitlements, including the offer price, transaction costs, and future storage and delivery costs*

This criterion takes into account the following considerations:

- The total price (\$/megalitre) nominated by the seller.
- The price benchmark (\$/megalitre) for each offered entitlement, which is set by the Department with reference to as appropriate:
 - the estimated market value of the entitlement* (see note below);
 - the average annual volume of water that the Commonwealth expects to receive from the entitlement into the future;
 - the environmental benefits expected from the purchase of the entitlement;
 - management costs including delivery costs, as well as the cost of delivering and maintaining partnership arrangements for management of the water; and
 - other relevant risks.
- Transaction costs – the costs of obtaining approval for the trade and transferring ownership to the Commonwealth.
- Additional benefits which may arise from the offer.

**** Market Price***

Prevailing market prices are estimated with reference to market price reports prepared by independent consultants which are based on price information obtained from state registers, irrigation water provider registers, agents and brokers. If the sell offer involves the transfer of entitlements spread over several years, the long run average price of water in the market over the life of the transaction may be considered.

How to respond

In order to facilitate the receipt and timely consideration of a state/territory water sale offer, the following details should be included:

- Volume of water entitlements offered for sale, by catchment and entitlement type, by year (if applicable), please provide figures in megalitres with no rounding applied;
 - If the proposal involves the conversion of an average annual volume of water available for the environment to a parcel of water entitlements, then the proposal should also provide the factors used in that conversion.
- Asking price for parcel of water entitlements, a single asking price is all that is required if the parcel is offered as a single package with no rounding applied
- Proposed timing of water transfers and payments; and
- Statement of any strategic benefits of the water sale offer.



Minister for Water

Ref: MBRO15272
 File: CS/36/3087
 PUBLIC INFORMATION

1 Spring Street
 GPO Box 4440
 Melbourne, Victoria 3001
 Telephone: (03) 9913 5954
 Facsimile: (03) 9653 4191
 DX 21049

The Hon Tony Burke MP
 Minister for Sustainability, Environment, Water,
 Population and Communities
 Parliament House
 CANBERRA ACT 2600

Dear Minister *Tony*

NORTHERN VICTORIA IRRIGATION RENEWAL PROJECT – STAGE 2 NEGOTIATIONS

I am writing to seek your support for the revised project to modernise irrigation in Goulbourn-Murray Irrigation District of Northern Victoria.

As you are aware, the proposed package differs from the project supported by the Federal Government. In a letter to the previous Victorian government in November 2010. This was a project of \$1.059 billion for up to 200 GL of Long Term Cap Equivalent (LTCE) water savings, with the Commonwealth funding \$953 million for a total of 100 GL LTCE.

The revised agreement relies on Commonwealth investment totalling \$1.216 billion for:

- \$953 million towards Stage 2 of the Northern Victoria Irrigation Renewal Project (NVIIRP), which will deliver a total of 204 GL LTCE. Victoria is proposing that, as part of a wider package, the Commonwealth will receive the total 204 GL LTCE of the water savings, as opposed to fifty percent;
- \$219 million of additional funding towards the Strategic Water Purchase of the 102 GL LTCE share of water savings, previously intended to be shared amongst Goulbourn-Murray Irrigation District irrigators. This strategic purchase will be valued based on historical market values and an agreed market premium, recognising the benefits of a large single water sale; and
- \$44 million for a stand alone project to support on-farm irrigation modernisation integrated with the roll-out of NVIIRP to deliver 10 GL LTCE.

I appreciate your willingness to consider expanding the project to include strategic water purchase, an on-farm program and an output focussed delivery model. This will enable Victoria to guarantee the progressive delivery of water entitlements, to supply 214 GL LTCE of water to the Commonwealth for environmental purposes.

Privacy Statement

Any personal information about you or a third party in your correspondence will be collected under the provisions of the Information Privacy Act 2009. It will only be used or disclosed in accordance with that Act, without further authority, or if you consent to its use for a purpose for which it was provided, unless required or authorised by law. Requests about access to information about you held by this Government should be directed to the Manager Privacy, Department of Sustainability & Environment, PO Box 300, your telephone, 2465.



Under this arrangement Victoria will assume responsibility for risks associated with this project, as is fitting with the output focussed nature of the delivery model.

In finalising the details of this project I seek your support for funding arrangements that provide Victoria with cash flow that adequately meets the needs of the project, rather than relying on the Victorian State Budget to provide a cash flow for the project.

I am also seeking your support for ensuring that the detailed arrangements provide Victoria with the flexibility needed to manage all project risks.

You have asked for assurance that Victorian irrigators support the revised project. My discussions with irrigation leaders indicates in-principle support, based on the information that has been available in the public arena. This is further supported through discussions by Goulburn-Murray Water with key customers and stakeholders.

Broad discussions have also been held with the recently established Victorian Basin Plan Advisory Group, which represents a broad cross section of irrigator, industry and community representatives from the GMID. This response has also been supportive of the revised project. Further, the broad elements of the package have been widely communicated to irrigators through existing irrigator networks and the media. I have received positive feedback from this publicity.

I ask that you note that I have coverage from my Cabinet to conduct these negotiations, but will need to take the specific details of the final agreement back to my Cabinet for approval.

I look forward to a timely resolution of this important project.

Yours sincerely



PETER WALSH MLA
Minister for Water



Minister for Water

Ref: MBRO19301

File:



The Hon Tony Burke MP
Minister for Sustainability, Environment, Water,
Population and Communities
Parliament House
CANBERRA ACT 2600

1 Spring Street
GPO Box 4440
Melbourne Victoria 3001
Telephone: (03) 9938 5954
Facsimile: (03) 9658 4191
DX 210404

Dear Minister

SALE OFFER OF VICTORIAN WATER SHARES

Further to our recent discussions regarding a revised investment package for Northern Victoria, I am providing you with a formal offer of sale of Victorian water shares.

Under this offer, the Victorian Government will sell to the Commonwealth water shares amounting to 102,000 ML of long term cap equivalent (LTCE), for a total sum of \$219.221 million. This price reflects both the value of the parcel of water being offered, and the strategic benefits arising from a purchase of this size.

The 102,000 ML LTCE offered for sale are new shares, which will be progressively issued and offset in accordance with arrangements agreed between Victoria and the Commonwealth for implementation of Stage Two of the Northern Victoria Irrigation Renewal Project (NVIRP2). The water shares will be unencumbered, tradeable and sourced from the consumptive pool.

The enclosed document provides further details on this offer, including volumes, prices and total purchase cost for the sale, as well as a timeline for payment and transfer of water shares.

In line with requirements under the Victorian Water Act, I have published the required public notices pursuant to section 33P of that Act, which provide notification of the Victorian Government's intention to sell these water shares to the Commonwealth Government.

I look forward to receiving your response regarding this offer.

Yours sincerely

PETER WALSH MLA
Minister for Water

Privacy Statement

Any personal information about you or a third party in your correspondence will be protected under the provisions of the Information Privacy Act 2000. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorised by law. Enquiries about access to information about you held by the Department should be directed to the Manager Privacy, Department of Sustainability & Environment, PO Box 500, East Melbourne, 3002.



Sale Offer of Victorian Water Shares – October 2011

Preamble

1. Under this offer, Victoria will sell to the Commonwealth entitlements amounting to 102,000 ML of long term cap equivalent (LTCE) for a total sum of \$219.221 million. This price reflects both the value of the parcel of water being offered, and the strategic benefits arising from a purchase of this size.
2. The 102,000 ML LTCE offered for sale are new water shares, which will be progressively issued and offset in accordance with arrangements agreed between Victoria and the Commonwealth for implementation of Stage Two of the Northern Victoria Irrigation Renewal Project (NVIRP2). The water shares will be unencumbered, tradeable and sourced from the consumptive pool.
3. The shares are a mix of high and low reliability in three trading zones, and will be provided to the Commonwealth over seven years. The water shares will be unencumbered, tradeable and sourced from the consumptive pool.
4. The details of the water sale offer are outlined in Tables 1 to 4 below.
5. In line with requirements under section 33P of the *Water Act 1989* (Vic), the required public notices have been published in accordance with that section.

Strategic Benefits of the Water Sale Offer

6. This purchase comprises water shares arising from savings made through infrastructure investments for irrigation modernisation. It avoids impacts that can eventuate from general purchases in the market. It thus provides an effective contribution to bridging the gap between current diversions and the sustainable diversion limits in the final Basin Plan, without significantly impacting irrigators.
7. The large size of this offer means that the Commonwealth will save significant transaction costs as compared to direct purchases in the market. The volume of water shares being offered is over 120,000 ML. To achieve this in the market could take multiple tenders and up to 1000 separate transactions.
8. The water shares offered are in the Victorian Goulburn and Murray valleys, which are fully interconnected with each other and also with most of the southern Murray-Darling Basin. As such, purchases in these areas can contribute to both meeting the gap in the individual valleys and also to downstream needs.

Table 1: Total water offered for sale (ML - LTCE)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Goulburn	285	853	5,968	8,886	9,556	13,396	4,244	43,187
HRWS								
LRWS	51	154	1,075	1,601	1,722	2,415	765	7,782
Murray below Choke	190	571	3,998	5,953	6,401	8,980	2,843	28,937
HRWS								
LRWS	26	78	545	812	873	1,225	388	3,949
Murray above Choke	104	312	2,182	3,248	3,493	4,900	1,551	15,791
HRWS								
LRWS	16	47	325	484	521	730	231	2,354
Total	872	2,014	14,095	20,983	22,566	31,846	10,023	102,000
Payment date	01-Jan-12	01-Jul-12	01-Jul-13	01-Jul-14	01-Jul-15	01-Jul-16	01-Jul-17	
Payment (\$'000)	\$ 1,444	\$ 4,329	\$ 30,293	\$ 45,099	\$ 48,501	\$ 68,012	\$ 21,542	\$ 219,221

Table 2: LTCE factors

Goulburn	HRWS	0.939
	LRWS	0.488
Murray below Choke	HRWS	0.957
	LRWS	0.519
Murray above Choke	HRWS	0.957
	LRWS	0.519

Table 3: Total water offered for sale, converted to water shares (ML)

	LTCE (ML)	Conversion factor	Water shares (ML)
Goulburn	43,187	0.939	45,993
HRWS			
LRWS	7,782	0.488	15,947
Murray below Choke	28,937	0.957	30,237
HRWS			
LRWS	3,949	0.519	7,608
Murray above Choke	15,791	0.957	16,900
HRWS			
LRWS	2,354	0.519	4,536
Total	102,000		120,821

Table 4: Total water shares offered for sale (ML)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Goulburn	303	908	6,356	9,463	10,177	14,266	4,520	45,993
HRWS								
LRWS	105	315	2,203	3,280	3,528	4,949	1,567	15,947
Murray below Choke	199	597	4,178	6,220	6,689	9,383	2,971	30,237
HRWS								
LRWS	50	150	1,051	1,565	1,683	2,361	748	7,608
Murray above Choke	109	326	2,280	3,394	3,650	5,120	1,621	16,500
HRWS								
LRWS	30	90	627	933	1,003	1,407	446	4,536
Total	796	2,386	16,695	24,855	26,730	37,486	11,873	120,821

Note: The volume of water shares will change if the MDBA adopts new conversion factors under the final Basin Plan, in accordance with any agreement reached under the Heads of Agreement Supporting the VFMP.



The Hon Tony Burke MP

Minister for Sustainability, Environment, Water, Population and Communities

B11/1774

The Hon. Peter Walsh, MP
Minister for Water
Level 20
1 Spring Street
MELBOURNE VIC 3000

Dear Minister Walsh

A handwritten signature in cursive script that reads "Peter".

On 13 October 2011 you wrote to me offering for sale to the Australian Government 102 gigalitres of water entitlements held by the Victorian Government for \$219.221 million.

Your offer has been assessed and I am pleased to inform you that I have approved the purchase of this water as detailed in Attachment A, as I consider it to represent a value for money acquisition for the Government. This sale is subject to a number of conditions as detailed in Attachment B. The conditions have also been included in the Heads of Agreement to be executed to implement the revised Northern Victoria Irrigation Renewal Project – Stage 2 package.

This strategic water purchase will provide substantial benefits to the environment and contribute towards meeting the Government's commitment to bridge the gap to the new sustainable diversion limits to be set out in the Basin Plan.

I have asked officers from the Department of Sustainability, Environment, Water, Population and Communities to make the necessary arrangements to secure this purchase under a water sale contract. I also look forward to the finalisation of arrangements for the Northern Victorian Irrigation Renewal Project – Stage 2.

I am determined that Murray-Darling Basin reform delivers healthy rivers, strong communities and sustainable food production. Together with ongoing water buyback and the Government's major investments in more efficient irrigation water delivery and use, this purchase will make an important contribution to achieving this objective.

Yours sincerely

A handwritten signature in cursive script that reads "Tony Burke".
Tony Burke

Attachment A

Table 1: Total water offered for sale (ML - LTCE)

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	TOTAL
Goulburn	HRWS	285	853	5,968	8,886	9,556	13,396	4,244	43,187
	LRWS	51	154	1,075	1,601	1,722	2,415	765	7,782
Murray BC	HRWS	190	571	3,998	5,953	6,401	8,980	2,843	28,937
	LRWS	26	78	545	812	873	1,225	388	3,949
Murray AC	HRWS	104	312	2,182	3,248	3,493	4,900	1,551	15,791
	LRWS	16	47	325	484	521	730	231	2,354
Total		672	2,014	14,095	20,983	22,566	31,646	10,023	102,000
Payment date		1-Jan-12	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	
Payment (\$'000)		\$ 1,444	\$ 4,329	\$ 30,293	\$ 45,099	\$ 48,501	\$ 68,012	\$ 21,542	\$ 219,221

Table 2: LTCE factors

Goulburn	HRWS	0.939
	LRWS	0.488
Murray BC	HRWS	0.957
	LRWS	0.519
Murray AC	HRWS	0.957
	LRWS	0.519

Table 3: Total water shares offered for sale, converted to water shares (ML)

		LTCE (ML)	Conversion factor	Water shares (ML)
Goulburn	HRWS	43,187	0.939	45,993
	LRWS	7,782	0.488	15,947
Murray BC	HRWS	28,937	0.957	30,237
	LRWS	3,949	0.519	7,608
Murray AC	HRWS	15,791	0.957	16,500
	LRWS	2,354	0.519	4,536
Total		102,000		120,821

Table 4: Total water shares offered for sale (ML)

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	TOTAL
Goulburn	HRWS	303	908	6,356	9,463	10,177	14,266	4,520	45,993
	LRWS	105	315	2,203	3,280	3,528	4,949	1,567	15,947
Murray BC	HRWS	199	597	4,178	6,220	6,689	9,383	2,971	30,237
	LRWS	50	150	1,051	1,565	1,683	2,361	748	7,608
Murray AC	HRWS	109	326	2,280	3,394	3,650	5,120	1,621	16,500
	LRWS	30	90	627	933	1,003	1,407	446	4,536
Total		796	2,386	16,695	24,855	26,730	37,486	11,873	120,821

Note: The volume of water shares will change if the MDBA adopts new conversion factors under the final Basin Plan, in accordance with any agreement reached under the *Heads of Agreement Supporting the VFMP*.

Attachment B

Conditions of Approval

1. The transaction will be separate and distinct from the conduct of the Northern Victoria Irrigation Renewal Project – Stage 2 (NVIRP2) State Priority Project, and will form part of the Commonwealth's Restoring the Balance in the Murray-Darling Basin program;
2. The timing, volume, reliability and character of the water savings agreed to be transferred under the State Priority Project (the 'first 50%' from NVIRP2) are not adversely affected by this water sale; and
3. Victoria agrees to use the Murray-Darling Basin Authority's (MDBA's) Long Term Cap Equivalent factors when they are finalised to calculate the water shares which need to be transferred to the Commonwealth from that time forward so that the MDBA recognises the 102 gigalitres (Long Term Cap Equivalent) character of this proposal. The payments and payment schedule will remain unchanged.