

# Where is the water market headed?

Near term outlook, water recovery, climate

---

Ryan Gormly | 3 October 2024

# Agenda

---

- Water market outlook
- Water recovery progress and further recovery
- Implications for markets and horticulture
- Key takeaways
- Questions

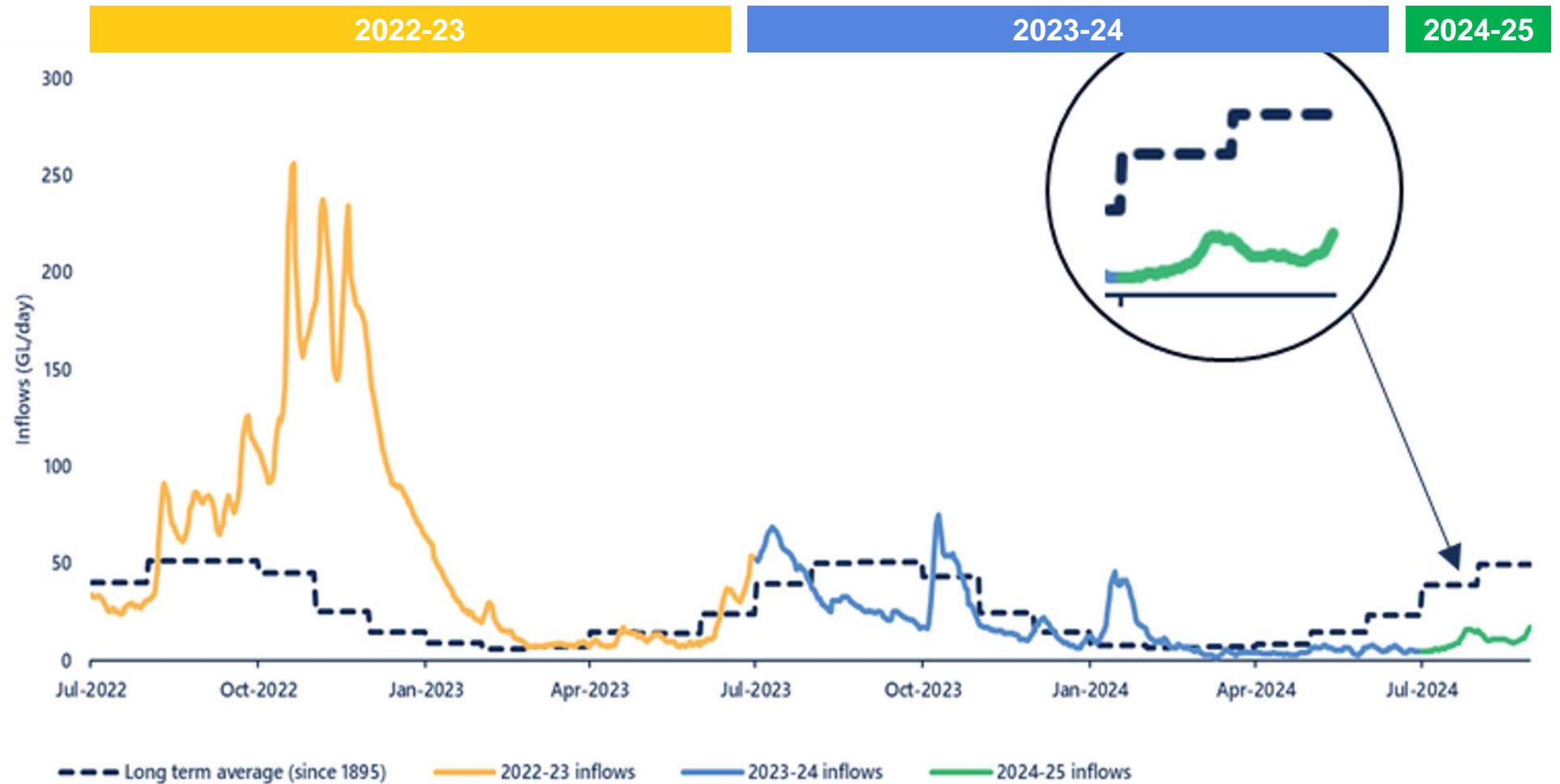
# Water market outlook

---

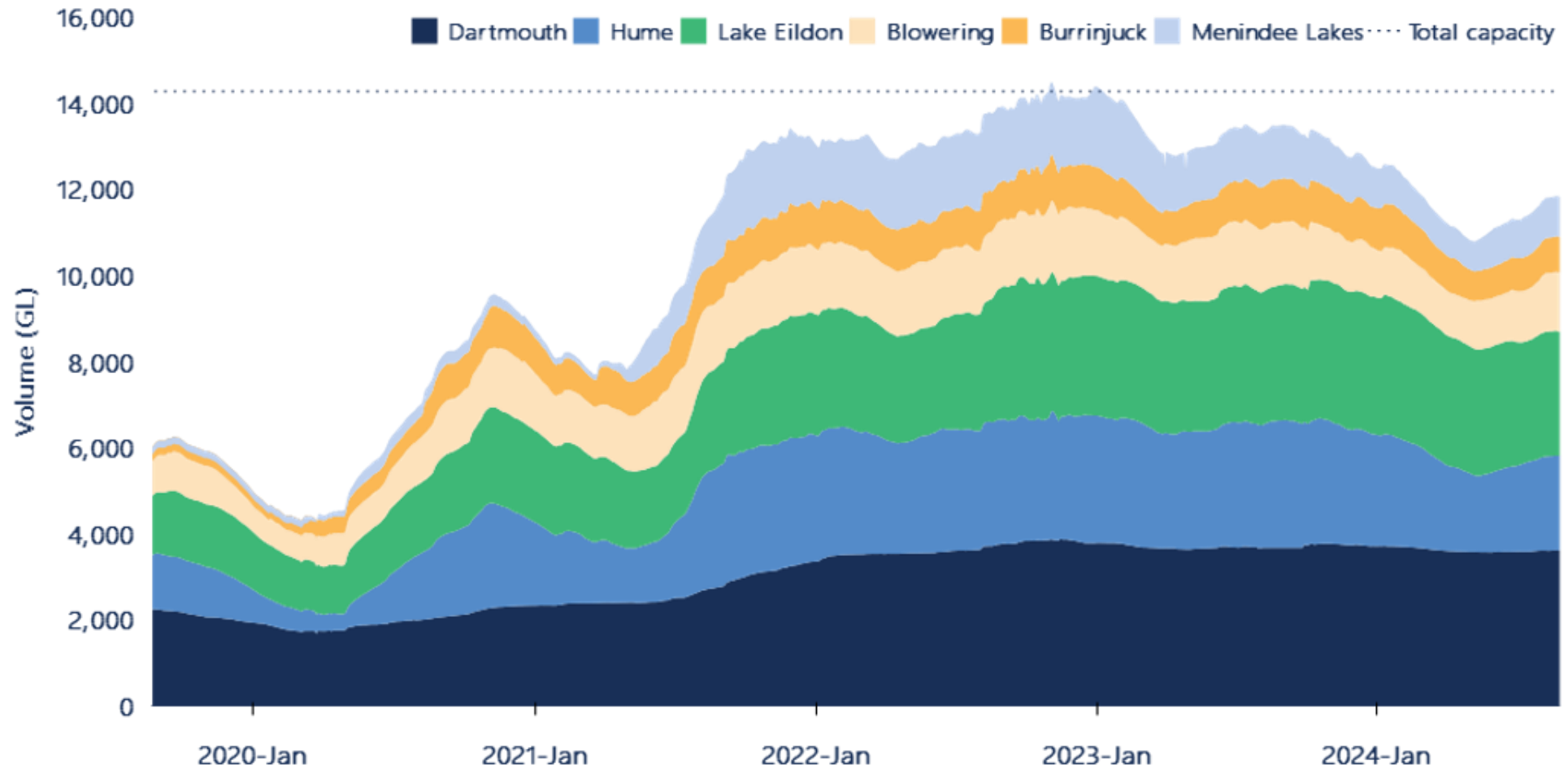
Current conditions and near term drivers



# Murray River Inflows



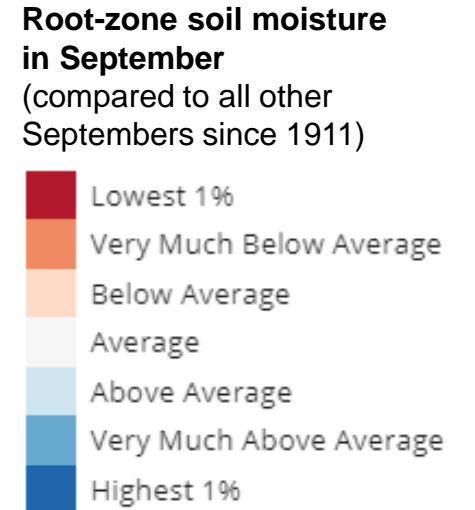
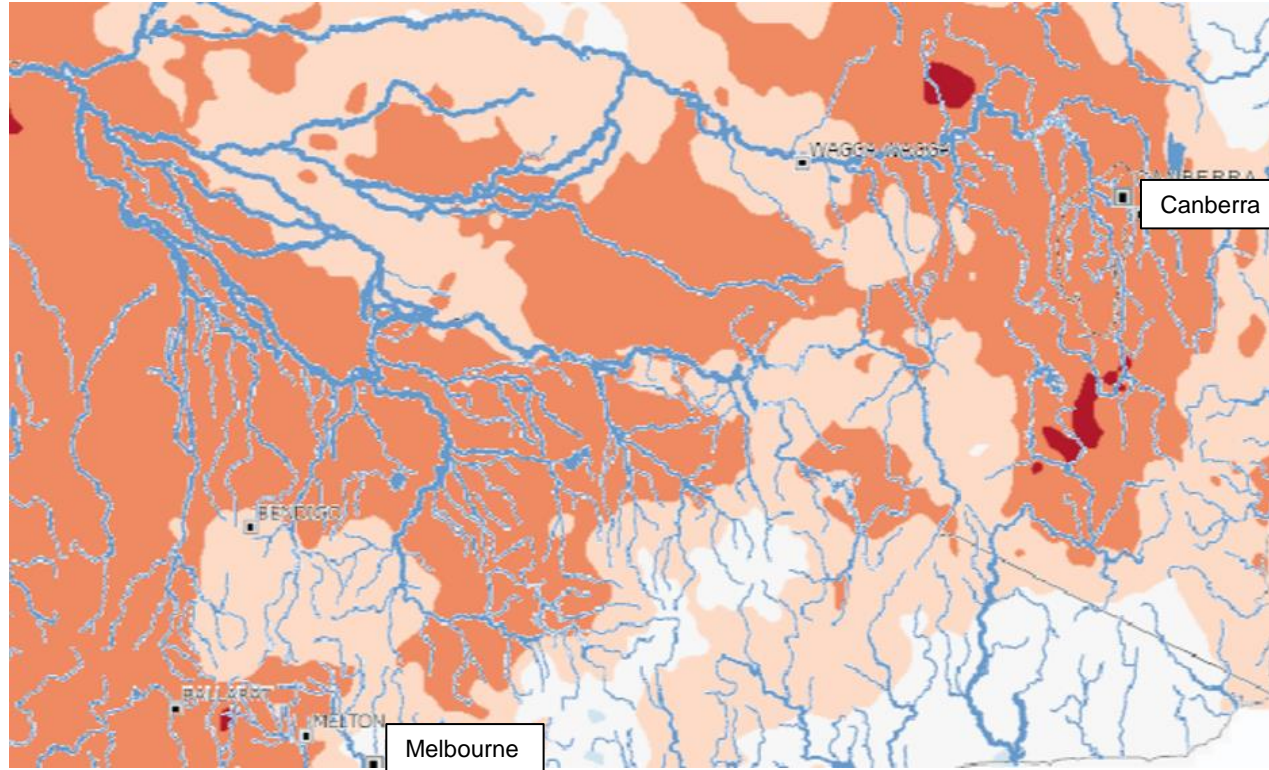
# Southern MDB storages



# Short-term outlook for 2024-25

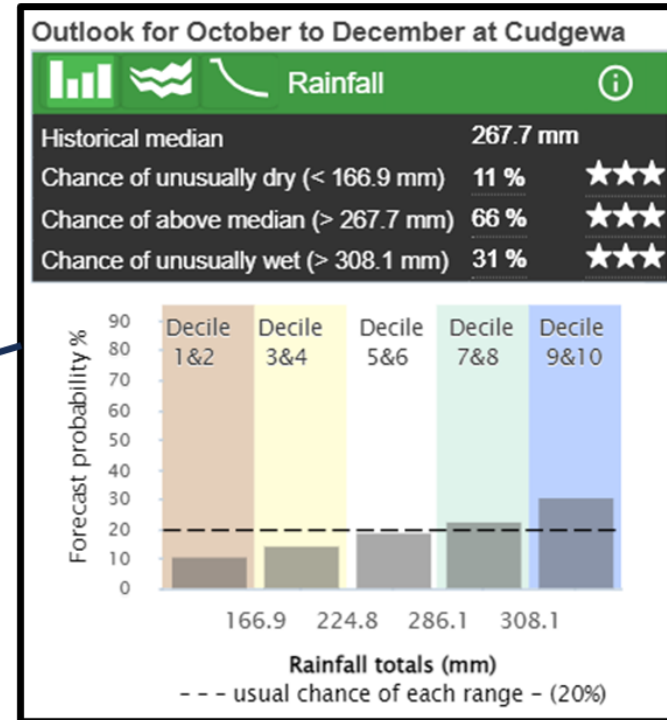
## Catchment condition and seasonal forecast

- Southern Basin catchments dry for this time of year.
- Will take more rainfall than usual to generate inflows



# Short-term outlook for 2024-25

## Catchment condition and seasonal forecast



- Forecast suggest 60-70% chance of above median rainfall across the next three months. European forecast similar to BoM's.
- Currently a weak forecast. It might strengthen if La Nina-like conditions develop in the Pacific (declared La Nina event not likely at this stage).



# Basin Plan and water recovery

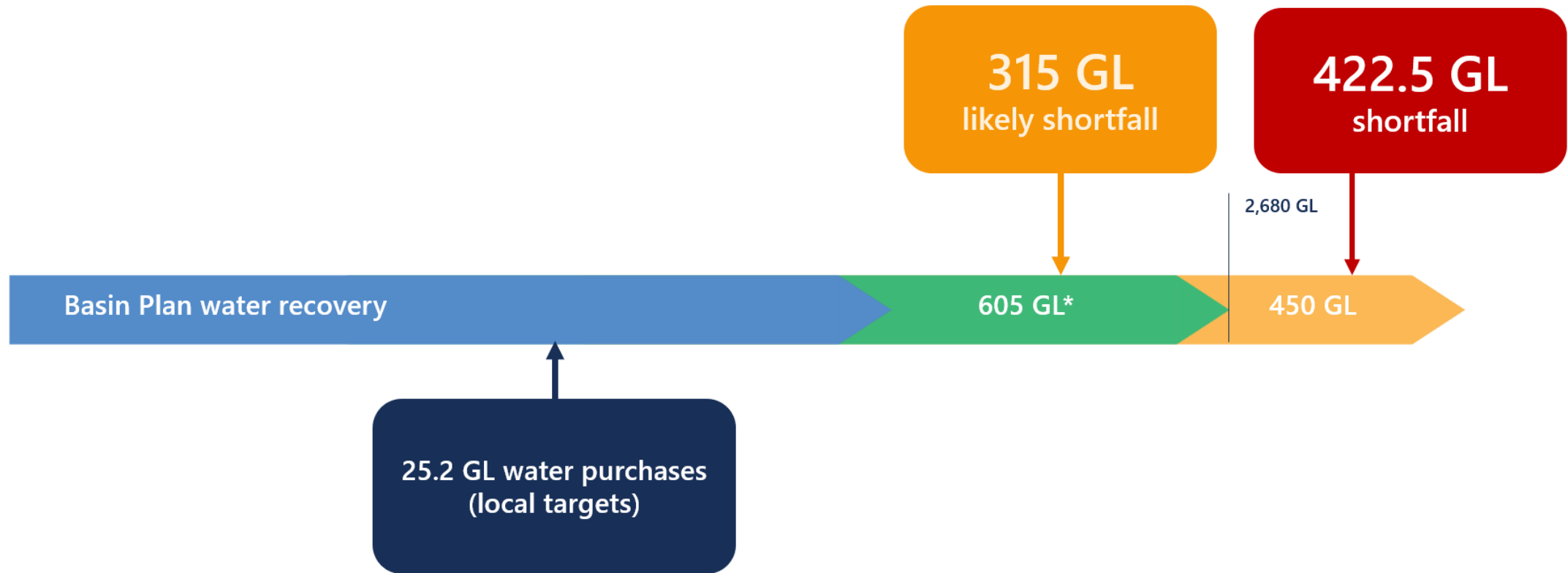
---

Progress, legislative changes, tenders



# The Basin Plan: targets, progress, potential shortfall

As at 30 June 2024



# Restoring Our Rivers Act (2023)

Passed in 2023, made purchases towards the 450 GL possible

## Key legislative changes

- Removal of 1,500 GL purchases cap
- Enable WESA funding to be used for water purchases, and addition of the third WESA review to be conducted by 2025.
- Requirement of Constraints Relaxation Implementation Roadmap to be delivered by 31 December 2024.

## New critical dates

June 2025



New deadline for new and revised SDLAM project proposals

31 December 2026



New deadline for completion of all SDLAM projects

31 December 2027



New deadline to deliver the 450 GL additional water for the environment

# Overview of approach to further recovery

## Similar to past but with some modification and additions

Post legislative change, three main recovery mechanisms exist

- Supply measures
- Efficiency measures
- Water purchases

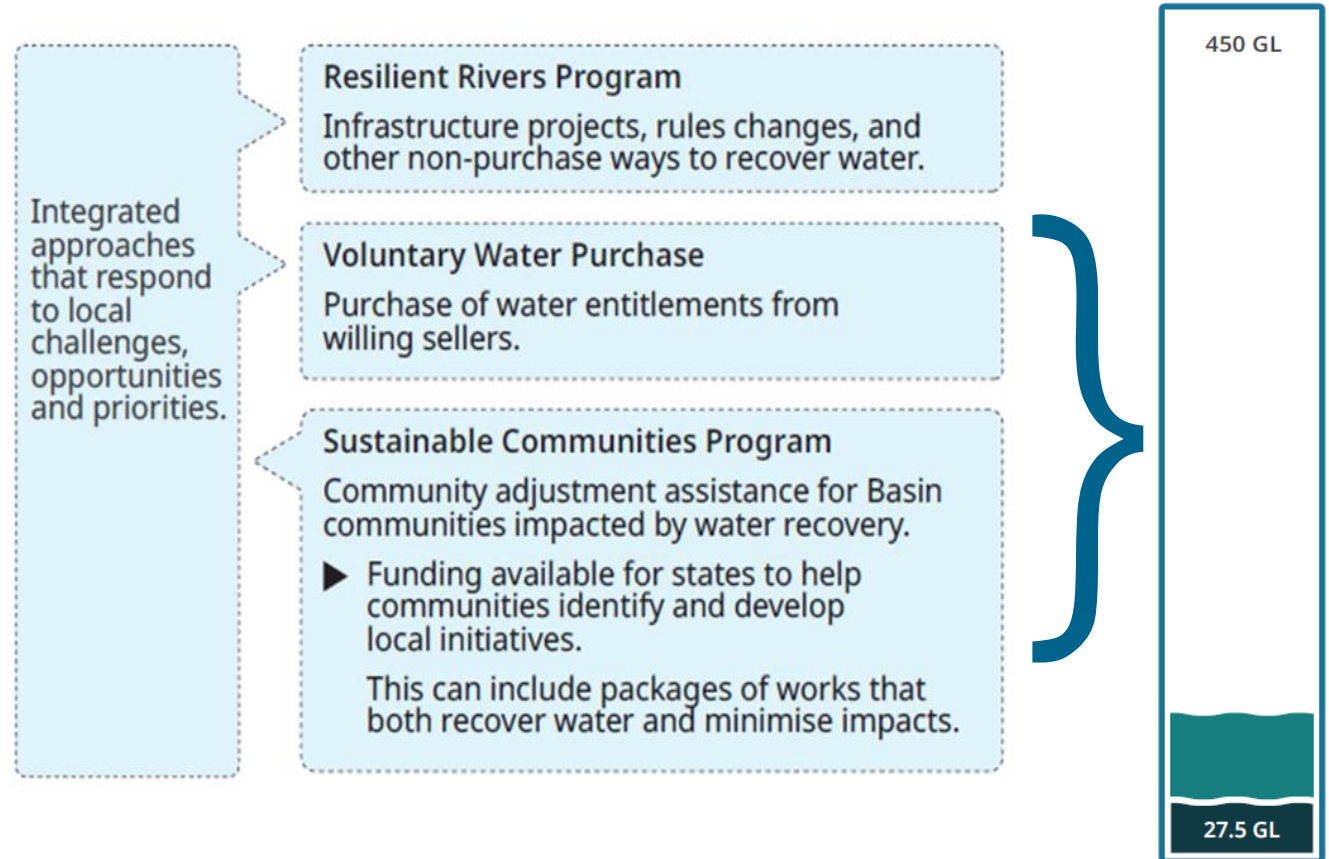
These will be delivered through

- Resilient Rivers
- Voluntary Water Purchase program.

Socio-economic impacts managed by

- Progressing non purchasing based methods
- The Sustainable Communities program (assistance)

Programs are open and being run concurrently to enable delivery by amended deadlines.



# Summary of recent and future tenders – 450 GL



## Recently closed 70 GL tender

This round focused on securing 70 GL from private diverters from five catchments in the Southern Connected Basin and closed on 11 September.

This round excluded irrigators in high concentration network areas, and leased water rights.



## Expressions of Interest

The Commonwealth have opened two EOI's that will run from 30 September 2024 to 27 November 2024. These will inform the 2025 approach to market. Both EOI's target the Southern Connected Basin:

- *New South Wales* – Murrumbidgee, New South Wales Murray and Lower Darling
- *South Australia* – South Australian Murray
- *Victoria* – Campaspe, Goulburn-Broken, Kiewa, Victorian Murray, Loddon, Ovens, King, and Mitta Mitta.

### EOI 1

- Targeting the remaining Southern Connected Basin catchments including IIOs, unregulated entitlements and section 51 licenses.
- Will consider the possibility of leaseback arrangements.

### EOI 2

- Seeks to secure larger parcels of water (20 GL+) from single legal entities.

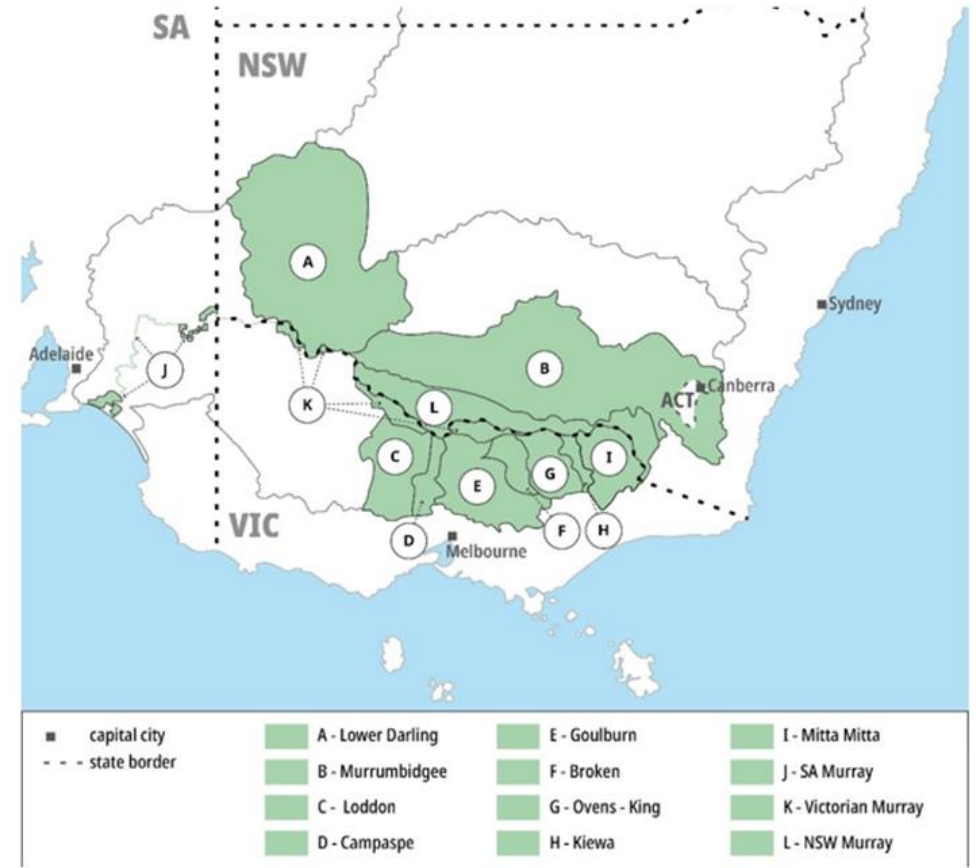


Figure 1: Southern Connected Basin Catchments



# Impacts of water recovery and climate considerations

---

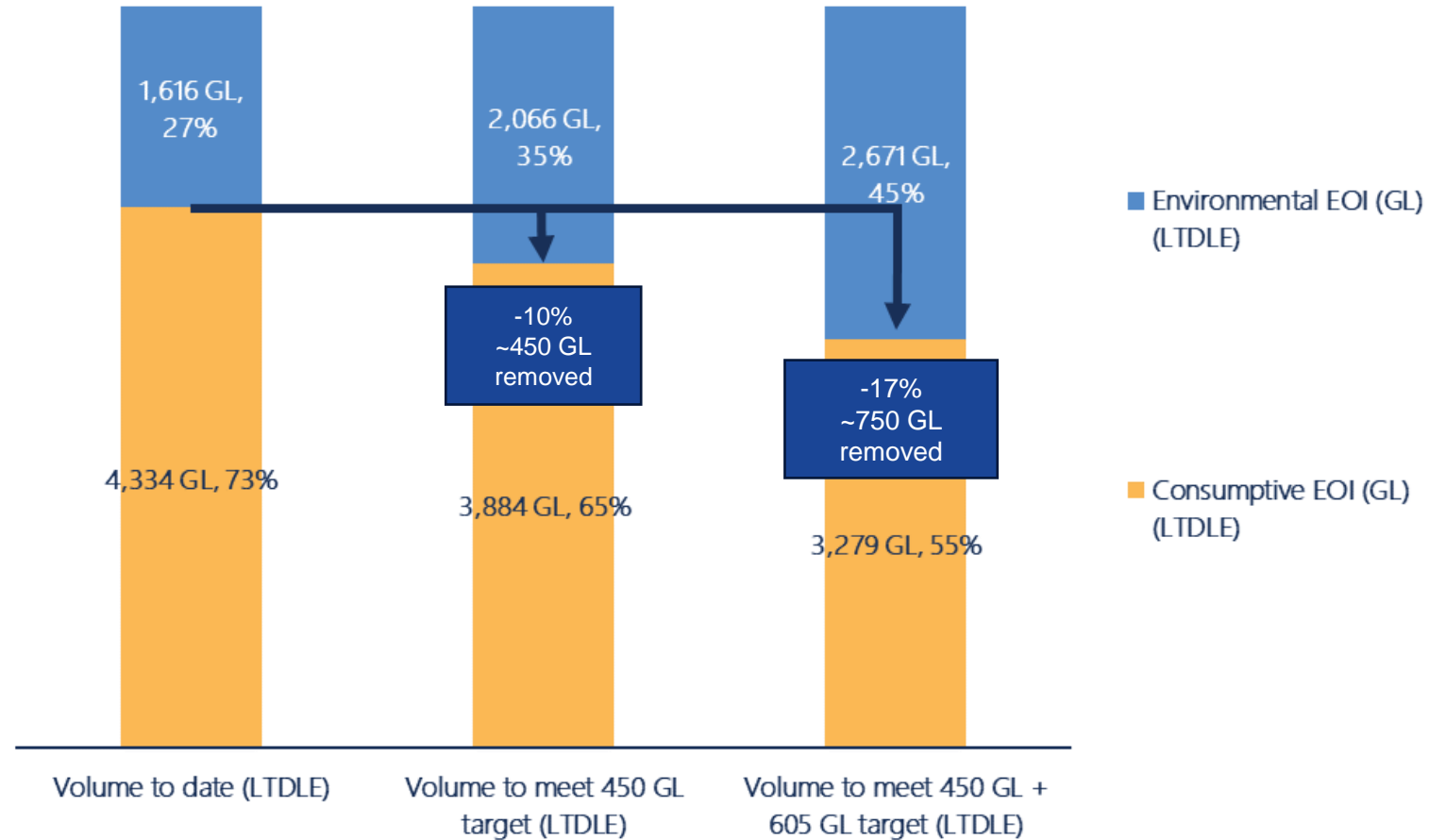


# Impacts on entitlements

## Further reduction in consumptive pool

**Figure:** Change in entitlement on issue for major southern MDB entitlements – based on a hypothetical scenario assuming all recovery occurs across these entitlements.

**Source:** Aither, 2024.



## Impacts on allocation markets

Water recovery will put upward pressure on allocation prices

Water recovery scenarios	Average annual water allocation prices for each scenario (\$/ML)	Change in water allocation prices (\$/ML)	Change in water allocation prices (%)
No further recovery	\$474 / ML	+\$0	-
125 GL	\$498 / ML	+\$24	+5.1%
225 GL	\$519 / ML	+\$45	+9.5%
325 GL	\$545 / ML	+\$71	+15.0%

Table: ABARES 2024, The impacts of further water recovery in the southern Murray-Darling Basin

## Impact on secondary products

---

Current water recovery programs (EOI 2) could impact flexibility



**Water investors are a key player in providing secondary products (e.g. leases, forwards, carryover)**

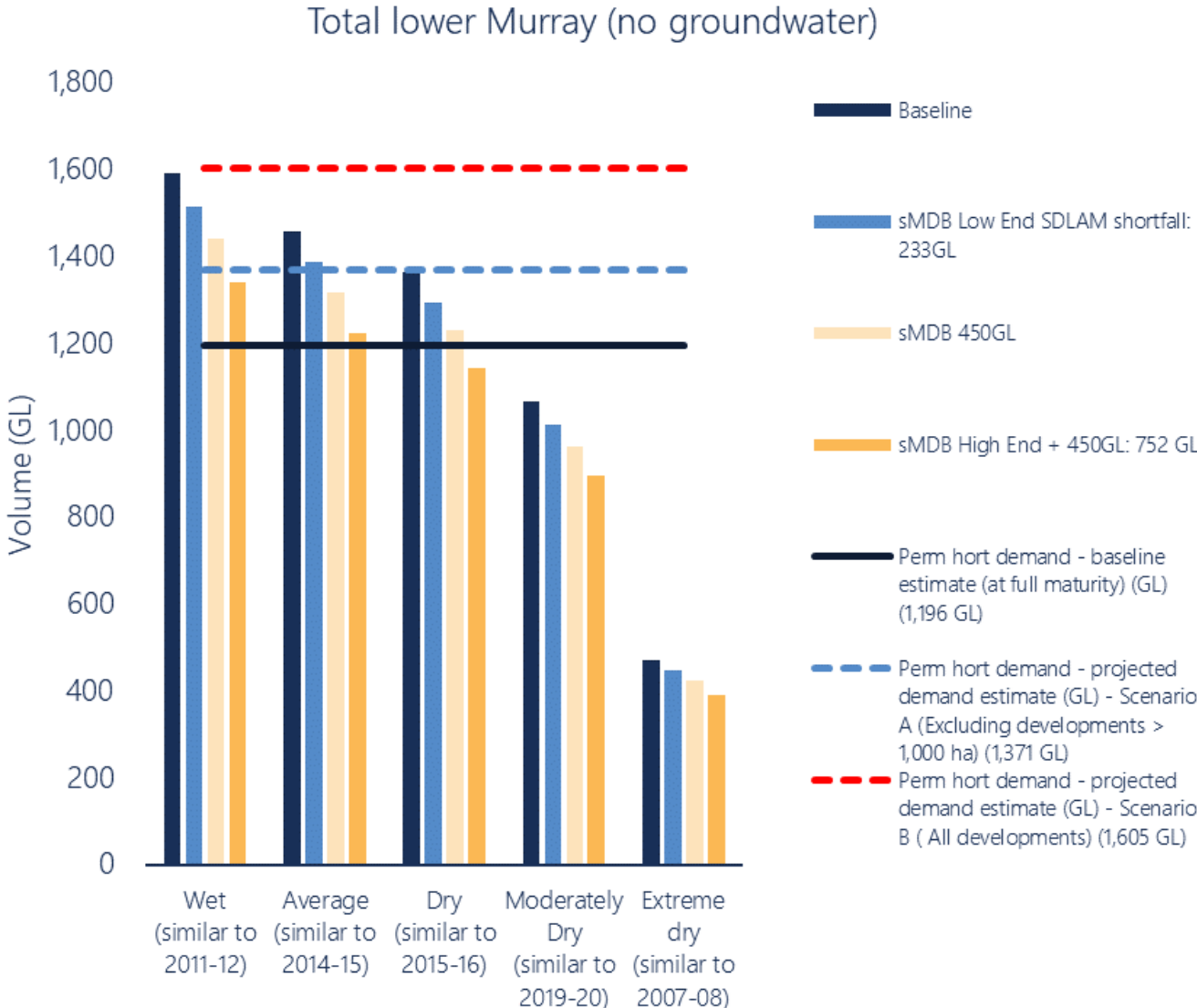


**If water investors sell to Commonwealth, this could reduce the supply of these products**



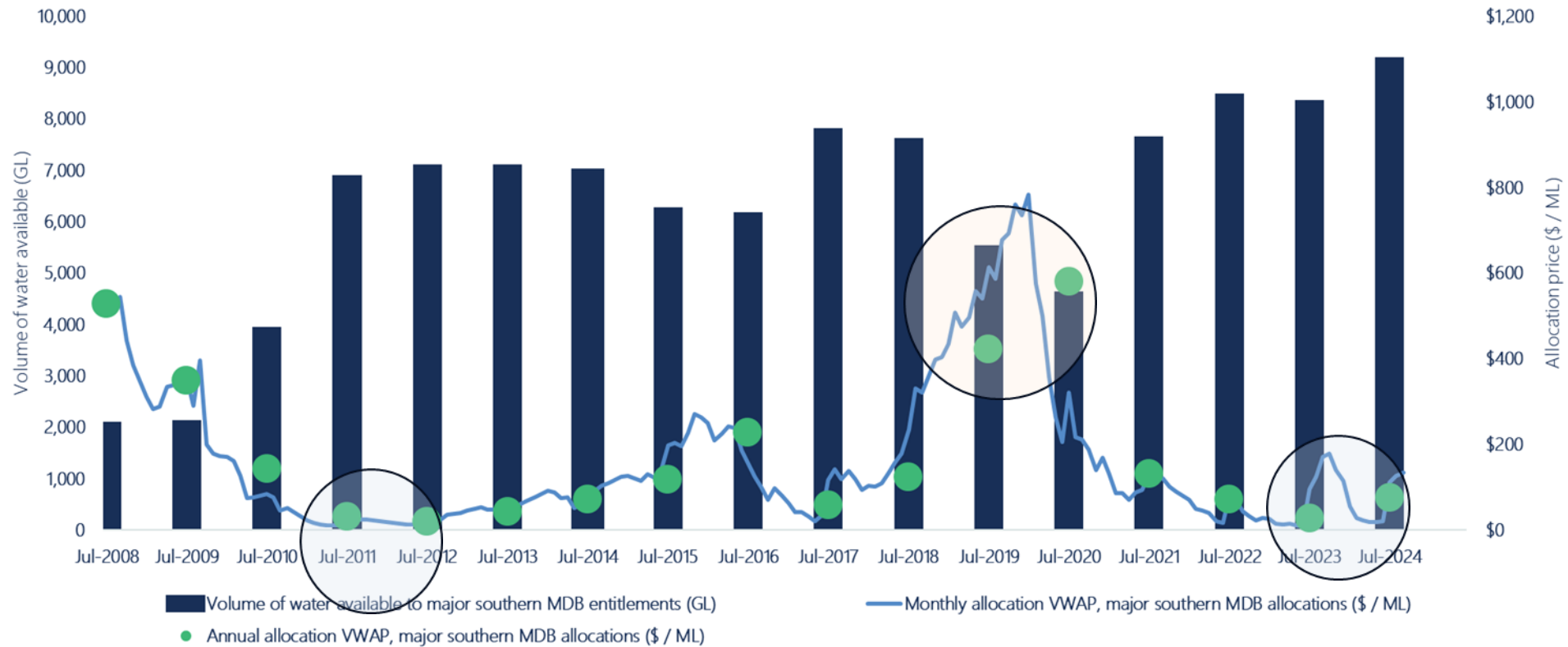
**This could mean less flexibility and availability for almond growers and therefore higher costs**

# Impacts (or risks) associated with horticultural demand



# Water availability remains a key risk / impact / driver

Historic data shows how allocation prices are mainly driven by changes in water availability.





# Take aways

---



# Strategic portfolio management is key

## Prospective buyback and horticultural demand require strong portfolio management

- Horticultural demand already high in Lower Murray
  - Current and future buyback could exacerbate this problem
- Further buyback also means
  - Less entitlement held in the consumptive pool overall
  - Higher allocation prices
  - Risks to secondary product providers.
- Unlikely to be any easy ways around

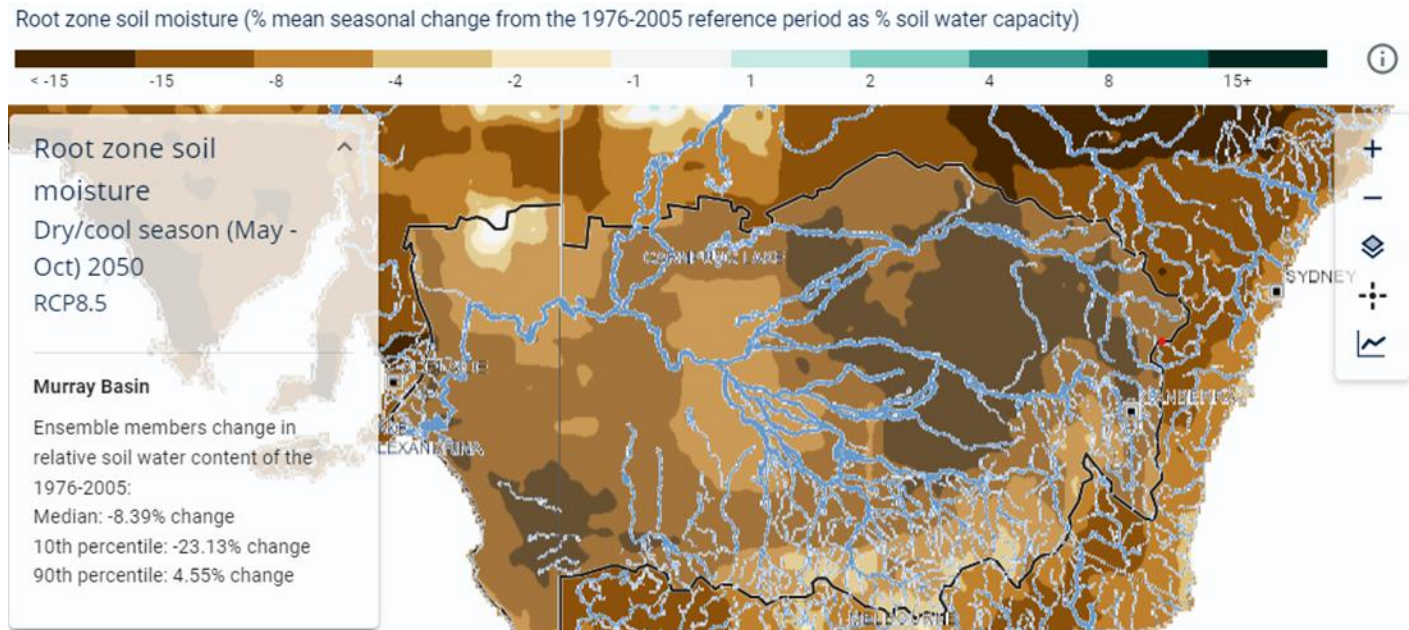
*Growers need risk management strategies, and to be clear on your approach in the water market*

Our team can help develop strategy, assess options and help you with approaches to execution



# Understand broader climate and water risk

## Increasingly variable climate requires better insight to support risk management



**Figure:** Projected cool season (May-Oct) rainfall in 2050 compared to 1976-2005 reference period, for the southern Basin, under a high emissions scenario (RCP 8.5)

**Source:** Bureau of Meteorology's Australian Water Outlook

- The Basin will continue to have droughts and floods, but this variability is likely to increase.
- There is a lot of information available on seasonal and long-term climate, but it's fragmented and difficult to navigate.
- As a part of Aither's integration with Ricardo, we now have increased expertise in this space and can help.

Join our free  
climate and  
water webinar  
- 16 October





Thank you

---

3 October 2024

---

Ryan Gormly

---

Associate Director

---

+61 (0) 407 456 117

---

[ryan.gormly@ricardo.com](mailto:ryan.gormly@ricardo.com)