Water allocation trading strategy 2017-18

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integrity

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Acknowledgement of Traditional Owners

The VEWH proudly acknowledges Victoria’s Aboriginal community and their rich culture and pays respect to their Elders past and present.

We acknowledge Aboriginal people as Australia’s first peoples and as Traditional Owners and custodians of the land and water on which we rely.

We recognise and value the ongoing contribution of Aboriginal people and communities to Victorian life and how this enriches us. We embrace the spirit of reconciliation, working towards equality of outcomes and ensuring an equal voice.
Contents

Executive summary .......................................................................................................................... 4
1 Purpose ........................................................................................................................................ 5
2 Trade types .................................................................................................................................. 5
3 Northern Region .......................................................................................................................... 7
3.1 Expected water availability in 2017-18 .................................................................................. 7
3.2 Commercial allocation trade ..................................................................................................... 8
3.3 Administrative water transfers ................................................................................................. 8
   3.3.1 Administrative transfers between VEWH accounts for environmental water delivery ......................................................................................................................... 8
   3.3.2 Administrative transfers to maximise carryover opportunity ........................................... 9
   3.3.3 Administrative water transfers to enable reuse of return flows ....................................... 9
   3.3.4 Administrative transfers for the Snowy River .................................................................. 10
   3.3.5 Commonwealth Environmental Water Holder transfers ............................................... 11
   3.3.6 Living Murray program transfers ..................................................................................... 11
3.4 Other potential opportunities ..................................................................................................... 12
4 Western Region ............................................................................................................................ 13
4.1 Trade opportunities .................................................................................................................. 13
5 Central Region ............................................................................................................................... 14
5.1 Expected water availability in 2017-18 .................................................................................. 14
5.2 Trade opportunities .................................................................................................................. 14
6 Gippsland Region ........................................................................................................................ 15
6.1 Expected water availability in 2017-18 .................................................................................. 15
6.2 Trade opportunities .................................................................................................................. 15
7 Frequently asked questions ......................................................................................................... 16
7.1 Where can I find out more about this year’s plans for environmental watering in Victoria? ........................................................................................................................................ 16
7.2 Will VEWH announce its trade decisions? ................................................................................ 16
7.3 Has the VEWH bought or sold allocation in the past? ............................................................ 17
7.4 How does the VEWH participate in the market? ..................................................................... 17
7.5 Does the VEWH take steps to ensure market prices are not affected by VEWH trading? ........................................................................................................................................ 18
7.6 Additional questions? .............................................................................................................. 18
Executive summary

The VEWH’s water trading strategy 2017-18 provides a high level overview of the types of water trading activities that VEWH may undertake across Victoria in 2017-18.

Water allocation trade is one of the tools the VEWH uses to effectively manage environmental water. Water trading allows the VEWH to move water to the systems where it is most needed, and to smooth out some of the variability in water availability across systems and across years.

This strategy covers both commercial water allocation trade (selling and purchasing water allocation), and administrative water transfers ('internal' transfers of VEWH allocation or transfers between water holders).

Environmental water availability is expected to be high across the state in 2017-18, with a wet 2016-17 boosting water supply and streamflows in many regions.

In 2017-18, the VEWH intends to implement a range of administrative transfers to facilitate the delivery of environmental water across Victoria or for carryover purposes, including water held by other environmental water holders. Similarly, administrative transfers will be undertaken to transfer allocation available for use in the Snowy River.

Opportunities to purchase allocation may be considered in in the Maribyrnong system, depending upon assessment of seasonal conditions and environmental need. The VEWH may consider selling part of its allocation in northern region systems in spring if foreseeable environmental demands can be met.

For further information on environmental water trade, as well as where, when, how and why environmental water is being released in Victoria, visit www.vewh.vic.gov.au.
1 Purpose

The VEWH’s 2017-18 water trading strategy provides a high level overview of the types of water trading activities that VEWH may undertake across Victoria in 2017-18.

Water allocation trade is one of the tools the VEWH uses to effectively manage water for the environment. Water trading allows the VEWH to move water to the systems where it is most needed, and to smooth out some of the variability in water availability across systems and across years.

As a public organisation, the VEWH takes its trade responsibilities extremely seriously. In undertaking any water trading, the VEWH aims to avoid negatively impacting on other market participants. The VEWH ensures its trading activities are carried out in a manner that is consistent with trading rules under the Victorian Water Act 1989 and the Basin Plan water trading rules under the Water Act 2007 for the Victorian part of the Murray-Darling Basin.

The Murray-Darling Basin Plan water trading rules place obligations on government agencies, including environmental water holders, regarding the management of water market sensitive information (known as a ‘water announcement’ under the trading rules – see Chapter 12, Part 5, Division 5 of the Basin Plan). The intent of these rules is to ensure that persons or organisations with prior knowledge of market sensitive information that will be publicly announced, do not have an unfair market advantage over other water market participants. Under these rules, persons or organisations may be prevented from trading when they have knowledge of water market sensitive information before it is made public.

Some of the decisions and actions the VEWH may take in relation to water allocation trade (including its administrative transfers) may be considered a ‘water announcement’ within the meaning of the Basin Plan trading rules. The rules allow that such information is not considered a water announcement if it is consistent with a publicly available trading strategy. This document forms the VEWH’s trading strategy.

2 Trade types

This trade strategy covers water allocation trade, but does not consider entitlement trade. The VEWH can trade its water entitlements, however, this would only be carried out in order to refine the Water Holdings and not to implement major water recovery initiatives (for which the VEWH is not funded). Entitlement trade requires the approval of the Minister for Water and would be assessed on a case-by-case basis.

This strategy covers the following types of allocation trade used by the VEWH:

- commercial water allocation trade (selling and purchasing water allocation), and
- administrative water transfers, including:
  - ‘internal’ transfers of VEWH allocation between VEWH entitlements for carryover or water delivery
  - transfers with other water holders without financial consideration (e.g. transfers with the Commonwealth Environmental Water Holder [CEWH]).

Trade of allocation can be facilitated via established water markets, or by agreement between entitlement holders. Water markets in the irrigation supply systems in the northern
region and the Murray-Darling Basin are well established and are commonly used by entitlement holders to manage water for irrigation, towns and the environment. In other regions in Victoria, while trade is possible, there are not always well-established processes. The Victorian water grid, which connects water sources within and across different regions, can provide opportunities that enable transfer or exchange of water allocation between regions.

Decisions to trade environmental water are made by the VEWH Commission as part of VEWH’s standard portfolio management practice. The primary focus of VEWH operations is the delivery of environmental water to meet environmental outcomes. Carryover and trade are important tools that help the VEWH manage seasonal water availability and maximise benefits to the environment.

The VEWH regularly assesses its environmental demand and supply position throughout the year, considering factors such as environmental condition and demand, current and forecast climate conditions and water availability, carryover capacity and market conditions. Figure 1 shows the key considerations that guide the VEWH’s use, carryover and trade decisions.

The following sections detail trade actions that the VEWH may take based on current water availability assessments and seasonal forecasts. Decisions to undertake the actions identified in this strategy will depend on unfolding seasonal conditions and environmental water demands in 2017-18 and into 2018-19.
3 Northern Region

Water markets in the irrigation supply systems in the northern region and the Murray-Darling Basin are well established and are commonly used by entitlement holders to manage water for irrigation, towns and the environment. This section covers VEWH trading activities in the following systems:

- (Victorian) Murray
- Goulburn
- Campaspe
- Loddon
- Broken.

The VEWH coordinates with other environmental water holders in northern Victoria, New South Wales and South Australia to deliver environmental outcomes at the broader Murray-Darling Basin scale. The VEWH liaises with the Murray-Darling Basin Authority (Living Murray program) and the Commonwealth Environmental Water Office to maximise the benefits of environmental water delivery in Victorian systems. In most cases, when Commonwealth or Living Murray water is to be delivered in Victoria, the CEWH and MDBA transfer the agreed amount of water to the VEWH. That water is held by the VEWH until used or transferred back. Excluding trade application fees, there is no financial consideration associated with such transfers.

Transfers between environmental water holders occurs to:

- facilitate the efficient delivery of environmental water
- maximise availability across the whole environmental water portfolio
- return unused water to the source environmental water holder
- account for delivery of water to South Australia.

Further information about Commonwealth environmental water priorities, including its Annual Water Use Options and commitments can be found here: www.environment.gov.au/water/cewo

3.1 Expected water availability in 2017-18

Conditions across the Northern Region in 2016-17 were wet, resulting in high seasonal determinations across all systems, including low-reliability seasonal determinations for the Murray and Campaspe systems. The Northern Victoria Resource Manager’s May outlook for 2017-18 suggests that early-season water availability will be higher than in recent years, and nearly all systems are likely to reach 100 per cent seasonal determination for high-reliability water shares by February except under extreme dry conditions.

Most recent climate and rainfall forecasts from the Bureau of Meteorology suggest a relatively dry and warm winter across the northern region.

Environmental water demands in the northern region are usually high in winter and spring. As the outlook indicates, there is likely to be good water availability early in the season. High allocations combined with carryover from 2016–17 means that sufficient water is likely to be available for early-season environmental water demands. There is potential that environmental water availability will exceed foreseeable demand in the early part of 2017-18.
3.2 Commercial allocation trade

The VEWH can buy or sell water allocation where it is in line with the VEWH’s statutory objectives: that is, if it benefits the environment.

VEWH’s water availability position leading into 2017-18 relative to its demand is expected to be strong due to planned carryover from 2016-17 and good system operating reserves. As such, VEWH is not planning to purchase any allocation in the northern region in 2017-18.

Depending on unfolding seasonal conditions and environmental water demands in 2017-18 and into 2018-19, it is possible that VEWH will sell allocation in 2017-18 in the Murray, Goulburn and/or Campaspe systems.

As environmental water demand is highest in winter and spring, decisions to sell allocation have typically taken place from late November onwards, once the peak demand period has passed. Given VEWH’s strong resource position heading into 2017-18, it is possible that VEWH will seek to sell earlier in the season, potentially from September. The volume sold will depend on a spring assessment of environmental demands relative to VEWH’s environmental water availability. Any decision to sell allocation in the northern region in 2017-18 will be announced via its website at http://www.vewh.vic.gov.au/news-and-publications.

The VEWH’s commercial trade announcements will cover the system in which the trade will take place, the volume, timing and mechanism (e.g. brokers, online exchange) of the allocation trade. For example, see our 2016-17 announcement http://www.vewh.vic.gov.au/news-and-publications/news/vewh-to-sell-water-allocation-in-northern-victoria.

3.3 Administrative water transfers

Administrative water transfers are transfers of water allocation that have no financial consideration. These are the most common trades the VEWH undertakes. VEWH administrative transfers occur between VEWH entitlements (or accounts) to move water to where it is most needed for delivery or carryover purposes.

3.3.1 Administrative transfers between VEWH accounts for environmental water delivery

Administrative transfers between VEWH accounts sometimes occur to enable delivery of an environmental watering action. These transfers do not occur for every environmental water delivery, but are undertaken on an as-needs basis to maximise use of the VEWH’s portfolio.

For example, in 2013-14, 1,000 ML of environmental water was transferred from the Goulburn system (trading zone 1A) to the Loddon system (trading zone 5A) to support delivery of a spring high flow in the Loddon River. In 2014-15, 500 ML of environmental water from the Murray system (trading zone 6) was transferred to the Broken system (trading zone 2) to provide sufficient water to support environmental water deliveries in Moodies Swamp and the upper Broken Creek.
3.3.2 Administrative transfers to maximise carryover opportunity

Carryover is an important tool the VEWH uses to help ensure environmental water can be delivered at a time that is of the greatest value to the environment. For example, environmental water demand is often highest in winter and spring, and so carryover can help ensure those demands can be met when there is a risk there will be a low seasonal determination at the beginning of the season.

At the end of each year, the VEWH may undertake administrative transfers between VEWH accounts to maximise carryover opportunity. Such transfers may occur within particular systems or trading zones, or across systems or trading zones (subject to system trade limits). Carryover decisions will be undertaken to maximise benefit to the environment, and are informed by:

- priority environmental demands identified for 2017-18
- priority environmental demands identified for 2018-19
- the seasonal outlook for 2017-18 (e.g. Bureau of Meteorology climate and streamflow forecasts and Northern Victoria Resource Manager seasonal determination outlooks)
- carryover limits (i.e. entitlement volume and entitlement rules)
- spill risk
- carryover costs.

The majority of such transfers are likely to be undertaken in June 2018, to ensure environmental water availability is optimised for the new season opening on 1 July 2018.

3.3.3 Administrative water transfers to enable reuse of return flows

Trade is the mechanism used to ‘shepherd’ environmental water flows down the Murray and across the border from Victoria to South Australia, so that the flows are not re-regulated for supply to consumptive users in either state.

This reuse policy, known as ‘return flows’, is available for environmental water delivered from VEWH’s Goulburn, Murray and Campaspe entitlements in the northern region. It increases the efficiency of environmental water use and helps reduce the volume of water needed to be recovered for the environment from consumptive water users.

For example, environmental water is delivered in the Goulburn River to provide environmental benefits such as stimulating fish to breed and promoting the growth of vegetation on river banks. The water flows down the Goulburn River and into the River Murray. The VEWH can apply to the storage manager (Goulburn-Murray Water) to have the volume of environmental water that reached the River Murray re-credited in VEWH Murray accounts as a return flow. This water can then be reused at a priority environmental site in Victoria (such as at Hattah Lakes near Mildura) or used for environmental outcomes in the Murray in South Australia.

If the water is to be reused in South Australia, the VEWH trades the re-credited return flow volume to environmental water managers in South Australia. This may include return flow transfers to South Australia for the CEWH and Living Murray, when the VEWH delivers water on their behalf.
During the season, the VEWH makes regular transfers (e.g. monthly) of environmental return flows to South Australia to account for the water that flowed on after meeting Victorian environmental objectives to be reused downstream - providing whole-of-system benefits. Excluding application fees, there is no financial consideration for these transfers.

For example, in 2016-17, the VEWH transferred about 216 GL of environmental return flows to South Australia (progressively traded over the year). This water had previously been delivered to achieve environmental benefits at Victorian sites such as the Goulburn and Campaspe rivers, lower Broken Creek, and Hattah Lakes, before continuing down the River Murray.

The conditions of VEWH’s access to return flows are in the VEWH’s Campaspe, Goulburn and Murray entitlements. These entitlements can be viewed online at: waterregister.vic.gov.au/water-entitlements/bulk-entitlements.

### 3.3.4 Administrative transfers for the Snowy River

Water from the Snowy hydro-electric scheme is made available to the Murray system to support consumptive water deliveries.

The VEWH holds entitlements in the Murray, Goulburn and Loddon systems that form part of the Victorian government’s commitment to recover water for the Snowy and Murray rivers. The water recovery project aimed to increase environmental water availability to the Snowy and Murray rivers by recovering water in the Murray and its tributaries that would be made available as a substitute for Snowy water to supply Murray water users.

A substitution arrangement is in place to enable the VEWH entitlements in the Murray, Loddon and Goulburn to increase environmental flows in the Snowy River. Allocation trade is the mechanism used to give effect to this substitution arrangement.

Each year, water is allocated to entitlements held by VEWH in the Murray, Loddon and Goulburn systems in line with seasonal determinations in those systems. At the end of each season (around the end of June), any water allocated to these entitlements to 31 January of that year must be traded by the VEWH to a holding account for the Snowy. Similar arrangements are in place for the New South Wales Murray and Murrumbidgee systems.

The volume of water the Snowy ‘owes’ the Murray for consumptive purposes is reduced by the equivalent amount of the transfers. This offsets the volume of water that must be supplied from the Snowy system to the Murray and Murrumbidgee rivers, thereby freeing up water for environmental flows in the Snowy, while ensuring the equivalent amount of consumptive water is available in the Murray.

In 2016-17, the VEWH traded the following volumes from each system to the Snowy inter-valley transfer account:

- Murray system – 44,959.7 ML
- Goulburn system – 40,480.7 ML
- Loddon system – 470 ML.
The volumes were equivalent to allocations made to the VEWH from 1 July 2016 to 31 January 2017 (high-reliability allocations in the Murray, Goulburn and Loddon systems, totalling 85,415.6 ML).

As the Snowy transfers are required annually and there is no financial consideration associated, the transfers will not be publicly announced.

### 3.3.5 Commonwealth Environmental Water Holder transfers

Environmental water committed by the CEWH to a Victorian environmental watering action is transferred to the VEWH for delivery once the environmental water demand and water availability is confirmed. Unused Commonwealth environmental water is transferred back to CEWH accounts if it is no longer needed for delivery in Victoria.

Such transfers may occur within a particular system or trading zone, or across connected systems or trading zones. The transfer of water between environmental water holders in Victoria is subject to the same allocation trade opportunities and limits as consumptive water users, in accordance with Victorian trading rules.

In 2017-18, such transfers are likely to occur in the Goulburn, Murray, Campaspe, Loddon and Broken systems to facilitate environmental water delivery. Due to the large size of environmental watering activities in the Murray and Goulburn systems, volumes transferred from CEWH to VEWH can be large (i.e. greater than 100 gigalitres) but will vary depending on CEWH commitments. In the Broken, Loddon and Campaspe systems, transfers are generally smaller (i.e. less than 10 GL).

VEWH transfers to CEWH are generally relatively small in volume, as they are associated with returning any unused water following the completion of an environmental water delivery.


### 3.3.6 Living Murray program transfers

VEWH environmental water entitlements held on behalf of Living Murray may only be used to provide for the delivery of environmental water to Living Murray icon sites. Trade of Living Murray environmental water cannot be conducted for financial gain.

Administrative transfers of Living Murray water to VEWH accounts may occur to facilitate delivery for icon site watering actions or to maximise environmental water availability for future watering actions (e.g. through carryover). In the past, these transfers have occurred in the Murray and Goulburn systems (less than 20 GL), but not in the Campaspe system.

Living Murray administrative transfers may occur within particular systems or trading zones, or across systems or trading zones (subject to system trade limits and entitlement rules).

Further information regarding Living Murray’s trading activities can be found on the Murray-Darling Basin Authority website at [www.mdba.gov.au](http://www.mdba.gov.au).
3.4 Other potential opportunities

The VEWH does not hold any environmental water entitlements in the Coliban system, however, the Coliban River is a priority waterway within the environmental watering program. Environmental flows for the Coliban River are currently managed through flexible passing flow arrangements, which enable environmental water managers to agree with Coliban Water to withhold passing flows at certain times so water can be accrued and then delivered at a time when the environmental need is greater (e.g. to maintain good water quality in the river over summer).

In 2017-18 the VEWH will investigate opportunities to further increase environmental water availability in the Coliban system. One potential opportunity could be a substitution arrangement with Coliban Water, in which environmental water held in Lake Eppalock might be exchanged for a small volume of water in Malmsbury Reservoir (on the Coliban River upstream of Lake Eppalock). Such an arrangement may enable priority environmental flow releases to occur in the Coliban River.
4 Western Region

The VEWH holds an environmental entitlement for the Wimmera-Glenelg supply system, which is used to meet demands across the Wimmera and Glenelg river systems, and to supply small wetlands in the region.

There is no mature water market in the western region, however, allocation trades can be conducted between entitlement holders within the Wimmera-Glenelg supply system with the permission of the Minister for Water (or his/her delegate).

Conditions in the Western Region in 2016–17 were very wet in winter and spring, and naturally high flows and some flooding helped the rivers and wetlands recover from the very dry conditions in 2015–16. Allocations reached 100 percent for the first time since 2011–12.

The Storage Manager’s outlook suggests good opening allocations, and combined with carryover from 2016-17, the VEWH expects to have good water availability for environmental watering in 2017-18, in partnership with the CEWH.

4.1 Trade opportunities

The VEWH does not plan to trade any environmental water in the Western Region in 2017-18.
5 Central Region
This section covers potential VEWH trading activities in the following systems:

- Yarra
- Tarago
- Maribyrnong
- Werribee
- Moorabool
- Lower Barwon.

There are a range of trade opportunities in the central region, including through established water markets in the Werribee and Bacchus Marsh irrigation districts, or through commercial or substitution arrangements with other bulk water entitlement holders (such as urban water corporations).

5.1 Expected water availability in 2017-18
With most inflows into storages in the central region occurring in winter and spring, the likely water availability in these systems should be evident early in 2017-18.

The western systems of the Central Region are generally drier than those in the east and quite different rainfall conditions can exist between them at the same time. Entitlements in some systems (such as the Yarra) are more reliable than others, providing greater certainty of water availability irrespective of catchment conditions.

Systems in the west (such as the Werribee and Moorabool systems) will rely on inflows in 2017-18 to improve environmental water availability. Carryover will be an important source of water to meet demands in these systems, if conditions are dry.

5.2 Trade opportunities
Allocation trade is not planned for the Yarra, Tarago, Moorabool and Barwon systems in 2017-18.

The VEWH does not hold an environmental entitlement in the Maribyrnong system, but as in previous years the VEWH will work with Melbourne Water and licence holders in the system to consider the purchase of unused licence allocation to support environmental values in the system. This arrangement has occurred over the past four years, and will only continue with the agreement of all parties involved.

Commercial trade is not planned for the Werribee system in 2017-18, however, an administrative transfer of water allocation held for environmental outcomes by Melbourne Water in the Werribee system may occur for delivery purposes.
6 Gippsland Region
This section covers potential VEWH trading activities in the following systems:

- Latrobe
- Thomson
- Macalister
- Snowy.

Opportunities to trade in the Gippsland region exist through the established water markets (e.g. Macalister Irrigation District), or through commercial or substitution arrangements with other water entitlement holders (such as urban water corporations).

6.1 Expected water availability in 2017-18

Under moderate streamflow forecasts, sufficient environmental water is expected to be available to achieve the highest priority watering actions identified in the Seasonal Watering Plan 2017-18 for the Latrobe, Thomson and Macalister rivers.

Environmental water availability and delivery for the Snowy River is determined through interstate agreements: Victoria’s contribution to Snowy environmental water availability comes from entitlements held in the Murray, Goulburn and Loddon systems. This water is made available for environmental flows in the Snowy River via a substitution method, whereby Victorian environmental water replaces water that was earmarked for transfer from the Snowy to Victoria to support irrigation demands in the Murray. Further information about this process is available in section 3.3.4.

6.2 Trade opportunities

The VEWH is not planning to buy, sell or transfer any environmental water in Gippsland in 2017-18.

See Section 3.3.4 regarding the administrative transfers the VEWH makes on behalf of the Snowy Water Recovery project.
7 Frequently asked questions

7.1 Where can I find out more about this year’s plans for environmental watering in Victoria?

Information about the environmental watering in Victoria can be found in the VEWH’s Seasonal Watering Plan 2017-18 at www.vewh.vic.gov.au.

The plan previews the potential environmental watering that could be implemented using water available under all environmental water entitlements held in Victoria. This includes water available under the VEWH’s environmental water entitlements and water held by other environmental water holders, such as the CEWH and the Living Murray program.


7.2 Will VEWH announce its trade decisions?


The VEWH’s commercial trade announcements will cover the system in which the trade will take place, the volume, timing and mechanism (e.g. brokers, online exchange) of the allocation trade.

There may be circumstances when a trade decision would not be publicised, for example, if the action was urgently required (e.g. purchase of a small volume to ensure a watering action could continue), or because the announcement in itself may be assessed to have a potentially adverse impact on the market. However, large purchases or sales of allocation (for example 1,000 ML or greater, but assessed relative to the size of the available market) will always be announced by VEWH.

The VEWH will also place notice of a trade decision on the VEWH website (http://www.vewh.vic.gov.au/news-and-publications/news) if it is:

- related to a water system covered by this trading strategy; and
- not consistent with the activities covered by this trading strategy; and
- may have an adverse impact on the water market.

As there is no financial consideration associated with administrative water transfers, decisions to undertake these transfers are not publicised when they occur. This also avoids considerable administrative effort. However, the VEWH reports all water transfers, including those with other environmental water holders, in its corporate annual report at the end of each financial year.
The VEWH reports annually on the management and use of environmental water in Victoria, including carryover and trade, through its annual reports and Reflections. These are available at http://www.vewh.vic.gov.au/.

### 7.3 Has the VEWH bought or sold allocation in the past?

Since its commencement, the VEWH has bought and sold water allocation in water systems around Victoria, including the Murray, Goulburn, Loddon, Wimmera-Glenelg, Werribee and Maribyrnong systems. Figure 2 shows the relative volumes of allocation bought and sold each year.

#### Figure 2 - VEWH trade activity

![VEWH trade activity chart](chart.png)

### 7.4 How does the VEWH participate in the market?

VEWH’s selected mechanism for participating in the market will vary depending on different factors. These may include whether the VEWH is buying or selling allocation, whether there is an established market, the size of the market, the system in which the trade is to occur, or the volume of water VEWH is buying or selling. Different mechanisms will suit different circumstances.

In the past, when trading in the northern region where there are large and established water markets, the VEWH has used a mixture of brokers and web-based water exchanges to conduct its trade activity. Brokers selected by VEWH must be members of the Australian Water Brokers Association to help ensure they are operating with a high standard of ethics and business practices.
7.5 Does the VEWH take steps to ensure market prices are not affected by VEWH trading?

As a public organisation, the VEWH seeks to ensure it’s operating in the public’s interest, and is not causing impacts to market participants. When considering the volumes of water to sell or purchase, the method of market participation, and the prices considered, the VEWH undertakes an assessment of potential market impacts and takes steps to minimise those impacts.

VEWH activity in the water market, including its choice of market intermediaries and mechanisms, is guided by the following considerations:

- Ensuring adequate information is provided to the marketplace
- Ensuring no positive or negative discrimination against potential buyers and sellers or intermediaries
- Minimising any real or perceived impacts on the market from trading activity
- Ensuring efficient transaction costs and management fees
- Ensuring systems and contractual arrangements are in place to guarantee transactions are executed in a timely, accountable and efficient manner.

In addition, the Victorian government has set ministerial rules around how the VEWH can make decisions, including about water trade. In setting these rules, the government has ensured that the VEWH is trading only in the public interest, in order to protect environmental values without adverse community impacts.

7.6 Additional questions?

If you have any queries or would like to contact us, please do and one of our friendly staff will get back to you shortly.

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