

# Interstate Water Trade



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**FACT SHEET 4**  
MAY 2006

**Exchange Rates**

## **EXCHANGE RATES**

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Transferring a water entitlement from one location to another has important consequences for the quantity of water supplied to the destination. In many cases, less than one megalitre (ML) of water may be supplied for the one ML purchased. This is due to a number of factors:

When an entitlement is moved to a different location, the transfer can result in changes to the quantity of water lost in transmission.

The transfer can also result in a change in the level of security of the water supplied, both for the buyer of the water entitlement and for other water users. This is because the water may have to come from a different source, such as a different reservoir or river. For example, the further upstream a water entitlement is moved, the less storage options are available to source supplies (reduced security), and conversely, the further downstream a water entitlement is moved, the more storage options become available (increased security).

Permanent water trading requires the cancellation of the seller's water entitlement and increasing the purchaser's water entitlement. These entitlements may be very different products in terms of reliability. For example, purchasing a product of lower reliability such as general security water entitlements from New South Wales and applying it in South Australia will require the water product to be converted to the higher reliability South Australian water licence. To ensure that there is no overall increase in diversions, the conversion or exchange rate for this example is less than 1.

### **Exchange Rates**

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In order to limit the impact that the interstate transfer of a water entitlement may have on supply security, and hence other water users and the environment, exchange rates have been developed by the Murray-Darling Basin Commission (MDBC).

They are based on a set of principles that are considered to be equitable with regard to all water users. The exchange rates will be applied to all permanent water transfers.

Exchange rates have been determined for interstate transfers to accommodate any losses through changes in the level of security for supplying water, and to ensure that the overall security of the system is not compromised, ie: that other users are not adversely affected by the trade.

To illustrate how this works - if a water user in the Goulburn Valley (Victoria) buys 10 ML of General Security water right from a water user in the Murrumbidgee Valley (New South Wales), the Goulburn Valley water user's water right is increased by 6.349 ML.

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## **Implications for the Cap**

The MDBC maintains a register of interstate transfers (both permanent and temporary) to track the necessary adjustments that need to be made to state accounts under the Murray-Darling Basin Cap on water diversions.

Under the Cap rules all interstate transfers of high security allocations are subject to the Cap exchange rate of 0.9. This is based on the principle that, on average, high security allocation irrigators use only 90% of their annual allocations. It is not applied to the particular interstate transfer between two irrigators but rather to the entitlements of the states involved.

## **State Exchange Rates**

The states may apply their own exchange rates, either before an entitlement is transferred interstate or afterwards, before the new licence is issued to the buyer. Where the states apply their own exchange rates, they must provide annual reports on their use to the MDBC. A prospective purchaser should contact their state agencies to obtain the specific details regarding their exchange rates.

Photo credits:

Dairy Cows grazing at Woodlands Dairy (photo: Regional Reach Advertising, May 2006)

Hattah Lakes (photo: Andrew Keogh)

Forage Sorghum field at Wylarah (photo: Regional Reach Advertising, May 2006)