



Australian Government

Commonwealth Environmental Water Office

**Sale of water allocations in
the Goulburn catchment,
October-November 2015**

Bidder survey

Introduction

Sale of environmental water allocations

The sale of water allocations in the Goulburn catchment, Victoria, in October 2015 was the third tender for sale of Commonwealth water allocations; in early 2014, allocations were sold in the Gwydir and Peel valleys. It was also the largest, with 525 eligible bids received in three days.

As a result of the tender, the Commonwealth Environmental Water Holder completed 44 trades for 22,864 megalitres (ML) of Commonwealth environmental water, gaining a return of \$6,457,669 for the Murray-Darling environment.

Evaluation survey

In December 2015, the CEWO asked bidders in the tender to participate in an online survey to provide feedback on the Goulburn sale process. The aims of the survey were to measure how well the tender suited potential buyers and to identify improvements to future sales conducted by the CEWO.

In particular, the CEWO sought feedback from bidders on the online bidding process. The CEWO had not used an online bidding process before. In previous tenders, hand-written bids were submitted by fax or email to the CEWO for processing. Introducing an online bidding process meant that the CEWO could accept and process a much larger number of bids in a short timeframe.

Overview of the Goulburn tender process

On 18 September 2015, the Commonwealth Environmental Water Holder (CEWH) announced on the Commonwealth Environmental Water Office (CEWO) website the potential sale of water allocation in the Goulburn. The tender details were announced on 23 October, and the tender was open from 10am, Monday 26 October to 3pm, Wednesday 28 October.

Bids were submitted using an online bid form ('smart form'). To participate, bidders required a valid water allocation account (known in Victoria as an 'allocation bank account') and a valid Australian Business Number (ABN).

For allocation accounts held by more than one person, or by a company or a trust, the CEWO required the person submitting the bid to provide evidence that they were authorised to do so on behalf of the allocation account holder/s. If a third party such as a water broker submitted a bid on behalf of the holder/s, the CEWO required evidence that the broker was authorised by the allocation account holder/s.

The CEWO notified successful bidders by email 2-3 business days after the sale close time. The total volume sold was higher than the advertised 20 GL because the CEWH elected to accept a number of bids at the same price (\$271/ML) that could not have been accepted in full with the sale volume restricted to 20GL. Successful bidders were allowed three business days to pay for their water. Once payment was received, the CEWO transferred water onto bidders' accounts by submitting trade forms to the relevant approval authorities (Victorian and South Australian governments).

Unsuccessful bidders were notified by email 5-10 business days after the sale close time. Each unsuccessful bidder was provided a list of possible reasons a bid could be unsuccessful

with “X” checked next to the reasons that their bid was not accepted. All bids with a price below \$271/ML were unsuccessful in this tender.

The CEWO published the trade outcomes on 18 November, 22 days after the tender closed and within 24 hours of processing the final transfers of water to successful bidders.

Key findings from the survey results

The survey was sent to 230 bidders, and 48 responses were received. The response rate was 20 per cent of bidders that were invited to take part in the survey, or 16 per cent of all bidders in the tender. The survey received a higher response rate from successful bidders than from unsuccessful bidders, so results should not be considered fully representative. Nevertheless, the survey provided valuable feedback and will help CEWO refine its water trading processes in the future.

Most respondents had some previous experience trading water allocations. A majority of respondents (73 per cent) rated their overall experience of the tender as excellent, good or fair.

Of the respondents who rated their overall experience as ‘poor’, the most common criticism was related to the complexity of the process, particularly where bidders were required to provide evidence that they were authorised to act on behalf of the allocation account holder/s. Several respondents that were unsuccessful because their price was uncompetitive, but also made minor errors in their bid, criticised the CEWO for not providing them with an opportunity to rectify those errors.

Full results are included at Attachment A.

Refinements to the tender process

Based on survey feedback, refinements are underway to improve the process for future sales of Commonwealth environmental water allocations.

- To date, the CEWO has changed some questions in the bid form that were unclear to some bidders in the Goulburn tender. This should make the form easier to complete.
- To reduce the number of technical issues, future improvements may include developing a new form using html coding rather than an Adobe Acrobat format. In particular, an html form may be easier to use on Macintosh computers and mobile devices (tablet computers).
- The CEWO is reviewing the advice it sends to unsuccessful bidders, to ensure it is clear and concise, and to avoid confusion about the factors that caused each bid to be deemed unsuccessful. Some unsuccessful respondents did not understand that they were unsuccessful because their price was not competitive. Others were concerned that if their price had been competitive then they would not have the opportunity to fix minor errors that they were unaware they had made.

Most respondents were pleased with the time taken for the CEWO to complete its tasks. Although some respondents thought the trade outcomes were not reported soon enough, the response is likely a reflection of the fact that those bidders were unaware of how soon the CEWO publicised the outcomes. Rather than attempt to publish the outcomes sooner, consideration will be given in future trades to sending an email alert to all bidders when the results are published on the CEWO website.

Other issues raised in relation to the Goulburn tender

Limiting sales to market participants with water delivery shares

A large number of respondents raised concerns that 'speculators' in the water market, who have no access to irrigable land or primary production, were driving up prices and should have been excluded.

Of the 22.864 gigalitres (GL) sold, more than 95 per cent (21.864 GL) was bought by Victorian Goulburn and Murray irrigators. The remaining 1 GL was sold to primary producers in South Australia.

There are a number of reasons that the Goulburn tender was not restricted to certain categories of market participant including:

1. Doing so would be contrary to the Trading Framework, which seeks to promote competition and not to disadvantage certain categories of market participant. Not seeking to achieve full market value from the sale of any water may be inconsistent with the *Public Governance, Performance and Accountability Act 2013* requirements for proper use (including disposal) of Commonwealth property.
2. Irrigation businesses may have been excluded because many water shares unlinked to land are still held by farmers. Some irrigation businesses separate their water trading operations from their farming operations, meaning water delivery shares are held by a different company from the company participating in the trading action.
3. Institutional investors with holdings unlinked to land are more likely to be selling allocations to generate an annual return rather than buying from the Commonwealth.

Market mechanism and price

A tender mechanism was used for this approach to market to encourage participation and competition and to allow bidders to nominate the price at which they were willing to buy allocations with reference to their particular business circumstances. This approach helps to minimise market impacts by allowing bids to come in that reflect prevailing market conditions. An open tender also provides reassurance that the best value for money for the Commonwealth has been obtained.

An auction mechanism was also proposed as more transparent, allowing potential buyers to see offers and increase their bids to a competitive price. An auction was not used in this instance as there were concerns that an auction could become heated, putting more pressure on water prices.

Some respondents suggested that the water should be sold at a price below its market value. Whilst the trade of environmental water is for environmental outcomes rather than commercial reasons, the trade was nevertheless undertaken consistent with the *Public Governance, Performance and Accountability Act 2013* requirement for seeking to achieve full market value and equitable participation from the sale of any water.

Parcel size

Some respondents suggested a limit on the maximum parcel size would better 'share water around' during dry times. Strategies such as this will be considered on a trade by trade basis. In this trade, market research had indicated that there was demand from a range of water

industries; and that imposing a maximum parcel size would not benefit the market as it doesn't change the underlying demand for water. Further, not having a maximum parcel size allowed bidders to make offers based on their business requirements.

A small proportion (8 per cent) of respondents would have preferred to purchase less than 30 ML in the tender. The minimum parcel size will be considered on a trade by trade basis. Imposing a minimum allows the CEWO to reduce the cost of administering the tender process, and achieve a better overall return for the sale of the water allocations.

Use of trade proceeds

Some respondents suggested that proceeds from the sale should be invested in the communities where the water was sold. Under the provisions of the *Water Act 2007*, the Commonwealth Environmental Water Holder can use the proceeds of water sold in the Goulburn catchment in 2015 to buy water or water derivative products such as options or leases. Any purchase made using the proceeds of this sale must improve the capacity of environmental water to achieve the objectives of the environmental watering plan.

Legislation passed by the Australian Parliament in May 2016 has provided the CEWH with greater flexibility to use the proceeds of water sales for environmental *activities* that improve the capacity of the CEWH to protect or restore environmental assets (in addition to water purchases); however those changes do not apply to revenue raised by past sales including the Goulburn tender.

Attachment A: Responses to individual questions

Finding out about the tender

Figure 1. The Commonwealth Environmental Water Holder advised that he was investigating a potential sale of water allocation in the Goulburn on the Commonwealth Environmental Water Office website on 18 September 2015. Were you aware of this before the tender details were announced on 23 October 2015?

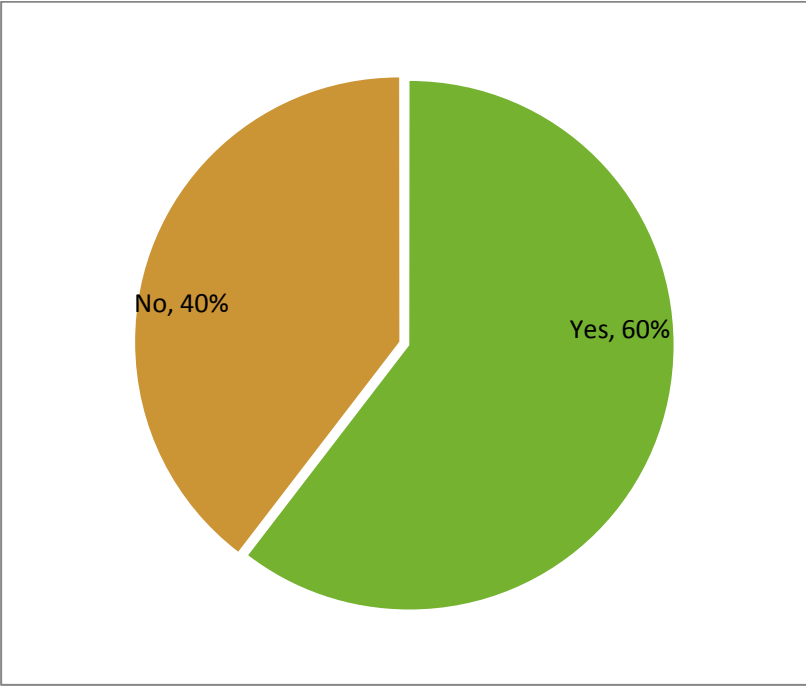


Figure 2. The tender details were announced on 23 October 2015. When did you first hear that the tender was open between 26-28 October 2015?

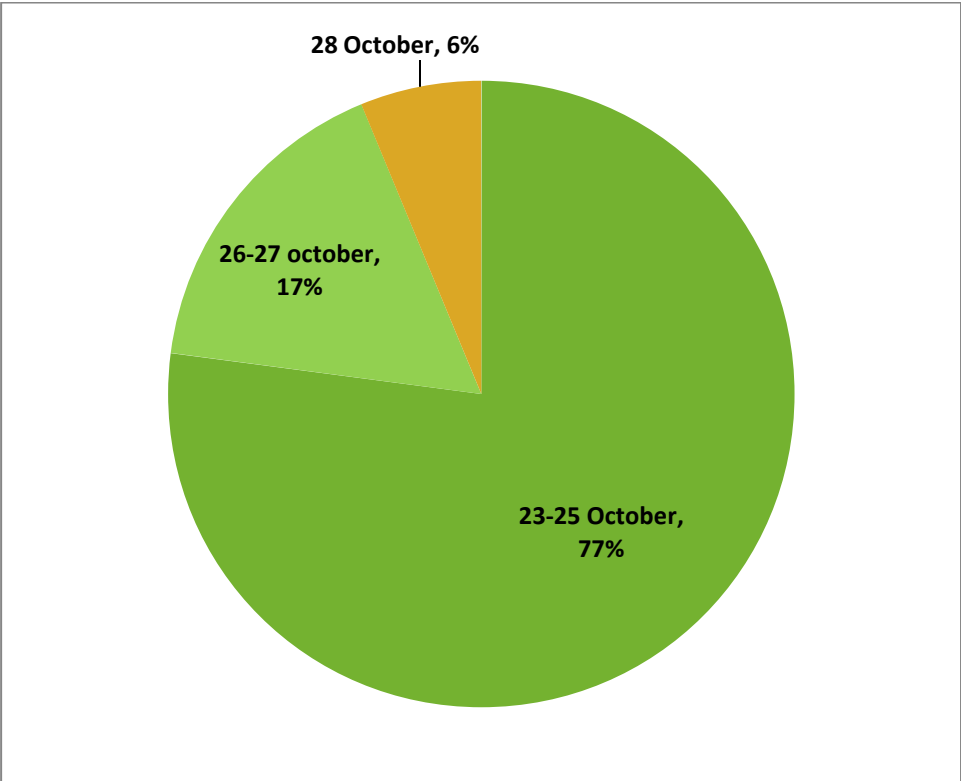


Figure 3. How did you hear about the tender details?

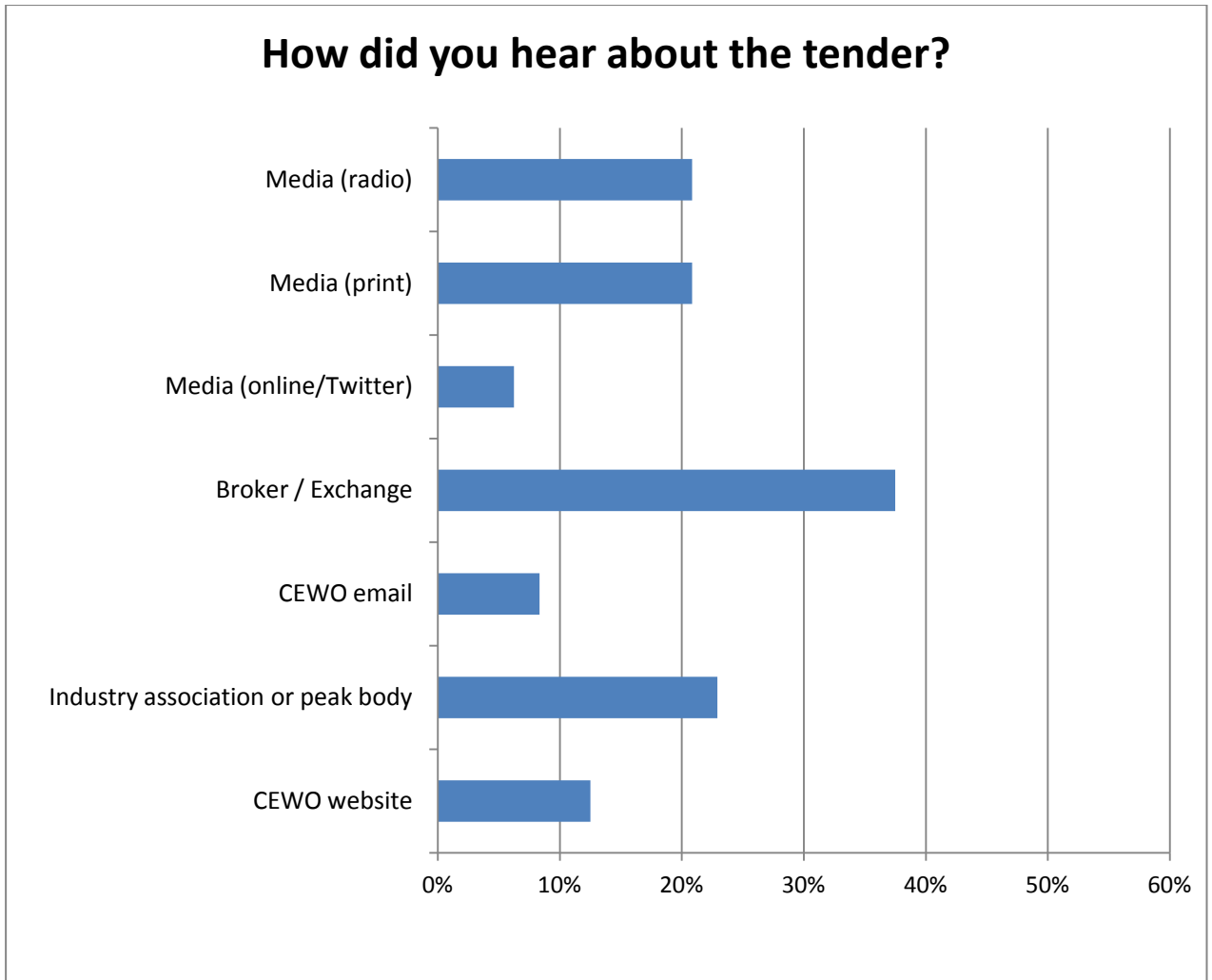
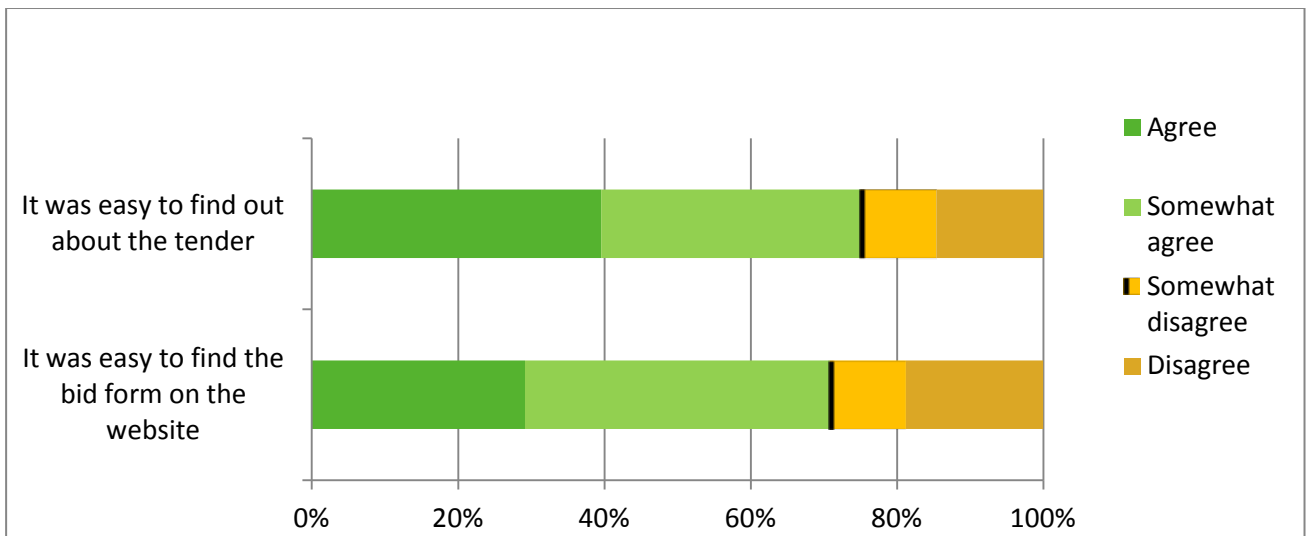


Figure 4. To what extent do you agree or disagree with the following statements?
It was easy to find out about the tender, it was easy to find the bid form on the website



Submitting a bid

Figure 5. Which sources of information helped you prepare your bid?

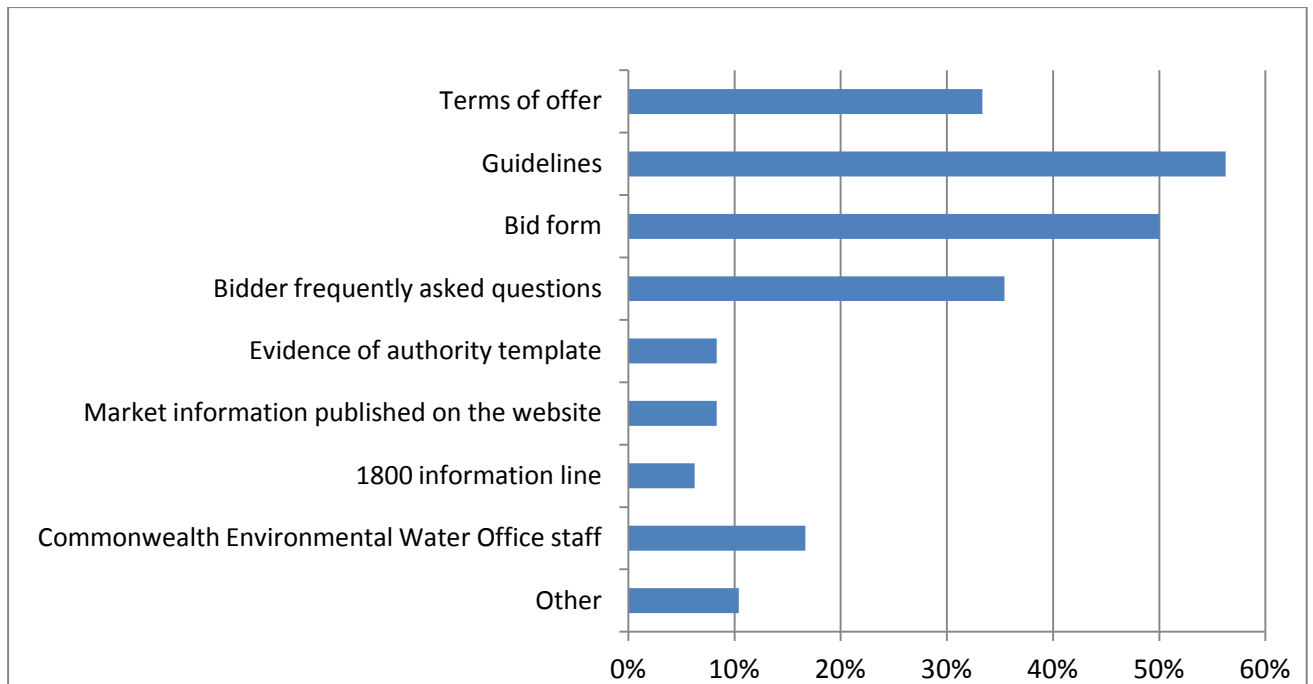


Figure 6. Who did you consult with when you prepared your bid?

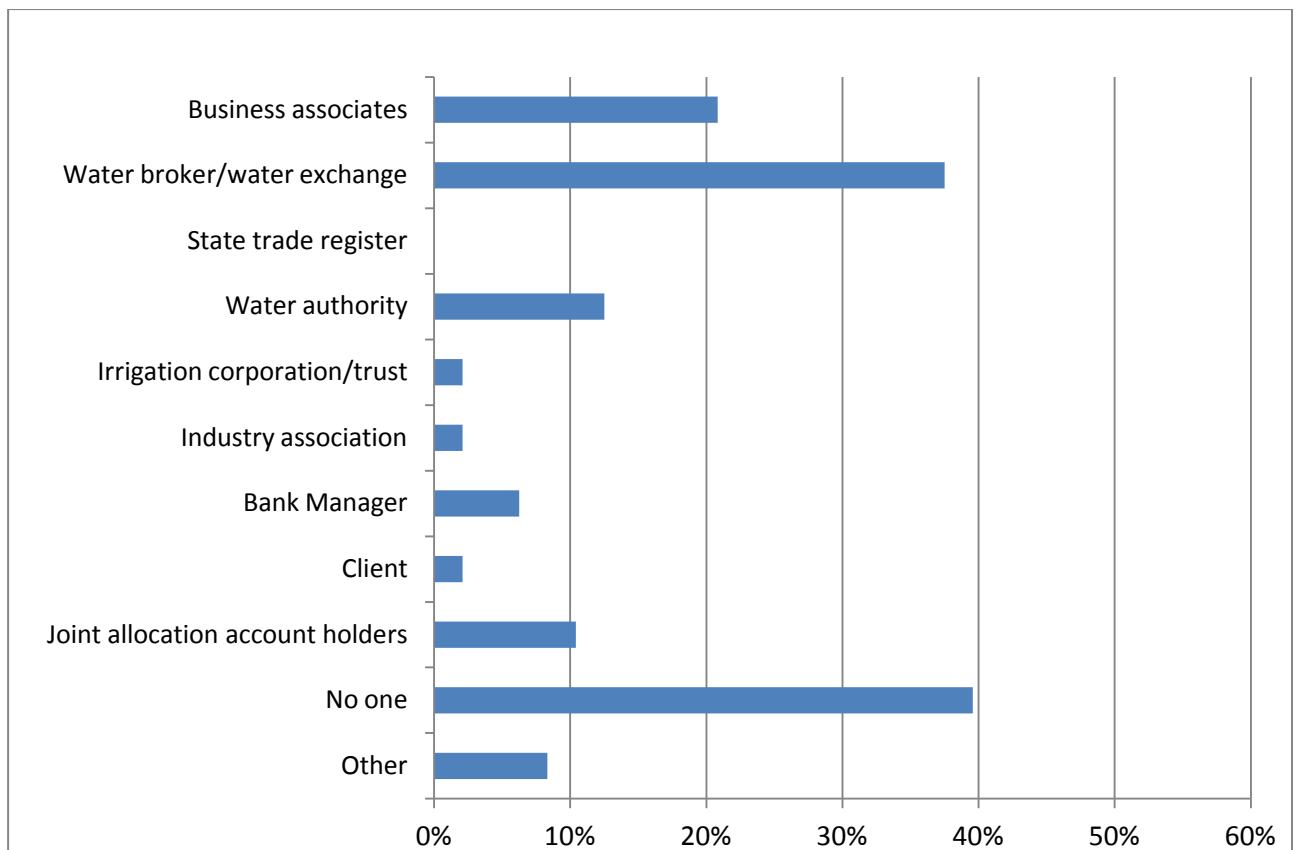


Figure 7. Would you have preferred the option to purchase less than 30 ML?

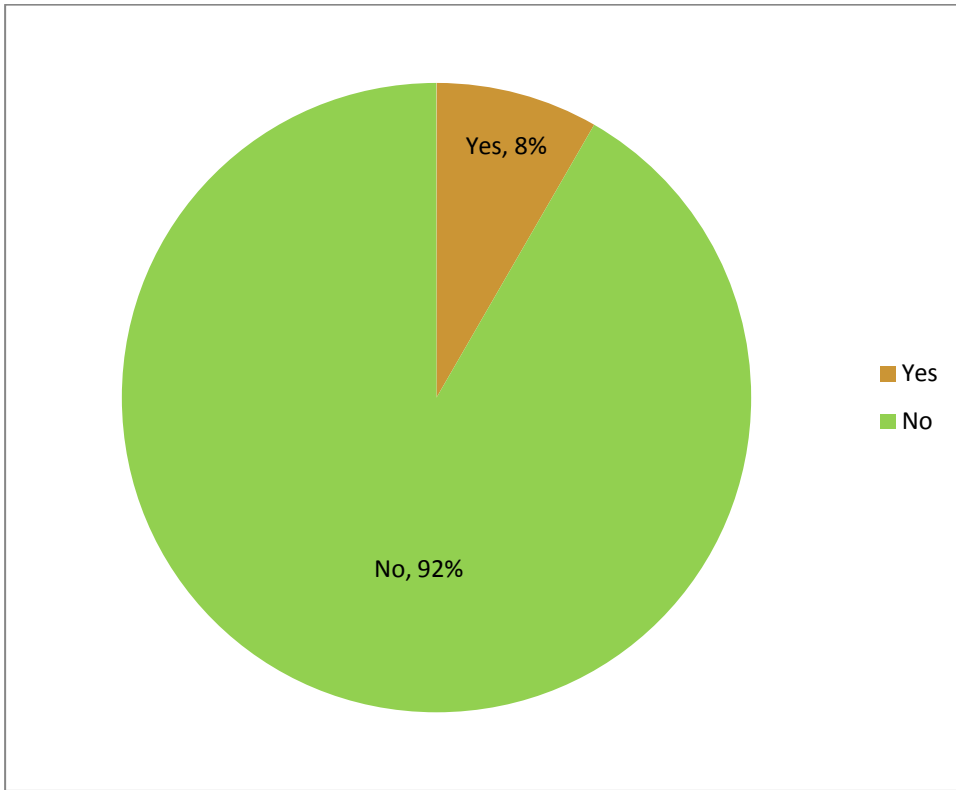
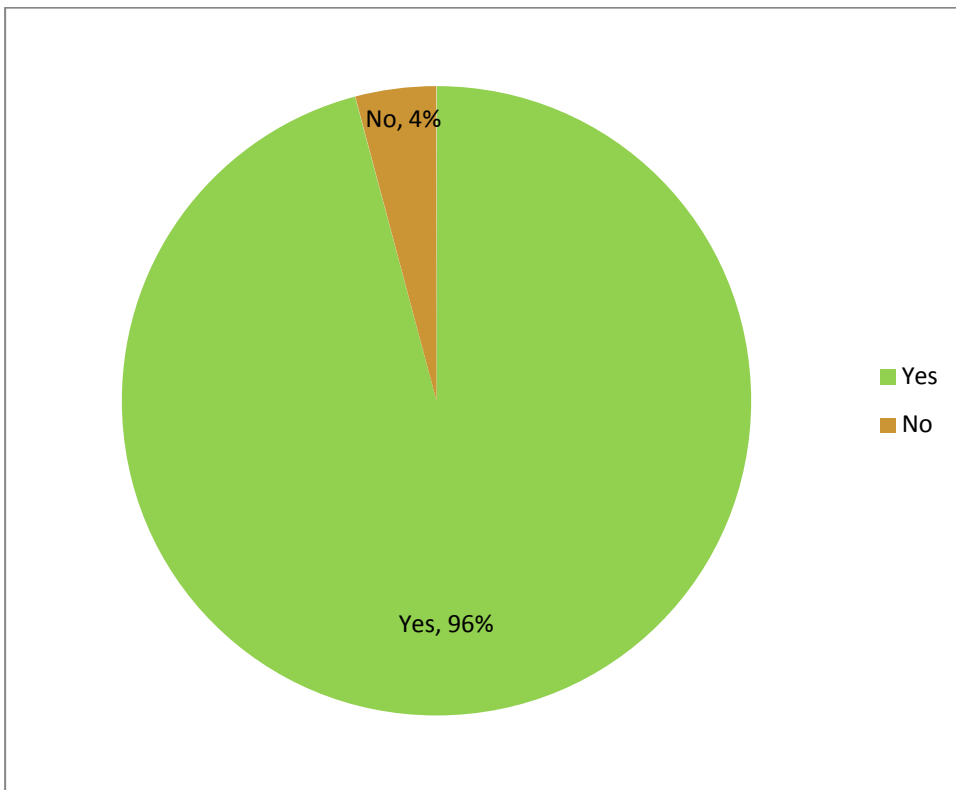
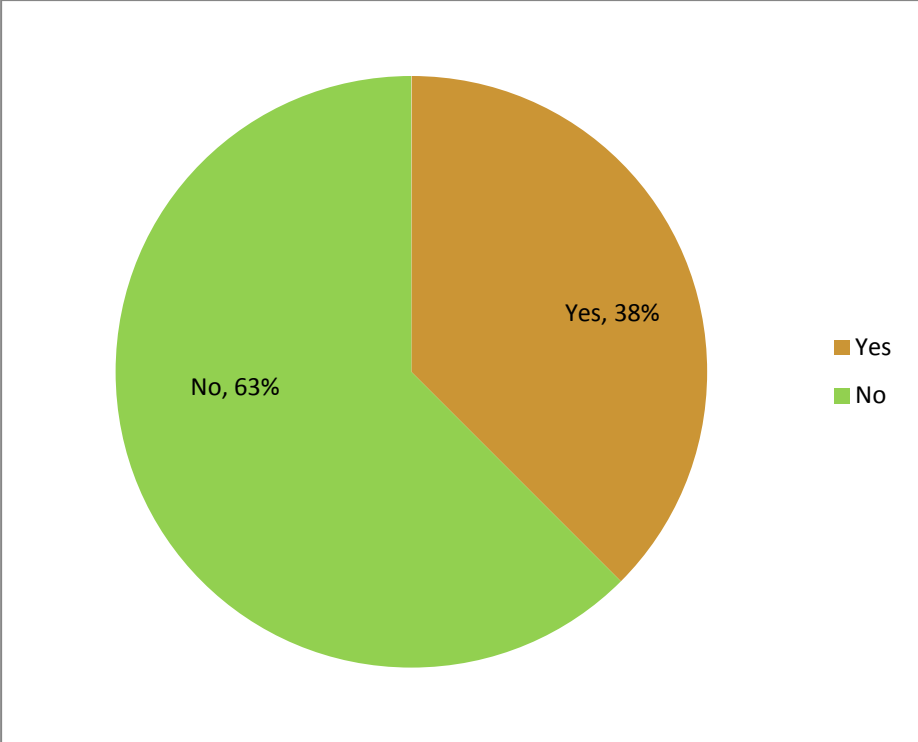


Figure 8. Was it clear that your bid was a binding offer?



Technical issues

Figure 9. Did you experience technical issues with the bid form?



Which of the following technical issues did you experience?

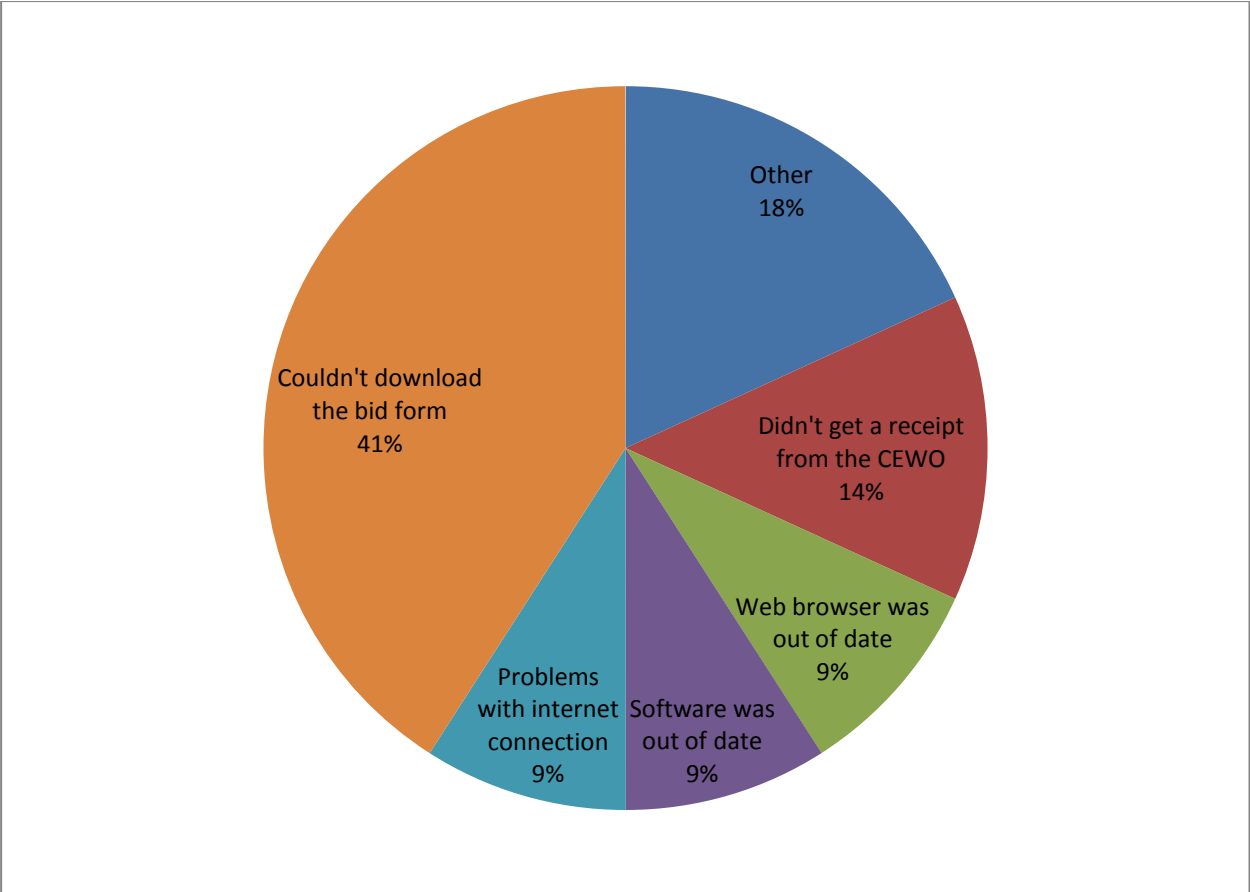
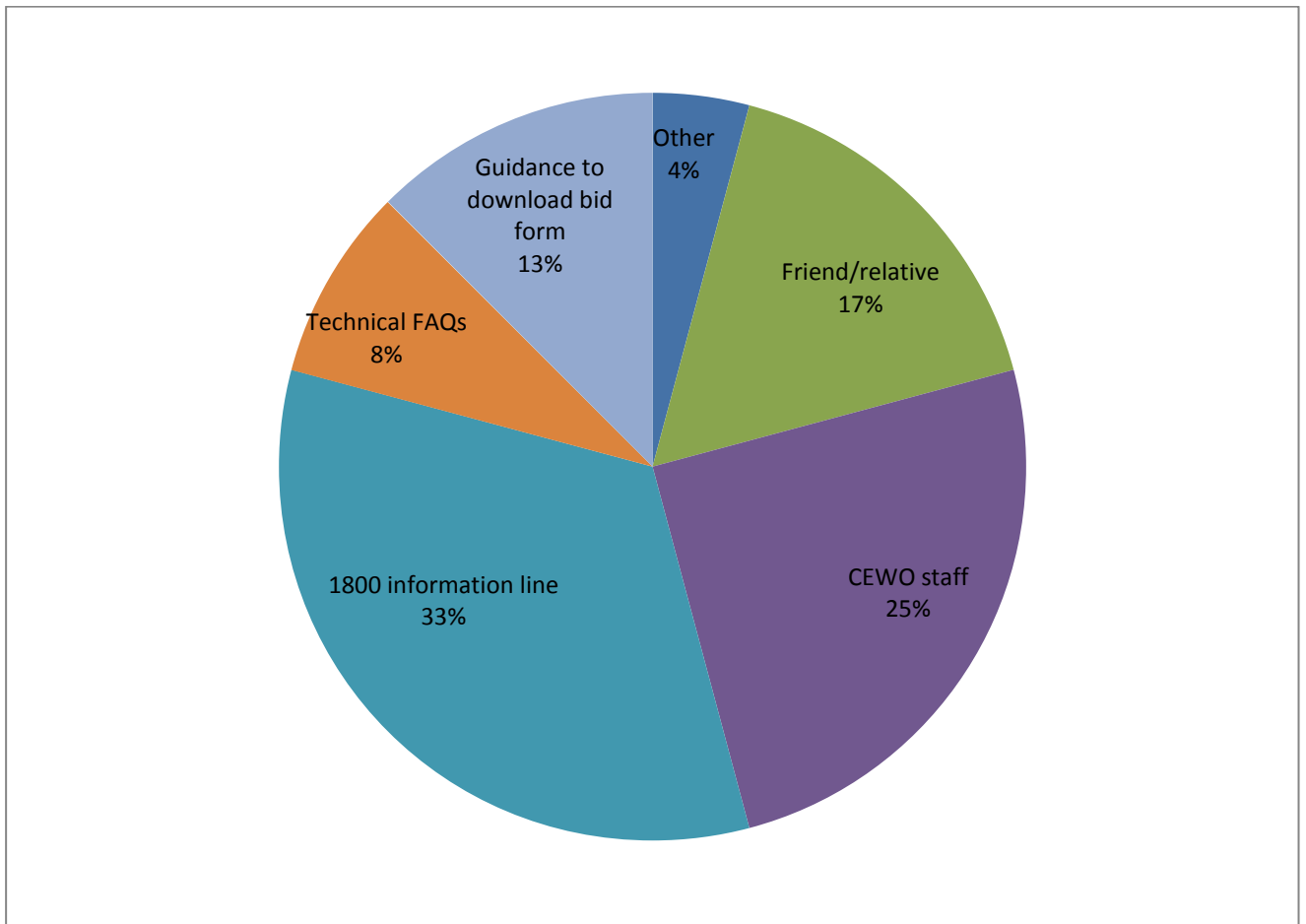


Figure 10. Did any of the following help you resolve your technical issue?



Tender timeframes

Figure 11. Were you satisfied with the time provided to complete the following tasks?

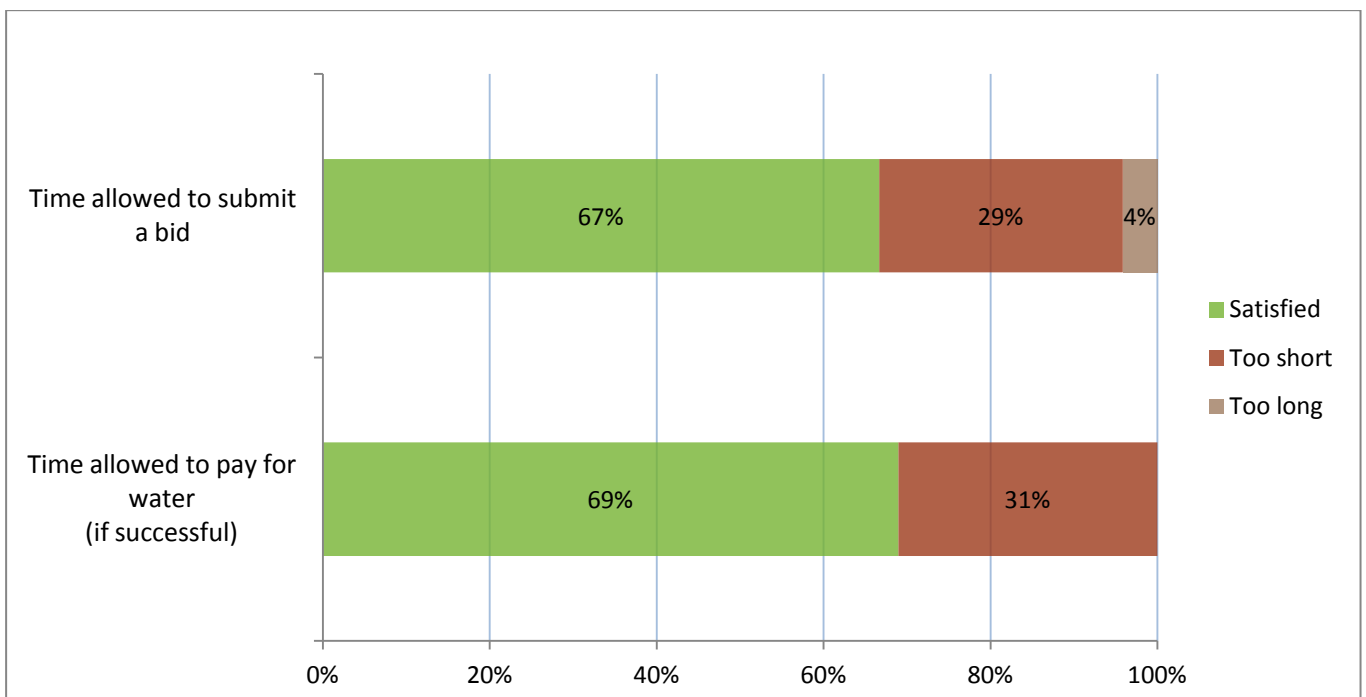
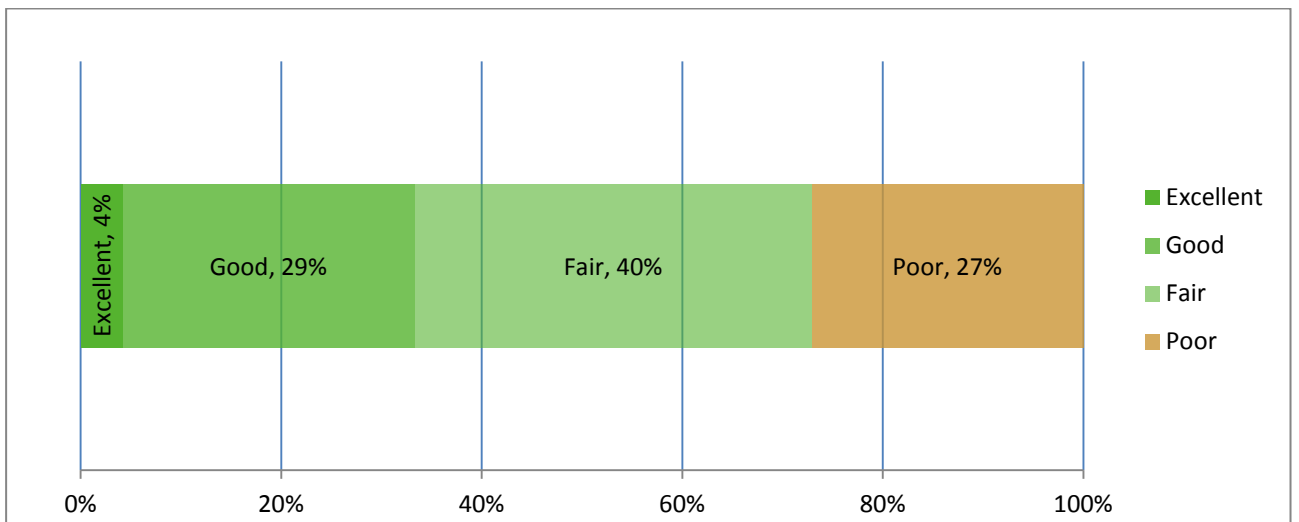


Figure 12. Were you satisfied with the time it took for the Commonwealth Environmental Water Office to complete the following tasks?



Overall experience of the tender

Figure 13. Overall, how would you rate your experience of the tender process?



About the bidder

Figure 14. Which of the following describes the enterprise(s) that you sought to buy water for?

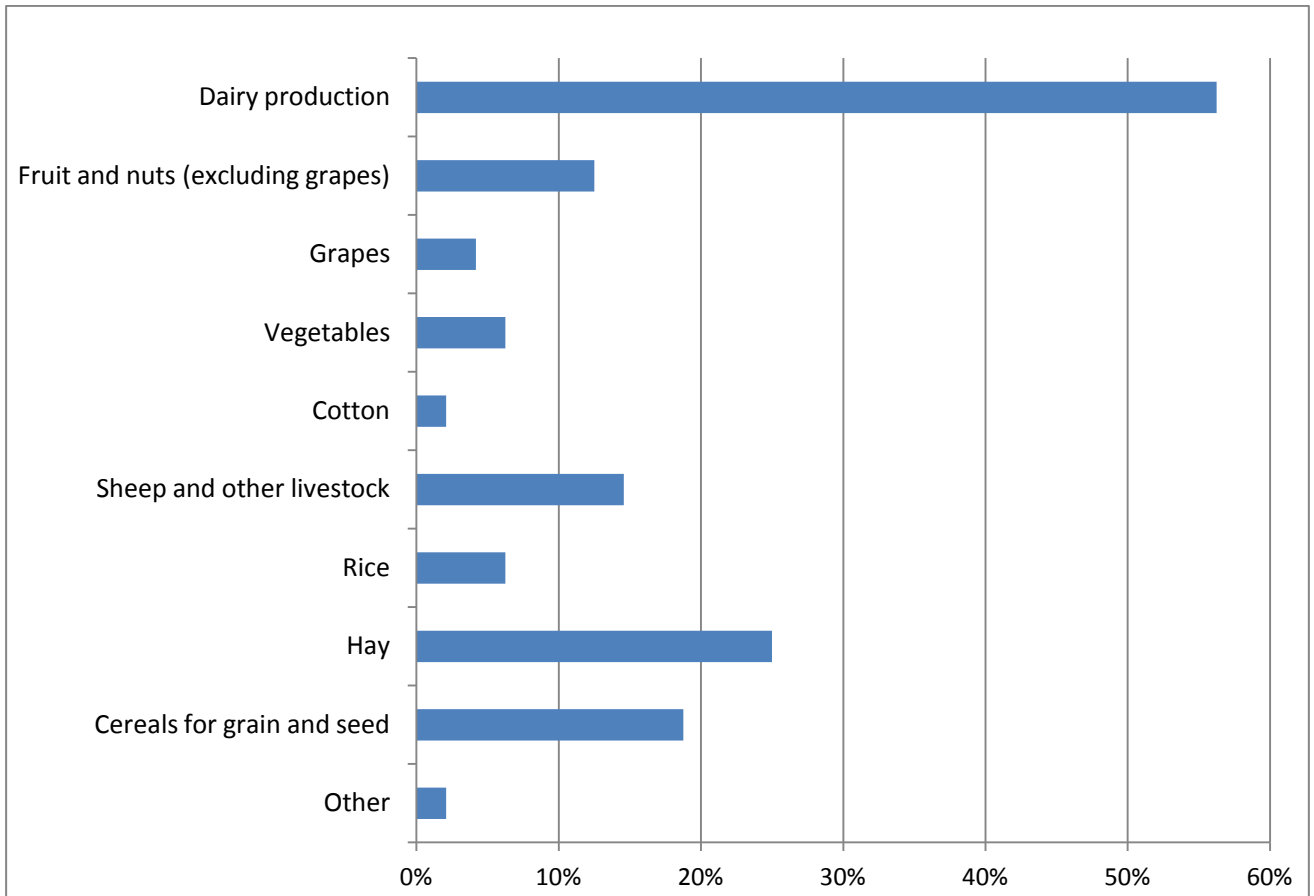


Figure 15. Which methods of water allocation trade have you used in the past?

