

# Leasing your water entitlement as an alternative to trading on the allocation market. A Factsheet for General Security Water Entitlement Owners

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## Who is this for?

Local owners of NSW General Security (GS) Water entitlements who believe in vibrant and prosperous Murray Valley Communities.

**Keeping your water local improves the economy, the community and the environment**

## How can you help?

Those who currently farm irrigated land in the Murray Valley rely heavily on water entitlements owned by others to fulfil their irrigation needs for rice production (and/or grain, fodder, dairy).

Instead of punting on the allocation market, leasing your GS water entitlement to local farmers for a defined period would keep water in the region.

Access to irrigation water means productive farms which provide business and employment opportunities for people in our communities. If people are retained, so are education and health services.

Rice fields also provide surrogate wetlands which have ecological benefits for a range of endangered wildlife species.

## What could leasing your entitlement look like?

An irrigator enters a formal agreement with the owner of water entitlements which enables the irrigator access to the allocated water over a defined period for a set price regardless of allocation except in the event of zero (or very low) allocation years.

The agreement would cover:

- the duration of the lease agreement
- the quantity of entitlements
- the amount paid each year
- the terms of payment.
- who has rights to carryover
- what happens in zero (or very low) allocation years
- sharing of administration costs

## How does leasing compare to allocation trading?

To test the lease option against trading on the allocation market, a case study was conducted looking at leasing 100 GS entitlements leased at 5% of the capital value for three year periods over the past 20 years. At today's value of \$1300/ML that lease payment at 5% would be \$6,500 per year.

Based on the last 20 years of water availability, the return to the water owner from leasing or selling on the allocation market was the same on average, if zero allocation years were excluded from the analysis. There was a \$3/ML difference on average when zero

allocation years were included (Table 1). There was substantial variation from year to year (Figure 1).

Table 1. 1997-2017 median GS Value \$/ML of allocation market compared to lease

Median Value (\$/ML)	Zero Allocation years	
	Included	Excluded
Allocation	\$64	\$54
Lease	\$61	\$54

The analysis also showed that the last 20 years is drier than the longer-term average and the last 10 years was drier again leading to more volatile water markets (Table 2).

The allocation market price is also highly volatile within season, so the timing of the trade can influence the income received (Figure 2).

**There is very little to gain for water owners from trading on the allocation market compared to entering a fixed price lease agreement.**

## Potential benefits to the water owner compared to allocation trading

- Reduced uncertainty of income which allows for forward planning
- Access to a buyer over a defined period
- A known price for that period
- Reduced allocation risk
- Still benefit from capital appreciation
- Lower administrative costs if they are shared with an irrigator
- Lower level of active management required, once lease agreement is implemented: No need to worry about the timing of trades.
- Contributing to the local community by keeping water in the region.

## Mitigating potential risks

A legally binding agreement is essential to reduce the risk of default by the Lessor and to clarify issues such as access to carryover and treatment of low allocation years.

## Further Information

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Table 2. Incidence of scenarios below or above average

Scenario	Probabilities – number of years in 20		
	Data Set 1: 113 years to 2009	Data Set 2: Last 20 years	Data Set 3: Last 10 years
Wetter than Average and allocation > 55% GS	11	8	6
Average and allocation 55 GS%	4	5	5
Drier than Average and allocation < 55% GS	5	7	9

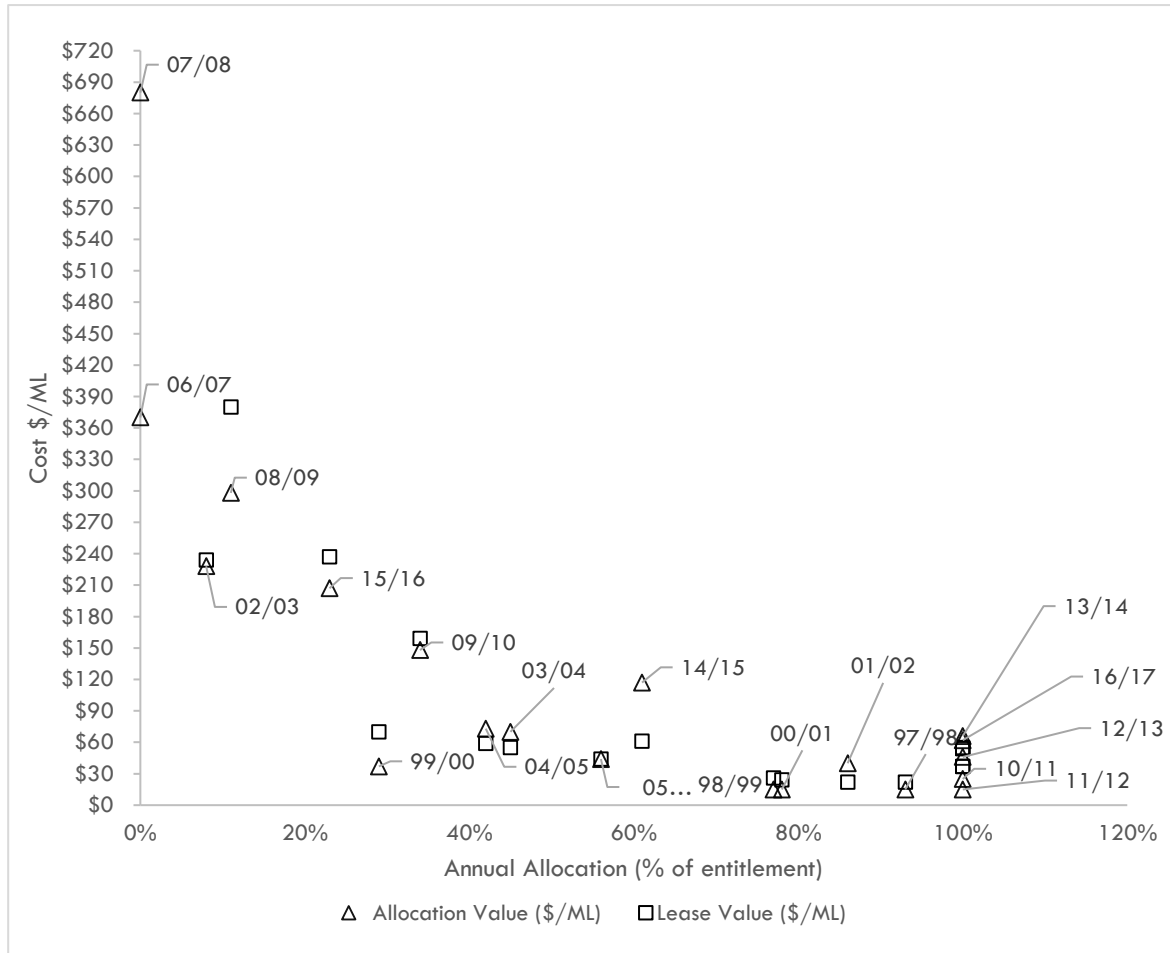


Figure 1. Effective water value of allocation market compared to a return from 5% capital value lease payment per ML of water delivered. (2006/07 and 2007/08 were zero allocation years so the effective lease values could not be calculated for those years).



Figure 2. Murray Irrigation variation in Allocation Market Average Daily Price July 2017- January 2018