

## 7. Carryover/Spillable Water

### Purpose

To describe the rationale for carryover and spillable water. Carryover is a feature of the entitlement framework which allows unused water in one season to be used in the next season. Spillable water is an extension of the carryover concept which allows casual access to storage space for allocation volumes in excess of entitlement volumes.

### Background

The Millennium Drought demonstrated the extremes of the hydrology and water availability in our region. Irrigators need a mechanism to insure themselves against the variation in water availability, particularly early in the season. The water market is the mechanism for re-allocation of water. Carryover was introduced as a drought response in 2007 and adjusted in the following years in response to water entitlement holder's calls for improved features. The principle which underpins the carryover policy is that water should not be taken from an individual's account and should be available for use in a future season. Carryover limits are linked to the water shares held by the entitlement holder. The principle of not forfeiting allocation was extended to allow additional carryover beyond the volume of water shares, provided that this does not affect other water shareholders. The spillable water product does this by allowing temporary access to storage space required for other entitlement holders, but requiring water in excess of entitlement volumes to spill when the storage space is required to store inflows to ensure others get their full allocation.

Carryover rules developed from 2007 to 2010, and were reviewed in detail in 2012. The review confirmed the benefits of carryover as an important risk management tool for entitlement holders. Changes were made to the application of the spill rules for the Murray system. The change was to define system spill based at Lake Hume rather than Dartmouth. This change is having its intended effect in the 2016/17 season with a major spill from Hume causing a write off of spillable water and allowing the benefits of high spring inflows to be fully allocated to water shareholders.

The allocation water markets are more stable because carryover has removed the drivers for price collapse at the end of the season and for early season price spikes.

Carryover provides the mechanism for entitlement holders to manage their own allocation volume and reliability using unused water and trade, in effect their own reserve policy. Like any other reserve policy, there is a trade-off between reliability and yield (or usage). Individual security can be supported, but the total deliveries across the system may be lower because of reduced opportunities for cheaper water late in the season. While some water users may believe that increased deliveries could represent an opportunity for additional revenue for GMW, it is important to note that GMW's revenue is capped by our economic regulator and our tariffs are reflective of the cost base of our services, which are largely fixed.

### Summary

Carryover enables water entitlement holders to plan and manage their risks associated with future water needs, including the risk of having enough allocation to meet their early season water requirements, with more confidence.

### For more information:

<http://waterregister.vic.gov.au/water-entitlements/carryover>