



RURAL FINANCE

“Unbundling – With two days to go, What’s in it for growers”

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Unbundling

- The Unbundling Concept is yet another change
- Adaption/adjustment
- History of change
- Establishment of FMIT in 1896
- SR & WSC in 1905
- Rural Water Commission – in 1984
- Extensive review of water industry in 1991-1992
 - Rural Water Corporation
 - Rural Water Authorities



History of Water Entitlements

- **Until 1991** » Water tied to land with no movement
- **1991-1994** » Trade commenced, activity limited
- **1994** » Trade expands significantly
- **1998** » New development needs emerge:
- **1.7. 2007** » Unbundling begins



Adaptability

- We have all adapted to change
- Our farming practices have changed
 - Vineyards
 - furrow irrigation
 - overhead sprays
 - under vine drippers, pulse and fertigation systems
 - Dairy farms
 - water-use efficiency
 - high yielding fodder crops/annual oversowing
 - substitute water for bought in feed/grain



Victorian Government Water Reforms

- Affecting all Victorians
- August 2003 – release of Green Paper
“Securing Our Water Future”
- June 2004 – release of White Paper
“Our Water Our Future”
- October 2005 Water Resource Management Bill

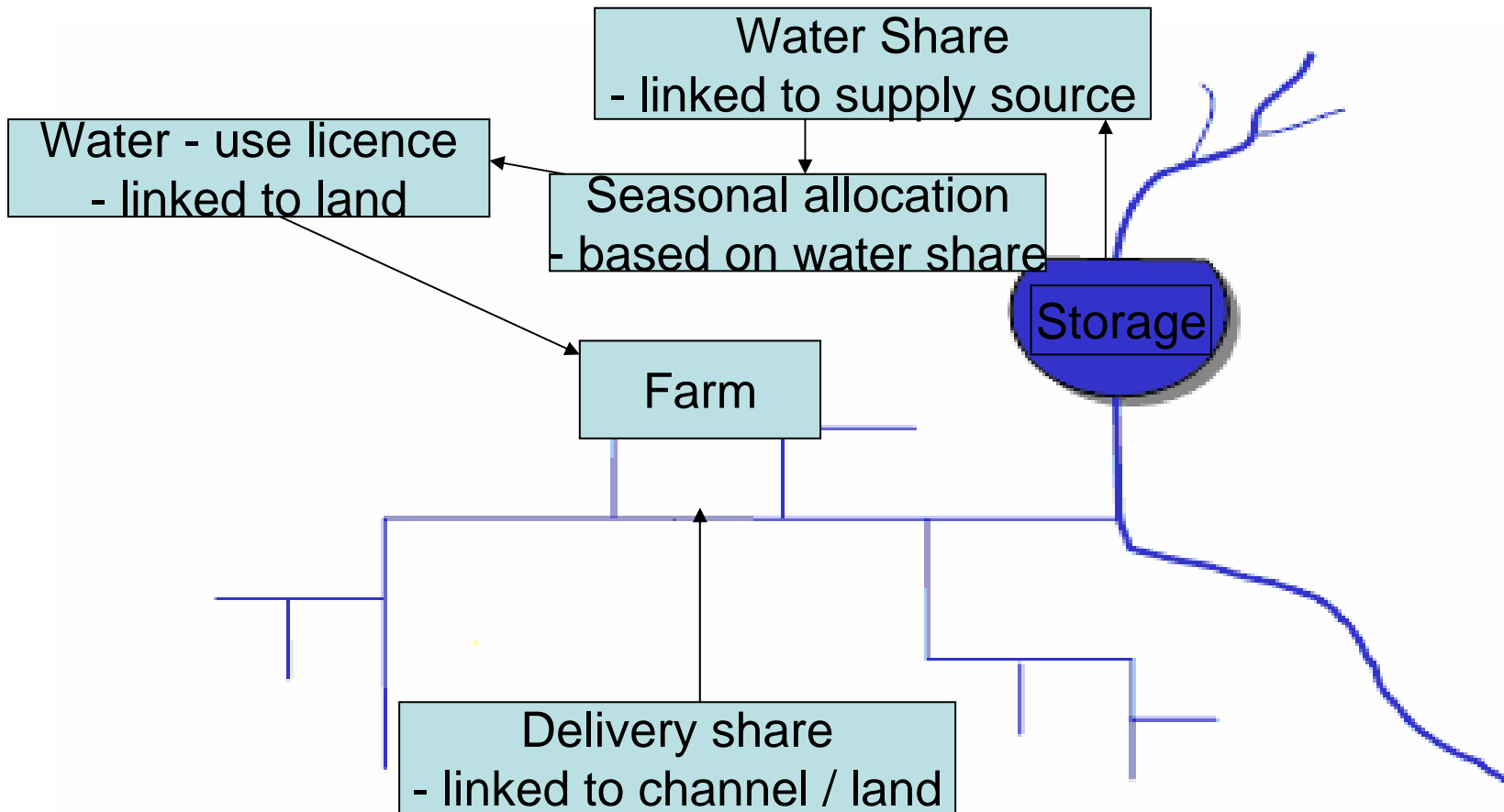


What are the drivers for change?

- Greater flexibility
- Significant growth in trading
- Price impacts of trade
- New developments
- Demand for new entitlement forms



The Unbundling Concept



Source Info LMW



Water Shares

- An irrigator's ongoing share of the water available for consumption
- Water rights, diversion licences and domestic and stock allowances will be converted to high reliability water shares
- Current access to sales water converted to low-reliability water shares
 - separate and independently tradeable
 - different factors apply to districts and diverters to recognise the different access to sales that currently exist
 - takes in rescaling and 80 / 20 deal with the environment
- Will be linked to a water allocation bank account and can be associated with a water-use licence / registration



Water Share Attributes

- Ongoing tenure
- Tagged to the source
- Transferred at any time during the year
 - buyer receives all future allocations
 - allocations made prior to the transfer stay with the seller
- Carryover
- Either associated with land or up to 10% limit unlinked
- Lease up to 20 years – limited term transfer



Ownership & Mortgages on Water Shares

- From water rights and domestic & stock
 - water share owned by owner of land
 - existing mortgage deemed to cover water share
 - confirmed
 - unconfirmed
 - From Section 51 diversion licences (take-and-use)
 - water share owned by holder of licence
 - existing land mortgage will not transfer to water share
- * But lender may have an equitable interest



Delivery Shares

- Entitlement to have water delivered to a serviced property
 - Daily level of service : ML / day
 - Annual service delivery : Annual delivery allowance
- Is linked to the land
- Certainty of channel access
- Basis to equitably share infrastructure costs
- Underpins asset planning and reconfiguration
- Regulated diversions, will convert to extraction shares



How to increase Delivery Share

- Transfer from another property
- Apply to Water Authority “window of opportunity” from 1 July, 2007 to 31 December, 2007

Subject to spare delivery capacity being available



How to decrease Delivery Share

- Transfer to another property
- Surrender, with Termination (Exit) Fee
- Surrender, with no Termination Fee
- Mortgagee consent

Termination (Exit) Fee

- Reduced third-party price impacts (stranded assets)
- Based on annual access fee – not more than 15 times
- ESC / ACCC



Water-use Licence / Registration

- Entitlement to use water for irrigation / stock and domestic on a specific property
- Ongoing licence tenure
- Simple conversion of existing conditions to water-use licence
- Minimum standards common
 - recognise right to drain to authorised point
 - all irrigation use metered
 - annual use limit
- New irrigation developments higher best practice standards



Process to change Water-use licence

- If land is subdivided, need to apply for a separate WUL for each lot
- Where blocks that are not adjacent/close to each other have been amalgamated (non- contiguous amalgamation), separate WUL's will be issued
- Cancelled if no irrigation for 10 years
- CMA's will lead consultative process to prepare new WUL conditions



The Victorian Water Register

- Statewide web-based register to record water share transactions and other records / information from 1 July, 2007
- 1 July, 2008 SRW & Melbourne Water
- Longerterm GWMW and Coliban Water
- Registrar is Land Registrar
- Shared by:
 - Office of Water
 - Water Authorities
 - Registrar



Transitional Arrangements

- Migration of ownership data from the Land Title Register to the Water Register occurred on 15 June, 2007
- Transfers of land after 15 June 2007 may result in the land changing ownership, but the water share issuing in the name of the vendor.
- A further “clearing” exercise after 1 July, 2007



Transfer of Water Share

After 1 July, 2007

- All buyers and sellers of a water share must first obtain Water Authority approval to transfer the water share
- Proof of ownership of water share is required via 100 point check
- Separate application must be made to Water Registrar to record transfer, within 2 months of Water Authority approval
- Water Registrar can only record a transfer if all mortgages recorded against the water share have been discharged or have mortgagee consent
- Fees



Benefits of Unbundling

- Makes trading of water faster, simpler at lower cost
- Enables leasing of water
- Enables borrowing against water share
- Sales water secure and independently tradeable
- Flexibility over water share reliability mix to match enterprise needs
- Transferable rights to delivery capacity, with charges on land
- Clearer, fairer tariffs – user pays
- Clear right to irrigate

OVERALL – increases CHOICE to irrigators BUT can stay exactly as you are



Market Valuation of an Irrigated Vineyard

- No change to current methodology
- Assess values for land with plantings as trellised and watered plus added value of improvements
- Need substantiation of water shares, delivery share and WUL
- For mortgage purposes – consider mortgage over land with improvements, plus mortgage over water shares



Unbundling Implications

1. Purchase of land and water under Terms Contract
 - Will lose Caveat protection for Water Share
 - Limited Term Transfer for balance of Contract, apply prior to 1 July, 2007. Purchaser may lose statutory right to use water
2. Wills
 - Consider implications of water share as separate / personal asset
3. Municipal rates
4. Stamp Duty – SRO
 - remain non - dutiable





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