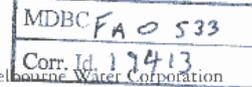




10 July 2000

Dr Tony McLeod
Manager Cap Project Board
Murray Darling Basin Commission
GPO Box 409
CANBERRA ACT 2601



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Dear Dr McLeod

**MURRAY-DARLING BASIN MINISTERIAL COUNCIL
DRAFT REVIEW OF THE OPERATION OF THE CAP**

I am writing in response to your request for public comment on the operation of the Cap.

Melbourne Water is a statutory authority fully owned by the Victorian Government. It is responsible for the provision of wholesale water to five government owned retail companies. Melbourne Water also manages the diversions function for the Yarra Basin, part of the Maribyrnong River catchment, and a number of other smaller catchments to Melbourne's west.

Although Melbourne Water is only a minor player within the Murray Darling Basin, it does have an interest in the outcome of the review because:

- It currently diverts from Wallaby and Silver Creeks within the basin to supplement water supplies to Melbourne; and
- The Cap document is likely to set the agenda for management of water resources in other basins across Australia.

As requested, comments have been made using the supplied Response Sheet, which is attached below.

Thank you for the opportunity to comment on the operation of the Cap. If you would like to discuss the comments raised, please contact John Woodland on telephone 9565 1770.

Yours sincerely

DAVID LYNCH
ACTING MANAGING DIRECTOR

REVIEW OF THE OPERATION OF THE CAP

RESPONSE SHEET FOR COMMENTS ON DRAFT REPORT

The March 2000 draft report on the **Review of the Operation of the Cap** by the Cap Project Board to the Murray-Darling Basin Ministerial Council is now available for public comment. Comments on the draft report are due by **10 July 2000**.



The draft report, and further copies of this response sheet, is available from the Murray-Darling Basin Commission and from the Commission's web site:

www.mdbc.gov.au

If you wish, you may use this form to tell us what you think about the position of the Cap Project Board in their report on the Review of the Operation of the Cap. If there is insufficient space on the form, you may add additional sheets or write a separate submission.

The draft report will be modified to reflect comments received and a final report on the Review of the Operation of the Cap will be presented to Ministerial Council Meeting 29 in August 2000.

Those who provide comments will receive a copy of the final Report once it has been approved by the Ministerial Council.

COMMENTS BY: Melbourne Water Corporation

CONTACT DETAILS: David Lynch

DATE: 7 July 2000

The deadline for comment is **10 July 2000**.

Comments (by e-mail if possible – this response sheet is available electronically on the Commission's web site) should be directed to:

- Review of the Operation of the Cap
Murray-Darling Basin Commission
GPO Box 409
CANBERRA ACT 2601
Attn: Dr Tony McLeod, Project Manager
Tel: 02 6279 0144
Fax: 02 6230 7579
Email: tony.mcleod@mdbc.gov.au
- or your local member of the Community Advisory Committee (CAC). Those comments made via the CAC that are received prior to **Friday 16 June 2000** will be considered at CAC Meeting 24 – 27 June 2000.

	Cap Project Board Position	Comment
Ecological Sustainability of Rivers	<p>The Project Board has concluded that the Cap has been an essential first step in providing for the environmental sustainability of the river system of the Basin. Without the Cap, there would have been a significantly increased risk that the environmental degradation of the river system of the Murray-Darling Basin would have been worse.</p>	<p>Melbourne Water supports the implementation of the MDB cap since it forms a sound basis to protect existing rights to water while ensuring the ecological sustainability of the river system.</p> <p>With the trading regime currently in place, the lack of an overall basin cap could have resulted in the further development of catchment dams, particularly as the price of formal entitlements from regulated and unregulated systems increases.</p> <p>The next challenge is to set up an effective framework to ensure all basin resources are accounted for under the cap at the local level. In particular catchment dams, the linkages between surface water and groundwater resources and ‘dozer’ and ‘sleeper’ diversion entitlements.</p> <p>The effective implementation of the cap will be dependent on the adoption of appropriate legislation, processes and monitoring. The water allocation framework needs to be simple, transparent and equitable (ie. no perceived winners or losers).</p>
	<p>However, the Project Board has concluded that there is no certainty that the Cap on diversions at its current level represents a sustainable level of diversions – the level at which it is set being that which existed at the time when it was decided to introduce a Cap. Further, the Project Board recommends that as better information informs our management of the Basin’s resources, the level at which the Cap is set should continue to be refined to reflect our increased understanding. It is likely that such refinements may lead to the lowering of the level of the Cap in some valleys. Indeed, some jurisdictions have already increased the environment’s share, via access restrictions in addition to that required by the Cap, as part of their longer-term direction of improved water management.</p>	<p>Informed and intelligent decisions need to be made regarding any recommendations for changing the basis of the existing cap. This requires an appropriate level of monitoring and an appropriate process for determining the benefits to be gained through lowering the cap. This not only includes environmental benefits, but economic and overall community benefits.</p> <p>Melbourne Water agrees that the cap can only be refined over time as more information becomes available. A further advantage of this approach is that the practical experience gained through operating under a range of climatic conditions could further assist in identifying key issues and scope for change.</p> <p>For the Cap to be as effective as possible, Melbourne Water considers that total water resource management is to be critical.</p> <p>Both streamflow and groundwater management plans are seen as important methods for improved water management within the Cap.</p>

	Cap Project Board Position	Comment
Economic and Social Impacts	<p>The Project Board considers that there is compelling evidence that the Cap has already delivered significant economic and social benefits to the Basin community and that the net benefit will increase over time.</p>	<p>It is recognised that economic benefits have been achieved through encouraging water markets and the more efficient use and allocation of water resources within the basin.</p> <p>Given the considerable costs associated with managing and operating water supply systems it is desirable that appropriate incentives exist for the efficient use of water and for water to move to higher value uses.</p> <p>It is to be expected that the benefits will continue through further efficiency savings and movement of water.</p>
	<p>The results of research conducted for the Review make it clear that, in the absence of the Cap, the erosion of security of supply for irrigators and other users would have been significant. These analyses were performed on several systems across the Basin reflecting diverse agricultural practices and climatic conditions.</p>	<p>Agreed, since without the cap, it is likely that development in the catchments of regulated systems would have continued.</p> <p>These observations are also consistent with those of Melbourne Water for catchments outside the MDB.</p> <p>The Cap has improved the security of supply for irrigators and other users, however, catchment dam development is still leading to an erosion of security of supply.</p>
	<p>Through guaranteeing security of water supply at the valley level, the Project Board views the Cap as having provided a more certain climate for long-term investment and development, particularly in high value agriculture and value adding processing, as well as providing benefits to the environment.</p>	<p>There is no doubt that without a high degree of certainty of water supply at the valley level, the risks may be too high for some forms of industry. While it is recognised that further work is required to ensure an effective water allocation framework that takes in to account all uses at a local level, the cap provides a sound basis for the ongoing development of the framework.</p> <p>It is also hoped that the development of a regime to guarantee security of supply at the valley level for the MDB will be directly applicable to other committed basins outside the MDB.</p>
	<p>The Project Board considers that the Cap has provided a mechanism for restraining, in an orderly fashion, growth in diversions while enabling economic development to proceed.</p>	<p>While the cap may provide for an orderly mechanism, its success depends on the implementation of an effective water allocation management frameworks at the state and territory level.</p>

<p>The Project Board recognises that this strong positive conclusion will not be the perception of every stakeholder in the Basin. However, the Project Board concludes that the overall benefit of the Cap, especially from ensuring security of supply at a valley level and providing an environment within which water trading and related reforms could be developed, has been a positive one.</p>	<p>The conclusions are seen as positive from Melbourne Water’s perspective. It is expected that the cap will facilitate the ongoing development of a regime to define and protect security of supply at the valley level.</p>
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	Cap Project Board Position	Comment
Equity	<p>The Project Board identified several equity issues (notably Cap arrangements for Queensland and the ACT) of longstanding duration that require urgent resolution. In addition there are several more recently identified equity issues (floodplain and overland flows and diversions, farm dams and tree plantations) also requiring attention. The effective management of these issues will necessitate a total catchment management approach to water management that embraces both surface and groundwater resources.</p>	<p>It is important that the allocation of existing rights is seen as fair and equitable between stakeholders. There should be no perceived ‘winners’ or ‘losers’.</p> <p>It is recognised that equity issues will be complex in regards to changing the current rights of landholders to capture overland flow. Despite the difficulties the licensing of all significant water uses is supported.</p>
	<p>The Project Board focused on equity issues arising from the implementation of the Cap between jurisdictions and between river valleys within States. In several cases, the submissions received by the Review of the Operation of the Cap raised equity issues that are about the details of implementation within valleys which are outside the jurisdiction of the Murray-Darling Basin Commission and Ministerial Council processes. The vast majority of such issues related to the recognition of licensed entitlement versus history of use, specifically in New South Wales (the “sleeper/dozer” issue). Such issues need to be dealt with by the particular jurisdiction concerned. In order that all submissions receive appropriate attention, these submissions and that of the CAC have been referred to the appropriate Government for consideration and reply.</p>	<p>Each jurisdiction has set in place a process to ensure compliance with the MDBC. In Victoria, this is primarily through Bulk Entitlements, Streamflow Management Plans and Groundwater Management Plans. Melbourne Water is also developing an alternative to streamflow management plans to assess sustainable allocation and interim environmental flows as a transitional arrangement, ie Doeg Cascading Seasonal Flow method.</p> <p>The challenge is to ensure that all uses of water, including catchment dams and groundwater, are captured under each jurisdictions legislative framework. There also needs to be a transparent and auditable process to ensure that the MDBC cap requirements are achieved.</p>

	Cap Project Board Position	Comment
Implementation and Compliance	The work of the Independent Audit Group (IAG) on the ongoing implementation of the Cap and compliance of actual diversions with Cap target diversions has provided a clear direction for the finalisation of the implementation phase of the Cap. The Project Board generally supports the IAG recommendations.	No comment
	Significantly, effective compliance tools (computer simulation models used to determine Cap target diversions) have not yet been developed and the Project Board recommends that a high priority be given to the finalisation of these models.	<p>Experience suggests that models of water supply systems can be quite complex. This not only includes the configuration of the model, but its calibration and continual updating and maintenance.</p> <p>It is essential that any models are adequately tested and documented. It is expected that the development of simulation models may be resource intensive and other methods for determining compliance should be considered.</p> <p>In addition, compliance tools need to consider climate variability and non-stationarity of parameters used in model calibration.</p>
	The Review has found that Victoria and South Australia have complied with the Cap, while Queensland and ACT are yet to complete the establishment of their respective Caps. Nevertheless, it is apparent that in Queensland there has been significant growth in storage which will impact on the water available for alternative consumptive and environmental uses. In New South Wales, the Cap has been breached in the Barwon-Darling system, with other valleys being within Cap limits.	The MBDC needs to ensure that incentives for compliance are appropriate.

	Cap Project Board Position	Comment
Schedule F to the Murray-Darling Basin Agreement	The most important challenge in Cap implementation is to finalise the arrangements under “Schedule F – Cap on Diversions” to the <i>Murray-Darling Basin Agreement</i> . This schedule is the primary tool for defining Cap arrangements especially those concerned with assessing compliance and its consequences.	No comment
	With the intent of improving the operation of the Cap through the development of fair and meaningful compliance arrangements, the Project Board invites comments on the following modifications to Schedule F which have been recommended by the IAG:	
	<ul style="list-style-type: none"> Removal of references to end-of-valley flows as a method for Cap compliance. 	This amendment is supported since compliance needs to be monitored by considering all usage in the basin. This can not be achieved by just considering ‘end of valley flows’.
	<ul style="list-style-type: none"> Arrangements for remedial actions in the case of Cap exceedence. The recommendation of the IAG is that States be required “<i>to ensure that cumulative diversions are brought back into balance with the cap</i>”. 	Supported
	<ul style="list-style-type: none"> re-setting the commencement date for accounting for diversions under the Cap to start with the 2000/01 water year. 	No comment

	Cap Project Board Position	Comment
Sustainable Rivers Audit	<p>With the implementation of the Cap nearing completion in most jurisdictions, there is now the opportunity to take the “next step” and to consider the environmental outcomes of the Cap from a whole of Basin perspective. The Project Board supports the introduction of a regular Sustainable Rivers Audit which would cast the Cap as an input to Basin health, rather than an outcome in itself.</p> <p>Whereas the Cap is seen as the first step towards achieving the longer-term objective of the <i>Initiative</i>, a Sustainable Rivers Audit can be viewed as the next step in the process of achieving this objective.</p>	<p>It is recognised that while the cap provides for the basis of ecologically sustainable development, it is only one component of developing an effective allocation and management framework.</p>

	Cap Project Board Position	Comment
Any Other Issues	<p>Are there any other issues raised in the draft report that you wish to comment upon?</p>	