Murray Darling Basin Authority Guide DAF & RBK Adviser Brief

Background

On 8 October 2010, the Murray Darling Basin Authority (MDBA) released its *Guide to the proposed Basin Plan*. This document represents the first step towards implementing a Basin wide plan for management of the water resources of the Murray Darling Basin. Contained in this document are proposals for reducing the consumptive use of both surface water and groundwater.

Surface water reductions

The Guide examines a range of reductions to surface water and concludes that a reduction in consumptive use (known as diversions) of between 3,000-4,000 GL per annum will optimise social, economic and environmental outcomes and thereby enable the MDBA to comply with the *Water Act 2007* (Cwlth). Reductions that failed to meet these targets would conflict with environmental obligations, whilst more severe reductions would conflict with the MDBA's obligations under the act relating to social and economic outcomes.

The Australian Government and state governments have been purchasing water entitlements and investing in irrigation efficiencies that are estimated to recover 2,000 GL for the environment. As a consequence, a further 1,000-2,000 GL of entitlements or efficiencies are still required to achieve the planned reductions.

It is probable that recoveries (entitlement purchases and efficiency gains) in specific catchments will be insufficient to reduce diversions to specific catchment level limits. As a consequence, the Australian Government will target the purchase of additional entitlements in those areas. In the event that recoveries are insufficient to reduce diversions to within catchment level targets, licence holders will experience reductions in their individual annual extraction limit.

The Water Act requires the Australian Government to manage the impacts on entitlement holders of all reductions that result from changes in Australian Government Policy. The Guide states that it is reasonable to attribute 100% of any reduction in current diversion limits to changes in policy. Accordingly the Water Act provides for payments to be made to affected entitlement holders from the Australian Government for any reduction in market value of water entitlements.

Impact on CIF and viticultural funds

The RFM Chicken Income Fund (CIF) and the two RFM viticultural funds (Agricultural Income Trust and the RFM Ultra Premium Vineyard Fund) utilise water entitlements within the Murray Darling Basin. However the value of entitlements represents less than 10% of the funds' assets and the quantity of water use is not a significant expense item in the operations of these businesses. Given the Australian Government will provide payments for reductions in water entitlement values, RFM does not believe that the Murray Darling Basin Plan will have a material adverse impact on these businesses.

Groundwater reductions

The Guide identifies 78 groundwater areas in the Basin and targets a reduction in extractions of a total of 186 GL/yr. The purposes of these reductions are to maintain the volume and quantity of each groundwater source, address environmental outcomes such as the avoidance of contamination of groundwater, and protection of the aquifers' contribution to key ecosystems.

In the case of the Lower Lachlan Alluvium, it is proposed that potential reductions as a consequence of this requirement will range between 40-74% of the current extraction limit. Should the groundwater proposal be adopted, the Australian Government's share of reductions is 100%. Accordingly the Water Act provides for payments to be made to affected entitlement holders for any reduction in market value of water entitlements.

Impact on RFM RiverBank (RiverBank)

RiverBank's main assets are two almond orchards covering 1,800 hectares, and water entitlements sufficient to supply 15 ML of water to each hectare of almond orchard. In addition, RiverBank owns additional water entitlements and land surrounding the almond orchards, some of which is suitable for grazing and cropping purposes. RiverBank does not operate the orchards on its own account, but rather leases the orchards to three separate parties for a 20 year period.

RFM is confident that the proposed cut backs will be significantly lower than the 40% - 74% noted above. This is based on the fact that the proposed reductions contained in the Guide for the Lower Lachlan Alluvium conflicts with advice from the NSW Office of Water in November 2009. The NSW government advice confirms that the annual recharge of the aquifer exceeds the current extraction limit and that dependent ecosystems that *may* be dependent on groundwater were not under threat. This advice was based on comprehensive modelling of the Lower Lachlan Alluvium.

Given the two main reasons for the reductions noted in the Guide, that is excessive drawdown of the aquifer and protection of groundwater dependent ecosystems appear to be unsubstantiated or, at the very least, conflicted with the 2009 government report, RFM has modelled various scenarios with 40% being the maximum reduction considered.

Conservative water budgeting and an active approach to acquiring economically priced water entitlements means that RFM is well placed to manage the cut backs. RFM's plan uses a combination surplus entitlements owned by RiverBank, carryover water already "banked" and the purchase of a small amount of additional water. Financial compensation received from the Government will be applied to upgrade water delivery infrastructure, reducing delivery losses and thus the amount of water required by 10%, without impacting the water applied to the almond orchard plus acquiring a small amount of water. This plan provides certainty to unitholders that RiverBank's assets, being almond orchards with a projected value at maturity of $90m, will be maintained with adequate water availability.

Over the past five years, RiverBank has been prudent in accumulating water in excess of requirements in anticipation of future cut backs, or to provide for expansion opportunities. This program has included acquiring water that was originally earmarked for two Great Southern olive groves, as well as high security river water, acquired to manage the risk of bore breakdown. These acquisitions have positioned RiverBank with a buffer of approximately 21% in excess of requirements.

In addition to the permanent additional water entitlements noted above, RiverBank has also "banked" in excess of 26,000ML of carryover water. This carryover water can be used by RiverBank to top-up permanent entitlements in any year.

In order to consolidate its position, RiverBank intends to acquire a relatively small amount of additional water, of up to 2,000ML. Longer term, this acquisition will be funded by a small portion of the compensation that RiverBank will become entitled to when the reduction program is implemented.

The balance of RiverBank's compensation monies provides for the final stage of RiverBank's water management program. Compensation will be used by RiverBank to line major irrigations channels and replace smaller channels with pipes. This will significantly reduce the quantum of water lost from evaporation and leakage as it travels from where it is pumped out of the aquifer to where it is applied to the trees.

These delivery efficiencies will provide permanent water savings and reduce the amount of water required from 15 ML per hectare to 13.5 ML per hectare, **without** reducing the amount of water applied to the almond trees.

Based on RFM's calculation of current water values, the compensation should be more than adequate to cover the acquisition of the 2,000 ML of additional water and the infrastructure improvements to water delivery.

In summary, a combination of conservative budgeting, prior acquisition of water and an accumulation of carry over water, causes RFM to believe that there will be no material impact on RiverBank.

RiverBank Lease Arrangements

RiverBank's water entitlements are leased to Select Harvests Ltd (Select) and RFM as responsible entity for three managed investment schemes (Almond Schemes). The reduction in water entitlements does not constitute a breach of these leases, however RFM must use its best endeavours to acquire additional water for Select.

The rental payment received from Select is based on the market value of the orchard and therefore is unlikely to change given the water delivery efficiencies noted above. The rental payment from the Almond Schemes does not change with any reduction in water entitlements by Government authorities.