

# **Submission to Department of Sustainability, Environment, Water, Population and Communities**

## **Commonwealth Environmental Water - Trading Arrangements**

120426

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## **Introduction**

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators access regulated, unregulated and groundwater systems. Our members include valley water user associations, food and fibre groups, irrigation corporations and community groups from the rice, cotton, dairy and horticulture industries.

This document represents the views of the members of NSWIC. However each member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

## General Comments

NSW Irrigators' Council welcomes the proposal of a water trading framework for the Commonwealth Environmental Water Holder (CEWH). NSWIC understands that the legislative constraints imposed by the *Water Act 2007* have created a complex task for the CEWH to manage its large environmental water portfolio and we therefore support the design of an optimal inter-temporal trading framework.

While the trading of environmental water entitlements and/or allocations by the CEWH is by and large desirable, it is a concern of NSWIC that the market position of the CEWH and the size of the environmental water portfolio could create severe third party impacts on other water market participants and entitlement holders. NSWIC continues to hold the position that the *Water Act 2007* and the assumptions imbedded into the *Proposed Basin Plan* have caused the CEWH to hold a significantly larger environmental water portfolio than necessary to restore and manage key environmental assets within the Murray Darling Basin. Given the size of the environmental water portfolio, a careful management of these assets will be crucial to reach an optimal outcome for all consumptive water users.

### *Environmental Watering Plans*

It remains a considerable disappointment that details on the Environmental Watering Plans are not yet finalised and as such it will be difficult for NSWIC to comment on all aspects of the portfolio management and water trading framework of the CEWH. It continues to puzzle NSWIC how a trading framework for the CEWH can be devised whilst vital key inputs like the intensity and duration of water supply to particular environmental assets remain uncertain. The uncertainty about environmental water requirements will leave considerable doubt over the trading capacity of the CEWH.

### *Water Act 2007 & Proposed Basin Plan*

It is evident that the *Water Act 2007* and the *Proposed Basin Plan* will severely constrain the trading capacity of the CEWH. Trading and carry-over requirements as determined by Section 106(1) and 106(2) of the *Water Act 2007* will likely hinder an optimal allocation of water resources to consumptive water users that have the highest marginal benefit of use. The carry-over requirements in particular, are able to cause substantial problems for other water entitlement holders in that large quantities over carried over environmental water by the CEWH might cause delays in the allocation announcements in particular valleys. Given the dependence of certain industries on timely allocation announcements, the prospects of late allocation announcement could be detrimental.

The optimal management of environmental water will furthermore be complicated by the *Proposed Basin Plan's* assumption on the required amount of environmental water. If trading by the CEWH was considered at the onset of the debate to the *Proposed Basin Plan*, then the amount and location of environmental water recovered through both purchases and infrastructure investments would have resulted in significantly less economic costs for all remaining water entitlement holders in the Murray Darling Basin. It is disappointing that such obvious benefits from trading have previously been ignored in the *Proposed Basin Plan*.

### *Water Trade Licenses*

There remains considerable doubt over the legal capabilities of the CEWH to engage in trading activities of its environmental water portfolio. The first constraint arises in that the CEWH has to comply with the rules and regulations set out in the *Financial Management and Accountability Act 1997* (FMAA) if it wishes to use public funds and manage public assets. Before a potential water trading framework can be assessed, a careful consideration should be given as to whether the CEWH is able to comply with all the requirements of the FMAA which would allow it to trade both water entitlements and allocations in the water market.

Additional to the FMAA requirement, a second constraint arises in that the CEWH needs to obtain further licenses if it intends to offer water related derivative products and trade them in the water market. To deal in water related derivative products, the CEWH will require an Australian Financial Services License which is widely accessible. To establish new water related derivative products however (i.e. to provide a market in such products), the CEWH will require an Australian Market License. Since most of the water related derivative products discussed in the paper are currently not in existence, NSWIC has to assume that the CEWH seeks to acquire an Australian Market License in order to offer such products. Given that there are currently only 12 such licenses in existence, NSWIC highly questions whether the CEWH will be able to obtain such a license. Any comments on potential approaches to trading these water related derivative products should be delayed until firm evidence is provided that such actions are legally possible. Before such confirmation is given a detailed discussion over the benefits of these derivative products is not necessary.

### *Third party Impacts*

The trading framework outlined in the discussion paper appears to be exclusively concerned with the optimal allocation of water to key environmental sites whilst no consideration is given to potential third party impacts on other water entitlement holders. This lack of consideration of other market participants is a severe limitation and cannot be regarded as an optimal outcome from NSWIC's point of view. The involvement of the CEWH in the water market will likely have large and far reaching impacts on other water license holders. Potential distortions of water market prices and delays in allocation announcements are just two areas where the CEWH will impact other water entitlement holders. In order to assess the degree of third party risk caused by the CEWH, a diligent valley by valley risk matrix should be devised and potential mitigation strategies should be formulated in order to minimise the negative externalities on other water entitlement holders.

## Answers to Specific Questions

1. *What are your views on the portfolio management options which are outlined? Do you think that there are other issues which should be considered?*

In light of insufficient detail on the Environmental Watering Plans, it will be difficult to comment on the portfolio management options outlined in the discussion paper. As the timeframe is unknown for when specific environmental targets have to be met, key parameters that determine the trading behaviour and portfolio management of the CEWH are missing and hence an objective evaluation of the efficiency and effectiveness of the trading framework is limited and third party risk will be impossible to be determined. The lack of consideration of third party impacts is evident in Section 3;

*Portfolio management options need to be considered in the context of improving the capacity of the portfolio to meet environmental objectives over the long-term and across the Basin.*

As this statement suggests, there is little to no information provided on how the CEWH intends to identify and manage the risk posed to third parties. Given the substantive size of the Commonwealth Environmental Water Portfolio, it is not difficult to envision that the market power held by CEWH will cause substantial negative impacts on other water entitlement holders.

Questions that need to be addressed by the CEWH are;

1. What will be the impact on allocations of other entitlement holders given the carry-over strategies of the CEWH?
2. Will the trading behaviour of the Commonwealth Environmental Water Holder distort market prices and therefore lead to strategic trading by other water market participants?

In case trading of environmental water is possible under Section 106(1) and 106(2) of the *Water Act 2007*, NSWIC proposes that the trading of entitlements and/or allocations by the CEWH should only be granted if a careful third party risk assessment has been conducted and any risk on other water entitlement holders have found to be insignificant. This will ensure that the involvement of the CEWH will not harm or deter other potential water market participants. It is therefore suggested that an additional trading constraint is being imposed on the CEWH that enables trading of environmental water if and only if third party risk is minimised.

In order to assess any third party risks, a detailed valley by valley risk assessment matrix should be constructed that provides necessary and sufficient conditions for trading by the CEWH. In order to establish a useful and reliable risk matrix, greater engagement with local stakeholder should be sought in order to obtain imperative local knowledge on the water market, water needs and trading behaviour of individual water entitlement holders in each valley.

The financial viability of the CEWH should also be clearly discussed in the portfolio management options.

The discussion paper so far does not provide in-depth detail as to whether the CEWH will be able to use its trading proceeds to manage its large environmental water portfolio. As it is stated in Section 2;

*The limit in the legislation are intended to ensure that the trading arrangements operate to meet environmental objectives and not with the objective of being a profit-making enterprise.*

NSWIC does not believe that this statement provides sufficient evidence that the financial viability of the CEWH is covered in the portfolio management options. It should be made a requirement that additional to meeting the environmental objectives, the CEWH should be financially self-sustainable and hence achieve a break-even target (NPV = 0). This will ensure that no other government funds will have to be sourced in the future for the management and operation of the Commonwealth Environmental Water Portfolio. Since the acquired water entitlement will retain the same characteristics as before the acquisition by the CEWH, a significant budget constraint will materialise for the CEWH as fees and charges will be required for both State Water Corporation and NSW Office of Water. The portfolio management strategies should therefore require the CEWH to be at least self-sustainable, in that those fees and charges can be recovered through trading of its portfolio assets. To cross subsidise the portfolio management expenses through funds dedicated to other government programs will not incentivise the CEWH to use its funds most efficiently.

NSWIC stresses that the portfolio management options should clearly state that all charges (fixed and variable) are covered through the trading proceeds.

2. *What other trade scenarios could be considered to improve the overall capacity of the Commonwealth Environmental Water Portfolio?*

NSWIC would like to highlight that there are several further trading scenarios that should be considered but legislative constraints will prevent their consideration (i.e. trading of environmental water even if carry-over is available).

NSWIC emphasises that it will be of crucial importance that the CEWH has a clear defined plan that outlines when and under which circumstances environmental water - entitlements and/or allocations - will be traded in the water market. This information needs to be publically accessible so that all water entitlement holders have full information and are aware of the CEWH's intentions. Such a portfolio management plan has to be transparent yet dynamic, so that it can be adjusted in case of changing Basin conditions. Without such a plan, other water entitlement holders will be exposed to greater risk given the increased uncertainty.

- *Establishing capacity to meet future environmental needs*

NSWIC understands that changes in environmental needs within the Murray Darling Basin (MDB) are likely to create a need to trade portions of the Commonwealth Environmental Water Portfolio in order to comply with the objectives of *Water Act 2007*.

In order to establish capacity, a comprehensive environmental watering plan needs to be formulated and implemented. Without this crucial information, the CEWH will not be able to build its capacity optimally.

It is a great concern of NSWIC that future environmental needs might necessitate the acquisition of further environmental water. Should such requirements materialise, it should be made a necessary requirement that no further acquisition of water entitlements beyond the Basin Plan target are possible and any further environmental needs have to be met through additional water saving infrastructure investments (i.e. indirect water recovery processes). This will provide the necessary constraints for the CEWH to use its water allocation as efficiently as possible rather than being able to simply purchase further water to meet environmental needs.

It is a further concern of NSWIC that the trading scenario could cause strategic trading and hence distort water market prices. If other market participants are aware that the CEWH will soon enter the market, then current trade might diminish which is likely to cause an adverse change in water market prices. This strategic trading might then lead to severe distortions of water market prices with overall negative results for certain water entitlement holders.

- *Variance in conditions across the Basin*

NSWIC stresses that such a trading scenario requires the portfolio management plan to be dynamic and flexible in order to accommodate changes in Basin conditions.

NSWIC would like to point out that a discussion about water acquisition and disposal due to different environmental requirements highlights the fact that environmental watering plans are not yet finalised. The purchase of water entitlements without such plans have already caused significant economic costs to other water entitlement holders in the MDB. A detailed outline of the water requirements of key environmental assets are needed before a discussion of trading behaviour under these circumstances can be made. It appears that a consideration for trade due to variance in conditions is used as a mean to rectify previous non-strategic purchases of water entitlements.

- *Changing circumstances and information*

NSWIC is concerned that 'changing circumstances and information' could lead to further acquisition of environmental water.

As the discussion paper states;

*The strategy used for acquisition of entitlements will change so as to continue to acquire a portfolio of entitlements that provide the greatest environmental benefit. Changing information may warrant the rebalancing of the existing portfolio.*

Since no further detail on *rebalancing* is provided, NSWIC has to assume that the act of rebalancing the environmental water portfolio could also include an increase in water allocations and/ or entitlements beyond the currently specified amounts in the *Proposed Basin Plan*. Under such circumstances, the trading framework of the CEWH should clearly outline restrictions that exclude further water entitlement purchases. Should further environmental water be required for identified environmental sites, NSWIC suggests that additional water should be sourced through water saving infrastructure investments rather than through further outright purchases. This should be feasible as information on changes in environmental needs will become progressively available over time.

- *Dealing with delivery constraints/opportunities*

NSWIC welcomes the suggestions that the construction of new environmental infrastructure may increase the number of watering actions in the MDB, however it should be highlighted that there are no details on what type of infrastructure projects are proposed. Before any details on the environmental infrastructure are provided, a further discussion of this particular trading scenario is not be justified.

- *Immediate environmental water requirements - carryover not available.*

NSWIC is disappointed that trade of environmental water is being rejected on the grounds that the obtained returns are too low. Should environmental needs be met and carry-over capacities not be available, then trade should always been seen as an option in order to benefit other consumptive water users. Should an optimal trading framework be developed then the associated transaction and administrative costs would be minimised and hence trade could proceed with the benefit for all water entitlement holders.

In summary, the trading framework of the CEWH has to be in line with well defined environmental watering plans and comprehensive and publicly available information about the trading intentions. The trading framework needs to be clear, but also flexible to accommodate for changing Basin conditions.

Adding to the previous discussion, the following trade scenarios should be considered;

- *Third party impacts*

An important trading scenario that has so far received insufficient attention is the restriction of trade in case there exist severe third party impacts on other water entitlement holders. Should trading of the CEWH negatively

impact the allocations of other water entitlement holders, then trade should be limited in order to minimise the economic costs on other entitlement holders.

### 3. *What are your views on the capacity building example?*

In order to comment in detail on the capacity building example outlined in the discussion paper, further details need to be provided on the classification criteria for a very dry/dry/average conditions. Without such vital information it will be difficult to comment on the capacity building strategy to meet future environmental needs, as the trading intentions cannot be accurately determined. The diagram provided on page 10, does not provide sufficient enough detail on the cut-offs between very dry and dry water availability. Furthermore, it is disappointing that no reference is provided for both the diagram and the average inflow data proceeding it. NSWIC proposes that such information should be provided in addition to further information on average river inflows, outflows and rainfall patterns.

Whilst the capacity building example provides a useful foundation for assessing the actions taken by the CEWH in order to meet environmental needs within the MDB, it does not take into consideration that the involvement of the CEWH can and likely will distort water prices if trade is only permissible within particular threshold bands and in accordance with obtained yields. In order to assess the capacity building of the CEWH, the threshold values that prohibit trade for the CEWH should be clearly specified. It should be realised that any barriers to trade (i.e. in extreme situations) will have distortionary effects on the water market and prices of water allocations and/or entitlements.

In an example, very wet conditions could establish legislative constraints for trading behaviour of the CEWH (i.e. due to insufficient yields). In very wet years where associated allocation for the CEWH will be high and trading prohibitive given low sustained yields, a detailed evaluation on what should be done with the large quantities of environmental water should be conducted. In any event, trade should always take place in case any other consumptive water users are in demand for water.

NSWIC questions the argument made in relation to the scope of water trading water from one area of the Basin to another area in the Basin. Whilst such conditions might be possible in dry years, it is questionable whether such an approach can be taken during wet years as all water entitlement holders already would have substantial water allocations.

NSWIC furthermore doubts that the CEWH will be able to fulfil its trading role as outlined in Section 4;

*The likely role of trade within a given year will be influenced by conditions in previous years and future year forecast.*

This statement incorporates two potential difficulties; one in that it will be difficult to forecast future climate conditions and rain patterns and thereby making it difficult to establish well define boundaries for when trade is permissible for the CEWH. Secondly the knowledge of when the CEWH will likely enter into the

market could cause strategic trading of other market participants and thereby create more volatility and uncertainty. This strategic trading behaviour is especially prominent given the large entitlement holdings of the CEWH. It has already been observed that water market prices have been influenced through the involvement of the CEWH. Increased growth in the size of the environmental water portfolio will only increase this volatility in the market.

4. *Do you agree with the proposed elements of the operating rules? What other issues may be covered by the operating rules?*

As outlined previously, the proposed water trading framework suggests that;

*Any trading decision by any market participant has the potential to affect prices, but market participants generally have an incentive to ensure that their actions do not shift the market substantially.*

While it is desirable that the involvement of the CEWH will not affect the water market adversely, it is likely that it will have an impact on prices and conditions in the current market unless the intentions and the trading framework are clearly defined.

Transparency and greater assurance of how trade is being conducted is seen as a positive step towards an achievable and optimal water trading framework for the CEWH. As mentioned previously, as long as the trading framework is clearly defined and the environmental objectives are set then the market will automatically adjust to these new information. It will be important however that these information are available at the beginning of the water year so that other water entitlement holders have sufficient time to plan.

In relation to the four points outlined in the approach to operating rule requirements of the CEWH, the following should be noted;

- The public provision of information on the *objectives* of the proposed trade will be necessary together with detailed and up-to-date Environmental Watering Plans.
- Any information on the *price, volume and location* does not outline that a third party risk evaluation and associated mitigation strategies should be included as an assessment criteria.
- Any information on the accounting and use of the trading proceeds are necessary to establish a transparent trading process.
- Any information needs to be continuously updated so that other market participants are aware of the trading intentions of the CEWH.

NSWIC would like to stress that details need to be made available on how the CEWH operating strategies will meet specific trading objectives. This will include a detailed outline on who evaluates the achieved benefits from trade and what the underlying trading objectives are. The need to include an independent auditing process should be considered so that usage of the CEWH's resources is assessed under a strict optimisation criteria.

5. *Do you agree with the proposed approach to developing a portfolio management strategy that will be publicly released? What other issues do you think could be dealt with in the strategy?*

NSWIC encourages the public release of information relating to the portfolio management strategy of the CEWH but warns that such information are complex to define accurately as conditions in the MBD are constantly changing. As outlined in the discussion paper, the implicit portfolio optimisation task is complicated by the inherent uncertainties related to key parameters including future water availability and the risk/opportunity to carry over water and hence questions remain as to how far the provision of public information on the portfolio management strategy is useful on a year on year basis. Alternative to a year on year evaluation of the portfolio management strategy, information on the trading behaviour and management strategy should continuously be updated so that the trading behaviour of the CEWH is transparent for all market participants.

As outlined on page 13, the portfolio management strategy of the CEWH needs to incorporate a thorough assessment of any anticipated benefits of trade in future years. Given the multi-year time horizon and the complexity of the task, this bears the following problems;

- An assessment of expected environmental watering demands across the MDB over the next few years will be complex given that the conditions within the Basin are constantly changing. Furthermore, it will be difficult to include information about expected environmental watering requirements until the environmental watering policies are developed by the Basin States.
- To anticipate future water availability it will be necessary to accurately predict future climate conditions which is a process unlikely to be achievable as the recent two years have clearly shown. If these key parameters are not determined then an optimal Portfolio Management Strategy is difficult to establish.

If the CEWH intends to make the information on the portfolio management strategy publically available, then it will be necessary to provide stakeholders with more detailed explanations on the operations of the *Independent External Advice* and the *science* behind those who determine water use and reporting results. Such an external advise should be independently audited in order to assess whether the members of this committee have the relevant skills and experiences and do not experience any personal conflict of interest in providing advice to the CEWH. Currently insufficient information is provided that would indicate how the selection process takes place.

6. *Do you agree with the mechanism for trade that have been identified and the relative advantages of each? Do you have any other suggestions about other mechanisms that could be used to engage with the water market?*

To determine an optimal market engagement for the CEWH, greater engagement with local stakeholder should be sought to draw on local market knowledge and establish a smooth and adaptable trading mechanism that suits the particular region (i.e. valley) and all associated water entitlement holders.

The three approaches outlined in the discussion paper are all likely to hold both benefits and costs for the trading of environmental water, however it should be emphasised that it will be less important which mechanism is used than which approach has been used in the past and found to be successful.

Whilst NSWIC recognises that the CEWH has identified several benefits associated with each trading mechanism, insignificant attention has been paid to the associated costs of each approach. The following discussion will outline some of the drawbacks with each approach and highlight the importance that no single trading mechanism will be suitable for every valley.

All trading arrangements have to be assessed for their feasibility in temporary and permanent trade.

- Tender

As the discussion paper indicates, a tender process is likely to be an expensive and timely process that is only justified if large quantities of environmental water are being traded or if entitlements rather than allocations are being transferred. As mentioned previously, the trading of large environmental water allocations might cause severe third party impacts for other water entitlement holders as water market prices might be distorted. Such negative impacts should be avoided.

- Expression of Interest

Whilst an expression of interest approach might be a cost effective way to engage in water trading, this form of market engagement could substantially alter the market efficiency since the allocations and/or entitlements are offered outside the normal market mechanism and hence are able to distort market prices. Furthermore, this form of market engagement might also necessitate the use of other forms of market engagements should an insufficient quantity of buyers and sellers engage in direct trade with the CEWH through an expression of interest.

- Use of water brokers

The discussion paper indicates that there might be situations (i.e. urgent environmental watering) where water brokers can be advantageous. However the resources required to engage water brokers might outweigh the benefits since other more cost effective trading mechanisms are available (i.e. online water trading platforms). To encourage the further development of online water trading platforms, additional funds should be made available that will help foster this particular type of trading mechanism. Furthermore, NSWIC would like to highlight that in case the management of the CEWH is sufficiently forward looking, then the need for urgent environmental watering will not materialise.

In order to establish an optimal market engagement process, trials should be conducted that assess the effectiveness of each possible trading mechanism in

each valley. An appropriate evaluation of the timeframe required to engage and settle individual trades should be conducted. NSWIC would like to emphasise that a shorter settlement timeframe will be desirable for all water entitlement holders as delays could diminish the benefits of trade.

NSWIC agrees that it will be necessary to advise market participants prior to engaging in trade which method will be used for the trading process, however it is questionable whether different approaches for the acquisition and disposal of water entitlements and/or allocations are required. If one method of market engagement is found to be optimal in one area, then this approach should be used for both acquisition and disposal of allocations and/or entitlements.

7. *Do you think that there are other potential approaches or trade products that could be put in place to assist in achieving the objectives for the Commonwealth environmental water portfolio?*

Independent of the existence of other potential water trade products, NSWIC would like to stress that a discussion of water related derivative products can only be hypothetical in the current context as several legal requirements have to be met before trading in these products is feasible.

Aside from a compliance requirement to the *Financial Management and Accountability Act 1997*, the CEWH will have to acquire two further licenses if it intends to establish a water related derivative market and offer associated trade products. The primary license required is an Australian Financial Services License that will allow the CEWH to deal in water related derivative products. A further license will be needed for the creation of a water related derivative market, since those products are currently not in existence or have only achieved sufficient market depth. The license required for such undertaking is an Australian Market License of which only 12 are currently in existence.

Should the CEWH seek to create such a market, a discussion over the capacity of the CEWH to acquire the necessary licenses should precede any evaluation over the effectiveness or benefits of these water related derivative products. The arising added complexity in considering these water related derivative products will only be justified if it can be proven beyond doubt that the CEWH is able to acquire the essential licenses.

NSWIC would further like to highlight that the current insufficient market depth for these water related derivative products could add to the complications since a substantial public and private support will be required to establish these products in the market. Should such widespread support not be available, then the result could less overall stability in the water market. This increased volatility might attract damaging speculative behaviour which could unnecessarily increase the risk for other market participants. This risk factor together with the substantial market power held by the CEWH has the ability to cause significant negative impacts on other market participants. NSWIC advocates that the protection of all market participants is of utmost importance and hence additional volatility should be avoided in the market.

Finally, NSW Irrigators' Council is concerned that the introduction of water related derivative products could change the inherent structure and characteristics of the water market and the therein traded water entitlements. Products like Covenants

have the potential to change the characteristics of the related underlying water entitlements as they restrict the use of the associated water resources. It should be reemphasised that none of the water related derivative products should change the characteristics of the underlying water entitlements and a definite insurance should be given to ensure this.

8. *Do you have any other suggestions or comments about the issues raised in this discussion paper.*

It is evident that the water trading framework was designed under a different set of assumptions to the *Proposed Basin Plan*. The suggested sustainable diversion limit in the *Proposed Basin Plan* treat environmental water primarily as a resource stock that is made available to the environment rather than a tradable commodity whose quantity can be adjusted to meet environmental needs. This assumption has led to the acquisition of a larger than necessary portfolio of environmental water whose management has been further complicated by the trading constraints of the *Water Act 2007*. The limitations of the *Water Act 2007* are unlikely to meet the requirement of an optimal allocation of water resources between all consumptive water users as benefit of trade are severely restricted and in some cases sacrificed in favour of unnecessary additional carry-over requirements. It bears emphasis that if trade was initially considered in the *Proposed Basin Plan*, then the proposed SDL limits could not only have been substantially lower but the management of the acquired environmental water could have been more flexible.

Related to the large quantities of environmental water holdings by the CEWH, NSWIC has highlighted in its previous press releases that the current high water inflows into the Basin will necessitate a reconsideration of the required environmental water quantity. As the latest two years of data have shown, the mean calculations conducted by the MDBA are biased and should be adjusted to give a more accurate and up-to-date picture of the water requirements for the environmental assets. Should the data from 2010 and 2011 be included into the analysis, then the calculations suggest, that the necessary water holdings by the CEWH should be substantially lower.

The large environmental water holdings have raised further concerns by NSWIC over interstate competition. As is suggested in the discussion paper,

*beneficial watering may be forgone if the water allows for more beneficial watering to occur elsewhere.*

Given the lack of detail on where such beneficial watering will likely occur and who will decide over which environmental site will get priority over available water resources, there are justified concerns that the environmental water resources might be used as a political tool to foster interstate competition. Such misappropriation for public funds and assets should be avoided at all costs.