

Snowy advance 2016/17



Murray Irrigation

Updated May 2016

Frequently asked questions

This information sheet has been prepared to provide customers and shareholders with information about a potential advance of water from Snowy Hydro in the water year 2016/17.

Government approval of the advance has not yet been received. The Government is undertaking due diligence to ensure the proposal can be delivered efficiently and accountably with no negative third party impacts.

Murray Irrigation is aware there will be many more questions. As negotiations progress and details are finalised, Murray Irrigation will update this information which can be accessed via the 'Snowy Advance' section of our website: www.murrayirrigation.com.au.

Who can participate?

Murray Irrigation is seeking to maximise the productive use of water in our region. As such we are preparing to offer access to the advance via two avenues:

- Shareholders – Murray Irrigation customers. Security for the advance to ensure repayment will be via either:
 - Against Murray Irrigation Water Entitlements; or
 - Against Murray Irrigation Delivery Entitlements supported by a cash deposit, bank guarantee or other appropriate means of water or volume security.
- Corporate partners. Industry partners who underwrite (guarantee) repayment of volume to Murray Irrigation. These industry partners will make volume available to their members for production. Murray Irrigation has commenced discussions with corporate entities who represent the interests of food producers in our area of operations including Sunrice, Tatura Milk, Murray Goulburn Dairy, Fonterra, Parmalat and Kagome.

What are the costs?

Murray Irrigation has negotiated an option and exercise arrangement whereby participants pay an option fee of \$8 per ML for the right to access a nominated volume (limits apply) and a separate one-off exercise fee of \$39 per ML if they wish to proceed and have the water delivered to their allocation account.

How much water will be available?

Snowy Hydro have agreed to make up to 200GL water available to Murray Irrigation. The majority of this volume will be made available to Murray Irrigation shareholders while ensuring conveyance needs are covered. The remainder will be made available for corporate partners.

How much can an individual advance?

Individuals can apply for no more than 25 percent of the entitlements held (Water or Delivery dependent on the security method). If the advance is over-subscribed, the volume will be apportioned pro-rata across applicants. There is no minimum volume for Murray Irrigation shareholders, however, priority will be given to customers applying for an option volume greater than 50 ML.

What are the security options?

There are three types of security that can be used:

- Security A (water entitlements) – Simplest form of security. Suitable for customer with more or equal WE to DE. Security against future allocations. Automatic repayment. Creates a debt against entitlement;
- Security B (water entitlements for DE application) – Suitable for customer with more DE than WE. Can borrow 25% DE secured by up to 40% of WE. Security against future allocations. Automatic repayment. Creates a debt against entitlement;
- Security C (DE) – Suitable for customer with DE but few or no WE. Bank guarantee or cash deposit of \$150/ML. Repayment by volume transfer or default of security.

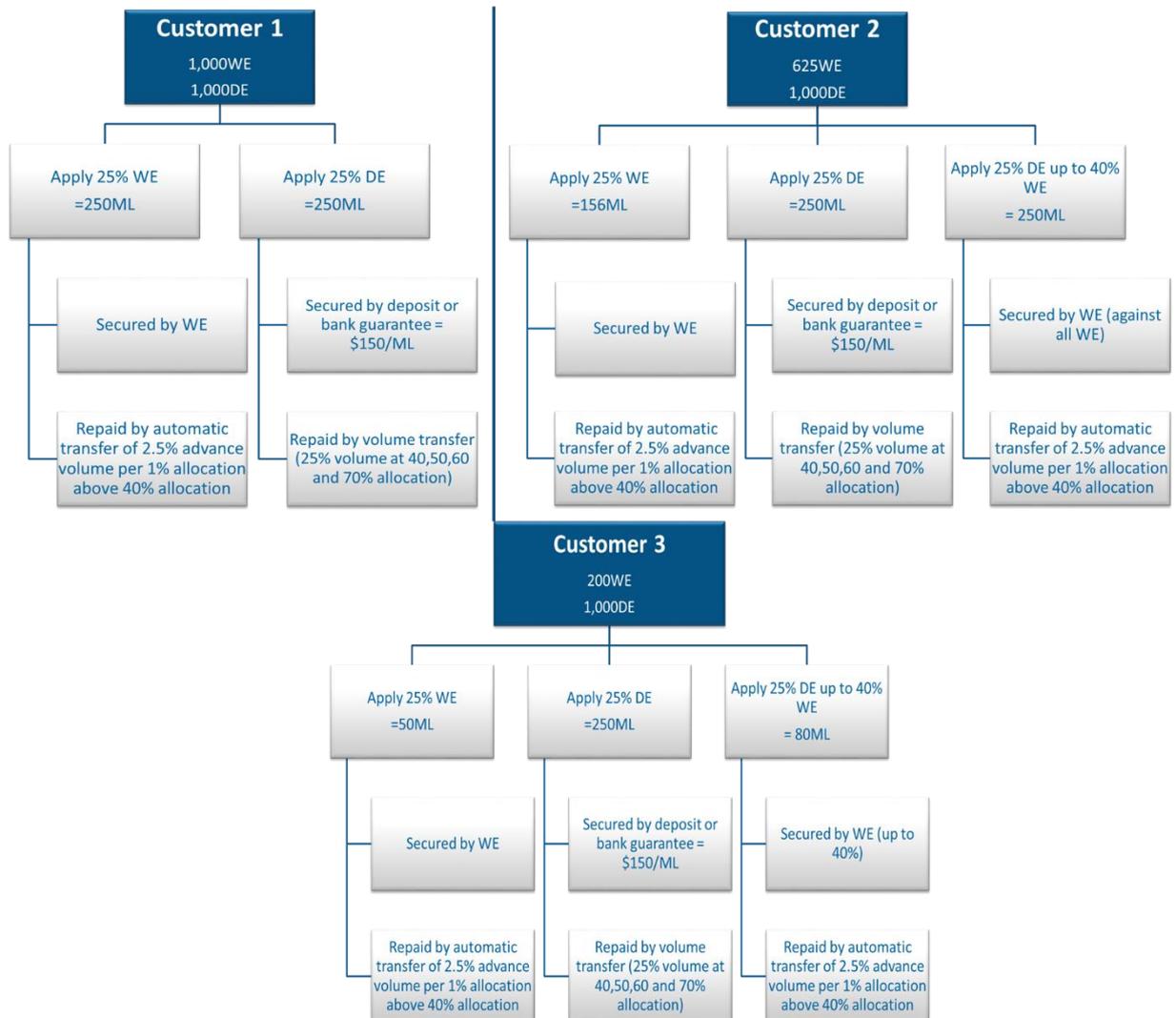
Snowy advance 2016/17



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Examples of customer types and security



Can you change your mind?

Participants do not have to take the volume they have optioned if they subsequently decide they do not want or need it. However, the option fee is non-refundable (in accordance with the Terms and Conditions).

Each application must be supported by an option fee equal to the option price of \$8 per ML, multiplied by the volume shown in the application. The option fee is not refundable. The option volume will be available for exercise after 1 July 2016 but individuals do not have to exercise their right to that volume and no exercise fee will be charged if they elect not to exercise their options.

Can the water be transferred between landholdings?

Yes – within Murray Irrigation only. But the repayment obligation will remain with the landholding account stated on the application. It is up to customers to ensure they manage their accounts to comply with repayment conditions.

Can the water be traded?

A condition of shareholders participating in the advance is that the volume exercised through this advance is used on-farm.

Snowy advance 2016/17



Murray Irrigation

Updated May 2016

How will the advance be paid back?

Unlike previous 'borrows', there will be no roll-over fee or specific repayment date associated with this agreement.

Murray Irrigation has developed a schedule for repayments with Snowy Hydro commencing when NSW Murray General Security announced allocation reaches 40 percent.

For customers using Water Entitlements as security, their account will remain at 40 percent allocation until their own advance volume is repaid.

For customers using Delivery Entitlements as security they will be required to transfer 25 percent of their advanced volume into Murray Irrigation's nominated Snowy Account when allocations reach 40, 50, 60 and 70 percent. There will be a four day window for customers to payback, once allocation reaches each trigger level.

In the event the full volume is not repaid in the first water year, the repayment trigger will be reset to 40 percent and repayments will recommence as described above in the new water year, until such time as the individual's full volume is repaid.

Schedule of repayments – WE security

General Security Available Water Determination	Repayment of Exercise Volume
< 40%	0%
40%	2.5%
41%	5%
42%	7.5%
43%	10%
44%	12.5%
45%	15%
46%	17.5%
47%	20%
48%	22.5%
49%	25%
50%	27.5%
51%	30%
52%	32.5%
53%	35%
54%	37.5%
55%	40%
56%	42.5%
57%	45%
58%	47.5%
59%	50%
60%	52.5%
61%	55%
62%	57.5%
63%	60%
64%	62.5%
65%	65%
66%	67.5%
67%	70%
68%	72.5%
69%	75%
70%	77.5%
71%	80%
72%	82.5%
73%	85%
74%	87.5%
75%	90%
76%	92.5%
77%	95%
78%	97.5%
79%	100%

Snowy advance 2016/17



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Updated May 2016

Schedule of repayments – DE security

General Security Available Water Determination	Repayment of Exercise Volume
< 40%	0%
40%	25%
50%	50%
60%	75%
70%	100%

What happens if allocations don't reach the trigger point and the volume is not repaid?

If allocations fail to reach the point where the full volume is repaid, that debt will be automatically carried over to the next water year and the trigger allocation will reset.

There is also provision for an early payback to provide participants with flexibility to manage their repayments to suit their business requirements. Individuals will be able to repay the volume early by transferring volume into Murray Irrigation's nominate Snowy Account.

Are there any ongoing fees?

No. There is only a one-off option fee and a one-off exercise fee for delivery of the exercised volume. There will be no ongoing fees, even if the volume is repaid over a number of years in the event of ongoing low allocations.

Will it affect carryover?

No. From an account perspective, this volume will be treated in the same way as a temporary purchase. It is up to the individual to manage their own allocation and carryover accounts. If a participant has water remaining in their allocation account at the end of 2016/17 the usual carryover rules apply.

Why is it an advance and not a buy?

Snowy Hydro does not own any water and therefore has no water to sell.

The product is effectively an advance of a future water allocation and therefore must be paid back by participants according to a schedule once NSW Murray General Security announced allocations reach 40 percent.

How will this affect allocations?

There will be no impact to announced allocations for water users who do not participate, nor to the entitlement or reliability of entitlement for water holders in other jurisdictions.

The advance will be released from 'above target' water and will therefore not impact on required annual releases in the water year 2016/17.

Do I have to participate?

No. Murray Irrigation has called for applications for an option. Murray Irrigation will only take out an option for the amount applied for. Those who choose not to participate will not be impacted by this arrangement.

If it is an advance, why do I have to pay?

You are paying for a right (option) but not the obligation to an advance of water at a predetermined exercise price. You are paying for Snowy Hydro's opportunity cost as a result of locking in a fixed and higher generation position during the 2016/17 water year.

When will the Snowy water be available?

Final details are still being negotiated.

Customers will be provided with four weeks to consider whether to take up the option prior to the close of applications on Friday 13 May 2016. The exercise closing date will be on or about Monday 1 August 2016. Customer allocation accounts will be credited on or about Wednesday 17 August 2016.

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Why do we need an advance?

Murray-Darling Basin storages are currently (as at 23 March 2016) around 31 percent compared to 45 percent at the same time last year. The DPI Water outlook for the new water year indicates opening allocations of zero percent, reaching six percent in a dry inflow scenario.

Based on this assumption, Murray Irrigation is looking at alternate sources of water that may be available for customers to provide certainty for early in the season at critical decision points for farm businesses.

What approvals are required to ensure the advance can proceed?

Approvals must be sought from NSW Department of Primary Industries - Water, and the proposal incorporated into Snowy Hydro's Annual Water Operating Plan. This plan is reviewed by the Water Consultation and Liaison Committee which comprises members from NSW, Victoria, South Australia and the MDBA.

Will future efficiency allocations trigger repayment of Snowy Advance debt?

No. Repayment of Snowy Advance debt is based entirely on announced allocations. Efficiency allocations will have no effect on repayment triggers.

Will future efficiency allocations be used to pay off Snowy Advance debt?

No. Future efficiency allocations will not be used by Murray Irrigation to service a customer's Snowy Advance debt, unless a delivery entitlement holder defaults on a repayment and their security is insufficient to meet the outstanding debt.

Murray Irrigation is aware there will be many more questions. As negotiations progress and details are finalised, Murray Irrigation will update this information which can be accessed via www.murrayirrigation.com.au/customers/snowy-advance/.