

## 1. Purpose

The purpose of this document is to set out how Sunwater intends to conduct its Water Trading activities in order to meet its objectives of supporting increased utilisation of available allocations throughout Queensland while maximising the commercial return from allocations held.

## 2. Scope

This policy applies to all trading of Sunwater and subsidiary-owned water allocations and includes:

- Temporary Transfers
- Permanent Transfers, and
- Term Allocations.

All Sunwater business groups, employees and contractors are required to comply with this policy and the Water Trading Framework.

## 3. Policy Statement

- Through the implementation of its Water Trading Framework, Sunwater aims to:
- Maximise the commercial return of allocations held by Sunwater
- Maximise the economic return to regional economies associated with permanent and temporary transfer of Sunwater-held allocations
- Develop and encourage the trading of water to its highest and best use
- Encourage and support the development of an active water trading market in Queensland
- Provide for an accountable and transparent process for the trading of Sunwater's own water allocation
- Ensure appropriate governance and internal controls in its Water Trading activities
- Manage the risks associated with Water Trading including:
  - I. Market risk
  - II. Regulatory risk
  - III. Financial risk
  - IV. Operational risk
  - V. Climate risk
  - VI. Settlement risk, and
  - VII. Credit risk.

Some of the policy principles outlined above can be difficult to implement simultaneously. In particular, the principle of maximising commercial return to Sunwater, has the potential to conflict with the principle of maximising regional economic benefit. To ensure consistency and clarity of Sunwater's approach to trading activities to support these principles, Sunwater has outlined its policy position in relation to key aspects of water trading and market related activities in the table below.

Policy Position	Rationale
<b>Temporary Transfers</b>	
<p><b>Subject to minor exceptions e.g. for operational reasons, Sunwater will make all announced allocations held by Sunwater in its Trading Account available on the temporary trading market each year.</b></p>	<p>This process optimises the uptake of uncommitted water by customers each year thereby ensuring maximum utilisation of the resource and providing flexibility to customers to address variability in their annual water requirements. The process also maximises the commercial return to Sunwater of the allocation assets that it holds.</p> <p>The exceptions include circumstances where small volumes of announced allocation are held back to cater for unplanned events such as unplanned maintenance works (e.g. pipeline failure), short-term supplies such as Council or third-party requests for water to facilitate road construction activities or where there are negotiations on foot for the sale or term allocation of a volume and it would be inconsistent with the spirit of the negotiation to put the water on the temporary market.</p> <p>Sunwater has historically also held back volumes of water on industrial pipelines to enable rectification of overuse by pipeline customers. This essentially facilitates breaching supply terms by these customers and hence Sunwater is progressively phasing out this practice.</p>
<p><b>Other than minor volumes reserved for operational requirements, temporary trading will be undertaken via a publicly accessible online platform where any customer may purchase water within the constraints of the relevant Water Supply Scheme water sharing and trading rules.</b></p>	<p>Utilisation of a publicly accessible online trading platform maximises visibility of trading in the market. The platform is a key initiative supporting Sunwater's objective of promoting increased water trading, which enables better utilisation of existing resources thereby reducing the need for new infrastructure to support growth.</p> <p>It is hoped that through Sunwater's example, customers will also utilise the platform, increasing the amount of trading information that is publicly available which is a critical component of a healthy water market.</p> <p>The platform also provides commercial benefits to Sunwater in terms of maximum market penetration.</p> <p>Sunwater may also facilitate temporary trades directly with customers where this is permitted by the Water Trading Code of Conduct.</p>
<p><b>Where there is a high level of demand for Sunwater held announced allocations or where otherwise considered the most appropriate avenue for trading, this water will be traded utilising the auction function of the online trading platform.</b></p>	<p>In a small number of schemes Sunwater holds high priority allocations that can result in water becoming available during drought conditions where medium priority allocation holders are at low or zero percent announced allocation. In these instances, to ensure an equal opportunity to all parties to obtain this water, temporary trades will be undertaken via online auction.</p>
<p><b>Exceptions to placing announced allocations on the temporary market will be made where operational constraints prevent distribution of water.</b></p>	<p>Conditions can arise where it is not possible to transfer water to customer offtakes. For example, under drought conditions where MP customers are on zero percent announced allocation and releases are not being made routinely from storages, Sunwater may not be able to distribute available HP derived allocations via dry riverbeds to customer offtakes due to excessive system losses.</p>

Policy Position	Rationale
<b>Permanent Transfers and Term Allocations – Medium Priority</b>	
<p><b>Sunwater will make all medium priority (MP) allocations that it holds available to the market for either sale or term allocation.</b></p>	<p>This policy position reflects the general desire by irrigation customers, who are the primary recipients of MP allocations, to own their entitlements and utilise them in conjunction with their land assets. This maximises economic value on both an annual basis through crop irrigation and associated production, and on a long-term basis through increased property and business values that stem from holding combined land and water assets.</p> <p>There are, however, instances where it might be in Sunwater’s interests to retain ownership and there are also instance where MP customers are better placed (and may prefer) to term allocate water over a fixed period to avoid Part A charges in the longer term and the upfront costs associated with a purchase.</p> <p>There may also be instances where Sunwater will not be positioned to provide water to an MP customer into perpetuity, e.g., stock and domestic customers on industrial pipelines supplying assets that have a finite life span (e.g. coal fired power stations). In these instances, Sunwater will consider term allocations in preference to sale.</p>
<p><b>Medium priority allocation sales will be taken to market progressively as needs are identified and interest is expressed by customers.</b></p>	<p>Sunwater holds MP allocations across many of the schemes in Queensland, and the timing of placement of these allocations on the market will be considered on a case-by-case basis. ‘Dumping’ allocations into the market can have adverse impacts on the value of entitlements held by existing allocation holders and will therefore be avoided. Any such impact to prices would also reduce potential sales revenue to Sunwater which is not in accordance with its commercial objectives. Sunwater will consider the value of water in the scheme and will attempt to maintain that value which is both in Sunwater’s commercial interests and in the interests of our customers.</p>

Policy Position	Rationale
<p><b>Where there is known to be excess demand for available allocations, MP allocations will be sold via online auction or a public tender process.</b></p>	<p>In some instances a public tender process will be utilised. This will generally be considered where large volumes of water are planned for release to the market or when evaluation is required. This method provides maximum transparency and opportunity for the market to participate through public advertising of the tender supported by direct correspondence with all existing scheme customers. Standardised contracts and pricing methods ensure consistency of treatment across all customers and equal opportunity to secure allocations.</p> <p>With respect to pricing methods (i.e. usage charges) it should be noted that lower bound charges for both MP and HP allocations apply to irrigation customers, with all other customers subject to upper bound pricing. This rule applies regardless of the sale price of the allocation or the method of sale used to take water to the market.</p> <p>Whilst providing maximum transparency of the sale process, tenders require a high degree of administration and utilisation of limited Sunwater staff resources to facilitate the process, and therefore may not be warranted for the sale of smaller parcels of water or where the market has been tested in recent years. In these instances, Sunwater may opt to utilise the online trading platform which provides similar levels of transparency at a much lower cost. Where demand for allocations is high, the online auction facility will be utilised. Where demand is lower, allocations will be listed for sale at a set price that is determined by the Sunwater Broker.</p> <p>Sunwater may also elect to negotiate directly with one or more customers where this is permitted by the Water Trading Code of Conduct.</p>
<p><b>Direct sales of MP allocation to individual irrigation customers will be undertaken via the Water Broker in accordance with the Ringfencing Guidelines. Sunwater may choose to use the broker for sales to urban and industrial customers, but in accordance with the Water Trading Code of Conduct these negotiations may also be undertaken directly.</b></p>	<p>Where Sunwater holds MP allocations that have not been listed for sale due to a lack of general interest from the market, Sunwater may opt to sell MP water directly to customers who approach Sunwater's broker seeking permanent transfer.</p> <p>In the case of irrigation customers, this engagement will always occur through Sunwater's independent broker in accordance with Sunwater's Water Trading Code of Conduct. The brokerage service operates outside of the business and does not have access to Sunwater's internal information systems and data thereby preventing Sunwater information from being utilised to gain an unfair advantage in the trading process.</p> <p>Full details of the Water Broker ringfencing arrangements can be found in the Water Trading Ringfencing Arrangements Procedure, available on the Sunwater website.</p> <p>Rationale for direct negotiations with urban and industrial customers is provided below.</p>

Policy Position	Rationale
<b>Permanent Transfers and Term Allocations – High Priority</b>	
<p><b>Sunwater will provide term allocations to customers for access to high priority allocations in favour of permanent transfer. Offers from customers to purchase HP water will be considered on a case-by-case basis where there are sound commercial reasons for Sunwater to consider the offer.</b></p>	<p>There are two key reasons that underpin this rationale. Firstly, the recipients of Sunwater’s HP allocations are typically industrial customers (and urban – refer below). These customers typically have a preference for fixed term supply agreements that align to the life of their mine or project. Purchase of HP allocations by these customers presents a risk whereby ongoing Part A obligations are payable into perpetuity, and if no buyer for the allocation exists then the customer is obliged to keep paying when their revenue has discontinued.</p> <p>The second reason is that the vast majority of Sunwater’s profit is sourced from supply of pipeline capacity to mining and other industrial customers (irrigation supply runs at a loss). Pipeline capacity unto itself is worthless without water to transport. Hence it is critical to Sunwater’s business to retain HP allocation in order to package it with pipeline capacity and deliver customised products that are profitable to the business.</p> <p>Furthermore, in many instances term allocations will provide a greater return to Sunwater over the life of the agreement than direct sale, and this supports Sunwater’s commercial objectives.</p> <p>There are circumstances where Sunwater would consider sale of HP allocation if this arrangement is preferred by the customer. However, purchase prices would need to be set in order to ensure a comparative commercial return to term allocation charges over an extended period of time, e.g. 20 to 30 years.</p> <p>Exceptions may also be made for urban customers where towns and cities generally have an appetite for ownership of entitlements that will meet their long-term security needs. This exception would only apply where the urban customer is prepared to pay the market price for the water allocation. This position supports the principle of maximising economic return to regional economies.</p>
<p><b>In some circumstances Sunwater will consider Water Reservations for up to 2 years subject to payment of a Water Reservation Fee.</b></p>	<p>Water Reservation products (water only or water + transportation are proposed to be available to customers who, in return for a fee will receive a commitment of up to two years from Sunwater that an agreed water volume will be reserved for them (the water will remain available for temporary trades during the reservation period) thereby providing them with the surety to continue to develop their own projects. At the end of the agreed reservation period the holder of the water reservation product (Project Proponent) will either allow the reservation to expire at which time the water is again available on the market as per the Water Trading Policy or they can nominate a Term Allocation / “Take or Pay” agreement. In the future Sunwater may look to extend this product to medium priority allocations.</p>

Policy Position	Rationale
<p><b>Sunwater will negotiate directly with industrial, mining and urban customers, however small transactions utilising standard form contracts may be progressed via the Broker.</b></p> <p><b>The Broker will be utilised for any HP transfers to irrigation customers in accordance with the Ringfencing Guidelines.</b></p>	<p>Unlike standardised supply contracts for irrigation customers, contracts for supply to urban, mining and industrial customers are often bespoke agreements that address the specific needs of each customer and need to align with other customers taking water from the same asset. To the extent possible standardised supply contracts for a given asset will be used, however the commercial terms of each agreement may vary by necessity depending on the circumstances. Price is inherently linked to other commercial terms and hence cannot be separated from the broader contract negotiation process as it can with standardised irrigation supply contracts.</p> <p>In addition, most HP customers are larger corporate entities that have access to legal and commercial advice and are well positioned to negotiate their preferred contractual position. Under these circumstances where there is no imbalance between the capabilities of the two negotiating parties, the ringfencing guidelines that apply to irrigation customers are not necessary and Sunwater will undertake these negotiations directly. This process is reflected in the 2020 update of the Water Trading Code of Conduct.</p> <p>Where there is no need for bespoke arrangements and the sale can be completed utilising standard form contracts, the Broker may be utilised as a more efficient method of transacting.</p>
<b>Acquiring Allocations</b>	
<p><b>Sunwater will not purchase water allocations from the market on a speculative basis for the purpose of supporting trading activities. Purchases may be made to satisfy a known demand from a customer subject to approval by the Sunwater Board.</b></p>	<p>The majority of allocations that are held by Sunwater stem from an inability to sell all of the water that was generated upon commissioning of the relevant water storage assets. In certain instances, Sunwater also receives allocations where customers hand back allocation that is no longer required (refer below regarding Sunwater policy in relation to handing back allocation).</p> <p>Sunwater will not generally purchase water from the market in order to increase its allocation holdings for trading purposes. Taking water out of the market on a speculative basis for subsequent trading is not in keeping with the principle of maximising regional economic benefits which will flow from sustained use of allocations for productive purposes.</p> <p>Exceptions to this position may arise where customers have specific demands they are seeking to meet and Sunwater is positioned to fulfill that requirements through purchase of allocation. Any such exceptions would be subject to approval under the Delegations of Authority and need to demonstrate appropriate commercial and strategic benefits.</p>

Policy Position	Rationale
<b>Sunwater does not support the surrender of water allocations but will consider surrender in exceptional circumstances.</b>	<p>Recovery of fixed costs for water supply schemes is achieved through levying Part A charges across all allocations, which, in simple terms, is calculated by dividing the total fixed costs of the scheme by the volume of allocation issued. This formula is adjusted by the Headworks Utilisation Factor (HUF) which allocates a greater share of costs to HP customers to reflect the higher degree of water security associated with their supply.</p> <p>The surrender of allocations to the Chief Executive under s162 of the Water Act does not facilitate recovery of scheme costs (unless they continue to be paid by the State), impacting Sunwater's commercial return. Once water has entered the market Sunwater's preference is that this allocation is traded where this allocation is surplus to the existing holders' requirements. However, in smaller inactive markets this may not be a viable course of action, and in these instances Sunwater will consider supporting the surrender of allocations (Sunwater as the ROL holder must provide their consent to any surrender).</p> <p>It should be noted that where possible Sunwater will seek to recoup forecast lost Part A charges from the customer as part of the surrender transaction, nominally for a 10-year period unless these charges will continue to be paid by the State.</p>
<b>Leases</b>	
<b>All fixed term agreements for access to water allocations will be provided in the form of term allocations rather than leases.</b>	<p>Sunwater will not enter into leases except where an existing lease contains an option to extend. Leases involve registration with the Titles Registry Office that add administration, cost, and time delays to water transactions. The same outcome of a fixed term agreement for access to water can be achieved through a term allocation contract.</p> <p>The typical rationale for requiring leases is that registration of the lessee's interests on the allocation title provides some degree of security to the lease holder should the owner default. Given that Sunwater is a Government Owned Corporation the risk of default is effectively zero, and hence any perceived security benefits are far outweighed by cost and administration savings.</p>

#### 4. Commitments

In undertaking its Water Trading activities Sunwater will:

- Be bound by the Code of Conduct
- Ringfence the activities of the Water Trader
- Operate its Water Trading Activities in accordance with its Water Trading Strategy

#### 5. Responsibilities

Role	Responsible For
Chief Financial Officer	Ensuring the Water Trading Policy aligns with Sunwater's strategic goals and the water trading framework provided under the relevant legislation.
General Manager Commercial Customers and Analysis	Ensuring the Water Trading Policy: <ul style="list-style-type: none"> <li>• Is implemented and monitored</li> <li>• Is reviewed to evaluate its continuing effectiveness, i.e. is achieving its purpose and remains relevant.</li> </ul>

Role	Responsible For
Water Sales Transaction Manager	Implementing the Water Trading Code of Conduct.

## 6. Related Legislation and Documents [provide hyperlinks to listed documents]

- [Water Act 2000 \(Qld\)](#)
- [Water Trading Code of Conduct](#)
- [Water Trading Ringfencing Arrangements](#)
- [Water Trading Ringfencing Guidelines](#)
- [Water Trading Dispute Resolution Process](#)
- Water Act 2007 (Cth)

## 7. Implementation, Reporting and Compliance

All revisions to the Code of Conduct must be approved by shareholding Ministers prior to implementation and will be published on the Sunwater website.

## 8. Creation, Review and Approval

Author	GM Commercial Customers and Analysis	SME	GM Commercial Customers and Analysis	Owner	Chief Financial Officer
eDMS	2547804.v4	Effective Date	August 2024	Next Review Date	August 2026