

# Questions on notice for the General Purpose Standing Committee No. 5:

## Inquiry into water augmentation

March 2017



### Response to questions on notice

Deniliquin public hearing, Tuesday 28 February 2017

Murray Irrigation is pleased to provide further information to the General Purpose Standing Committee No. 5 for consideration in its inquiry into water supply for rural and regional NSW.

#### Question on notice

The Hon Paul Green asked about the quantum relating to the NSW contribution of funding towards Murray-Darling Basin Authority joint programs.

#### Response

Complexity of MDBA charges:

The NSW Government funds the MDBA's joint programs and river operations in accordance with the Murray-Darling Basin Agreement and under the Water Act 2007.

Unfortunately, information as to the funds provided by the signatory states and how each state funds those activities, by recovery or directly, is not open and transparent.

### MDBA charges in NSW

#### Overview

The NSW Government makes an annual contribution to the MDBA to cover River Operations, joint programs and planning and management costs.

In 2004, the Council of Australian Governments (COAG) signed up to the National Water Initiative (NWI) which established pricing principles for rural and urban water supply pricing practices. These principles specify full cost recovery for water storage and delivery and transparency to any community service obligation payments made.

As such, in NSW, the Government recovers a large portion of these costs from irrigators through bulk water charges. How these charges are recovered in other signatory states varies. South Australia does not have a similar system of bulk water charge recovery but uses a rate-payer based natural resources levy system.

In NSW, water delivery and supply services are provided by WaterNSW while planning and management functions are conducted by DPI Water. As such, the MDBA portions of these functions are recovered through those agencies.

#### WaterNSW

In 2014 the ACCC conducted the WaterNSW pricing review and determination. The ACCC was advised that the NSW Treasurer had directed it under the Public Finance and Audit Act 1983 (NSW) to recover specified MDBA costs each year in the Murray and Murrumbidgee valleys in the 2014-17 regulatory period. As a result, recovering these costs is a regulatory obligation for WaterNSW.

In 2017, responsibility for determining WaterNSW charges has deferred back to the NSW Independent Pricing and Regulatory Tribunal (IPART). Contained in the WaterNSW application to IPART was the request to make allowance to recover an as yet (as at publication of the draft determination) an amount of MDBA charges in accordance with the Public Finance and Audit Act (1983) – which was expected to be higher than previous years.

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As a result, IPART determined to apply an “efficiency adjustment of 1.25 percent to the customer share of MDBA charges. The costs resulting from this draft decision are broken down thus:

**Table 8.1 Draft decision on MDBA/BRC pass through costs (\$'000, \$2016-17)**

	2017-18	2018-19	2019-20	2020-21
<b>MDBA</b>				
Customer share <sup>a</sup>	17,936	13,564	12,858	12,685
Government share	2,647	4,330	4,306	4,248
Customer share %	87%	76%	75%	75%

\* IPART draft decision for WaterNSW rural bulk water prices, 2017, p82

According to previous determinations, the costs recovered through WaterNSW are for River Murray Operations and cover:

- Maintaining essential water storage and supply infrastructure including dams and weirs
- Operating the river
- Hydrometric services and modelling
- Maintaining water trade registers.

Industry has been requesting a review of government/user cost shares for some years, but, despite IPART’s willingness to consider the issue under this determination, it is our understanding that this review has been postponed. In the absence of any new direction, IPART applied the historic user share model in accordance with the following table (shaded activities could fall into MDBA activities).

Activity code	Activity name	User share %	Government share %
10	Customer Support	100	0
11	Customer Billing	100	0
12	Metering and Compliance	100	0
14	Water Delivery and Ops	100	0
15	Water transfers	100	0
16	Flood operations	50	50
17	Hydrometric monitoring	90	10
18	Water quality monitoring	50	50
19	Public liability insurance	100	0
30	Corrective maintenance	100	0
31	Routine Maintenance	100	0
32	Asset management planning and replacement	100	0
33	Dam safety compliance – pre 1997	0	100
33	Dam safety compliance – post 1997	50	50
34	Environmental planning and protection	50	50
50	Renewal and replacement of assets	90	10
51	Structural and other enhancements	100	0
98	Corporate systems	100	0

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According to the IPART draft determination, the MDBA charges for the WaterNSW component will equate to the following charges:

**Table 3 Draft MDBA charges for Murray valley for 2017 Determination - \$/ML of entitlement and usage (\$2016-17 – ie, without inflation)**

	↓↑	Current charge (2016-17)	IPART Draft Decision (2017-18)	IPART Draft Decision (2020-21)	% Change (2016-17 to 2020-21)
High security charge	↑	3.22	8.68	8.68	169.8%
General security charge	↑	1.74	3.54	3.54	103.1%
Usage charge	↓	4.17	1.56	1.56	-62.5%

Source: ACCC Final Report June 2014 and IPART calculations.

\* IPART draft determination, WaterNSW bulk rural water charges 2017, NSW Murray Fact Sheet

The massive increase in costs is due to both the MDBA charges rising and the IPART determining to change the fixed to variable tariff ratio of cost recovery.

### DPI Water

However, MDBA charges are not only recovered through WaterNSW charges. DPI Water recover MDBA costs for the following activities:

- Salinity registers
- Water quality programs
- Environmental restoration programs such as the Living Murray Program
- Other joint programs agreed by the Ministerial Council

In 2016, IPART allocated the user share of the MDBA costs across all Basin water sources based on water take as the predominant cost driver.

**Table 1 Average annual user share of MDBA costs: 2016-17 to 2019-20**

Water source	User share of MDBA costs by water source (\$million, \$2015-16)	Percent of user share of MDBA costs by water source	User share of NRR by water source (\$million, \$2015-16)	User share of MDBA costs as percent of user share of NRR by water source
<b>Regulated rivers</b>				
Border	0.14	2.8%	0.83	17%
Gwydir	0.38	7.6%	1.30	29%
Namoi	0.21	4.3%	1.00	21%
Peel	0.01	0.2%	0.23	5%
Lachlan	0.22	4.5%	1.47	15%
Macquarie	0.29	5.9%	1.63	18%
Murray	1.44	29.0%	5.24	27%
Murrumbidgee	1.72	34.6%	5.36	32%
North Coast	-	-	0.04	-
Hunter	-	-	1.00	-
South Coast	-	-	0.08	-
<b>Total Regulated rivers</b>	<b>4.42</b>	<b>88.9%</b>	<b>18.18</b>	<b>24%</b>

\*IPART fact sheet on MDBA costs released March 2016

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### **Transparency of cost recovery**

The key issue regarding MDBA costs is the lack of transparency in what they are for and how they are determined.

Despite the *Water Charge (Infrastructure) Rules* applying to water charges in relation to Basin water resources, they do not capture the MDBA which is the agency responsible for coordination of River Murray operations and water sharing under the Murray-Darling Agreement. The MDBA receives funding from State Governments and the Commonwealth for river operations and joint programs. However, there is no transparency for irrigators in these cost sharing arrangements. The MDBA only reports against one outcome under the federal budget and there is no obvious distinction between Plan costs, river operations costs and costs of other programs. The lack of transparency led the NSW Government to review the State's contribution to the MDBA that subsequently resulted in a Ministerial Council review of joint programs.

The MDBA produces a Corporate Plan which outlines internal business areas and costs, however, this document is sporadic in the level of information available.

For example, the MDBA Corporate Plan 2015-16 included details about joint program expenditure (from page 28) and breaks it down between States (from page 54); however, the Corporate Plan 2016-17 includes no such detail and directs readers to the Budget statements for information about financial arrangements. The Budget papers do not separate MDBA joint program costs and Commonwealth activities (such as Basin Plan).

Given the level of contributed funds (via bulk water charges) in NSW, the level of public scrutiny over these costs is insufficient.

### **Recommendation:**

If the NSW Government continues to view MDBA charges as a cost recovery charge, then costs must be recovered from the breadth of beneficiaries (as opposed to "impactors") of the river system. Examples include recreational river users; riparian landholders and river based tourism operators.

Murray Irrigation is also of the view that the NSW Government should demand more transparency of MDBA joint program and river operations charges through a public determination process similar to that applied to bulk water service providers including WaterNSW.

### **Supplementary questions**

#### **Energy costs:**

Murray Irrigation is a gravity-fed earthen channel system. We were the first irrigation channel system to incorporate a hydro power plant at a site known as 'the Drop' near Berrigan in NSW<sup>1</sup>. We have traditionally been a carbon neutral water supplier.

The pressure to increase efficiencies and provide modern infrastructure compatible with delivering for the demands of technology driven agriculture changes the power requirements of our network. To date, this has been met by renewable energy such as solar panels connected to the new infrastructure.

If there is increased demand for pump and pipe systems, the power needs of our infrastructure may become increasingly dependent on traditional power supplies and there will be a cost impact, however, this has not occurred to date.

**Michael Renehan**  
**Chief Executive Officer**

<sup>1</sup> <http://www.pacifichydro.com.au/english/projects/operations/the-drop-hydro-plant/>  
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