Attachment 16

MDBA pass through charges

30 September 2024

Contents

List of figures

List of tables

1. Introduction

In 2008 the NSW Government signed the Murray-Darling Basin Agreement (Agreement). Under the Agreement, the Murray-Darling Basin Authority (MDBA) administers Joint Programs on behalf of the Murray-Darling Basin jurisdictions. The MDBA Joint Programs consist of a series of initiatives which are jointly funded by the Contracting Governments of the Commonwealth, New South Wales, Victoria, South Australia, Queensland, and Australian Capital Territory. The contributions are divided amongst the Contracting Governments in accordance with the agreed cost share principles decided by the Murray-Darling Basin Ministerial Council in 2006.

WaterNSW converts the MDBA costs provided by DCCEEW into prices that are passed through to MDBA customers. Narrative on the operation and performance of the MDBA has been provided by DCCEEW and questions from IPART on the costs and performance of the MDBA should be directed to DCCEEW in the first instance.

1.1 Background

The MDBA Joint Programs are established by the Murray-Darling Basin Agreement (Agreement), which has the following purpose

> *"promote and co-ordinate effective planning and management for the equitable, efficient and sustainable use of the water and other natural resources of the Murray-Darling Basin, including by implementing arrangements agreed between the Contracting Governments to give effect to the Basin Plan, the Water Act and State water entitlements[1]".*

The MDBA has significant functions under the Water Act, and particularly the Agreement. The Agreement establishes the Authority to deliver, in conjunction with the Contracting Governments, jointly funded programs for the Contracting Governments. This includes giving effect to decisions of the Ministerial Council and the Basin Officials Committee in relation to River Murray Operations and Natural Resource Management programs, advising these bodies, and providing them with administrative support.

The objectives of the Joint Programs are to:

- Operate the River Murray System in accordance with the Murray Darling Basin Agreement
- Maintain and improve the health of the River Murray System (and the Basin where relevant) in accordance with the Murray Darling Basin Agreement and associated agreements.

These objectives are included in the MDBA Corporate Plan under the key activity: Efficiently and effectively operate the River Murray System for Partner Governments.

The Joint Programs comprise of 2 joint ventures:

- The River Murray Operations joint venture between the governments of New South Wales, Victoria and South Australia and the Commonwealth.
- The Living Murray joint venture between the governments of New South Wales, Victoria, South Australia, the Australian Capital Territory and the Commonwealth.

Within the MDBA, the activities under the 2 joint ventures are given effect through the programs listed in Table 1.

[1] *cl 1, Schedule 1, Cmwth Water Act 2007*

This WaterNSW Rural Bulk Water Pricing Proposal will cover River Management activities related to River Murray Operations (RMO), excluding the Salt Interception Scheme. RMO activities include:

- managing the built assets including dams, weirs, locks, environmental works (Asset Management Program)
- sharing the waters between the states and directing water releases from storage and weirs to meet the state's needs (Running the river).

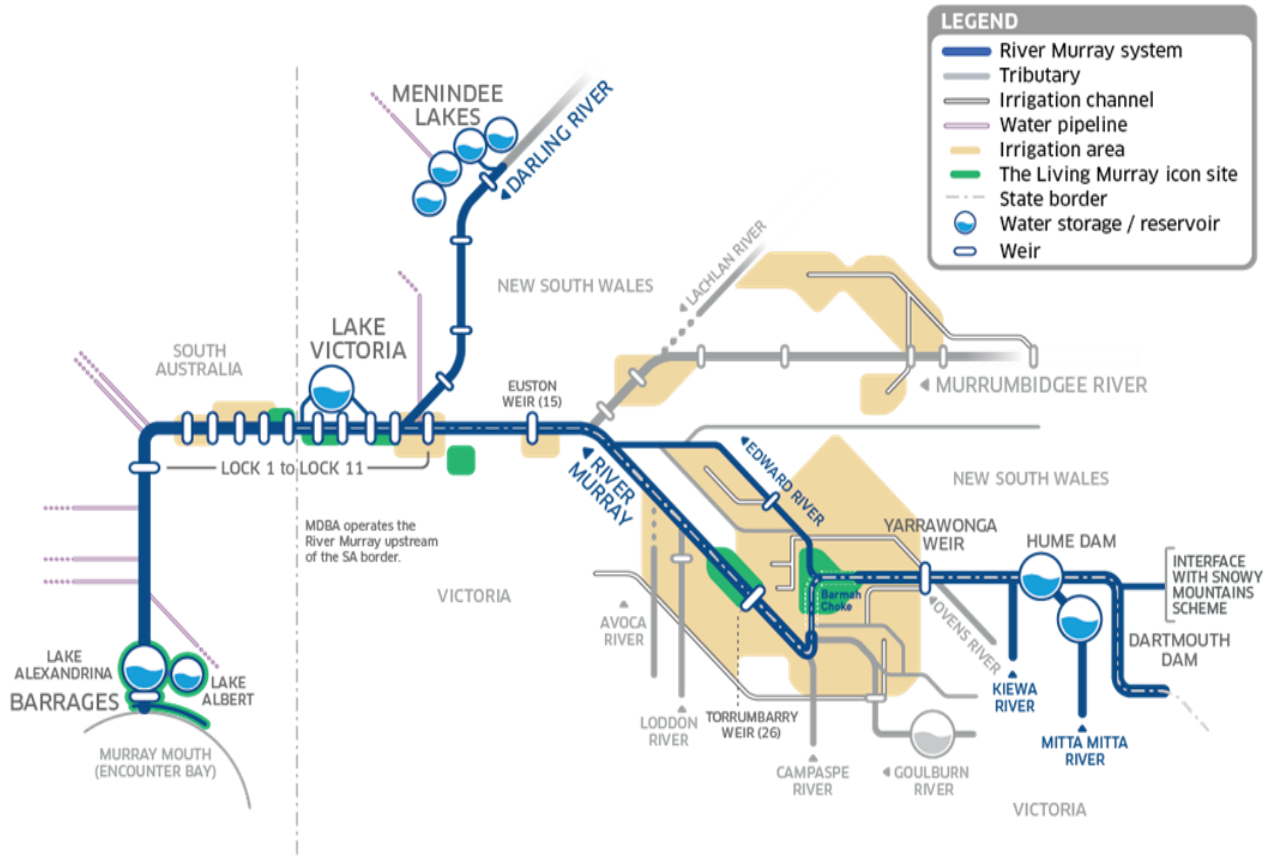
In the 2021 IPART Rural Valley and WAMC determinations, it was determined that the Salt Interception Scheme would form part of the WAMC IPART submission. See Table 1 below for more information of MDBA Joint Program allocations between WAMC and Rural Bulk Water.

Table 1 – Summary of programs and relationship to NSW Bulk Water and WAMC charges

Programs	Projects	Considered in NSW Bulk Water or WAMC costs
Asset Management	Asset Management Strategies	Bulk Water
	Riparian and Environmental Assets	Bulk Water
	Environmental Works and Measures – Program Management	Externally funded
	Environmental Works and Measures – Operate and Maintain[1]	Bulk Water
	Operations Services – Hydrometric Network[1]	Bulk Water
	Salt Interception Schemes[1]	WAMC
	Hume Irrigation Outlets Renewal[1]	Bulk Water
	Water Assets (NSW)[1]	Bulk Water
	Water Assets (SA)[1]	Bulk Water
	Water Assets (VIC)[1]	Bulk Water
Running the River	River Operations	Bulk Water
	Operations Services – River Management Office	Bulk Water
	Operations Improvements	Bulk Water
Natural resource management	The Living Murray	WAMC
	Water Quality and Salinity	WAMC
Enabling programs	Interstate Trade	WAMC
	Data Capability and Core Modelling	WAMC
Administrative support		Both Bulk Water and WAMC (costs allocated proportionately)

1 State Constructing Authorities (SCA) carries out majority of the project as on-ground activity

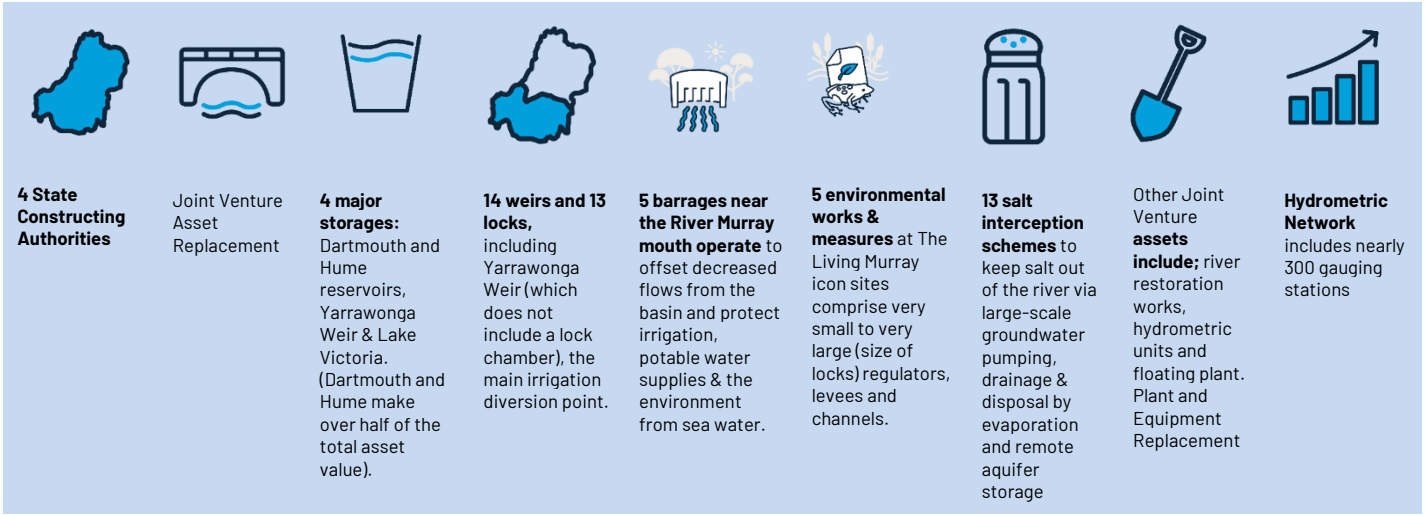
Figure 1 – Managing River Murray system



1.2 Asset Management

The MDBA represents the joint partners interests providing oversight across all the RMO assets (summarised in the Table 2 below) and related state constructing authorities (SCAs) activities. This includes implementing and maintaining strategies for the purposes of operating and maintaining RMO assets. The MDBA also control budget development and the preparation of annual work plans and budgets with SCAs and financial management.

Figure 2 – MDBA asset management summary



The nominated SCAs undertake most of the on-ground asset management activities including maintenance (reactive and proactive), physical operation of the assets, asset refurbishments and renewal projects. The nominated SCA and their scope is provided in Table 3.

Table 2 – SCA on-ground activities

Project	Scope
Asset Management Strategies	• Implement and maintain asset management strategies for the purposes of operating and maintaining the RMO assets including budget development. • Represent the joint partners interests providing oversight across all the RMO-assets and the SCA's activities. • Develop annual work plans and budgets with SCA's. Financial management and control of budgets.
Riparian and Environmental Assets	• Provide advice and input to commissioning, defect remediation, first operation and maintenance of works constructed under The Living Murray Program and for Joint Venture River Murray Operations environmental assets. • Provide oversight, advice and input into the delivery of the river works and river monitoring programs on the Murray River and Mitta Mitta River, and the cultural heritage program at Lake Victoria
Environmental Works and Measures (EWMP) – Program Management	• Provide advice and input to address the unresolved issues associated with the complexities of the Environmental Works and Measures at Gunbower Forest and Koondrook Perricoota
Environmental Works and Measures - Operation and Maintenance	• SCAs to operate and maintain environmental works to achieve agreed environmental health levels at the River Murray Icon Sites. • Routine operation and maintenance of environmental works
Operations Services (hydrometric network)	• Maintain a comprehensive hydrometric network for River Murray system operations.
Salt Interception Schemes	• Maintain Salt Interception Schemes to achieve and then maintain agreed salinity levels in the River Murray system. • Salt interception schemes operated and maintained in accordance with the O&M manuals • SIS Responsive management trial continued, salinity risk predictive tools progressively refined, and trial performance reported, as per BSM2030 Strategy • Annual 'Run of River' survey undertaken and salinity models maintained • Planned Maintenance of SIS Hydrometrics • Groundwater salinity modelling undertaken by SA DEW to inform the overall SIS operations along the Southern Connected Basin and hydrogeological advice provided to MDBA
Water Assets VIC	• Maintain the Joint Venture Governments' Victorian River Murray Assets fit for purpose, sustainably, cost effectively and efficiently. • Operation and Routine maintenance of the water storage and supply assets (Dartmouth, Yarrawonga, Torrumbarry, Mildura) in accordance with dam safety legislation or best practise where appropriate and to a standard that enables entitlement holders' water to be delivered efficiently, effectively and sustainably • Planned maintenance of water storage and supply assets in accordance with agreed strategies • Dartmouth, Hume & Lake Mulwala: Land and on-water management associated with the River Murray system infrastructure and reservoirs implemented as per agreed plans • Continue to carry out investigations to inform future investment requirements

Project	Scope
Water Assets NSW	**NSW DCCEEW (formally DPIE Water)** • Maintain the Joint Venture Governments' River Murray system Assets (for the SIS and at Lake Victoria, and in the Hume to Yarrawonga and Upper Murray reaches) fit for purpose, sustainably, cost effectively and efficiently. • Land and cultural heritage management associated with lands adjacent to Lake Victoria implemented in accordance with the Aboriginal Heritage Impact Permit (AHIP) • Land management associated with management of Kulkurna Station • Maintenance of priority investment in river works (assets) in the Upper Murray, Hume-Yarrawonga and Yarrawonga-Torrumbarry reaches • Continue to carry out investigations to inform future investment requirements.
Hume Irrigation Outlets Renewal	**Water NSW** • Maintain the Joint Venture Governments' NSW River Murray Assets fit for purpose, sustainably, cost effectively and efficiently. • Operation and routine maintenance of the water storage and supply assets (Hume, Euston, Menindee Lakes, and Wentworth) in accordance with dam safety legislation or best practice where appropriate and to a standard that enables entitlement holders' water to be delivered efficiently, effectively and sustainably. • Planned maintenance of water storage and supply assets in accordance with agreed strategies. Continue to carry out investigations to inform future investment requirements. • Hume – Irrigation Outlet Bellmouth, Emergency Closure Gate and Penstock renewals and replacement of concrete trash racks.
Water Assets SA	• Maintain the Joint Venture Governments' SA River Murray Assets fit for purpose, sustainably, cost effectively and efficiently. • Operation and routine maintenance of the water storage and supply assets (Lake Victoria, Locks 1 to 9, Barrages) in accordance with dam safety legislation or best practise where appropriate and to a standard that enables entitlement holders' water to be delivered efficiently, effectively and sustainably • Planned maintenance program carried out according to plans and strategies • Land at Sir Richard Peninsula managed as per approved plans • Land and cultural heritage management associated with lands at Lake Victoria implemented in accordance with the Aboriginal Heritage Impact Permit (AHIP)

1.3 Running the River

The MDBA operate the River Murray system up to the border of South Australia. The River Murray System includes the waterways, storages, weirs and locks for the River Murray in the Southern Basin. Activities are outlined in Table 4 below:

Table 3 – Activities of the River Murray System

Project	Scope
River Operations	• Share the waters of the River Murray system between the states of New South Wales, Victoria and South Australia. • Direct the operation of River Murray system assets to meet multiple human and environmental objectives. • Provide information and advice to Murray-Darling Basin stakeholders and policy makers. • Undertake day to day operation of the River Murray system assets in accordance with the Objectives and Outcomes set by Basin Officials Committee • Undertake effective planning and real time management to deliver coordinated environmental water events • Compile bulk water accounts for the River Murray system • Complete River Murray System Water Resource Assessments • Deliver River Murray system Annual Operating Outlook
Operations Services (RM Office)	• Operate and maintain a contemporary water information system to support MDBA programs, including river operations.
Operations Improvement	• Develop and refine elements of the Framework for Continuous Improvement of River Murray system operations. • Lead continuous improvement in river operations. • Independent River Operators Review Groups report • Undertake on the behalf of BOC the annual review of the Objectives and Outcomes document, including Specific Objectives and Outcomes • Improve river operations practices and amend the operations framework to facility and enhance environmental water delivery • Lead and oversee the joint governments work plan to address the Capacity and Shortfall risk within the River Murray system • Undertake the annual review of the Emergency Action Plan (EAP), in conjunction with training (if required)

2. Drivers of the activity and services

The MDBA is a Commonwealth statutory authority established by section 171 of the Act. The precursor organisation was the Murray Darling Basin Commission. The MDBA sits within the Australian Government Climate Change, Energy, the Environment and Water portfolio.

The policy and strategic direction of the MDBA's activities are set by the seven-member Authority, consisting of a Chair, the MDBA's Chief Executive and five part-time members. The Authority reports to the Commonwealth Minister responsible for water in relation to the Murray-Darling Basin Plan. For River Murray Operations and Natural Resource Management Joint Programs, the Authority reports to the Murray-Darling Basin Ministerial Council through the Basin Officials Committee.

The MDBA's Corporate Plan details the two key activities of the MDBA:

1. Drive the successful implementation of the Basin Plan.
2. Efficiently and effectively operate the River Murray system for partner governments.

2.1 Regulatory Framework

The Water Act 2007 is the primary Commonwealth legislation that governs the management of water resources in the Murray-Darling Basin. The Act aims to:

- improve water security for all uses of water resources in the Basin

- promote the use and management of the Basin's water resources in a way that optimises economic, social
- and environmental outcomes
- ensure the return to environmentally sustainable levels of extraction for water resources that are overallocated or overused
- protect, restore and provide for the environment of the Basin
- maximise the economic returns to the Australian community from the use and management of the
- Basin's water resources
- implement relevant international agreements to address the threats to the Basin's water resources
- ensure that the management of the Basin's water resources takes into account the broader management of
- natural resources in the Basin
- achieve efficient and cost-effective water management and administrative practices in relation to the
- Basin's water resources
- to provide for the collection, collation, analysis and dissemination of information about:
    - Australia's water resources
    - the use and management of water in Australia.

The MDBA is established by section 171 of the Act, with the functions, powers and duties conferred onto it by the Act. Additionally, sub-section 86A(3) of the Act defines the scope of the River Murray System. In essence, the River Murray System is the main regulated river system that drains the southern part of the Murray-Darling Basin and extends across parts of New South Wales, Victoria and South Australia.

Importantly, the Act also incorporates the Murray-Darling Basin Agreement (Agreement), which is Schedule 1 to the Act, as well as the requirements for making, reviewing and analysing the effectiveness of the Basin Plan. Of relevance to the Joint Programs, the Agreement:

- Establishes key committees
- Defines key terms
- Sets out how water is to be distributed and shared between New South Wales, South Australia and Victoria, including the requirements for river operations
- Establishes the requirements for the management of the River Murray Operations (RMO) assets
- Establishes the requirements for the measurement of water quantity and quality in the River Murray
- Implements certain aspects of the Basin Salinity Management 2030 strategy
- Sets out the principles, arrangements and requirements for transferring water allocations and entitlements between states and valleys in the Murray-Darling Basin.

2.2 Overview of Governance

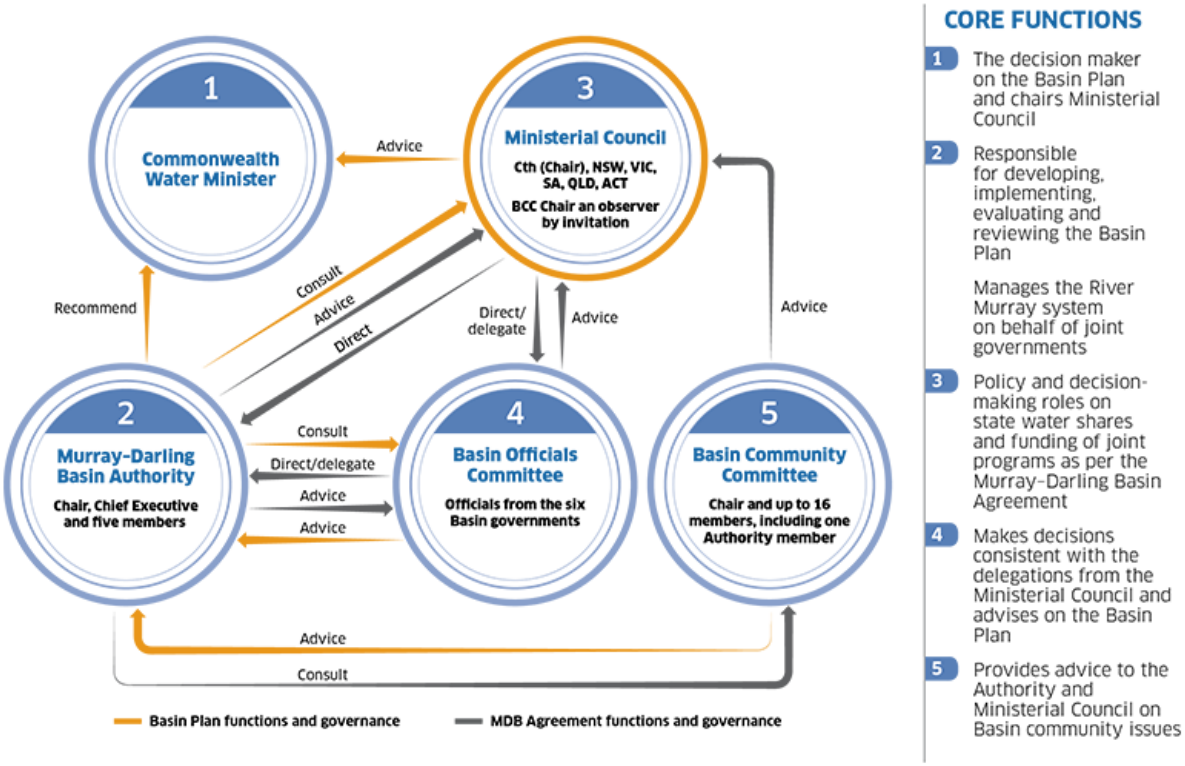
The MDBA is responsible for planning and managing the water resources of the Murray-Darling Basin. As part of this role, the MDBA is responsible for managing the Joint Programs on behalf of the contracting governments, including overall responsibilities for the following:

- Overseeing the management of the RMO assets
- Coordinating and directing river operations
- Delivering the Natural Resource Management function and Enabling Programs (not part of this submission)
- Providing head office functions such as technical, modelling and committee secretariat support.

The management and delivery of the Joint Programs is supported by several committees, along with the contracting governments and SCAs. There are key committees responsible for either making decisions under the Act and Agreement, including decisions required to provide advice to decision makers. The Contracting Governments and SCAs are broadly responsible for the day-to-day operation, maintenance and management of the RMO assets, as well as providing input into other programs within the Joint Programs.

The governance arrangements for making decisions under the Act and Agreement, are summarised in the figure 2 below.

Figure 3 – MDBA Joint Programs Governance



3. Performance over the current period to date (2021-25)

3.1 Service delivery and service levels

The summary below is based on the overall Joint Program not solely against the NSW contribution within the Table 5 below.

3.1.1 What has been delivered?

Over the current period 2021-25 the Joint Programs are managing the delivery of the following major activities:

- 3 Annual Work Plans for the financial years 2021-22, 2022-23 and 2023-24. The 2024-25 Work Plan was agreed by Jurisdictions in May 2024.
- Preparation of special purpose financial papers
- Review and update of asset management strategies
- Program Oversight and performance reporting
- Undertake day to day operation of the River Murray system assets in accordance with the Objectives and Outcomes set by Basin Officials Committee
- Compile bulk water accounts for the River Murray system
- Complete River Murray System Water Resource Assessments
- Complete the preparation of River Murray System Annual Operating Outlook

- River Murray Operations maintains approximately $5.2 billion (2023 replacement cost) in river assets in partnership with 5 State Constructing Authorities (SCAs), including 3 major storages, 14 weirs, 13 locks and 5 barrages. This involves tracking hundreds of discrete activities in each Work Plan year.
    - A major achievement over the current period is the management and delivery of an asset maintenance and renewal program following the impact of an extended period of flooding in the River Murray System.
    - Preparation of the Hume Irrigation Outlet renewal business case and agreed investment.
    - Continued delivery and progression of various dam safety compliance activities
- Delivery of water for the environment at 7 nationally significant icon sites providing connectivity and environmental outcomes on the back of high unregulated flows in the River Murray. Water also delivered to improve water quality outcomes and prevent fish deaths in the Lower Darling.
- Progression of the Schedule D Review into the implementation of improvements to water market through the Water Market Reform Roadmap.

3.1.2 Joint Programs budget trends

- 2021-22 - Jurisdictions agreed to $4m in budget savings to address a funding shortfall. This was largely achieved by deferral of projects into the outyears, noting this would contribute to a systemic risk of increasing costs compared to expected contributions. A review was commenced to investigate and advise on funding sustainability, reporting in December 2022. In addition to the Covid and flood impacts to the program delivery, the delayed annual work plan approval delayed SCAs entering new contracts and other procurement activities.
- 2022-23 – Jurisdictions agreed a budget $10m (8.6%) lower than the scenario found to be prudent and efficient by the independent reviewers. The proposed reductions are mostly significant to high risk for Joint Venture partners (the recommended scenario was moderate risk).
- 2023-24 – Jurisdictions agreed a budget at the same level as the 2022-23 budget, which absorbed all CPI increases within existing program budgets. This budget came with some significant to high deliverability and residual risks for the contracting governments. While the jurisdictions accepted these risks as broadly tolerable if the identified controls are implemented, they noted that risks will continue to compound (as they have over recent years) becoming unsustainable in the medium term without an increased level of investment. Outcomes of Independent reviews found that there were.
- 2024-25 – Jurisdictions are proposing a budget that sustains previous budget reductions but has increased to support known salary and core operating expense increases. This approach has maintained the risk profile from 2023-24.
- The RMO Triennial Cost Review was completed for the 2019-20 to 2021-22 period. This review also reviewed the then proposed budget for the period 2022-23 to 2024-2025.

3.1.3 Major impact of flooding in the current period

The flooding across the Murray-Darling Basin in 2022-23 created the need for expenditure outside the approved workplans in 2022-23 and 2023-24. The MDBA exercised its authority under Clause 56 of the MDB Agreement to enable the additional spend during 2022-23 and 2023-24, with no individual activity exceeding $2 million. The total cost for South Australia Water, Goulburn-Murray Water (GMW) and WaterNSW, across multiple sites and activities was approximately $2.78 million. Costs are still to be determined following completion of insurance claims.

It should be noted that SA Water and GMW experienced the greatest flood impact and for a prolonged period while WaterNSW flood impact was comparatively minor. The repair of the Asset base post flooding is continuing into 2024-25.

The Joint Programs 2022-23 to 2025-26 Annual Work Plan & Budget was not approved until 5 September 2022, and the 2021-22 carryover funds were not processed until 28 September 2022, which has resulted in some delayed expenditure across the Joint Programs. Global supply pressures and increasing materials and fuel costs are likely to continue to impact the delivery of some activities.

3.1.4 Major impact of the COVID19 pandemic in the current period

Over the course of the 2021-22 financial year, the continuing impact of the COVID-19 response across basin states had a notable impact on the delivery of budgeted items across the Joint Ventures workplan, and particularly in the Asset Management program. Scheduling and delivery of activity over the year experienced significant disruption resulting from the volatility of state border restrictions and unpredictability of access to sites. Impacts on supply chains hindered several procurement and other key activities. Stakeholder engagement, particularly with aboriginal communities, was also adversely impacted.

3.2 Expenditure

Table 4 – Allowance and expenditure over the current determination period ($'000, nominal)

Financial Year	2021-22	2022-23	2023-24	2024-25 (forecast)
Operating expenditure				
IPART Allowance	16,028	18,344	18,691	18,891
Actuals[1] (excludes SIS)	12,993	10,627	17,548	18,346
Over/Under	3,035	7,717	1,143	545
Capital expenditure				
IPART Allowance	5,095	5,852	5,958	6,016
Actuals[1] (excludes SIS)	4,526	3,975	4,712	8,410
Over/Under	569	1,877	1,246	-2,394
Total expenditure				
Total IPART Allowance	21,123	24,197	24,649	24,907
Total Actuals[1]	17,519	14,602	22,260	26,756
Over/Under	3,604	9,595	2,388	-1,849

1 MDBA has confirmed the raw data that informs Table 5. The MDBA does not control the modelling undertaken by NSW for the purposes of the 2024 IPART Submission

3.2.1 Expenditure performance

Consistent with its obligations in the MDB Agreement, MDBA prepares performance reports on a quarterly basis to the Ministerial Council. The reports provide an assessment on financial and deliverable performance as well as a detailed risk assessment of the Joint Programs against the Work Plan and Budget for that financial year. The summary below is based on the overall Joint Program not solely against the NSW contribution within Table 5 above.

Performance reports are a reference for the causes and mitigating responses to any deviations in operating expenditure. A summary of the issues identified in quarterly reporting for each year in the current period is below.

- 2021-22 – the end of year variance is 17% of the full year reporting. The largest component of end of year variance at -15% of the total budget – can be attributed to the River Management Function of which the Assets Management Program and the Hume Irrigation Outlets Program representing 13%, resulting from:
    - High river flows preventing infrastructure maintenance and on-site assessments
    - Complexities of engineering design and scoping investigations (e.g., Hume Irrigation Outlets Renewal)
    - Supply chain issues
    - Delays due to ongoing impact of COVID-19
    - Delayed approval of the 2021-22 Annual Work Plan
    - Delayed activity impacting multiple projects to due key dependencies (e.g., Mildura Weir pull)
- 2022-23 - an end of year variation of approx. $26 million or 21% of original budget from the need to delay or re-schedule delivery of on-ground activities, to focus on flood management, mitigation and remediation activities End of year underspend is associated with:
    - underspend of $9.4 million for the Hume Irrigation Outlets Renewal project is due to the complexity of the work, high water levels in Hume Dam and delays around structural investigations on the Trash rack.
    - delayed the delivery of on-ground activities due to impact of an extended period of flooding in the River Murray System. This has resulted in some reallocation of funds to activities that can be delivered and has resulted in substantial requests for carryover of funds into 2023-24.
    - Other program budget issues including high river flows preventing/delaying on-site monitoring and surveillance, community engagement issues delaying river restoration works and staff vacancies.
- 2023-24 (note this is from the latest report) – At 31 December 2023, the Joint Programs forecast a minor end of year underspend of $0.8 million, 0.7% of the $123.9 million full year reporting budget is predominantly due to:
    - additional flood remedial work in SA Water assets (up to $3.1 million above approved budget).
    - Approx $1.2 million overspend across the SCA components of the budget largely due to higher than anticipated Routine Maintenance costs for NSW Salt Interception Scheme program, additional investigations and welding at Hume Dam required on Penstock One and to complete the Hume Comprehensive Risk Assessment.
    - a $1.9 million underspend by Water NSW on the Hume Irrigation Outlets project
    - underspend in the Running the River program due to staff vacancies and issues in relation to the Barmah-Millewa Feasibility Study led by the Operations Improvements project.

3.2.2 Independent assessment of budget performance over the current period

There have been several independent reviews undertaken to understand the implications of ongoing budget constraints and therefore the increasing risk profile for the Joint Programs in the future. These include:

- River Murray Operations (RMO) Cost Review 2019/19 to 2021/22 – Independent Review of the Joint Programs Work Plan and Budget. Issued September 2023
- Business Case for Improvements for the Joint Programs – Independent Review of the Joint Programs. Issued Dec 2022
- The Review of Joint Programs Assessment of Prudence and Efficiency of 2022/23 to 2026/27 Expenditure – Review of Joint Programs. Issued July 2022

The 2022 Review found that:

- Investment in the asset renewals was 50-60% of recommended levels and that the current single year budgeting approach is time consuming to implement with considerable effort required to iterate the budget to match the funding contributions proposed by Contracting Governments contributes to delays in approval of the annual work plan
- Limits the ability to carry out activities in an efficient manner as delivery timescales are compressed. There is also reduced ability to enter multi-year contracts with confidence
- Discourages prudent activities which will take more than a single year to complete
- Provides limited incentive for transformation and longer-term efficiency.

The 2023 Independent River Murray Operations (RMO) Cost Review made similar findings to the 2022 Review, including that:

- There is substantial weight of evidence that the level of total funding needed to sustain the River Murray Operations in the long term needs to increase,
- Capital expenditure for renewal of assets needs to increase to be at a sustainable level,
- Benchmarking of renewals expenditure showed there is significant risk of underinvestment which will result in higher lifecycle costs in the medium to long term as assets are not renewed at the optimal time, and
- Benchmarking of operating expenditure showed it is likely that the current level of operating expenditure is insufficient based on the size and age of the asset base.

The Business Case for Improvements to the Joint Programs was endorsed by the partner governments in February 2023. The business case assesses and recommends practical changes to the process for development of the Joint Programs annual work plan and budget that:

- Increase transparency of program outcomes and associated investment for Joint Venture partner governments
- Facilitate Joint Venture partner governments securing Joint Programs budget contributions thereby increasing certainty for all program participants
- Enable improved planning and delivery of Joint Venture work programs
- Mitigate the risk of ongoing underspends and the associated accumulation of uncommitted Joint Programs funds

Overall, the benefits of addressing the above opportunities will be to make the Joint Programs more efficient, effective, and sustainable for supporting the overall objectives and benefits sought by partner governments.

The Asset Management Program is actively contributing to the improvements with a focus on the Asset Management and multi-year budget levers.

The issues that led to the review and which are also opportunities for improvement are:

- $15 million (14% of the budget) is not spent each year on average
- Expenditure on Asset renewals is at 50-60% of recommended levels
- The budget is approved one month after 1 July on average
- It is difficult to prioritise expenditure within and between programs
- There is a lack of integrated long term planning

- The budget structure lacks clarity, coherence and consistency

4. Activities and services for next period (2025-30)

4.1 Service levels

Across several reviews, service levels have been found prudent and delivered efficiently within allocated budgets. It is not anticipated that service expectations of the joint governments will change significantly in the next period (2025-30). However, due to inadequate capital investment the uplift of current funding would result in increasing risks in 2026-2030.

4.1.1 2024-25 Work Plan and Budget

The current reference for activities over the 2025-30 period is the 2024-25 Work Plan and Budget. While a comprehensive and transparent process has been followed in the 2024-25 Joint Programs budget development, it is an interim year while the Joint Programs Improvements project is running. As a result, a work plan and budget for 2025-26 onwards has not been formalised or approved by the partner governments. Thus, the information presented is best estimate at this time. It is anticipated, based on the Review of Joint Programs, that there will be an increase in costs. The increase in costs will be determined by agreed budget processes and governance arrangements which includes an independent reviewer by March or April 2025 (this is further discussed in Forecast Expenditure section below).

The work plan and budget for 2024-25 has been prepared through:

- A strong focus on joint decision making between all the State Constructing Authorities (SCAs) and the MDBA, identifying risk-based priorities across the Murray Darling Basin as a system.
- Challenging operating and routine maintenance activity costs with a focus on the deliverability of proposed activities (particularly in relation to Asset Management) and the risks to the overall condition and risks to Level of service provided by the River Murray Operations (RMO) Assets.
- Consulting with relevant Joint Program oversight committees to identify efficiencies and assess and mitigate short- and long-term risks and consequences of recommended options.

4.1.2 Risks

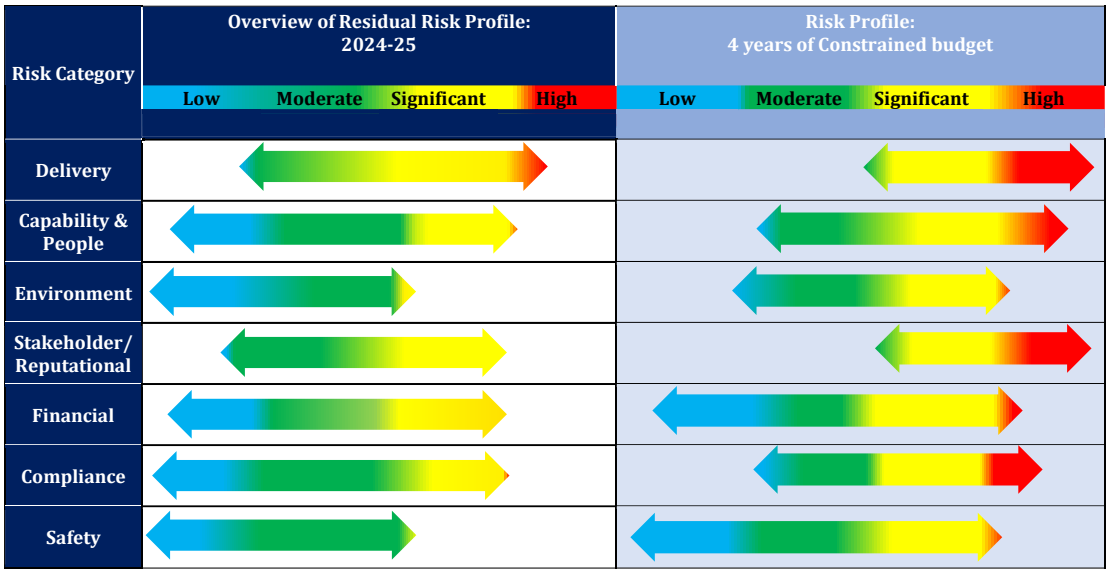
There are several significant and high residual risks for partner governments associated with the 2024-25 Joint Programs Work Plan and Budget including:

- High and significant residual risks to assets delivering on their specified levels of service and or not meeting safety standards (including with Hume Dam and the maintenance and operation of the Torrumbarry Weir pool and associated structures)
- Significant risks to maintaining capability to deliver on agreed program outcomes including technical and personnel capability to deliver in agreed timeframes and to respond to climate change impacts.

While the proposed increase in budget for 2024-25 sustains the risk profile from 2023-24. If the budget constraints continue, the risk profile for joint governments increases significantly and is considered unsustainable (as re-iterated by the 2023, Independent RMO Cost Review).

A risk profile given a scenario of ongoing constrained budget, without CPI increases, was developed as part of the 2023-24 budget process where CPI increases were absorbed within the budget (refer Figure 3).

Figure 4 – Summary profile of risks to full delivery of the 2024-25 work plan and progression over a 5 year period if budget remain constrained across all programs.



Key issues driving the escalating risk profile include:

- Optimised lifecycle cost approach not adopted resulting in increasing outer years costs,
- Backlog of construction projects, renewal & compliance projects deferred & risks and costs increasing,
- Interdependencies of projects at sites leading to multiple deferrals & compounding risk,
- Construction inflation high and above CPI for some sites/states (ie. Steel, materials etc),
- Aging asset base increasing risk of failure and non-compliance with safety standards, investigation funding needed for upcoming significant projects,
- Fleet, major and minor plant and equipment aging and not compliant with corporate policies, and
- Decreased operating expenses reducing stakeholder engagement and/or confidence in the operation of the programs and assets leading to high stakeholder and reputational risks.

4.2 Forecast expenditure

Table 5 – Proposed operating expenditure over the next determination periods ($'000, $2024-25)

Financial Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating expenditure						
Proposed expenditure (2025-30)[1]	26,756	31,560	37,353	45,471	51,268	52,093

1 MDBA has confirmed the raw data that informs Table 6. The MDBA does not control the modelling undertaken by NSW for the purposes of the 2024 IPART Submission

4.2.1 Forecast operating expenditure

Consistent with its obligations in the Murray-Darling Basin Agreement, MDBA will continue to oversee the Joint Venture related projects of the RMO Joint Program. Much of the expenditure is for the operating and maintenance of RMO infrastructure and MDBA oversight role. The operation and maintenance activities are determined by standards and guidelines set by manufactures, industry and legislation. Where possible, the

maintenance and operating investments are determined by the review of asset data to consider efficiency opportunities whilst maintaining agreed acceptable levels of service and risks.

NSW's contribution to the MDBA is characterised as operating expenditure, therefore there is no forecast MDBA capital expenditure. The MDBA costs are treated by NSW as recurrent operational expenditure. Its noted however, consistent with the agreed cost sharing arrangements, costs are categorised as capital, investigations, operating and maintenance for the purposes to calculate Joint Venture government contributions.

In the 2021 determination, IPART 'looked through' the actual contributions paid to MDBA and set a building block cost allowance based on a conceptual assessment of the 'capital' and 'operating' costs used to supply MDBA services. NSW DCCEEW, with the support of MDBA, have reviewed IPART's decision to set a building block capital cost allowance to incorporate MDBA capital costs in Bulk Water prices in the next determination period. NSW DCCEEW proposes to treat all Bulk Water related MDBA costs as operating expenditure in the next determination period.

If IPART was to maintain this approach for the next determination period, this would:

- require the NSW Government to fund the difference between NSW's actual contribution to the MDBA for its water management activities and the revenue received from prices – which would be on top of the NSW Government's already significant contribution to water management costs under this pricing proposal for which no additional NSW government funding has been agreed, or
- come at the expense of other Bulk Water activities or services, as there is no guarantee that the NSW Government would fund such a shortfall.

Neither outcome would be efficient or equitable. The combination of these issues will result in cross subsidisation between the broader Bulk Water customer base and MDBA customers. NSW DCCEEW's proposed approach is consistent with how MDBA costs are treated by other utilities and price regulators in other jurisdictions. South Australia Water and Goulburn-Murray Water (Victoria) treat MDBA costs as operating expenditure (Goulburn-Murray Water MDBA related costs within the Essential Services Commission 2024 determination are treated as operating expenditure).

The MDBA joint program budget and work plan has an agreed governance arrangements that oversee the preparation that includes aggregating a whole program, risks and costs to achieve agreed service levels. The Joint Venture Budget Performance Committee, comprising representation from each of the Contracting Governments, are primarily responsible for the oversight and performance of the Joint Programs. The River Murray Operations Committee, comprising senior SCA asset managers and senior representation from the contracting governments also provide specific oversight of the RMO Program. Combined, these forums provide a level of scrutiny and transparency and ultimately ensures an efficient program is presented to the Basin Officials Committee and ultimately the Ministerial Council for approval.

The Ministerial Council, comprising the Ministers responsible for water of the Contracting Governments, reviews the MDBA's financial and delivery performance to ensure it is efficiently delivering required outcomes. The MDBA has also been subject to a range of independent reviews, including reviews of its efficiency, and has drawn on these reviews to identify and implement efficiency measures and opportunities for improvement. These inform its expenditure forecasts and budget.

Over the next determination period, capital expenditure includes major renewals for RMO Asset Infrastructure:

- Mildura Weir Replacement – drivers include unacceptable safety issues and security in water supply in operating the weir
- Hume Dam Irrigation outlet – drivers includes planned maintenance of the emergency closure gate, penstock and valves
- Lake Victoria Outlet Regulator replacement – driver includes existing Outlet regulator nearing end of life and unacceptable risk to level of service

- Hume Dam Trash Rack renewal – driver Trash rack nearing end of life
- Replacements for Kato cranes (critical plant at locks and weirs)

4.2.2 Future impact of the Joint Programs Business Improvement Project

It should be noted that as a result of the implementation of the Joint Programs Business Improvement Project, future work plan submissions will be based on improved investment planning approaches and therefore changes to outer year forecasts are expected, compared with what is presented in this submission.

Ultimately the Improvements project aims to move towards:

- The agreement of a sustainable multiyear budget and work plan from 2025-26 onwards
- Improving the information base on which the forward estimates are based, particularly regarding asset management, and
- To provide more flexible and efficient program and budget management.

The business case outlines a comprehensive improvement program over three tranches of work (from 2022-23 to 2024-25) based on 7 levers or areas for attention to deliver improvement:

- Multi-year committed funding and forecasts
- Vision and objectives
- Roles and Responsibilities
- Budget Controls and management
- Medium Term efficiency program
- Activity based costing
- Improved asset management

Implementing all the elements of the improvements program is required to achieve the outcomes sought by partner governments. That is, resetting the foundations on which the budgets are prepared alongside improved governance, management and accountability mechanisms are all required to address issues such as the reoccurring underspends and the long term sustainability of the joint programs.

4.2.3 Importance of a 2025-29 budget uplift

As the independent reviews referenced in this submission have concluded, an uplift will be required as a component of the multi-year budget currently under development for 2025-29. Further detail on the multi-year budget will be available as development progresses in the second half of 2024-25. The uplift includes both budget and strategies to improve the prudency, transparency and efficiency of the Joint Programs.

There is only a limited supply of water in the Basin to meet multiple demands of agricultural growth, population changes and increasing climate variability. To maintain a healthy river system, water resources in the Murray–Darling Basin need to be managed carefully to meet the challenges of agricultural growth, population changes and increasing climate variability.

To do this, the proposed optimised lowest lifecycle cost budget for 2025-2029 emphasises the critical need to align financial resources with an expanding need to address renewal of River Murray assets to continue to manage water resources in the Murray-Darling Basin.

Operating on constrained budgets has resulting in de-prioritisation of asset renewal activities. Robust methods for measuring and assessing asset risk has identified the need for a budget uplift to address rising risks that includes asset failure. Climate change risks are impacting the asset base with increased instances of both flooding and drought events, requiring the asset base to operate in more extreme conditions, therefore increasing operations and maintenance costs.

The 2025-2029 budget represents an opportunity to get back on track. A budget uplift for 2025-2029 is not merely a financial adjustment, but an essential move to ensure our assets and programs can continue to operate and be relied upon for water availability and water delivery for irrigation and critical human needs. If budget constraints continue, the risk profile for joint governments increases significantly and is considered unsustainable.

Key issues driving the escalating risk profile include:

- Optimised lifecycle cost approach not adopted thus increasing outer years costs
- Backlog of construction projects, renewal & compliance projects deferred & risks and costs increasing
- Interdependencies of projects at sites leading to multiple deferrals & compounding risk
- Construction inflation high and above CPI for some sites/states (i.e.. Steel, materials etc)
- Aging asset base increasing risk of failure and non-compliance with safety standards, investigation funding needed for upcoming significant projects.
- Fleet, major and minor plant and equipment aging and not compliant with corporate policies, and
- Decreased operating expenses reducing stakeholder engagement and/or confidence in the operation of the programs and assets leading to high stakeholder and reputational risks.

Approval of the 2025-2029 budget uplift is critical to managing the risks identified.

5. Murray Darling Basin Authority Revenue Requirement

5.1.1 Revenue over the 2025-30 Determination period

In this section we set out the revenue requirements to Murray Darling Basin Authority (MDBA) Customers at cost reflective levels based on the traditional building block components.

The revenue requirement is set out by:

- Total revenue requirement; and after the application of the IPART cost share framework;
- User revenue requirement; and
- Government revenue requirement.

WaterNSW has calculated the proposed total revenue requirement as follows:

1. The proposed revenue requirement is based on cost reflective operating expenditure inputs, with no proposed costs treated as capital expenditure, in line with DCCEEW's instructions.
2. Apply the user / government share revenue allocation as per IPART current cost share.

Table 6 – Total revenue requirement ($000, $2024-25) – MDBA

MDBA	FY21-25 Average Allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	Average Variance %
$000	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	
Operating Expenditure	$18,983	$31,560	$37,353	$45,471	$51,268	$52,093	$217,746	$43,549	129%
Return of Assets (Depreciation)	$261	$494	$494	$494	$494	$494	$2,472	$494	89%
Return on RAB	$210	$930	$909	$887	$866	$845	$4,436	$887	322%
Return on working capital	$74	$96	$158	$213	$312	$472	$1,249	$250	238%
Regulatory Tax Allowance	$17	$55	$66	$76	$113	$115	$426	$85	398%
Debt raising costs(treated as opex)	$6	$0	$0	$0	$0	$0	$0	$0	-100%
Total Revenue Requirement	**$19,552**	**$33,135**	**$38,980**	**$47,142**	**$53,054**	**$54,019**	**$226,329**	**$45,266**	**132%**

For the 2025-30 Determination period, the proposed total revenue requirement for the MDBA is $226.3 million over the 5-year regulatory period, or an average annual revenue requirement of around $45.3 million per annum. In real terms, the average annual revenue requirement is forecast to be 132% higher than the 2021-25 average annual revenue requirement.

5.1.2 Revenue requirement by User share

The User revenue requirement portion is made up of the revenue requirement arising from the application of IPART's user cost.

Table 7 – Total revenue requirement – User Share ($000, $2024-25) – MDBA

MDBA	FY21-25 Average Allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	Average Variance %
$000	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	
Operating Expenditure	$17,962	$28,540	$34,009	$41,569	$47,025	$47,760	$198,903	$39,781	121%
Return of Assets (Depreciation)	$247	$450	$450	$450	$450	$450	$2,251	$450	82%
Return on RAB	$199	$847	$827	$808	$789	$769	$4,040	$808	307%
Return on working capital	$72	$91	$133	$186	$279	$435	$1,123	$225	212%
Regulatory Tax Allowance	$16.5	$50.7	$58.6	$68.0	$104.7	$105.7	$387.6	$77.5	370%
Debt raising costs(treated as opex)	$6.1	$0	$0	$0	$0	$0	$0	$0	-100%
Total Revenue Requirement	**$18,503**	**$29,979**	**$35,478**	**$43,081**	**$48,648**	**$49,520**	**$206,706**	**$41,341**	**123%**

For the 2025-30 Determination period, the proposed total revenue requirement for the MDBA user share is $206.7 million over the 5-year regulatory period, or an average annual revenue requirement of around $41.3 million per annum. In real terms, the average annual revenue requirement is forecast to be 123% higher than the 2021-25 average annual revenue requirement.

5.1.3 Revenue requirement by Government share

The Government revenue requirement portion is made up of the revenue requirement arising from the application of IPART's Government cost.

Table 8 – Total revenue requirement – Government Share ($000, $2024-25) – MDBA

MDBA	FY21-25 Average Allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	Average Variance %
$000	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	
Operating Expenditure	$1,020.9	$3,020	$3,344	$3,903	$4,243	$4,333	$18,843	$3,769	269%
Return of Assets (Depreciation)	$14.1	$44	$44	$44	$44	$44	$221	$44	214%
Return on RAB	$11.3	$83	$81	$79	$77	$75	$396	$79	601%
Return on working capital	$2.0	$5	$25	$27	$32	$37	$126	$25	1176%
Regulatory Tax Allowance	$0.6	$4	$7	$8	$9	$10	$38	$8	1179%
Debt raising costs(treated as opex)	$0.3	$0	$0	$0	$0	$0	$0	$0	-100%
Total Revenue Requirement	**$1,049.1**	**$3,157**	**$3,502**	**$4,060**	**$4,406**	**$4,499**	**$19,623**	**$3,925**	**274%**

For the 2025-30 Determination period, the proposed total revenue requirement for the MDBA Government share is $19.6 million over the 5-year regulatory period, or an average annual revenue requirement of around $3.9 million per annum. In real terms, the average annual revenue requirement is forecast to be 274% higher than the 2021-25 average annual revenue requirement.

6. Murray Darling Basin Authority Charges and Bill Impact

In this section, we have also set out the bill impact to Murray Darling Basin Authority (MDBA) Customers.

Customers' full cost recovery bills are expected to increase primarily due to higher expenditures, with all proposal costs treated as operating expenses. In addition, the 20-year rolling average is forecast to decline by 4% in Murray and 3.3% in Murrumbidgee.

Table 9 – MDBA valleys entitlements and 20 year rolling average (ML)

Description	Murray	Murrumbidgee
20 year rolling average of actual water usage (MLs) Current Determination	1,379,454	1,531,279
20 year rolling average of actual water usage (MLs) Proposal	1,324,577	1,480,771
Change - 20 year rolling average	-54,877ML/-4.0%	-50,508ML/-3.3%
High Security (MLs) Current Determination	263,575	436,178
High Security (MLs) Proposal	261,723	436,169
Change - High Security	-1,852ML/-0.7%	-9ML/-0.002%
General Security (MLs) Current Determination	2,083,603	2,267,963
General Security (MLs) Proposal	2,090,785	2,256,182
Change - General Security	7,182ML/0.3%	-11,781ML/-0.5%

High security customer bills ($2024-25) are expected to increase by 29% on an annualised basis (excluding the impact of inflation), assuming 100% usage.

Similarly, **general security customer bills** ($2024-25) are expected to increase by 30% on an annualised basis (excluding the impact of inflation), assuming 60% usage.

Table 10 – Proposed prices ($2024-25)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Annualised Increase
	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	
Murray							
High Security Charge ($/ML)	$10.07	$12.61	$16.33	$21.15	$27.39	$35.48	29%
General Security Charge ($/ML)	$4.43	$5.74	$7.43	$9.63	$12.47	$16.15	30%
Usage Charge ($/ML)	$2.16	$2.82	$3.69	$4.82	$6.31	$8.24	31%
Murrumbidgee							
High Security Charge ($/ML)	$2.17	$2.78	$3.60	$4.66	$6.03	$7.80	29%
General Security Charge ($/ML)	$0.75	$0.97	$1.26	$1.62	$2.10	$2.72	29%
Usage Charge ($/ML)	$0.43	$0.56	$0.73	$0.96	$1.25	$1.64	31%

Table 11 – Indicative bills ($2024-25) – Murray

Murray	Cost Reflective Indicative bills ($2024-25)						
General Security $2024-25	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$573	$743	$965	$1,252	$1,625	$2,110	30%
Medium Customer (500ML)	$2,863	$3,716	$4,823	$6,260	$8,126	$10,548	30%
Large Customer (1000ML)	$5,726	$7,432	$9,646	$12,521	$16,252	$21,096	30%
High Security $2024-25	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$1,223	$1,543	$2,002	$2,598	$3,370	$4,373	29%
Medium Customer (500ML)	$6,115	$7,715	$10,010	$12,988	$16,851	$21,864	29%
Large Customer (1000ML)	$12,230	$15,431	$20,021	$25,975	$33,702	$43,727	29%

Table 12 – Indicative bills ($2024-25) – Murrumbidgee

Murrumbidgee	Cost Reflective Indicative bills ($2024-25)						
General Security $2024-25	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$101	$131	$170	$220	$285	$370	30%
Medium Customer (500ML)	$504	$654	$848	$1,100	$1,427	$1,851	30%
Large Customer (1000ML)	$1,008	$1,307	$1,696	$2,200	$2,854	$3,702	30%
High Security $2024-25	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$260	$334	$433	$562	$728	$944	29%
Medium Customer (500ML)	$1,300	$1,672	$2,167	$2,809	$3,641	$4,718	29%
Large Customer (1000ML)	$2,600	$3,344	$4,335	$5,618	$7,281	$9,437	29%

Table 13 – Indicative bills ($2025-26) – Murray

Murray	Cost Reflective Indicative bills ($2025-26)						
General Security $2025-26	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$573	$766	$995	$1,291	$1,676	$2,175	31%
Medium Customer (500ML)	$2,863	$3,831	$4,973	$6,455	$8,378	$10,875	31%
Large Customer (1000ML)	$5,726	$7,662	$9,946	$12,909	$16,756	$21,750	31%
High Security $2025-26	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$1,223	$1,591	$2,064	$2,678	$3,475	$4,508	30%
Medium Customer (500ML)	$6,115	$7,955	$10,321	$13,390	$17,373	$22,541	30%
Large Customer (1000ML)	$12,230	$15,909	$20,641	$26,781	$34,747	$45,083	30%

Table 14 – Indicative bills ($2025-26) – Murrumbidgee

Murrumbidgee	Cost Reflective Indicative bills ($2025-26)						
General Security $2025-26	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$101	$135	$175	$227	$294	$382	31%
Medium Customer (500ML)	$504	$674	$874	$1,134	$1,471	$1,908	31%
Large Customer (1000ML)	$1,008	$1,348	$1,749	$2,268	$2,942	$3,817	31%
High Security $2025-26	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
Small Customer (100ML)	$260	$345	$447	$579	$751	$973	30%
Medium Customer (500ML)	$1,300	$1,724	$2,234	$2,896	$3,753	$4,865	30%
Large Customer (1000ML)	$2,600	$3,448	$4,469	$5,792	$7,507	$9,729	30%