

MDBA costs included in draft prices for DPI Water (WAMC)

1 Overview

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has set draft maximum prices that the Water Administration Ministerial Corporation (WAMC) can charge for its monopoly services. The delivery of these services is currently undertaken by DPI Water, on WAMC's behalf. Our Draft Report and Draft Determination are available on our website www.ipart.nsw.gov.au. **Submissions are due by 4 April 2016.**

DPI Water is seeking to recover a share of the costs of the water management activities funded through the Murray Darling Basin Authority (MDBA) Joint Programs, from water users over the 2016 Determination period (2016-17 to 2019-20). These costs are referred to as MDBA costs or contributions. This Fact Sheet sets out our draft decisions on the inclusion of MDBA contributions in WAMC's draft water management prices.

All figures are presented in 2015-16 dollars, unless stated otherwise.

2 MDBA costs included in draft prices for DPI Water

Over the 2016 determination period, DPI Water proposed \$9.28 million for total MDBA contributions per year. It also proposed that **users pay 55% of these costs** (the user share). This would mean about **\$5.10 million per year** would be recovered from water users via prices. This is an increase from the amount allowed in our 2011 Determination.

In our 2011 Determination, IPART allowed **\$1.94 million per year** of MDBA contributions to be recovered via prices, compared to \$6.90 million requested by then NSW Office of Water (NOW).¹ IPART decided to maintain the user share of MDBA contributions at its 2009-10 level, as it was not provided sufficient information to be confident that an increase was efficient and consistent with the 'impactor pays' principle.

For the 2016 determination period, the quality of information supporting DPI Water's proposed MDBA costs has improved. DPI Water has presented specific activities that it plans to fund with its proposed user share of MDBA contributions and has assigned MDBA contributions to cost codes within its monopoly service activities schedule. Further, our expenditure consultant has reviewed DPI Water's proposed MDBA costs and the user share of these costs and recommended no adjustments to these figures.

However, for the purpose of determining prices, we have reduced DPI Water's total MDBA costs by about 3% per year, from \$9.28 million to \$8.98 million. Applying the 55% user share to these figures means we have reduced DPI Water's proposed user share of MDBA costs to be recovered via prices from about \$5.10 million to **\$4.97 million per year** for the 2016 determination period.

We made this reduction after taking into account stakeholder concerns with the efficiency of MDBA contributions and undertaking further analysis of DPI Water's forecast contributions to the MDBA. We referred to independent efficiency reviews of MDBA activities undertaken recently, and consequently applied a 5% efficiency adjustment to the cost of two MDBA programs (The Living Murray initiative and salinity management activities).

Having established the user share of MDBA costs to be included in draft prices (**\$4.97 million per year**), we made a draft decision to allocate these costs to water sources **within the Murray-Darling Basin.**

¹ IPART, *Review of Prices for the Water Administration Ministerial Corporation - Final Report*, February 2011, p 81. In 2009-10 dollar terms, the MDBA allowed costs were \$1.69 million and the amount requested was \$6.01 million per year.

We accepted DPI Water’s proposed cost drivers to allocate the user share of MDBA costs to water sources. With water take as a cost driver, relatively more MDBA costs are now allocated to regulated rivers (88.9% in our draft 2016 Determination compared to 81.6% in our 2011 Determination). For comparison, unregulated rivers were allocated 8.1% and groundwater 10.3% of the user share of MDBA costs in our 2011 Determination (compared to 6.2% and 4.9%, respectively, in our draft 2016 Determination).²

The outcome of our draft decision on the user share of MDBA costs and allocation to water sources to calculate draft prices is presented in Table 1.

In some water sources, MDBA costs represent a substantial proportion of the user share of total efficient costs (or Notional Revenue Requirement - NRR) used to calculate prices. For example, in Gwydir, Namoi, Murray and Murrumbidgee regulated rivers, the share of MDBA costs in NRR used to set prices is between 21% and 32%.

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
Regulated rivers				
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	-
Total Regulated rivers	4.42	88.9%	18.18	24%
Unregulated				
Border	0.01	0.2%	0.29	3%
Gwydir	0.01	0.2%	0.26	3%
Namoi	0.03	0.5%	0.51	5%
Peel	0.00	0.1%	0.19	2%
Lachlan	0.01	0.2%	0.43	2%
Macquarie	0.04	0.8%	0.86	5%
Far West	0.18	3.7%	1.29	14%
Murray	0.01	0.2%	0.31	3%
Murrumbidgee	0.02	0.3%	0.81	2%
North Coast	-	-	2.33	-
Hunter	-	-	1.65	-
South Coast	-	-	4.18	-
Total Unregulated rivers	0.31	6.2%	13.10	2%
Groundwater				
Inland (including Murrumbidgee)	0.24	4.9%	8.24	3%
Coastal	-	-	1.99	-
Total Groundwater	0.24	4.9%	10.23	2%
Total - All water sources	4.97	100%	41.52	12%

Source: IPART, *Review of Prices for the Water Administration Ministerial Corporation for DPI Water – from 1 July 2016 - Draft Report*, March 2016, p 79 and IPART calculations.

² IPART, *Review of Prices for the Water Administration Ministerial Corporation - Final Report*, February 2011, p 111.