

Office of the Chief Executive

TRIM Ref: D17/16115

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
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Dear Dr Boxall

The Independent Pricing and Regulatory Tribunal (IPART) has invited written comment on its document "WaterNSW – Review of prices for rural bulk water services from 1 July 2017 to 30 June 2021".

The Murray-Darling Basin Authority (MDBA) was also represented at the public hearing convened by IPART in Sydney on Tuesday 4 April 2017. These written comments supplement comments made at the hearing by MDBA's Executive Director, River Management, Mr David Dreverman.

In a number of places in the review document there are statements that "MDBA costs are rising". In addition, similar statements were made in presentations by IPART staff at the public hearing.

In my view these statements are misleading.

As explained by Mr Gavin Hanlon of NSW DPI Water at the hearing, total payment by NSW to meet its share of the costs of the MDBA's jointly funded programs in 2016-17 will be less than was contributed in 2006-07 and in the following five years.

It is misleading to compare NSW's contributions to MDBA in 2014-15 with those proposed in 2017-18 and beyond. In the four years from 2012-13 to 2015-16, NSW chose not to meet its historic cost share of MDBA's costs. During those years the other contracting governments agreed to continue to meet their historic cost shares. In effect, the Australian, Victorian and South Australian governments part-subsidised the shortfall in NSW contributions during those four years.

Following a comprehensive review of cost sharing arrangements, all governments, including the NSW government, agreed that historic cost shares were appropriate. Governments also commissioned an independent review of the prudence and efficiency of the River Murray Operations program. This review demonstrated that the level of funding, prior to NSW reducing its contribution in 2012-13, was necessary to operate and maintain the asset base. Contributions by all four governments in 2017-18 are based on the same shares as had applied before 2012-13.

When NSW makes payments to the MDBA, the MDBA does not differentiate between the components that are attributed within NSW to DPI Water and WaterNSW. That distribution is a matter for NSW. However, at a whole-of-program scale the total cost to NSW has reduced considerably over the past decade. As stated above it is misleading to state that "MDBA costs are rising".

It would be appreciated if the text of the final report could be amended to indicate that "whilst MDBA's costs have not risen over the past decade, charges to entitlement holders to recover the share of MDBA costs met by NSW are rising, compared to 2014".

In agreeing its corporate plan for 2017-18, the Murray-Darling Basin Ministerial Council implemented an efficiency dividend of 1% across the entire program compounding annually from 2015-16. That efficiency dividend is already reflected in the charges proposed by WaterNSW. For IPART to then impose a further 1.25% efficiency adjustment is not logical. It will not result in a reduction of payment by NSW to the MDBA. That payment already reflects the 1% efficiency dividend imposed by Ministerial Council. The further efficiency dividend proposed by IPART would decrease the share paid by entitlement holders in NSW and increase the share paid by the NSW government. It is not clear why IPART would decide to do this when it has separately decided to increase the share paid by entitlement holders.

The MDBA notes that IPART has proposed to shift to a fixed to variable ratio of 80:20 for MDBA charges. Whilst this is a step in the right direction, MDBA wishes to reconfirm that its operating costs are essentially fixed. It is important to note that MDBA operating costs increase in times of water scarcity when allocations are low.

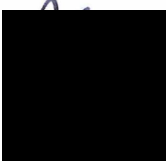
The MDBA notes that high security premiums in the Murray Valley have increased, no doubt to reflect the shift in relative security that occurred during the Millennium drought. However, the additional security afforded to urban water users across the Murray-Darling Basin with the introduction in 2008 of provisions for "Critical Human Water Needs", may not be fully reflected in proposed high security premiums.

Given that Critical Human Water Needs are now met before allocations are made to other high security water users, IPART may wish to consider applying a higher premium for the components of high security entitlements that are covered by "Critical Human Water Needs" provisions.

Such a premium would put a greater share of the increase in high security water charges onto urban water users and lessen the share for irrigators but this would reflect the higher security of water for urban use when water is very scarce.

The MDBA would be happy to discuss any of the above matters with IPART.

Yours sincerely



Phillip Glyde
Chief Executive

13 April 2017