Australian Government

MURRAY–DARLING
BASIN AUTHORITY

Office of the Chief Executive

TRIM Ref: D16/13001

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

Review of Prices for the Water Administration Ministerial Corporation
Murray-Darling Basin Authority Costs

Thank you for the invitation to comment on the draft IPART report *Review of Prices for the Water Administration Ministerial Corporation for DPI Water – From 1 July 2016*. This additional submission provides new comments and reiterates points in our first submission dated 9 October 2015.

DPI Water share of Murray-Darling Basin Authority (MDBA) program funding

We believe there is an error in this item. The forecast NSW Government contribution to MDBA of $9,623,000 in 2016-17 has been taken from Table 7.6 of the DPI Water submission. This amount is inconsistent with Appendix J and text of Section 6.4.1 of the submission which shows the contribution to be $10,212,000. Appendix J reflects the MDBA Corporate Plan for 2015-16 to 2018-19 which is the stated basis for establishing these costs. This discrepancy appears to be a typographical error in the DPI Water proposal. The result is that the DPI Water contribution before any other adjustments is underestimated by $589,000.

Salinity Management Efficiency Dividend

The MDBA contests the application of a 5% efficiency dividend to Salt Interception activities on the basis of a lack of transparency.

The IPART report (page 49) points to savings "achievable by modifying salt interception scheme operation in line with reduced river salinities from Basin Plan environmental flows". These potential savings are included in the MDBA Corporate Plan in which salt interception operations had been reduced by the $1,300,000 for each of the past three years, including 2015-16. However, as raised in the MDBA submission to IPART dated 9 October 2015, this approach cannot be sustained as it does not meet the salinity accountability requirements agreed by governments and would provide little flexibility should salinity risk increase. Salinity risk is higher during periods of low flow. Indications are that drought conditions are emerging and Murray storages have been drawn down in 2015-16. This points to lower flows and higher salinity risk until significant inflows occur. The result being that salt interception operations will require $800,000 p.a. to be reinstated in the program beyond 2015-16.

Further, in 2014 the River Murray Operations (RMO) asset program was subject to an independent review commissioned by the asset controlling governments. The review was undertaken by Synergies Economic Consulting and engineering consultants Cardno and applied the building blocks methodology typically adopted by economic regulators in assessing revenue requirements and the prudency and efficiency of water business asset programs. The resulting reports are available on the MDBA website and were provided to IPART. The review concluded that the RMO program, including the salt interception program, is prudent and efficient. The review recommended a 1% efficiency dividend on operation and maintenance costs and this was incorporated in the MDBA 2015-16 corporate plan. IPART does not appear to have taken account of this most recent and transparent efficiency review of the RMO program in assessing the efficiency of salinity management.

The Living Murray Initiative (TLM)

The Living Murray program has been subject to efficiency savings processes for the past four years. The scope of works undertaken under the program has also been significantly reduced in response to the NSW decision to reduce funding to the joint programs. It is considered that there is little opportunity for further efficiency savings without compromising program outcomes. This program underpins the effective use of the TLM water entitlements and associated monitoring of environmental outcomes. Further reductions in costs in this area are inconsistent with community expectations that environmental water is utilised efficiently and there is transparency in the outcomes achieved.

The NSW contribution to this program is $2,380,000 of which $1,352,000 (or 58%) relates to entitlement charges for the TLM water portfolio. These entitlement charges are subject to price regulation in each state and are expected to remain flat in real terms across the regulatory period. IPART does not appear to have considered this impact in applying a 5% efficiency reduction to the Living Murray Initiative.

DPI Water proposed to maintain funding for the MDBA program at the 2015-16 nominal level for the regulatory period effectively building in an efficiency dividend equivalent to CPI. Application of a further 5% efficiency to the salt interception and Living Murray programs would compound on top of the efficiency already anticipated by DPI Water.

As noted in our October submission, the MDBA program and budget is agreed annually by the Murray Darling Basin Ministerial Council. It is understood that the difference between the water users share approved by IPART and the total NSW contribution will be met by NSW Treasury.

Should you wish to discuss this submission further please contact Andrew Reynolds, General Manager Asset, River Management in the first instance on [redacted] or [redacted]

Yours sincerely

[redacted]

Phillip Glyde

4 April 2016