

Office of the Chief Executive

TRIM Ref: D15/79348

Dr Peter J Boxall AO
Chairman
Review of Prices for the Water Administration Ministerial Corporation
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Dr Boxall

NSW is required to fund a share of the Murray-Darling Basin Authority (MDBA) Joint Programs as set out in the Murray-Darling Basin Agreement which is Schedule 1 to the Commonwealth Water Act 2007. NSW proposes to recover part of this contribution through charges levied by DPI Water on water users.

The MDBA makes this submission to highlight areas where the DPI Water submission does not accurately reflect anticipated costs of the Joint Programs.

DPI Water has adopted 2015-16 costs from the MDBA corporate plan as the basis for forecasting revenue requirements and assumed these remain stable over the regulatory period. This assumption is inconsistent with projections used by the joint governments to develop the current MDBA corporate plan, which was in turn subsequently approved by the Murray-Darling Basin Ministerial Council.

The MDBA corporate plan allows for an increase in the overall NSW contribution from the current level of \$24.7m in 2015-16 to \$28.2m in 2016-17, \$30.1m in 2017-18 and \$28.9m in 2018-19. Further, these amounts do not allow for indexation of some elements of the program and governments have agreed to consider this further in developing the 2016-17 MDBA corporate plan. While much of the increase relates to costs that are not recovered through DPI Water, by assuming MDBA costs remain fixed at 2015-16 levels DPI Water has potentially made insufficient provision for the following items:

- *TLM Planning and Delivery – Portfolio fees and delivery charges* – These costs relate to water entitlement and delivery fees paid to state water agencies. The fees are subject to price regulation within each state and are anticipated to increase by at least CPI over the regulatory period. This escalation is not reflected in the current MDBA corporate plan but governments have acknowledged their obligation to meet state water charges for environmental entitlements and, hence, is expected to be addressed in the 2016-17 corporate plan.
- *Salt interception scheme (SIS) cost savings associated with trialling responsive management* – Governments, through the Basin Officials Committee, have established principles for the trial including incorporating responsive management in the salinity accountability framework and limiting impacts to the salinity credits derived through dilution provided by Commonwealth environmental water. Preliminary estimates are that this will reduce savings projected in the MDBA corporate plan by around \$800,000 p.a. with NSW being required to meet a third share – an increase to the NSW contribution of \$267,000 p.a.
- *Escalation of non-RMO costs* – The current MDBA corporate plan does not allow for indexing of non-RMO costs over time. Governments agreed to this approach at the time the plan was developed on the basis that indexation of out years would be reconsidered during the

development of the next corporate plan. These costs are identified in the first three pages of Table J.1 of the DPI Water submission. Most of this funding is provided to State agencies to deliver on-ground activities such as environmental icon site management and monitoring. State agency costs, of which salaries are a major component, are expected to increase in line with CPI and associated escalation is likely to be provided for in future MDBA budgets.

- *SIS infrastructure renewal – The later years of the MDBA corporate plan identify renewal expenditure for SIS infrastructure. Under the agreed cost shares NSW would be required to meet one quarter of this expenditure which equates to an additional NSW contribution of \$0.1m in 2017-18 and \$0.658m in 2018-19. This is not reflected in the DPI Water proposal which maintains SIS costs constant over time.*

Section 6.4.1 of the DPI Water submission briefly describes the Murray-Darling Basin Authority (MDBA) role and the requirement for NSW to meet a share of the Joint Program costs. The submission notes that between 2011-12 and 2014-15 NSW unilaterally decided to reduce its contribution to the Joint Programs. During this period the other partner governments (the Commonwealth, Victoria and South Australia) saw fit to maintain their level of contribution to support delivery of the programs at past levels, effectively subsidising the shortfall in NSW contribution. During this period a number of reviews were conducted and while some minor efficiency gains were identified the Joint Programs were essentially found to be prudent and efficiently delivered. In particular the Murray-Darling Basin Ministerial Council initiated efficiency review of joint programs established that the level of funding for a sustainable program translated to a NSW contribution in the order of \$28m to \$30m depending on the mix of activities in any given year and the subsequent allocation of costs to jurisdictions through the agreed cost sharing principles.

All partner governments have acknowledged the importance of re-establishing secure, long-term (multi-year) funding arrangements to enable efficient planning and delivery of the Joint Programs. While DPI Water correctly acknowledges that the MDBA corporate plan is approved by the Ministerial Council on an annual basis and so the NSW government is only committed to funding the first year, the out years of the 2015-16 corporate plan represent a transition back to a program that will sustain the River Murray Operations (RMO) assets and services they provide in the longer term. For non-RMO programs (primarily related to natural resource management and environmental water delivery) indicative costs that explicitly exclude any indexing were included in the out-years of the 2015-16 corporate plan on the basis that indexation would be reconsidered when developing the following corporate plan. Subsequent corporate plans are likely to make provision for this escalation.

The above identifies revenue requirements for the MDBA program that are not reflected in the DPI water submission. The Joint Program budget and associated cost shares are settled annually through extensive negotiations between partner governments and subject to Ministerial Council approval. However it is considered likely that the above costs will be included in MDBA corporate plans from 2016-17 onwards.

The MDBA understands that the balance of the annual NSW contribution in excess of the water user share approved by IPART is met by NSW Treasury. It is further understood that in the absence of the additional costs described above being included in the DPI Water revenue requirement, any increase in the NSW contribution to the Joint Programs would have to be met entirely by NSW Treasury.

Yours sincerely



David Dreverman
Acting Chief Executive

9 / 10/2015