

Submission

Development of a Building Blocks Model and Efficiency Assessment of River Murray Operations

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These licence holders access regulated, unregulated and groundwater systems. NSWIC's Members include valley water user associations, food and fibre producers, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

This submission represents the views of Members of NSWIC with respect to the *MDBA Cost Efficiency Review of River Murray Operations*. As NSWIC does not have access to the exact terms of references for this review, its submission will outline the general concerns of NSW irrigators in regards to the MDBA River Murray Operations (RMO) work.

Each Member reserves its right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issue that they may deem relevant.

Executive Summary

NSWIC has long expressed concerns about the lack of transparency of the costs and cost allocations of all of the MDBA activities and particularly Joint programs and River Murray Operation costs. This lack of transparency leads to concerns of cost shifting and cross-subsidisation because stakeholders cannot identify where State and Federal money is being spent.

Of particular concern, and relevant to this review, is the cost of the River Murray Operations (RMO) which is jointly funded by the Basin States and Federal Governments under the Murray Darling Agreement (Schedule 1 of the Water Act 2007)

NSWIC would like to provide the following recommendations to the review:

- **Greater Information Provision:**

- Publication and access to the full list of RMO and Joint Programs including their associated costs. The document must contain a break-down of all costs that are attributed to each Basin State.
- Publication of and access to the MDBA's Corporate Plans including information on associated Full Time Equivalent staffing levels (EFT) for RMO and other Joint Programs.

- **Efficiency Assessment:**

- Review of all RMO work undertaken by the MDBA to ensure that it only relates to necessary operations.
- Assessment of all RMO (and other MDBA managed Joint Program work) to ensure that they do not duplicate activities undertaken by State (or Federal) agencies and that programs charged back to the States are relevant to efficient river management. Any duplication that is identified must be eliminated
- Preparation of a comprehensive cost-benefit analysis of all RMO (and MDBA Joint Program work) to ensure that all activities are cost effective.
- Evaluation of the quality of the MDBA's RMO work to ensure it is fit-for-purpose and consistent with the objectives of the Murray-Darling Basin Agreement, which is Schedule 1 of the Water Act 2007 (Cth).

- **Stakeholder Consultation:**

Design of an appropriate stakeholder consultation process to allow their input into reviews of the costing of RMO (and other Joint Programs).

- The Water Charge (Infrastructure) Rules (WCIR) outline the process to be followed to determine regulated water charges relating to Basin water resources. Under these rules the ACCC (or accredited State agency)

determines the efficient cost of delivering services; however, these rules do not apply to the MDBA whose RMO has responsibility for managing the regulated shared water resources under the Murray-Darling Basin Agreement. While the MDBA's charges are applied to State Governments, it is the belief of NSWIC that a similar open and transparent determination process must also apply to the MDBA to ensure the MDBA is only charging States for efficient and effective delivery of services that benefit them.

Comments

NSWIC welcomes the opportunity to comment on the *MDBA Cost Efficiency Review of River Murray Operations*. We acknowledge that the scope of this review focuses only on River Murray Operations (RMO) and a broader review of the MDBA joint activities and programs will be conducted at a later stage (post the 2014 *Water Act 2007* review).

NSWIC is aware there are three components to the Joint Programs:

- River Murray Operations (RMO);
- Natural Resource Management (NRM);
- Audit and accountability

The administration and management of all of the MDBA's Joint Programs are a direct concern to NSW's irrigators as the costs associated with these programs are recovered from regulated bulk water charges passed onto them via the NSW Office of Water charges and in the NSW Murray and Murrumbidgee valleys RMO charges through State Water.

Building Block Model

NSWIC supports the development of a building block model for MDBA RMO costs to address the limitations of the current reporting system and to bring the MDBA in line with other bulk water operators in Australia, including State Water Corporation. It is important that a consistent methodology is applied to enable Basin States to accurately review and evaluate costs being charged to them, and in the case of NSW, then passed onto irrigators.

It is appropriate that the costs of RMO are separated out from other MDBA programs and a unique cost review process for it established. In saying that however, NSWIC supports the MDBA adopting a similarly robust and transparent process for all Joint Programs to ensure State Governments and interested stakeholders have an accurate picture of costs being charged to them; what they are for and how they are calculated and applied.

The MDBA should also be required to report against the different cost areas in their annual reports to ensure accountability. Currently, the practice of reporting against one global budgetary outcome does not allow stakeholders to be able to identify what has been spent on RMO; what on natural resource management; what on Commonwealth funded Basin Plan costs.

As mentioned above, the WCIR apply to large bulk water operators (Tier 3 rules) to ensure bulk water charges are not anti-competitive. NSWIC regards aspects of the related rules to

be overly prescriptive but it regards it as totally unacceptable that the MDBA is not captured by the rules the ACCC has in place to scrutinize bulk water charges. NSWIC also regards the MDBA's claim that it does not levy "fees for services" and therefore should not be subject to the WCIR as spurious - the MDBA charges State Governments for service, ergo, State Governments are customers and they are paying for the service provided.

NSWIC understands that most of the assets managed by RMO are actually owned by the Basin States, however, this should not be an excuse to not undertake a thorough efficiency review of costs adopting a similar methodology to that applied under the WCIR.

Having participated in the State Water price determination process under the WCIR, NSWIC understands the building block model and believes it is an appropriate methodology to use to identify costs for assets and operational expenditure, and capital expenditure, as well as calculating an appropriate commencing regulatory asset base (RAB) (if applicable). In doing so, it will enable a thorough evaluation of the efficient costs of operations.

Once the building blocks model has been established, NSWIC believes the next step should be an open and transparent consultation process consistent with the requirements under the WCIR for bulk water operators. This will enable interested stakeholders an opportunity to provide valuable insight and input to ensure costs are only for essential and efficient services. This would also provide State Governments and stakeholders with an increased level of confidence that charges are only for appropriate and necessary services and are efficient.

Existing Concerns

1. Cost Recovery Process

As we are unaware of the current process adopted by the MDBA to calculate costs or cost shares, to all intents and purposes, it appears the MDBA determines a cost and informs the States about their share, with little scrutiny of how these costs are determined. There is no apparent mechanism for the Basin States to appeal a cost determination undertaken by the MDBA of their own costs. It is incongruous to think the MDBA's RMO - a monopoly bulk water supplier - can determine its own costs without independent review and it is inconsistent with national policy on water charge rules.

At the heart of its concerns over shared costs, NSWIC is deeply concerned about the current cost recovery process for MDBA RMO charges. There is a complete lack of transparency and absence of adequate information to assess which component of the MDBA's work is financed by irrigators in NSW through bulk water charges (State Water) or through water management charges (NSW Office of Water). As such, the MDBA remains an operational and cost-base enigma for irrigators.

Contrary to all other Basin states, NSW operates under a full cost recovery mechanism. This was confirmed by the ACCC in their recent bulk water charge determination of State Water Corporation. There are regulatory processes in place to help increase the transparency of State Water Corporation charges. Under the WCIR, the ACCC can review and scrutinize charges that are levied by State Water Corporation. Such an assessment process is currently not available for the MDBA RMO costs which are passed on to irrigators in the NSW Murray and Murrumbidgee valleys without review or investigation, via State Water charges. Other Joint Program costs are passed onto irrigators through NSW Office of Water charges which are determined by the Independent Pricing and Regulatory Tribunal (IPART) who have questioned the lack of transparency of MDBA charges on multiple occasions¹.

The cost recovery process for MDBA RMO charges in NSW differs to all other Basin States, where irrigators are not required to pay these charges. Recently, the cost sharing framework in NSW was adjusted. Previously it was on average 53 percent user and 47 percent government share. It is now 95 percent user and only 5 percent government share². As the majority of the MDBA RMO charges are paid by irrigators in NSW, it would be reasonable to expect that an impartial regulator such as the ACCC is able to review and scrutinize these charges. This, however is not the case.

NSWIC considers that the current cost review process is flawed as it does not ensure the ACCC is able to assess all of the component charges that are paid by irrigators to State Water - because the MDBA charge components are outside the process and are not independently scrutinized. In addition, there is no opportunity for a regulator to impose an efficiency dividend on MDBA RMO charges in contrast with this option which is available (and applied) to State Water charges.

To ensure that there is a consistent and time efficient process for water charges, NSWIC strongly recommends that the ACCC, or another suitably qualified and independent entity,

¹ Review of Bulk Water Charges for State Water Corporation 2010-14, IPART, June 2010, p17

² Department of Primary Industries Office of Water - NSW Contribution to Murray Darling Basin joint programs (May 2014)

is given jurisdiction to review and assess MDBA RMO charges in line with the review of State Water's bulk water charges.

NSWIC recommends that the ACCC is given jurisdiction to review and assess MDBA RMO charges.

Furthermore, NSWIC makes the point that such a review and assessment process through the ACCC would ensure that only the efficient river operation costs of the MDBA are recovered from the states, and in the instance of NSW through irrigators. It must be ensured that no cost overruns resulting from operational and administrative inefficiencies are passed on to irrigators.

NSWIC recommends that only efficient costs that are determined by the ACCC should be recovered from the States and passed onto irrigators and any cost overruns by the MDBA are covered by the Federal Government.

2. Transparency

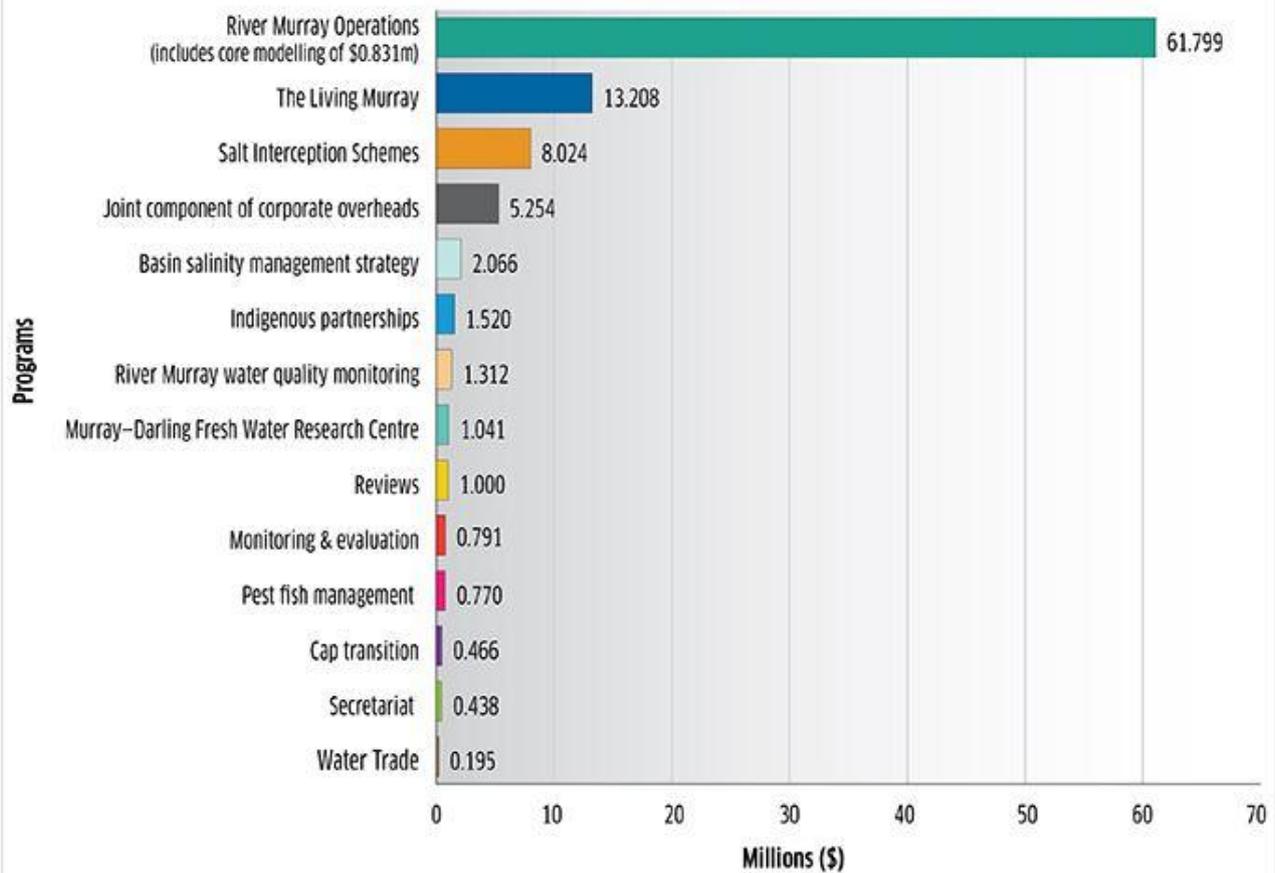
NSWIC is deeply concerned about the severe lack of transparency and absence of adequate information on the MDBA's RMO work. NSWIC insists that greater detail must be provided to irrigators in NSW on the scope of activities that are currently classified as 'Joint Programs' which relate to river operations: what programs deliver on water quality management and what are environmental or educational programs? Without such basic understanding about what NSW irrigators are currently paying for, it is impossible to assess the efficiency of these charges.

For example, under the WCIR process, State Water must make available the full suite of building block spreadsheets to the ACCC who then publish them along with a discussion paper, followed by a draft determination with further input invited. This information includes outlines of all costs and the opening RAB and estimated rate of return (WACC). Compare that level of detail to the following, which is the only publically available information on the cost breakdown for joint activities conducted by the MDBA³.

³ <http://www.mdba.gov.au/what-we-do/joint-activities/cost>

2013–14 Joint Activities budget

Total \$97.884m



2013-14 Joint Activities budget (\$M).

NSWIC submits that the MDBA must publish a breakdown of RMO costs and State shares of those costs. This breakdown must be reviewed and evaluated consistent with the principle of the WCIR that applies to State regulated water authorities.

Further, NSWIC supports a broader review of Joint Programs to ensure that they continue to be relevant in light of recent water reforms. For example is the budget costing for The Living Murray program area for operations of works and measures, or does that constitute RMO? Will the budget for "cap transition" be wound back in recognition of the move to SDLs? Is there a need for as many salt interception schemes given the Basin Plan salt export targets? These and many more are legitimate questions that are reasonable to ask and must be answered.

NSWIC submits that a detailed break-down of the costings for all MDBA's Joint Programs must be made available to Basin States and irrigators.

In addition, NSWIC is unclear on the cost allocation process between the Commonwealth Government and the Basin States. We acknowledge that Schedule 1 of the Murray Darling Basin Agreement outlines that the Commonwealth Government must contribute one-quarter of the cost of all investigations, construction and administration costs after deducting the contributions from Queensland and the Australian Capital Territory. Given that the definition of these three activities encompasses costs that are broader than just

RMO, NSWIC would like to seek clarification on the quantum of the contribution made by the Federal Government.

In addition, s72 4(a)(ii) also points out that the Commonwealth Government must also deduct those contributions made by;

'any State pursuant to any understanding reached between that State and the Contracting Governments'⁴.

NSWIC is currently not aware whether such an understanding has been reached and whether there are any further reductions to the contribution made by the Commonwealth Government as a result.

Furthermore, NSWIC is uncertain about the cost-sharing methodology between the Basin States. According to Schedule 1 s72(4)(b) Basin States must together contribute three-quarters of all investigation, construction and administrative costs, however this does not provide NSW irrigators with an understanding of what proportion of this share is carried by NSW.

NSW irrigators want confidence that the costs they are contributing to are for river operations required to meet their needs only. It is widely understood that the management of the four key storages of Dartmouth, Hume, Menindee and Lake Victoria, benefit all river users but the operation of locks 7 to 1 and the Barrages do not provide benefits to NSW irrigators.

NSWIC submits that a clear cost allocation framework and methodology which outlines the contributions by the Commonwealth Government and each individual Basin State to the RMO and other Joint Programs should be made publically available.

In addition, NSWIC believes that the MDBA's Corporate Plans must be made available to stakeholders in order to enhance the understanding and transparency of the MDBA's work. NSWIC suspects that much of the information that stakeholders seek in order to allow them to assess the efficiency and cost effectiveness of these works and programs is likely to be contained within these Plans and therefore justifies public scrutiny.

Furthermore, the Corporate Plans would provide stakeholders with insight into the MDBA staffing allocation to the RMO (and other activities of the MDBA). Transparency around staffing will be of crucial importance to ensure that the activities undertaken by the MDBA are necessary and fit-for-purpose for the associated work.

NSWIC submits that the MDBA's Corporate Plans must be made publically available.

3. Cross-subsidisation and Duplication

NSWIC has firmly rejected the concept of cross-subsidisation when determining water charges (including MDBA charges). We submit that NSW irrigators should only be asked

⁴ Water Act 2007 (Cth) Schedule 1, s 72(4)(a)(ii)

to pay for those RMO costs that are of direct benefit to them. This principle is also enshrined in the National Water Initiative Pricing Principles⁵.

NSWIC submits that the review of RMO (and other Joint Programs) must ensure no cross-subsidisation takes place. At the same time, a comprehensive cost benefit analysis of all Joint Programs must be undertaken to ensure that all activities are cost effective.

In addition, NSWIC is unsure whether the work of the MDBA in respect to RMO (and other Joint Programs) is currently duplicated by another State or Federal agency. As such, NSWIC recommends that this review undertakes a thorough assessment of any RMO work undertaken by the MDBA and compares it to the work undertaken by other State and Federal agencies to establish that the MDBA does not duplicate work undertaken by other agencies, and to enable further streamlining of activities between State and Federal agencies.

Should any duplication be identified, it must be assessed whether the MDBA or a State / Federal agency is better placed to undertake the related activities and responsibilities should be realigned accordingly.

NSWIC therefore recommends;

An assessment of any RMO work undertaken by the MDBA to ensure that it does not duplicate any work undertaken by another State or Federal agency. Any duplication that is identified must then be eliminated.

Finally, NSWIC believes there is insufficient information available to be convinced that the RMO are fit for purpose and are consistent with the objectives Murray-Darling Basin Agreement, which is Schedule 1 of the Water Act 2007 (Cth).

NSWIC therefore recommends;

- **An evaluation of the quality of the MDBA's RMO work to ensure it is fit-for-purpose and consistent with the objectives of the Murray-Darling Basin Agreement, which is Schedule 1 of the Water Act 2007 (Cth).**

4. Consultation

NSWIC rejects the current cost recovery process for MDBA RMO as stakeholders are given no opportunity to review or comment on the proposed activities or associated costs. This is contrary to all other water charges in NSW, where irrigators are given the opportunity through the ACCC or IPART to assess, review and provide input to the process.

It is a great concern to NSWIC that irrigators who pay for the RMO on behalf of the NSW Government are given no say in the process and have to rely on the MDBA to assess the efficiency of its own work. NSW irrigators have no confidence that the MDBA RMO charges are appropriate and independent scrutiny of the MDBA charges is essential

⁵ National Water Initiative Pricing Principles, p.16

Conclusion

Irrigators in NSW have a keen interest in ensuring that the pass-through of MDBA costs for all Joint Programs, and specifically RMO, are efficient, cost reflective and only accrue from services that provide them direct benefit. The lack of transparency and absence/non-availability of corporate planning and detailed costing documents from the MDBA, make it exceedingly difficult for NSWIC and its Members to be able to review the efficiency of current MDBA charges. While that remains the case, NSWIC's Members will continue to hold grave concerns over whether the current charges are cost efficient and accurately reflect the extent to which the RMO (and other Joint Program) work by the MDBA provides benefits in NSW.