

For Economic Development Subcommittee of Cabinet

16/333

**ACT Government participation in the Murray Darling Basin Water Infrastructure Program.**

**Minister for the Environment and Heritage, Mick Gentleman MLA**

Cabinet Office Rec	[Date / Time]
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**Key Issues:**

1. This discussion paper is intended to provide the Economic Development Subcommittee of Cabinet with information about opportunities for the ACT community to:
  - increase water efficiency to become more resilient to the impacts of drought, water shortages and climate change; and
  - secure Commonwealth funding for water efficiency measures, along with catchment and waterway improvement activities.
2. The Murray Darling Basin Plan contains a number of commitments to increase environmental flows through environmental water recovery within the Basin.
3. To achieve these targets the Commonwealth has established the Murray-Darling Basin Water Infrastructure Program (MDBWIP). \$1.5 billion is available from the Water for the Environment Special Account to improve water efficiency and deliver 450 gigalitres of water savings for the environment by 2024.
4. The MDBWIP will deliver funding to upgrade water infrastructure in the Murray–Darling Basin. In essence the Commonwealth provides funding for water efficiency measures in exchange for entitlements for environmental flows.
5. At the Murray Darling Basin (MDB) Ministerial Council meeting (8 June 2018) the ACT committed to investigating water efficiency measures for a 15 gigalitre (GL) water efficiency contribution. The ACT’s commitment was to investigate urban water efficiency improvements integrating water security measures (reductions in per capita water use) with waterway improvement activities (incorporating the principles of the Territories ACT Water Strategy; Living Infrastructure Plan; Climate Change Strategy and Wellbeing framework).

DISCUSSION PAPER

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6. Based on current estimates, the funding available to the ACT associated with a 15 GL contribution is potentially up to \$150 – \$180 million. Note that as this funding is provided on the transfer of water entitlements, the ACT is not required to provide additional matching funds. This investment would contribute to:
  - a) making the ACT more resilient to the impacts of drought;
  - b) improving poor water quality in waterways and catchment areas;
  - c) responding to future water shortages; and
  - d) the effects of climate change.
7. The ACT participation in the MDBWIP is proposed to be implemented in a manner that is consistent with the MDB Ministerial Council decision, and that maintains long term water security for ACT water users.
8. On a related issue, a requirement of the Murray Darling Basin Plan is the provision of water for environmental flows by each jurisdiction known as the “Shared Reduction Amount” (SRA). In the ACT’s case the volume of the SRA is 4.9 GL/yr.
9. It was previously considered that the ACT had met this commitment however the Commonwealth has recently advised the ACT Government that the ACT’s previous arrangements did not meet the legal requirements under the Murray Darling Basin Plan.
10. In correspondence between myself as Minister for the Environment and Heritage and Federal Minister for Water Resources the Hon David Littleproud<sup>1</sup> MP the Commonwealth has offered to remedy this situation by purchasing an additional 4.9 GL via the MDBWIP.

**Discussion Points:**

Murray Darling Basin Water Infrastructure Program.

11. The Murray Darling Basin Water Infrastructure Program (MDBWIP) is a \$1.5 billion program that will operate until 2024. Water saving projects must demonstrate “a neutral or positive social and economic impact for the community”.
12. Water efficiency measures attract a premium of up to 1.75 times the market price of a

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<sup>1</sup> Since the May 2019 Federal election the Hon. David Littleproud MP is now Minister for Water Resources, Drought, Rural Finance, Natural Disasters and Emergency Management

permanent water trade. The current market price for high security water in the NSW Murrumbidgee is currently in the vicinity of \$6 million to \$7 million/GL (\$10.5 million to 12.25 million/GL when factored up using the 1.75 multiplier).

13. The MDBWIP also provides payment for business plans and/or feasibility studies required to determine the nature and quantum of savings to be transferred to the Commonwealth, the expected costs of Implementation and identify any risks to the ACT's water security.
14. In February 2019 I wrote to the Hon David Littleproud MP providing a "working draft" of a Canberra Water Savings Prospectus identifying possible water savings – Attachment A.
15. In April 2019 Minister Littleproud responded, providing an offer for funding to develop business cases for the following water efficiency programs:
  - a) infrastructure renewal and maintenance;
  - b) water sensitive urban design mandatory standards and planning codes;
  - c) stormwater harvesting and reuse;
  - d) demand management (education and practice change); and
  - e) sustainable development.
16. Once completed the business cases will quantify the quantum of water to be saved by each activity, specify the initiatives to be implemented, costs of implementation and identify any risks to the ACT.
17. I accepted the Commonwealth offer on 15 May 2019. An additional proposal for the waterways/catchment improvement activities is currently under development.
18. Undertaking the business cases/feasibility studies does not commit the ACT Government to transferring water entitlements to the Commonwealth. This will be considered after the business cases have been considered by the ACT Government.
19. The MDBWIP is funded from the Commonwealth Water for the Environment Special Account meaning that the funds provided must be expended against water efficiency and waterway/catchment improvement works identified in the Commonwealth funding agreements.

Shared Reduction Amount (SRA)

20. In 2014 the Commonwealth made a purchase of an equivalent 4.9 GL/yr High Security Murrumbidgee Regulated River (NSW) water entitlement from the ACT-owned water utility, Icon Water, in order to satisfy the requirements of the Shared Reduction Amount (SRA).
21. Despite the earlier agreements and recognition of the ACT having met its commitment in Commonwealth water recovery registers, and reporting to COAG, the Commonwealth Department has recently advised that as a mechanism to legally recognise the SRA is yet to be established, their legal advice is that therefore the SRA has not been achieved in the ACT SDL resource unit.
22. DAWR has advised that it is a requirement of the Basin Plan to resolve the SRA prior to the ACT Water Resources Plan being accredited by the Commonwealth Minister for Water Resources.
23. In this context, the Commonwealth is now proposing that the ACT meet its SRA by selling an additional 4.9 GL of entitlements to the Commonwealth Government (noting that this 4.9 GL would not be in addition to the 15 GL mentioned in point 6) and would be purchased at 1.75 time the market price.

Financial Implications

24. The ACT entered into a funding agreement with the Commonwealth on 15 May 2019 with up to \$1.5 million for business case development.
25. Should the business case development lead to the transfer of entitlements to the Commonwealth the expected return, based on the current market price of high security water entitlements (NSW Murrumbidgee) times the 1.75 multiplier, is in the vicinity of \$10.5 million to \$12.25 million per GL, noting that the market price for high security water entitlements has increased recently to historical high levels due to the supply and demand effects of the current drought.
26. The estimated value of ACT High Security water entitlements has been assumed to be at least equal to NSW Murrumbidgee High Security entitlements. The Environment, Planning and Sustainable Development Directorate (EPSDD) has engaged a suitably qualified valuer to quantify the market value for ACT water entitlements to assist the negotiations with the Commonwealth.

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27. A summary of revenue options available to the ACT is provided in the table below. The table provides revenue scenarios for:

- a) Business Case development only;
- b) Business Case development plus 4.9 GL shared reduction amount<sup>2</sup>;
- c) Business Case development plus 4.9 GL shared reduction amount plus an additional 5.1 GL contribution towards MDBWIP; and
- d) Business Case development plus 4.9 GL shared reduction amount plus an additional 10.1 GL (5.1+5) contribution towards MDBWIP.

28. In addition to this, entitlements transferred to the Commonwealth are expected to be subject to the Water Abstraction Charge (WAC). The WAC for non-urban purposes is \$0.287/kL (\$287K/GL) and it is expected that this will form part of the final negotiation processes on the transfer of water entitlements.

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<sup>2</sup> Under the MDBWIP rules, should a business case lead to a transfer of entitlements, the cost of the business case is deducted from the agreed market price of water transferred.

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Option	Quantum of water entitlements to be transferred to the Commonwealth (GL)	Expected payment (\$M) from Commonwealth to ACT Government		Water Abstraction Charge <sup>3</sup> revenue (\$M/year)		
		Total	Cumulative		Total	Cumulative
A	MDBWIP Business Case development	N/A	N/A	\$1.5 m	1.5	N/A
B	Shared reduction amount	4.90 GL	4.90 GL	51.5 to 60	51.5 to 60	1.41
	Contribution toward MDBWIP					
C	Additional 5.1 GL contribution towards MDBWIP (Total 10GL)	5.1 GL	10	\$53.5 to 62.25	105 to 122.25	2.87
D	Additional 5 GL contribution towards MDBWIP (Total 15GL)	5 GL	15	52.5 to 61.25	157.5 to 183.25	4.30

29. As previously mentioned, it is a requirement of the MDBWIP funding program that funds received are expended against works identified in the various business cases and stipulated in the funding agreement and associated schedules.

Protecting the ACT's water security

30. The underlying principles of the ACT participating in the MDBWIP or SRA will be to do so in a manner that maintains the long term water security for ACT water users. ACT water security is measured using two criteria being;

- a) water levels in dams - The <5% (1 in 20 year) water restrictions Level of Service target; and
- b) limiting water use to sustainable levels – ensuring water use remains below the ACT's Sustainable Diversion Limit<sup>4</sup> (SDL).

<sup>3</sup> \$0.287 per kilolitre (\$/kL) of water abstracted for non-urban purposes.

<sup>4</sup> The net amount of water the Territory is able to extract under the Murray Darling Basin Water Plan);

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31. The proposed approach would be to create new water entitlements that could be traded to the Commonwealth and provide these entitlements from the water management area in the lower reaches of the ACT Molonglo/Murrumbidgee River (i.e. below the water storages) meaning there would be no impact on the <5% water restrictions Level of Service target.
32. The Lower Molonglo Water Management Area has a very reliable supply of approximately 30 GL per annum from the Lower Molonglo Water Quality Control Centre (LMWQCC). The LMWQCC is the ACT's main wastewater treatment plant and is the largest inland treatment facility.
33. With respect to the possible impact on the ACT's SDL, current projections are that the SDL limit will not be reached until the ACT population grows to over 1.2 million people in 75 to 100 years. As the funds received from the Commonwealth as a result of a water transfer are to be invested in water savings projects to offset the transfer of entitlements meaning the population and date of the SDL being reached is not expected to change.

### Consultation

34. A Project Steering Committee (EPSDD and Chief Minister, Treasury and Economic Development Directorate (CMTEDD) (Treasury)) and a Working Group (EPSDD, CMTEDD, Environment Protection Authority and Icon Water) provide oversight for the project.
35. Directors-General Water Group have been briefed on the progress of the abovementioned activities in November 2018 and May 2019.

### Future Actions

36. Minister for Environment and Heritage to issue new water entitlements to EPSDD that can be traded to the Commonwealth government. It is proposed that these entitlements will be issued in the Lower Molonglo sub water management area, which is at the bottom end of ACT waterways, to minimise impacts to existing water users. A waiver on the usual fees associated with the issuing of these entitlements will be sought from the Treasurer.
37. EPSDD to continue to negotiate with the Commonwealth on the possible transfer of 4.9 GL of water entitlements to resolve the SRA issue.

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38. EPSDD to consider an initial 4.9 GL water trade to the Commonwealth in order to meet the ACT's commitments under the Murray-Darling Basin Plan. Any revenue received to be applied consistent with the MDB Minco decision of June 2018, integrating water security measures with waterway improvement activities.
39. EPSDD will develop the abovementioned water efficiency business cases for possible participation in the MDBWIP. It is anticipated that this will be completed by the 1<sup>st</sup> Quarter 2020 and will be provided to the ACT Government in the 2<sup>nd</sup> Quarter 2020 to determine the level of involvement that the ACT Government wishes to have with the MDBWIP.
40. A comprehensive communication/engagement strategy will be prepared to accompany a government decision on the level of involvement that the ACT Government wishes to have with the MDBWIP.
41. It is intended that a subcommittee of Cabinet will further updates on the level of the ACT's participation in the MDBWIP once the due diligence business cases have been completed. It is anticipated that this information will be provided to Economic Development Subcommittee of Cabinet in first half of 2020.

Minister signature \_\_\_\_\_



Date 25/6/19