Guidance Notes for National Water Initiative Requirements

The Australian Government has committed to significant new investment in water infrastructure in the White Papers on Agricultural Competitiveness and Developing Northern Australia. Part of the basis for Australian Government funding support has been expressed in the following terms:

*Projects should align with the National Water Initiative principles including appropriate cost recovery and, where full cost recovery is not deemed feasible, any subsidies are fully transparent to the community.*

In order to make recommendations to the Australian Government, the Department has outlined below what principles support sensible water resource development, as expressed through the National Water Initiative (NWI).

The benefits of supporting development of water resources under these circumstances focus on providing greater investor certainty—allowing state and territory governments and their infrastructure partners to attract and make investments on the basis of a predictable, transparent and enduring business environment.

The NWI is a comprehensive package of water management principles and measures that cover a range of water policy and management issues. Many clauses of the NWI, if fully implemented, would directly support informed investment by providing greater certainty around the rights, responsibilities and likely costs for water users.

In order to consider whether a water infrastructure project warrants Commonwealth funding, a project should:

1. Be located in areas where NWI compliant water planning and entitlement frameworks are or will be put in place.
   - (NWI Clause 25–57): Consideration of projects should be prioritised to areas where there are statutory based water plans in place, and the state has water entitlement products that are consistent with the NWI.
   - Statutory based water plans address extraction limits, future changes in water availability, major interception activities and water requirements for communities and the environment. Such plans are critical in informing investors about the likely level of reliability of water yields in the region.
   - Water entitlements provide an exclusive, ongoing right to access a share of water resources covered by a water resource plan. Ensuring that rights to water are clear and unambiguous is essential for providing confidence to entitlement holders and investors, and for creating a recognised valuable business asset.

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1 When engaging with Indigenous communities, refer to the module to the NWI's Policy Guidelines for Water Planning and Management—Engaging Indigenous Peoples in Water Planning and Management (2016)
• Where hydrologically connected, water holders should be able to trade allocations, entitlements, delivery rights or irrigation rights to suit their circumstances consistent with the relevant statutory plan (clause 58).

2. Demonstrate that costs will be recovered through user fees.

• (NWI Clause 66): The project should be delivered on a full cost recovery basis for rural systems based on user fees. Lower bound pricing\(^2\) is the minimum expectation, whilst upper bound pricing\(^3\) is desirable. If full cost recovery is not deemed feasible, any subsidies including Community Service Obligations\(^4\) should be transparent to the community and reported publicly.

3. Be economically viable and ecologically sustainable.

• (NWI Clause 69): Any proposal for investment in new or refurbished water infrastructure should be assessed as both economically viable and environmentally sustainable prior to the investment occurring.

• This will require that the project is supported by a robust and positive cost benefit analysis, as well as an Environmental Impact Assessment/Statement addressing all applicable environmental regulatory requirements.

4. Demonstrate that unallocated water will be released for consumptive use through market-based mechanisms.

• (NWI Clause 70–72): The project should demonstrate that the jurisdiction has policies in place to release unallocated water, made available through the water infrastructure project, through market based mechanisms to the extent practicable.

\(^2\) lower bound pricing—the level at which to be viable, a water business should recover, at least, the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement. Dividends should be set at a level that reflects commercial realities and stimulates a competitive market outcome. (Ref: NWI)

\(^3\) upper bound pricing—the level at which, to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes (TERs), provision for the cost of asset consumption and cost of capital, the latter being calculated using a weighted average cost of capital WACC. (Ref NWI)

\(^4\) non-commercial requirements of Government Business Enterprises for identified social purposes