

# NSW Management Response: Audit of Accounting for Interstate Trade in the Northern Basin – Final Report

## NSW's formal management response to the Inspector-General of Water Compliance's *Audit of Accounting for Interstate Trade in the Northern Basin* final report.

The NSW Government thanks the Inspector-General of Water Compliance for his *Audit of Accounting for Interstate Trade in the Northern Basin* final report, provided to the NSW Government on 13 September 2022. We welcome the opportunity to respond to the recommendations of the Inspector-General's final report, many of which are already being addressed through the NSW Government's existing systems and plans.

The NSW Government is committed to transparent, trusted and accessible water markets throughout the Murray-Darling Basin. We recognise our shared responsibility with the Queensland Government to ensure that water in the Border Rivers Catchment is allocated, used and accounted in a way that maintains a balance between environmental, social and economic outcomes.

NSW takes its compliance reporting obligations seriously. We have worked closely with the Murray-Darling Basin Authority (MDBA) to ensure our monitoring and reporting systems, including water deliveries from tagged work arrangements are aligned with Murray-Darling Basin Plan (Basin Plan) requirements. Deliveries from tagged work arrangements are considered as 'trade' for Basin Plan purposes and incorporated as trade adjustments for NSW's section 71 annual compliance reporting requirement under the Commonwealth *Water Act 2007* (Water Act).

These trade adjustments ensure that take is accounted and assessed for compliance, within the sustainable diversion limit (SDL) resource unit that the take occurred. This accounting approach was formed in consultation with the MDBA. We note that the Inspector-General's approach does not appear consistent with NSW's understanding of Basin Plan requirements and welcome the opportunity for the Inspector-General and the MDBA to clarify the operation of the *Water Act 2007* and the Basin Plan.

Since the audit was conducted, NSW continues to improve public access to information and transparency around trade data. We have expanded the amount of information recorded when temporary water trades are processed, making it easier to access and understand trade transactions and market trade activities. We are committed to continuous improvement and welcome the final report's insights on where further advances can be made.

We note that the Australian Competition and Consumer Commission (ACCC) released its final report of its inquiry into water trading in the Murray-Darling Basin in March 2021. The ACCC Report makes recommendations to enhance markets for tradeable water rights, including their operation, transparency, regulation, competitiveness and efficiency. NSW is working closely with other Basin governments to support the development of a phased, practical, and cost-effective roadmap for water market reform having regard to the ACCC's findings and recommendations. We anticipate that this roadmap will provide the basis for considered improvements to water market operations across the whole Murray-Darling Basin.

### Recommendation 1 – Not applicable

The establishment of a permanent link between approved works for taking water in NSW and a water entitlement in Qld needs to be recognised as a tagged water access entitlement that is a trade under the Basin Plan.

Tagged works associated with NSW water rights are already recognised by NSW as a permanent dealing transaction and are publicly available on the NSW Water Register. Please refer to further information on the NSW Water Register at: ([waterregister.watarnsw.com.au](http://waterregister.watarnsw.com.au), water trading statistics and processing times/tagged trading). These dealings are considered as trade for Basin Plan purposes and are subject to applicable trade rules within.

The mechanism that the Queensland Government or any other jurisdiction uses to recognise established tags against their water rights, is a matter for those governments.

### **Recommendation 2 – Accepted**

Both DPE and DRDMW must recognise the transfer of water allocation to another jurisdiction through works that are permanently linked as a trade, as required under the Basin Plan; and institute a documented approval process to ensure that all relevant rules, conditions, and reporting requirements are properly considered for each such transfer.

NSW already recognises transfers of water allocation through permanently linked works as trade under Basin Plan and section 71 of the Water Act. The MDBA has previously confirmed that NSW's tagged trade arrangements under the NSW *Water Management Act 2000* are considered trade for the purpose of the Basin Plan and subject to applicable trade rules specified in the Basin Plan. This ensures that arrangements for moving water rights between locations are regulated by the Basin Plan, regardless of the dealing mechanism adopted to move the water rights.

Tagged trade arrangements are not unique to the northern basin. They are also able to be used in the southern connected Murray Darling Basin and can act to increase market depth for stakeholders purchasing permanent water rights or give flexibility to landholders that have historically acquired cross-border property assets by enabling them to combine state water rights.

NSW access licences with a tagged interstate work are subject to the conditions of that access licence when using the arrangement. Documented approval processes, including rules and accounting arrangements for implementation, are already in place. These are defined in the *New South Wales-Queensland Border Rivers Intergovernmental Agreement 2008* (2008 IGA) and its associated Appendix E1 and the Appendix E1 protocols. NSW is strongly committed to ensuring market transparency and will work with the Queensland Government to ensure these protocols are published online.

### **Recommendation 3 – Accepted**

Both DPE and DRDMW should undertake regular reconciliation of water trade data to identify and promptly resolve any data integrity anomalies.

NSW already performs an independent annual reconciliation of interstate data used for section 71 compliance. To date, no material discrepancies have been found, and the annual frequency is considered appropriate, however

we will continue to monitor for interstate trade discrepancies and resolve as required (in collaboration with DRDMW).

Operationally, the 2008 IGA protocols provide guidance on resolving discrepancies of meter read data associated with interstate transfers and trades. A procedure review and update for the approval of interstate trades was implemented since this audit was conducted in 2020. NSW will continue to review and assess our operations and processes to ensure adherence with established reconciliation protocols.

#### **Recommendation 4 – Accepted**

Both DPE and DRDMW should improve their systems and processes to ensure that water trade data is accurately recorded and can be reconciled.

Since the research for this audit was undertaken (May 2020), DPE Water has worked with the MDBA to continuously improve and refine internal procedures, documentation, and data traceability for section 71 compliance. We are progressively moving key resource accounting data used for section 71 compliance to a dedicated timeseries management system to improve data storage, data integrity and data dissemination to the MDBA.

The ACCC's final report provides recommendations on standardising the way that trade data is recorded and exchanged between organisations and states. This would mitigate the barriers and assist in addressing issues created by different accounting systems and registers across different jurisdictions. NSW has worked closely with other Basin governments to support the development of a roadmap for implementing the ACCC's water reforms and we look forward to its release.

#### **Recommendation 5 – Accepted**

There should be regular reconciliation of water trade data between DPE and DRDMW to ensure the accuracy of information that is reported.

Sustainable diversion limit compliance trade adjustments are informed by state of origin information and validated by independent datasets from the NSW water accounting systems.

NSW already performs an independent annual reconciliation of interstate data used for section 71 compliance as clarified in our response to recommendation #3 above. We continue to support and practice the principle of reconciliation processes for interstate trade adjustments.

#### **Recommendation 6 – Accepted**

WaterNSW should validate meter reading data before a trade is approved.

The NSW Government agrees that metering and measurement is essential to ensure that water take complies with legal limits and to build community confidence in how the state's water is managed. NSW's new, robust metering framework commenced roll-out in NSW's inland northern region in December 2021. Under these reforms, most metered surface water works are now required to transmit water take information to the NSW

Government's telemetry system. For smaller users (i.e. surface pumps between 100-200 mm) a local intelligence device (LID) is required, which includes data logging to support compliance, enforcement and validation.

Telemetered data provides real time ability for WaterNSW to determine customer account balances and for customers to view their account balances when managing their water portfolio and self-service through the WaterNSW Water Accounting System.

**Recommendation 7 – Not applicable**

DRDMW should investigate and record the outcome of investigations in all instances where water was taken before the trade was approved. The outcome of the investigations into non-compliance identified from this audit should be reported to the IGWC.

This recommendation applies to DRDMW (Queensland).