



Australian Government

Department of Climate Change, Energy,
the Environment and Water

Record of Decision Off-farm Efficiency Program funding

Prepared for the Minister for the Environment and Water for the purposes of *Water Act 2007*, Part 2AA by the Department of Climate Change, Energy, the Environment and Water.

Date of preparation of brief: August 2022

Related Ministerial Submission Ref.: MS22- 001304



State-led Projects – NSW
Nap Nap Station Water Efficiency Project

Part 1 – Purpose of this document

The Department has undertaken a comprehensive assessment of the application for funding for the Project described in Part 2 to ensure that funding and program objectives of the Off-farm Efficiency Program under the Water for the Environmental Special Account (**WESA**) provisions in Part 2AA of the *Water Act 2007* are met where a decision to fund is made.

This assessment process included:

- review and assessment of the application form and supporting documentation by the Department and by an Assessment Panel comprising representatives from the Department, National Water Grid Authority and Murray-Darling Basin Authority;
- review of the Assessment Panel's report by the Department and preparation of a 'due diligence' assessment document; and
- obtaining and reviewing an independent expert report on technical elements, water savings calculations and costings for the Project.

This document is a record of the basis for decision by the Minister to grant funding under the Off-farm Efficiency Program in respect of the Project described in Part 2 (**Project**) as a result of the assessment process summarised above, providing information on:

- the Project, including proposed water savings and funding amount (Part 2);
- assessment of the funding application for the Project against basic eligibility criteria (Part 3);
- assessment of the funding application for the Project against assessment criteria (Part 4); and
- the decision to grant funding under the *Water Act 2007* (Part 5).

Part 2 – Project information

Program name

Off-farm Efficiency Program under Part 2AA of the *Water Act 2007*.

Proposal name

New South Wales - Nap Nap Station Water Efficiency Project (**Project**).

Relevant State

New South Wales state-led project.

Project proponent

Nap Nap Station Pty Limited

Purpose of Proposal – *Water Act 2007* s 86AD(2)

The purpose of the Proposal is to achieve the improvement of:

- water efficiency of the infrastructure that uses Basin water resources for irrigation – *Water Act 2007* s 86AD(2)(a)(i); and
- water efficiency of any other infrastructure that delivers, stores or drains Basin water resources for the primary purpose of providing water for irrigation – *Water Act 2007* s 86AD(2)(a)(ii).

Summary of Proposal

The Project will improve water delivery efficiency, provide economic benefits to the local community and increase bushfire firefighting capability in the local area by:

- replacing 45 km of open channels used for Stock and Domestic purposes with pipes and extend the network with an additional 40 km of pipe
- installing two stock and domestic pump stations
- installing 31 tanks and 37 new troughs
- installing of tank fittings compatible with the New South Wales (NSW) Rural Fire Service.

Water savings transferrable to Commonwealth Environmental Water Holder

The project will result in a total of 300 ML of water savings of non-tradeable Stock and Domestic water entitlement currently held by Nap Nap Station.

50 per cent of the water saving will be returned to the Commonwealth for the environment after conversion to 147 ML of Murrumbidgee High Security water entitlements, under the NSW *Water Management Act 2000* section 71. This equates to 143.62 ML long term average annual yield (LTAAY).

Nap Nap Station will retain 150 ML of the water savings in the form of a non tradeable Stock and Domestic water license. As Stock and Domestic water entitlements are non-tradeable, there is no impact on the market or consumptive pool. NSW will undertake all water entitlement conversions, amendments and transformations required.

Funding amount

\$2.39 million

Part 3 – Assessment against basic eligibility criteria

Sufficiency of information

The Project application includes all required information and the information provided is considered sufficient to allow assessment of the Project application against assessment criteria.

Eligibility of proposed Project activities

The activities proposed under the Project are consistent with the descriptions of efficiency measures in item 38 (On Farm Irrigation Efficiency and Other Water Use Efficiencies) of the Murray-Darling Basin Ministerial Council's 'Register of Measures' notified under cl 7.13 of *Basin Plan 2012*.

Reduction of water loss¹

Based on documentation provided by the applicant as independently verified in a report from SMEC Australia Pty Ltd dated 3 August 2022 (SMEC Report), the Project will reduce the volume of Stock and Domestic water lost in the process of delivering water by 300 ML nominal and in doing so return 147 ML (nominal) or 143.62 ML Long Term Average Annual Yield (LTAAY) of water to enhance the environmental outcomes of the Basin Plan as Murrumbidgee High Security water entitlements (a high security water product) (s86AA (1)(a) and (b)).

Generation of water savings¹

Based on documentation provided by the applicant as independently verified in the SMEC Report, 50 per cent of the water savings from the activities proposed by the project will be transferred to the Commonwealth Environmental Water Holder before 30 June 2024.

The entitlements that will be transferred are 147 ML of Murrumbidgee High Security (converted from 150 ML Murrumbidgee Regulated River Stock and Domestic) water entitlements which are equivalent to a high reliability product. As part of the assessment process, the Commonwealth Environmental Water Office confirmed that the entitlement proposed for transfer under this Project is eligible for environmental water use.

In the Murrumbidgee catchment, this is an important water entitlement for the Commonwealth Environmental Water Holder. The value of these high reliability entitlements is particularly important during periods of low flows and when lower reliability water products have low allocations.

¹ This is an eligibility requirement set out in the document *The Off-farm Efficiency Program*, August 2021.

150 ML of the projected water savings will be retained by Nap Nap Station and will remain in the form of a non-tradeable Stock and Domestic water license. As Stock and Domestic water entitlements are non-tradeable, there is no impact on the market or consumptive pool.

Demonstrable public benefits¹

Based on documentation provided by the applicant, including in relation to reduction in water loss, generation of water savings, and in relation to the neutral or positive socio-economic impacts of the Project, it is considered that the Project will provide demonstrable public benefits principally by:

- improving water delivery efficiency that benefits river operations and other users downstream particularly in times of drought
- providing economic stimulus to the local community through local purchasing and employment opportunities
- increasing the NSW Rural Fire Service's bushfire firefighting capability through the use of specific tank fittings that enable the fire service to access water from specific tanks in the systems
- providing sustainable water supply to some specific watering points used by sensitive and endangered native species including the Bell Frog.

The infrastructure improvements will allow Nap Nap Station to improve the efficiency and delivery of the water network. This will be further supported by a small additional water saving of 150 ML of non-tradeable Stock and Domestic water retained in the system.

Neutral or positive socio-economic benefits²

Nap Nap Station undertook stakeholder engagement in designing and developing the Project and the NSW Government has undertaken public consultation during its assessment of the [Murray-Darling Basin Ministerial Council socio-economic criteria](#) and the preparation of an assessment in accordance with those criteria.

The Assessment Panel has reviewed the NSW Government's assessment of the socio-economic benefits of the Project and reached a view that the Project will have a neutral or positive socio-economic impact.

Based on the information provided by the applicant, including the NSW Government's assessment, and the Assessment Panel's review of that assessment, it is considered that the Project meets the eligibility criteria for having a neutral or positive socio-economic benefit. Part 4 below provides further information on socio-economic benefits presented by the Project.

² This is an eligibility requirement set out in the document *The Off-farm Efficiency Program, August 2021*, but also as a substantive assessment criterion with an assessment weighting.

Part 4 – Assessment against assessment criteria summary

The information provided in the application and supporting documents (22 documents in total) was considered by the Department and the Assessment Panel, and was subject to independent technical review from SMEC Australia Pty Ltd.

In this context, this Part 4 presents core information in relation to the assessment of the Project application against assessment criteria based on that documentation. Criteria are scored as part of the Assessment Panel report.

Preparing for the future

The proposal demonstrates it will better prepare the water delivery network, irrigators and communities for the future.

The Project will better prepare stakeholders for the future by:

- improving water delivery efficiency that benefits river operations and other users downstream particular in times of drought
- enabling Nap Nap Station to better utilise their irrigation water entitlements
- reducing water losses across the Nap Nap Station's stock and domestic water system
- providing further security of water supply to neighbouring properties and industries.

Based on the information reviewed, it is considered that the proposal demonstrates it will better prepare the water delivery network, irrigators and communities for the future.

Regional economic stimulus, socio-economic outcomes and public support

The proposal provides economic stimulus to the region.

The Project proposes eligible activities which will provide economic benefits to the local economy through local purchasing and employment opportunities.

Over 80 per cent of capital expenditure is projected to flow to local contractors and suppliers. Nap Nap Station have advised they will leverage established relationships with suppliers and contractors in the Hay region for procurement of services and products for civil works. This includes earth moving, gravel supply, concrete, formwork and wet hire of heavy machinery. Local knowledge and the avoided costs associated with mobilisation and demobilisation are added benefits of using local contractors and suppliers.

The Project is estimated to create over \$1 million in added value to the Hay region.

Based on the information reviewed, it is considered that the Proposal provides economic stimulus to the region.

The proposal has neutral to positive socio-economic outcomes due to water efficiency improvements.

The Project has been assessed against the Murray-Darling Basin Ministerial Council's socio-economic criteria by NSW. The Assessment Panel has reviewed the assessment and reached a view that the Project will have a neutral or positive socio-economic impact.

The Assessment Panel agreed that the Project has neutral to positive socio-economic outcomes. These include total water savings of 143.6 ML LTAAY of water savings for the Commonwealth. (converted from 150 ML Stock and Domestic to 147 ML nominal Murrumbidgee High Security) to the Commonwealth Environmental Water Holder to enhance the environmental outcomes of the Basin Plan).

Nap Nap Station's retention of 150 ML of water savings will remain in the form of a non-tradeable Stock and Domestic water license. As Stock and Domestic water entitlements are non-tradeable, there is no impact on the market or consumptive pool.

Socio-economic outcomes include improving water delivery efficiency that benefits river operations and other users downstream. The increased on-river efficiency will lead to greater availability of environmental water to sustain wetlands in the area. This includes the Gayini Nimmie-Caira ecosystem, which is an important fish breeding area. NSW considers that any increase in environmental water will benefit all aquatic species.

Based on the information reviewed, it is considered that the Project has no negative impact on customers or the consumptive pool for the region, and has neutral to positive socio-economic outcomes due to water efficiency improvements.

The proposal has sufficient support from its direct stakeholders where applicable, from directly affected stakeholders (such as customers within the water delivery network, potential individual rationalisation customers, where applicable, and third parties with assets affected by the proposal).

The socio-economic assessment for this project was published for public feedback on 9 May 2022 and closed for comments on 22 May 2022. Overall, the public feedback received to the socio-economic assessment was majorly positive.

The local Rural Fire Service was consulted on the project and the design incorporated elements that will increase firefighting capability for the region. The Rural Fire Service has provided a letter of support as evidence to support the project progressing.

The Project acknowledges the connection to land by First Nations People. Nap Nap Station worked with the Nari Nari Tribal Council to carry out a cultural heritage survey of the proposed pipeline routes, pump stations and watering points locations. Nap Nap Station recognises that the area is environmentally and culturally significant and actively works with Nari Nari to preserve areas of significance, such as the 'Nap Nap Burial Ground, Aboriginal Place' that was gazetted in 2012. Nap Nap Station also works closely with environmental water holders to enhance and protect areas of environmental significance. During construction, the Nari Nari Tribal Council can be engaged to explore opportunities for further involvement and ensure the project meets any cultural considerations. Nap Nap Station seeks to continue the very good relationship with local First Nations People during this project and beyond.

Based on the information reviewed, it is considered that the Proposal has sufficient support from its direct stakeholders where applicable, from directly affected stakeholders.

Water savings shared between the environment and water users

The proposal has independently verified water savings.

Nap Nap Station provided the reasoning of the total volume of water to be returned to the Australian Government in their response to the socio-economic criteria. The calculations of expected water savings have been independently verified in the SMEC Report. Based on this, it is considered that the Project has independently verified water savings.

Where appropriate, the proposal describes the sharing of water savings between the environment and water users resulting from the project

The Project is proposing total savings of 300 ML nominal, half of which will be retained in the system and the remaining half will be transferred to the Commonwealth Environment Water Office as water for the environment.

Nap Nap Station considered the future water requirements for the business and recognised the importance of Stock and Domestic water entitlements to ensure that it can meet its watering requirements, particularly in years of low allocation. NSW notes that Nap Nap Station are currently utilising irrigation entitlements to assist with Stock and Domestic water delivery through the system. This suggests that any water savings are not simply ‘unused’ water that can be returned without impacts to the business.

Nap Nap Station’s 150 ML of water savings will remain in the form of a non-tradeable Stock and Domestic water license. As Stock and Domestic water entitlements are non-tradeable, there is no impact on the market or consumptive pool.

It is considered that the sharing of water savings between the environment and water users resulting from the Project is satisfactory.

The proposal delivers eligible water entitlements that can be transferred before 30 June 2024.

The Commonwealth Environmental Water Office confirmed that the water savings proposed for transfer under this project is eligible for environmental water use noting that the water entitlements will be first converted from Murrumbidgee Regulated River Stock and Domestic water entitlements to Murrumbidgee High Security water entitlements.

It is considered that the risk of water entitlements not being transferred by 30 June 2024 is low. The project is expected to take only eight months to complete, which allows adequate time for all transfer transactions to be completed.

NSW has undertaken to complete all water transfer requirements relating to entitlements being returned to the Commonwealth ahead of those being retained in the network or for other uses. The Federation Funding Agreement milestone stipulations ensure this risk is adequately addressed. NSW is also responsible for providing any shortfall of water not achieved via the works, this is also a condition of funding and outlined in the funding agreement.

It is considered that the Project will deliver eligible water entitlements that can be transferred before 30 June 2024, and it is a condition of funding that the transfer occur by this date.

Overall value for relevant money

The proposed funding for the infrastructure required to achieve water savings is demonstrated through a budget based on eligible activities that represents value for money.

The cost of the project has been reviewed in the assessment of the project as verified in the SMEC Report. The costs of the infrastructure and construction activities are consistent with current and expected market rates taking into account the increased costs linked to recent world events.

In addition to the return of high reliability, high security water entitlements that can be used at key sites across the Murray-Darling Basin by the Commonwealth Environmental Water Holder, the project will deliver immediate and longer-term social and economic outcomes.

Based on the information reviewed, it is considered that the proposed funding for infrastructure to achieve water savings has been demonstrated in a manner which represents value for money.

The proposal results in a market multiple that balances the request for funding and the value of the water entitlements returned to the Commonwealth.

The market multiple calculated for this project is 1.83, which is favourable when compared with other infrastructure and off-farm efficiency measures investments to recover water for the environment under the Murray-Darling Basin Plan.

It is noted that, the market multiplier is only one indication of how the project compares to the prevailing water market price at the time of assessment. This recognises that an investment in infrastructure delivers much greater social and economic benefits to the region than would otherwise be possible from purchasing water entitlements.

Based on the information reviewed, it is considered that the Proposal results in a market multiple that balances the request for funding and the value of the water entitlements returned to the Commonwealth.

The overall project risks are identified with appropriate risk mitigation strategies.

Project risks were considered to be well understood and well described, with appropriate treatments and controls in place. Risks were also reviewed as part of the SMEC Report.

Key risks are:

- insufficient time available before 30 June 2024 for project delivery due to program delays and construction processes reducing water recovery volumes
- onsite work, health and safety issues including work site death or serious injury
- project opportunities for water recovery do not offer value for money due to infrastructure costs or rising water entitlement prices, reducing water recovery volumes
- lack of social licence for the water recovery program
- approval not granted for pipeline alignments on crown land
- negative cultural impacts arising from construction
- negative environmental impact arising from construction.

Both NSW and Nap Nap Station have identified appropriate risk treatment to lower the likelihood of these risks occurring.

Identified risks will be mitigated appropriately including as a requirement of funding relating to program delivery. Mitigation strategies such as establishing governance structures and risk planning will be implemented between the department, the NSW State government and Nap Nap Station.

Based on the information reviewed, it is considered that the overall project risks are identified and that appropriate risk mitigation strategies are in place to control these risks.

Part 5 – Decision consistent with statutory objectives

Having regard to the activities, funding level and water savings eligible for transfer as presented in the Project application and associated documents, and having regard to the Assessment Panel report and SMEC Report, the Minister has determined to approve the provision of funding for the Project from the WESA under the *Water Act 2007* and consistently with the *Public Governance, Performance and Accountability Act 2013*, on the basis of an assessment demonstrating that:

- the Project furthers the objects of Part 2AA of the *Water Act 2007*, as set out in s 86AA of the *Water Act 2007*;
- the proposed funding for the Project is consistent with the purposes of the WESA set out in s 86AD(2) of the *Water Act 2007*; and
- the WESA can be debited for the purposes of the Project in accordance with s 86AD(4) of the *Water Act 2007*.