

PROJECT AGREEMENT TO PRODUCE WATER FROM THE ADELAIDE DESALINATION PLANT TO SUPPORT THE WATER FOR FODDER PROGRAM

An agreement between:

- the Commonwealth of Australia; and
- the State of South Australia

The output of this project will be the production of up to 100 gigalitres of water from the Adelaide desalination plant to support the Water for Fodder program.

Project Agreement to produce water from the Adelaide Desalination Plant to support the Water for Fodder Program

OVERVIEW

1. This Project Agreement (the Agreement) is created subject to the provisions of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) and should be read in conjunction with that Agreement and its Schedules, which provide information in relation to performance reporting and payment arrangements under the IGA FFR.

Purpose

2. This Agreement will fund the State of South Australia (the State) to produce up to 100 gigalitres of water from the Adelaide Desalination Plant at the actual marginal cost of production and to transfer water allocations from entitlements held by the State in the Murray-Darling Basin to irrigators in the Southern Murray-Darling Basin (the Basin) under the Water for Fodder program. The Water for Fodder program forms part of the Australian Government's drought response package to improve the resilience of farmers and rural communities during this current drought.
3. The principles under which this arrangement will operate, which are agreed by the Commonwealth of Australia (the Commonwealth) and the State of South Australia (the State), are:
 - no adverse impacts on Adelaide water security
 - no adverse impact on Adelaide water prices
 - SA Water will not incur a profit or loss from the arrangement
 - no adverse impacts on flows to South Australia's Lower Lakes
 - recognising the impact of current drought conditions, the arrangement is a once off arrangement
 - water users will be responsible for covering the cost of any water delivery fees and charges
 - the operation of the arrangement would be reviewed before the commencement of the 2020-21 water year to assess effectiveness, costs and risks.

Reporting Arrangements

4. The State will report against the agreed milestones during the operation of this Agreement, as set out in Part 4 – Project Milestones, Reporting and Payments.

Financial Arrangements

5. The Commonwealth will provide an estimated total financial contribution to the State of up to \$82.6 million (exclusive of GST) in respect of this Agreement, as set out in Part 5 – Financial Arrangements, with the total payment amount to reflect actual costs.

PART 1 – FORMALITIES

6. This Agreement constitutes the entire agreement for this project.

Parties to this Agreement

7. This Agreement is between the Commonwealth of Australia (the Commonwealth) and State of South Australia (the State).

Term of the Agreement

8. This Agreement will commence as soon as the Commonwealth and the State sign it and will expire on 30 June 2022 or on completion of the project, including final performance reporting and processing of final payments against milestones, unless terminated earlier or extended as agreed in writing by the Parties.

PART 2 – PROJECT OUTPUTS

Output(s)

9. The outputs of this Agreement will be:
- (a) Production of up to 100 gegalitres of water from the Adelaide Desalination Plant over FY2019-20, FY2020-21, and if required FY2021-22;
 - (b) The release and transfer of temporary water allocation from water entitlements held by the State in SA Water's Metropolitan Adelaide River Murray Licence as follows:
 - 1 Round 1 - 40 GL in FY2019-20;
 - 2 Round 2 - Subject to the principles at Clause 3 being satisfied and Clause 9.(c), up to 60GL in FY2020-21; and
 - 3 Subject to Clause 9.(b).2, the balance of water that is not released in FY2020-21 (if any) in FY2021-22;
 - (c) A review of Round 1 of the Water for Fodder program, which will focus on the implementation of Round 1, water availability in the Basin, South Australia's water security and allocations, and the risk exposure of water-dependent agricultural sectors across the Basin;
 - (d) A drought program of up to \$10.0 million to be developed and implemented in South Australia from the proceeds that are received by the State from the sale of water allocations to irrigators in the connected southern Murray-Darling Basin.

PART 3 – ROLES AND RESPONSIBILITIES OF EACH PARTY

Role of the Commonwealth

10. The Commonwealth will be responsible for:
- (a) Providing estimated funding of about \$82.6 million to the State for the marginal cost to operate the Adelaide Desalination Plant to produce up to 100GL of water, for administrative costs associated with the transfer of water allocations to eligible irrigators and for the review of state costs, with the total final amount of Commonwealth funding to

be based on advice from the Essential Services Commission of South Australia (ESCOSA) about actual costs;

- (b) Providing South Australia with the names of eligible irrigators and associated volumes of water under the Water for Fodder program, and other relevant information to enable the State to transfer water allocations to eligible irrigators;
- (c) In conjunction with the State, undertaking a review of Round 1 of the Water for Fodder program (Clause 8.(c)); and
- (d) Monitoring and assessing achievement against milestones under this Agreement to ensure that outputs are delivered within the agreed timeframe.

Role of the State

11. The State will be responsible for:

- (a) Ensuring that the Adelaide Desalination Plant produces up to 100 GL of water and releasing an identical volume of water from allocations from water entitlements held by the South Australian government or its agencies in the connected Southern Murray-Darling Basin for the purposes of the Water for Fodder program;
- (b) Selling and managing the transfer of the volumes of water to individual irrigators as specified by the Commonwealth under Clause 9(b) and meeting any key performance indicators for processing of the transfers agreed with the Commonwealth,
- (c) Developing and implementing a drought program for South Australia using the proceeds of water allocation sales under Clause 10 (b) above.
- (d) In conjunction with the Commonwealth, participating in a review of Round 1 of the Water for Fodder program (Clause.8.(c)) and all other aspects of delivering on the project outputs set out in this Agreement, including provision of any and all information necessary for the conduct of the review in a timely manner;
- (e) To ensure there is no profit or loss gained from the arrangements, ensuring that ESCOSA independently reviews and verifies the actual marginal cost incurred by SA Water in producing up to 100 gigalitres of water from the Adelaide Desalination Plant under this Agreement, noting the following estimated costs:
 - i. Costs for operation and maintenance of the plant inclusive of all consumables – estimated at \$6 million for the first 40 GL in 2019-20;
 - ii. Costs for energy, based on contracted rates with AGL (including commitments to use green energy), as well as increased network and transmission tariffs – estimated at \$24 million for the first 40 GL in 2019-20;
 - iii. Current and estimated future cost associated with wear and tear to ultrafiltration and reverse osmosis membranes related to the amount of water produced under this Agreement – estimated at \$2 million for the first 40 GL in 2019-20;
 - iv. Associated management and monitoring costs – estimated respectively at \$0.35 million and \$0.15 million for the first 40 GL in 2019-20.
- (f) Complying with the Murray-Darling Basin Ministerial Council's conditions it set in agreeing to trading from SA Water's Metropolitan Adelaide River Murray Licence and/or water account under Schedule E, Clause 7(2) in the Murray-Darling Basin Agreement; and

- (g) Reporting on the delivery of outputs as set out in Part 4 – Project Milestones, Reporting and Payments.

Note: The Parties will meet the requirements of Schedule E, Clause 26 of the IGA FFR, by ensuring that prior agreement is reached on the nature and content of any events, announcements, promotional material or publicity relating to activities under this Agreement, and that the roles of both Parties will be acknowledged and recognised appropriately.

PART 4 – PROJECT MILESTONES, REPORTING AND PAYMENTS

Table 1: Performance requirements, reporting and payment summary

Output	Performance milestones or benchmark	Report due	Payment
Production of water from the Adelaide Desalination Plant Transfer of Murray Darling Basin water allocations to eligible farmers under the Water for Fodder Program	Progress report confirming production of water from the plant, identifying the volume produced under this agreement and that at least 20 GL of Murray Darling Basin water allocations have been transferred to eligible farmers.	12 March 2020	\$17 million
Production of water from the Adelaide Desalination Plant Transfer of Murray Darling Basin water allocations to eligible farmers under the Water for Fodder Program	Progress report confirming production of at least 15 GL of water from the plant, identifying the total volume produced under this agreement and that a total of 40GL of Murray Darling Basin water allocations has been transferred to eligible farmers.	3 April 2020	\$11 million
Report of joint review commissioned under Clause 9(c) of this agreement	Review Report	15 April 2020	Nil
Production of water from the Adelaide Desalination Plant	Progress report confirming production of a total of 40 GL of water from the plant for the purposes of this Agreement	12 June 2020	\$2 million

Report from the Essential Services Commission of South Australia (ESCOSA) on the marginal cost of the supply of water under this arrangement and the administrative costs of transferring water allocations to eligible farmers by South Australia.	Independent report identifying the total marginal cost of the production of 40 GL of water from the Adelaide Desalination for the purposes of this Agreement, the costs incurred by South Australia in administering the transfer of water allocations to eligible farmers under the Water for Fodder Program and the ESCOSA review costs. The outcome of the review will inform the actual milestone payment amount and whether or not any amounts need to be reimbursed to the Commonwealth from earlier milestone payments.	12 June 2020	\$3 million (actual amount subject to outcome of review at Clause 11 (e))
Subject to the outcome of the review under Clause 9 (c) of this agreement: Production of up to a further 60 GL of water from the Adelaide Desalination Plant Transfer of up to a further 60 GL of Murray Darling Basin water allocations to eligible farmers under the Water for Fodder Program Independent Report from ESCOSA on marginal costs of producing the final total volume of water.	To be agreed after consideration of the Review Report	To be agreed	Up to \$49.6 million

12. If a milestone is met in advance of the due date, where the relevant performance report demonstrates that the milestone has been met, the Commonwealth may make the associated payment earlier than scheduled provided it falls within the same financial year as the original milestone date.

Reporting arrangements

13. The State will provide performance reports in accordance with Table 1 during the operation of the Agreement. Each performance report is to contain a description of actual performance in the period to date against the project milestones.

PART 5 – FINANCIAL ARRANGEMENTS

14. The Commonwealth will provide an estimated total financial contribution to the State of \$82.6 million in respect of this Agreement. All payments are GST exclusive.
15. The Commonwealth's funding contribution will not be reduced where the State secures funding from other parties.
16. The Commonwealth's and the State's estimated financial contributions to the operation of this Agreement, including through National Partnership payments to the States paid in accordance with *Schedule D — Payment Arrangements* of the IGA FFR, are shown in Table 2.

Table 2: Estimated financial contributions

(\$ million)	2019-20	2020-21	2021-22	2022-23	Total
Estimated total budget	33.0	49.6	0.0	0.0	82.6
Less estimated National Partnership Payments	33.0	49.6	0.0	0.0	82.6
Balance of non-Commonwealth contributions	0.0	0.0	0.0	0.0	0.0

17. The Parties intend that the final amount to be paid for the production of water from the Adelaide Desalination Plant to offset water provided for the Water for Fodder Program will reflect the actual marginal cost of producing desalinated water from the Adelaide Desalination Plant under this agreement, without any profit margin, and of administering the transfer of water allocations to eligible farmers under the Water for Fodder Program and undertaking the review of costs. The Parties acknowledge that the actual total payment amounts may vary from the estimates in Table 2.

PART 6 – GOVERNANCE ARRANGEMENTS

Enforceability of the Agreement

18. The Parties do not intend any of the provisions of this Agreement to be legally enforceable. However, that does not lessen the Parties' commitment to this Agreement.

Variation of the Agreement

19. The Agreement may be amended at any time by agreement in writing by both Parties. The Parties acknowledge that the agreement may be amended following the review under clause 9(c).

Delegations

20. The Commonwealth Minister may delegate the assessment of performance against milestones and the authorisation of related project payments to senior Commonwealth officials, having regard to the financial and policy risks associated with those payments.

Dispute resolution

21. Either Party may give notice to other Party of a dispute under this Agreement.
22. Officials of both Parties will attempt to resolve any dispute in the first instance.
23. If a dispute cannot be resolved by officials, it may be escalated to the relevant Ministers.

The Parties have confirmed their commitment to this agreement as follows:

Signed *for and on behalf of the Commonwealth
of Australia by*



The Honourable Keith Pitt MP

Minister for Resources, Water and Northern Australia

26 February 2020

Signed *for and on behalf of the
State of South Australia by*



The Honourable David Speirs MP

Minister for Environment and Water

20 February 2020