

Independent Pricing and Regulatory Tribunal
P O Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir

REVIEW OF PRICES FOR WATER NSW – RURAL BULK WATER SERVICES FROM 1 JULY 2017, ISSUES PAPER

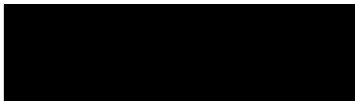
Ref: *BL/SF2229*

On behalf of Tamworth Regional Council thank you for the opportunity to provide comments on IPART's Draft Determination - Review of Prices for Water NSW – Rural Bulk Water Services from 1 July 2017.

Council's submission follows.

Please contact the undersigned should you wish to discuss this matter further.

Yours faithfully



Bruce Logan
Director Water and Waste



13 April 2017



Tamworth Regional Council

**Response to the Independent Pricing and Regulatory
Tribunal's**

Draft Determination

**Review of Prices for Water NSW – Rural Bulk Water
Services from 1 July 2017**

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Background

Tamworth Regional Council holds

- a 16,400 Megalitre local water utility license for bulk raw water delivered from Water NSW's Chaffey Dam to supply the City of Tamworth.
- a 150 Megalitre local water utility license for bulk raw water delivered from Water NSW's Split Rock Dam to supply the town of Manilla.
- a 365 ML local water utility license for bulk raw water from Water NSW's Split Rock Dam to supply the town of Barraba.

Split Rock Dam is in the Namoi Valley and Chaffey is in the Peel Valley for the purposes of pricing and both valleys are in the Murray Darling Basin.

This submission is response to IPART's Draft Determination into the Review of prices for Water NSW Rural Bulk Water Services to apply from 1 July 2017.

Council would like to comment on a number of issues as detailed below;

Proposed Prices in the Peel Valley

Council notes that the Peel Valley is now considered to be at full cost recovery and therefore there is no need for charges to increase higher than CPI over the next 4 years

Council also welcomes the significant reduction in prices to be levied on high security entitlement holders like Council in the Peel Valley. A chart showing the effect on Council's charges in the Peel is attached. Council does note however that the cost of high security water in the Peel, even if the draft determination is implemented unchanged, is still almost double the cost of similar volumes of water sourced from other Murray Darling Basin Valleys. This inequity remains a serious concern for Council.

In relation to general security users Council also welcomes the slight reduction in charges paid by general security entitlement holders over the next 4 years.

Introduction of a volatility allowance in the Namoi

In the Namoi Council again welcomes the slight reduction in costs to high security entitlement holders, however notes an increase in bills for general security (GS) customers as result of IPART's decision to include a volatility allowance (\$0.50 per ML per year) in the charge to manage revenue volatility risk faced by Water NSW associated with its 40:60 fixed to variable tariff structure.

Further, IPART has also made a decision to discontinue the under and overs mechanism (UOM), and adjusted prices to ensure the outstanding balance of the UOM account is paid back – which impacts (increases) GS bills.

Council does not agree with insuring against revenue volatility. The NSW Government under its Best Practise Guidelines for Water and Sewer require local utilities to recover income from water sales at 25/75 fixed/usage. It defies belief that on one hand the government is telling local water utilities to manage such volatility in house and yet allowing a State Owned Corporation to charge its customers under a suggested 80/20 split. Councils have to manage revenue volatility and Water NSW should as well.

If Water NSW and IPART insist in taking measures to insure against revenue volatility then the cost of that insurance should not be met by users.

Split up between fixed and usage in the Peel

Both Water NSW and the Peel Valley Water Users Association have approached Council urging support for a change to the fixed/usage split up for revenue in the Peel Valley from the existing 40/60 split to 80/20.

Council has considered this matter closely and has resolved not to support a change to the present 40/60 split unless the State Government reimburses Council, in perpetuity, for lost savings if the 80/20 split up is introduced. Council's reasons include;

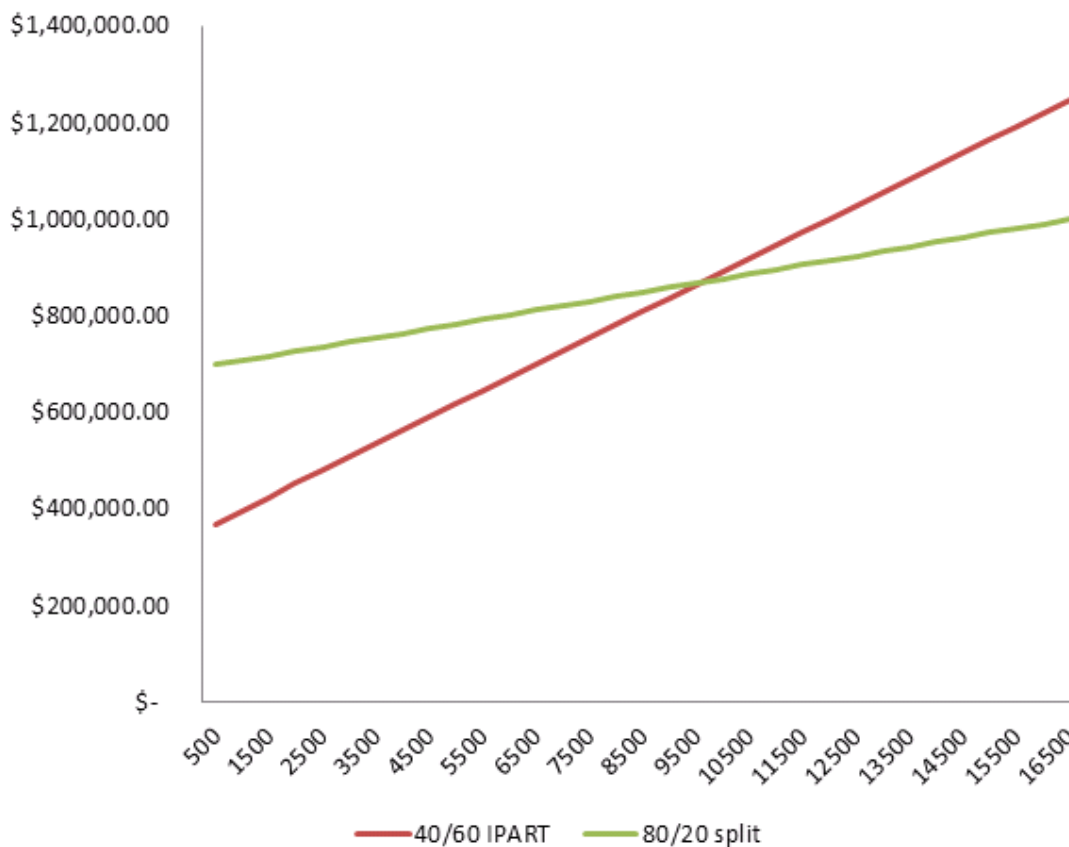
- Council's reduction in charges is reduced from \$253,313 per year under IPART's draft determination based on 40/60 to \$76,638 under the proposed 80/20 split up based on figures provided by Water NSW;
- At this time Council does not know what the final charges under an 80/20 split will be. IPART may adopt different charges to those provided by Water NSW under an 80/20 split. Not knowing the potential impact inhibits decision making.
- Whilst GS irrigators charges (based on an entitlement of 100 ML's and using 25 ML per year) will fall considerably further under an 80/20 split, based on Water NSW figures, than IPART's draft determination under a 40/60 split up, if the 80/20 split up is imposed Council will be directly subsidising GS users including irrigators. Council does not believe it is part of its responsibility to directly subsidise some business over others.
- Higher entitlement charges may see owners of licenses that have been inactive consider whether to start irrigating using these licenses or to trade to other active license holders. If more licenses become active, the Long Term Average Annual Exceedance Limit in the Peel may be breached, resulting in lower allocations for GS users.
- Council has in the past contributed financially to the construction of the original Chaffey dam and to the augmentation of the Dam, yet Council still pays the same charges as all other high security users who did not make any capital contribution to the cost of the asset. Suggestions that it may be in Council's interest long term to accept the 80/20 split up over 40/60 would therefore appear to be unfounded.
- Once in place there is no certainty that charging will ever go back to 40/60 or any other split up
- There will be no appeal after the final determination. The charges adopted by IPART will remain in place for the next four years until the next review
- Council will pay considerably more per year when we extract average amounts of water from Chaffey Dam – see comments and graph below.

The introduction of an 80/20 split, if it were to occur, would mean that Council will pay almost \$690,000 in charges, per year, to Water NSW whether Council accessed any water from Chaffey Dam or not, however, usage charges under an 80/20 split would be lower than under the present 40/60 split. As a result, there would be a usage amount where the total cost paid by Council to Water NSW under 80/20 would become less than under the present 40/60.

The chart below shows this graphically. The annual consumption where the 80/20 regime becomes cheaper than 40/60 is when Council begins to access more than 9,706 ML's per annum. However, since 1990/91, with respect to the volume of water accessed from the Peel to supply treated water to Tamworth.

- | | |
|------------------------------------|------------|
| • Average from the Peel | 4,715 ML's |
| • Maximum from the Peel (02-03) | 9,151 ML's |
| • Maximum from all sources (90/91) | 9,809 ML's |

As a result, it is considered unlikely that Council will save any additional money from the introduction of an 80/20 split in the next 10 to 20 years.



- If the 80/20 split is introduced Council will consider effectively moth balling its own Dungowan Dam and take all its water from Chaffey Dam, to minimise the unit cost of raw water supply. As a result, instead of taking on average 4,715 Megalitres of water per annum from Chaffey Dam for Tamworth’s supply, this figure will rise, under an 80/20 regime, to 8,418 Megalitres on average annually. Sourcing this increased volume of water from Chaffey Dam must have a detrimental effect on the security and reliability of the supply for general security irrigators and for the City of Tamworth itself.

Postage Stamp Pricing

Whilst some cost reductions are evident in the draft determination the fact remains that users in the Peel Valley pay an extraordinarily high price for accessing bulk water compared to other valleys within the Murray Darling Basin. Council is of the view this is equitable and to address this inequity has repeatedly called for postage stamp pricing for bulk water within NSW. Again Council makes the following points in support of postage stamp pricing

- In the case of supplementary or off allocation flows, where water flows from one valley into another, there is some debate about the charges levied for that water if it is intercepted by a user in a valley that is not the valley the water originated from. For example if flow in the Peel River results in supplementary or off allocation flows in the Namoi, the Namoi irrigators pay to intercept this water at the Namoi valley costs, even though if the water had been intercepted in the Peel the price to intercept would have been double. Postage stamp pricing does away with this issue.
- Water shepherding rules. In a similar manner to the point above in the event environmental flows are released from one valley for the purposes of addressing environmental concerns in a downstream valley how much does the environmental water holder pay for that water – is it the cost associated with the valley it was released from or the cost associated with the valley it ends up. Postage stamp pricing would address this issue.

- Legacy issues. The cost of supplying raw water in some valleys is higher because of decisions made by governments before the notion of users pays was conceived. For example in the Namoi Valley two dams were constructed, Keepit and Split Rock. With the benefit of hindsight, and the desire for users pays, it may have been better to construct one larger dam rather than two. In so doing the cost of raw water in the Namoi could have been reduced because no one argues that the operating cost of two separate smaller dams is higher than one larger dam. Present day users who are required to pay for raw water at costs which reflect the cost of operating two dams, or in the case of the Peel, one relatively small storage, were not consulted at the time the decision was made, or able to consider the decision to build the second dam/smaller storage in terms of increased ongoing costs.
- Council supports requiring monopoly suppliers to provide detailed cost break ups associated with the delivery of bulk water in a particular valley. This can help identify inefficiency's or unnecessary waste. But Council contends there is no reason why, having calculated the cost of the service in each valley, these costs could not be aggregated and divided by the total amount of water delivered across the state to determine the postage stamp price.
- To date regulatory bodies like IPART and the Australian Competition and Consumer Commission have repeatedly rejected postage stamp pricing for a variety of reasons. Yet in the recent determination handed down by IPART in relation to charges levied by DPI Water, IPART has accepted charges that will see all groundwater customers in the Murray Darling Basin (excluding the Murrumbidgee Valley) pay the same access and usage charges for groundwater, regardless of location. This seems to Council to be almost a postage stamp price for groundwater across NSW. If postage stamp pricing is able to be applied for groundwater, Council is asking why the same justification can't be applied to surface water, and questioning whether the reasons provided for rejecting postage stamp pricing for surface water previously are actually valid.

IPART's Draft Determination 40/60 Peel

