

The Chair  
Independent Pricing and Regulatory Tribunal  
P O Box Q2920  
**QVB Post Office NSW 1230**

Dear Sir

**REVIEW OF RURAL WATER CHARGING SYSTEMS**

*Ref: SF5697*

In response to the Tribunal's request for comments following release of the discussion paper relating to the review of rural water charging systems please find Council's submission attached.

Council appreciates the opportunity to comment.

Yours faithfully



Bruce Logan  
**Director – Water Enterprises**

Contact: (02) 6767 5811

9 July 2012

All correspondence should be addressed to the General Manager:

Telephone: 6767 5555

PO Box 555 (DX 6125)

[trc@tamworth.nsw.gov.au](mailto:trc@tamworth.nsw.gov.au)

Facsimile: 6767 5499

Tamworth NSW 2340

[www.tamworth.nsw.gov.au](http://www.tamworth.nsw.gov.au)



# **TAMWORTH REGIONAL COUNCIL**

**Submission to:**

**THE INDEPENDENT PRICING AND REGULATORY  
TRIBUNAL**

## **REVIEW OF RURAL WATER CHARGING SYSTEMS**

**July 2012**

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## TAMWORTH REGIONAL COUNCIL

### SUBMISSION TO IPART

#### REVIEW OF RURAL WATER CHARGING SYSTEMS

Council appreciates the opportunity to provide comments on the discussion paper associated with the Review of Rural Water Charging Systems and also to participate in the workshop held at Narrabri on 15 June 2012.

#### INTRODUCTION

Tamworth Regional Council covers an area of approximately 9,600 square kilometres and has a population of 54,250. The Council area encompasses all of the Peel Valley and portion of the Namoi Valley (upstream reaches).

The Peel Valley is a sub-catchment comprising about 10% of the Namoi Valley of the Namoi River but for the purposes of water charging is treated separately to the Namoi.

Council sources water from regulated rivers, unregulated rivers and groundwater to provide town water supplies to the townships of Attunga, Barraba, Bendemeer, Kootingal/Moonbi, Manilla, Nundle and Tamworth City.

Water for the Attunga, Kootingal/Moonbi, Nundle and Tamworth City water supplies are sourced from the Peel Valley and the other schemes source water from the Namoi Valley.

On average, approximately half of Tamworth City's water is drawn from the Council owned Dungowan Dam (via pipeline to the City) and half from Chaffey Dam via an inlet works on the Peel River. Council has a High Security entitlement of 16,400ML from Chaffey Dam and over the past 21 years has drawn an average 5,100 ML from this source.

Council directly contributed 25% of the original estimated construction cost of Chaffey Dam and was granted a contract for supply of the High Security entitlement from the Dam. This contract represents the long-term secure water supply for Tamworth and was entered into as an alternative to Council constructing its own, stand alone water supply dam. This High Security entitlement of 16,400 ML represents 95% of High Security water entitlement in the Peel Valley.

In addition the Council is contributing \$3.358 Million to the cost of the Chaffey Dam augmentation which will see storage increase from the present 62 GL to 100 GL providing greater security and reliability to all consumers in the Peel Valley.

#### GENERAL COMMENTS

Firstly Council would like to make the following general comments before specifically addressing the issues detailed in the discussion paper.

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## Postage Stamp Pricing

For many years Council, along with the Namoi Peel Customer Service Committee, has held the view that the current valley based pricing structure, whereby all costs attributable to consumers in a particular valley are levied against only those consumers, is inequitable because it unfairly penalises consumers for decisions made without their input or understanding of the ramifications of those decisions and increases the cost of irrigation in one valley relative to another based on a service which cannot be controlled by the customer.

For example there are two large storages in the Namoi Valley – Keepit and Split Rock Dam. The decision to build two dams in the valley was made by the State without input from the Namoi Valley consumers. It may have been possible to build one larger storage capable of supplying the same quantity and reliability of water that the Namoi consumers enjoy today. But two dams, each with their own cost profiles, were constructed and now the Namoi consumers are forced to pay the costs associated with running two dams stemming from a decision made decades ago when the notion of valley based pricing (introduced in 1996) was not under consideration.

In the Peel you have the absurd situation that water flowing out of the Peel Valley into the Namoi Valley during supplementary flows is available for extraction but the charges for extracting that water are different depending on which valley the water is extracted from. The water costs \$33.59 per Megalitre whilst it flows in the Peel Valley and only \$19.73 when it flows onto the Namoi and is extracted from that source. This difference in cost cannot be reasonably justified and clearly shows the inequity in the current pricing structure.

Further under the draft Murray Darling Basin Plan the notion of environmental flows and moving environmental water from catchment to catchment to satisfy environmental demands perhaps elsewhere in the Basin has lead to the NSW Office of Water preparing the draft proposed arrangements for shepherding environmental water in NSW. Whilst these arrangements look at how the quantity of environmental water flowing into and out of adjacent valleys will be handled it does not appear to address how much that water will cost to extract when it reaches it's destination – will it be the costs associated with the valley that it originated from or the costs of the valley it ends up in, not to mention costs associated with getting that water through one valley to another.

The attached table shows that the cost to Tamworth Regional Council of its annual 16,400 Megalitre high security license and the cost of extracting the average annual amount of 5,100 Megalitres per year in 2011/2012 is \$461,868. The cost for the same entitlement and quantity of water sourced from the adjoining Namoi Valley falls to \$337,476 and if Tamworth was located in the Murrumbidgee the cost would be only \$79,444 - one sixth of the cost of the same water sourced from the Peel.

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It is clear to Tamworth Regional Council that the only fair and equitable way to charge for raw water is the introduction of postage stamp pricing across all of NSW such that the price of one Megalitre of water is the same no matter where it is extracted.

Postage stamp pricing is considered economically justifiable by both the NSW and Australian Governments as it applies to vehicle registration and postage stamp pricing, respectively, so clearly arguments can be made to support postage stamp pricing when required. Council believes that the same arguments are equally attributable to the price of raw water.

### **Return on Investment**

Council believes the cost of raw water is artificially inflated because of the State's requirement for a return on investment. Clearly there are examples across NSW where the State Government does not require a return on investment for services delivered, most notably the running of Sydney trains and ferries. Clearly if a return on investment was applied for these services then the cost to the Sydney commuter would rise. Obviously the State Government is not prepared politically to make such a decision in Sydney but it is prepared to make such a decision, which effectively forces up the price of essential commodity, if that decision adversely affects only rural communities and irrigators.

Further Council contributed significantly to the cost of Chaffey Dam when constructed and will now contribute again to the cost of augmenting the dam storage. If these contributions are included in the cost of the investment that the State is now seeking a return on, then Council is paying twice, once during the construction and on an ongoing basis through the price of raw water it extracts.

### **Socio-economic assessment**

Council believes strongly that any review of pricing for raw water in the Namoi/Peel must only be considered once proper socio-economic assessment of any proposed changes has been undertaken. To this end Consultants engaged by the Namoi Council's Water Working Group have recently completed work on an economic model which looks at the impact of changes to raw water pricing and availability to the Namoi region. Council believes this model is an extremely powerful tool to evaluate economic effects of changes to the availability/reliability or price of raw water and urges IPART to make use of the model during consideration of any proposed changes that may impact on the Namoi/Peel Valleys.

## **COMMENTS ON ISSUES RAISED WITHIN THE DISCUSSION PAPER**

Notwithstanding Council's earlier comments and the need for a review of pricing of raw water generally the Discussion Paper sought responses relating to 3 areas of review. Council's comments are provided below.

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IPART Review of Rural Water Charging Systems

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## **Tariff structures and other policy options**

Faced with a continuation of the current valley based pricing regime Council would support the preliminary view of IPART to maintain the current tariff structure for both State Water and NSW Office of Water because the continuation of these structures will, at least, provide certainty to consumers moving forward.

The notion of appropriate volatility allowances and conditional payment arrangements in time of low water availability is also supported, in principle, but the lack of detail on how such arrangements, particular the volatility allowance, will be implemented and any effect that implementation will have on customers means that Council is unable to comment on the proposal in detail. Council would object however if the application of the volatility allowance led to Council paying relatively more for high security water extracted in the Peel Valley.

## **Determining government cost shares**

Council supports IPART's preliminary view in relation to this issue of retaining current cost sharing ratios for a certain period and review them from time to time. In practise this would see the current cost shares remain in place until 1 July 2017. After that IPART would review the cost shares every second determination by the Australian Consumer and Competition Commission (i.e. every 8 years). Council agrees that this approach provides a suitable balance between the need to ensure the cost sharing ratios remain appropriate and the additional costs imposed in undertaking a separate review of cost shares every pricing determination.

## **Determining government contributions to users' share of costs**

Council does not support IPART's preliminary view to progressively increase the average Peel Valley bill by 5% per annum with the remainder of the costs covered by a Customer Services Obligation given that the valley is at 90% cost recovery.

The attached table shows the existing price differential between general security and high security consumers in the Peel compared to other valleys within the Murray Darling Basin. Council considers that the existing charges and reliability of water make irrigation in the Peel marginal already. Further increases in costs like those suggested would have a further significant negative impact on this industry and would lead to a reduction in economic activity. Council believes this reduction cannot be justified on any grounds.

As mentioned previously IPART should make use of the recently completed economic model which looks at the effect of changes to water availability and/or pricing before considering such a proposal further.

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Finally one of the options suggested on relation to this issue at the Narrabri workshop was to further increase the cost of raw water for high security entitlement holders relative to general security entitlement holders in the Peel Valley to reduce the existing customer service obligation amount paid by the State Government. Council is also opposed to this suggestion as the existing ratio sees Council, holder of 95% of the high security entitlement in the Peel Valley, pay over 8 times the entitlement charge of the general security entitlement holders. This ratio is more than double the next highest ratio between high and general security entitlement charges within Murray Darling Basin valleys. Once again Council believes this ratio cannot be justified and the State is simply imposing the greatest share of the cost associated with the operation of Chaffey Dam on the largest customer, one which has no alternative but to pay the charges imposed.

It is Council's view that that the State Government should continue to provide the same or greater level of subsidy to the costs associated with providing raw water in the Peel Valley until it introduces postage stamp pricing across the State or funds a larger storage that can provide additional raw water to consumers in the Peel Valley allowing expansion of the irrigation industry and thereby an increase in the numbers and capacity of customers to pay.

Council thanks IPART for the opportunity to comment on the matters raised.

## Regulated River Charges

		2011/2012			Cost of Tamworth Water HS (Ent 16,000 and usage 5,200/year) - 2011-2012		
		High Security		General Security			
		NOW	State Water	Total	NOW	State Water	Total
Border	Entitlement	2.07	7.89	9.96	2.07	3.28	5.35
	Usage	1.59	8.14	9.73	1.59	8.14	9.73
	<b>Price/ML</b>			<b>19.69</b>			<b>15.08 Total</b>
Gwydir	Entitlement	1.08	11.79	12.87	1.08	3.89	4.97
	Usage	0.99	11.81	12.8	0.99	11.81	12.8
	<b>Price/ML</b>			<b>25.67</b>			<b>17.77 Total</b>
Namoi	Entitlement	1.9	12.78	14.68	1.9	8.48	10.38
	Usage	1.3	18.43	19.73	1.3	18.43	19.73
	<b>Price/ML</b>			<b>34.41</b>			<b>30.11 Total</b>
Peel	Entitlement	1.56	16.39	17.95	1.56	2.07	3.63
	Usage	2.47	31.12	33.59	2.47	31.12	33.59
	<b>Price/ML</b>			<b>51.54</b>			<b>37.22 Total</b>
Lachlan	Entitlement	1.24	9.44	10.68	1.24	3.9	5.14
	Usage	1.43	15.35	16.78	1.43	15.35	16.78
	<b>Price/ML</b>			<b>27.46</b>			<b>21.92 Total</b>
Macquarie	Entitlement	1.39	7.96	9.35	1.39	3.7	5.09
	Usage	1.34	11.73	13.07	1.34	11.73	13.07
	<b>Price/ML</b>			<b>22.42</b>			<b>18.16 Total</b>
Murray	Entitlement	1.38	2.69	4.07	1.38	2.19	3.57
	Usage	0.9	4.6	5.5	0.9	4.6	5.5
	<b>Price/ML</b>						<b>\$ 209,956.00</b>
							<b>\$ 272,480.00</b>
							<b>\$ 234,880.00</b>
							<b>\$ 102,596.00</b>
							<b>\$ 287,200.00</b>
							<b>\$ 174,668.00</b>
							<b>\$ 461,868.00</b>
							<b>\$ 170,880.00</b>
							<b>\$ 87,256.00</b>
							<b>\$ 258,136.00</b>
							<b>\$ 149,600.00</b>
							<b>\$ 67,964.00</b>
							<b>\$ 217,564.00</b>
							<b>\$ 65,120.00</b>
							<b>\$ 28,600.00</b>



## Regulated River Charges

		2011/2012				Cost of Tamworth Water HS (Ent 16,000 and usage 5,200/year) - 2011-2012		
		High Security		General Security				
		NOW	State Water	Total	NOW	State Water	Total	
	<b>Price/ML</b>			<b>9.57</b>			<b>9.07</b>	<b>Total \$ 93,720.00</b>
Murrumbidgee	Entitlement	1.08	2.53	3.61	1.08	1.51	2.59	\$ 57,760.00
	Usage	0.69	3.48	4.17	0.69	3.48	4.17	\$ 21,684.00
	<b>Price/ML</b>			<b>7.78</b>			<b>6.76</b>	<b>Total \$ 79,444.00</b>
North Coast	Entitlement	3.73	6.96	10.69	3.73	5.42	9.15	\$ 171,040.00
	Usage	3.69	33.69	37.38	3.69	33.69	37.38	\$ 194,376.00
	<b>Price/ML</b>			<b>48.07</b>			<b>46.53</b>	<b>Total \$ 365,416.00</b>
Hunter	Entitlement	1.82	24.07	25.89	1.82	8.31	10.13	\$ 414,240.00
	Usage	1.17	13.75	14.92	1.17	13.75	14.92	\$ 77,584.00
	<b>Price/ML</b>			<b>40.81</b>			<b>25.05</b>	<b>Total \$ 491,824.00</b>
South Coast	Entitlement	3.34	14.32	17.66	3.34	7.55	10.89	\$ 282,560.00
	Usage	3.74	30.2	33.94	3.74	30.2	33.94	\$ 176,488.00
	<b>Price/ML</b>			<b>51.6</b>			<b>44.83</b>	<b>Total \$ 459,048.00</b>