

DUNGOG SHIRE COUNCIL

SUBMISSION TO IPART ON

the

**REVIEW OF PRICES FOR WATER,
SEWERAGE, STORMWATER AND
RECYCLED WATER SERVICES FOR
HUNTER WATER CORPORATION**

and

**REVIEW OF PRICES FOR WATER,
SEWERAGE, STORMWATER AND
RECYCLED WATER SERVICES FOR
GOSFORD CITY COUNCIL AND WYONG
SHIRE COUNCIL**



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Summary

Dungog Shire Council is located in the Hunter Water Corporation's area of operation and is a customer of the HWC. Until recently Dungog Council was a water utility itself, purchasing water in bulk from HWC and managing the distribution of water in four separate schemes and the management of sewer in one scheme.

A recent gazettal, incorporated the Dungog Shire Council area into the HWC area of operations and since the 1st July 2008 Dungog Council has handed over the operations of its water and sewer business to HWC.

Prior to this however, the HWC already had an interest in the Dungog Shire local government area in that it owned and operated the Chichester Dam and the Dungog water treatment plant, both of which are located within the Dungog local government boundary. The recently announced Tillegra Dam is also within the Dungog local government area.

Dungog Council has a number of concerns in regard to the cost structure of the Tillegra Dam and has made submissions in regard to these costs to the State Government. In essence, HWC has not recognized all of the costs associated with the construction of the dam and representations from Dungog Council to the state government have been received and are being considered at present. Any IPART review should consider these representations in order that the maximum prices adopted are reflective of these costs and provide HWC with the means to recoup these costs through its customers rather than placing the burden on the balance of the state.

As the issues related to Tillegra Dam also relate to the pricing of Gosford and Wyong Council's water, this submission should be read as a submission in relation to both reviews.

This submission will address these additional costs and propose Council's method for recouping these costs.

Tillegra Dam costs

It is noted that the issues paper (pg4) sets the scope of this review and that the 'social impact of IPART's determinations and recommendations' is an issue given consideration in determining prices by IPART. As such, the failure of Hunter Water to meet social, and environmental costs as part of this dam is unacceptable and IPART should give consideration to allowing Hunter Water to set its prices in such a manner as to meet these costs.

While it is understood that legislative and political influence may be required in order to achieve this, any determination by IPART now should not allow either Hunter Water or other authorities to use pricing as a means for avoiding this responsibility in future.

The costs associated with Tillegra Dam by HWC have to date been limited to the land purchase costs, the construction costs and the operation costs of the dam. Costs which haven't been considered by HWC but still remain to be allocated include:

1	the community costs associated with the dam being located in the Dungog LGA,	Estimated at \$ 7,000,000/ annum
2	the cost to the community of lost rate income (presently legislative protection to HWC to not pay rates on land under water),	Approximately \$80,000 / annum
3	the infrastructure cost of the use of Council owned and operated roads and bridges	Approximately \$2,000,000 / annum
4	Environmental costs	Awaiting Hunter Water's Environmental Assessment
5	Extraction of water from the shire	Unknown at present

Hunter Water Corporation would argue that these costs are not relevant in the assessment of the dam and that legislation provides protection in regard to rates payments. The truth is though, that these costs are real costs to the community and the cost of water should be structured such that the real cost is reflected in the pricing.

Hunter Water produced a document in 2007 titled "Why Tillegra Now?" in which it considers the costs of a number of alternative means of providing water to the Hunter and Central Coast. This document identifies environmental and or social

issues and costs for each option being a New Chichester Dam, Grahamstown Dam upgrade, Paterson River Scheme, Karuah River Scheme, Desalination, Indirect Potable reuse, and finally the Tillegra Dam option. While environmental and social costs were used to justify the Tillegra Dam proposal, Hunter Water Corporation does not see itself as the responsible authority to meet those costs. As such it has based its decision making on costs that it has no intention of meeting, instead relying on the local community and local and state government in particular to meet the shortfall

IPART points for comment

IPART's issue paper considered a number of areas for comment and those areas most relevant to Council are addressed below under the same IPART numbering and heading system (Hunter Water issues paper numbers).

17 Principles that should be considered in the apportionment of Tillegra Dam's costs between its beneficiaries

The entire cost of the Tillegra Dam project should be apportioned to Hunter Water's costs in order that the water price is reflective of the true cost of the water. This should include social, environmental and community costs that to date have been ignored by Hunter Water. Legislative exemptions should be considered too as these costs still need to be borne by the community.

18 Appropriate arrangements for apportioning and sharing costs of Tillegra Dam between Hunter Water and the Central Coast

Obviously the operating and capital cost of the dam, proportional to meeting the Central Coast's needs, should be attributed to the Central Coast. To fully recoup this cost through the water price for Gosford and Wyong, though will result in a long term payback and is not believed to be the most effective method of recouping this cost. It is suggested that an upfront payment by Gosford and Wyong, similar to a developer charge, be set and paid for at the commencement of the program regard less of the volumes of water intended to be or actually used throughout the life of the project. In addition, Gosford and Wyong will need to pay an ongoing water usage fee which is based on volumetric usage.

19 Whether Hunter Water's costs of Tillegra Dam should be incorporated in upfront developer charges or periodic prices or a combination of both

and

20 Appropriate arrangements for apportioning and sharing costs of Tillegra Dam between new development (developer charges) and existing customers (periodic charges)

The "Why Tillegra Now" document (Hunter Water Corporation, 2007) clearly identifies three reasons for the need of the Tillegra Dam;

- a) An increase in population of 160,000
- b) A 10% drop in rainfall because of climate change
- c) Supply to the Central Coast

Clearly points a) and c) are a result of expansion of the scheme to new premises outside the existing network and as such the proportion of cost of the Dam associated with supply to the new dwellings and the Central Coast should be wholly recouped from developer charges. Water demand was sufficiently managed during the most recent drought without the need to place restrictions on Hunter Water's existing customers providing evidence that augmentation is not required for the present customer base. In regard to point b) some augmentation costs may be attributable to existing customers in order to provide a higher level of security to all customers in the event that rainfall does decrease.

As such it is recommended that the costs associated with new development and the Central Coast supply should be recouped through developer charges, that the Central Coast should pay an 'equivalent' developer charge based on the number of lots served and that existing customers are only required to pay for the cost of providing for the additional level of security in supply.

In addition to the above, the above philosophy was clearly articulated in the Premiers announcement (reproduced in your issues paper on page 14) when he announced that 'the package will be funded by the proceeds from the sale of water from Hunter Water to the Central Coast, future development contributions in the Hunter and Central Coast and the 2009 – 2013 IPART determination". Clearly the intention was to recoup the majority of costs from developers and the Central Coast users who benefit, not the existing customers.

21 Whether Hunter Water's costs of Tillegra Dam should be recovered through the fixed or usage component of the two – part tariff or a mix of fixed and usage components

As stated above, the majority of charges should be recouped through developer charges, however the component recouped through the periodic charge for the works necessary to provide additional levels of security in the event that rainfall drops should be structured into the usage charge rather than the fixed cost charge. By incorporating the cost of water security into the usage charge, this cost will have a bigger effect on demand management. If incorporated into the fixed charge, there will be no incentive to reduce water consumption.

22 Whether Hunter Water's cost for the Tillegra Dam should be reflected in its prices prior to the dam becoming operational

Clearly Hunter Water will be required to meet a number of costs in relation to the dam prior to the dam becoming operational. An introduction of higher pricing stepping up over the construction period to the full cost at the time the dam becomes operations.

Annexure A Breakdown of costs

Community Costs

Household income	\$3,000,000
Dairy production	\$1,300,000
Beef production (in inundation area)	\$900,000
Beef production (elsewhere)	\$900,000
Building industry	\$780,000
Stock agents	\$40,000
Real Estate	\$100,000
Farm contracting services, farm supplies, tractor supplies / repairs, livestock transport etc	Unknown
Total	\$7,020,000

The above figures are sourced from the Tillegra Dam Community reference group – Economic and Development sub-committee.. Where they have stated a range of figures the minimum has been used. As such these figures are considered to be conservative estimates. The Dungog Chamber of Commerce also acknowledge that these figures are preliminary and more accurate figures are expected following professional studies by Planning Workshop Australia and Connell Wagner.

Council Costs

Legislation provides exemption to Hunter Water to paying rates once the land becomes inundated. Based on the proposed land area a loss of rates in the order fo \$80,000 annual has been calculated.

Council has undertaken a Route Access Study and has identified that there is in the order of \$4m per annual to be spent on Council's road network for the next 10 years. The cost attributed to Hunter Water through construction and additional road use from dam users has been estimated at \$2m annually for the next 10 years.