



Tamworth Regional Council

**Response to IPART's Draft Determination & Draft
Report March 2010**

**State Water Corporation
2010 Pricing Determination**

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1 Introduction

Tamworth Regional Council would like to thank the Independent Pricing and Regulatory Tribunal (IPART) for the opportunity to provide comments in relation to the Tribunal's Draft Determination and Draft Report on the review of State Water Corporation (SW) charges to apply from July 2010 to June 2014.

Council does not propose to address every issue; however comments on key concerns identified in the IPART draft determination are presented below.

2 SW Proposed Price Increases

Council in its earlier submission to IPART (October 2009) raised concerns about the exceptionally high entitlement and usage charges proposed by SW, particularly for the Peel Valley.

The Table below shows the current SW prices and IPART draft determination price increases to Namoi and Peel HS and GS regulated river entitlement and common usage charge prices over the four year period from 2009/10 to 2013/14.

IPART Draft Determination - Maximum SW Prices for Namoi & Peel Regulated Rivers

Year	Namoi Charges (\$/ML)			Peel Charges (\$/ML)		
	H/S Ent.	G/S Ent.	Usage	H/S Ent.	G/S Ent.	Usage
2009/10	9.31	7.44	12.56	11.50	1.71	25.72
2010/11	10.67	7.41	17.61	13.78	1.88	28.29
2011/12	12.56	8.1	18.11	16.39	2.07	31.12
2012/13	14.52	8.39	18.63	19.37	2.28	34.23
2013/14	16.56	8.79	19.17	22.79	2.51	37.66
Increase over 4 years	77.9%	18%	52.7%	98.3%	46.4%	46.4%

The proposed increases in the Namoi and Peel valleys are significant, particularly in the Peel valley which is already experiencing very high water prices. Overall the prices in the Namoi will remain considerably lower than the Peel however still high.

The entitlement charges for HS water in the Peel are proposed to increase by **98.3%** over four years from \$11.50/ML in 2009/10 to \$22.79/ML in 2013/14, while GS entitlement charges will increase by 46.4% from \$1.71/ML to \$2.51/ML. Peel usage charges will increase by **46.4%** from an already very high \$25.72/ML to \$37.66/ML over the four years.

These are significant price increases for Council's Tamworth water supply sourced from Chaffey Dam where the ratio of HS to GS pricing for entitlement is proposed to increase from the current 6.7 to 9.1 by 2013/14. Peel HS water entitlement charges will escalate to \$26.14/ML becoming the second highest in the State, behind the Hunter valley.

Ironically the Peel GS entitlement charge at \$2.51/ML in 2013/14 will move from the second lowest to third lowest in the State, slightly above the Murray at \$2.33/ML. The proposed Murray 2013/14 HS entitlement charge will be \$3.06/ML which is a stark contrast to the \$22.97/ML proposed for the Peel, the Peel being 7.5 times higher.

Pricing for HS water entitlements in the Peel has moved further out of balance as new methods and formulas are being developed by SW and the NSW Office of Water across the State which are totally inappropriate for the Peel valley. This has resulted in distorted allocation of SW costs in the Peel to a point that of the \$473,699 of income generated by SW in 2013/14 from entitlement charges, HS users will be paying \$396,113 or 83.6%, and GS paying \$77,586 or 16.4%. What this is saying is that GS users only have 16.4% of security in Chaffey Dam which is certainly not the case given the way in which Chaffey Dam is currently operated and water shared amongst water users. In Council's earlier submission to IPART it was pointed out that it was only two years ago that Tamworth water supply was driven onto Level 5 Emergency water restrictions due to lack of water security. Under this level of emergency restrictions all outdoor water use is banned, use of evaporative air conditioners banned and industrial and commercial water users required to significantly reduce water usage, which surely demonstrates that HS water users in the Peel valley do not have a reliable water supply under the current water sharing arrangements in the Peel. This distortion of SW cost needs close examination and review by the Tribunal as what is proposed it is not equitable.

Under the proposed price increases Peel HS and GS users will pay the same usage charge which will increase from a high \$25.73/ML in 2009/2010 to a very high \$37.66/ML, an increase of 46% making it the second highest in the State behind the North Coast on \$40.76/ML. In contrast the southern valleys pay considerably less with the Murrumbidgee decreasing slightly to \$3.45/ML and Murray increasing slightly to \$4.65/ML which is approximately 10% of the prices in the Peel. Again the proposed price increases are considered far too high for Peel water users and should be held to more modest increases.

3 Impact of Draft SW Price Increases in Peel

The Table below summarises the impact of the draft determination SW price increases on Tamworth water supply over the four years from 2009/10 based on Council's Chaffey Dam HS water entitlement of 16,400ML and annual bulk water consumption from Chaffey Dam of an average 5,665ML per year.

Charge	2009/10	2010/11	2011/12	2012/13	2013/14	Increase in Charges
Entitlement 16,400ML	\$188,600	\$225,992	\$268,796	\$317,668	\$373,756	\$185,156
Chaffey usage 5,665ML pa	\$145,704	\$160,263	\$176,295	\$193,913	\$213,344	\$67,640
Total	\$334,304	\$386,255	\$445,091	\$511,581	\$587,100	\$252,796

If approved by IPART the proposed SW price increases for supply of bulk water from Chaffey Dam on average would increase over the four years from \$334,304 to \$587,100, an increase of \$252,796 or 76% which would be a significant impost on town water supply users.

In a drought year when all water for Tamworth is drawn from Chaffey Dam Council would pay SW \$714,315 which would be \$127,215 more than for an average year.

The draft determination price increases proposed for the Peel are mainly driven by reduced water delivery forecasts and for HS water a proposed premium (conversion factor) to reflect the level of security, plus a path way to full cost recovery. As stated previously Council does not agree with the reduced water delivery forecast and conversion factors, and considers that full cost recovery for the Peel Valley is not sustainable.

The proposed maximum price increases are considered far too steep and if applied will severely impact water users in the short and longer terms.

4 Issues Raised by Council for Further Consideration by IPART

Council in its earlier submission to IPART on the SW proposed pricing raised many concerns as summarised below:

- steepness of proposed increases, particularly for the Peel valley;
- impact of proposed price increases on Peel valley water users including Tamworth water supply customers;
- projected reduced annual extractions by customers going forward will drive up considerably the price of bulk water, and lead to over charging in years when extractions exceed the low level predicted;
- proposed conversion factor for HS to GS to rise above the 2006 level of 6.3 can not be justified given the low level of security of HS water in the Peel;
- the drive by SW for full cost recovery in the Peel valley should not be allowed due to the unique situation of a small dam in a small catchment, which would make water too expensive;
- ability of Peel water users to pay the exceptionally high prices proposed for 2010 onwards, on top of already very high prices. Not feasible in the Peel to pursue full cost recovery;
- council paid 25% towards the estimated cost of Chaffey Dam construction costs and should be recognised in bulk water pricing (to date has not been recognised by SW or IPART);
- implications of the future augmentation of Chaffey Dam from 62GL to 100GL at an estimated cost of \$36 Million, part of which Peel water users including Council will be expected to pay (to date has not been recognised by SW or IPART);; and
- Council has previously raised the need for a single price for each category of water across all Valleys in the State. This would even out the costs of access and delivery of water on a state wide basis, and introduce a level playing field for all water users. The present system unfairly discriminates against towns and cities that, through no fault of their own, happen to be receiving water from a state owned storage/source that is, relatively speaking, expensive to operate. In Council's view the cost of water should not be a primary consideration for industry wishing to relocate to particular regional areas, but repeated significant price rises by the State Government are contributing to the cost of water becoming just such a consideration.

Within the Draft Determination & Draft Report IPART has not ruled out full cost recovery for the Peel valley, however has limited the price increases in the Peel valley, North Coast and South Coast over the next four years from 2009/10 citing that the valleys are currently below the full cost recovery level and a move to full cost recovery over the four year determination period would adversely affect the financial viability of farms in these valleys. This is real concern to local water users including Council as there appears to be no relief to the exponential increase in water charges for the Peel valley, with significant price hikes proposed over the next four years and IPART foreshadowing the drive to full cost recovery moving forward.

5 Summary

Overall IPART in its Draft Report & Draft Determination has taken on very little of the concerns raised by Council in its earlier submission on proposed SW price increases and Council requests the Tribunal to revisit the concerns raised and only allow modest increases in the Peel, not the exceptionally prices proposed in the Draft Determination.

It should also be noted that these proposed price increases are only for SW charges. Council also pays bulk water charges to NOW, and IPART has yet to hand down a decision in relation to the NOW submission. The combined impact of bulk water pricing by both State owned monopolies needs to be taken into consideration when determining prices for each service provider.