

Tamworth Regional Council

437 Peel Street, Tamworth NSW 2340

Telephone:- (02) 6755 4555

Facsimile:- (02) 6755 4499

Email:- trc@tamworth.nsw.gov.au

ABN 52 631 074 450

21 April 2005

→ *John Reid*
Bulk Water Prices from 2004/05
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230



Dear Sir

Subject: BULK WATER PRICES FROM 2005/06

Council appreciates the opportunity to provide input to the water pricing review process. Our submission is attached for your consideration.

Council considers that the effectiveness of the current review has been restricted by the limited information provided by the Department of Infrastructure, Planning and Natural Resources (DIPNR). The DIPNR submission was extremely disappointing. As the lead agency in water resource management in NSW it was expected that the DIPNR submission would provide some direction in this area.

Given that DIPNR have not provided explanation and justification for price increases, as required by IPART with other authorities, and their advice that they intend to submit a medium term pricing proposal in the second half of 2005, Council considers that any current DIPNR increases should be placed on hold, at least until the medium term proposal is assessed.

In respect to State Water's submission, Council has identified a number of issues that are considered to require further detail, explanation of assumptions, testing of methodologies, consistent procedures and additional information on expenditure and revenue proposals. Council requests that IPART consider these issues and provide appropriate responses.

Acknowledging the linkage between State Water's and DIPNR's functions/activities and the fact that DIPNR have noted the significant changes to institutional arrangements for natural resource management responsibilities to Catchment Management Authorities, various Councils and Commissions etc, then it may be prudent to seriously consider maintaining the existing bulk water prices for 2005/06.

This approach would provide time to resolve the 'unknowns' with water resource management issue and the opportunity to better assess the implications of State Water's proposals.

Council trusts that the comments provide constructive input to the review process and would be interested to contribute further as the review progresses.

Yours faithfully

[Handwritten signature]
Glenn Inglis
General Manager

For further information please contact:-

Glenn Inglis
Telephone:- (02) 67554440
Email:- g.inglis@tamworth.nsw.gov.au

Please address all correspondence to:-

The General Manager
Tamworth Regional Council
PO Box 555, Tamworth NSW 2340
OR DX 6125

Please Quote:- File DH/LP/SF2229



TAMWORTH REGIONAL COUNCIL

Submission to:

**THE INDEPENDENT PRICING AND REGULATORY
TRIBUNAL**

BULK WATER PRICES FROM 2005/06

April, 2005

SUBMISSION TO IPART

Council appreciates the opportunity to provide comment at this phase of the review process and would be interested to contribute further as the review progresses

A summary of comments is provided at the conclusion of the submission.

INTRODUCTION

Tamworth Regional Council was proclaimed in March 2004 with the amalgamation of the former Barraba, Manilla, Nundle and Parry Shire Councils and Tamworth City Council.

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 within the Namoi River basin but is treated separately in the State Water submission.

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 Council's 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.

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.

Council is vitally interested in the significant changes that are occurring with natural resource management (including water resource management) and water reforms, across Federal, State and Regional areas through Catchment Management Authorities, various Commissions, Advisory Councils etc.

Council has undertaken, and will continue to develop water conservation, water efficiency and demand management measures.

As a consumer of regulated, unregulated and groundwater sources, Council's town water supply schemes are impacted by the submissions from State Water and the Department of Infrastructure, Planning and Natural Resources (DIPNR).

Council is obviously concerned with any increases in water prices and charges for water resource management activities. Any increase in charges by external authorities effectively removes that money from the community and reduces the ability of our community to undertake important water and sewerage projects.

Following the amalgamation, Council has identified a number of water and sewerage projects that require construction/upgrading over a relatively short time frame. These works include upgrading of water supply systems to acceptable standards, sewerage augmentation and the provision of sewerage schemes to address health and environmental issues.

Any significant increases in costs, through water charges, will diminish our ability to undertake these works and delay projects. IPART also needs to be aware of and consider that the State Government's reduction/withdrawal of funding through the Country Towns Water Supply and Sewerage Program (CTWSSP) is having a very real impact on Tamworth Regional Council and Council's across the State, to undertake much needed water and sewerage works. The extent of this funding withdrawal is estimated to have cost Council in the order of \$21.5M. This has economic, environmental, health and community amenity implications.

In addition to the above, Council is also extremely concerned with the socio-economic impact that proposed price changes may have. Apart from the direct economic impact on our operations we are concerned at the possible consequences on commercial users and irrigators in the Peel Valley and the communities within our Region.

Council is aware of the difficult groundwater reforms and adjustments in adjoining Local Government Areas within the Namoi Valley.

State Water has advised that a socio-economic assessment of the proposed price changes has not been undertaken nor are we aware of any assessment by DIPNR. In light of the extensive increases proposed by State Water and the other Namoi Valley adjustments with groundwater allocations, it is imperative that the impact of these proposed changes be assessed prior to any implementation.

Any socio-economic assessment needs to encompass changes occurring with groundwater and other water resource and natural resource management issues. The assessment should not be done in isolation as the combined impact of the

various changes could have a “multiplier” effect that results in irreversible adverse consequence for the northern inland river region of the State.

Council requests that IPART ensure that a thorough socio-economic assessment be carried out. The assessment may reveal that there are particular valley or sub-valley idiosyncrasies that IPART need to consider and provide for.

Comments in respect to IPART’s Issues Paper, State Water’s Submission and DIPNR’s Submission are provided separately for clarity.

IPART ISSUES PAPER – COMMENTS

River operations activities - Section 2.1.1

At Section 2.1.1 it is noted that State Water operates various dams, weirs and associated assets to supply water to its customers. It is also stated that “It also meets community needs by providing water for stock and domestic users. The business is also responsible for delivering environmental flows on regulated rivers.”

What are the costs of providing these services, where are they identified and who meets these costs?

State Water - Section 2.1.2

In Section 2.1.2 it is noted that the costs for operating the Murray-Darling Basin Commission (MDBC) and the Dumaresq-Barwon Border River Commission (DBBRC) are jointly paid for by the signatory States and that the NSW share of costs are allocated to State Water. “State Water includes these costs in the cost information it submits to the price review as they can be recovered through its bulk water prices.”

Does State Water distribute these costs across all NSW valleys or only those valleys directly serviced by these Commissions? Are these costs separately identified, as the rivers serviced by MDBC appear to have very low charges relative to other valleys. Similarly how are the WRM cost of the Commissions distributed by DIPNR.

Water resource management activities - Section 2.2

In respect to WRM activities it is felt that many of these activities have very close association/linkages with catchment management functions and natural resource management across the State and thus the Community/Government should accept a greater share of these costs. Since the last IPART determination there has been a substantial shift toward catchment management and natural resource management activities and therefore we request that IPART re-assess the sharing of these costs.

Establishing the underlying principles for bulk water pricing - Section 3.1

In Section 3.1 it is noted that since 1996 the Tribunal has adopted a valley-based approach to pricing. Given the passage of time and the vast water industry changes, there are questions to this approach, particularly with the proposed diverging valley prices in State Water's submission. The Namoi-Peel Customer Services Committee have previously written to IPART (15 July 2004) indicating that they strongly feel that there is greater merit in having a single statewide price for water. Further comment is provided in the submission.

Costs of river operation activities - Section 4.1

Council notes IPART's intention to engage an independent consultant to review State Water's estimates for its projected operating and capital expenditure including associated issues

Council will be interested to see the release of the consultants report and will consider the opportunity to comment pending assessment of IPART's consultants report.

Costs of WRM activities - Section 4.2

In respect to WRM activities it is agreed that "It is often difficult to clearly determine the extent to which the need to undertake WRM activities arises from the actions of water users." Council considers that a very careful assessment is required to ensure that there is a clear connection with WRM activities prior to costs being assigned to water users. There are many other beneficiaries of WRM activities.

Council is of the view that until DIPNR is able to clearly indicate/define its role with WRM activities, given that they are the lead agency in this area, then their charges should not be increased. Further comment is provided later in this submission.

STATE WATER SUBMISSION – COMMENTS

State Water Corporation's objectives and functions - Section 2.1

State Water advises that

"Negotiations are currently under way with DIPNR about the division of functions between the two organizations. The actions of these negotiations will have an impact on State Water's cost base. Until the relative responsibilities are defined, the full cost of State Water's operations cannot be accurately defined."

Have these negotiations been completed and what are the outcomes and the implications with regard to State Water's operations and their submission?

The 'Building Block' Approach – Section 3.2

State Water is recommending that the cost recover approach be based on the "Building Block Approach" and that IPART move away from the annuity approach that was previously considered by IPART to be the more appropriate method.

In view of the complexity of this proposed change by State Water (including a Regulatory Asset Base) it is considered that analysis and subsequent initial comment at this time is beyond the general resources of water users to undertake. Accordingly we would request IPART to undertake or engage independent consultants to review State Water's proposal and provide objective comment on the proposed "Building Block Approach" as compared with the previously preferred annuity methodology.

It is noted that State Water acknowledge that much effort in time and resources has been devoted to developing the annuity in the first place. State Water need to justify the requirement for this change and demonstrate advantages to be gained by consumers.

Reviewing the Regulatory Asset Base – Section 3.2.3

Following on from the previous comment we found that the information provided on the Regulatory Asset Base (RAB) was "challenging" to follow and without detailed information and background knowledge of State Water's operations it is extremely difficult to make 'informed' comment on this matter.

Council requests that IPART undertake a comprehensive review of State Water's proposal and provide the results to customers for information and comment. It is indeed difficult to adequately comprehend these pricing reviews if the methodology changes markedly from one review to the next.

We have identified some questions such as:-

- What is an acceptable rate of return for the bulk water industry?
- Is the basis for the RAB split between government and water users fair?
- With respect to Table 2, how was the RAB determined for each valley?
- Could IPART carefully consider the RAB split between valleys as there appears to be anomalies with a low RAB for example in the Murray and higher RAB's in far smaller valleys.
- What assets are included for each valley and what is the government and water user split for each valley?
- How is the revenue generation for 2005/06 calculated and what is the revenue over this determination period?
- What impact does the RAB have on the proposed prices for each valley?
- Is the valley split the most appropriate approach and what other options should be considered?

High Security and General Security Charges – Section 3.4

State Water proposes to set new High Security to General Security entitlement ratios in all valleys. State Water claim that the basis for this proposed change in ratios is that the High Security Entitlement charge should better reflect the value of High Security water over General Security water.

State Water claim “These changes are revenue neutral to State Water”. This being the case, then the proposed change is in effect a shift in entitlement charges from General Security to High Security users.

For the Peel Valley the ratio calculated by State Water is a massive 13.46. As Tamworth Regional Council holds the majority of High Security water in the Peel, this constitutes a major shift in entitlement charges from General Security users to Council. Council is greatly concerned that it appears as if the Council is now being called upon to shoulder an inequitable burden of the costs associated with the provision of water to users within the Peel Valley.

Council rejects this proposal from State Water as totally unacceptable. We believe that the information provided and the methodology used for determining the proposed ratios is flawed and requires careful scrutiny by IPART. Council has a number of doubts as to the validity of the information in this section and provide the following points to highlight our concerns:

- According to State Water the entitlement charges for high security are currently no greater than 1.7 times the charges for general security in any valley. Table 4 indicates a range from 1.1 (Murray and Murrumbidgee) to 1.7 (Peel). The ratio of 1.7 in the Peel was in 2001/02 and the current ratio is 2.28.

What are the ‘current’ ratios across the valleys?

- State Water propose that the differential in price between high and general security entitlements be based on the conversion factor in the Water Sharing Plans (WSP) multiplied by the number of years State Water is required to store water for High Security users. Council is aware that whilst the WSP’s for the Namoi and Gwydir valleys have been completed there has been no determination of the conversion factor between general and high security licences.

How has the proposed ratio for these valleys been determined?

Are the ratios for other valleys correct?

- The Peel Valley (which constitutes approximately 10% of the Namoi river basin) does not have a WSP. Council requested advice from State Water on how the proposed ratio was determined and have been advised as follows:

“The “High Security Access Premium” is the general security entitlement divided by the plan limit available to general security.

The use of this access premium for water charges would lead to equal charges for equal volumetric access. That is, a licence holder who wanted access to an average 100ML of water in the Peel Valley would need either 100ML of high security, or $100 \times 6.73 = 673$ ML of general security licence.

If the high security access charge was set at this ratio then under either licence option the customer would pay the same charges and State Water would recover the same revenue. However, although the volume and charges would be comparable, the high security licence gives access in all years, including drought years, while general security licence would only get an average of 100ML/yr by taking more water in high allocation years to counter the low or nil access in drought years."

The figure of 6.73 is then multiplied by 2 (two years storage) to obtain the proposed ration of 13.46

Council fails to see how "general security entitlement divided by the plan limit available to general security" is a measure of water value. The use of General Security entitlement in this calculation is also an issue, particularly in the Peel Valley which is over allocated. The greater the over allocation, the greater the distortion by using State Waters methodology adopted for the Peel Valley.

The basis for the ratios appears to be based on State Water revenue rather than any real measure of water value.

- Based on the High Security Entitlement prices proposed by State Water, Council would have to bear a massive increase in entitlement charges from \$203,000 in 2004/05 to \$464,000 in just three years (2007/08).
- Apart from State Water's method for the Peel Valley they also note different approaches in other valleys such as the North Coast and South Coast valleys and the Patterson sub-system. For the Patterson, State Water note that:

"There is no WSP for the Patterson sub-system, therefore the Hunter Valley WSP cannot be used. State Water proposes a ration of 3:1".

What is the rationale behind this figure?

- Council also considers that a full explanation should be provided on the additional costs State Water claim are attributable to High Security water i.e. additional evaporation losses, opportunity costs and transmission losses.

- Another question that arises is that if High Security users are to be charged for the period of storage, then is the same principle to be applied to 'carry-over' storage for General Security and similarly the additional evaporation and transmission losses?

To be consistent and fair with all users this would be necessary.

Council believes that the above points highlight just some of the anomalies with State Water's proposal in respect to the High Security/ General Security ratio. It is requested that IPART have an independent assessment of this issue undertaken and develop an appropriate transparent methodology for determining the ratio for each valley.

Entitlement and Usage charges in Regulated Rivers – Section 3.5

It is interesting to see that State Water proposes to establish a pricing structure whereby the ratio of fixed revenue (or entitlement charges) to variable revenue (or usage charges) will be 60:40 across the State.

This proposal is opposite to most other authorities where they are moving to a lower percentage of revenue from fixed or access charges and a higher percentage of revenue from usage charges. (i.e. electricity and telecommunication industries).

Within NSW the Government's "Guidelines of Best Practice Management of 'Water Supply and Sewerage'" (May 2004) requires Local Water Utilities to recover at least 75% of residential revenue from usage charges and at least 50% of non-residential revenue from usage charges.

Does the suggested move by State Water send the wrong signal to users in respect to water efficiency, demand management etc.?

What practices are adopted in other States and elsewhere and what alternatives are available and practical?

Wholesale discounts – Section 3.6

The current discounts received by wholesale irrigation customers on their entitlement charges do not appear to be appropriate. At the last determination the former DLWC argued that they were not justified and now State Water holds the same position.

Given that the original grounds for discounting do not apply, removal of the discount would be appropriate and any need for data provision should be via an established commercial agreement with either State Water or DIPNR. Is there a need to eliminate the discount over three years, as water prices in the effected valleys are to fall under the pricing proposal from State Water?

Price path to full cost recovery - Section 3.7

State Water's proposed price path to full cost recovery requires significant changes to the methodology of past price determinations and thus requires close scrutiny by IPART to assess the validity and long term impacts of the proposal.

It is considered that State Water's submission lacks sufficient information for stakeholders to assess the changes and provide informed comment. Water users must rely on IPART to draw this information out and present it in a comprehensible fashion.

As a starting point it is considered that the level of cost recovery for all valleys needs to be documented and that this information should date back to the mid 90's in order to demonstrate what has been achieved following past determinations.

Council also notes IPART's intention to engage an independent consultant to review State Water's estimates for its projected operating and capital expenditure including associated issues.

State Water's proposed price path from 2005 to 2008 is said to reflect cost increases and changes to cost estimates in the Total Asset Management Plan (TAMP). The TAMP needs to be analysed to determine whether it is realistic/achievable and the assumptions listed in the financial and pricing proposal need to be tested.

The variation in Valley to Valley costs across the State is significant. In the third year of the pricing proposed (2007/08):-

- High Security Entitlement would vary from \$3.40 (in the Murrumbidgee) to \$31.77 (North Coast)
- General Security Entitlement would vary from \$3.04 (Murrumbidgee) to \$14.16 (South Coast)
- Usage Charges would vary from \$1.56 (Murrumbidgee) to \$15.98 (Peel)

Generally Council considers the price increases for 2005 to 2008 to be unacceptable and particularly so in light of State Water's further comment that they "expect that the long-term price path involves annual price increases in the order of 10% per year for ten years, followed by lower annual increases thereafter."

Projected price increases of this magnitude are alarming.

Also, is this 10% across all valleys or will it vary between each valley? If there is a variation between valleys, could this be documented and provided to water users.

To fully appreciate the financial modelling by State Water in determining the pricing path proposed, Council considered that the modelling figures and assumption used by State Water should be made available through IPART. Council requested information in this regard from State Water.

The information requested included:

- ◆ State Water's modelling assumptions
- ◆ volumes of high security water
- volumes of general security water
- ◆ projected usage for both high security and general security
- ◆ projected revenue from each category
- ◆ projected revenue for each valley

State Water's response was that this data is 'commercial in confidence'. State Water also advised that:

"The modelling will be supplied to IPART as a matter of course for them to use in the pricing determination. The role of IPART is to make sure the prices are equitable".

It is difficult to appreciate how this information is "commercial in confidence" when State Water is a monopoly supplier and there is no substitute for the product.

Council requests that IPART make this information available so there can be a more informed debate on the whole pricing scenario.

Bearing in mind the data gaps in State Water's submission, Council has reviewed the valley charges over the period 2001/02 to 2007/08 in order to gain an appreciation of the past few years and the projections for the next three years to provide a comparison with the NSW Inland Rivers.

The following points are provided to raise just some issues:

- In respect to the Usage Charges for the Inland Rivers, Graph A has been prepared which shows these charges for each of the Valleys over the period 2001/02 to 2007/08. This indicates the higher current price in the Namoi and Peel Valleys and the significant increases through to 2007/08. State Water's proposed charges will further disadvantage the Namoi/Peel Region.

In 2007/08 the weighted usage charge (based on Entitlement) for the inland rivers will be in the order of \$3.65/ML whereas Peel Valley users would be expected to pay \$16/ML and Namoi Valley users nearly \$10/ML. The next highest usage charge is \$8.45/ML in the Lachlan Valley.

This graph demonstrates the significant divergence in valley prices over the proposed price review period. If the ten year 10% per annum increase flagged by State Water was to eventuate then the variation in prices across the valleys would be massive.

What would be the consequences in the higher priced valleys?

A trend such as this suggests that perhaps we need to reassess the valley based pricing mechanism and consider alternate options.
Should a state wide pricing structure be considered?

In May 2004 the Namoi-Peel Customer Service Committee resolved to push for uniform statewide bulk water pricing. Subsequently the Namoi-Peel CSC wrote to IPART indicating that the CSC was in favour of statewide bulk water pricing.

The letter in part states:-

"IPART has made water pricing determinations for each valley and this has shown a lot of variation. Some Valleys such as the Namoi-Peel have had higher price determinations than other valleys.

The Namoi-Peel CSC strongly feels there is greater merit in having a single statewide price for water. This includes spreading the cost of delivery of water over all entitlements uniformly.

Using this method, operating cost increases can be absorbed with minimum price increases which can be accepted easily by all water users."

Alternatively, is there merit in a pricing structure for inland valleys and other options for coastal valleys given that State Water have identified cost recovery issues in the North Coast and South Coast Valleys?

- With regard to General Security entitlement prices, Graph B indicates that with the exception of the Namoi Valley the prices are more closely aligned. The proposed General Security charges for the Namoi Valley are significantly higher than the other river systems and would thus place users in the system at a severe disadvantage.
- In respect to the significant increase in price of High Security water from the Peel Valley, a graph has been prepared to show the price levels for High Security water in the NSW inland rivers from 2001/02 through to 2007/08. (Refer Graph C). The graph clearly demonstrates that the Peel and Namoi Valleys prices are substantially higher than the other inland rivers and illustrates the dramatic increase proposed for the Peel Valley

over 2005/06 to 2007/08 and to a lesser extent the increases in the Namoi and Lachlan Valleys.

- As previously mentioned the Peel Valley is a sub-catchment within the Namoi River basin and constitutes approximately 10% of the Namoi River Catchment.

The following table indicates the comparative charges proposed for the Namoi and Peel Valleys:

Valley	2005/06			2006/07			2007/08		
	H/S	G/S	Use	H/S	G/S	Use	H/S	G/S	Use
Namoi	10.11	6.23	7.29	13.01	7.42	8.48	16.75	8.83	9.87
Peel	14.39	4.50	10.23	20.19	4.50	12.79	28.33	4.50	15.98

The variations are astounding given that the Peel is a sub-catchment of the Namoi River basin.

- Council pays a High Security Entitlement charge on 16,400ML per annum plus a Usage charge. Based on current charges and the average annual use of water from Chaffey Dam, the 2004/05 cost would be approximately \$254,000. Under the proposed price structure the same quantity would cost \$548,000 in 2007/08. Costs since 1998 are shown graphically in Graph D.

Water Users' Capacity to Pay Section - 3.7.2

State Water advises that it is aware that water users' ability to sustain the price rises proposed is an important question, but they have "not reinvestigated 'ability to pay', or the impact of price rises on water users."

As a responsible organization this should have been included as part of their price development process. Is State Water relying on IPART in this regard?

State Water also reference the NSW Agriculture study in 2001 and state "There is no reason to believe the validity of that study has changed since it was completed". Council was of the understanding that this report has been questioned in some quarters.

Has there been any attempt to research more recent reports or verify that the 2001 reports findings are current?

State Water is well aware of the stressed economic situation in many valleys and to propose a pricing structure, which includes some significant price rises, without assessment of the impact is remiss.

Murray-Darling Basin Commission cost and financing basis – Section 4.1

The financing arrangement between the States for the MDBC is relatively complex. It would appear that the Commonwealth Government is funding 25% of the Natural Resource Management and Murray Works Capital Programs, none of which is being recovered or reflected in Murray Valley prices. This is effectively a direct subsidy for Murray Valley users which is not provided to other valleys.

State-wide pricing would eliminate this inconsistency and it is recommended that IPART give further consideration to this matter.

Implications of Corporatisation – Section 4.6

State Water has identified a large additional increase in annual costs attributable to corporatisation. The submission commentary attributes these additional annual costs mainly to new financial arrangements, however, the larger new or additional annual items tabled at Section 4.6.1 are 'Information and Management Staff and Systems' at \$1.0M and 'Legal Systems and Staff' at \$1.4M. The net increase of \$2.7M per annum appears high and warrants review. One would have expected that the corporate governance costs would be reduced through corporatisation.

The application of cost-reflectivity – Section 4.7

State Water discuss the application of cost-reflectivity and note that efficient economic costs may be estimated for the business as a whole or may be applied to particular segments of the business.

It is considered that the question of state-wide versus valley prices should be re-examined. Is the valley prices approach touted by State Water the fairest or should the spreading of costs more widely be considered.

As previously stated the Namoi-Peel CSC is in favour of statewide bulk water pricing.

Given that capital works spending on major assets within valleys tends to be uneven it is suggested that state-wide pricing would be a method of spreading these particular 'spikey' costs across the water users and provide a more even and predictive prices which would facilitate longer term planning.

Other infrastructure dependent industries such as electricity and telecommunications do not fluctuate their prices in areas where major capital or higher operational costs are incurred. Why impose this limitation on the water/irrigation sector, and in time can individual valleys sustain prices to fund uneven capital expenditure on major assets?

A prime example is the dam security upgrade program that is focusing on Keepit and Chaffey dams (both in the Namoi basin). Currently this work is being funded

by the Government, but in future it is expected that these costs would be the responsibility of extractive users.

The costs of providing fish passage and mitigating impact of thermal pollution could also be distributed over all valleys as works progressively occur across the State.

Stakeholder consultation – Section 7

Council is indeed very disappointed with the consultation process by State Water. State Water claim that they “undertook comprehensive consultation on the proposed submission and incorporated key elements of input from various stakeholders and sought to reduce impacts as best as possible”. Our experience is vastly different than stated.

The Peel Valley is mentioned in a number of sections within the State Water submission and the impact on Tamworth City Council is referenced specifically on a number of occasions, yet there was no direct consultation with Council or request for input.

The shift in Entitlement charges from General Security to High Security users in the Peel Valley, has a very significant impact directly on the supply of water to Tamworth City residents. As Tamworth Regional Council holds the majority of High Security water in the Peel, this constitutes a major shift in entitlement charges from General Security users to Council. Council was not consulted at all in this regard.

Council also believes that State Water’s ‘consultation’ through the Customer Service Committees (CSC’s) was also inadequate and the ‘feed back’ to the Namoi-Peel CSC through the ‘Pricing Reference Panel’ was ineffective.

Socio-economic assessment

Council has been advised by State Water that a socio-economic assessment of the proposed price changes has not been undertaken. In light of the extensive price increases proposed by State Water and other Namoi Valley adjustments with groundwater allocations, it is imperative that the impact of these proposed changes be assessed prior to any implementation. Any socio-economic assessment needs to encompass changes occurring with groundwater and other water resource management issues. State Water’s assessment should not be done in isolation as the combined impact of the various changes could have a “multiplier” effect that results in irreversible adverse consequences for the northern inland river region of the State.

DEPARTMENT OF INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES SUBMISSION - COMMENTS

The DIPNR submission to IPART was submitted over three months after the scheduled submission date and upon review is extremely disappointing as it has not provided any new information or expanded on the current regime to justify its proposed price increase.

The DIPNR submission covers costs associated with water resource management (WRM) and bulk water services to unregulated rivers and groundwater customers. As the lead agency in water resource management in NSW it was expected that the DIPNR submission would provide some direction in this area and lead by example with regard to the price submissions. DIPNR is clearly the worst performer.

DIPNR in its submission to IPART note that institutional and other changes in water management have taken place in NSW. It is stated "these changes have meant that it has not been practical to undertake an updated costing of WRM services for price setting purposes".

Given these changes, DIPNR contends that it is appropriate for IPART to determine an interim WRM pricing regime to apply for the 2005/06 year, based on existing prices being rolled over and adjusted for effects of inflation.

Increases based on the above need to be contested on the following grounds:-

- a) There is no justification given for the increase and it would make a mockery of the IPART process if an increase was given in this situation.
- b) DIPNR sets out the WRM operating costs in Table 1 of their submission and this indicates an overall decrease in costs from 2001/02 to 2004/05. This trend information would suggest that DIPNR can operate without an inflation adjusted increase in 2005/06.
- c) DIPNR need to provide explanation and justification for price increases as required by IPART with other authorities. They should be given the right incentive to deliver on these requirements and freezing their prices until they can substantiate any cost increases sends the right message.

DIPNR in its submission also advises that it intends to submit a medium term pricing proposal in the second half of 2005 and that "this proposal will provide detailed information on DIPNR's WRM costs as a basis for IPART to determine WRM charges for the period commencing 1 July 2006". DIPNR's commitment to this medium term pricing proposal, given that it is to be provided in the second half of this year, adds further support to Council's contention that any current increases should be placed on hold, at least until

the medium term proposal is released and any price increases justified. Deferral of any increases would also assist with the medium term submission being provided in a timely manner.

In Part C of DIPNR's submission they identify issues of significance with respect to future directions in WRM services. It is noted that there has been significant changes to institutional arrangements for natural resource management, including WRM, across the State as the following paragraph highlights.

"DIPNR is currently restructuring its service delivery functions and devolving various responsibilities to Catchment Management Authorities (CMAs), the Natural Resources Commission (NRC), the Natural Resources Advisory Council (NRAC) and the NSW Water Innovation Council (WIC). Whilst this process should yield efficiency gains over the medium term, these entities have yet to be fully established and currently have only limited operational capacity. In addition the NWI requires changes in the way water entitlements are managed and how other WRM activities are undertaken. As these changes are implemented, the impact of DIPNR's WRM activities and costs will become clearer."

The above adds further support to deferring any consideration of increase in prices until after the medium term pricing submission proposed by DIPNR.

SUMMARY

The following points are provided as a summary to Council's submission:-

- Council considers that the effectiveness of the current review has been restricted by the limited information provided by DIPNR.
- As the lead agency in water resource management in NSW it was expected that the DIPNR submission would provide some direction in this area.
- Given that DIPNR have not provided explanation and justification for price increases, as required by IPART with other authorities, and their advice that they intend to submit a medium term pricing proposal in the second half of 2005, Council considers that any current DIPNR increases should be placed on hold, at least until the medium term proposal is assessed.
- In respect to State Water's submission, Council has identified a number of issues that are considered to require further detail, explanation of assumptions, testing of methodologies, consistent procedures and

additional information on expenditure and revenue proposals. Council requests that IPART consider these issues and provide appropriate responses.

- Acknowledging the linkage between State Water's and DIPNR's functions/activities and the fact that DIPNR have noted the significant changes to institutional arrangements for natural resource management responsibilities to Catchment Management Authorities, various Councils and Commissions etc, then it may be prudent to seriously consider maintaining the existing bulk water prices for 2005/06.

This approach would provide time to resolve the 'unknowns' with water resource management issue and the opportunity to better assess the implications of State Water's proposals.

- Any significant increases in bulk water costs will diminish Council's ability to undertake or delay other water and sewerage projects. The State Government's reduction/withdrawal of funding through the Country Towns Water Supply and Sewerage Program (CTWSSP) is having a very real impact on Tamworth Regional Council and Council's across the State, to undertake much needed water and sewerage works.
- Any increase in costs and funding reductions have economic, environmental, health and community amenity implications
- Concern is expressed at the possible consequences on commercial users and irrigators in the Peel Valley and the communities within our Region, particularly with regard to the difficult groundwater reforms and adjustments in adjoining Local Government Areas within the Namoi Valley
- Council has been advised by State Water that a socio-economic assessment of the proposed price changes has not been undertaken. It is imperative that the likely social and economic impacts of the proposed changes be assessed prior to any implementation.
- There is a need for IPART to identify the costs for providing stock and domestic water and environmental flows and who meets these costs.
- Many Water Resource Management activities have very close linkages with other catchment management and natural resource management functions across the State. It is requested that IPART re-assess the sharing of these costs between water users and Government as there are many other beneficiaries of WRM activities.
- Is the valley-based approach to pricing the most appropriate? Given the passage of time and the vast water industry changes, there are questions

to this approach. Should a single statewide price for water be considered, as suggested by the Namoi-Peel Customer Services Committee, or alternate options examined? Council requests that IPART addresses this matter.

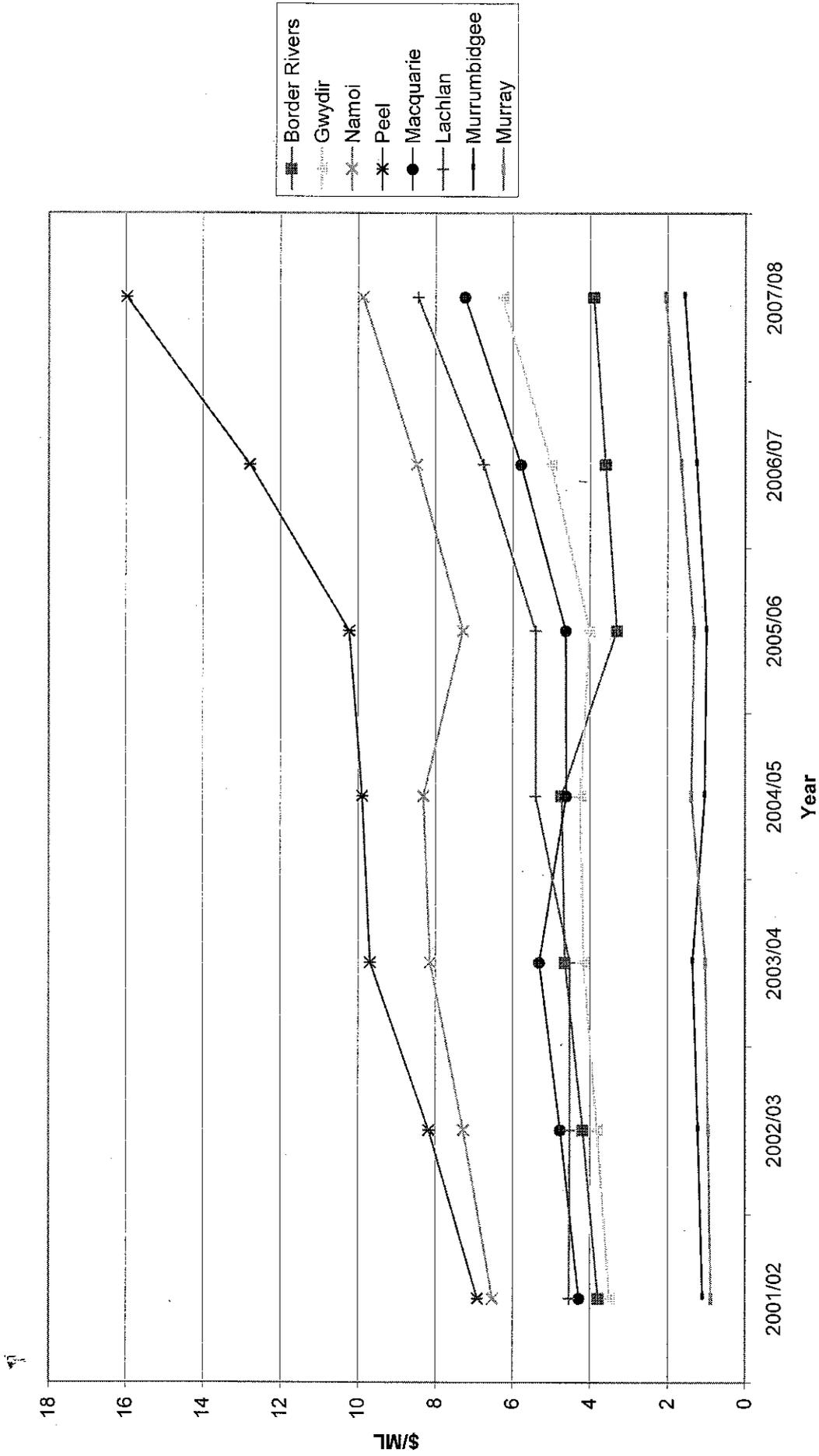
- The merit in moving away from the annuity approach to financing to the “Building Block Approach” suggested by State Water is questioned. Significant effort in time and resources has been devoted to developing the annuity methodology. Council requests IPART to undertake or engage independent consultants to review State Water’s proposal and provide objective comment on the proposed “Building Block Approach” as compared with the previously preferred annuity methodology.
- Council requests that IPART undertake a comprehensive review of State Water’s Regulatory Asset Base proposal and provide the results for further comment. It is difficult to adequately comprehend these pricing reviews if the methodology changes markedly from one review to the next.
- Council rejects the proposal from State Water to set new High Security to General Security entitlement ratios in all valleys, as totally unacceptable. We believe that the information provided and the methodology used for determining the proposed ratios is flawed and requires careful scrutiny by IPART. Council has provided a number of points to demonstrate anomalies and to highlight our concerns. In the Peel Valley the proposal constitutes a major shift in entitlement charges from General Security users to Council (from \$203,000 in 2004/05 to \$464,000 in 2007/08). It is requested that IPART have an independent assessment of this issue undertaken and develop an appropriate transparent methodology for determining the ratio for each valley.
- Generally Council considers the price increases for 2005 to 2008 to be unacceptable and particularly so in light of State Water’s further comment that they “expect that the long-term price path involves annual price increases in the order of 10% per year for ten years, followed by lower annual increases there after.” Projected price increases of this magnitude are alarming.
- The variation in Valley to Valley costs across the State is significant. In the third year of the pricing proposed (2007/08):-
 - High Security Entitlement would vary from \$3.40 (in the Murrumbidgee) to \$31.77 (North Coast)
 - General Security Entitlement would vary from \$3.04 (Murrumbidgee) to \$14.16 (South Coast)
 - Usage Charges would vary from \$1.56 (Murrumbidgee) to \$15.98 (Peel)

The significant divergence in valley prices over the proposed price review period would trend to suggest that perhaps we need to reassess the valley based pricing mechanism. Should a state wide pricing structure or alternate options be considered? It is requested that IPART assess the options.

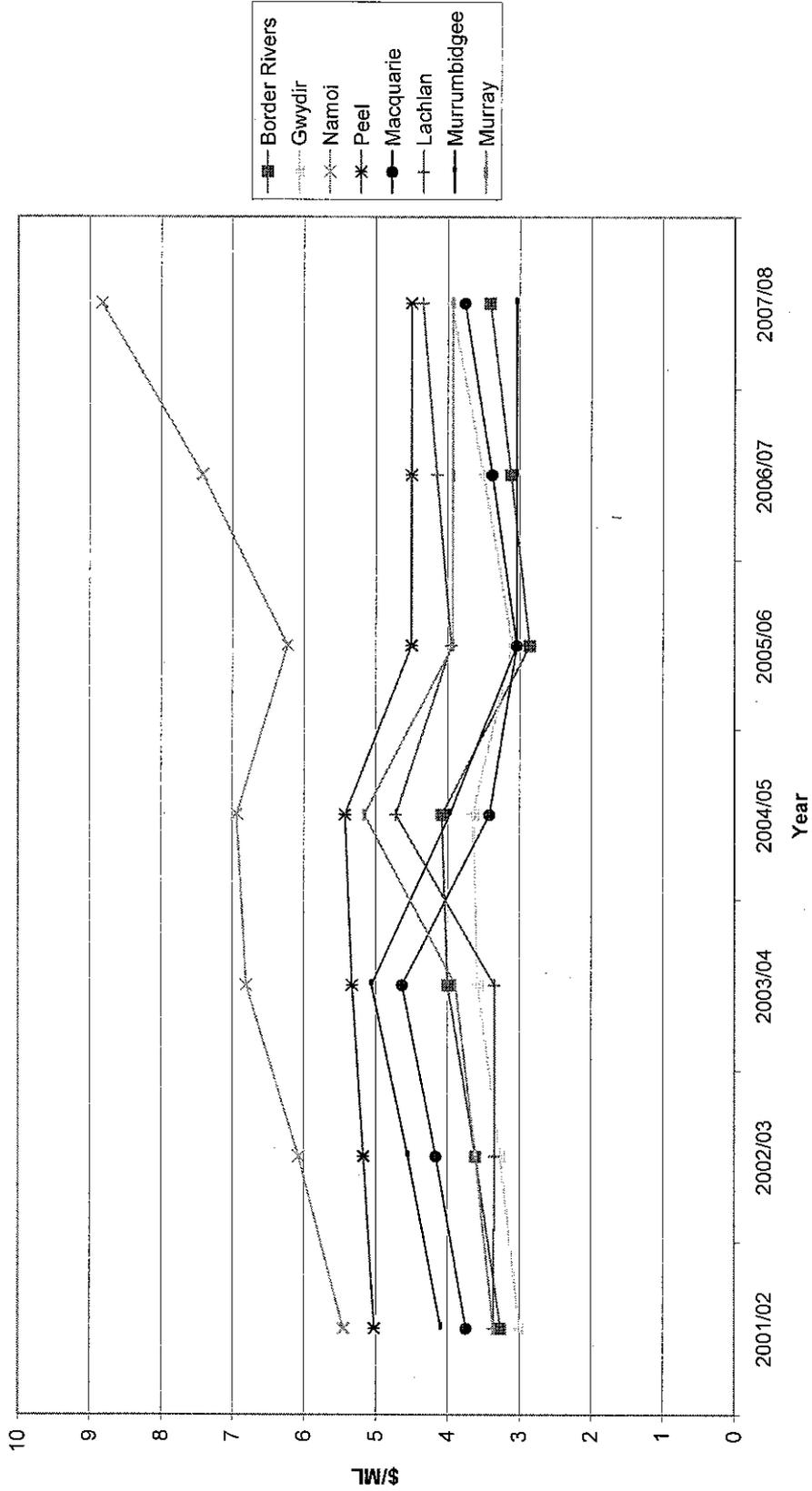
- It is considered that State Water's submission lacks sufficient information for stakeholders to assess the changes and provide informed comment. To fully appreciate the financial modelling by State Water in determining the pricing path proposed, Council considered that the modelling figures and assumption used by State Water, including revenue projections, should be made available.
Council requests that IPART make this information available so there can be a more informed debate on the whole pricing scenario.
- The net increase of \$2.7M per annum attributable to corporatisation appears high and warrants review. One would have expected that the corporate governance costs would be reduced through corporatisation.
- Council is disappointed with the consultation process by State Water. Whilst State Water indicate that they undertook comprehensive consultation, our experience is vastly different than stated. The direct impact of proposals on Council is referenced specifically yet there was no direct consultation with Council or request for input.

Council trusts that the comments provide constructive input to the review process and would be interested to contribute further as the review progresses.

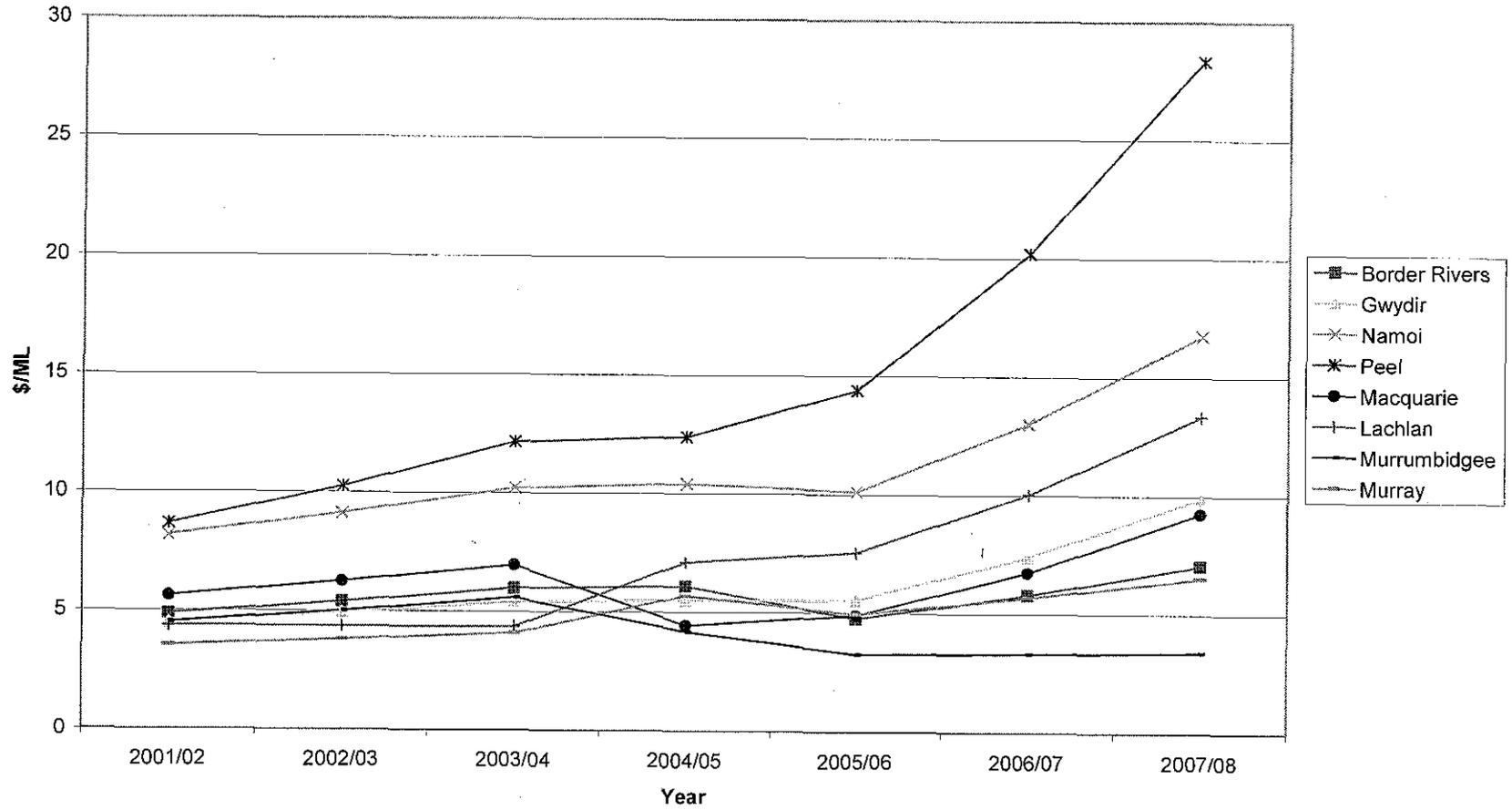
GRAPH A - Inland Rivers - Usage Charges



GRAPH B - Inland Rivers - GS Entitlement Charges



GRAPH C - Inland Rivers - HS Entitlement Charges



GRAPH D - Cost of Water to TRC - from Chaffey

