

The Chair  
Independent Pricing & Regulatory Tribunal  
PO Box Q2920  
QVB Post Office NSW 1230

Dear Dr Keating

**REVIEW OF NSW OFFICE OF WATER PRICES TO APPLY FROM 1 JULY 2010 – COMMENTS ON NSW OFFICE OF WATER SUBMISSION**

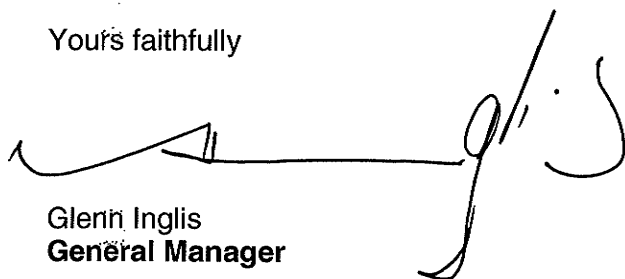
*Ref: MB/SF2229*

I refer to your letter of 20 July 2009 advising that IPART has commenced the review of bulk water prices proposed by State Water Corporation (SW) and NSW Office of Water (NOW) to apply from July 2010, and inviting input from interested parties on the draft determination.

Council has considered the NSW Office of Water submission of December 2009 to IPART and appreciates the opportunity to comment before the Tribunal brings down its draft determination.

Please find Council's submission attached.

Yours faithfully



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**Tamworth Regional Council**

**Response to IPART**

**NSW Office of Water's Submission Regarding the  
2010 Pricing Determination**

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## 1 Executive Summary

Tamworth Regional Council has considered the Submission by the NSW Office of Water (NOW) to the Independent Pricing and Regulatory Tribunal (IPART) on the 2010 bulk water pricing determination and has grave concern about the impact of the proposed price increases on water users, particularly in the Peel valley.

The NOW submission proposes a significant increase in staffing levels associated with the national water initiatives including Murray Darling Basin planning, with the costs to be sheeted home to water users instead of the broader community via Federal and State government funding. The additional resources claimed by NOW need to be closely examined by IPART to establish if all current resources are being used in a cost effective manner, and whether any additional resources are actually required. The split up of costs between water users and the State Government also needs to be closely examined to identify any cost shifting and whether cost should be absorbed by the broader community associated with the Murray Darling Basin.

The NOW submission proposes a fixed pricing regime based on "entitlement" instead of the current "entitlement plus usage" pricing, which will lead to wastage of water, as there would be no pricing signals to encourage water conservation. The current pricing based on "entitlement plus usage" should be maintained in any future pricing determinations.

The proposed NOW price increases over the next three years would impact significantly on water users in the Peel and Namoi Valleys, as summarised below;

- Peel regulated prices increase from **111%** for a fully active licence (100% Usage) to as high as **492%** for a sleeper licence with no annual extraction.
- The Namoi regulated price increases range from **107%** for a fully active licence to as high as **358%** for a sleeper licence.
- The Namoi / Peel unregulated price increases range from **138%** for a fully active licence to as high as **293%** for a sleeper licence.
- The Namoi / Peel groundwater price increases range from **174%** for a fully active licence to as high as **312%** for a sleeper licence.

The proposed increases are significant particularly in the Peel Valley (source of Tamworth water supply). There is also no transition with all the proposed increases taking place in the first year 2010/11 which is totally unacceptable to all water users including Council.

If the proposed bulk water price increases were applied to Council's seven town water supplies over three years from 2009/10 to 2012/13, the overall cost for bulk water in an average year would increase from the current \$386,000 to \$933,000, an increase of \$561,000 or 142%. In a drought year when all water for Tamworth water supply is sourced from Chaffey Dam Council would pay \$1,129,000 which would be \$216,000 more than for an average year. The proposed maximum price increases are considered far too steep and if applied will severely impact water users in the short and longer terms.

In the 2006 IPART determination the consumption forecast for the Peel of 14,675ML per year was developed using the Long Run Average (LRA) approach based on the Integrated Quantity and Quality Model (IQQM) of the NOW. SW and NOW are now proposing a 15 year rolling average

based on actual extractions as the basis for forecasting consumption in the new determination, which for the Peel results in a 22.2% reduction in annual extraction to 11,422 per year. SW and NOW costs applied over a smaller volume of water significantly increase the consumption charge. What is proposed is not in the best interest of bulk water customers as the charges for water delivered would be far too high should a run of wetter seasons (and more runoff into SW dams) be experienced and larger volumes of bulk water sold to customers (mainly for irrigation).

When the storage capacity for Chaffey Dam in the Peel valley is increased from 62GL to 100GL the current LRA extraction figure for the Peel of 14,675ML per year may be a reasonable figure to use instead of the 11,422ML per year proposed by SW. Therefore the Tribunal should adopt the current LRA figure of 14,675ML per year for the Peel and not the 15 year rolling average proposed by SW and NOW.

If full cost recovery proposed by SW and NOW was to be applied it would have a dramatic impact on water users particularly in the Peel valley which already has exceptionally high bulk water prices compared with other valleys in NSW. In the Peel valley the combined access and usage charges for **High Security** water would **increase from \$40.49/ML in 2009/2010 to \$95.29/ML in 2012/2013** and for **General Security** the **increases would be from \$27.83/ML to \$64.02/ML**. What is of concern to Council and other regulated water users in the Peel valley is that **Peel water users are paying usage charges up to 17 times more than most other inland regulated water users**. While being forced to pay such high prices for water, the security of regulated water in the Peel Valley needs improving by increasing the storage capacity of Chaffey Dam. Therefore any increase in prices beyond the current level is considered untenable as water users do not have the ability to pay full cost recovery.

An additional concern for regulated water users in the Peel Valley is that should Chaffey Dam be augmented at an estimated cost of \$36 Million to increase capacity to provide greater reliability for water users, under the current arrangements regulated water users in the Peel Valley would be required to contribute to the cost of these works.

Council contributed 25% toward the estimated cost of constructing Chaffey Dam (62 GL capacity) when it was constructed in 1979. This needs to be taken into consideration by the State Government when determining user charges that return income on investment to the government.

Council has previously raised the need for a single price for each category of water across all Valleys in the State to 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. It is pleasing to note that in the NOW submission it is seeking approval from IPART to apply a common price to groundwater west of the Great Dividing Range and a common price for groundwater in coastal areas.

If a state wide price, or west of the Great Dividing Range price for each category of bulk water is not able to be introduced then NOW and SW should consider merging the Peel Valley with the Namoi Valley to overcome the inequity in having a small sub-catchment of the Namoi valley quarantined and paying significantly higher prices for regulated water with a lower reliability

Despite obvious links a high security user in Gunnedah, 75 kilometres West of Tamworth on the Namoi River in 2010/11, under the NOW & SW proposals (entitlement and usage charges) will pay a total of \$39.51 per Megalitre compared to \$95.29 per Megalitre for a high security user in Tamworth on the Peel.

Council believes that the valley by valley approach for pricing and full cost recovery within each valley, is effectively disadvantaging business production in the Tamworth region by distorting the competitive process.

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## **2 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 NSW Office of Water (NOW) Submission on the 2010 Pricing Determination

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

In the submission Council requests the Tribunal to take into consideration the quantum of the combined price increases proposed by NOW and State Water (SW) in their pricing submissions to apply from 2010/11.

## **3 Proposed Increase in NOW Staffing Levels**

The NOW submission proposes a significant expansion in staffing levels to undertake current activities and to implement activities associated with the national water initiative agreed to by the State and Federal Governments. The submission also foreshadows that extra cost may also arise in the future to cover the cost of the metering being rolled out under the water initiative. Actual details in the submission are somewhat sketchy other than additional staff number that will be required.

The resources proposed by NOW in the submission are significant and a real concern as the costs will be sheeted home to water users. The Tribunal will need to closely examine if current resources are being effectively used and whether any additional staff and resources are in fact required.

The proposed share of costs between the State Government and water users needs to be closely examined by the Tribunal to ascertain if there is cost shifting and if it is fair and equitable taking into consideration the environment, broader catchment management and national water issues and other non water user activities which are undertaken by NOW. It would appear that water users are being saddled with costs which should be the responsibility of the broader community and government to pay for.

## **4 Fixed Pricing Proposed by NOW**

The proposed pricing change by NOW from "entitlement plus usage" to a "100% entitlement" charge does not encourage water conservation and will lead to wastage of water.

On this basis Council opposes a sole fixed charge irrespective of how much water is used within the limit of the licence. The NSW Government should have a water pricing structure in place like Councils are required under Best Practice Guidelines which encourages water conservation. Council therefore favours a pricing arrangement with a mix of entitlement and usage charges which send the correct pricing signals encouraging water conservation.

Within the submission (Section 11.1) NOW argue that there is a conflict of interest by NOW having part of its revenue linked to water usage. This is not considered to be the case as Water Sharing Plans include rules and trigger levels for the determination of annual extractions in accordance with seasonal conditions and water reserves.

The submission states that water charges are small in relation to the total budget of a viable farm business and that in recent times prices in the regulated rivers for trade of allocation water has been around \$200 per ML. These two claims are totally inappropriate particularly in the Peel valley where water prices combined with low reliability have a significant impact on the viability of water users. As for trading in general security water, if there is any water to trade within the Peel valley it only brings a fraction of the price claimed by NOW particularly when the current and proposed usage charges in the Peel are exceptionally high.

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## 5 NOW Proposed Price Increases

Council sources bulk water for its seven town water supplies from the Peel and Namoi valleys, with the majority sourced from the Peel valley.

Council has concerns about the exceptionally high fixed charges proposed by NOW, particularly for the Peel Valley.

Table 1 below shows the NOW current charges and proposed increases to Namoi and Peel regulated river entitlement High Security (HS), General Security (GS), unregulated river and groundwater charges over the three year period from 2009/10 to 2012/13. The prices are based on 100% cost recovery including the costs of the Commonwealth reforms should they be passed onto the States.

The proposed shift in pricing from a mix of entitlement and usage charges to a single charge based on entitlement volume will impact users depending upon the volume of water used. The Table also compares prices for the various classes of water on the basis of 100% Usage of Entitlement, 50% Usage of Entitlement and 0% Usage of Entitlement. The proposed pricing on entitlement only shifts more of the cost to water users that use a small proportion of their entitlement.

The price increases over the three years are summarised below;

- Peel regulated prices increase from **111%** for a fully active licence (100% Usage) to as high as **492%** for a sleeper licence with no annual extraction.
- The Namoi regulated price increases range from **107%** for a fully active licence to as high as **358%** for a sleeper licence.
- The Namoi / Peel unregulated price increases range from **138%** for a fully active licence to as high as **293%** for a sleeper licence.
- The Namoi / Peel groundwater price increases range from **174%** for a fully active licence to as high as **312%** for a sleeper licence.

The proposed increases are significant particularly in the Peel Valley (source of Tamworth water supply). There is also no transition with all the proposed increases taking place in the first year 2010/11 which is totally unacceptable to all water users including Council.

## 6 NOW & SW Proposed Maximum Price Increases in Peel & Namoi Valleys

Table 2 below summarises the combined NOW and SW proposed maximum price increases for most categories of water use in the Peel and Namoi valleys proposed under the 2010 price determination (Prices are \$/ML except for area based charges which are \$/ha).

The SW and NOW proposed price increases are exceptionally high and it is very important that the Tribunal consider the combined impact of the significant price increases proposed by SW and NOW.

TABLE 1

**BULK WATER PRICES NAMOI & PEEL VALLEYS - NSW OFFICE OF WATER SUBMISSIONS TO IPART FOR 2010/11 TO 2012/13 (Propose 100% Fixed Cost on Licence Volume, 100% Fixed Cost Recovery, Including Costs of Commonwealth Reforms)**

Catchment/Water Source	2009/10 Charges NOW	2010/11 Charges NOW	2011/12 Charges NOW	2012/13 Charges NOW	Increase Over 3 years to 2012/13	
					Amount	Percent
<b>Peel Regulated</b>						
HS - Entitlement						
GS - Entitlement						
Usage	1.17	\$6.49	\$6.81	\$6.93	\$5.76	492%
*Comparison Usage 100% Entitlement	1.17	\$6.49	\$6.81	\$6.93	\$5.76	492%
*Comparison Usage 50% Entitlement	2.12	\$0.00	\$0.00	\$0.00	-\$2.12	-100%
*Comparison Usage 0% Entitlement	3.29	\$6.49	\$6.81	\$6.93	\$3.64	111%
	2.23	\$6.49	\$6.81	\$6.93	\$4.70	211%
	1.17	\$6.49	\$6.81	\$6.93	\$5.76	492%
<b>Namoi Regulated</b>						
HS - Entitlement						
GS - Entitlement						
Usage	1.21	\$5.17	\$5.41	\$5.54	\$4.33	358%
*Comparison Usage 100% Entitlement	1.21	\$5.17	\$5.41	\$5.54	\$4.33	358%
*Comparison Usage 50% Entitlement	1.46	\$0.00	\$0.00	\$0.00	-\$1.46	-100%
*Comparison Usage 0% Entitlement	2.67	\$5.17	\$5.41	\$5.54	\$2.87	107%
	1.94	\$5.17	\$5.41	\$5.54	\$3.60	186%
	1.21	\$5.17	\$5.41	\$5.54	\$4.33	358%
<b>Namoi/Peel Unregulated</b>						
Annual charge (minimum)	60	\$0.00			-\$60.00	-100%
Irrigator/Stock & Domestic Area Based (\$/ha)	11.38	\$0.00	\$0.00	\$0.00	-\$11.38	-100%
Irrigator Entitlement - no meter	2.78	\$5.76	\$6.15	\$6.61	\$3.83	138%
Irrigator Entitlement - Metered	1.68	\$5.76	\$6.15	\$6.61	\$4.93	293%
Irrigator Metered - usage	1.1	\$0.00	\$0.00	\$0.00	-\$1.10	-100%
*Comparison Usage 100% Entitlement - Metered Irrig	2.78	\$5.76	\$6.15	\$6.61	\$3.83	138%
*Comparison Usage 50% Entitlement - Metered Irrig	2.23	\$5.76	\$6.15	\$6.61	\$4.38	196%
*Comparison Usage 0% Entitlement - Metered Irrig	1.68	\$5.76	\$6.15	\$6.61	\$4.93	293%
Town & Industry with Entitlement - Entitlement	1.68	\$5.76	\$6.15	\$6.61	\$4.93	293%
Town & Industry with Entitlement - Usage	1.1	\$0.00	\$0.00	\$0.00	-\$1.10	-100%
*Comparison Usage 100% Entitlement - Town WS	2.78	\$5.76	\$6.15	\$6.61	\$3.83	138%
*Comparison Usage 50% Entitlement - Town WS	2.23	\$5.76	\$6.15	\$6.61	\$4.38	196%
*Comparison Usage 0% Entitlement - Town WS	1.68	\$5.76	\$6.15	\$6.61	\$4.93	293%
<b>Peel / Namoi Groundwater</b>						
Annual charge (minimum)	60				-\$60.00	-100%
Entitlement	2.47	\$9.64	\$9.68	\$10.17	\$7.70	312%
Usage	1.24	\$0.00	\$0.00	\$0.00	-\$1.24	-100%
*Comparison Usage 100% Entitlement	3.71	\$9.64	\$9.68	\$10.17	\$6.46	174%
*Comparison Usage 50% Entitlement	3.09	\$9.64	\$9.68	\$10.17	\$7.08	229%
*Comparison Usage 0% Entitlement	2.47	\$9.64	\$9.68	\$10.17	\$7.70	312%

\* NOTE: Nearly all water users use much less water than the 100% water licence Entitlement.



TABLE 2

**BULK WATER PRICES NAMOI & PEEL VALLEYS - STATE WATER & NSW OFFICE OF WATER SUBMISSIONS TO IPART FOR 2010/11 TO 2012/13 (NSW Office of Water propose 100% Fixed Cost on Licence Volume, 100% Fixed Cost Recovery, Including Costs of Commonwealth Reforms)**

Catchment/Water Source	2009/10 Charges			2010/11 Charges			2012/13 Charges			Increase Over 3 years to 2012/13	
	SW	NOW	Total	SW	NOW	Total	SW	NOW	Total	Amount	Percentage
<b>Peel Regulated</b>											
HS - Entitlement	11.49	1.17	\$12.66	\$23.72	\$6.49	\$30.21	\$24.34	\$6.93	\$31.27	\$18.61	147%
GS - Entitlement	1.71	1.17	\$2.88	\$2.03	\$6.49	\$8.52	\$2.09	\$6.93	\$9.02	\$6.14	213%
Usage	25.71	2.12	\$27.83	\$62.36	\$0.00	\$62.36	\$64.02	\$0.00	\$64.02	\$36.19	130%
<b>Namoi Regulated</b>											
HS - Entitlement	9.31	1.21	\$10.52	\$12.37	\$5.17	\$17.54	\$14.01	\$5.54	\$19.55	\$9.03	86%
GS - Entitlement	7.44	1.21	\$8.65	\$7.41	\$5.17	\$12.58	\$8.39	\$5.54	\$13.93	\$5.28	61%
Usage	12.55	1.46	\$14.01	\$17.62	\$0.00	\$17.62	\$19.96	\$0.00	\$19.96	\$5.95	42%
<b>Namoi/Peel Unregulated</b>											
Annual charge (minimum)		60	\$60.00		\$0.00	\$0.00		\$0.00	\$0.00	-\$60.00	-100%
Irrigator/Stock & Domestic Area Based (\$/ha)		11.38	\$11.38		\$0.00	\$0.00		\$0.00	\$0.00	-\$11.38	-100%
Irrigator Entitlement - no meter		2.78	\$2.78		\$5.64	\$5.64		\$6.61	\$6.61	\$3.83	138%
Irrigator Entitlement - Metered		1.68	\$1.68		\$5.64	\$5.64		\$6.61	\$6.61	\$4.93	293%
Irrigator Metered - usage		1.1	\$1.10		\$0.00	\$0.00		\$0.00	\$0.00	-\$1.10	-100%
Town & Industry with Entitlement - Entitlement		1.68	\$1.68		\$5.64	\$5.64		\$6.61	\$6.61	\$4.93	293%
Town & Industry with Entitlement - Usage		1.1	\$1.10		\$5.64	\$5.64		\$6.61	\$6.61	\$5.51	501%
<b>Peel / Namoi Groundwater</b>											
Annual charge (minimum)		60	\$60.00						\$0.00	-\$60.00	-100%
Entitlement		2.47	\$2.47		\$9.64	\$9.64		\$10.17	\$10.17	\$7.70	312%
Usage		1.24	\$1.24		\$0.00	\$0.00		\$0.00	\$0.00	-\$1.24	-100%

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## 7 Impact on Water Users

The seven town water supplies in the Tamworth Regional Council draw bulk water from various surface and groundwater sources in the Namoi and Peel valleys with approximately 93% of extractions from the Peel valley.

The proposed NOW and SW maximum price increases for bulk water if applied will have a significant impact on Tamworth Regional Council town water supplies plus other water users in the Peel and Namoi Valleys. Council is gravely concerned about the consequences of price increases, particularly in the Peel Valley which already is subject to exceptionally high bulk water charges for regulated water.

Table 3 below shows the projected impact of the proposed bulk water price increases on Council's town water supplies over three years from 2009/10 to 2012/13. The overall cost will increase from \$386,000 to \$933,000, an increase of \$561,000 or 142% which is not considered viable.

Table 4 shows the price increases from 2009/10 to 2012/13 which Council would pay in an average year for bulk water for Tamworth supplied from Dungowan and Chaffey Dams, plus the scenario of a drought year when all water is sourced from Chaffey Dam. In an average year Council would pay \$913,000 and in a drought year would pay \$1,129,000 which would be \$216,000 more. The 2009/10 prices currently paid for an average year for Tamworth water supply amount to \$378,000 which is significantly less than the proposed price increases

The proposed maximum price increases are considered far too steep and if applied will severely impact water users in the short and longer terms. Council therefore request the Tribunal to closely scrutinise the proposed price increases and limit any price increases to a much more modest and sustainable level.

TABLE 3

**TAMWORTH REGIONAL COUNCIL TOWN WATER SUPPLIES - PROJECTED IMPACT OF BULK WATER SUPPLY PRICE INCREASES PROPOSED BY STATE WATER & NSW  
OFFICE OF WATER TO IPART FOR 2009/10 TO 2012/13 PERIOD**

Town/Village	Supply	Water Source	License Volume (ML's)	Ave Annual Cons. (ML's)	2009/10			2012/13			Percentage change
					Entitlement Charge /ML	Usage Charge /ML	Cost	Entitlement Charge /ML	Usage Charge /ML	Cost	
Tamworth	Dungowan Dam	Dungowan Crk. - Unreg	5600	3378	1.68	1.1	\$13,124	6.61	0	\$ 37,016	
	Chaffey Dam	Peel River - Regulated	18400	5665	12.66	27.83	\$365,281	31.27	64.02	\$ 875,501	
	<b>Total</b>		<b>22000</b>	<b>9043</b>			<b>\$378,405</b>			<b>\$ 912,517</b>	<b>141%</b>
Manilla	Split Rock Dam	Namoi River - Regulated	150	10	10.52	14.01	\$1,718	19.55	19.96	\$ 3,132	
	Namoi River Weir	Namoi River - Unreg	800	409	1.68	1.1	\$1,794	6.61	0	\$ 5,288	
	Bore	Namoi - Groundwater	60	0	2.47	1.24	\$148	10.17	0	\$ 610	
Barraba	<b>Total</b>		<b>1010</b>	<b>419</b>			<b>\$3,560</b>			<b>\$ 9,030</b>	<b>147%</b>
	Barraba Creek	Namoi River - Unreg		87	1.68	1.1	\$96	6.61	0	\$ -	
	Manilla River	Namoi River - Unreg	381	80	1.68	1.1	\$728	6.61	0	\$ 2,518	
	Connor's Crk Dam	Namoi River - Unreg		10	1.68	1.1	\$11	6.61	0	\$ -	
	Town bore	Namoi - Groundwater	40	0	2.47	1.24	\$99	10.17	0	\$ 407	
	<b>Total</b>		<b>421</b>	<b>177</b>			<b>\$934</b>			<b>\$ 2,925</b>	<b>213%</b>
Bendemeer	Macdonald River	Namoi Unregulated	74	40	1.68	1.1	\$168	10.17	0	\$ 753	
	Town bore	Namoi Groundwater	10	0	2.47	1.24	\$25	10.17	0	\$ 102	
	<b>Total</b>		<b>84</b>	<b>40</b>			<b>\$193</b>			<b>\$ 854</b>	<b>343%</b>
Nundle	Town bores	Peel - Groundwater	100	136	2.47	1.24	\$416	10.17	0	\$ 1,017	145%
Attunga	Town bores	Peel - Groundwater	145	70	2.47	1.24	\$445	10.17	0	\$ 1,475	231%
Moonbi Kooling	Town bores	Peel - Groundwater	530	307	2.47	1.24	\$1,690	10.17	0	\$ 5,390	219%
<b>TOTAL</b>			<b>24290</b>	<b>10192</b>			<b>\$385,742</b>			<b>\$933,209</b>	<b>142%</b>
<b>ADDITIONAL ANNUAL COST OF PROPOSED BULK WATER PRICE INCREASES:</b>											
<b>NOTES:</b>											
1) License volumes for Tamworth are correct (have volumetric conversions)											
2) Some towns and village licence volumes are not all yet finalised with NOW regarding volumetric conversions.											
3) All water supply consumptions except Tamworth (10 year average figures) are based on 2004/05 usage.											
4) Fees and charges assume all water supply licences in TRC have a volumetric licence.											

TABLE 4

**TAMWORTH REGIONAL COUNCIL - TAMWORTH WATER SUPPLY - PROJECTED IMPACT OF BULK WATER SUPPLY PRICE INCREASES PROPOSED BY STATE WATER & NSW OFFICE OF WATER TO IPART FOR 2009/10 TO 2012/13 PERIOD**

			2009/10				2012/13				
Town/Village	Supply	Water Source	License Volume (ML's)	Ave Annual Cons. (ML's)	Entitlement Charge /ML	Usage Charge /ML	Cost	Entitlement Charge /ML	Usage Charge /ML	Cost	Percentage change
Tamworth Water Sourced Dungowan & Chaffey Dams											
Tamworth	Dungowan Dam	Dungowan Crk - Unreg	5600	3378	1.68	1.1	\$13,124	6.61	0	\$ 37,016	
	Chaffey Dam	Peel River - Regulated	16400	5665	12.66	27.83	\$365,281	31.27	64.02	\$ 875,501	
Total			22000	9043			\$378,405			\$ 912,517	141%
Tamworth Water Sourced Chaffey Dam (drought)											
Tamworth	Dungowan Dam	Dungowan Crk - Unreg	5600	0	1.68	1.1	\$9,408	6.61	0	\$ 37,016	
	Chaffey Dam	Peel River - Regulated	16400	9043	12.66	27.83	\$459,291	31.27	64.02	\$ 1,091,761	
Total			22000	9043			\$468,699			\$ 1,128,777	141%
NOTES:											
1) License volumes for Tamworth are correct (have volumetric conversions)											
2) Tamworth Water supply consumptions based on 10 year average figures to 2004/05.											

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## 8 Projected Reduced Water Consumption by Customers

Council in its recent submission to IPART on the SW submission for price increases from July 2010 raised concerns about the proposed future projected water consumption figures proposed by SW which are also being proposed by NOW (should a usage charge be applied in the 2010 IPART determination on NOW prices).

In the 2006 IPART determination the consumption forecast for the Peel of 14,675ML per year was developed using the Long Run Average (LRA) approach based on the Integrated Quantity and Quality Model (IQQM) of the NOW. SW and NOW are now proposing a 15 year rolling average based on actual extractions as the basis for forecasting consumption in the new determination, which for the Peel results in a 22.2% reduction in annual extraction to 11,422 per year. SW and NOW costs applied over a smaller volume of water significantly increase the consumption charge.

This is a new initiative by SW and NOW and Council considers that it is not in the best interest of bulk water customers as the charges for water delivered would be far too high should a run of wetter seasons (and more runoff into SW dams) be experienced and larger volumes of bulk water sold to customers (mainly for irrigation).

It should also be noted that when the storage capacity for Chaffey Dam in the Peel valley is increased from 62GL to 100GL the current LRA extraction figure for the Peel of 14,675ML per year may be a reasonable figure to use instead of the 11,422ML per year proposed by SW.

Therefore the Tribunal should adopt the current LRA figure of 14,675ML per year for the Peel and not the 15 year rolling average proposed by SW and NOW.

## 9 Full Cost Recovery by SW & NOW

If full cost recovery proposed by SW and NOW was to be applied it would have a dramatic impact on water users particularly in the Peel valley which already has exceptionally high bulk water prices compared with other valleys in NSW.

At present in the Peel the 2009/10 SW & NOW charges for HS water comprise an entitlement charge of \$12.66/ML and usage charge of \$27.83/ML totalling \$40.49/ML which is well in excess of all other river valleys except the North Coast and South Coast.

The "percentage" increases in the cost of Peel regulated water may not sound so high when compared with some other proposed "percentage" price increases, however what the Tribunal needs to be aware of and address is the quantum of the current high prices for Peel regulated water, and if the proposed 147% increase for HS entitlement and 130% increase in usage price is added to the NOW and SW prices, the additional cost of water becomes massively high. For example the proposed increase in Peel regulated usage from the current **\$27.83 per ML** to **\$64.02 per ML** represents an increase of \$36.19 per ML, which is far in excess of the increase in usage costs of other inland regulated river catchments. **The proposed increase would see Peel regulated usage prices being over three times higher than the Namoi, around seven times higher than the Border Rivers, and 17 times higher than the Murrumbidgee Valley.**

What is of concern to Council and other regulated water users in the Peel Valley is that Peel water users are paying usage charges up to 17 times more than most other inland regulated water users. While being forced to pay such high prices for water, the security of regulated water in the Peel

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Valley needs improving by increasing the storage capacity of Chaffey Dam. Therefore any increase in prices beyond the current level is considered untenable.

Under the National Water Initiative (NWI) the bulk water supplier is generally to achieve full cost recovery for water services to ensure business viability and avoid monopoly rents. SW notes that a further NWI principle is transparency of operating subsidies when full cost recovery is not likely to be achieved in the long term.

A transitional operating subsidy was provided from the NSW Government over the 2006 IPART determination period. This operating subsidy resulted from IPART's decision to exercise its discretion not to pursue full cost recovery in the Peel, North Coast, South Coast and Hunter due to impacts on customers.

The principle of full cost recovery may be acceptable in Valleys with large storages, but the Peel valley and Chaffey Dam are too small to apply full cost recovery principles and therefore it is Council's view that similar subsidies should remain in place at least until Chaffey Dam is augmented and a more reliable supply is provided to all users.

## **10 Other Related Issues**

Some other related issues are listed below

### **10.1 Ability to Pay**

The report titled "Ability to Pay – State Water Customers", prepared by RMCG August 2009 as part of SW's submission to IPART concluded that regions facing the most significant impact due to the proposed price changes are relatively small in terms of business numbers and total water usage. The high impact regions being the Peel Valley, North Coast and South Coast will face a significant increase in the cost/affordability of water should full cost recovery be implemented.

In the NOW submission Section 13 Impacts of Pricing, it states that bulk water costs as a percentage of total farm costs are relatively small, representing between 0.8 to 4.7 percent of total farm costs, and that IPART had previously concluded that bulk water costs are not a significant factor such as commodity prices, interest rates, fuel prices and climatic conditions. This statement by NOW is in conflict with the RMCG report and needs to be revisited and take into consideration the serious situation that currently applies in the Peel valley which would be elevated by the proposed price increases.

Council has grave concerns about the capacity for general security users to meet the significant cost increases foreshadowed in the SW and NOW submissions.

What needs to be taken into consideration by the Tribunal is that due to the gross over allocation of water in the Peel valley and associated low reliability most water users have excess licence in an attempt to access a reasonable volume of water for irrigation. This amplifies the costs. Further even after taking these steps for many years prior to the current water year Peel irrigators have not received an annual allocation. Also due to the limited size of Chaffey Dam there is no continuous accounting which means water can not be carried over into subsequent years, a feature that is enjoyed by regulated water users in all other valleys west of the range.

### **10.2 Council Contribution to Chaffey Dam Construction 62GL Capacity**

Council contributed 25% toward the estimated cost of constructing Chaffey Dam when it was constructed in 1979. This needs to be taken into consideration by the State Government when determining user charges that return income on investment to the government.

Council is of the view that it too should be receiving a return on the investment in Chaffey Dam, or alternatively a discount on bulk water charges.

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Council would like the Tribunal to determine its position on this very important issue. Such determination will enable Council to examine its legal position going forward.

### **10.3 Future Augmentation of Chaffey Dam to 100GL Capacity**

The State Government has recognised for many years now that Chaffey Dam with a capacity of 62GL was undersized to provide adequate reliability for town water supply, other HS users and GS users.

Planning for upgrading the dam to 100GL capacity was well advanced by 1990, however the government of the day decided not to proceed with the project. This decision by the government to delay the project has now severely disadvantaged regulated water users in the Peel Valley.

An additional concern for regulated water users in the Peel Valley is that should Chaffey Dam be augmented to increase capacity to provide greater reliability for water users, under the current arrangements regulated water users in the Peel Valley would be required to contribute to the cost of these works. The price of this backlog capital works is presently estimated at \$36 Million to increase the dam capacity. So on one hand, the Government is asking users to contribute to the cost of an augmentation that increases the reliability of supply, yet whilst those users are waiting, unfairly charges existing users because of this very unreliability. This may be acceptable if there was some prospect that users charges will fall for those who contribute to the cost of the augmentation but on evidence to date this will not happen.

### **10.4 A State Wide Price for Water**

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.

It is pleasing to note that in the NOW submission it is seeking approval from IPART to apply a common price to groundwater west of the Great Dividing Range and a common price for groundwater in coastal areas. This is a positive step and the principle should also be applied to all surface water charges for NOW and SW west of the Great Dividing Range.

### **10.5 Peel Valley to become part of the Namoi**

If a state wide price, or west of the Great Dividing Range price for each category of bulk water is not able to be introduced then NOW and SW should consider merging the Peel Valley with the Namoi Valley.

NOW already has a common charge in the Namoi and Peel for groundwater and unregulated surface water. NOW and SW at present apply different prices for regulated water in the Namoi and Peel.

The Peel River runs into the Namoi system and is a much smaller system relative to the Namoi. The existing Namoi Water Sharing Plan links the two Valleys by stating that any increase in Tamworth City's water requirements will be accommodated 95 % from the Namoi and only 5 % from the Peel.

Further, the absence of off stream storages in the Peel Valley means that off stream allocation pumping and storage of water in the Peel is virtually non existent. Therefore significant flows in the Peel, capable of providing environmental flows and off allocation pumping, pass virtually

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untouched into the Namoi system where users with off stream storages can pump water that originated in the Peel Valley just up stream. Ironically this same water is able to be purchased at a much cheaper price in the Namoi. The Peel river flows into the Namoi immediately below Keepit Dam at Carroll Gap (mid way between Tamworth and Gunnedah) and for most of the time keeps the Namoi River primed, playing a large part in minimising transmission losses in the Namoi valley below Keepit Dam which is a huge benefit for all regulated water users in the Namoi valley below Keepit Dam.

**Despite these obvious links a high security user in Gunnedah, 75 kilometres West of Tamworth on the Namoi River in 2010/11, under the NOW & SW proposals (entitlement and usage charges) will pay a total of \$39.51 per Megalitre compared to \$95.29 per Megalitre for a high security user in Tamworth.**

Clearly there are good reasons for the Peel and Namoi valleys to have a common water pricing structure. There are no other examples in NSW where a small valley in the upper reaches of a major valley such as the Namoi have been quarantined for water pricing, particularly when the downstream valley benefits significantly from water flowing out of the sub-catchment.

## **11 Summary**

The proposed NOW price increases for bulk water if applied will have a significant impact on Tamworth Regional Council town water supplies plus other water users in the Peel and Namoi Valleys, and Council is gravely concerned about the consequences of price increases, particularly in the Peel valley where the current regulated water prices are already exceptionally high.

The State Government is effectively disadvantaging business production in the Tamworth region by distorting the competitive process. Inaccurate resource allocations in this way, necessitate decisions on production and consumption, for example, where to purchase goods and services, being gravely distorted. Trade practices legislation is being examined to determine conformity or otherwise.

Council trusts that the above comments provide constructive input to the Tribunal when considering the NOW submission and urges IPART to consider the effect on users of the proposed price charges and to recommend more appropriate charging regimes that more equitably share the burden of cost recovery across the State.