

Independent Pricing and Regulatory Tribunal  
PO Box K35  
**HAYMARKET POST SHOP NSW 1240**

Dear Sir

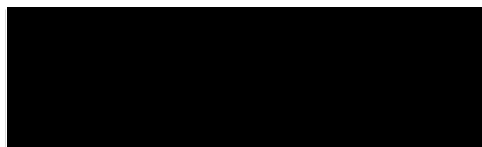
**REVIEW OF PRICES FOR WATER NSW AND WAMC– RURAL BULK WATER SERVICES FROM 1 JULY 2021,  
ISSUES PAPER**

On behalf of Tamworth Regional Council, thank you for the opportunity to provide comments on the utilities proposed costs and prices for water management and rural bulk water in NSW.

Council's submission follows.

Please contact the undersigned should you wish to discuss this matter further.

Yours faithfully



Bruce Logan  
**Director Water and Waste**

Contact: 

14 October 2020





**Tamworth Regional Council**

**Response to the Independent Pricing and Regulatory  
Tribunals**

**Review of Prices for Water NSW and WAMC – Rural  
Bulk Water Services from 1 July 2021**

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## Background

Tamworth Regional Council holds

- a 16,400 Megalitre local water utility license for bulk raw water delivered from Water NSW's Chaffey Dam to supply the City of Tamworth.
- a 515 Megalitre local water utility license for bulk raw water delivered from Water NSW's Split Rock Dam to supply the towns of Manilla and Barraba

Split Rock Dam is in the Namoi Valley and Chaffey is in the Peel Valley for the purposes of pricing and both valleys are in the Murray Darling Basin.

This submission is in response to IPART's request for feedback on the utilities, Water NSW and Water Administration Ministerial Corporation (WAMC), proposed costs and prices for water management and rural bulk water in NSW to apply from 1 July 2021.

Council's submission is in 2 parts. The first part addresses the questions posed by IPART in Issue Papers – Review of Water NSW's Rural Bulk Water Prices from 1 July 2021 and the second part those in the Issues Paper - Review of Water Management Prices from 1 July 2021

## Water NSW

### 1 How well has Water NSW delivered its bulk water services since 2017?

*The primary function of Water NSW is to deliver bulk water from its storages in accordance with the rules set by others, primarily in Water Sharing Plans and associated documentation. Council does have significant concerns about the rules presently in place in the Peel Valley that has contributed to the City of Tamworth and Moonbi/Kootingal being on Level 5 water restrictions (the most severe in Council's Drought Management Plan) for almost 12 months, however accepts that the rules are not set by Water NSW.*

*On this basis, looking only at the delivery of bulk water from storages Council has no issues with the delivery of water by Water NSW since 2017.*

### 2 Was Water NSW's capital expenditure over the 2017 determination period efficient?

*Council has no detail of the breakup of expenditure nor how that expenditure was incurred to be able to comment on this issue.*

### 3 Is Water NSW's proposed expenditure on maintenance efficient?

*Again, Council has no detail of the breakup of expenditure nor how that expenditure was incurred to be able to comment on this issue.*

### 4 Do you have any comments on Water NSW's operating activities and associated operating costs?

*No comment.*

### 5 Is the current structure of the Risk Transfer Product (RTP) efficient and equitable?

*Council has to deal with volatility in its income due to fluctuations in consumption of water by customers without resorting to charging those same customers for insurance to insure against a reduction in revenue. Council believes Water NSW should do the same.*

*In the 2020-2021 financial year, Council will pay \$734,228 per year in fixed charges whether any water is sourced from Chaffey Dam (this figure is more than double what Council would pay if it was sourcing water from any other Murray Darling Basin source). Council's goal is to*

*minimise water consumption by consumers at all times, yet when we do minimise our consumption and thereby use less water from Chaffey Dam, Council is charged for the insurance cover used by Water NSW to protect its revenue and any water that we do not consume can be sold to other customers in the valley.*

*What is the benefit to Council of the current arrangement? If the rules were to be changed such that water Council did not use was held in storage to improve the security and reliability of Council's supply, Council may be more amenable to considering paying more to Water NSW to pay for insurance premiums that cover volatility risk.*

**6 How should Water NSW manage its revenue volatility risk?**

*The same way Tamworth Regional Council does - by altering expenditure as income allows.*

**7 How should Water NSW most efficiently meet its requirements for fish passageways?**

*No comment.*

**8 What are your views about Water NSW's overall level of core capital expenditure over the 2021 determination period?**

*Council does not have sufficient information or knowledge to comment on the works proposed and/or the estimated cost of those proposed works.*

**9 Should governments bear all the costs of increasing water security and availability for licence holders?**

*In earlier submissions to IPART Council has proposed the cost of bulk raw water from regulated river and streams and all groundwater should be the same across NSW. Again Council makes the following points in support of postage stamp pricing*

- In the case of supplementary or off allocation flows, where water flows from one valley into another, there is some debate about the charges levied for that water if it is intercepted by a user in a valley that is not the valley the water originated from. For example if flow in the Peel River results in supplementary or off allocation flows in the Namoi, the Namoi irrigators pay to intercept this water at the Namoi valley costs, even though if the water had been intercepted in the Peel the price to intercept would have been double. Postage stamp pricing does away with this issue.*
- Water shepherding rules. In a similar manner to the point above in the event environmental flows are released from one valley for the purposes of addressing environmental concerns in a downstream valley how much does the environmental water holder pay for that water – is it the cost associated with the valley it was released from or the cost associated with the valley it ends up. Postage stamp pricing would address this issue.*
- Legacy issues. The cost of supplying raw water in some valleys is higher because of decisions made by governments before the notion of users pays was conceived. For example in the Namoi Valley two dams were constructed, Keepit and Split Rock. With the benefit of hindsight, and the desire for users pays, it may have been better to construct one larger dam rather than two. In so doing the cost of raw water in the Namoi could have been reduced because no one argues that the operating cost of two separate smaller dams is higher than one larger dam. Present day users who are required to pay for raw water at costs which reflect the cost of operating two dams, or in the case of the Peel, one relatively small storage, were not consulted at the time the decision was made, or able to consider the decision to build the second dam/smaller storage in terms of increased ongoing costs.*
- Council supports requiring monopoly suppliers to provide detailed cost break ups associated with the delivery of bulk water in a particular valley. This can help identify inefficiency's or unnecessary waste. But Council contends there is no reason why,*

*having calculated the cost of the service in each valley, these costs could not be aggregated and divided by the total amount of water delivered across the state to determine the postage stamp price.*

- *IPART has accepted postage stamp pricing for access and usage charges for groundwater customers in the Murray Darling Basin (excluding the Murrumbidgee Valley), regardless of location. If postage stamp pricing is able to be applied for groundwater, Council is asking why the same justification can't be applied to surface water, and questioning whether the reasons provided for rejecting postage stamp pricing for surface water previously are actually valid.*

*If IPART continues to not support a postage stamp pricing approach then Council would ask IPART to consider merging the Peel and Namoi Valleys in terms of pricing. The Peel valley flows in the Namoi Valley, for the purposes of water sharing the Peel is considered part of the Namoi Valley and therefore the two valleys should be merged for pricing purposes.*

*However, assuming IPART's position remains unchanged then Council does not believe government should bear all the costs of increasing water security for license holders. Council believes there should be three key principles when considering who and how much should pay as follows:*

- *all those who benefit from the increased water security should be required to contribute;*
- *the contribution amount should be considered against the capacity of the license holders to pay; and*
- *the costs imposed cannot rise to a point where it is no longer economic for that industry/business, the increased secure water supply is supporting, to continue.*

*During recent discussion with the Office of the NSW Minister for Water, Property and Housing concerning the use of the new Chaffey Dam Pipeline, one of the reason provided for not allowing the pipeline to be used continuously was this would have an impact on aquifer recharge in the valley. Aquifer recharge benefits groundwater users only. But this link between the water stored and released from Chaffey Dam having a benefit for groundwater users is not reflected in the sharing of the costs associated with Chaffey Dam. If the groundwater license holders in the Peel Alluvium are benefiting directly from Chaffey Dam then they should be contributing to the costs of the dam's operations.*

## **10 Who should pay for future expenditure on major drought-related projects, including asset renewals and upgrades?**

*Council does not believe government should bear all the costs of increasing water security for license holders. If IPART was to support Council's view that postage stamp pricing should apply to bulk raw water charges then all users across the state would contribute to the cost of these projects or failing that, merge the Peel and Namoi Valleys together for pricing purposes.*

*However, assuming IPART's position remains unchanged then Council believes there should be three key principles when considering who and how much should pay as follows:*

- *all those who benefit from the renewal or upgrading work should be required to contribute;*
- *the contribution amount should be considered against the capacity of the license holders to pay; and*
- *the costs imposed cannot rise to a point where it is no longer economic for that industry/business, the more secure water supply is supporting, to continue.*

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*reflected in the sharing of the costs associated with Chaffey Dam. If the groundwater license holders in the Peel Alluvium are benefiting directly from Chaffey Dam then they should be contributing to the costs of the dam's operations.*

#### **11 Over what determination period should we set prices?**

*There is considerable work for license holders to respond to IPART every time charges are reviewed; therefore, Council supports aligning as many reviews as possible to limit the amount of time license holders need to allocate to prepare submissions etc.*

*On that basis Council supports a four year determination period that sets the prices for Water NSW and WAMC at the same time.*

#### **12 Are there policy and industry reforms that make four-year forecasts of costs and usage difficult? Has COVID-19 hampered Water NSW's customer consultation?**

*Council is not aware of any policy or industry reforms that make four year forecasting difficult. Yes, COVID-19 has made customer consultation with Water NSW more difficult.*

#### **13 Do you agree with the cost share ratios set in our cost share review? If not, for which activities should we modify the cost share ratio? Please specify an updated cost share ratio and explain why it is appropriate.**

*Council has previously considered the cost share ratios and resolved not to comment.*

#### **14 We are required to set prices that recover Water NSW's efficient costs in the MDB valleys. If efficient costs are increasing, how should costs be recovered over the determination period?**

*If IPART was to support Council's view that postage stamp pricing should apply to bulk raw water charges then all users across the state would contribute, or failing that merge the Peel and Namoi Valleys together for pricing purposes.*

*However, assuming IPART's position remains unchanged then Council believes there should be three key principles when considering who and how much should pay as follows:*

- all those who benefit from the services should be required to contribute;*
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#### **15 How should we set prices in coastal valleys?**

*No comment*

#### **16 What is the appropriate mix of fixed and usage charges?**

*Council's submission to IPART in April 2017 in relation to this matter detailed Council's opposition for the 80/20 split in the Peel including;*

- Council believes the 80/20 split has led to Council, as the largest entitlement holder in the Peel Valley, directly subsidising the general security license holders. Council does not believe it is part of its responsibility to directly subsidise some businesses over others.*

- *80/20 split sees the fixed cost of entitlement rise, which may see owners of licenses that have been inactive consider whether to start irrigating using these licenses or to trade to other active license holders. If more licenses become active, the Long Term Average Annual Exceedance Limit in the Peel may be breached, resulting in lower allocations for GS users.*
- *Council has in the past contributed financially to the construction of the original Chaffey dam and to the augmentation of the Dam, yet Council still pays the same charges as all other high security users who did not make any capital contribution to the cost of the asset.*
- *Compared to a 40/60 split Council, under an 80/20 rule pays considerably more per year when we extract average amounts of water from Chaffey Dam*

*Council's position has not changed.*

## **WAMC**

### **1 How well has WAMC performed its water management functions?**

*Not at all. Council believes that DPIE's repeated failure to act and adopt Council's requests for change to the way water is managed in the Peel Valley over many years and improve the security of water supply for Tamworth, is directly responsible for the fact that within three years of the newly augmented Chaffey Dam being full, residents in Tamworth City were placed on water restrictions and as of September 2019, went onto the most severe water restrictions in Council's Drought Management Plan (Level 5) for a period of almost 12 months.*

*Council acknowledges the area did experience the worst drought on record but the lack of action by DPIE on options to improve Tamworth's water security through changes to the rules contained in the relevant Water Sharing Plan contributed to the severity and length of restrictions imposed on Tamworth.*

*Council's view is that DPIE want to be involved in everything, have veto and approval powers but takes no responsibility for decisions made or not made.*

*It is not just Council who shares this view. The NSW Auditor General, Margaret Crawford, in her report - Support for Regional Town Water Infrastructure – Performance Audit 24 September 2020), delivered a scathing assessment of DPIE and the management of water across NSW including a failure to effectively support or oversee town water infrastructure planning in regional NSW, since at least 2014. It has also lacked a strategic, evidence-based approach to targets investment in town water infrastructure.*

*IPART also mentioned DPIE did not meet some of its water management targets during the 2016 determination.*

*Why would Council be willing to pay more when it believes it does not benefit at all from the present arrangements, has no control over how the money will be spent, the work to be undertaken with that money nor the outcomes, nor any guarantee that any work will be actually undertaken.*

### **2 Do you agree with WAMC's proposed areas of focus for water management (and their associated costs)?**

*Council agrees that more focus needs to be on water management but not at higher costs than at present. Higher focus on water management has been a priority for several years and Council has yet to see the benefit of this focus. What guarantee has Council that a higher focus will actually see more productive work in this area, rather than Council paying more for a continued substandard service.*

### **3 How well has NRAR performed its water regulation functions?**

*Council believes a regulator with the necessary resources to identify illegal use of water and the necessary powers to act where these actions are identified is extremely important.*

*However, Council cannot comment on why this required level of resourcing cannot be provided within existing budgets*

**4 Will NRAR's proposed activities and costs facilitate effective and efficient water regulation?**

*See earlier comment.*

**5 How well have Water NSW and NRAR performed their licence processing functions?**

*It is difficult to review licensing functions as the prolonged drought had a significant impact on license applications and associated delays in addressing the applications. With a return to more "normal" rainfall it is possible that the current level of resources is adequate to provide the required level of service.*

**6 Do you agree WAMC should focus on providing better services (e.g. more information and consultation) to customers, supported by higher levels of expenditure?**

*Council believes the primary focus of WAMC is water planning and improving the regulatory framework license holders work under. Providing information and consulting when it is not linked to the primary focus is a waste of time and money.*

**7 Do you consider DPIE, NRAR and Water NSW consulted adequately with stakeholders on their pricing proposals?**

*In relation to pricing principles yes. In relation to other responsibilities no.*

**8 How important is it to improve the incentives for DPIE to actively engage in negotiating MDBA and BRC contributions to ensure only efficient costs are passed onto WAMC customers?**

*No comment.*

**9 Was it efficient for Water NSW to apply capital expenditure from its water monitoring program to cover its shared capital costs?**

*No comment.*

**10 Is WAMC's water monitoring program efficient?**

*No comment.*

**11 Given the increase in WAMC's capital costs, is the arrangement of Water NSW providing WAMC's capital program efficient?**

*No comment.*

**12 Do you agree with the cost share ratios set in the cost share review? If not, for which activities should we modify the cost share ratio? Please specify an updated cost share ratio and explain why it is appropriate.**

*Council has previously considered the cost share ratios and resolved not to comment*

**13 Over what determination period (i.e., how many years) should we set prices?**

*There is considerable work for license holders to respond to IPART every time charges are reviewed; therefore, Council supports aligning as many reviews as possible to limit the amount of time license holders need to allocate to prepare submissions etc.*

*On that basis Council supports a four year determination period that sets the prices for Water NSW and WAMC at the same time.*

**14 If we set a shorter period for Water NSW rural bulk water prices, are there benefits in aligning WAMC's determination period with Water NSW rural bulk water? What are the costs and benefits of setting a one year period for WAMC to potentially align with Water NSW rural bulk water? Alternatively, what are the costs and benefits of setting a longer period (e.g. five years) and aligning these two determinations at the next review?**

*See earlier response.*

**15 What are your views on WAMC's proposed price structures?**

*Under the proposed price structure Tamworth Regional Council will again pay the highest charges across the Murray Darling Basin for the services delivered by WAMC. This seems unjustifiable given the size of the Peel valley and therefore the limited number of services, or the scale of any of those services in the Peel compared to say the Murray.*

*Further, given the lack of planning services provided by WAMC to date and lack of faith that this will change in the future, Council is opposed to paying more for the WAMC's range of services, when one of those primary services has not yet been received.*

*If IPART was to support Council's view that postage stamp pricing should apply to bulk raw water charges then all users across the state would contribute.*

*However, assuming IPART's position remains unchanged then Council believes there should be three key principles when considering who and how much should pay as follows:*

- all those who benefit from the services should be required to contribute;*
- the contribution amount should be considered against the capacity of the license holders to pay; and*
- the costs imposed cannot rise to a point where it is no longer economic for that industry/business, the more secure water supply is supporting, to continue.*

**16 Is there merit in setting separate charges to recover MDBA and BRC costs?**

*No comment.*

**17 How should we transition prices to achieve full cost recovery? Or, what is a reasonable price path that would enable transition to full cost recovery? How would this affect customer affordability?**

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**18 Do you agree with Water NSW's proposal to introduce a demand volatility adjustment mechanism for WAMC to address its revenue risk? Should we effectively allocate more risk to customers?**

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