

PUBLIC SUBMISSION TO BULK WATER CHARGES RULES ISSUES PAPER BY LAURIE PENGELLY (PEEL VALLEY WATER USERS ASSOCIATION INC.) ON 14TH AUGUST 2008.

The ACCC should not only determine the charge rules for Regulated Bulk Water Pricing in the Murray Darling Basin it should also determine a uniform price for Regulated Water throughout the Basin. The price should be set to recover the efficient costs of delivering

- General Security Water
- High Security Water (Permanent Plantings etc)
- High Security Town Water Supplies

The water pricing for each category should be adjusted to reflect the reliability of supply. A two part tariff, one covering fixed charges associated with entitlement and a second covering the variable costs associated with water usage. The fixed component or entitlement charge should be used to give stability to the water infrastructure businesses of the Basin (eg State Water) whilst the variable component or usage charge should be used by these businesses to build up their reserves when water is available for use to tide them through the drought years in the same way as farmers have to put away reserves to tide them through the bad years.

Failure by the ACCC to set uniform Basin wide Bulk Water Prices for Regulated Water will result in a situation which is even worse and more complicated than currently exists in NSW. The price structure in NSW varies dramatically from Valley to Valley as IPART attempts to achieve full cost recovery on a Valley basis as it applies a one size fits all approach with uniform price rules applied across New South Wales. For example State Water's entitlement charge for 2008/09 varies from

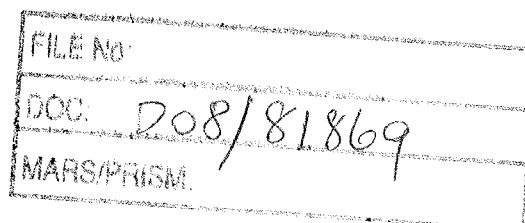
Murrumbidgee \$1.79 per M/L
Namoi \$6.48 per M/L

Whilst State Water's usage charge 2008/09 varies from

Murrumbidgee \$2.68 per M/L
Peel \$20.20 per M/L

This IPART price structure based on uniform State wide rules, but recouped on an individual valley basis, results in a typical family operated irrigation farm with a 1000M/L General Security entitlement in Northern NSW (Namoi) paying fixed charges to State Water (which must be paid whether water is available or not) of \$6,480 compared to Southern NSW of only \$1,790.

Should water be available to use (the Peel has had 5 zero start of season allocations in a row followed by a lone 30%) State Water's Usage Charge for the 1000M/L entitlement in the Peel would be \$20,200 compared to only \$2,680 down South.



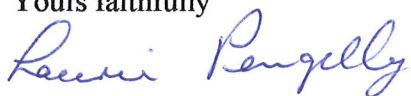
What sort of price signal does this huge variation in pricing send to the water users?

It clearly demonstrates ACCC's aim of water charge rules applied consistently across the basin to facilitate the efficient functioning of water markets, by removing distortions to trade and send signals to water users about efficient investment in water infrastructure assets will not be met unless the ACCC after setting the water charge rules also sets a uniform charge for Regulated Bulk Water across the Basin and modifies its approach to full cost recovery and upper bond pricing.

The issues that the ACCC requires comment on Bulk Water Charges have been raised many times during the IPART process. Copies of the last few submissions by the Peel Valley Water Users Association to IPART are included as part of our submission to the ACCC.

Hoping that this information is of some value to you and remember the old adage KISS
Keep it simple stupid.

Yours faithfully



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Rosebank, Wallamore Road TAMWORTH NSW 2340 Ph/Fax 02 67607152

5th November 2005

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290
QVB Post Office NSW 1230
SYDNEY NSW 2000

Submission to IPART-Bulk Water Prices from 2006/07

STOP! The Bulk Water Pricing Process and its participants need to halt the process and take a reality check and a deep breath (The community would be a lot better off if some of the participants held their breath for at least ½ an hour)

None of the States dams or the Government agencies or corporations associated with them were built on the premise of full cost recovery from water users, let alone a return of 6% or more on assets.

The cost spiral is out of control with State Water Corporation (SWC) and the Department of Natural Resources (DNR) **selectively** using the Inter Government Agreement (IGA) on the 2004 National Water Initiative (NWI) and the 1995 COAG agreement on water reform to push their case for full cost recovery.

What is full cost recovery?

The Department of Land and Water Conservation (DIPNR) the predecessor of SWC and DNR in its submission to IPART in April 2001 lists the Total Bulk Water costs for the 2003/04 water year on page 25 of that document as:

Total Cost (\$)	Full Cost Recovery (user share)
\$104,421,000	\$69,020,000

Dipnr's replacements SWC and DNR in their submissions to IPART September 2005 lists total Bulk water costs for 2005 / 07 as:

Total Cost (\$)	Full Cost Recovery (user share)
SWC (page9) 89,873,000	67,841,000
DNR (page25) <u>55,269,000</u>	<u>46,986,000</u>
Total \$145,142,000	\$114,827,000

That is if you believe that the SWC and DNR's current costs listed in their submissions are genuine then the total cost for bulk water has risen by \$40,721,000 or 39% over three years and the cost to the Water Users (irrigators and towns water supplies) has risen by a massive \$45,807,000 or 66% over the same 3 year period compared to the national rate of inflation over the same period of something less the 8%. **Who has their snouts in the trough!**

In essence it would appear the breakup of DIPNR by the NSW Government into SWC and DNR has caused a massive blow out in the costs of Bulk Water Services. In reality it is more likely that these two NSW Government institutions have found bigger and more devious ways to interpret the IGA, NWI and COAG agreements to milk NSW Country dry and ruin what used to be vibrant rural economies.

Unfortunately the escalation of these costs attributed by this NSW Government Corporation and Agency cannot be recouped from the water users on a valley basis. The milking cows of the Peel Valley, North Coast and South Coast are drying up and worse still they are suffering from the terminal disease Black Mastitis.

For SWC to increase the Peel's General Security charges from \$14.42 / ML in 2005/06 to a massive \$90.95 / ML in 2008/09 whilst the Murrumbidgee's costs rise from a low \$3.93 ML in 2005/06 to \$4.87 ML in 2008/09 is quite frankly unbelievable. DNR's charges will of course be added to these costs. What sort of message does this send? It looks like we will all be moving south to Mexico.

Uniform Statewide Bulk Water Pricing should be introduced by IPART in **THIS** pricing determination. It is the only fair and reasonable method of distributing the costs of Bulk Water Services amongst the community, after of course, IPART has sorted out the genuine costs from the ambit claims put forward by both SWC and DNR.

Apart from raising the obvious issue of the totally unreasonable and escalating costs of SWC and DNR and the inability of the Peel Valleys Water Users, both General Security and Town Water Supply to pay for these hikes in bulk water charges, the Peel Valley Water Users Association would like to take this opportunity to raise other issues that should be taken into account by IPART in its Pricing Determination.

1. PEEL VALLEY GENERAL SECURITY - Reliability of supply

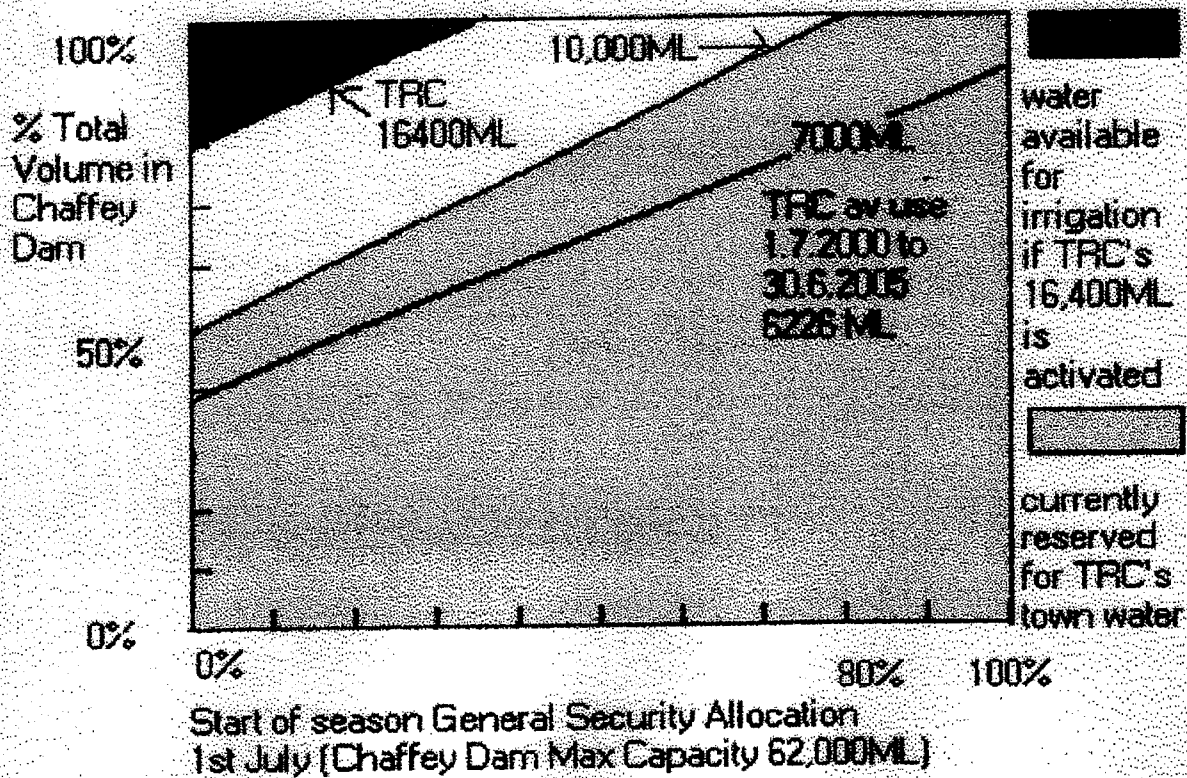
The start of season allocation (1st July) for the General Security Users of the Peel Valley is listed below:

Year	Start of Season allocation	Dam Capacity
01/02	80%	100%
02/03	60%	80%
03/04	Zero	33%
04/05	Zero	46%
05/06	Zero	43%

What sort of irrigation industry can survive and be successful with three consecutive years with no access to irrigation water at the start of the water year when Chaffey Dam has, compared to other Dams in the region, been quite full. Chaffey is too small to cater for the requirements of Tamworth Regional Council and also support an irrigation industry. Chaffey Dam needs to be enlarged as soon as possible. Preferably yesterday.

The impact of Tamworth Regional Councils (TRC) access to water from Chaffey Dam on the General Security Water Users Access is clearly demonstrated in Figure 1.

Impact on the Peel Valley Irrigation Industry of Tamworth Regional Councils water requirements on the resources of Chaffey Dam.



Should TRC require its full entitlement, general security entitlement holders will receive no access to irrigation water until the Dam is 80% and then will only receive 35% of entitlement when Chaffey Dam is full. Clearly the Dam is currently to all intents and purposes basically reserved for Town Water supplies.

Whilst the Peel Valley Water Users Association is aware that SWC in its submission to IPART has determined that the impact of TRC on the reserves of Chaffey is so great that to reduce the cross subsidy between General Security Users and High Security Users the High security charge should be 13.46 times higher than for General Security Users which would cause TRC's costs for Bulk Water to rise dramatically and unreasonably. Whilst TRC has the facility to increase its water rates to the Town

folk and may be able to pass on its direct costs for about 50% of its annual water usage to the alternative sewerage effluent reuse users, the impact on TRC's financial outlook will still be significant.

Given that Chaffey Dam was built for the purposes of irrigation, flood mitigation and to augment Tamworth's water supply, not for the purposes of full cost recovery supporting innumerable bureaucratic backsides, the Peel Valley Water Users Association would propose that TRC's contribution to Bulk Water charges remain about where they are, and the General Security charges be reduced by the 13.46 ratio given that to all intents and purposes we are in effect largely Unregulated water users.

2. RETURN ON ASSETS – UPPER BOND PRICE RECOVERY (rate of return on capital)

The justification in moving to upper bound pricing is unreasonable. The inter Governmental Agreement on the 2004 National Water Initiative (NWI) indicates in clause 66V(b) that the NWI seeks *"continued movement towards upper bound pricing for all rural systems, where practical."*

This NWI statement needs to be questioned. The NWI states that it is built on the work and intentions of the 1994 COAG agreement on water reform. The 1994 paper is the strategic framework document that formed the basis for the 1995 COAG agreement on water reform. The 1994 strategic framework document identifies cost recovery for rural water and irrigation schemes as

(Clause 3.4 1994 COAG)

"In the case of many existing rural water and irrigation schemes application of the full cost definition will need to take account of operational and maintenance costs, any river delivery costs, the refurbishment costs of supply and reticulation assets, including headwork's and the extent to which investments were intended to meet social as well as economic objectives."

There is no mention of returns on capital of rural water infrastructure or in regard of cost recovery in the 1994 document. However the current State Water submission builds a rate of return on capital into the construction of the regulatory asset base (RAB).

This appears to be a policy decision by State Waters shareholders namely NSW treasury. This policy decision needs to be debated and the impacts assessed. Both NWI and the original 1994 COAG agreement stress the need to avoid monopoly pricing. Any treasury insertion of increased pricing needs serious scrutiny in the light of these concerns over monopoly pricing.

Both documents acknowledge that in many instances full recovery will not be possible due to previous 'legacy' policy decisions being made without consideration of possible future cost recovery or returns on capital.

The Peel system is a prime example of legacy decisions making full cost recovery impossible. The Peel's cost structures are extremely high due to the awkward size (too small for dedicated irrigation, too large for dedicated town water) of the Chaffey storage.

Page 9 of State Water Corporations current submission calculates a return on assets of \$20,199,000 dollars per annum across NSW, these are new costs driven by upper bound cost recovery.

Peel Valley Usage Entitlement Figures

Annual entitlement HS 17277MLmGS 30,878 ML
 Average annual usage 14675 ML HS / GS combined figure
 Average annual usage less 1 standard deviation 12,925 ML HS / GS combined figure

The increased annual cost of seeking a rate of return on capital in the Peel system

2006 / 2007	2007 / 2008	2008 / 2009	2009 / 2010	2010 / 2011
\$331,000	\$417,000	\$587,000	\$809,000	\$933,000

Each year an average of 14675 ML of HS and GS water is used. The average cost of seeking a rate of return on capital in the Peel will be –
 2006-07 \$331,000 raised as a rate of return on capital equates to an increase of \$22.56 per ML attributable to seeking a rate of return on capital, averaged across HS and GS water.

3. COST SHARING RATIO'S

All of the Cost Sharing ratio's for the various product codes of both SWC and DNR need to be reviewed by IPART and 'on the ground experts.' The following examples are just a few which could be put forward to demonstrate the unfair and unreasonable burden being placed on Water Users by the current cost sharing ratios.

State Water Corporation

<u>Code</u>	<u>Description</u>	<u>Valley</u>	<u>% to User</u>	<u>Total Cost</u>
11736	Public Liability Insurance	Peel	100	\$41,600

The Public Liability in the Peel is principally to cover the possibility of an accident at Chaffey Dam by a recreational user or tourist or visitor to the Dam. Who is the beneficiary? NOT the water user. Why should we be charged nearly \$1.00 ML of entitlement for this Public Liability Insurance? The benefactors are the people and the Government should pay 100%, NOT the water users. Alternatively close the Dams and headworks to the public. Imagine the outcry!

<u>Code</u>	<u>Description</u>	<u>Valley</u>	<u>% to User</u>	<u>Total Cost</u>
12150	Water Quality Data Collection-Chaffey	Peel	100	\$141,300

The water users are neither impactor or beneficiary. The General Security Peel Valley Water User gets so little access to the resources of Chaffey Dam that the quality of the water is of little concern especially when it is remembered that about two thirds of the water used in the Peel is extracted downstream of the TRC sewerage treatment works.

The Water Quality Data Collection at Chaffey is largely for Blue Green Algae alerts with the beneficiaries being the recreational users or adjacent land-holders. The user share should be zero and the NSW Government's share 100%.

Department of Natural Resources

Water Modeling and Impact Assessment. (Ref. Page 21 DNR Submission)
\$7,184,970

The share is unspecified but is highly likely to be close to 100% If the Peel's IQQM is any guide to the usefulness of the IQQM Model for water monitoring and impact assessment then the cost attributed to the water user should approach zero. The Peel is a simple system, when it rains irrigation water is not used and when the weather turns dry irrigation is used to meet the crops water requirements. The IQQM modelers have used two irrigator behavior models for the Peel, both of which are WRONG.

They are

(a) Area irrigated increases as water availability increases (water availability allocation improves as rainfall increases) i.e. area planted for irrigation increases as rainfall increases.

(b) Area planted for irrigation increases as rainfall decreases.

NOTE These two concepts of irrigator behavior in the Peel Valley are 180 degrees apart and diametrically oppose each other and both are wrong.

In the Peel Valley, water use increases as rainfall decreases in order to meet the crops water requirement. Water use per Ha increases as rainfall decreases NOT the area planted for irrigation.

To demonstrate the highly inaccurate data that can be generated by the Peel IQQM which the water users basically pay 100% of the costs, the Peel Valley Water Users refer IPART to the 2005/06 'Peel Water Allocation Plan, Page 5.'

..... when general security allocations are less than 35% of entitlement, which the IQQM predicts will be about 18% of years.....

That is the IQQM for the Peel predicts that the General Security Allocation will be less than 35% for only about 18% of water years.

In practice since 1990 / 91 to 2005 / 06 using the current method of water allocation, the Peel would have had less than 35% allocation for 7 of the 16 years or 44% of the time including 5 years of zero start of season allocation. So much for the IQQM!!!

Why should the water users pay for this process? The information it generates is inaccurate, misleading and reeks of incompetence.

4. 2005 / 06 IPART SUBMISSION

The Peel Valley Water Users has taken this opportunity to resubmit our 2005 / 06 submission on water pricing which is still more than relevant to the 2006 / 07 IPART determination.

Once again the Peel Valley Water Users Association thanks IPART for its assistance to the Peel Valley and for giving us the opportunity to participate in the process.

Yours faithfully

Laurie Pengelly
Representing the Peel Valley Water Users Association Inc.

APPENDIX 4

PEEL VALLEY WATER USERS ASSOCIATION INC.

**SUBMISSION TO THE INDEPENDENT PRICING AND
REGULATORY TRIBUNAL.**

BULK WATER PRICING FROM 2006/07

PUBLIC MEETING MOREE 1ST FEBUARY 2006

CONTACT: Laurie Pengelly
Rosebank
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Tamworth NSW 2340
Ph/Fax 02 67607152

INTRODUCTION

If the submissions on Bulk Water Pricing put forward by State Water and the Department of Natural Resources are left unconstrained by IPART then the water users of the Peel Valley will be out of business.

Why should the General Security Users of the Peel Pay 18 times more than their counterparts in the Murrumbidgee?

Why should Tamworth Regional Council and its ratepayers pay 24 times more than the residents of Wagga Wagga? What is reasonable about that?

The irrigation infrastructures and its industries in NSW were not built on the premise of full cost recovery let alone a return on assets and certainly not price constrained to individual river valleys. No one would build Chaffey Dam at 62,000ML and expect to receive full cost recovery.

It is time for State Water, DNR and IPART to push for uniform statewide pricing of Bulk Water.

Back in 1996 when the IPART process was first applied to Bulk Water it set out to determine a fair price for the efficient delivery of Bulk Water services. It was uncomplicated and all parties to the process were aware that Bulk Water pricing could do significant damage to the socio economic backbone of NSW river communities.

Now some ten years later a fair price for the efficient delivery of Bulk Water services has dropped out of the vocabulary. The process has become so complicated that both State Water and DNR employ expert consultants to help prepare their submissions to IPART.

These experts look for ways to transfer costs from the Government to Users and they have been very successful. Full cost recovery should have been in place in 2001 and some valleys even thought they were there. But they were wrong. The goal posts have moved as demonstrated in the following table, which demonstrates that total bulk water costs have risen by 39% and the users share by 66% from 2003/04 to 2006/07 compared to a CPI rise of about 8%.

What is full cost recovery? – How fast are the goal posts moving?

The Department of Land and Water Conservation (DIPNR) the predecessor of SWC and DNR in its submission to IPART in April 2001 lists the **Total Bulk Water costs for the 2003/04 water year** on page 25 of that document as:

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DNR (page25) <u>55,269,000</u>	<u>46,986,000</u>
Total \$145,142,000	\$114,827,000

**That is total Bulk Water Costs have risen by 39% and the user share by 66% over this three year period compared to a CPI rise of about 8%.
WHY?**

UNCONSTRAINED GENERAL SECURITY PRICES SWC & DNR 2008/09
(ex table 10.5 SWC submission)

Valley	Entitlement (\$/ML)	Usage (\$/ML)	Total (\$/ML)
Border rivers	4.51	11.51	16.02
Gwydir	4.04	19.10	23.14
Namoi	9.40	22.62	32.02
Peel	3.48	106.56	110.94
Macquarie	3.40	19.35	22.75
Lachlan	3.17	21.79	24.96
Murrumbidgee	1.61	4.28	5.89
Murray	3.97	9.08	13.05
North Coast	58.90	805.71	864.61
Hunter	5.36	33.89	39.25
South Coast	29.22	118.07	147.29

UNIFORM STATE WIDE PRICING - General Security

Proposed total cost (SWC plus DNR)	\$113,154,000
Proposed user share	\$85,863,000

Entitlement	7,346,000ML
Long term average use	5,455,000ML

Statewide price required \$/ML- \$4.00 entitlement charge & \$10.35 usage charge

PEEL VALLEY GENERAL SECURITY - Reliability of supply

The start of season allocation (1st July) for the General Security Users of the Peel Valley is listed below:

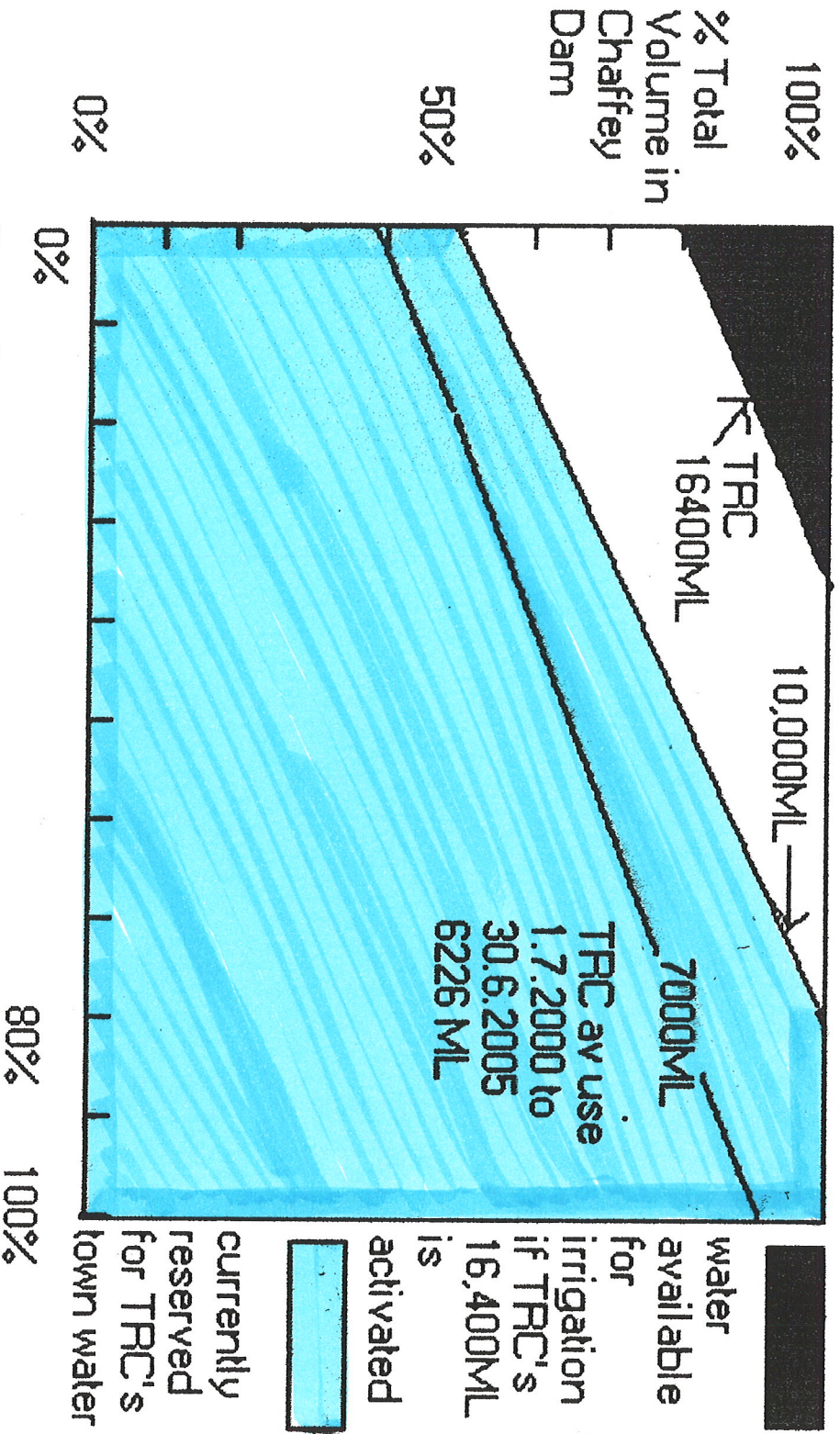
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What sort of irrigation industry can survive and be successful with three consecutive years with no access to irrigation water at the start of the water year when Chaffey Dam has, compared to other Dams in the region, been quite full.

Chaffey Dam is too small to cater for

- The requirements of Tamworth Regional Council
- Support an irrigation industry
- Pay full cost recovery

Impact on the Peel Valley Irrigation Industry of Tamworth Regional Councils water requirements on the resources of Chaffey Dam.



Start of season General Security Allocation
1st July (Chaffey Dam Max Capacity 62,000ML)

SUBJECT: Chaffey Dam – Water Supply Reliability – Ability to pay

2001/02 Water Year – 80% start of season water allocation
on farm rainfall – 501mm

Total area irrigated – 82 Ha using 642ML or 7.8ML per Ha
Range – 7.4 to 8.6ML per Ha

Plants water requirements met

Production – Hay 25,052 Bales
Cattle 23,007 Cow days

2004/05 Water Year – Zero start of season water allocation
on farm rainfall – 601mm

Total area irrigated – 67 Ha using 240ML or 3.6ML per Ha
Range – 1.6 to 5.1ML per Ha

Plants water requirements **not** met

Production – Hay 14,474
Cattle 6,601 Cow days

Reduced access of irrigation water from Chaffey Dam caused hay production to drop by 40%
and cattle production by a massive 70%.

Who has the ability to pay? Not the Peel Valley irrigators.

COST SHARING RATIO'S

All of the Cost Sharing ratio's for the various product codes of both SWC and DNR need to be reviewed by IPART and 'on the ground experts.'

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The Water Quality Data Collection at Chaffey is largely for Blue Green Algae alerts with the beneficiaries being the recreational users.

Emerging Opportunities in Agriculture

Carinya Christian School
Tamworth
Friday 9 October 1998

H A N D B O O K



RURAL INDUSTRIES
RESEARCH & DEVELOPMENT CORPORATION

Concurrent session times

All sessions are followed by time for personal discussion with researchers and specialists at their display sites.

Topics	Presenter	Session times						Page No.
Pulses		<i>Lunch</i>						
Future of pulses	Pulse Australia	10.15	11.15	12.15	12.45	1.45	2.45	7
Mung beans/Cow peas	Darryl Young	10.30	11.30		1.00	2.00	3.00	8
Navy beans	Bob Redden	10.45	11.45		1.15	2.15	3.15	8
Faba beans	Gary Littlejohns	11.00	12.00		1.30	2.30	3.30	9
Oils		<i>Lunch</i>						
Essential oils (tea tree)	Bob Colton	10.15	11.15	12.15	12.45	1.45	2.45	10
Olives	Sharn Hunkin	10.30	11.30		1.00	2.00	3.00	11
Canola	Leigh Jenkins	10.45	11.45		1.15	2.15	3.15	11
Mustard seeds	Paul Parker	11.00	12.00		1.30	2.30	3.30	12
Trees and water		<i>Lunch</i>						
Farm Forestry	David Carr	10.15	11.15	12.15	12.45	1.45	2.45	13
Paulownia	Alex Jay	10.30	11.30		1.00	2.00	3.00	13
Carbon credits	Rob Heathcote	10.45	11.45		1.15	2.15	3.15	14
Water use efficiency	Brett Tucker	11.00	12.00		1.30	2.30	3.30	15
Exotic Animals		<i>Lunch</i>						
Aquaculture/eels	Brian Singh	10.15	11.15	12.15	12.45	1.45	2.45	17
Yabbies	Brian Norman	10.30	11.30		1.00	2.00	3.00	17
Boer Goats	Peter Murray	10.45	11.45		1.15	2.15	3.15	17
Deer	Bruce Mackay	11.00	12.00		1.30	2.30	3.30	18
Horticulture		<i>Lunch</i>						
Herbs	Phillip Brown	10.15	11.15	12.15	12.45	1.45	2.45	20
Echinacea	Nick Walker	10.30	11.30		1.00	2.00	3.00	20
Ginseng	Tony Sadler	10.45	11.45		1.15	2.15	3.15	21
Asian Vegetables	Johnny Capuyan	11.00	12.00		1.30	2.30	3.30	22
Case Studies - 1		<i>Lunch</i>						
Adzuki beans	Peter Desborough	10.15	11.15	12.15	12.45	1.45	2.45	23
Lentils	Linda Heuke	10.30	11.30		1.00	2.00	3.00	23
Hemp/Kenaf	Phil Nichol	10.45	11.45		1.15	2.15	3.15	24
Viticulture		11.00	12.00		1.30	2.30	3.30	
Case Studies - 2		<i>Lunch</i>						
Durum wheat	Ray Hare	10.15	11.15	12.15	12.45	1.45	2.45	26
Jojoba	Peter Milthorpe	10.30	11.30		1.00	2.00	3.00	26
Lucerne - value adding	Paul McCardell	10.45	11.45		1.15	2.15	3.15	27
Bush tucker	Sammy Ringer	11.00	12.00		1.30	2.30	3.30	27
Managing a new Industry		<i>Lunch</i>						
Horticulture	Bernie McMullen	10.15	11.15	12.15	12.45	1.45	2.45	28
Risk Management	Bruce Gardiner	10.30	11.30		1.00	2.00	3.00	28
DOOR Marketing	Rob Fletcher	10.45	11.45		1.15	2.15	3.15	30
Internet	Jenny Goodfellow	11.00	12.00		1.30	2.30	3.30	

PEEL VALLEY WATER USERS ASSOCIATION INC.
Rosebank, 824 Wallamore Rd, TAMWORTH NSW 2340 Ph/Fax 02 67607152

17th April 2006

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290
QVB Post Office 1230

Submission to IPART – Bulk Water Prices from 2006/07

At the Public Meeting held at Moree on the 1st February 2006 by the Independent Pricing and Regulatory Tribunal into Bulk Water Pricing from 2006/07, as the representative of the Peel Valley Water Users Association (Laurie Pengelly) in my presentation to the Tribunal members stated that *“the reliability of supply of water to the General Security water users in the Peel Regulated system was so low that we were effectively unregulated users and that IPART should apply unregulated pricing to the general security users in the Peel regulated system”*. It would appear that this statement significantly understates the seriousness of our situation.

Data presented to the Chaffey Dam Upgrade, Community Reference Panel (CRP) Meeting held on 7th April 2006, stated that *“at the current capacity of Chaffey Dam (62GL) the probability of an 80%+ allocation on 1 July drops dramatically from about 60% to 0% when high security demand increases from the current 10 GL/a to 12 GL/a.”*

Unfortunately the General Security Water users of the Peel are already halfway there to this disastrous situation as the Peel Water Allocation Plan for both the 2004/05 and 2005/06 water years has factored in a high security demand of 11 GL/a.

The Peel Valley Water Users Association is aware that this submission is late in the process but feels that the situation in the Peel is so serious that the information put before the Chaffey Dam upgrade CRP should also be put before IPART so that the Tribunal will be in a position to make a fair and reasonable price determination for General Security Bulk Water supplies in the Peel Valley.

The information provided to the CRP was compiled by GHD Pty Ltd under contract to State Water Corporation and examines the need for the augmentation of Chaffey Dam as part of the proposed Safety upgrade. Only some of the issues in this report will be raised in this submission but I'm sure that State Water would be happy to provide IPART with a copy of the complete document.

SECTION 4 IQQM modeling (page 11 GHD report)

The irrigator behaviour modeled in the current IQQM unlike previous Peel IQQM models (reference PVWUA submission to IPART 5.11.05) shows a strong negative correlation between irrigation diversions and rainfall, which is consistent with experience in the Peel Valley as previously reported to IPART.

Reference

- Peel Valley Irrigation Requirements as a Function of Rainfall-PVWUA 14.5.03
- Assessment of the Potential Impacts of the Proposed 100 Per Cent Effluent Reuse Farm on the Irrigation Industry of the Peel Valley – UNE – Evans and Wolfenden. January 2003.

IQQM model was used extensively to examine various scenarios and the results should be close to the mark given the revised irrigator behaviour factored into this model.

SECTION 4.5.3 (page 12 GHD report)

Effect of Chaffey Dam Capacity with & without Effluent Offset Flows.

Recently Tamworth Regional Council have decided that all sewerage effluent will be reused in its own effluent disposal farm. When such a scheme is completed, the return flows to the Peel River from the treatment plant will cease.

The sensitivity analysis of the effluent offset scenarios modeled effectively showed that the loss of these return flows will

- Reduce annual average irrigation diversions
- Reduce the available and reliability of general security water
- Reduce the reliability of Tamworth's water supply

The cumulative impact of these reductions can only have serious impacts on the General Security users of the Peel who are now facing the prospect of a 4th consecutive year of a zero start of year allocation.

SECTION 6.1.1 General Security Water (page 20-21 GHD report)

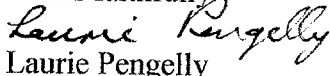
The reliability for general security (irrigation) is primarily affected by increasing demand for high security water. The performance of the supply system in relation to general security users was assessed and the following conclusions were drawn from the analysis.

- At present the irrigators have reliability of supply below the identified minimum (The adopted minimum reliability level for general security entitlements is a 70% probability of announcing an 80% allocation on the 1st of July each year)
- At the current capacity of Chaffey Dam (62 GL) the probability of an 80%+ allocation on 1 July drops dramatically from about 60% to 0% when high security demand increases from the current 10 GL/a to 12 GL/a.

Given the various growth scenarios for the Tamworth population and housing growth it is highly likely that the high security demand will exceed 12 GL/a during the life of this IPART determination and the general security users of the Peel will have access to irrigation water well below that of an unregulated surface water resource which would have about a 60% probability of using 80% of entitlement during the water year.

The General Security bulk water price for the Peel should be set to reflect the reliability of supply, which will be lower than most unregulated resources.

Yours faithfully


Laurie Pengelly

DRAFT IN CONFIDENCE

PREPARED BY GHD FOR STATE WATER FOR DISCUSSION AT CRP MEETING 7 APRIL 2006

ABRIDGED VERSION

The IQQM model (using the base case scenario) showed a strong negative correlation between irrigation diversions and annual rainfall (Figure 8), consistent with experience in the Peel Valley.

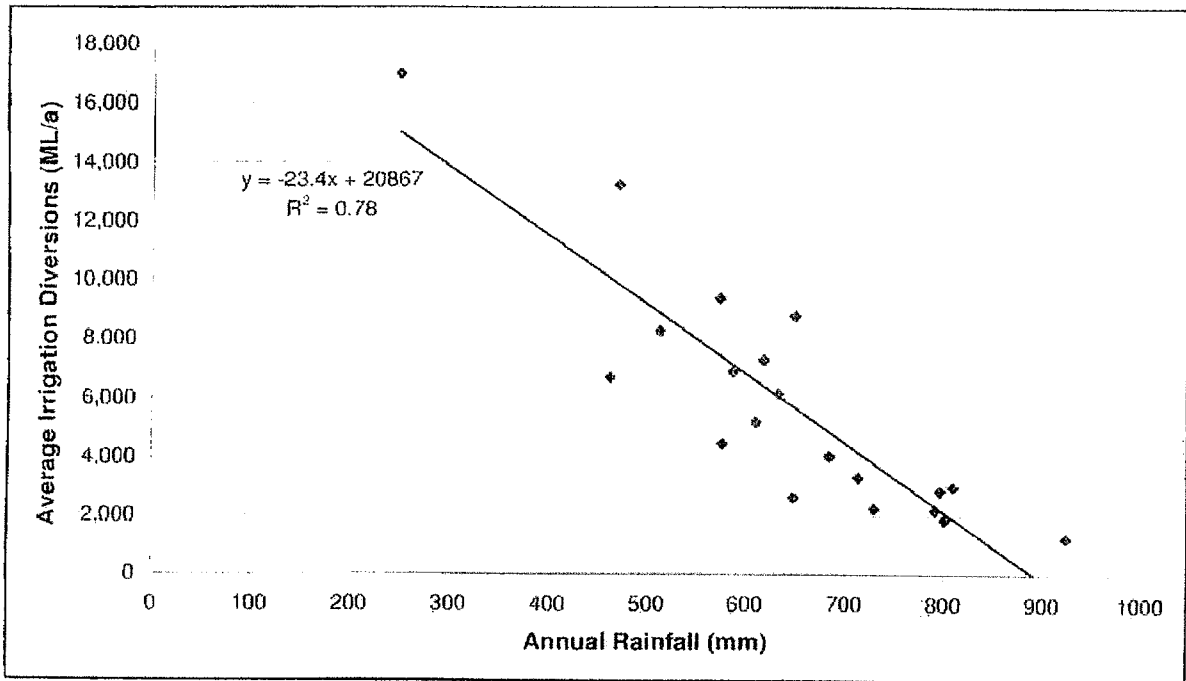


Figure 8 Irrigation Diversions v Rainfall for the Base Case

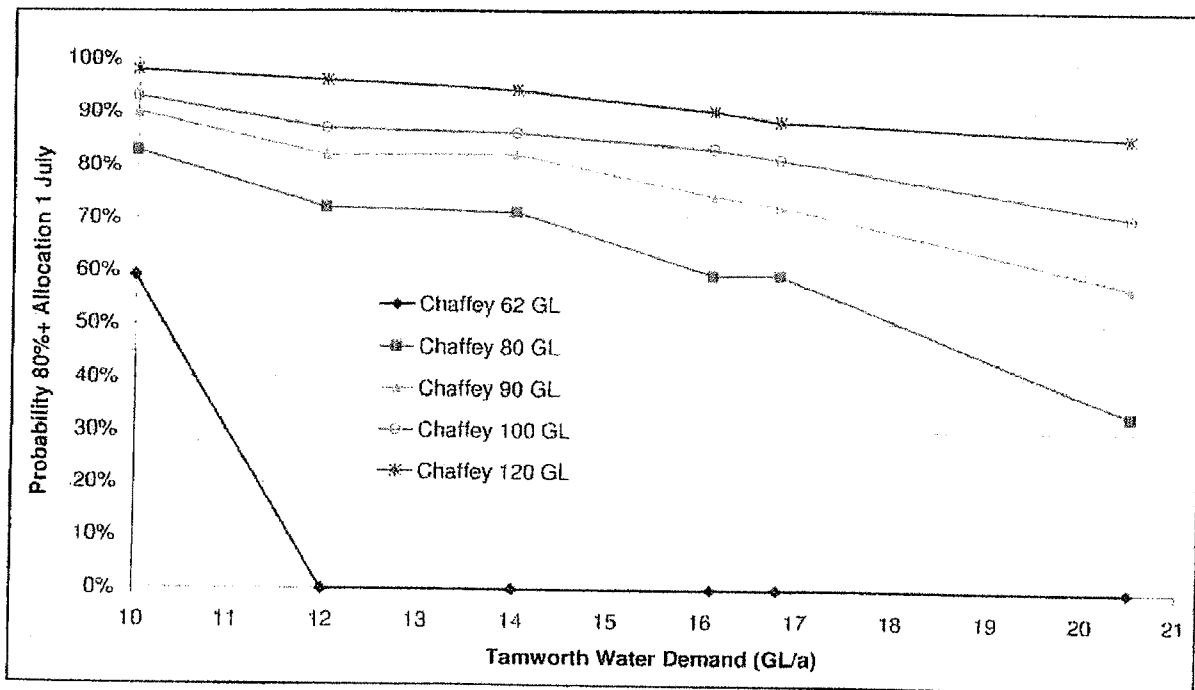


Figure 16 Probability of an 80%+ Allocation on 1 July versus Tamworth Water Demand for Different Capacities of Chaffey Dam

DRAFT IN CONFIDENCE

PREPARED BY GHD FOR STATE WATER FOR DISCUSSION AT CRP MEETING 7 APRIL 2006

ABRIDGED VERSION

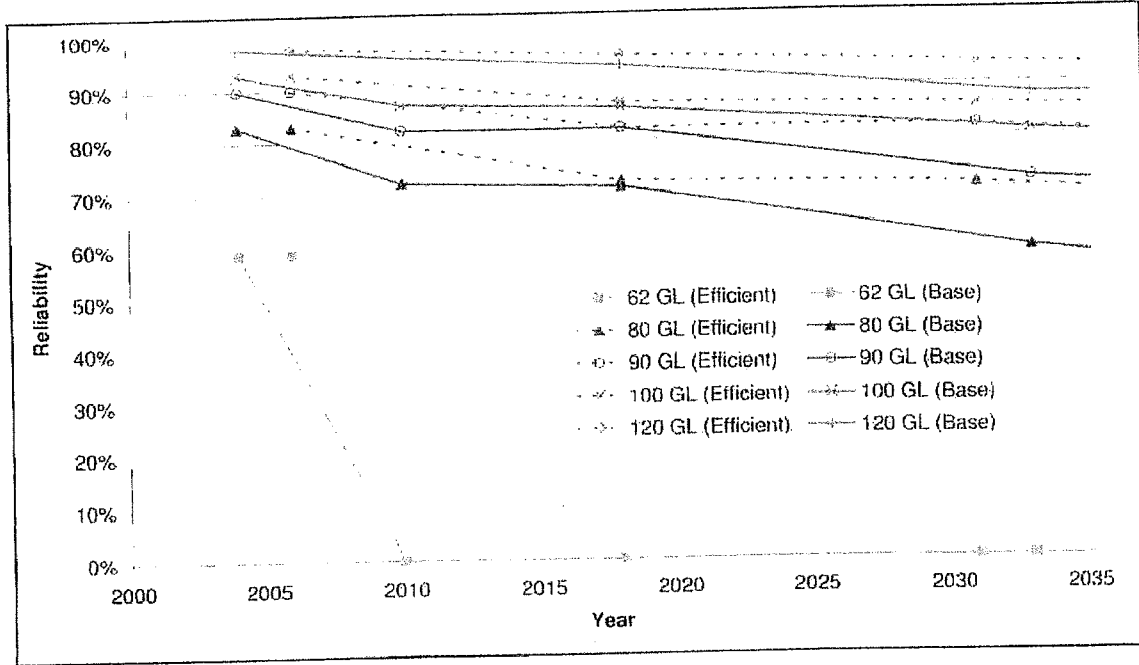


Figure 17 General Security Water Supply Reliability over Time for Average Growth in Tamworth Water Demand with Varying Capacities of Chaffey Dam for Base Case (no demand reduction) and Water Efficient (15% demand reduction) Scenarios

PEEL VALLEY WATER USERS ASSOCIATION INC.
Rosebank, 824 Wallamore Rd, TAMWORTH NSW 2340 Ph/Fax 02 67607152

18th June 2006

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290
QVB Post Office 1230

**Submission to IPART – Review of Bulk Water Prices – Draft Report
Independent Pricing and Regulatory Tribunal–May 2006**

State Water's Namoi-Peel Customer Services Committee has taken the extraordinary action of writing to IPART expressing its concern at IPART's draft report on Bulk Water Pricing for the regulated users of the Peel Valley. The Peel Valley Water Users Association strongly supports the Namoi-Peel CSC action and will start our submission to IPART by quoting this letter in full.

"The Namoi-Peel CSC is absolutely appalled at IPARTS proposed bulk water prices for the water users of the Peel Valley. The committee is not aware of any broadacre irrigated crop that can be grown at a profit at the proposed usage charges should the Peel ever receive a reasonable water allocation again.

The proposed prices for both the City of Tamworth and the irrigators of the Peel Valley exceed any semblance of what is fair and reasonable when the price structure proposed by IPART is compared with all of the other Valleys in the NSW portion of the Murray Darling Basin.

The Namoi-Peel CSC has resolved unanimously to strongly recommend to IPART that:-

- 1. The Peel Regulated System be openly Government subsidized as the Bulk Water charges for the Peel Valley are not sustainable compared to the rest of the Valleys in the NSW portion of the MDBC.*
- 2. That the General Security Users of the Peel Valley pay Bulk Water charges that are similar to those of the Unregulated Cockburn Valley Water Users as the reliability of supply to the General Security Users in the Peel Valley is lower than that experienced in the Cockburn Valley.*

Whilst the committee recognizes that its role is advisory, the formation of State Water's Valley based committees was a requirement put in place by IPART to ensure that the users contributed in a meaningful way to the business management of Valley based Bulk Water Services and Pricing Structure.

We do not take our responsibilities lightly. Our contribution to the Namoi-Peel CSC costs its members both financially and time wise. We do it for the benefit of our community and we do not expect that our recommendations are taken lightly."

To assist IPART in its assessment of Bulk Water Pricing for the Peel Valley I offer the following data from my farm records to demonstrate the impact of the proposed pricing structure on my farm business.

1. Bulk Water Bill – January 2006 to March 2006

Based on my entitlement of 972 ML and usage of 223ML (ie approximately 25% of my entitlement in the quarter 1/1/06 to 31/3/06) my total water bill was \$3967.60 (including State Water and DNR charges). Using IPART's proposed prices in 2009/10 it will be \$6716.77 + CPI (ie over \$7000.00).

That is IPART's proposed prices mean that this quarterly bill will almost double.

If I were a river pumper in the Murrumbidgee my bills for the 1/1/06 to 31/3/06 would be

Current Bill	\$1230.56
And in 2009/10 <u>Falling</u> to	\$1047.50 + CPI

That is in 2009/10 my quarterly bill equates to \$83 Ha compared to the Murrumbidgee at \$13 Ha. What is fair and reasonable about this?

Most active water users in the Peel would have used at least one quarter of their entitlement in the January to March 2006 quarter so the impact on active users would be proportionally similar to mine.

2. Bulk Water Costs 2001/02 to 2004/05

To examine the impact of IPART's proposed Bulk Water Prices for the Peel Valley I present the following data to demonstrate the long term impact on my farm costs.

Water Year Tax Year	Start of Season allocation	% of entitlement used	Actual Water costs \$	% of farm variable costs	Proposed water costs 2009/10 \$	% of farm variable costs
2001/02	80%	77%	9,829	18.2%	24,734	35.9%
2002/03	60%	63%	9,550	11.4%	20,632	21.7%
2003/04	0%	26%	7,401	11.5%	10,392	15.5%
2004/05	0%	27%	7,739	10.4%	10,595	13.8%
TOTAL			34,519	12.5%	66,353	21.5%

Variable costs include such things as fuel, electricity, repairs and maintenance, seed, chemicals, fertilizer and of course water etc but do not include depreciation, interest or my wages as these costs are likely to vary considerably from farm to farm. IPART can if it wishes recalculate these percentages using its own figures for depreciation, interest and wages.

3. Access to Water in the Peel

The start of season allocation (1st July) for the General Security Users of the Peel Valley is listed below:

Year	Start of Season allocation	Dam Capacity
2001/02	80%	100%
2002/03	60%	80%
2003/04	Zero	33%
2004/05	Zero	46%
2005/06	Zero	43%
2006/07	Zero	37%

What sort of irrigation industry can survive and be successful with four consecutive years with no access to irrigation water at the start of the water year **when Chaffey Dam has, compared to other Dams in the region, been quite full.**

4. Reliability of Supply – Peel Valley General Security

Information presented to the Chaffey Dam Community Reference Panel concluded *“At the current capacity of Chaffey Dam (62GL) the probability of an 80% + allocation drops from about 60% to 0% (ZERO) when high security demand increases from the current 10GL per annum to 12GL per annum. 12GL per annum is expected by 2010.”*

NB The unregulated Cockburn Valley water users would have about a 60% probability of using 80% of entitlement during the water year. Ref. Our submission 17th April 2006.

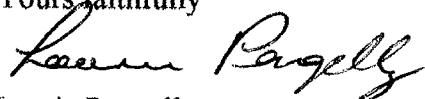
CONCLUSION

Given the obvious diastorous impact of a low reliability of supply of irrigation water in the Peel Valley coupled with the extremely high usage charge proposed by IPART in its Draft Report into Bulk Water Prices on the Irrigation Industry of the Peel Valley it is little wonder that State Water's Namoi –Peel Customer Services Committee has resolved unanimously to strongly recommend to IPART that:-

1. The Peel Regulated System be openly Government subsidized as the Bulk Water charges for the Peel Valley are not sustainable compared to the rest of the Valleys in the NSW portion of the MDBC.

2. That the General Security Users of the Peel Valley pay Bulk Water charges that are similar to those of the Unregulated Cockburn Valley Water Users as the reliability of supply to the General Security Users in the Peel Valley is lower than that experienced in the Cockburn Valley.

Yours faithfully



Laurie Pengelly

Representing the Peel valley Water Users Association