

Central Coast residents facing water price shock if Tillegra Dam goes ahead

Media Briefing for the Australian

John Kaye, Greens NSW Member of Parliament

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Note: Media comments are on page 3.

1. Tillegra Dam

Tillegra Dam is shaping up to be the Central Coast and Lower Hunter's very own version of Sydney's desalination plant.

The project was announced by Premier Morris Iemma shortly after then Aboriginal Affairs Minister Milton Orkopoulos was charged with child sex abuse and drugs matters. Since then the NSW government has tenaciously stuck with the proposal, despite changing circumstances and mounting evidence that it is not needed to secure water supplies.

IPART has announced its review of water pricing for Gosford and Wyong Councils and Hunter Water Corporation to apply from 1 July 2009.

NSW Water Minister Nathan Rees has exercised his power under section 16A of the IPART Act to prohibit the review from considering the need for Tillegra. The independent regulator is restricted to assessing whether the dam is being implemented in an effective fashion, who should pay for it and how much they should pay.

The Iemma government is forcing the residents of the Central Coast and the Lower Hunter to foot the bill for a supply project over which they have no control and which is entirely unnecessary.

The absence of a sensible reason for constructing the dam leaves IPART in a difficult position. The issues papers that announced the review canvass a variety of options for sharing costs between the rate bases of Hunter Water Corporation and Wyong and Gosford Councils, between existing connections and developer levies, and between fixed charges and unit prices.

The allocation depends on whether the dam is being built for drought relief or to meet demand growth and in which water district.

Morris Iemma and Nathan Rees have left IPART in the untenable position of having to manufacture a justification for a dam that is entirely pointless.

If IPART decides to share the costs between the Central Coast and the Lower Hunter and determines the intent is for drought relief, household water bills would rise by up to \$262 each year. That would be an 84 percent increase on the average Wyong and Gosford water charge¹ and a 55% increase for Lower Hunter water charges².

If costs are restricted to Hunter Water, then the average Lower Hunter bill will rise by up to \$415 per year, corresponding to an 88% increase.

The Iemma government's insistence on building a dam to create a storage the size of Sydney Harbour on the Williams River north of Dungog will not only devastate the local environment. It will ravage household budgets, all for water supply that is not needed.

¹ based on 2006/07 average water charges, from National Performance Report Urban Water Utilities, (NWC & WSAA 2008)

² based on 2006/07 average Lower Hunter Water potable water charge as set in IPART's final prices determination for Hunter Water, 5 September 2005

2. An Expensive Option

Hunter Water Corporation claims that Tillegra Dam will cost about \$300 million to construct. However the area is geologically unstable and riddled with fault lines. Inundation will increase pressure on the faults with the real risk of massive subsidence.

Geotechnical experts advise that strengthening the dam and other works to reduce the risk of catastrophic failures from earth movements could cost between \$300 million and \$700 million³.

Total costs could blow out from the currently projected \$300 million to \$600 million or \$1 billion.

The Independent Pricing and Planning Tribunal's (IPART) sets prices by allowing a 100 year asset life with a fixed rate of return.

Our estimates of the impact on average household bills is based on calculations that approximate IPART's approach to price setting, assuming that all of the cost of the dam is apportioned to connections and not developer levies.

Cost (\$M) (\$ million)	Household Bill Incr. (per year)	Central Coast Increase	Hunter Increase
300	\$79	25%	17%
600	\$157	50%	33%
1,000	\$262	84%	55%

Even without additional costs to secure the structural integrity of the dam against the slippage of faults, households face an additional \$79 each year, which corresponds to as 25% increase for Central Coast residents.

If costs blow out as construction gets underway, they could be facing a massive 84% increase resulting from a single water supply option.

This is substantially more expensive than Sydney's desalination plant, which will cost the average household in Sydney, the Blue Mountains and the Illawarra \$92 each year.

3. An Unnecessary Option

The Tillegra Dam was initially justified as a long term supply option for the Central Coast as well as for the Lower Hunter⁴. However, the Federal government has now committed \$80 million to construct the "missing" pipeline linking Mardi Dam and Mangrove Creek Dam. The need to secure water supply for the Central Coast can no longer be used as a justification for the Williams river project.

There is no shortage of water supply for the Lower Hunter. Unlike most of the rest of this state, water restrictions were not required during recent drought period. Water storages remained relatively full. It is one of the few water authorities in Australia where hosing driveways and operating sprinklers all day, every day is permitted.

³ Graham Holt quoted in "Expert finds fault with dam budget," Newcastle Herald, 15 Apr 2008; Charles Essery "Dam plan holds water if it's about extra revenue," SMH May 15, 2007,

⁴ Gosford Wyong Councils' Water Authority, Water Plan 2050

Before the Premier's announcement of Tillegra Dam, Hunter Water estimated the secure yield for the Lower Hunter at 20% higher than current demand.

Tillegra Dam is the most expensive option to manage the Lower Hunter Water's future water needs. This was outlined in Hunter Water's own 2003 Integrated Water Resource Plan which showed that demand management, recycling and augmentation of Grahamstown Dam are all cheaper options⁵.

The Tillegra project cannot be justified on climate change grounds as the evidence suggests that global warming is likely to increase rainfall in the Lower Hunter catchments⁶.

4. Media Comments

Greens NSW Member of Parliament John Kaye said: "If the lemma government persists with pushing the Tillegra dam, Central Coast and Hunter households will pay the price of their mistake.

"Tillegra is unnecessary and expensive. Construction costs will almost certainly blow out and residents will be forced to pay.

"Tillegra Dam is shaping up to be the Central Coast and Hunter's very own version of Sydney's desalination plant.

"The decision to push ahead with Tillegra was based on political convenience. Like Sydney's desalination plant, residents will pay heavily for the failure of the lemma government to admit their mistake.

"The lemma government is forcing the residents of the Central Coast and the Lower Hunter to foot the bill for a supply project over which they have no control and which is entirely unnecessary.

"They could be paying as early as July next year.

"NSW Water Minister Nathan Rees has prohibited IPART from testing the need for the dam. He has undermined their independence and has left them to apportion costs without a rational basis.

"The lemma government's insistence on building the dam on the Williams River north of Dungog will not only devastate the local environment. It will ravage Central Coast and Lower Hunter household budgets, all for a water supply option that is not needed," Dr Kaye said.

Appendix: Modelling Assumptions and Methodologies

IPART aims for a 6% internal real rate of return on assets when setting price paths for water utilities. We thus use a 9% rate which includes 3% for inflation. In line with IPART asset life was set at 100 years.

Annual total costs are calculated using the standard financial calculation of the fixed size payment required to service a loan (equal to the total capital of the dam) over 100 years.

Household bill impacts are then calculated by dividing annual total payment by the number of connections.

We have used the current number of water connections in the Hunter water supply franchise which is 217 thousand (13 thousand non-residential and 204 thousand residential.)⁷ The average water supply cost for households in 2006/07 in the Lower Hunter was \$474 per connection⁸.

⁵ Hunter Water, Integrated Water Resource Plan, 2003

⁶ Martin Babakhan, Meteorologist, Newcastle University

We used IPART's figures for connections in the Gosford and Wyong Council areas (69 and 58 thousand respectively⁹ and National Performance Report Urban Water Utilities data for average 2006/07 supply costs on the Central Coast (at \$314 per year).

⁷ National Performance Report Urban Water Utilities, (NWC & WSAA 2008).

⁸ *Op. Cit.*

⁹ IPART Review of prices for water, wastewater and stormwater services for Gosford City Council and Wyong Shire Council From 1 July 2009; Water - Issues Paper, July 2008