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Dear Sir,

DUNGOWAN DAM AND PIPELINE PROJECT (SSI-10046)

Ref: zw/BL/DocSetID:1465610

On behalf of Tamworth Regional Council, thank you for the opportunity to provide comments on Dungowan Dam and Pipeline Environmental Impact Statement.

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: (02) 6767 5708

7 December 2022

Tamworth Regional Council

Submission on the Dungowan Dam and Pipeline Project Environmental Impact Statement

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1 Background

Tamworth Regional Council currently owns and operates the existing Dungowan Dam and associated Dungowan Pipeline that runs from the existing dam to the Calala Water Treatment Plant, where water from the dam is treated for distribution to customers in Tamworth and Moonbi Kootingal.

Tamworth is one of the largest population centres west of the great divide in NSW and the centre of the New England North West. The most recent drought in 2019-2020 reinforced that Tamworth has a water security issue now which will only get worse as the population grows into the future. The proposed construction of the Dungowan Dam and Pipeline is in response to this water security issue.

The elected Council of Tamworth Regional Council considered a report on the Dungowan Dam and Pipeline Project Environmental Impact Statement (EIS) at its meeting of 22 November 2022 and resolved to make a submission including the following issues;

2 Decommissioning of the old dam.

The EIS states the old dam will be decommissioned. There is considerable cost to decommissioning the old dam and it is considered more investigation should be completed into keeping the old dam, in some form. It is acknowledged there are safety issues with the existing dam and increased risk from flooding of the new dam if the old dam is retained. However, these risks have been addressed in other locations throughout Australia and could be similarly accommodated here. One of the ways to reduce this risk, both at the existing dam and to the new dam, is by reducing the storage capacity of the existing dam, by removing the existing spillway gate. Should the old dam be retained then it is possible the old dam could be used as the lower storage for a pumped hydro scheme which has been discussed with Council on many occasions. The proponents of this scheme continue work on this proposal.

Council feels the benefits of retaining the old dam have been simply dismissed throughout the planning process for the new dam and this is not good enough. Given the time and cost of constructing large storages, removal should only be undertaken in the most exceptional cases – once they are gone you don't get them back.

3 Destratification system in the new dam.

Council has an air destratification system installed in the existing Dungowan Dam. The system was installed many years ago. Whilst relatively costly to operate the system has definitely improved the quality of water within the storage, particularly in relation to "turning over" of the storage which causes a sudden drop in water quality. It is considered, since the dam will be providing water via pipeline for treatment, a destratification system should be incorporated in the new Dam to ensure the best quality water is available at all times.

The EIS notes a destratification system will be considered during the more detailed design phase. Council believes the system should be included now, because the benefits in the existing dam have been proven.

4 Pumped hydro.

Not enough consideration has been given to using either the existing or new dam as the lower storage of a pumped hydro scheme. Council has several discussions with the proponent of this scheme and it appears to be an ideal opportunity to improve environmental aspects associated with the dam proposal, which could be reflected in improved cost benefit ratios. Consideration of design changes that would allow the new or existing dam to be used as the lower storage of a pumped hydro scheme are best undertaken at this stage as it will be more costly to retro fit changes after the dam has been constructed. Given the NSW Government's commitment to net zero emissions by 2050, the planned closure of coal fired power stations and the urgent need to find alternative power supplies now, it is imperative that these types of proposals are not dismissed without proper consideration.

5 New operating rules

The EIS makes some broad statements about how the new dam will be operated once constructed. Just how the dams are operated in the future to provide water for Tamworth will have a huge impact on the delivery of water for a large population centre. To date Council has had very limited involvement in any discussion about future operation and it is considered far more discussion is required between the operator of the new Dungowan Dam, Council as the only customer of the new dam and the NSW regulator, before detailed operation plans can be completed. It is important that some flexibility is retained to allow decisions to be made depending on circumstances that may be present.

Council staff are presently part of a group that has been tasked with establishing the most appropriate operating rules for the new dam and Chaffey Dam. As a result the suggestions mentioned in the EIS should be considered preliminary at best.

6 Changes to Water Sharing Plans (WSP)

The EIS indicates the relevant WSP/s will have to be changed to reflect the new operating rules once the new dam has been completed and details of the new rules are known.

Council has raised previously the current Peel Regulated River Source Water Sharing Plan (WSP) requires a number of significant changes to improve water security for Tamworth, transparency, accountability, understanding and better reflect what actually happens in the Peel River. Changes promoted/supported by Council include;

No provision for Council to bank water saved through the introduction of water saving initiatives to improve waters security

Since 2007 Council and the community have been doing work to reduce water consumption in residential properties with significant success. However, under the rules of the current WSP any water saved by the Tamworth community goes into the calculation for setting the Available Water Determination for other users accessing water from Chaffey Dam. Why should council continue to expend funds on reducing water consumption when the water saved is essential sold to other users.

Minimum Daily Flow Rules - The Operator is required to ensure a minimum daily release of 3 ML is made from Chaffey Dam...

Council believes releasing 3 ML's per day every day from Chaffey Dam regardless of the downstream circumstances, is simplistic and is a token amount that will not benefit the environment. This should be replaced by something that provides flexibility for environmental releases when required and only when the release can be demonstrated to achieve the required environmental outcomes being sought. Council also believes that releases should stop when the dam storage falls to a certain level.

Maintenance of Water Supply – the lowest period of accumulated inflows is listed as prior to 1 July 2010

Council believes the period should be extended out to 1 July 2020 to include the latest drought of record.

Whilst it is acknowledged that this may lead to a reduction in predicted inflows and therefore reductions in annual Available Water Determinations, it is also reflecting the reality of the situation and to exclude the most recent drought from future inflow modelling cannot be justified.

Available Water Determinations (AWD)

The WSP is supposed to detail the rules relating to how water is shared in the Peel Valley. Council does not believe the WSP contains enough detail in relation to just how this will be done, in particular around the assessment of AWD. Council staff have been in discussion with DPE staff in relation to the calculation of AWD and it is clear the current WSP;

- Does not detail Town Water Utilities receiving 100% of their entitlement in year 1 and 70% in year 2 – there is no mention of year 2 at all
- Does not detail how High Security entitlements are handled during the assessment
- Does not detail how operating and other losses are included and handled in the assessment
- Does not mention inflow considerations
- Does not mention consideration of the level of Council's Dungowan Dam

The process followed to establish an AWD should be fully detailed in the WSP such that all license holders in a valley know how the AWD is calculated, rather than the current perception that the AWD assessment comes out of some black box following wide interpretation of any requirements.

Change the WSP to allow the provision of 100% of Council's entitlement in year 2 and 100% of Council's entitlement in year 2 during the AWD process.

Council has advocated for change to the WSP on many occasions and to date none of the changes sought by Council have been included. What guarantee then does Council, and other stakeholders, have that the WSP will be changed as necessary to reflect the new operating rules, particularly assuming opposition from some stake holders to the proposed changes.

Finally, what will happen if the NSW Government of the day is unwilling to make the necessary changes to the WSP.

7 Removal of fish barriers

The EIS references the "removal" of barriers to fish passage in the Peel River and details the locations of these barriers which includes the Jewry Street causeway and another which appears to be the river flow gauge upstream of the Peel Pump Station. Staff have made further inquiries about this and the advice is removed doesn't mean the barriers will be removed, it means that if they can't be completely removed for whatever reason, how else could the barriers to fish passage be removed or reduced at these locations.

Council has previously resolved in March 2002, to object to the removal of the old Jewry Street causeway and in fact seek NSW Government support for building a weir across Peel River in this location to create a weir pool of water that would see a pool of water extend upstream from the new weir to the Murray Street Bridge.

In addition the gauge at the Peel River Pump Station is an integral part of monitoring flows in the Peel River and Council's operation of the pump station.

Further discussions with relevant authorities are considered necessary regarding the removal of all the nominated barriers to fish passage.

8 Impact on groundwater

The EIS states there will be a significant decrease in flow in the Peel River once the proposed new operating rules are applied. During the 2 most recent droughts the interconnectivity between Peel surface water and Peel Alluvial groundwater was highlighted, with instream losses of over 100% recorded. That is for every 1 Megalitre of water Council required at its Peel River Pump station 2 Megalitres had to be released from Chaffey Dam. The difference of 1 Megalitre was required because of losses during in stream transfer. Council believes a significant portion of these losses

was due to aquifer recharge in the Peel alluvium. As a result Council questions the accuracy of comments made in the summary document of the EIS that the project is not expected to affect the recharge of groundwater to the Dungowan Creek and Peel River Alluvium.

9 Cost of water to consumers

The EIS makes some mention of the increased cost to consumers as a result of the new Dungowan Dam proceeding. Council considered a report, at its meeting of 12 July 2022 see copy attached, concerning the future ownership and operation of the new dam and the Dungowan Pipeline and resolved as follows;

That in relation to the report “Dungowan Dam and Pipeline Project - Environmental Impact Statement”, should the project proceed, Council:

- (i) agree to endorse the following option for the ownership and operation of the proposed new Dungowan Dam and Pipeline:*
 - a) at the completion of construction, ownership of the new Dungowan Dam will be transferred to WaterNSW to own, operate and maintain the new Dam;*
 - b) at the completion of construction of the new Dungowan Pipeline from the new Dam to the junction of the Chaffey Dam pipeline and the old Dungowan Pipeline, ownership of the new Dungowan pipeline from the new Dungowan Dam to its connection to the Calala Water Treatment Plant will be transferred to Council and Council will own, operate and maintain the pipeline; and*
 - c) provided ownership of the new Dungowan Pipeline is provided to Council at nil consideration and ownership of the new Dungowan Dam is transferred to Water NSW as a contributed asset in accordance with the National Water Initiative (NWI) and IPART’s approach to economic regulation, as detailed in the report;*
 - (ii) write to the NSW Minister for Lands and Water advising Council will **not accept**:*
 - a) an ownership option for the proposed new Dungowan Dam which sees charges for access to bulk raw water paid by Council to access water from the new Dam, that includes recovery of a financial return on the value of the new Dungowan Dam; and*
 - b) ownership of the new Dungowan Pipeline if ownership of the pipeline is proposed to be transferred to Council at something other than nil consideration.*
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8.2 PROPOSED NEW DUNGOWAN DAM AND PIPELINE - OWNERSHIP AND OPERATION

DIRECTORATE: WATER AND WASTE
AUTHOR: Bruce Logan, Director Water and Waste

RECOMMENDATION

That in relation to the report “Proposed New Dungowan Dam and Pipeline - Ownership and Operation”, should the project proceed, Council:

- (i) agree to endorse the following option for the ownership and operation of the proposed new Dungowan Dam and Pipeline:*
 - a. at the completion of construction, ownership of the new Dungowan Dam will be transferred to WaterNSW to own, operate and maintain the new Dam;*
 - b. at the completion of construction of the new Dungowan Pipeline from the new Dam to the junction of the Chaffey Dam pipeline and the old Dungowan Pipeline, ownership of the new Dungowan pipeline from the new Dungowan Dam to its connection to the Calala Water Treatment Plant will be transferred to Council and Council will own, operate and maintain the pipeline; and*
 - c. provided ownership of the new Dungowan Pipeline is provided to Council at nil consideration and ownership of the new Dungowan Dam is transferred to Water NSW as a contributed asset in accordance with the National Water Initiative (NWI) and IPART’s approach to economic regulation, as detailed in the report;*
- (ii) write to the NSW Minister for Lands and Water advising Council will not accept:*
 - a. an ownership option for the proposed new Dungowan Dam which sees charges for access to bulk raw water paid by Council to access water from the new Dam, that includes recovery of a financial return on the value of the new Dungowan Dam; and*
 - b. ownership of the new Dungowan Pipeline if ownership of the pipeline is proposed to be transferred to Council at something other than nil consideration.*

SUMMARY

Should the new Dungowan Dam project proceed, then one of the outstanding issues is ownership of the new Dam and the new pipeline. A working group has been looking at various alternatives and the impacts/issues of each and has now reached a preferred approach. The purpose of this report is to seek direction from Council in relation to this matter.

COMMENTARY

Ownership and operation of the new Dungowan Dam and pipeline was identified very early in the contemplation of the project as a key issue. Consideration included:

- Council owns and operates the existing Dungowan Dam and pipeline;
- what would be the financial impact of owning the new Dam and/or the pipeline, on Council and its water customers;

- what would be the financial impact on Council and water customers of another entity owning and operating the dam and/or the pipeline;
- what would be the impact on customers, licensing, costs, etc., who access water from the existing Dungowan Pipeline if another entity owned and operated the pipeline;
- will new connections be permitted to the new pipeline and will this decision be impacted by whoever owns and operates the pipeline;
- does the same entity have to own and operate the dam and the pipeline, and what are the implications of having different owners for each piece of infrastructure; and
- could ownership rest with one party and operation with another and if so, how would this work.

A working group was established in the last six months to look at various options, assess each option and come up with a preferred approach before making a recommendation to Council and the NSW Government, noting approval for the final arrangements rests with the NSW Government. The following parties were represented on the working group:

Entity	Reason for Representation
NSW Treasury	Financial, fiscal and accounting considerations and as representatives of the Shareholders of WaterNSW
Water Infrastructure NSW	Responsible for developing and delivering the project
WaterNSW	Possible owner/operator of the infrastructure
Tamworth Regional Council	Possible owner/operator of the infrastructure
EMM	Consultant engaged to advise on water regulation, legal and licensing issues
EY	Consultant – advising about accounting and other fiscal matters

Four ownership and operating options were originally identified as detailed below:

#	Option
1	WaterNSW own and operate the new dam and pipeline.
2	TRC own and operate the new dam and pipeline.
3	WaterNSW own and operate the new dam. TRC own and operate the new pipeline.
4	WaterNSW own and operate the new dam. WaterNSW own the pipeline, TRC operate the pipeline.

Each of these options were then assessed against the following assessment criteria:

#	Evaluation criteria	Description
1	Value for money	The extent to which each option assists in maximising the government's value for money, including minimising the financial impact to customers.
2	Risk management	The extent to which each option incentivises efficient risk allocation, minimising the whole-of-life cost to customers and community, minimising operational integration risk, and is consistent with the corporate culture.
3	Operational outcomes	The extent to which each option optimises operational outcomes across the water supply network, best meets the service needs of customers and is aligned with the organisational imperatives of the asset owner.
4	Commercial complexity	The extent to which each option requires complex contractual arrangements to be implemented, impacting the overall efficiency and timeliness of the resolution.
5	Financial capacity	The extent to which each option assists in providing earlier budget certainty to the government and supports the financial sustainability of the asset owner(s), including fiscal impacts for each of the organisations, noting their different entity structures (Government, Local Government and State-Owned Corporations – WaterNSW).
6	Legal and regulatory frameworks	The extent to which each option requires complex legal and regulatory changes to implement the option and to maintain compliance with legal and regulatory obligations.

And a rating scale for each option as developed as follows:

Rating	Description
√√√	The option is extremely effective in satisfying the requirements of the criterion.
√√	The option is effective in satisfying the requirements of the criterion.
√	The option just satisfies the requirements of the criterion.
x	The option is ineffective in satisfying the requirements of the criterion.
xx	The option is extremely ineffective in satisfying the requirements of the criterion.

During early discussions, the Working Group received advice from Council that it would be unable to secure insurance for the dam if it was in Council's ownership. As a result, this option – Option 2 was not considered further.

Key issues considered during initial deliberations included:

Financial considerations

- if the dam is owned by Council, then IPART won't be involved in setting the bulk raw water charges; but
- if WaterNSW owns the dam and/or the pipeline IPART will dictate the maximum charges for raw water that Council will pay to access water from the dam. IPART's price setting process involves setting a notional revenue requirement (NRR) which is estimated using a Regulatory Asset Base (RAB) and operational costs of the infrastructure and calculation of other cost allowances using a building block approach.

The building block method involves estimating, for each year of a relevant period:

- an operating expenditure allowance, which represents an estimate of forecast efficient operating, maintenance and administration costs;
- a capital allowance, which comprises:
 - a return on the assets WaterNSW uses to provide the water storage and transportation services, or its regulated assets or RAB;
 - a return of the assets WaterNSW uses to provide the water storage and transportation services (or regulatory depreciation). This allowance recognises that capital infrastructure wears out over time. It allows WaterNSW to recover the investment in the RAB over the economic life of those assets;
 - a tax allowance, which reflects the forecast tax liability for a comparable commercial business operating in a competitive market; and
 - a working capital allowance, which represents the holding cost of net current assets and allows WaterNSW to meet its cash flow requirements.

The sum of these allowances is equal to the NRR.

Under the current economic regulatory framework, Water NSW's revenue requirement is met through both customer charges (a user share), and through a "Government" share which represents the proportion of costs that relate to services that are provided for purposes beyond providing water to customers such as flood control or some environmental services.

If IPART are involved, then the NSW Government has three ways of dealing with the rate of return on the cost of the asset and ensuring it is not considered under the IPART approach:

1. the Government could create a regulation to expressly exclude the services provided by WaterNSW in respect of the Dungowan Dam and Pipeline from the IPART Determination;
2. it is also possible to establish prices for a specific asset within the IPART price regulation process by way of a Ministerial Determination. This is what happened with the Broken Hill pipeline. In November 2018 the NSW Government advised IPART of its decision to subsidise the costs of construction and the efficient operation and maintenance costs of the Broken Hill Pipeline for the next 4 years – from 2019-20 to 2022-23 to ensure prices for Essential Water's end use customers do not rise in real terms as a result of the pipeline construction;

3. under the National Water Initiative (NWI) and IPART's approach to economic regulation, new contributed assets (i.e., grants/gifts from governments and contributions) are excluded from the RAB or offset using other mechanisms so that a return on the contributed capital is not recovered from customers. Contributed assets are those assets that are funded by water users or funded on behalf of users by a third party e.g., governments). Assets should be recognised as a contribution where there is clear policy evidence that the funding was meant to be used to lower long-term prices:
- projections undertaken by the Working Group indicate the impact on Council's water customers would be so great, customers would not have the capacity to pay the required charges if the new dam is owned by WaterNSW and not considered a contributed asset;
 - assessment criteria such as Value for Money and Financial Capacity were considered by the working group for options 1,3 and 4 on the basis the dam would be transferred as a contributed asset;
 - however, as required by the *State-Owned Corporations Act 1989* and the *Water NSW Act 2014*, WaterNSW needs to operate as a successful and commercial business and would therefore need to generate a commercial return from any asset transferred to it; and
 - if Water NSW does not generate this return from customers, then it is understood the State Government will have to fund.

Legal and Regulatory Issues

- the present arrangements for the supply of water from Dungowan Dam to existing customers via the existing Dungowan Dam do not comply with existing license and regulatory provisions; and
- new access considerations will have to be put in place regardless of pipeline ownership.

Risk Management

- the following risks were identified. All were considered to be within tolerance as a result of implementing suitable treatments:

Option	Risk
Option 1	There is a risk that community is not satisfied with WaterNSW owning the dam and pipeline.
Options 1, 3 and 4	There is a risk the ownership option sets a precedent for future government funding to replace local government assets at the end of operational life.
	There is a risk that the cost of water production increases rather than decreases.
	There is a risk of dissatisfaction from Government agencies on the asset ownership decision outcomes.
	There is a risk that customer connections to the pipeline would illegally take water if correct licencing is not implemented.

Options 3 and 4	There is a risk that TRC is unable to operate and maintain the pipeline.
Option 4	There is a risk of miscommunication between WaterNSW owning the pipeline and TRC operating it.

Commercial and operational complexity

The following issues were considered:

- WaterNSW has local and state-wide capability in owning, operating and maintaining dams;
- WaterNSW's ownership of the dam would provide the opportunity to consider operational optimisation of the Dungowan and Chaffey storages, refining internal commercial arrangements in the future;
- under WaterNSW ownership there would be a single 'customer' (TRC), debited at the pipeline offtake from the dam;
- TRC has the existing pipeline customer relationships – contractual, pricing and billing;
- TRC has existing pipeline operations and maintenance expertise for the local area;
- an interface agreement between WaterNSW and TRC would be required for interaction of pipeline and dam only, as opposed to service level agreement if TRC was only operating and maintaining the pipeline;
- if WaterNSW owned the pipeline, 100+ individual Stock and Domestic (S&D) licences would need to be created and each managed individually by WaterNSW – creating additional commercial burden for WaterNSW, whereas TRC already has the commercial relationships in place;
- other regulatory complexities around delivering non-town water to individual customers along the pipeline from a strictly town water supply dam;
- Council may need multiple licenses (for town water and other stock and domestic) and would be "accountable" under these;
- WaterNSW ownership would require an IPART determination as the cost of supply for TRC and pipeline users may be spread across all valley users;
- if the NSW Government intends to transfer the asset (or assets) to WaterNSW at nil consideration, as a contributed asset, TRC users would only see their water charges increase to cover operation and maintenance costs; and
- the customer bill impact analysis showed the impact on was broadly the same across all three options assuming the assets were transferred at nil consideration/as a contributed asset.

An evaluation matrix rating each option was prepared – see below:

Evaluation Criteria								
Option		Fatal Flaw*	Value for Money	Risk Management	Operational Outcomes	Commercial complexity	Financial capacity	Legal and Regulatory Frameworks
#	Evidence base		<i>Customer Billing Impact comparison across different options</i>	<i>Risk Workshop conducted to refine existing risks</i>	<i>Supported by findings from (EMM)</i>	<i>Supported by findings from (EMM) and Risk Workshop outcomes</i>	<i>Supported by fiscal and accounting advice provided by EY</i>	<i>Supported by findings from (EMM)</i>
1	WaterNSW own and operate the new dam and pipeline		✓	✓	x	x	x	x
2	TRC own and operate the new dam and pipeline	x	x	x	x	x	x	x
3	WaterNSW own and operate the new dam. TRC own and operate the new pipeline.		✓	✓✓	✓✓	✓✓	x	✓
4	WaterNSW own and operate the new dam. WaterNSW own the pipeline, TRC operate the pipeline.		✓	✓	✓	x	x	x

Option 3 was the working group's preferred option – that is WaterNSW owns and operates the dam and Council owns and operates the Dungowan Pipeline. However, due to complexities and competing needs of the NSW Government and WaterNSW as a State-Owned Corporation, none of the options fully satisfied the financial capacity assessment.

Following further consideration, a new option was proposed – this being that the Water Administration Ministerial Corporation (WAMC) owns the new dam and enters into an agreement with WaterNSW to provide operation and maintenance services, with Council to own and operate the pipeline.

WAMC is a statutory body representing the Crown established under the *Water Management Act 2000* (WMA), administered by the Water Group in the Department of Planning and Environment.

This new option was also assessed against the evaluation criteria as follows:

Criteria	Evaluation	Rating
Value for money	On the basis WaterNSW will charge a premium on their O&M services (i.e. will not only recover costs), the customer bill impact under this option will be slightly higher than if no commercial return was generated.	✓ <i>Provided the State covers the commercial return required by WaterNSW</i>

Criteria	Evaluation	Rating
Risk management	<ul style="list-style-type: none"> • Similar risks apply to this option and the others already considered – all are within tolerance; • But additional complexity is added as: <ul style="list-style-type: none"> ○ Funding for future upgrades would need to be sought through the annual State Budget process which creates less certainty that the asset will be upgraded on a timely basis; and ○ there is added complexity as WaterNSW and WAMC would be jointly responsible for managing dam safety and meeting legislative requirements. 	✓
Operational outcomes	<ul style="list-style-type: none"> • Given WaterNSW will be handling the O&M of the Dam, this criterion aligns to that if WaterNSW owned the Dam • However, additional complexity is added as WAMC is a holding company with less than 5 FTE dedicated to its management, and such an arrangement would require dedicated contract management resources. • Further, as WAMC is an agency within a department, it is at risk of being moved between departments when there are any Machinery of Government changes (from Cabinet reshuffles or changes of Government) 	x
Commercial complexity	<ul style="list-style-type: none"> • The agreements required between WAMC and WaterNSW will add an extra level of Commercial Complexity, but not to a degree that is not manageable. 	✓
Financial capacity	<ul style="list-style-type: none"> • On the basis the asset will have the same value on the balance sheet of DPE as it would on the balance sheet of WAMC, there should be no write- down at the time of transfer and therefore no adverse Budget impact; • The annual repayment from the State will reflective of the commercial return required of WaterNSW; • This option is compliant with WaterNSW's commercial principles, on the basis they can generate a commercial return from the agreement; • WaterNSW do not need to source any 	✓

Criteria	Evaluation	Rating
	<p>additional funds under this option; and</p> <ul style="list-style-type: none"> There should be no additional impact to customers, provided the State cover the commercial return required of WaterNSW. 	
Legal and regulatory frameworks	<ul style="list-style-type: none"> The agreements required between WAMC and WaterNSW will add an extra level of Legal and Regulatory consideration, but not to a degree that is not manageable. 	✓

The additional operational complexity and higher risks means the Working Group still believes Option 3 is the most appropriate ownership model for the proposed new Dungowan Dam and Pipeline.

(a) Policy Implications

Nil

(b) Financial Implications

There will be financial implications for Council regardless of the ownership model ultimately decided by the NSW Government. These include:

- Council will have to write off the value of the existing Dungowan Dam and Pipeline, and the land owned by Council that will be inundated by the new dam in its present asset base – approximately \$42 Million;
- if Council ultimately becomes the owner of the new Dungowan pipeline, then an asset estimated to cost \$150 Million will be added to Council's financial asset base;
- the financial impacts of the increase in assets controlled by Council will have to be considered in terms of depreciation and replacement/renewal over the life of the asset;
- Council will have to consider the financial impact if any, of any increase in the operation and maintenance cost of operating the new pipeline (cost direct to Council) and a new dam (costs passed on by Water NSW), although any increases are not considered to be significant if the assets are transferred at nil consideration and/or as a contributed asset; and
- projections undertaken by the Working Group indicate if the new dam is owned by WaterNSW and not considered a contributed asset the impact on Council's water customers would be so great, customers would not have the capacity to pay the required charges.

The working group has recommended an option that would, amongst other things, minimise the financial impact on Council and its water customers.

It should also be noted that should the Dam not proceed then Council, as the owner of the existing Dam and pipeline, will have to address the safety concerns at the existing Dungowan Dam and construct a new pipeline from its own funds, with or without NSW government subsidy. The estimated cost of this work is between \$150 and \$200 Million. Issues such as increasing charges to fund the capital cost of this work as well as increases in charges to fund additional depreciation and replacement/renewal over the life of the asset as mentioned above will still also have to be considered.

(c) Legal Implications

If the dam does proceed then the licensing issues of existing and new customers will have to be addressed. This is complex and will take some time.

If the dam does not proceed then the license issues of existing customers will have to be addressed by Council. This will also be complex and take some time.

(d) Community Consultation

Nil

(e) Delivery Program Objective/Strategy

Focus Area 1 – Our water security
