



# **BOGAN SHIRE COUNCIL**

## **Business Paper Extraordinary Meeting**

**7 November 2017**





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**1 November 2017**

**COUNCIL MEETING NOTICE**

An Extraordinary Meeting of Council will be held in the Council Chambers, Nyngan on Tuesday 7 November 2017 at 3.30pm.

***AGENDA***

1. Opening Prayer
2. Remembrances
3. Apologies
4. Declarations of Interest
5. General Manager's Report

Your attendance at this meeting would be appreciated.

Yours sincerely

*Cathy Ellison*  
***Executive Assistant***



**General Manager's Report to the Extraordinary Meeting of Bogan Shire Council  
held on 7 November 2017**

## **REPORT TO THE EXTRAORDINARY MEETING OF COUNCIL – GENERAL MANAGER'S REPORT**

### **Mayor and Councillors**

The following report is submitted for consideration:-

## **1 ALBERT PRIEST PIPELINE GRANT**

### **1.1 Introduction**

The purpose of this report is to inform Council of recent developments relating to the Albert Priest Channel Pipeline and Storage 1B, and to confirm Council's policy position. To date, Council has not supported a grant application to construct the pipeline. An Expression of Interest for Commonwealth funding was lodged by the NSW Government on 21 September 2017. The matter is urgent as Council has been informed that the window for the corresponding State Government funding approvals is about to close for 2017.

### **1.2 Background**

At an Extraordinary Meeting held on 14 September 2017, Council considered a report relating to a grant application for partial funding of the construction of the proposed Albert Priest Channel pipeline and resolved as follows:-

**273/2017 RESOLVED** that Council:-

- 1. Believes the proposed 3000 ML off-river storage, together with the two smaller 700 ML off-river storages, are solutions to the long-term water security needs of Bogan Shire and Cobar Shire.*
- 2. Understands that the NSW State Government has an opportunity to apply for significant Commonwealth Government funding for part of the proposed Albert Priest Pipeline but that application for these funds has to be made by 21 September 2017, which is well in advance of current project timelines.*
- 3. Recognises that these current project timelines include a period of public consultation commencing on 2 October 2017 and due to be completed by 28 February 2018.*
- 4. Strongly believes that this public consultation, which is to include the likely impact of the construction of a pipeline on the future price of water, is required - in the best interests of our community - prior to making any further decisions on the construction of the proposed Albert Priest Pipeline.*

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5. *For this reason is unable to commit to supporting the NSW Government's application, under the National Water Infrastructure Development Fund, for funding of the Albert Priest Pipeline at this stage.*

Since the time of this resolution, a number of developments have occurred, which are outlined below. Advice given is that Council's support of the projects now, will allow early construction of Storage 1B and the Pipeline.

### **1.3 Recent Developments**

Subsequent to Council's Resolution of 14 September 2017, the following events have occurred:-

- **New Business Case** - A new Business Case was drafted to meet the guidelines issued by NSW Treasury, in the format required by Department of Premier and Cabinet. This Business Case was submitted to NSW Treasury on 9 October 2017. The economic analysis strongly supports the pipeline, but not the large 3000ML storage. Additional work has been undertaken following input from NSW Treasury and an updated version is due to be submitted shortly.
- **Lodgement of Expression of Interest for NDWIF (Commonwealth) funding** – The State Government has lodged an Expression of Interest to the Federal Government for \$37.5 M funding, under the National Water Infrastructure Development Fund (NWIDF). This was lodged on 21 September 2017. The application is for construction of the Albert Priest Pipeline. A condition of this grant funding will be that the project is construction ready within 12 months.
- **Landholder Consultation** – Extensive consultation with landowners along the Albert Priest Channel has commenced. All landholders were invited to a meeting on 16 October 2017 in Nyngan, which was followed by individual meetings with each landholder on their property. Consultants report that the individual meetings were completed on 19 October 2017, with the exception of 2 landowners who could not be contacted. Preliminary advice from the consultants is all the meetings were positive, with the most common concern being the final price of water.



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- **Financial Review** – An independent financial review of Council's water fund has been undertaken which suggested that the inputs to the financial modelling be reviewed and that the modelling be updated to include information from the 2016/17 financial statements. The initial review highlighted the increased cost of water and the review of the updated information is currently being finalised.
- **Steering Committee held 26 September 2017** - At the Steering Committee meeting held 26 September 2017, representatives from NSW Department of Premier and Cabinet explained the Government's aim to expedite projects across NSW. They noted that something needs to be built to improve the Nyngan's and Cobar's water security and, in doing so, there is a "once in a lifetime opportunity" for further regional development. Further discussion at the meeting centred around the burden that the requirement of depreciation costs would have, potentially resulting in water price increases. An action item arising from the meeting was that the Councils write to the Deputy Premier to seek assistance.
- **Infrastructure NSW** has requested that Storage 1B be joined with the Albert Priest Pipeline in the funding submission for the project. The most recent Business Case is based on an application for both the pipeline and Storage 1B.

#### **1.4 Additional 3000 ML Storage and Borefield**

Council's stated preference for an additional 3,000 ML storage (Stage 1C) instead of a pipeline (Stage 2) is not supported by the NSW Government on technical and economic grounds, due to the following reasons:-

- As storages get larger, they are less effective in protecting against droughts because of evaporation. For example, increasing total storage by another 3,000 ML is considered wasteful as the secure yield increases by only 1,900 ML/a. This compares to the 1a+1b storage of 1,400 ML increasing secure yield by 1,100 ML/a.
- The larger storage will only be useful in rare droughts. In all other years the storage will consume water, denying the use of this water by others.
- The larger storage likely will not generate enough economic benefits to cover its cost, and therefore is most unlikely to be a contender for grant funding.

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In contrast the construction of the pipeline in conjunction with Storage 1B results in strong benefits according to Council's consultants including:-

- Extra water in most years. An average of 2300 megalitres of high security water will be saved each year (depending on the climatic conditions for that year), which could be used locally by agriculture and mining.
- Towns receive a secure supply, including achieving over 90% supply during the worst drought on record instead of 50% supply.

It is also reported that initial investigations regarding a borefield at Warren (Stage 3) indicate that, for a moderate cost, this option also offers additional benefits to water security in a drought. This is because a borefield generates additional water supply, whereas the effectiveness of a large storage decreases due to evaporation. A borefield at Warren, however relies upon a pipeline to transport the flows to Nyngan, because in a drought situation, a significant portion of the water generated by the borefield will be lost in evaporation and in filtration in the existing Albert Priest Channel.

Council's consultants and the NSW Government recommends that Council support the construction of the pipeline and Storage 1B, and ongoing investigations related to the borefield. A discussion on ongoing financial risks to Council follows.

### **1.5 Financial Review**

A review of the water fund financial plan is in progress. The Financial Plan (Version 1.1 - January 2017) uses information in Council's 2015-16 financial statements. The Draft 2016-17 Financial Statements provides a different picture and demonstrates that 2015-16 is not a "typical" year. In particular, income is \$538,000 less than 2016-17. If grants are taken out of this, the impact is even higher. Furthermore, cash and investments have been halved from \$1.3M to \$650,000 to fund rehabilitation works at Council's ageing water treatment plant.

In order to provide a stable basis for financial modelling, the financial inputs to the financial model (FINMOD) have been over-ridden with data that is more representative of a typical financial year by Council's consultants. The financial parameters have been selected by critically examining six years of financial data, and developing data that is considered to represent a "typical" financial year.

Whilst the latest work has yet to be independently reviewed the initial modelling results are significantly different from the previous modelling. The key modelling results are summarised in Table 1 below.

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The recommended typical residential bill (TRB) for the base case (Case A) is \$1,250, which is close to Council’s current TRB. This indicates that for the current situation, water tariffs can be held at their current value– i.e. only inflation-based increases are required.

Financial modelling scenarios were developed to assess the impact of proposed water security infrastructure. The water security infrastructure imposes additional operational, maintenance and depreciation costs, of which 32% are currently attributable to Bogan Shire Council. 32% is considered the approximate upper limit and may reduce as the beneficiary pays principle and town water trading are examined in more detail. When the impacts of water infrastructure are added to the base case, the resultant increases in the TRB are significant. Council already has one of the highest typical residential bills in the state. Clearly, increasing water rates further is not an option.

**Table 1 - Summary of modelling scenarios, Water business, 2017-2047**

| Capital works item   | Scenario A     | Scenario B     | Scenario C     | Scenario D     | Scenario E     |
|--|----------------|----------------|----------------|----------------|----------------|
| 2016 Water Fund Capital Works Plan including Stage 1a - 700 ML Storage 1a  | x              | x              | x              | x              | x              |
| Stage 1b - 700 ML Storage 1b - adjacent to Storage 1a  |                | x              | x              | x              | x              |
| Stage 1c - 3000ML Storage 1c   |                |                | x              |                | x              |
| Stage 2 - Piping of Albert Priest Channel  |                |                |                | x              | x              |
| Stage 3 - Warren Borefield Investigation   |                |                |                |                | x              |
| <b>Typical Residential Bill (TRB) required for a positive Economic Real Rate of Return (ERRR) in at least 50% of years</b> | <b>\$1,250</b> | <b>\$1,260</b> | <b>\$1,320</b> | <b>\$1,400</b> | <b>\$1,450</b> |

**1.6 Mitigation of Financial Risk**

If the proposed water security infrastructure is to be constructed, strategies to mitigate the long term financial risk will need to be implemented. Some of these strategies may include requesting the State Government to take over the project, and/ or ownership of the pipeline.

**1.7 Draft Letter to Deputy Premier**

At the Steering Committee meeting held on 26 September 2017, an action item was that: “*Councils write to Deputy Premier to seek assistance*”. Attached to this report is a draft of a letter to the Deputy Premier suggested by Council’s consultants.

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The letter provides a short background, and requests 9 considerations from State Government. Importantly, the letter requests that the risks associated with the project be transferred to State Government, whilst ensuring that there continues to be close consultation with the Councils.

### **1.8 Draft Media Release**

A suggested draft media release prepared by the NSW Government is attached to this report, for Council's consideration.

### **1.9 Attachments**

1. Draft letter to the Deputy Premier
2. Draft Media Release

### **1.10 Recommendation**

1. That Council considers the recommendations of its consultants and the NSW Government to support the construction of a pipeline along the route of the Albert Priest Channel, the construction of Storage 1b, and the ongoing investigations into a potential borefield at Warren, on the understanding that the risks associated with the project are transferred to State Government.
2. That Council considers sending the attached draft letter to the Deputy Premier.
3. That Council considers issuing the attached draft Media Release supporting the project.

**Derek Francis**  
**General Manager**



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## **ATTACHMENT 1 - DRAFT LETTER TO THE DEPUTY PREMIER VERSION 3**

### **BSC Letterhead**

The Hon. John Barilaro MP

Member of the Legislative Assembly

Member for Monaro

Deputy Premier, Minister for Regional New South Wales, Minister for Skills, and Minister for Small Business

GPO Box 5341

SYDNEY NSW 2001

Dear Sir

### **Nyngan Cobar Water Security – The Albert Priest Pipeline and additional 700 Megalitre Storage Project**

The communities of Nyngan and Cobar are acutely aware of the importance of water security, and the importance of a reliable water supply to the local and regional economies.

The Nyngan Cobar region contributes around \$761 Million Gross Regional Product<sup>1</sup>, with the main contributors being mining (46% of value add and 35% of FTE employment) and agriculture (7% of value added and 15% of FTE employment)<sup>2</sup>.

During the millennium drought, water allocations were heavily cut. The situation became critical in 2007 when water in Burrendong Dam fell as low as 1%. Worse, modelling has found the 2007 was relatively mild. A repeat of the 1980/81 climatic conditions would be far worse with today's higher levels of river extractions.

There is now a very real possibility that a repeat of past droughts would cause mining operations to be mothballed, force many people in the townships of Nyngan and Cobar to relocate, and cause irreversible damage to the economic and social values in the region.

Both Bogan Shire and Cobar Shire Councils keenly support NSW government's initiatives to improve water security and support economic development. In this regard, the Councils are particularly grateful to the representatives from Department of Premier & Cabinet, Treasury and Department of Industry: Crown Lands and Water Division.

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<sup>1</sup> "Nyngan and Cobar Raw Water Security Business Case" prepared by CPE Associates in February 2014

<sup>2</sup> "Profile and Opportunities", prepared by Regional Development Australia Orana NSW and Western Research Institute Ltd in September 2013



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However, Councils' capacity to carry the potential risks with project implementation and future management will need assistance from the State Government. Council already has one of the highest water rates in the state, and the communities of Nyngan and Cobar have no capacity to absorb any additional increase in its water rates to meet the ongoing costs and the risks associated with this project.

Specifically, Council respectfully requests the following considerations:

1. That the Albert Priest Pipeline and 700 ML Storage 1B are constructed.
2. That investigations into a borefield at Warren continue, noting the potential for improved water security
3. That the whole of the Nyngan Cobar Water Supply Scheme is upgraded, and not limited to individual components.
4. That the State Government becomes the project's proponent and constructor and accepts all project risks until an appropriate entity is established to own and operate the scheme.
5. That the close local involvement of Bogan and Cobar Shire Councils be maintained and compensated throughout the life of the project.
6. That following construction completion, the on-going ownership and operational risks be shared amongst the beneficiaries such that any one group is not required to accept the risk of another.
7. That the costs to water users are affordable, and are apportioned according to each group's benefits.
8. That depreciation costs are not to be imposed on the water users and that financial planning is limited to 30 year projections.
9. That the socio-economic impacts of any changes in regional developments, especially mining, be projected for next 100 years and any adverse impacts mitigated.
10. That all water savings from current and proposed works be retained by the respective water users.
11. That trading of town water is permitted.

I trust that this letter provides insight to the risks and challenges faced by Bogan and Cobar Shire Councils, and look forward to a response on the eleven considerations listed above.

Ray Donald

Mayor Bogan Shire Council

## **ATTACHMENT 2 - DRAFT MEDIA RELEASE**

### **Nyngan Cobar Water Security Project**

Just a few years ago, Council obtained a \$10 million grant to construct an offline water storage at Nyngan. Construction is underway and is progressing well. It is hoped that funding will shortly be confirmed to construct a second storage immediately south of the first storage.

These storages, however, are not enough to protect Nyngan, Cobar and the Mines from the worst of droughts. New river modelling has shown that past droughts could be far worse than the millennium drought, when Burrengdong Dam fell to 2% and allocations for the towns and mines fell well below 100%.

While another 3,000ML storage could provide additional protection, it could sit idle for decades, waiting for a drought. It will need constant topping up, taking water from other potential water users.

Significant investigations have also looked closely at the benefits of piping the Albert Priest Channel. Unlike the 3,000 ML storage, an Albert Priest Pipeline, would deliver benefits from the day it is built.

A pipeline would not only save water during droughts, when water is priceless. The water savings would continue, in non-drought years, to make extra water available for mines and agriculture.

The Pipeline has a sound Business Case with benefits exceeding costs.

There is still work to do before the Pipeline can be built. Most important is finalising the water prices. For that reason, Council has asked the Deputy Premier for assurances the Pipeline will be affordable.

All dealings with the State Government have been very positive, making Council grateful and confident the State Government will provide the assurances needed.

The Pipeline is a once in a life time opportunity for the region. Council is therefore looking forward to the earliest possible start to construction.

