

## **ACTEW Corporation**

A Supplementary Submission to the  
Independent Competition and  
Regulatory Commission on the  
Enlarged Cotter Dam Project

The Question of Prudence – a  
response to matters raised at the  
public hearing on 24 May 2010

**May 2010**

The ICRC has been asked to provide an opinion on whether the decision to build the enlarged Cotter Dam was prudent. The ICRC has analysed the variety of reports and analysis available to the decision makers, the Board of ACTEW Corporation.

Our submission is that a prudent decision is dependent upon a number of factors:

- The range of material before the decision maker;
- The analysis of the decision maker;
- Consultation with relevant parties.

The Board, in making its final decision, focused on a particular range of material:

(1) The Deloitte Report

Commissioned by ACTEW in July 2009, Deloitte had been asked to report on the Alliance process, the engineering solution (ARUP provided this input), the robustness of the Target Outturn Cost (TOC) and the differences between the TOC and earlier construction estimates.

The Board also received an oral report from Deloitte.

(2) CIE Reports

The Centre for International Economics (CIE) had been commissioned by ACTEW between 2005 and 2009 to assess community costs and benefits of the Water Security Projects including Net Economic Benefit (NEB) assessment for the Enlarged Cotter Dam (ECD).

(3) Climate Information

The Board considered the CSIRO 2030 and 2070 climate change scenarios, recent climate/inflow history, as well as current Bureau of Meteorology (BOM) climate material including forecasts of a 2009/10 El Nino event.

(4) Updated yield material on the ECD

The Board considered additional information it requested on the inflows into the ECD to ensure that it would fill in a reasonable time and would provide the additional water required by the ACT and Queanbeyan.

(5) Report on the feasibility of a smaller Enlarged Cotter Dam

The Board considered the option of building a smaller 45GL dam which had previously been investigated by the Bulk Water Alliance design team.

(6) Oral reports from the Director, Water Security Projects and senior staff on aspects of the Dam.

(7) Assessment of impact on consumer bills

The Board considered the impact of the increased cost of the ECD on water prices.

Since the 2007 Water Security Review ACTEW has adopted a strategy of a portfolio approach to diversify the ACT's water sources to minimise the risk associated with the projects selected to provide water security for Canberra. As well as the economics of the portfolio, the strategy also took account of the uncertainty of the climate, the long lead time and difficult approval processes that are required to actually deliver the projects, and that any one of the projects by itself would not meet the ACT Government target of water restrictions of one year in every 20.

The Board gave consideration to all of the material before it.

It was satisfied that the Deloitte Report, the Alliance framework, the engineering solution and the robust nature of the TOC would enable the implementation of the Dam as proposed.

It requested the Managing Director ensure that the structure of the Water Security Projects group reflected the need for good commercial oversight of the project as it proceeded.

The CIE reports presented the Board with a developing view of the Net Economic Benefit (NEB) of the Water Security Projects including the Enlarged Cotter Dam. The Board noted that the ECD had a lower net economic benefit as a result of the new total project cost, but still provided a significant positive NEB for the ECD and for all the three projects together. In addition, the less optimistic the climate outlook, the higher the benefit. The Board concluded that a strong case remained to proceed with the portfolio approach of the ECD, the Murrumbidgee to Googong transfer (M2G) and the Tantangara Transfer projects.

Climate material revealed that average inflows to the ACT over the previous three years were at a level lower than CSIRO 2070 climate scenarios and that an El Nino was in place. It noted that the Cotter catchment had performed better than other catchments over the last three years. It concluded that a pessimistic view of climate was sounder than an optimistic view.

The Board considered a report on the feasibility of a smaller enlarged Cotter Dam. It agreed that the business case for such a dam was very difficult to sustain as it reduced storage volume by over 40% and achieved a cost saving of only 6%. In addition it could have meant lengthy delays and significant additional risks to the project. The Board had previously considered other options such as the Water Purification Plant and Tennent Dam and the business cases for these did not support their adoption even with the increased ECD costs.

The Board noted analysis that concluded a further \$100 per annum impact on consumer bills would result from the Water Security Projects, subject to ICRC price determinations.

The Board received an update on planning approvals for the Murrumbidgee to Googong transfer and the Tantangara transfer. It noted that there will remain

significant work and decisions before either of the two projects could be implemented.

The Board requested further consultation with shareholders and government on its deliberations. This resulted in the Chairman and Managing Director briefing Cabinet on ACTEW's consideration of the project. The Board took into account that Cabinet noted the decision that it proposed taking.

The Board at a meeting on 1 September 2009 decided to approve the Total Project Cost and Target Outturn Cost of the Enlarged Cotter Dam.

In particular it concluded:

- That the engineering solution, Alliance arrangements and TOC developments were robust;
- That the Net Economic Benefit analysis continued to support the suite of projects including the ECD particularly against pessimistic climate forecasts;
- That climate forecasts were pessimistic with actual inflows tracking below CSIRO 2030 scenarios for over a decade and CSIRO 2070 scenarios for the past three years. An El Nino effect was also in place and BOM forecast predicted a higher potential for below average rainfall. This supported a cautious approach to water security;
- Projected yield from the ECD remained positive against other catchments.
- Project modification was not considered viable; and
- That government consultation raised no additional concerns.

In ACTEW's view this presents the background to what was a prudent decision. This decision, together with the Halcrow Report, supports the efficiency of the dam.