

21 January 2020

To Whom it May Concern

RE: Goulburn Murray Water's Price Submission 2020

Central Highlands Water (CHW) is pleased to provide feedback to the Goulburn Murray Water (GMW) Price Submission 2020-2024 (dated November 2019) and would like to acknowledge the excellent engagement undertaken with all customers including CHW (an Urban Water Corporation customer) in developing the submission.

For background and context, CHW holds a number of water entitlements (water shares, bulk entitlements and groundwater licences) across the GMW region which is used for urban water supply to small and large towns in the CHW service region. Further details of the various water entitlements are outlined in Attachment 1 to this letter. These entitlements assist in providing essential water supply quality and reliability to our urban customers and the overall annual water fees and charges paid to GMW represent significant financial expenditure within CHW's annual operating costs.

CHW has been actively engaged with GMW during the development of the 2020-2024 price submission submitted to the Essential Services Commission (ESC). One of the main themes for discussion throughout this recent engagement process (and in previous price submissions) has been the inequity of the approach to pricing across the GMW region and in particular the differences between "basin" and "system" prices. In this regard CHW is very supportive of GMW's vision and commitment to "a fairer deal for all" including the removal of the difference between system and basin prices for all customers (including bulk water customers) as stipulated in the pricing submission documentation.

CHW liaised closely with GMW to understand how the proposed pricing changes would affect the overall cost of all its GMW managed water entitlements. While CHW recognise some entitlement costs will increase it also noted others will decrease primarily due to the movement from basin to system pricing. In addition, there are clear improvements proposed by GMW and supported by CHW in terms of simplifying the ease of understanding for customers in the proposed pricing methodology.

CHW does request further clarity and certainty from GMW and the ESC in that the submission does not commit to the removal of basin pricing for bulk water customers at the commencement of the new economic regulatory period for GMW. Instead, it commits to undertaking further consultation with bulk water customers and transitioning this change from basin to system pricing during the regulatory period at a later date to be determined by GMW. CHW seeks clarity from the ESC and GMW on why this needs to be further delayed given the extensive consultation to date, as our preference would be for this change to be enacted on 1 July 2020 for consistency and fairness for all including retail and bulk water customers. It is also noted that the submission gives no certainty to CHW for its own water planning process.

The most material impacts on pricing for CHW relate to the Bullarook system and the current CHW bulk entitlement that is currently an inequitable pricing arrangement between the various customers. The move to a system price as proposed and previously discussed will address this concern. Further details on CHW's specific concerns and queries related to this bulk entitlement is included in Attachment 1.

CHW has experienced a year on year increase in charges for the bulk entitlement for the Bullarook basin resulting in the highest water charges in the GMW service region of approximately \$460/ML in 2019/20 that was challenged and contested by CHW in the development of GMW's current pricing period. This was later justified by GMW on the basis of needing to undertake dam safety improvements works to satisfy the Australian National Committee on Large Dams ALARP (As Low as Reasonably Practicable) principle but the project was subsequently determined as not being required as advised by GMW staff. Given that CHW and other customers have been paying the increased fees to support the delivery of this capital improvement expenditure project we seek an understanding from GMW and ESC on how this will be reflected in a reimbursement or otherwise to the customers who have supported the funding of this project.

Once again, CHW would like to commend GMW on the excellent customer engagement in developing the pricing submission and reinforce our support for all customers including bulk water customers in moving from the basin to system pricing approach as soon as possible to address the current inequitable pricing issues faced by CHW and other GMW customers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Haydon', written in a cursive style.

Jeff Haydon
General Manager Infrastructure Planning and Operations, CHW

Cc: Pat Russell, Strategic Water Resource Engineer, CHW

Attachment 1 Summary of CHW water entitlements and proposed pricing impacts

CHW entitlement	Current charge	Proposed charge	Difference to CHW	Comment	CHW Preference
High reliability water shares- Goulburn	\$7.45/ML	\$9.62/ML	increase of \$2.17/ML	Firm proposal in submission.	supported
High reliability water shares- Murray	\$9.22/ML	\$10.95/ML	increase of \$1.73/ML	Firm proposal in submission	supported
Low Reliability shares - Campaspe	\$4.57/ML	\$4.41/ML	Negligible change	Firm proposal in submission	supported
Bulk Entitlement – Bullarook Creek system	\$461.67/ML	Hold current price but consult on proposal to go to system price of \$9.62/ML (in accordance with the Goulburn system price)	decrease of \$452.05/ML	Unclear-Submission only undertakes to consult further on the issue of basin vs system pricing and transition the changes during the next regulatory period.	CHW seeks the change from basin to system pricing be enacted 1 July 2020
Bulk entitlement- Loddon system	\$44.67/ML	\$9.62/ML	decrease of \$35.05/ML	Firm proposal in submission	supported

Infrastructure access fee	\$2925/ML/d	\$2416/ML/d	decrease of \$509/ML/d	Firm proposal in submission	supported
Groundwater entitlements	-	-	negligible	Firm proposal in submission	supported
RUSAF (Regional Urban Storage Ancillary Fee)	\$10/ML	Undertake further investigation and consultation	To be confirmed	Unknown	CHW suggest that all water users should pay this charge- not just urban users

CHW raises the following concerns:

- The difference between basin and system costs for the Bullarook system is extreme. Holders of water shares in the Bullarook system pay the system price of around \$9.71/ML whereas CHW pays the basin price of \$461.67/ML. In addition the RUSAF fee is \$10/ML.
- The difference between basin and system prices in the Bullarook Creek system amounts to approximately \$226,000 per year for CHW for its 500 ML entitlement. This is a significant additional cost to be borne by CHW customers.
- The large difference in bulk water charge means that trade of allocation between CHW and other water users, in years when CHW does not need its allocation, is impeded due to allocation typically trading at prices well below the \$461 bulk water charge.
- The interim arrangements proposed with an increase in water shares charges and deferred reduction in bulk entitlement charges will increase GMW charges to CHW overall.