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Dear Dr Ben-David

### **Bulk Water Pricing - Irrigation Water held by the Commonwealth Environmental Water Holder.**

We write in response to the issues raised in the submission by the Commonwealth Environmental Water Holder (CEWH) submission to the GWMWater 2018-2023 Water Price Submission.

GWMWater has adopted pricing principles that are consistent with the National Water Initiative (NWI) since these were first adopted by the states through the agency of the Water Reform Agenda of COAG in the 1990's. It was the implications of water prices for irrigators by application of the NWI pricing principles, combined with its lesser reliability that was the catalyst for the 219 irrigators who were part of Wimmera Irrigation System successfully lobbying to sell their water holding to the Commonwealth under the Irrigator Led Group Proposal (ILGP).

At the time of transition to independent price and service regulation by the Essential Services Commission (ESC) in 2004, GWMWater commissioned a body of work that was undertaken by Marsden Jacobs and Associates to consider pricing futures for irrigators. The NWI required water businesses to price as a minimum at the lower bound of full cost recovery and in the fullness of time move to the upper bound of full cost recovery. The implications of these pricing policies for irrigators have been the subject of discussion in all three pricing submissions previously prepared by GWMWater.

The pricing policies of the NWI have been applied in the transition to independent price and service regulation in 2004. The building block approach refines the cost recovery pricing principles established by COAG. The price issues specific to headworks cost sharing in the Grampians system are fundamentally driven by the significant amount of infrastructure required to store water and maintain supply from a catchment which receives highly variable inflows from year to year. In the Grampians headworks system, over 50% of the regulated water holding is now

collectively held by the environment. With 33% held by the Victorian Environmental Water Holder and 22% held by the Commonwealth Environmental Water Holder.

The inaugural Water Plan prepared by GWMWater in 2005 outlined the pricing implications for Wimmera irrigators of the Marsden Jacob study. Water Plan one foreshadowed further work to consider whether the WIRO provided a reasonable basis for differentiating irrigation supplies to all other rural supplies.

When GWMWater was preparing the 2008-2013 Water Price Review (Water Plan 2), GWMWater and its customers were deep into the period where the water resource was significantly impacted by the millennium drought. Wimmera irrigators were becoming increasingly perturbed about the extended period of zero allocation but still attracting a charge. The GWMWater Board in response to the dire water outlook continued to maintain a 'special drought' tariff. The special drought tariff was an acknowledgement that irrigators were willing to engage with GWMWater to consider possible reconfiguration of the Wimmera Irrigation system.

At the time of preparing the 2013-2018 Pricing Submission (Water Plan 3), the Wimmera Irrigators Association (WIA) ILGP was well advanced and the commentary started to focus on irrigation water pricing arrangements ex headworks. Any consideration of changes to the headworks cost sharing arrangement was to be considered in the context of future price reviews subject to the outcome of the WIA ILGP.

GWMWater commenced its consultation for the 2018-2023 Water Price Submission early. In addition to the more general consultation and engagement processes established that are outlined in more detail in the GWMWater 2018-2023 Water Price Submission, GWMWater formed an Environmental Water Pricing Group to engage directly with the Commonwealth Environmental Water Holder (CEWH) and the Victorian Environmental Water Holder (VEWH). Information provided to the VEWH and the CEWH outlined in more detail the basis of GWMWater regulatory accounts specific to bulk water. This included more detail on the basis of cost allocation that underpins GWMWater's cost attribution to different water 'lines of business' and 'products' to support its pricing decisions. This information has been provided to Deloitte and the ESC regulatory team responsible for reviewing the GWMWater pricing proposal separate to this submission.

The CEWH made representation about the security of the water and the extent of allocation received. In preparing Water Plan 1, GWMWater made representation about the security of the irrigation water product.

*'The security of irrigation water is less than all other consumptive users in the Wimmera Mallee System. The security of supply of irrigation entitlements is about 86% for Water Right (13,000 ML per annum) or 74% for Water Right plus equivalent Sales (19,000 ML per annum) based on long term historical supply.'*

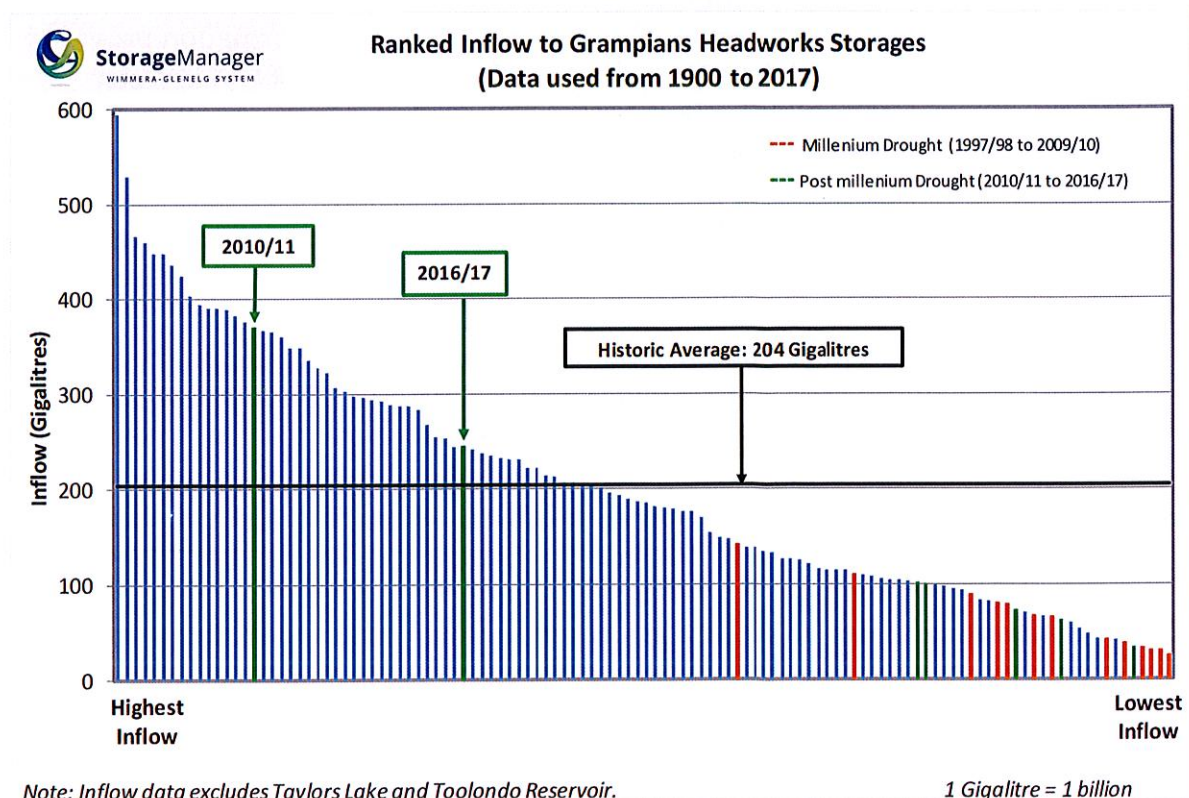
*Under the WMP Project proposal piping of irrigation water (i.e. not the D&S component) is not envisaged. Detailed analysis of the headworks operating regime under the WMP has not yet been completed. Preliminary analysis, however, suggests*

*there will not be any increase in the volume of water available for irrigation purposes nor any benefits of increased security’.*

The most recently modelled security of the irrigation water product held by the CEWH is 90%. This increase in the representation of reliability is a function of modelling assumptions around the timing of environmental water use. This representation of reliability is consistent with its representation in the Wimmera Mallee Water Resource Plan that has been the subject of a consultative process run by the Department of Environment Land Water and Planning (DELWP) in 2017. The Wimmera Mallee Water Resource Plan is a compliance reporting obligation of the Murray Darling Basin Plan that makes representation of progress in achieving the water recovery targets and the associated Sustainable Diversion Limits (SDL’s) for the Wimmera, Mallee and Avoca Basins of the Murray Darling Basin Plan.

When the Wimmera Avoca Basin is considered in the context of the Murray Darling Basin Plan it is worthwhile noting that the region has met the Sustainable Diversion Limits (SDL) of the Murray Darling Basin Plan. Arrangements are also in place to ensure that environmental water is ‘shepherded’ down the river systems.

The water allocated and available needs to be considered in the context of the weather patterns of the past 20 years. Since the mid 1990’s we have endured the millennium drought, interrupted by the high rainfall events of 2010/11 and the four year drought of 2011-2016. The wetter year of 2016/17 was only just above average and this is demonstrated in the chart below. Once again if the weather paradigm of the past 20 years is proven to be more of the new “norm” then this can be considered in the review of the Western Region Sustainable Water Strategy. The pattern does also however reinforce the boom bust nature of the system and that with climate variability there are likely to be more extreme weather events.



When translated into water allocation, the CEWH has ignored the performance of the water product in the window that the ILGP was under consideration. In 2010/11 and 2011/12 the irrigation water product received a 100% water allocation. However the Wimmera Irrigators voted not to take up the allocations from these two years, choosing rather to hold them as carryover to be considered as part of the overall ILGP. In support of the ILGP, GWMWater deferred the recovery of water rates and charges in these years to help to keep the collective irrigators of the WIA together in their bid to sell the water to the Commonwealth.

This allocated water of 44 GL was offered to the Commonwealth for the revenue forgone of \$800,000. The Commonwealth chose not to secure this 'allocated water' as part of the overall WIA water sale. Since 2010/11 we have returned to a climate pattern more extreme than the millennium drought in western Victoria substantially impacting system yield.

The CEWH makes reference to the transfer of water from Rocklands to Toolondo that took place in 2016. The transfer that took place was in accordance with the Wimmera Glenelg Bulk Entitlement Order system operating rules and the dialogue with the Commonwealth was an integral part of the consultation and engagement model of GWMWater. Toolondo is a more efficient storage than Rocklands when Rocklands operates above the 116 GL threshold level. It also provides a greater opportunity for water to be directed to the Wimmera River and therefore support the primary environmental objective of the water savings and recovery investments in the Ramras listed terminal lakes (Hindmarsh and Albacutya) of the Wimmera River system. The Toolondo transfer did not affect the allocation calculation methodology established under the respective bulk entitlements and system operating rules.

The CEWH representation that the tariff rebalancing being proposed is discriminatory is incorrect. The pre-existing tariff of the irrigators was discriminatory in favour of irrigators and reflected historical pricing practices that were sensitive to the 'affordability' of irrigators. The tariffs through the period of the millennium drought did not recover at the lower bound of full cost recovery for the irrigation customer base of the Wimmera Irrigation System. The rectification of these pricing practices was a key component of the NWI that was developed in 2004.

It is interesting to note the observation in the Productivity Commission National Water Reform Draft Report (September 2017) of the South Coast Valley and North Valley of WaterNSW in relation to bulk water pricing based on a report from IPART which said 'attempting to transition to full cost recovery for these valleys is considered likely to price all customers out of the market before cost recovery is achieved (IPART 2017)'. This sentiment reflected the collective view of the Wimmera Irrigation Association over a decade ago when they developed the Wimmera Irrigation System ILGP.

The extent that GWMWater is still attempting to rebalance the bulk water component of the irrigation tariff consistent with the principles of full cost recovery are consistent with the broader objectives of the National Water Initiative. The CEWH

needs to understand that GWMWater in adopting the pricing policies of the National Water Initiative the ultimate objective is to achieve full cost recovery at the upper bound level and we are yet to attain this level.

The cost basis upon which cost recovery has been determined is consistent with cost information that is prepared in GWMWater's regulatory accounts prepared for the ESC annually. The more detailed assessment of bulk water costs as reflected in the regulatory accounts and the basis of cost allocation have been the subject of engagement with the VEWH and CEWH. This information has been submitted to Deloitte and the ESC to assist their review of bulk water pricing in the Wimmera Glenelg headworks system.

Yours sincerely



**Mark Williams**  
Managing Director