



Submission to the Essential Services Commission
on Goulburn-Murray Water's
Water Plan 4 (2016 – 2020)

By

Victorian Farmers Federation

November 2015

Foreword

The Victorian Farmers Federation (VFF) is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF consists of an elected Board of Directors, a member representative Policy Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views at many industry and government forums.

The agricultural sector in Victoria contributes 4.9 per cent to gross state product and in 2013-14 it was valued at \$11.8 billion. The food and fibre sector employs 191,700 people in rural and regional communities of Victoria.



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Executive Summary

In early August the VFF held water policy forums in Kerang and Strathmerton. In Kerang 36 people attended and in Strathmerton there were 19. On the subject of water pricing, our members expressed concerns about common pricing, the role of delivery shares and cost of termination fees and about how the environment uses and pays for infrastructure. Our members called for more clarity and transparency about what customers are paying for across all fees and who is paying for what.

We have made the following recommendations in response to GMW's Water Plan 4:

Recommendation 1

That the ESC engage with the Water Service Committees directly to gain a deeper understanding of their concerns about uniform pricing.

Recommendation 2

That the service standards are changed at the same time as the pricing regime and that this is done once modernisation is complete.

Recommendation 3

That Water Plan 4 is comprehensively updated to reflect the re-set of the Connections Project.

Recommendation 4

Review the impact of the changing ownership of water entitlements on the underlying cost and revenue structure, including storage fees (See also Recommendation 9).

Recommendation 5

That GMW explains to customers and stakeholders why there is an existing disparity between Shepparton and the other districts.

Recommendation 6

That GMW does not trade off simplicity against transparency.

Recommendation 7

That the infrastructure access fee be 'unpacked' to provide more clarity about what is uniform and what is not.

Recommendation 8

That GMW more clearly articulates the impact of the uniform price.

Recommendation 9

That storage fees for non-water users are reviewed.

Recommendation 10

That GMW provides more information about the expenditure for non-prescribed services.

Comments on Water Plan 4 (WP4)

The VFF is a key voice for Victorian irrigators and rural communities. We have a keen interest in the regulation of Victoria's rural water corporations and welcome the opportunity to comment on Goulburn Murray Waters' Water Plan 4 (2016 – 2020).

3. Customer Consultation

Reflecting customer concerns

The VFF is concerned about how GMW has engaged with customers about the change to uniform pricing. We raised some of these concerns in our letter to the ESC in June 2015, appended to this submission for ease of reference (See Appendix 1).

In WP4 GMW provides information about the number and type of customer engagement activities it has organised. However there is less insight provided about the issues which were raised and the level of concern which has been expressed.

On its website GMW notes that:

“Overall, gravity customers understood the rationale for uniform Goulburn Murray Irrigation District (GMID) delivery charges and mostly accepted the proposed change.

Of the small amount of feedback we received regarding the proposed transition to uniform GMID delivery charges, feedback was largely balanced between customers who supported the transition and those who did not.”

The assumption that a small amount of feedback reflects the level of concern is false. Reports from VFF members who were present at some of these forums indicate that uniform pricing was not actively or intensively discussed. Farmers are very busy people and don't have time to attend meetings. They rely on and trust their representatives to protect their interests and express their concerns. The VFF is the key voice for irrigators in Victoria. The Water Service Committees are the key representatives for GMW customers.

The VFF is concerned that the views of the Water Service Committees are not being reflected in the WP4. GMW has highlighted feedback which has been provided at customer sessions. More attention needs to be paid to the views of the Water Service Committees as they are charged with a representative responsibility, have better access to GMW and are likely to have more current information.

In our earlier letter we noted that five out of six of the irrigation districts did not support uniform pricing. An article in the Weekly Times on 30 October 2015 *GMW move to uniform water price slammed*, also noted the lack of support.

In VFF water policy forums held in early August this year we found there was no support for uniform pricing in Kerang and there was some support at the Strathmerton session where there were a number of people from the Shepparton Irrigation District. We understand that at the ESC

consultations in Kerang and Kyabram significant concerns were raised about the introduction of the uniform price.

GMW's 'selling' of the uniform pricing focuses on the benefits for customers in the Shepparton district. This is only one district out of five, and is the district which gains the largest benefit from this change. We are concerned that GMW is suggesting that the level of support for uniform pricing is greater than it is. We encourage the ESC to engage directly with the Water Service Committees to understand their position directly.

Recommendation 1

That the ESC engage with the Water Service Committees directly to gain a deeper understanding of their concerns about uniform pricing.

4. Service Standards and Targets

We note that GMW has not committed to new service standards which would be based on the enhanced functionality of the Connections Project. Yet they are pushing ahead with the move to a uniform pricing regime, which is also based on the benefits of the Connections Project. This reluctance to change the service standards, but willingness to change the pricing regime seems out of step. It appears that they want to charge for the benefits before being held to account for delivering them. If a district is not completely modernised then there shouldn't be a common price for a service which they are not getting the benefit of (see also Recommendation 6).

Recommendation 2

That the service standards are changed at the same time as the pricing regime and that this is done once modernisation is complete.

5. Operating Expenditure

Impact of the Mid-Term Review

The VFF notes that in several places in WP4 GMW notes that some changes may need to be made following the outcomes of the Mid-Term Review (MTR) of the Connections Project which was then underway.

The MTR has now been completed and released. The review recommended that the project needs to be "re-set" as the operating environment has changed substantially since the business case was originally developed. However, when this will happen and what it will mean for the delivery of the project is still far from clear.

The VFF is lobbying for an extension to the project timeframe to allow for this "re-set" to be done properly. If the project is extended this will impact on the projections which GMW has made about when the Connections Project will be completed. This then has an impact on when a uniform price

can reasonably be expected to commence given GMW's reasoning that it is closely linked to the benefits of modernisation.

The revision of Water Plan 4 to take account of the "re-set" of the Connections Project needs to be comprehensive. The delivery of the Connections Project is a core part of the future operating environment and pricing regime. The assumptions which underpinned the original business case are no longer valid and should not be used in forecasting demand, operating or capital expenditure.

Recommendation 3

That Water Plan 4 is comprehensively updated to reflect the re-set of the Connections Project.

8. Demand

Whilst the volume of water to be delivered may not have changed, what has changed is the patterns of delivery, who pays for it and how they pay for it.

The VFF is concerned that GMW is underestimating the potential for further delivery share reduction. Whilst it notes that there is likely to be further reductions due to the roll-out of the Connections Project it does not consider the residual impact from the Commonwealth buybacks. When the Commonwealth bought water entitlements from irrigators it did not also purchase the delivery shares. Some irrigators have divested their delivery shares, reducing the number of customers who are now contributing to the revenue pool. Others have retained delivery shares and are paying these while not using the delivery system. It is not clear to the VFF how much residual divestment could still be done.

Water buybacks and savings from modernisation projects in Victoria mean that the environment water holders now have 30% of Victorian water entitlements (CEWH and VEWH). This means that less water is being delivered in irrigation districts and more is being delivered in rivers and wetlands. The places for delivery are changing, with greater risks of environmental flooding.

The transfer of entitlements out of the water savings from the Connections Project will further increase the volume and proportion held by the environment. The point is that the customer base has fundamentally changed, yet it is not clear that the pricing model fully incorporates the impact of these changes. As the environment holds an increasing volume of water there is a greater need to ensure that the charges of storing and delivering environmental water are cost-reflective.

Recommendation 4

Review the impact of the changing ownership of water entitlements on the underlying cost and revenue structure, including storage fees (See also Recommendation 9).

11. Tariffs

Existing pricing disparity

The VFF is concerned about GMW's plan to introduce a uniform pricing regime for infrastructure access across all six gravity irrigation districts. We understand that this will apply to the Infrastructure Access Fee and the Infrastructure Use Fee. The VFF does not believe that a uniform pricing regime should be the default position for setting tariffs.

There is a significant existing disparity in the Infrastructure Access Fee between Shepparton and the other five districts. In the 2015-16 the proposed pricing difference between Shepparton and the other five districts is between \$1122 and \$1740 more. The pricing of the other five districts has a span of just \$618 in maximal difference. It is not clear why Shepparton is such a significant outlier.

As a result of this disparity, VFF analysis (see Appendix 2) suggests that the Infrastructure Access Fee for Shepparton customers will reduce by more than 19% compared to 2016 -17 prices (the first year of WP4), and more than 35% compared to 2015-16 prices (the last year of WP3). The districts with the next highest benefit are Loddon at 10.67/14.08% respectively and Central Goulburn at 9.91/12.98%. These figures present a very different picture to the average revenue/price change quoted by GMW of a decrease of 1.5% for irrigators (See Tables 3 and 43 on pages 10 and 85 of WP4). This example illustrates the lack of transparency about the differential impact of these price changes.

It would be useful if GMW could explain why there is such an existing disparity in pricing between Shepparton and the other districts as the VFF believes this cuts to the heart of the concerns about the differential impacts. There has been some suggestion that the disparity is due to debt which Shepparton incurred to upgrade its infrastructure. If this is the case then it could be expected that once the debt is paid down the prices in Shepparton would reduce anyway.

Recommendation 5

That GMW explains to customers and stakeholders why there is an existing disparity between Shepparton and the other districts.

Simplicity argument

The VFF does not accept that simplicity of tariff pricing should be valued above transparency. We appreciate that small users may well desire to have simple bills. However many VFF members have hefty water bills and therefore have a much larger stake in understanding how the prices are set and how the revenue is spent.

Customers are concerned that they are losing their voice about what happens in their own districts. Irrigators have a pride and a strong sense of belonging to their district. Under uniform pricing this is likely to become further eroded. They are also concerned that at some point in the future there will be a swing back in the other direction.

Recommendation 6

That GMW does not trade off simplicity against transparency.

Unpacking the infrastructure access fee

GMW argues that modernisation will establish a single, standard, enhanced level of service from the backbone and future operating costs will be standardised across the GMID.

On the GMW website the '*Your Fees Explained*' page notes that the *Infrastructure Access Fee* "[r]ecovers most of the costs of operating, maintaining and renewing the delivery network in your Irrigation Area, district or service. The delivery network can include channels, pipes, bridges, road crossings siphons and subways".

The VFF policy is that uniform pricing for irrigation districts should not be the default position for setting tariffs. Where there are acceptable consistencies across districts a uniform price may be appropriate for individual services e.g. service points, meter costs or where infrastructure has been fully modernised to a consistent standard. However, capital expenditure for infrastructure which has not been modernised should not be included in a uniform price.

As it is not completely clear what components are included in the infrastructure access fee it is difficult to assess whether these are in fact common across all districts. In particular, it is not clear whether all the components of the infrastructure access fee will be impacted by modernisation e.g. bridges, road crossings, siphons and subways.

In addition, each district has a unique infrastructure footprint and may have more or less of a particular type of infrastructure. Where a district has more or less of a particular type of infrastructure then it will have a higher or lower maintenance and renewal costs for that type of infrastructure.

We are concerned that uniform pricing will erode accountability and transparency for pricing and expenditure. The pricing principles set down by the Australian Competition and Consumer Commission (ACCC) includes "achieve pricing transparency". It is unclear how price transparency will be maintained under a uniform pricing regime.

We note that GMW says that "around 65% of its operating costs, which reflect 85-90% of customer prices, are incurred or shared on a system wide basis or multiple district basis, due to the comprehensive changes occurring as part of the Connections Project, where modernisation is leading to more standardised service levels." It is not clear how the other 35% of operating costs are funded, nor whether the 10 – 15% represents non-shared costs or non-operational expenditure.

Capital expenditure within a district is dependent on the standard of the condition of the infrastructure. Should there be costly works required in one district, another district should not be liable for contribution to the costs of these upgrade, especially if they have conducted and funded their own district upgrades.

The WP4 does not include a detailed capital plan at the district level, rather the expenditure is based on “unit rates and predicted quantities of each treatment type.” Each district has a different infrastructure footprint. For example, in Shepparton the land parcels are smaller so there are more culverts and occupational crossings per kilometre than in other districts.

A uniform price and a capital plan based on quantities of treatments means that the cost of this non-modernised infrastructure is effectively being socialised across the districts. In the VFF’s view GMW has not clearly articulated this impact. As the move to upper bound pricing continues, it is more important than ever that there is transparency about what the plans are for renewing district infrastructure which is not included in the modernisation project.

Where a common price is introduced which does include infrastructure which has not been modernised, then we believe the capital expenditure needs to be shown as a separate line item (by district) on bills and in the annual report. This is to ensure that customers and stakeholders can maintain appropriate levels of oversight.

Recommendation 7

That the infrastructure access fee be ‘unpacked’ to provide more clarity about what is uniform and what is not.

Impact of uniform pricing

In our earlier letter to the ESC we suggested that GMW needed to be more transparent about the impacts of uniform pricing. Whilst GMW has provided more information about the impact of uniform pricing on the cost trajectory for each district this is buried in WP4.

The VFF does not accept that a uniform price is the only way of protecting customers from price shocks associated with large capital renewals, natural disasters or reduction in delivery shares. Previously the districts have managed to save for and fund large capital renewals by planning ahead or the district has chosen to finance renewals from borrowings and pay the associated interest.

What’s really at stake is that the costs for non-modernised infrastructure are being socialised and this is not being acknowledged. The uniform price will allow for increased cross-subsidisation to occur. This is counter to the COAG Water Reform Framework which notes that “[w]ater authorities are required to ensure prices are efficient, which aims to eliminate cross-subsidies” (p.235 NWC Triennial Assessment 2014). A balanced assessment of the costs and benefits of changing to a uniform price appears to be missing. There is limited recognition of the value of district pricing. District pricing was introduced following the MacDonald Review in the 1990s in response to concerns about the levels of accountability in the pricing system.

We are concerned that the consultation about the impact of the uniform price has been rolled up in the consultation about WP4. It is not clear whether customers would have made different decisions about attending consultation sessions or providing feedback if it had been more clearly identified that feedback was being sought on the proposed uniform pricing.

Recommendation 8

That GMW more clearly articulates the impact of the uniform price.

11.12 Prices for the Environmental Water Holders

The VFF is concerned about the transparency and fairness of pricing for the environmental water holders.

We note that “the Commonwealth Environmental Water Holder (CEWH) is charged the relevant entitlement storage price for non-water users” (p.102).

For “water users” the costs of storage are socialised across the Murray and Goulburn Basins, but are not for “non-water users”. Thus the prices in the Murray system and the Goulburn system are higher than those for “non-water users”.

The CEWH holds large volumes of entitlements in the Murray and Goulburn systems. VFF analysis suggests that if the CEWH paid the “water user” version of storage costs (across all northern Victorian systems) then it would need to pay approximately \$880,000 more (See Appendix 3).

The distinction between water user and non-water user fees seems to be based on whether the water shares are tied to land or not. But surely the cost of storing water is the same, regardless of whether it is tied to land or not. While the CEWH water shares are not tied to land, they are tied to a water system. This distinction is currently providing the CEWH with a significant saving.

Recommendation 9

That storage fees for non-water users are reviewed.

12. Non-prescribed Services

The VFF notes that GMW provides a projected revenue figure of \$125.6 million from non-prescribed services. However it fails to identify whether that figure is sufficient to cover the cost of these services. Nor does it explain why these non-prescribed services are not included in WP4.

The VFF’s view is that irrigators should not pay for recreational facilities at storages. Recreational facilities are used by the public and should be paid for by the public. It is a matter for Government to determine how this should be done e.g. through a user charge, through a socialised charge on town water supplies or through consolidated revenue.

More information is required to ensure that future costs and risks are not shifted from local councils or other agencies onto GMW.

Recommendation 10

That GMW provides more information about the cost of non-prescribed services.

Appendix 1



Dr Ron Ben-David
Chair
Essential Services Commission
Level 37 / 2 Lonsdale Street
Melbourne
VIC 3000

18 June 2015

Dear Dr Ben-David,

Goulburn-Murray Water and common pricing

The VFF is concerned about Goulburn-Murray Water's proposal to introduce common pricing across the six irrigation districts.

The VFF does not believe that a common price across all irrigation districts should be the default position for setting tariffs. Where there are acceptable consistencies across districts it may be appropriate for individual services such as service points or meter costs to be common. Capital works should be covered within district. Only when a region has been fully modernised to a consistent standard is common pricing likely to be an appropriate move forward in regards to operations.

The VFF is concerned that GMW is pushing forward with common pricing ahead of effective engagement with the customer base about the implications of the change.

GMW started with a customer engagement process. In June 2012 GMW released a consultation brochure for irrigation district customers which flagged the intention to develop a varied tariff strategy for Water Plan 3 (WP3). WP3 noted that a tariff strategy was being developed. It included the principles which had been agreed to help guide the development of the tariff strategy. In April 2013 GMW released their Blueprint for comment.

Then there is a gap until February 2015 when the GMW Board approved the Tariff Strategy. To date the Tariff Strategy has not been publicly released. Yet the contents of the Tariff Strategy are being used to inform decisions such as GMW's *Application for Annual Price Review of Fees and Charges* submitted to the ESC on 15 April 2015.

The VFF is concerned that GMW has not considered other pricing models. Customers are frustrated about the outcome and about the fact that they haven't had a fair chance to discuss tariffing models or understand the deliberations of the Board. Of the six irrigation districts, only one is in favour of common pricing. VFF members are highly concerned about the implications of changes to a pricing regime which is proposed to replace the model where there has been devolved and autonomous management of irrigation districts. The existing pricing model is supported by five of six irrigation districts.

In the VFF's view GMW needs to be firmly held to account for the proposal to make a significant change to the pricing structure. The arguments for this change and the numbers which demonstrate the impact of this change need to be critically examined, shared and discussed with customers and key stakeholders. This cannot wait til the new pricing has been introduced because then it will be too late. The impact will already be felt by irrigators and it will be argued that it is difficult to reverse.

The VFF is also concerned that GMW is pushing forward with common pricing ahead of the completion of modernisation works. We want to ensure that GMW has given due consideration to how common pricing can be phased in so that the principles of same prices for same services is adhered to and respected.

The VFF's view is that GMW needs to develop a long term capital works and maintenance plan for post-modernisation. This would help the authority to understand the scope and scale of the future costs and provide transparency to the customers about what exactly they are being charged for. Post-modernisation there will be costs which are no longer incurred e.g. employment of water bailiffs, the cost of their vehicles and petrol.

There needs to be a clear line of sight between what the responsibilities of GMW are and what the customer is paying for e.g. compliance, delivery of water and maintenance of infrastructure. Other responsibilities such as houseboats and head-works need to be separately funded or cut from the responsibilities of the authority.

We would like to meet with you to discuss these matters further. Please contact Rachel Astle, Senior Policy Adviser – Water on 03 9207 5522 to arrange a suitable time and date.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Anderson', with a small flourish at the end.

Richard Anderson
Water Council Chair

Appendix 2

Infrastructure Access Fee

	2015-16	2016-17	\$ Differenc e with previous year	2017-18	\$ Differenc e with previous year	2018-19	\$ Differenc e with previous year	2019-20	\$ Differenc e with previous year	\$Differenc e between 2019-20 and 2015- 16	% change	\$Differenc e between 2019-20 and 2016- 17	% change
Shepparton	4454	3556	-898	3316	-240	3085	-231	2863	-222	-1591	-35.72	-693	-19.49
Central Goulburn	3290	3178	-112	3070	-108	2965	-105	2863	-102	-427	-12.98	-315	-9.91
Rochester	2933	2917	-16	2900	-17	2882	-18	2863	-19	-70	-2.39	-54	-1.85
Loddon	3332	3205	-127	3085	-120	2970	-115	2863	-107	-469	-14.08	-342	-10.67
Murray Valley	3069	3016	-53	2962	-54	2911	-51	2863	-48	-206	-6.71	-153	-5.07
Torrumbarry	3131	3062	-69	2994	-68	2928	-66	2863	-65	-268	-8.56	-199	-6.50

Appendix 3

CEWO Water Holdings in Victoria

	Security	Registered entitlements (ML)	Non water user storage fees \$ / ML	Cost for holdings	Water user storage fees \$ / ML	Cost for holdings	Difference
Campaspe	High	6547	24.86	162,758.42	10.57	69,201.79	93,556.63
Campaspe	Low	395	15.35	6,063.25	5.18	2,046.10	4,017.15
Goulburn-Broken*	High	275898	8.16	2,251,327.68	10.57	2,916,241.86	-664,914.18
Goulburn-Broken*	Low	29439	4.18	123,055.02	5.18	152,494.02	-29,439.00
Loddon	High	3356	40.96	137,461.76	10.57	35,472.92	101,988.84
Loddon	Low	527	0	0.00	5.18	2,729.86	-2,729.86
Vic-Murray	High	318813	11.8	3,761,993.40	13.04	4,157,321.52	-395,328.12
Vic-Murray	Low	25489	5.36	136,621.04	4.96	126,425.44	10,195.60
Ovens	High	70	48.45	3,391.50	13.04	912.80	2,478.70
Total				6,582,672.07		7,462,846.31	-880,174.24

*Different prices for Broken and Goulburn systems. Have used Goulburn on the assumption that more is held there because there is more capacity.