

Dr John Hamill
Chief Executive Officer
Essential Services Commission
Level 37 / 2 Lonsdale Street
MELBOURNE VIC 3000

20th April 2016

Dear John,

I would like to thank the ESC for the release of their draft determination and the many significant decisions that it made in this determination. In particular I would like to praise the ESC for:

- rejecting GMW's single price proposal; and
- removing \$25M of inefficient expenditure from GMW's Water Plan.

To my knowledge adjustments of this significance have no recent precedent.

Revised Pricing Proposal

While the ESC has rejected GMW's single price proposal, it has left the door open for GMW to make a revised proposal to socialise prices for five of the gravity irrigation districts and exclude the Shepparton Irrigation District (Goulburn-Murray Water Price Review 2016 — Draft Decision pg viii).

As GMW has failed to engage with its customer base on its revised proposal, the following addresses the potential for GMW to make this proposal and subsequently considered by the ESC.

GMW has failed to make a case for change

GMW was provided with the opportunity to make a case for tariff change and provide information in order to support that change. GMW has made several claims in making its proposal, which may lead the casual observer to conclude that the socialisation of price is a grand new concept, a 'silver bullet' or panacea that will solve all of GMW's efficiency and pricing issues. Unfortunately there are some significant costs to this proposal, which are not supported by customers, including; reducing transparency, reducing efficiency drivers and the cross-subsidisation between irrigation districts.

This socialisation of price is not supported by GMW's customer representative committees or broader customer base; it has to be one of the most unpopular reforms ever proposed by GMW. The ESC, in making its assessment, was unable to place any material reliance on the information supplied by GMW, or support their reasons for change. With little more than two months until new tariffs would be applied, now is not the time to consider a revised proposal from GMW.

GMW has also had the Indec report since January and the Draft Determination was made in March. In this time it has not prepared any further information to substantiate its proposals (for public consumption), or engaged with its customers in any meaningful way on potential new proposals.

Any revised plan and substantive data to support pricing proposals in the GMID must also be viewed sceptically so late in the regulatory cycle. Given the short timeframes there is no real opportunity to independently audit/review the information supplied, nor is there an opportunity to provide comment on what will ultimately be supplied by GMW.

All of this change is being proposed at a point of significant upheaval in the history of GMID and GMW. The modernisation program has been plagued by ineffective planning and poor project management that has resulted in the original project outcomes being placed under threat. The mid-term review provides no guarantees of what the GMID will look like in the future and it would be imprudent to implement change at this time of uncertainty.

The decision to reject GMW's proposal has been made and should be upheld by the ESC.

Consultation

It is widely considered that the regulatory model is heavily skewed in favour of the regulated entities. In comparison to the regulator and their customers; regulated entities have a considerable amount of resources at their disposal, while controlling all of the information relevant to the assessment of their proposals. In particular, spare a thought for the typical GMW customers who often work from dawn until dusk, generally possessing lower levels of education (than those employed by GMW or the regulator) and have little time to examine lengthy regulatory documents, prepare submissions or attend public meetings. I have prepared this submission to represent the many views expressed to me, who are unable to do so themselves.

In considering why consultation is so vitally important, particularly in this case, I quote Dr Ron Ben-David (2015) *In whose long term interest is customer consultation by water authorities?* Institute of Water Administration 2015 (20 November 2015):

“For all the reasons there may be for not consulting with consumers, there is one over-riding reason for consulting them. There is one cause above all others for economic regulators requiring deep and committed consultation between regulated service providers and their customers. And that is, only customers know what is in their long term interests.”

The majority of customers have consistently provided feedback that they do not support a socialisation of costs among the irrigation districts. This has been a regular feature at public forums (both GMW and ESC) and in the consistent media attention that this issue has received. Customers know what is in their long term interests and they know that the socialisation of price is not.

GMW's response to this customer feedback has been largely to hire high price consultants in order to justify its proposals. These reports lack any true independent oversight and are full of GMW rhetoric to justify their proposals. The socialisation of price is not a customer lead reform, it is one developed by GMW that is being imposed on the customer base.

GMW has 'played the game' on its regulatory proposals, acting more like a private company, than a state owned entity. The Indec report, which forms the basis of the ESC determination, raises some significant concerns regarding GMW's cooperation during the audit, as evidenced by the following:

- Relevant data was withheld from the auditor (Indec report pg iii, pg 10, pg 18)
- Data provided by GMW was 'biased' in support of their position (Indec report – pg 10)
- GMW's arguments regarding the centralisation of costs were 'weak' (Indec report – pg 9, pg 15)
- GMW was unable to supply any data in support of their position that the modernisation program will lead to more uniform costs – it is a conceptual view (Indec report pg iv)

Of particular concern to me is the comments around the splits between 'centralised' and 'district' based costs. The statements made by Indec suggest that the cost data was gathered in incredibly incompetent manner or was wilfully misrepresented. My personal belief is, given I raised this issue (that the proportion of centralised costs purported by GMW were wrong) in the consultation phase it looks like this was a deliberate act to manipulate the outcome. This also aligns with other issues that have been identified around the Deloitte report, survey (discussed later) and comments in their public documents.

Unfortunately, the 'games' being played by GMW, are continuing right up until the end of this regulatory process. Despite GMW being provided with the Indec consultant report in January and the draft determination in March, GMW has not consulted with its customers on its new pricing proposal.

The regulatory model is underpinned by the requirement for both the infrastructure operator and the regulator to consult with customers on its proposals. While the ESC has rejected GMW's proposal for a single price and stated that the status quo is the default position on GMID pricing, it is unknown how GMW will respond.

GMW has not consulted with its broader customer base on its new pricing proposal, only providing 'draft', scant and incomplete information to its Water Services Committee Chairs and Deputies on 8 April and more broadly to Water Services Committee members after this date. Many questions raised during this process have gone unanswered. This has resulted in no opportunity for customers to provide meaningful input to this proposal, or to understand the impacts that this is likely to have on them. As a member of the Central Goulburn WSC I was told by GMW staff that I was only being 'informed' of GMW's proposal, not consulted. The timeframes provided do not allow an opportunity to engage with GMW on the revised proposals, with the requisite time required to adjust proposals (as necessary) and to go through the necessary Board approvals process.

It was made clear at the ESC public meeting that the ESC is seriously considering this proposal, even in advance of it formally being made. The ESC has been critical of ESC decisions in the past where a lack of consultation has taken place. I trust that the ESC will not consider this proposal without customers being provided with fundamental information such as; assumptions underpinning the proposal, prices, customer impacts, understanding impacts on efficiency (supposed \$850,000 in savings), etc.

The broader customer base are not experts in regulatory economics. The decision made by the ESC to reject GMW's tariff proposal for the single price would have been seen as just that – a rejection. The ESC has made mention that there may be a case to be made for rolling five of the districts together and GMW should submit a revised proposal for tariffs in the GMID. Customers would have the reasonable expectation that GMW would consult with them prior to a proposal like this being considered by the ESC. Until GMW makes its announcement, or submission, the public can not engage in informed debate on the topic. In fact, until GMW makes that decision, there should be no need to discuss it at all!

I call on the ESC to ensure that there is an appropriate opportunity for public discussion, debate and assessment of GMW's revised proposal (should it differ from the status quo), prior to making their final determination. If time does not allow for this I request that the ESC considers deferring its decision on this until the next regulatory cycle.

ACCC pricing principles

In order for the ESC to approve GMW's pricing proposal it must apply the ACCC pricing principles under the WCIR. In particular these principles include the objectives of 'user pays' and 'transparency'. The ACCC is currently in the process of reviewing the WCIR and in doing so provided some relevant commentary regarding these principles, namely:

*“that postage stamp pricing would not give effect to the objectives of the Act related to **user-pays and price transparency**, and that it would result in cross subsidisation and inefficient use of infrastructure services and water” – (emphasis added) p149 Review of Water Charge Rules Draft Advice November 2015, ACCC.*

Any socialisation of price is a form of 'postage stamp pricing'. Under these circumstances the ESC must consider that GMW has failed to pass a significant regulatory hurdle in its pricing proposal.

In the draft determination the ESC did not detail its consideration of all of the necessary criteria, only the 'user pays' principle. While all criteria need to be considered I would like the ESC to evaluate the proposals from a 'should we', rather than 'can we' approach to the pricing principles. GMW has attempted to fit in the pricing principles without the evaluation between the different options. On close examination it is quite clear that the existing proposal is inferior to the status quo, so why is it being pursued?

In the draft determination the ESC stated that:

“For the Commission to approve G-MW’s proposal of a common Infrastructure Access Fee and a common Infrastructure Use Fee, **G-MW needs to establish that its proposed fees better reflect the ACCC’s pricing principles than the existing arrangements.**” – *(emphasis added)* ESC Draft Determination pg 50

The following table considers how the ACCC pricing principles may apply by making a comparison between GMW’s pricing proposal and the status quo in further detail:

ACCC Pricing Principle	District GMID Pricing	Socialised GMID Pricing (5 & 1 price)
Promote the economically efficient use of water infrastructure assets	A higher degree of granularity in pricing results in the more efficient use of infrastructure assets. The pricing of infrastructure services will influence where irrigation businesses are located and ultimately the use of assets.	This is an inferior form of tariff due to the generalised nature it is applied. The lack of appropriate price signals will result in inefficient investments being made and cross-subsidisation between more and less efficient districts.
Ensure sufficient revenue for the efficient delivery of the services required	The main determinant for sufficient revenue is the form of price control used by GMW and the revenue recovered through fixed charges. In this case the revenue cap form of price control provides the highest degree of revenue certainty for GMW. Similarly GMW has approximately 90% of its revenue from fixed sources, making the amount of revenue at risk very small. Any change between pricing structures will make an immaterial difference to revenue certainty.	
Give effect to the principles of user pays for water storage and delivery in irrigation systems	The greatest degree of granularity in pricing achieves the principle of ‘user pays’ (to the extent that it is efficient to do so). The district based pricing model is superior to the socialised price model in this respect.	This principle is unlikely to be satisfied. The principle of user pays refers to the individual ‘user’, not a broad aggregate group (such as the GMID). This aggregation will reduce the level of cost reflectivity for individual ‘users’ in respect of water storage and delivery in irrigation systems.
Achieve pricing transparency	District based pricing is more transparent and promotes a higher degree of accountability at a local level, making changes in costs highly transparent due to the lower revenue bases of the districts (as opposed to the GMID) and associated price increases.	This principle is unlikely to be satisfied. A uniform price significantly reduces the transparency of the true costs of running the irrigation networks that support irrigated agriculture. Inefficient expenditure can be masked due to the increased size of the expenditure/revenue base.
Facilitate water use and trade in water entitlements	A higher degree of cost reflectivity will result in water and infrastructure asset investment flowing to their lowest cost and highest revenue alternatives.	The broad application of prices over the GMID will remove the price signals to coalesce in the most efficient and productive areas of the irrigation systems. The removal of this incentive may pose a barrier to efficient water use and trade.

The ESC should also consider that many of the reasons that GMW has provided to promote this reform do not actually support the ACCC pricing principles, in particular the principle of user pays. These include variance in delivery shares (as a result of modernisation), price stability (addressing fluctuations in revenues through cross-

subsidisation across districts); and impacts of drought/flood (again, addressing fluctuations in revenues through cross-subsidisation across districts). These reforms cannot be supported by the ESC when GMW states that it will meet the ACCC pricing principles, while using reasons to promote the reform that do not.

I request that the ESC provide its consideration of all the criteria and the merits of changing from one tariff to another. The ACCC has previously advised that there is no hierarchy regarding these principles. However, I do agree that cost reflectivity is a very important element, which has a high degree of importance within the customer base.

Indec Cost to Serve Analysis

The report prepared by Indec has made some crucial analysis, which the ESC has relied heavily upon in making its determination. In the report it does identify some similar costs to serve customers, based on different methods of calculation.

However, it is clearly at a 'point in time' and could merely be a coincidence. Indec points out in its report the limitations of its analysis; and it is only based on adjustments to the 2015/16 data. It also identifies data provided prior to this point as being 'biased' by the way in which it was provided by GMW (Indec report – pg 10) and that there were no forecasts available in support of GMW's position (Indec report – pg 18). This means that Indec was unable to determine if any past or future trends that are identifiable – essentially there is no evidence to support that these costs will be more uniform in the future. This is confirmed by the following statement from Indec in their report:

“Our analysis was unable to verify if the proposed tariff reforms for G-MW's gravity system are underpinned by changing operating cost structures due to the limitations in the data provided by G- MW.”
Indec report pg iv

One of the most material changes to GMW's operating environment, since the completion of the Indec report, is the mid-term review. The Indec report does not consider the impact that the mid-term review is likely to have on GMW's costs and the shape that the system is likely to take in the future. The mid-term review will not allow any certainty on future cost structures of the individual districts. It is imprudent to adopt a new tariff structure, when even GMW admits to the significant uncertainties surrounding its operating environment in the future.

Further, GMW does not know what the system will look like when this process is complete. GMW has pointed to several material variances (see GMW presentation – available on ESC website) in delivery shares that may/may not eventuate in irrigation districts. These examples have been regular features of presentations provided by GMW and they include the variation of delivery shares by as much as 30% (without a commensurate reduction in costs). Notably, the Indec 'cost to serve' analysis is per delivery share, any material adjustment to delivery shares (which GMW indicates is likely) would mean that the cost to serve would also materially change.

To my understanding the ESC is not obliged to determine the merits of a tariff reform under the WCIR by only considering the merits of the proposal in the base year (in this case 2016). Tariff reforms often endure for decades after their implementation and GMW's customers should not be locked into this reform as a result of a potential coincidence occurring in 2016. In much the same way that the ESC takes into account a broader set of data for evaluating demand forecasts, I request the ESC considers the broader set of circumstances that apply here.

The suggestion that there is a convergence of costs in 2016 is a concept that requires further investigation and justification. However, Indec have not considered two very important questions:

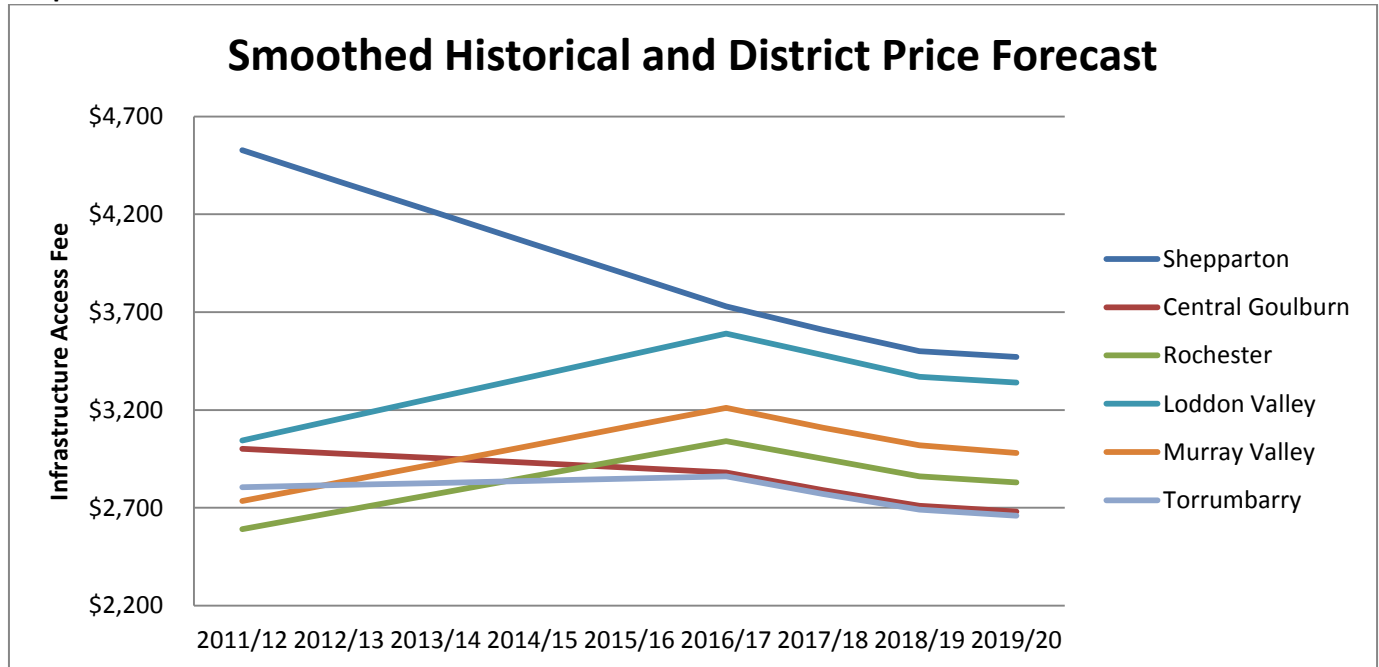
- How does the Indec data reconcile with the GMW data (GMW has supplied the district based IAF – which is an approximation of the Indec calculation)?
- Why do prices appear to be similar in 2016, when historically they have shown significant variances?

An appropriate substitute for the Indec 'cost to serve' analysis is a comparison between the historic infrastructure access fees. Both evaluate the cost to serve per delivery share and exclude certain fixed costs such

as metering, account administration, etc. While not exactly the same it should be largely cost reflective and provide a trend of the underlying costs for the systems.

Graph 1 provides an analysis of the trends since 2011/12, through to the forecasts provided by GMW for district pricing in the Final Water Plan (2019/20). The raw data was smoothed between 2011/12 and 2016/17 to determine what linear adjustment occurred over this period, this was necessary as GMW applied uniform annual price increases over this period that did not reflect the underlying costs. The full data utilised in making these calculations can be found in tables 1 and 2 of Appendix A, along with an explanation of the smoothing process.

Graph 1



The Shepparton, Central Goulburn and (to a lesser extent) Torrumbarry irrigation districts show trend decreases in the IAF over the historical/forecast period, notably only Central Goulburn and Torrumbarry show a trend to a single point. All other remaining districts show a greater volatility in their prices (peaking in 2016/17), which indicates that they are not yet on a stable price path over the medium term.

The GMW data does have an element of predictability associated with it, with Central Goulburn and Torrumbarry showing the lowest IAF in all of the irrigation districts. These two districts are the largest and you would expect that the largest (by area and usage) irrigation districts would be the most efficient due to economies of scale. This is in contrast to the Indec data, which indicates that all but one of the irrigation districts are around the same cost to serve per delivery share.

It is important to note that during the modernisation/connections program GMW has altered its normal maintenance profile. Understandably GMW does not want to spend money on channels or other infrastructure that may be decommissioned in the future. This means that instead of its normal maintenance costs it has predominantly been conducting only breakdown maintenance. This is likely to distort the true cost of running the system. This distortion will result in more uniform costs because assets at a district level are not being maintained normally. However, once the modernisation/connections program is complete it is likely that the local maintenance costs will be more accurately reflected at the district level (which would alter the outcome of Indec's analysis).

GMW was also unable to supply any data in support of their position that the modernisation program will lead to more uniform costs (Indec report pg iv). On behalf of the ESC, Indec were left to prepare the information to potentially substantiate the proposal made by GMW. This may give rise to a potential conflict of interest as the auditor should not be preparing substantive data to justify the proposals that have been ineffectively made by

GMW. The role of the auditor is to validate and review, not to justify the proposals of the infrastructure operators.

As an example, there is no reconciliation between the data provided by GMW and that prepared by Indec, as a result there is no independent oversight of the Indec data. The ESC needs to reconcile the differences between the data contained in the Indec report and the estimates of costs provided by GMW. This difference is currently unexplained and the variances are quite material. A reconciliation between these costs should occur to determine the accuracy of the estimates provided, so that such an important decision is not based on data that may be incorrect.

Newgate Research Survey

The so called 'independent' survey conducted by Newgate research was an absurd waste of customers money in a vain attempt by GMW to respond to the significant public opposition that has been received at both GMW and ESC public meetings. The ESC does not appear to have placed any value on the conclusions of this report and I support this position. Some of the critical issues with this report include:

- It had no independent customer oversight. The survey was contracted and carried out in secret, without any involvement from customers or Water Services Committees.
- Only 62 customers were surveyed – several hundred customers turned up to the ESC and GMW meetings, making these results far more significant and reliable.
- Survey distribution was more broadly based on customer numbers, placing a greater emphasis on the opinions of stock and domestic customers, rather than genuine irrigators (who pay the majority of GMW's revenue).
- Biased questions were asked of the respondents. In the survey customers were asked leading questions, promoting the positives of their proposal, without advising the alternative view. If customers are only made aware of the reasons that GMW promotes the reform this will unreasonably influence their opinion.
- Biased data was provided on the potential outcomes of the single price. The calculations contain assumptions that have not been tested or discussed with customers/ESC, including shared costs, the redrawing district boundaries and the imposition of debt on Rochester.

Even if the results of the survey were to be taken seriously it was inconclusive, with significant variations amongst customer groups and districts. However, I expect that the ESC should place a higher value on its own consultation were there was little/no support for socialisation of costs outside of the Shepparton Irrigation District at public meetings. Notably all written feedback provided by customers to the ESC, opposed GMW's proposals.

Why is there a need for change? What will this change to tariffs address?

Farmers often adopt the old adage 'if it ain't broke, don't fix it'. Perhaps an appropriate analogy for a regulator would be, if there is no benefit, don't reform it. Some of the most common concerns (which GMW purports to be addressing) include:

- Price - While customers consistently raise concerns about price, it is generally about how high it is, rather than the structure of its tariffs. To address this customer issue GMW needs to address the underlying operational and capital expenditures, rather than examining tariffs which reduce the ability of customers to examine those expenditures and ensure that GMW is accountable and efficient.
- Simplicity – GMW often promotes that this reform will increase the simplicity of its accounts. From a customer perspective the accounts will be no simpler; there will not be any less line items on the account if the reform is approved by the ESC.
- Price stability (flood/drought) – The most significant threat here is as a result of a revenue shortfall. This shortfall becomes a concern for customers when GMW attempts to raise prices to recover revenue it did

not receive under its revenue cap. This reform does not prevent price rises as a result of recovering revenue shortfalls. It actually promotes inefficient utilisation of the system. One off expenditures (due to flood damage) can also be dealt with effectively through in-house insurance annuities.

- Same service, same fee – The mid-term review has all but eliminated this prospect. The project is running out of funding and there is likely to be a greater variety of service levels in individual districts as a result.

G-MW has also promoted that a reform of its gravity irrigation fees is expected to lead to an annual operating expenditure saving of \$850 000 in 2019-20. However, there is little to no direct cost savings from adopting a single price – this is because the actual calculation of price is a bookkeeping exercise. Indeed, under a model that rolls five of the irrigation districts into one, and Shepparton being tariffed separately there will be no material cost benefit in pursuing this tariff model at all. That is because all of the records and information required to be kept to tariff Shepparton separately, would also be required at a similar level of detail in the financial systems for other districts.

As a professional who has calculated rural and urban tariffs for more than 7 years, the savings proposed by GMW do not reflect the true marginal costs between implementing the socialisation of costs and maintaining the status quo. In fact I would suggest that the real marginal cost saving is likely to be less than \$100k. I would suggest that the further productivity improvements identified by GMW as being feasible (ESC Draft Determination - pg 19) are able to be achieved without the socialisation of price.

This reform will not adequately address underlying customer concerns, or achieve any material savings to customers. I request that the ESC rejects this reform on the basis that it provides no material benefit to customers.

Adjustments to the revenue requirement

The ESC is to be commended for making the necessary adjustments to the revenue requirement to reflect the savings identified in the GMW Blueprint.

As noted in my initial submission, GMW also identified further savings of approximately \$7M (Blueprint – pg17) that they identified as 50% confident, or speculative. GMW has not committed to delivering any of these potential savings and only ever speaks about the bare minimum \$20M that was identified. I request that the ESC review all of the potential savings projects identified by GMW under the Blueprint to determine the reasonableness of the figures provided to the public and if some of those projects need to be implemented to realise further savings.

While I appreciate that there are potentially difficult times ahead for GMW and its customers; GMW is in a strong financial situation (with financial metrics in the upper bounds of the ESC targets) and still has further identified savings that have not been accounted for in this determination. While I would like to think that these speculative savings should be passed onto customers they should provide GMW with a sufficient 'buffer' to deal with the financial uncertainties that may eventuate in the future.

Further, GMW has identified that 13% of its revenue is variable in 2014-15 and that revenues have also been structured to match costs with a small percentage of revenue being variable (GMW Final Water Plan – pg 68). If this matching has been done correctly GMW should be able to match declines in its variable revenue, with variable cost reductions. Under this scenario GMW does not require an increase in its revenue requirement to address any loss of variable revenue under the cap.

It is also reasonable to note that, since the time of writing the Blueprint (2013) GMW has been in control of the Modernisation program and was best placed to be able to determine the likely efficiencies that it would derive. As GMW was in control of the project they should ultimately bare the risk of any shortfalls in efficiency, not its customers.

GMW's financial ratios (Final Water Plan p.81-82) are at the upper end or exceeding the ESC proposed guidelines for financial viability – in particular the cash interest cover ratio (which is their primary indicator) and the Internal

Financing Ratio. GMW has adopted an incredibly conservative approach to the way it runs the business and this ultimately costs the customers money. What this means is that GMW is in a strong cash position and can afford to provide price relief to its customers.

I request that the ESC maintains the adjustments to the revenue requirement to remove the \$20M Blueprint target at a minimum, while considering if further speculative savings identified by GMW should reduce the revenue cap further.

Demand

The Delivery volumes appear to have a reasonable adjustment as a result of lower carry-over volumes and the drier scenario we are currently experiencing. The ESC decision to approve the forecasts contained in the Final Water Plan appears to be reasonable.

The impact of modernisation is likely to be significant; however there is also significant uncertainty around what the GMID footprint will look like into the future. Any significant adjustments made to service points, customers and (in particular) delivery shares have the potential to result in significant impacts on customers through price.

Due to the nature of these adjustments to demand, a reasonable expectation would be that any loss of delivery shares, meters, etc. should also have a commensurate reduction GMW costs. In theory this should have little/no impact on prices or customer accounts. I request that the ESC understands the financial impact from these reductions in delivery shares and quantify the lost revenue (less savings from cost reductions – through rationalisation of the network), prior to making any adjustments to demand forecasts.

It is unclear if GMW has included in the demand forecast volumes of water expected to be returned to GMW customers at the end of the modernisation program. I request that the ESC ensures that this is reflected as water available for consumption at the end of the program.

If any further changes are proposed by GMW on demand in its revised submission then I request that the public has the opportunity to interrogate the data in its submission. Any further adjustment, without consultation, could have a material impact on customer prices without appropriate scrutiny.

Issues that have not been addressed in the Draft Determination

I note that some issues raised in my original submission have not been addressed by the ESC in the draft determination. These issues are contained in Appendix B for your reference.

Conclusion

As a state owned monopoly GMW is subject to economic regulation for a number of reasons, but the inability of the market to regulate price and investment is one of the primary reasons that regulation is required. While regulation cannot achieve true market conditions it can help achieve this partially with tariffs. One of the greatest disadvantages of a monopoly provider is that it has no competition. However, the current tariff system actually promotes competition and comparison from within, creating greater opportunities for efficiency.

The Essential Services Commission Act 2001, Section 8(1) states that:

“In performing its functions and exercising its powers, the objective of the Commission is to promote the long-term interests of Victorian consumers.”

The socialisation of price is not in the long term interests of Victorian consumers. As discussed, the socialisation of price will ultimately result in reduced transparency, reduced efficiency drivers and cross-subsidisation between irrigation districts. Nor is it prudent to propose a change during such a period of uncertainty (modernisation) in the history of the GMID.

Additionally the inability of GMW's tariff reforms to outperform (or even meet) the status quo against the ACCC pricing principles is alarming. The pricing principles are established to ensure that the long-term interests of consumers and operators are appropriately balanced and maintained.

GMW has failed to make its case that the socialisation of price is in the long-term interests of customers. I request that the ESC upholds its original decision to reject any alternate proposal and to maintain the status quo in pricing.

I also request that the ESC considers the other points that have been raised in this submission. In particular I request that the ESC incentivises GMW to perform in the advent of ongoing drought conditions, rather than providing them with significant 'buffers' that mean they do not cut costs when times are tough. Customers have been facing significant hardship over the last year due to temporary water prices and scarcity, they have had to cut their costs – so should GMW.

I welcome the opportunity to meet and present my views to ESC staff and Commissioners to fully explain and justify the position I have adopted in my submission. If any additional information is required please contact me on my mobile 0409 490 369, or at home (03) 5852 3496.

Yours sincerely,

Daniel Mongan

Appendix A

Table 1 - Historical and district price forecast

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average
Shepparton	\$ 4,527	\$ 4,690	\$ 4,879	\$ 4,797	\$ 4,454	\$ 3,730	\$ 3,610	\$ 3,500	\$ 3,470	-\$ 159.49
Central Goulburn	\$ 3,002	\$ 3,110	\$ 3,254	\$ 3,283	\$ 3,290	\$ 2,880	\$ 2,790	\$ 2,710	\$ 2,680	-\$ 24.35
Rochester	\$ 2,591	\$ 2,684	\$ 2,809	\$ 2,851	\$ 2,933	\$ 3,040	\$ 2,950	\$ 2,860	\$ 2,830	\$ 89.89
Loddon Valley	\$ 3,044	\$ 3,154	\$ 3,300	\$ 3,335	\$ 3,332	\$ 3,590	\$ 3,480	\$ 3,370	\$ 3,340	\$ 109.18
Murray Valley	\$ 2,735	\$ 2,834	\$ 2,966	\$ 3,011	\$ 3,069	\$ 3,210	\$ 3,110	\$ 3,020	\$ 2,980	\$ 94.99
Torrumbarry	\$ 2,805	\$ 2,906	\$ 3,041	\$ 3,088	\$ 3,131	\$ 2,860	\$ 2,770	\$ 2,690	\$ 2,660	\$ 11.01

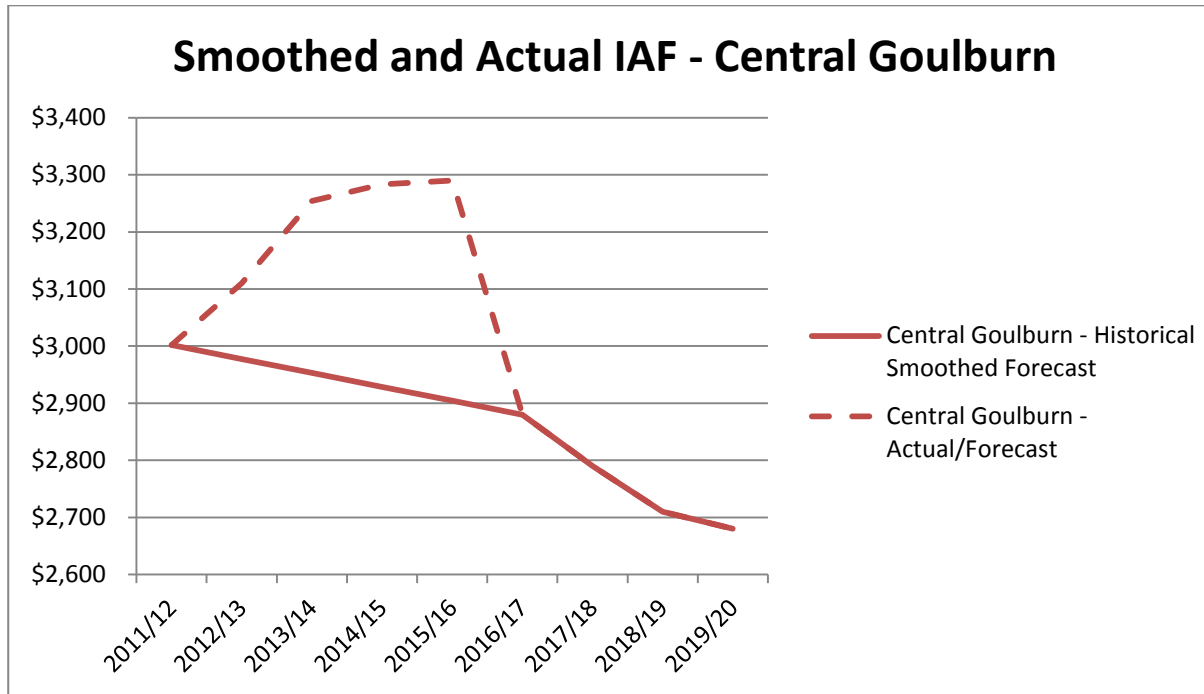
Note: The table above is based on GMW's nominal pricing between 2011/12 and 2015/16. The forecast figures (2016/17 – 2019/20) have been obtained from Table 51 (pg 92) of GMW's Final Water Plan. The average column is calculated on the variance between 2011/12 and 2016/17 to determine what adjustment occurred on average when GMW applied uniform annual price increases.

Table 2 - Smoothed historical and district price forecast

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Shepparton	\$ 4,527	\$ 4,368	\$ 4,208	\$ 4,049	\$ 3,889	\$ 3,730	\$ 3,610	\$ 3,500	\$ 3,470
Central Goulburn	\$ 3,002	\$ 2,977	\$ 2,953	\$ 2,929	\$ 2,904	\$ 2,880	\$ 2,790	\$ 2,710	\$ 2,680
Rochester	\$ 2,591	\$ 2,680	\$ 2,770	\$ 2,860	\$ 2,950	\$ 3,040	\$ 2,950	\$ 2,860	\$ 2,830
Loddon Valley	\$ 3,044	\$ 3,153	\$ 3,262	\$ 3,372	\$ 3,481	\$ 3,590	\$ 3,480	\$ 3,370	\$ 3,340
Murray Valley	\$ 2,735	\$ 2,830	\$ 2,925	\$ 3,020	\$ 3,115	\$ 3,210	\$ 3,110	\$ 3,020	\$ 2,980
Torrumbarry	\$ 2,805	\$ 2,816	\$ 2,827	\$ 2,838	\$ 2,849	\$ 2,860	\$ 2,770	\$ 2,690	\$ 2,660

Note: The table above has been adjusted between 2012/13 and 2015/16 for the average adjustment that should have occurred, had GMW calculated prices on a district basis over this period. All other data is the same as that relied upon in Table 1.

Graph 2 - Smoothed and Actual IAF – Central Goulburn



Note: The graph above shows how the data would have looked if it had not been adjusted between 2012/13 and 2015/16 for the Central Goulburn Irrigation District. This graph also demonstrates that GMW's tariffs have not met the ACCC pricing principle of 'user pays' or 'transparency' over the last regulatory period. This issue is also replicated amongst the other irrigation districts.

Appendix B

Issues that have not been addressed in the Draft Determination

Entitlement Storage Fees (ESF)

There is currently an anomaly in the pricing of Entitlement Storage Fees (ESF). Customers have an ability to conduct a transaction with GMW that would move water from the water user to non-water user category and save 20% on their ESF. As more customers become aware of their ability to conduct this simple transaction and save money this will result in material shifts of entitlements and potential revenue shortfalls for GMW.

In this situation, customers are forced to pay a fee and conduct what is essentially an artificial transaction, in order to pay the true cost for the service. This is a clear contradiction to the pricing principles set out under the WCIR. It also poses an artificial barrier to customers in the GMID paying the true cost for their ESF and is therefore economically inefficient.

To address this issue I propose that GMW start the transition of all retail ESF's to basin pricing, in consultation with its customers.

Additionally, GMW did not consult on its ESF's. No information was released to customers in the Draft Water Plan, nor was any further information provided during the consultation phase on the draft. GMW is required to provide details of customer consultation under the WCIR; and the ESC has stated that customer consultation "is an integral part of the price review" in its 2016 guidelines for the preparation of the plan. It has failed to do so in this instance and the ESC should consider if any price rise should be allowed in these circumstances.

Spill Water revenue and the impact on Low Reliability Water Shares (LRWS)

Water storage products have undergone some significant changes in recent years, in particular around the introduction of carry-over rules.

As a result of these changes, during the course of Water Plan 3, GMW derived significant revenue from the spill water charge. This revenue should have reasonably been attributed to the costs of maintaining the storages.

In speaking with several customer representatives, who were involved with the establishment of the charge, they have advised that any revenue received from this charge would be provided to Entitlement holders, as the spill water charge was unbudgeted revenue and did not reflect any additional cost of running the system.

In fact the spill water charge was deliberately set at the cost of owning LRWS, in recognition of the potential for arbitrage in the system between LRWS holders and holders of excess allocation. While I support the efficiency in avoiding arbitrage in the system, the financial compensation to LRWS has not been returned to customers as originally intended.

Broadly, the introduction of spill water and carry over is likely to have impacted on the yield and potential value of the LRWS product. There has been no shift in the allocation of costs between high and low reliability water shares, nor has any price relief been provided to any of these customers.

I request that the ESC investigate the original arrangement for the establishment of this charge and if it has been adhered to; and that the cost sharing between HRWS and LRWS is reviewed to appropriately compensate LRWS customers for the change in their product associated with spill/carryover changes.

Ongoing maintenance and asset replacement costs

GMW has identified that the irrigation network is currently undergoing significant changes. I have spoken to many irrigators who have expressed concern regarding new high cost infrastructure that is being implemented, as opposed to the low cost gravity infrastructure. In particular the implementation of connection solutions, such as the cost of low energy pipelines (pumping costs, pipeline maintenance & replacement), TCC (increased costs of weed spraying and desilting programs to make TCC work), maintenance of meters and regulators (electronics, batteries, solar panels, etc.) and the list goes on.

GMW has put in place infrastructure that may only have a useful life of 15 years (when it may have previously lasted for a century). GMW needs to seek alternatives to the current high cost/low useful life assets that are in place to

make them fit for customer purposes. We must look to the future and, as a customer, I would support the inclusion of R&D funding in the revenue requirement to achieve this end.

I request that the ESC investigates the efficiency of the infrastructure investments that are currently being made. In particular, does the capital investment and increased operational costs exceed the off-sets (savings) in other areas of the business; does this result in a net cost increase for the customers? I am concerned that the primary driver of the modernisation program is to deliver 'water savings' without a thought of the costs of maintaining the system that will be left behind.

Should these investments be deemed inefficient I ask the ESC to exclude this expenditure and the Victorian Government to fund the future costs of this infrastructure as a CSO to avoid irrigators paying for inefficient investments.