

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

16<sup>th</sup> April 2016

**RE: G-MW Water Plan – Draft ESC Decision**

Dear Dr Ben-David,

We write to express our disappointment in regards to the Essential Services Commission (ESC) draft decision regarding Goulburn Murray Water's (GMW) water prices for 2016-20.

Currently all six irrigation districts are charged a different infrastructure access fee – see below: The Shepparton District is charged up to \$1500 more per infrastructure access fee than other districts.

IAF in Water Plan	2015-16	2016-17	2017-18	2018-19	2019-20
Shepparton	\$4454	\$3399	\$3162	\$2934	\$2863
Central Goulburn	\$3290	\$3178	\$3010	\$2965	\$2863
Rochester	\$2933	\$2917	\$2900	\$2882	\$2863
Loddon	\$3332	\$3205	\$3085	\$2970	\$2863
Murray Valley	\$3069	\$3016	\$2962	\$2911	\$2863
Torrumbarry	\$3131	\$3062	\$2994	\$2928	\$2863

The ESC in their decision not to support uniform pricing for Shepparton state that:

“We consider the differences between the costs of the Shepparton district and the other districts are too large to achieve the principle of “user pays” in respect of water storage and delivery in irrigation systems.” (Pg 52) <sup>1</sup>

We believe the user pays principle has been unfairly applied in light of advice from the Australian Competition and Consumer Commission (ACCC).

The ACCC in their review of “Water Charges Rules”, November 2015 state that:

“transitioning towards the objective of user pays and the principle of full cost recovery raises difficult questions of how to deal with legacy issues and the costs of adjustments”. (Pg 40)

The Shepparton Irrigation District faces more legacy issues than any other irrigation district and none of these have been sufficiently considered by the ESC.

<sup>1</sup> Goulburn Murray Water Price Review, Draft Decision, February 2016 - <http://www.esc.vic.gov.au/getattachment/660a47ab-75c3-48cb-a643-1430a961b174/Goulburn-Murray-Water-Price-Review-Draft-Decision.pdf>

The legacy issues of Shepparton include:

**Irrigation Boundaries:**

When irrigation boundaries were determined in the 1990's the Broken Creek, despite being supplied from the Goulburn River (the Shepparton District is also supplied from the Goulburn River) was made part of the Murray Valley Irrigation District (which is supplied by the Murray River). If the Broken Creek was part of the Shepparton District, Shepparton's prices today would be \$532<sup>2</sup> less.

If this cost decrease was considered, then Shepparton's costs would be much closer to the average cost across all districts than the 22% highlighted in your draft decision. Conversely, Murray Valley's costs would no longer be within 7% of the average. It seems only reasonable that this legacy issue be given due consideration in your determination. It also seems reasonable that you state how closely a district's costs should be to the average cost across all districts for you to consider uniform pricing as appropriate – somewhere between 7% and 22% we assume.

**Modernisation of Shepparton:**

Shepparton will not receive any of the \$2 billion irrigation upgrade funding. Shepparton's upgrade is already complete and totalled around \$100 million. Unfortunately, Shepparton was modernised but very little rationalised. Only 6% of channels were rationalised as part of the project, whereas other districts will see up to 30% rationalised.

The other five districts will not only have much more money spent in them than Shepparton, but will also be able to rationalise assets that will reduce their costs into the future. Shepparton was not given this option.

The Business Case of the \$2 billion infrastructure upgrade aims to achieve an 85% efficiency level for all districts.

Perhaps the ESC would like to consider a recommendation that would see funds allocated to Shepparton to ensure rationalisation occurs.

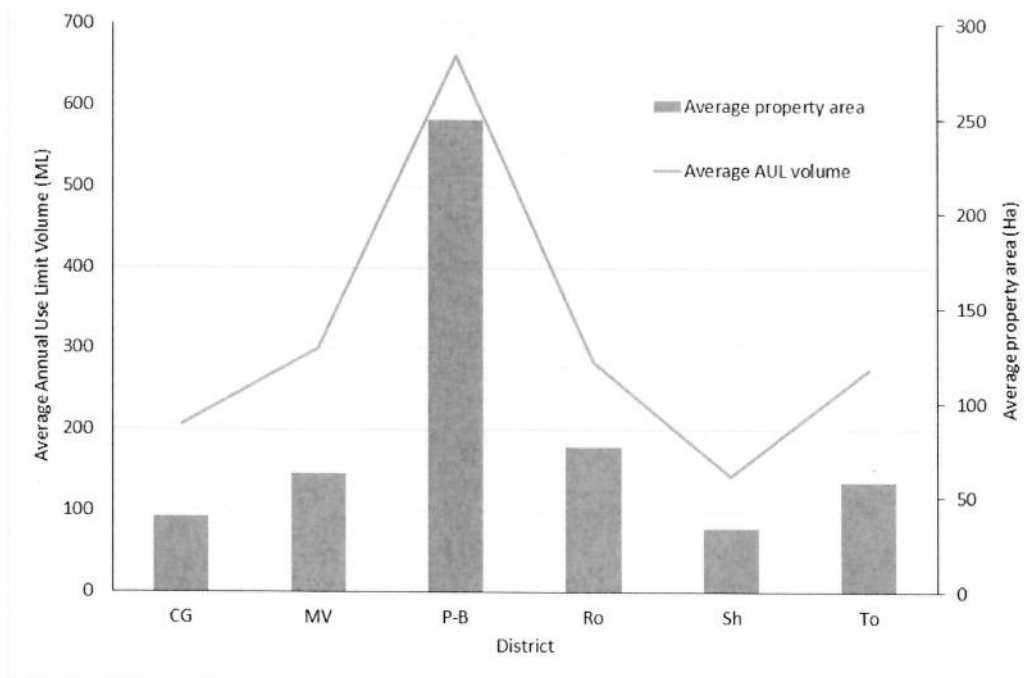
**Smaller Farms:**

A further legacy issue faced by Shepparton is farm size. Given SPC is located in the Shepparton Irrigation District, the Shepparton Irrigation District is one of the most intense horticultural regions in the GMID. Further, the district had a number of soldier settlements in Katandra and Invergordon that were 60 acre blocks. The large established horticulture industry in the district should be celebrated, yet it is being punished because of smaller block size.

As seen in the figure overleaf Shepparton has the smallest average Water Use License volume and smallest average property area of all districts.

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<sup>2</sup> Goulburn Murray Water, Review of Tariff Strategy, Final Report, Pg 6 - [http://www.gmwater.com.au/downloads/gmw/Water\\_Plans/TATDOC-4042921-v1-TARIFF\\_REFORM\\_DELOITTE\\_FINAL\\_REPORT\\_AUGUST\\_2015\\_WEB\\_VERSION.pdf](http://www.gmwater.com.au/downloads/gmw/Water_Plans/TATDOC-4042921-v1-TARIFF_REFORM_DELOITTE_FINAL_REPORT_AUGUST_2015_WEB_VERSION.pdf)



The value of horticulture is also well accepted by the Victorian Government, given their decision to provide \$22 million of funding to rescue SPC in 2014.

#### Water Removed from the Goulburn and Murray Irrigation District:

Since 1991, a total of 673 gigalitres (GL) has been removed from irrigation districts

	1991	2001	2005	2009	2010	2011	2012	2013	2014	2015	Total Removed
Cent Goulb	386	391	373	342	316	300	260	246	243	237	-149
Shepp	182	181	174	161	153	145	132	127	124	117	-65
Roch	180	188	182	167	154	143	125	120	117	113	-67
Loddon	243	230	216	196	167	154	137	130	127	124	-119
Campaspe	20	20	19	18	14	1	0	0	1	0	-20
Murray Valley	259	259	257	250	230	218	197	184	177	167	-92
Torrum	368	349	327	312	287	262	237	229	241	207	-161
<b>TOTAL</b>											<b>-673<sup>3</sup></b>

673 GL is equivalent to the removal of over two irrigation districts from the Goulburn and Murray Irrigation District (GMID). To continue to talk about water pricing by individual district becomes less and less significant.

A uniform price presents an opportunity to have a uniform price across the six districts given modernisation will be complete by 2020 and a similar level of service will be established by 2020.

<sup>3</sup> Trends in Northern Victoria Water Trade, February 2016-  
<http://waterregister.vic.gov.au/images/documents/Water%20Market%20Trends%20Report.pdf>

A move to uniform pricing allows G-MW to focus on making the whole system efficient so enough water is retained in the region and a sustainable outcome is achieved for the entire GMID.

**Inconsistent Application of the ‘User Pays’ principle:**

There appears to be an inconsistent application of the User Pays principle by the ESC. The ESC seems comfortable with Water Storage charges and domestic and stock charges yet neither meet the ‘user pay principle’ as they are not cost reflective.

Goulburn Murray Water is proposing the following for Stock and Domestic Service Point Fees:

	2015/16	2016/17	2017/18	2018/19	2019/20
Domestic and Stock	\$80	\$88	\$95	\$102	\$109
Local Read	\$300	\$312	\$314	\$316	\$317
Remote Read	\$350	\$463	\$571	\$696	\$797
Remote Read and Operate	\$400	\$561	\$714	\$859	\$997

The ESC stated that:

*“The Commission proposes to approve G-MW’s proposed service point fee structure because it would lead to greater cost reflectivity, which aligns with the ACCC’s pricing principle of promoting “user pays” principles”. (Pg 54)<sup>4</sup>*

According to GMW they have a total of 19,270 customers; almost 12,000 of those are using less than 10 megalitres. Arguably these can be considered as stock and domestic users.

It would therefore seem that for the greatest number of GMW customers, the ESC is not applying the ‘user pay principle’ with the same rigour as it does for the infrastructure access fees.

Further when compared with other water authorities supplying domestic and stock water, GMW charges are significantly less than the other water corporations.

Customers using less than 10ML	11,872
Customers using 10-49ML	2,316
Customers using 50-149 ML	2,274
Customers using 150-499ML	2,051
Customers using over 500ML	757
<b>Total customers</b>	<b>19,270</b>

The table below summarises average D&S water Bills based on the published 2015/16 price lists. It shows that:

- G-MW charges are substantially less than Coliban and GMMWaters
- G-MW district charges for 5 ML are very low compared to everywhere else
- The difference in bills in G-MW districts between 2 ML and 5 ML use is much less than elsewhere suggesting the variable charges are too low

This analysis does suggest that district D&S charges warrant a much closer examination by the ESC and should ask G-MW to produce evidence that they are cost reflective.

<sup>4</sup> Goulburn Murray Water Price Review, Draft Decision, February 2016 - <http://www.esc.vic.gov.au/getattachment/660a47ab-75c3-48cb-a643-1430a961b174/Goulburn-Murray-Water-Price-Review-Draft-Decision.pdf>

<b>Water corporation</b>	<b>2 ML D&amp;S Use</b>	<b>5 ML D&amp;S Use</b>
GWMWater	\$1677	\$9613
Coliban Water		
• Piped supply	\$1677	\$2913
• Chanel supply	\$1357	\$2551
G-MW		
• Normanville	\$346	\$1539
• Tungamah	\$204	\$1099
• East Loddon	\$244	\$976
Districts		
• Shepparton	\$479	\$621
• Central Goulburn	\$462	\$572
• Rochester	\$458	\$561
• Loddon V	\$464	\$578
• Murray V	\$466	\$581
• Torrumbarry	\$468	\$586

The basis of the estimates of the size of the Bills is provided in Appendix 1.

**Entitlement Storage Fees:**

Table 1 highlights the uniform entitlement storage charges for water users. A uniform high reliability charge for water users is \$10.57 for four of the districts and \$13.04 for the remaining two. For low reliability water users, the entitlement storage charge is \$5.18 for four of the districts and \$4.96 for the remaining two.

However when considered alongside Table two, which reflects the true storage costs that a non-water user would have to pay, the range is from \$8.16 for high reliability storage on the Goulburn to up to \$329.61 on the Bullarook system.

Clearly the other systems are subsidising the costs of Bullarook and therefore it is not a true representation of the user pays principle, however this is accepted by the ESC.

We are not proposing a change to these charges, only to highlight that the range of 7-22% of the user pay principle for infrastructure fees is not being applied with the same rigour for entitlement storage fees.

**TABLE 1:**

	Unit	Broken	Goulburn	Campaspe	Loddon	Bullarook	Murray	Ovens
<b>Water User</b>								
<b>High Reliability Entitlement Storage</b>	\$/ML	10.57	10.57	10.57	10.57	10.57	13.04	13.04
<b>Low Reliability Entitlement Storage</b>		5.18	5.18	5.18	5.18	5.18	4.96	4.96

**TABLE 2:**

	Unit	Broken	Goulburn	Campaspe	Loddon	Bullarook	Murray	Ovens
<b>Non -Water User</b>								
<b>High Reliability Entitlement Storage</b>		38.43	8.16	24.86	40.96	329.61	11.80	48.45
<b>Low Reliability Entitlement Storage</b>			4.18	15.35		199.74	5.36	

**VFF Policy Position:**

The ESC in their draft decision has quoted the VFF extensively; I thought it important to outline their policy position on uniform pricing that was adopted by the VFF Water Council in October 2015.

*“Where there are acceptable consistencies across districts a common price may be appropriate for individual services e.g.: service points, meter costs or where infrastructure has been fully modernised to a consistent standard”*

**Conclusion**

I urge the ESC to review their recommendation to exclude Shepparton from a uniform price as well as reviewing stock and domestic charges based on the comments outlined above.

Yours sincerely,



Geoff Akers



Natalie Akers

**Appendix 1**  
**Estimates of typical D&S water bills**

The size of the bills for domestic and stock customers of Coliban Water, GWMWater and G-MW are estimated using published 2015/16 price lists.

Estimates are provided for customers using 2 ML and 5 ML. In each case it is assumed the customer has one outlet.

**Coliban Water**

Coliban are currently changing their tariffs as they modernise the system around Harcourt.

Basic fees from 2015/16 price list are:

Piped supply

Annual charge	\$827.44
Volumetric charge	\$252.74 per ML
Infrastructure charge	\$160 per ML
Outlet charge	\$26.60

If customer uses 2ML year bill will be ~ \$1,677 per year

If customer uses 5ML year bill will be ~ \$2,913 per year

Channel supply

Annual charge	\$465.03
Volumetric charge	\$252.74 per ML
Infrastructure charge	\$160 per ML
Outlet charge	\$26.60

If customer uses 2ML year bill will be ~ \$1,357 per year

If customer uses 5ML year bill will be ~ \$2,551 per year

**GWMWater**

Basic fees from 2015/16 price list are:

Piped supply

Capacity charge	\$0.8667 per kilolitre
Primary meter charge	\$299.20 for first meter
Charge for other meters	\$147.08
Usage charge	\$0.9962 per kilolitre

If customer uses 2ML year water bill will be ~ \$1,677 per year

If customer uses 5ML year water bill will be ~ \$9,613 per year



## GMW

The average D&S bill for customers in the districts depends on the delivery shares held by the customer. It is assumed that a D&S customer using:

- 2 ML per year would have 0.01 DS
- 5 ML per year would have 0.03 DS

[In reality the Delivery share held by D&S customers, particularly in G-MW's irrigation districts can vary widely]

Based on these assumptions the average water bills for D&S customers supplied in the irrigation districts is shown in Table 1 and in some D&S systems is shown in Table 2.

Table 1 Estimated D&S Bills in 2015/16 in Irrigation districts

Tariff component	Unit	Shepparton	Central Goulb	Rochester	Loddon V	Murray V	Torrum barry
Service fee	\$	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Service point fee		\$300.00	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00
Storage (Headworks)	\$/ML	\$8.16	\$8.16	\$8.16	\$8.16	\$11.80	\$11.80
Infrastructure access (DS)	\$/kL/day	\$4,454.00	\$3,290.00	\$2,933.00	\$3,332.00	\$3,069.00	\$3,069.00
Infrastructure use (variable)	\$/ML	\$9.34	\$6.50	\$6.50	\$7.63	\$6.08	\$7.11
Additional service point		\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00
Average bill (ML per year)							
<b>2 ML per year</b>		<b>\$479.54</b>	<b>\$462.22</b>	<b>\$458.65</b>	<b>\$464.90</b>	<b>\$466.45</b>	<b>\$468.51</b>
<b>5 ML per year</b>		<b>\$621.12</b>	<b>\$572.00</b>	<b>\$561.29</b>	<b>\$578.91</b>	<b>\$581.47</b>	<b>\$586.62</b>

Table 2 Estimated D&S Bills in 2015/16 in Domestic and Stock Systems

Tariff component	Unit	Normanville	Tungamah	E Loddon Sth
Service fee	\$	\$100.00	\$100.00	\$100.00
Storage (Headworks)	\$/ML	\$8.16	\$8.16	\$8.16
Infra structure access (DS)	\$/kL/day	\$172.42	\$155.65	\$111.31
Infrastructure use (variable)	\$/ML	\$114.38	\$43.31	\$63.29
Additional service point		\$80.00	\$80.00	\$80.00
Average bill (ML per year)				
<b>2 ML per year</b>		<b>\$348.53</b>	<b>\$206.05</b>	<b>\$245.13</b>
<b>5 ML per year</b>		<b>\$1,542.62</b>	<b>\$1,102.58</b>	<b>\$978.57</b>

