

Mr David Heeps
Chief Executive Officer
Essential Services Commission
Level 37 / 2 Lonsdale Street
MELBOURNE VIC 3000

30th November 2015

Dear David,

Goulburn Murray Water – Water Plan 4

Thank you for the support of you and your staff during the consultation period to enable me to prepare this submission on Goulburn-Murray Water's (GMW) most recent Water Plan. The following feedback on GMW's Water Plan is provided as a concerned customer, however I am also relying on my experience in Regulatory Economics (with approximately 7 years in senior regulatory roles) and as a qualified Accountant (CPA). While I serve as the Deputy Chairman on the Central Goulburn Water Services Committee; and was formerly the Pricing and Regulatory Specialist at GMW, I am not relying on information from either of my roles there, nor do I seek to make representations on their behalf.

Overall I am disappointed with GMW's Final Water Plan and the manner in which some significant changes have been consulted and communicated. The plan contains a number of serious issues that were identified through the draft process that have not been adequately addressed in the final. These issues predominantly centre around GMW's pricing proposals, realisation of the savings under the Blueprint and GMW's consultation/communications regarding the Water Plan.

Single Price Proposal

Pricing impacts

Higher prices are being paid by the majority of customers in the Goulburn Murray Irrigation District (GMID) now. GMW has effectively been introducing the single price proposal without the support of the ESC, or its customers over a number of years. In a comparison between Table 51 (pg 92) of the Water Plan and the current price, customers in the two largest irrigation districts (Central Goulburn and Torrumbarry) are already paying 12.5% and 8.7% respectively more than what the district price should be in 2016/17 (Please see Table 1 for further detail). So, before the plan has even commenced GMW is not meeting two key pricing principles of transparency and user pays in its current pricing arrangements.

Additionally, the proposal to adopt a single price will result in the majority of customers paying higher prices at the end of the Water Plan, as opposed to maintaining the status quo in pricing. After adjusting Table 51 (pg 92) of the Final Water Plan Central Goulburn and Torrumbarry (the two largest irrigation districts) will be paying 5-6% more under the single pricing methodology. This is approximately confirmed in Table 53 (pg 93) of the Final Water Plan. However, significant adjustments were made by GMW that adversely impact the price paid by customers in Murray Valley and Rochester, without prior consultation. By removing these adjustments (redrawing district boundaries between Shepparton/Murray Valley and imposing a debt in Rochester – see Table 2) these districts will potentially pay approximately 5% more under a single price.

GMW committed to reducing costs within the organisation by a minimum of \$20M (Blueprint Pg. 17), however there has been no commensurate reduction in prices paid by the majority of customers. The only beneficiary of this reduction to date appears to be the Shepparton District (with a 2% reduction in 2014/15 and 8% reduction in 2015/16), all other areas received an average annual increase of 2.41% since 2013-14 in the Infrastructure Access Fee (IAF). Under GMW's proposal the Shepparton Irrigation district will continue to receive significant price reductions under their water plan at the expense of the other irrigation districts.

Compliance with the Water Charge Infrastructure Rules (WCIR)

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" – p149 *Review of Water Charge Rules Draft Advice November 2015, ACCC.*

GMW's single price proposal 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.

The following table considers how the ACCC pricing principles may apply by comparing GMW's pricing proposal against the status quo in further detail:

ACCC Pricing Principle	District GMID Pricing	Uniform GMID Pricing (single 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 single 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.

Issues associated with the implementation of a single price

Uncertainty

- The modernisation program is currently being rolled out and 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.
- A mid-term review of the modernisation project is currently being undertaken. This has identified significant issues around the timing and costs of delivering the project. This review is likely to materially impact how the project is rolled out in the future. In particular the mid-term review was highly critical of the assumptions

made in the original business case. I trust that the same situation will not be replicated in pricing when there is so little certainty regarding what the system will look like in the future.

- One of the fundamental premises adopted by GMW in its proposal for a single price is that customers who receive the same service should pay the same fee. However, exceptions to this presumption are rapidly starting to emerge with the implementation of pipelines (as opposed to earthen channels) with and without pumps attached to them (resulting in higher costs of operation). Further, one of the potential outcomes of the mid-term review may be that elements of the irrigation network are left in their current state. The system is changing at such a rapid rate and becoming more varied that it may even be necessary for GMW to have a higher degree of granularity in its pricing to accurately reflect the costs of providing services to some customers.

Cross-subsidisation

- A single price will result in significant cross-subsidisation between irrigation districts. Some of these variances have already been discussed in the 'price impacts' section of this document. Depending on the underlying costs of the Shepparton district the degree of cross-subsidisation could exceed \$1,000 per ML/day of delivery share that this district receives as a result of higher charges in other districts.
- The single price and cross-subsidisation will also result in a loss of local decision making by customers. Customer's money will be spent to pay for services and assets that are outside their district. This is in direct contradiction to the recommendations of the McDonald review many years ago.

Accountability

- A single price will reduce accountability of GMW.
- At a local level customers can see assets and expenditure that GMW makes, holding GMW accountable and driving price efficiency.
- Under a single price GMW will be able to account for expenditure over a much larger area that customers will be unable to fully understand and interrogate. This proposal will ultimately result in higher prices.

Cost centres

- There is no material physical connectivity between each of the irrigation districts that GMW incurs material costs – it is not a network. While some of the districts are connected by large irrigation mains and rivers, the distribution system (where most of the costs are) have no connection to each other.
- A single price is not appropriate when the services do not connect to each other or have significant cost sharing.
- Each of the irrigation areas have different strengths and weaknesses around soil types, density of customers, access to industry, asset conditions, etc. this materially impacts the cost to serve customers in individual districts and should be reflected in their price.

Pricing for the efficient use of assets

- Price is an effective tool to rationalise systems to make them more efficient. Without the ability to point to price as a potential outcome for inefficient decisions, costs will have the potential to increase over time.
- A recent example in GMW's history is the rationalisation of the Campaspe Irrigation District. If a single price was in place when the system was proposed to be rationalised a single price would have removed one of the incentives to rationalise the system; and ultimately resulted in higher costs for all (if they had stayed in the system).

The district based pricing model is superior to the proposed alternative. It meets the needs of the majority of customers – there is no need to change it.

Immaterial cost savings from the single price

GMW has advised that the single price proposal will save \$0.85M by 2019/20. However, the adoption of a single price does not save any money for the organisation or customers. 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. GMW will still have a highly complex tariff structure to administer, with more than 300 individual prices to be calculated. The removal of 5 charges (to one single price) does not achieve any material savings. Some important points to note regarding the projected savings is that:

- Only the marginal costs of calculating the additional prices should be identified as savings potential savings of this reform. \$0.85M equates to about 8 full-time staff. To suggest that this many staff are required to solely calculate the five additional district prices is ludicrous.
- GMW has not calculated district based prices since 2011/12 (every district has received the same % increase from 2012/13 onwards – except Shepparton in the last few years who have seen lower increases or reductions). If GMW has not calculated prices by district then the savings from the single price should have already been realised.
- GMW will continue to maintain a number of services that have their prices determined on a district/basin basis, which receive significantly less income than individual Irrigation Districts. The highest level of savings is actually achieved by the rationalisation of the smaller pricing entities, not the largest!

Deloitte Independent Report

I have significant concerns regarding the value of the report that has been prepared by Deloitte, at GMW's request.

I request that the ESC consider the independence of the Deloitte report, as there are potential real and apparent conflicts of interest in Deloitte's appointment. Notably page 13 of the Deloitte report states 'our conclusions are based on our understanding of GMW's tariffs and revenue recovery which has been developed over a number of engagements'. Clearly Deloitte completes a reasonable amount of work for GMW. These interactions potentially give rise to a real conflict of interest (if Deloitte is potentially reviewing/relying on work previously completed for GMW); and an apparent conflict of interest (in relation to the ongoing business arrangements that these organisations have).

Additionally there appears to be no independent oversight of the report or the process for its development.

In reviewing the report it has raised significant questions regarding the motives of GMW in preparing the report and the value in having the report completed. I note that:

- The report was issued just prior to the ESC commencing its own independent review of the Water Plan, including the single price proposal. The report appears to be an attempt to subvert the role of the ESC in making its own determination.
- The scope of the review did not allow Deloitte to consider if there were better alternatives to a single price. There are several alternative pricing mechanisms that could be put in place to address the issues identified by GMW. There are better alternatives that should have been investigated.
- The report has many qualifications where they have effectively taken GMW's statements/data as fact without auditing the information. In order to be truly independent the report must undertake reasonable tests to determine the veracity of claims that GMW has made in its proposal.

This report appears to be a waste of irrigator's funds in pursuit of an unpopular proposal by GMW. GMW should be held accountable for this and I request that the ESC consider removing the expenditure associated with this report from the revenue requirement of the current Water Plan.

GMW commentary regarding the single price

GMW has made many comments regarding the single price proposal. The following addresses some of the statements made by GMW:

- GMW has advised that "There is broad support for the irrigation tariff strategy" (p.15 Draft Water Plan). I have not met a customer yet (excluding Shepparton customers) who actually support a single price being adopted. The Weekly Times published an article (28 October 2015 – Chris McLennan) and approached all of the Water Services Committee Chairs, including Richard Anderson (Chair of the VFF Water Council) for their opinion on this issue. This reiterated that there was no support for GMW's proposal outside of the Shepparton irrigation district and that the statements made by GMW were misleading to their customers.
- GMW has identified that there are risks of 'price shocks' if we do not adopt this proposal. They have done so by the application of theory, failing to identify how would a single price solve these issues and if there are other alternatives. 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) and recovery of flood costs by one district in one year (which the ESC would require to be implemented over a number of years).
- GMW has advised that the differences between prices in the districts "are hard to validate or explain" (Final Water Plan p. 88). It seems odd that the response to this issue is to put the prices into a bigger pool, making it even more difficult to explain the changes in prices.

- “While district-based pricing allows for a discrete district basis of cost-reflectivity, it increases GMW’s costs overall” (Final Water Plan p. 88) - This statement is incorrect and misleading – there is no direct material cost increase as a result of maintaining district based pricing.
- “A uniform GMID Delivery Charge also protects customers from price shocks” (Final Water Plan p. 88) – The largest impact on price for customers is as a result of drought and flood when GMW increases prices to recover lost variable revenue. A single price does not address this. Price shocks associated with assets are able to be overcome through effective planning, or the use of other tools (such as self-insurance or annuities).
- GMW argues that there is a high degree of centralised costs (Final Water Plan p. 88), by the same token it also points to the Shepparton Irrigation district that was modernised, not rationalised, resulting in a higher intensity of infrastructure (and ultimately cost). This makes the Shepparton Irrigation system fundamentally different in its cost structure and yet another reason why the socialisation of price is inappropriate in the GMID. If this investment was made inefficiently, then perhaps the shareholder (Victorian State government), should be made to bear the cost of this error, rather than hard working farmers.
- GMW has advised that “around 65% of the gravity irrigation system operating costs, which reflect 85-90% of customer prices, are incurred or shared on a system wide or multiple district basis” (pg 88) in the Final Water Plan.
 - If this was all overhead this would be a big issue, fortunately GMW has combined centralised services (like the weed spraying unit) with the corporate costs (like GMW management) to make it look like a lot of costs have nothing to do with the local area.
 - Each of the areas use these services on a differing basis. For example weeds may be a huge issue in Shepparton and not as much in Central Goulburn. It is fair and reasonable that Shepparton (in this case) should pay a higher proportion of the weed spraying unit because they use them more. Similar arguments can be made for maintenance, construction, planning, etc.
- GMW’s systems are sophisticated enough to accurately split these costs. If you do not account for these fees at a local/district level then GMW will fall into the habit of setting budgets at the top and spending the money to fill the budget. GMW needs to determine its costs from the bottom up to ensure they are being efficient.

GMW has adopted a common sense approach on many of the tariff proposals it has been developing in recent years, taking appropriate pauses and listening to the feedback of customers. However, GMW appears to have blindly proceeded with this proposal, without significant customer support.

Recommendation

I request that the Essential Services Commission reject GMW’s proposal for a single price for the IAF an IUF in the GMID and maintain the status quo of basin pricing. Further, that the prices (contained in table 51 of the Final Water Plan) are reworked, with the consultation of the Water Services Committees, to remove the adjustments made by GMW, as these have not been consulted on.

I request that the ESC makes a preliminary determination on the single price as soon as possible. Should the ESC support this position GMW will require additional time to make the appropriate calculations and conduct the customer engagement necessary to produce prices in 2016.

General Pricing Issues

Non-modernised customers

There is an emerging ‘second class’ of irrigation customers. During GMW’s public consultation and various other irrigator forums I have consistently heard stories from customers that have been disadvantaged as a result of the modernisation program. These customers have been waiting years, through no fault of their own, to be connected to the irrigation network.

This situation can have a significant impact on customers as they often receive little of the benefits associated with the modernised system (such as improved delivery times, flow rates, etc.) and are often using infrastructure that is in poor condition (as it is not being maintained in the advent that it is decommissioned under modernisation).

Additionally customers who have not been modernised are unable to access the same incentives as modernised customers. These incentives include the ability to access funding/grants for whole farm plans, or on-farm efficiency grants. This places these customers at a competitive disadvantage and I have seen and heard how this is impacting the wellbeing of these customers.

While the application of the higher Service Point Fee for modernised outlets goes some way to address the differing service levels between these customer groups it appears to be insufficient. I request that the ESC examines this inequity and look at what incentives can be placed on GMW to address these issues and appropriate levels of price relief for customers who receive a sub-standard service.

Service Point Fees (SPF)

GMW stated in its Blueprint (p. 27) that "Any increase in revenue from higher Service-Point Fees will be offset by a corresponding decrease in revenue from Infrastructure-Access Fees. At a whole-of-business level, a \$1 increase in the Service-Point Fee generates a reduction of between \$0.60 - \$1 in the Infrastructure Access Fee". GMW is increasing service point fees without a commensurate decrease in the majority of the IAF's - the only beneficiary appears to be Shepparton. So while some customers will see their SPF increase to over \$1,000 they will not receive any benefit through reduced IAF.

The Service Point Fees are also very high and will exceed \$1,000 for each service point by the end of the Water Plan period. The Service Points are not fit for purpose, costing too much to maintain and replace. Unfortunately this is only the tip of the iceberg as the proposed \$1,000 fee only covers the operational costs – not the capital replacement when the meters start to wear out!

The proposal, in its current form, also has the potential to severely impact those customers who have a significant number of service points on their property through no fault of their own. While I appreciate that price should be used as a tool to rationalise meters, some customers have a number of meters that are unable to be rationalised, which is largely attributed to GMW being able to efficiently run the system. This is because the irrigation system was set up based on the topography of the land (to gravitate supply) and did not necessarily respect title boundaries. This has meant that some customers have twice as many meters as they reasonably should (one either side of the channel) and they should not be penalised for this.

Similarly I have experienced (and been told by other customers) that the meter that has been installed on their property has been installed for the operational requirements of the system. Customers who have no choice regarding the functionality of the service point provided to service the property should not have to pay the fee for a higher functionality meter. I know (from my own experience as a customer) I was told that I had to have a remote read and operate meter as they needed it to support the automated system (TCC).

Additional costs to run the system efficiently should not be on the Service Point Fee charge, instead it should be recovered through the IAF. The ESC should consider the implementation of a base service point fee and providing relief to those customers adversely impacted by GMW operational requirements.

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.

Forecast Savings

GMW has failed to deliver where it matters to customers – price. In the Blueprint document (p.17) GMW committed to reducing its costs by \$20M by 2018/19. At this point (Blueprint document p.17 – figure 8) approximately \$12M of ongoing savings should have already been achieved by 2015/16. From 2012/13 (Blueprint released April 2013) to the recent prices set for 2015/16 there has been no price reductions in the Infrastructure Access Fee (excluding Shepparton) and significant increases in Service Fees and Service point fees.

According to the Blueprint (p. 13) GMW's costs in the GMID were approximately \$60M in 2012/13. There should be a significant reduction in this figure if it was making progress. The revenue requested to fund irrigation and drainage in the Final Water Plan is still approximately \$60M (Final Water Plan 5.3.5 p.43) – there is no measurable savings here.

GMW may argue that reductions have been achieved in corporate costs or overheads within the organisation – this would also be incorrect. In the Final determination made by the ESC for the 2013 Water Plan (p.28) the approved efficient operating expenditure set for 2013/14 was \$97.64M. The forecast operating expenditure for each year of the Final Water Plan (p.43) is approximately \$100M for each year of the Water Plan. There are no savings that are identifiable here.

There is no evidence to support that any savings have been made by GMW in their Water Plan and there is no flow through to price for the majority of customers. GMW has self-identified that some of their expenditure is not prudent and efficient through the Blueprint document. I request that the ESC adjust the revenue requirement to remove the \$20M target at a minimum.

Additionally 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.

Capital Expenditure

GMW have been unable to meet historic targets, resulting in a shortfall in expenditure of \$11.3M (Final Water Plan p.48). Customers are required to pay for the interest and depreciation on these assets during the Water Plan period on the assumption that they will be delivered. This equates to approximately \$1M to \$2.5M that customers have collectively provided to GMW that they did not need to.

The ESC should reduce GMW's capital expenditure budget to a level it has proven it can deliver.

Capital works include funding for channel remodelling (Final Water Plan pg. 52) and other works potentially attributable to the modernisation program. I request that the ESC considers how much of these works are associated with having the system in a state that modernisation is able to function (and therefore attributable to the modernisation program – not irrigators). These costs should be borne by the modernisation program as it appears that the program will not provide the quality of channels expected by customers when modernisation is completed.

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 investigate 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.

Consultation processes

I strongly feel that the consultation process that has been conducted by GMW is inadequate and heavily biased towards their proposals. Customers are being asked to comment on some very significant changes without appropriate information to support their decision making process. For example – customers are being asked to provide feedback on moving from a district based pricing methodology to a single price. Customers have only been provided with the GMW version of the proposal and not a balanced point of view (such as the inclusion of the points raised in the 'single price' discussion above).

In order to make an informed decision customers should be provided with the prices that would apply to them if a single price is not adopted. However this information was not provided until the Final Water Plan was issued (with significant adjustments) and it is contained at the back of the document, where it is unlikely to be noticed by a typical customer. Further G-MW's summary documentation makes no/little mention of the adverse pricing implications on this proposal.

I expect that customers would behave rationally if given the appropriate information to make a determination on this issue. In my experience, price is one of the most common concerns for customers and many will either support/reject a proposal based on if they are better/worse off financially as a result. As most customers are financially worse off in adopting the single price proposal, I expect if customers were asked to support/reject the proposal, most would reject it on this basis alone.

GMW's actions would suggest that it had little intention of engaging in a discussion on Single Price in the Water Plan. The reality is that it has already started to reduce the charges for Shepparton District customers since 2014-15, while artificially holding the prices of other districts (such as Central Goulburn and Torrumbarry) higher to converge them to a single price.

GMW's consultation on the Water Plan was flawed from the beginning, in its Draft Water Plan (p. 15) it states that "A mail out [will be sent] to customers inviting them to attend public meetings to discuss the 2016 Water Plan proposals." These meetings commenced on Monday 13 July and many customers did not receive any communication from GMW (myself included) prior to these meetings commencing.

Following the end of the consultation process on the Draft Water Plan GMW issued a letter to all customers regarding this process. It made several claims that give pause for concern and warrant further investigation by the ESC. This included:

"Overall, gravity customers understood the rationale for the proposed transition to uniform Goulburn Murray Irrigation District (GMID) Delivery charges... "

Of the customers I have spoken to, many do not understand the proposal made by GMW, or the impact it could have on them in full. Insufficient information was provided to customers in the draft and subsequent consultation period to enable them to provide an informed opinion, some of which has not been provided until the final water plan document. This importantly includes what prices would be under a district based approach to pricing.

At the public meeting I attended in Kyabram, most customers advised that they did not understand the proposal and needed more information, or that they opposed the move to a single price.

And following on from above

"... and that mostly accepted the proposed change."

This statement is misleading. The majority of feedback that the ESC has received has been in opposition to the single price being adopted. The Weekly Times published an article (28 October 2015 – Chris McLennan) and approached all of the Water Services Committee Chairs, including Richard Anderson (Chair of the VFF Water Council) for their opinion on this issue. This reiterated that there was no support for GMW's proposal outside of the Shepparton irrigation district and that the statements made by GMW were misleading to their customers.

Additionally, in the Final Water Plan (p. 56), GMW even states that "The single tariff (GMID delivery charge) issue is a major concern", in reference to a day-long forum with WSC members. However, most customers would not have seen or been aware of this, as it is not mentioned in the letter and is contrary to the statements made by GMW.

GMW also posted videos of John Calleja (MD) and Craig Reynolds (Chair – Shepparton WSC), supporting the single price proposal on their website. I am extremely concerned that GMW selected the only WSC Chair in the GMID to promote its plan, when all of the others were openly opposed to the proposal. Such actions by GMW diminish the roles of the WSC's and ultimately the customers that they seek to represent.

I believe that the statements made in the letter and generally by GMW are likely to have actively discouraged customers from engaging in the approval process for the Water Plan. I would appreciate it if the ESC could investigate this matter to determine if GMW has acted inappropriately in providing this information to its customers, which has the potential to bias the regulatory process on one of its most significant issues.

Financial Ratios

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.

Demand

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 impact of modernisation is likely to be significant. It would be good to see Table 33 (p.72 Final Water Plan) broken down by district, with a comparison on % modernisation completed.

GMW should also advise if there is a financial impact from these reductions in delivery shares and quantify the lost revenue (less savings from cost reductions – through rationalisation of the network).

GMW needs to include in the demand forecast the volumes of water expected to be returned to GMW customers at the end of the modernisation program.

Revenue Requirement

In the Final Water Plan I was unable to determine if GMW under/over recovered the Revenue Cap approved in Water Plan 3.

I request that the ESC makes this information available in its upcoming determination.

Rebalancing/Annual adjustment constraints

The current variances to the basin pricing methodology in the GMID (see Table 1) raise significant concerns regarding the ability of GMW to adjust its pricing methodology without the approval of the ESC, or GMW customers.

Unless specific tariff reform is approved by the ESC the rebalancing constraint should be set at a lower level, or on an approved trajectory, with established principles for adjustments. The current 10% constraint appears to be set at an arbitrary level, without reference to risks face by GMW, or its customers.

Without tight constraints GMW loses an incentive to reduce costs during difficult times, something that most irrigators are familiar with doing.

I request that the ESC review the processes/constraints of the annual adjustments to determine their appropriateness going forward.

Conclusion

GMW has failed to listen to its customer representative groups and its customers on one of the most significant changes to pricing in GMW's history. Customers have provided consistent feedback to the ESC that customers and their representatives do not support the proposed plan for a single price (in the majority) for a number of significant

reasons. This is despite a concerted and questionable campaign by GMW to convince the customer base otherwise, which has failed to yield meaningful results outside of the Shepparton Irrigation District.

These changes fail to meet the pricing principles established under the WCIR by the ACCC and should never been a central component of GMW's Water Plan, particularly in light of the uncertainty regarding the modernisation project. Unfortunately this has meant that more time has been spent looking at pricing proposals than the underlying impacts of modernisation and costings provided by GMW, which will have a significant impact in the future.

There are also several other inconsistencies/anomalies that have arisen as a result of modernisation and the adjustments made to carry-over rules. While GMW has been made aware of these issues they have failed to address them in their plan.

The ESC must critically evaluate the operational and capital expenditures proposed by GMW. As discussed, GMW has already self-identified a significant amount of savings projects that have not necessarily translated through to a reduced revenue requirement. GMW has failed to deliver on aspects of these and must be held accountable. While GMW's intent may be to pass on the savings, it is under no obligation to do so unless it reflected in a reduced revenue requirement and I request that the ESC reflects this in their determination.

Above all GMW must be held accountable to its customers and the ESC.

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 xxxx xxx xxx, or at home (xx) xxxx xxxx.

Yours sincerely,

Daniel Mongan

Table 1**Variances between current prices and GMW estimate of basin pricing**

	2015/16 (current)	2016/17 (WP – Yr 1)	\$ Variance	% variance
Shepparton	\$ 4,454	\$ 3,730	-\$ 724	-16.3%
Central Goulburn	\$ 3,290	\$ 2,880	-\$ 410	-12.5%
Rochester	\$ 2,933	\$ 3,040	\$ 107	3.6%
Loddon Valley	\$ 3,332	\$ 3,590	\$ 258	7.7%
Murray Valley	\$ 3,069	\$ 3,210	\$ 141	4.6%
Torrumbarry	\$ 3,131	\$ 2,860	-\$ 271	-8.7%

Note: The table above is based on GMW's raw data in the Water Plan. Significant adjustments were made by GMW to improve the position of Shepparton and worsen the position of Murray Valley and Rochester. If these were adjusted out it would materially change the data for these districts (see Table 2)

Table 2**Infrastructure Access Fee under district pricing (approximate) (\$2015/16)**

	2015/16	2016/17	2017/18	2018/19	2019/20
Shepparton	\$ 4,454	\$ 4,262	\$ 4,142	\$ 4,032	\$ 4,002
Central Goulburn	\$ 3,290	\$ 2,880	\$ 2,790	\$ 2,710	\$ 2,680
Rochester	\$ 2,933	\$ 3,040	\$ 2,950	\$ 2,860	\$ 2,830
Loddon Valley	\$ 3,332	\$ 3,590	\$ 3,480	\$ 3,370	\$ 3,340
Murray Valley	\$ 3,069	\$ 2,910	\$ 2,810	\$ 2,720	\$ 2,680
Torrumbarry	\$ 3,131	\$ 2,860	\$ 2,770	\$ 2,690	\$ 2,660

Note: Adjusted to better reflect the status quo, \$532 added to Shepparton and \$300 deducted from Murray Valley to reverse change to district boundaries (per Deloitte report). No adjustment made to Rochester, but one should be made for the mystery 'debt' - unable to quantify, as no data provided.