

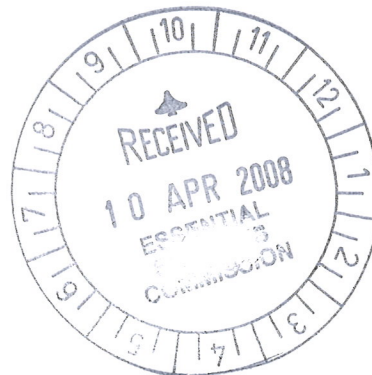


## Northern Grampians Shire Council

8 April, 2008

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Mr Greg Wilson  
Chairman  
Essential Services Commission  
Level 2, 35 Spring Street  
MELBOURNE VIC 3000



Dear Mr Wilson

### **DRAFT DECISION ON GWM WATER PLANS**

The following submissions of the Northern Grampians Shire are made in respect of the Authority's Draft Decision on the plans of GWM Water:

On 8 October 2007, 16 regional urban and rural water businesses submitted Water Plans to the Commission for assessment. (iii)

The document submitted by GWMWater to the Commission on 8 October 2007 was not a Water Plan because it did not meet mandatory requirements, particularly the inclusion of water prices proposed by the regulated entity for the five year duration. GWMWater has not submitted a Water Plan to the Commission by the required date.

For a number of businesses the Commission considers that it requires further information or justification before it can approve the proposed tariffs. In response to the Draft Decision these businesses are required to provide additional information in further support of those tariffs or propose amended tariff structures that would alleviate the Commission's concerns. A number of submissions have raised concerns about the allocation of costs between residential and non-residential customers. In most cases charges for large non-residential customers have been negotiated on a case by case basis and are reflected in long term contracts. (xxii)

GWMWater announced, in its letter of 8 October 2007 to the Commission, draft water price increases ranging from 5% to 81.3% for year one, acknowledging that the Essential Services Commission will need to be satisfied that what is proposed is affordable to the Region. GWMWater subsequently proposed real compound price increases for the subsequent years of the period.

Proposed price increases ranging from 5% to 81.3% and producing revenue increases of 17.1% for year one (2008) raise the question of affordability. This question has been canvassed by RMCG as contractors to the Wimmera Development Association in a September 2007 report.

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The conclusion is that, owing to drought and debt, "farmers have a greatly reduced capacity to contribute to the increased cost of the pipeline and indicates that they will also have little willingness to contribute, if not outright opposition and resistance." That conclusion was fully supported by those farmers present at GWMWater's presentation of the Draft Water Plan and this Shire has seen much subsequent evidence.

The Shire publicly addresses the affordability of Council rates at least once per year. Part 8 Division 1 of the *Local Government Act 1989* refers. In recent years, this Shire and neighbouring Shires have held the average rises in rates to 5% per annum largely because ratepayers are unable to afford higher rises. To raise rates more would have invoked more applications for waiver of rates or charges on the grounds of financial hardship (section 171 of the *Local Government Act 1989* refers). A December 2007 report to the Municipal Association of Victoria showed that Council rates account for 0.92% of household expenditure State wide. The Shire submits that water price rises higher than 5% per annum in 2008 will not be affordable by many customers in this Shire.

The Draft Decision of the Commission has addressed the question of GWM's costs and has adjusted upwards (by a crude calculation limited to the estimated future weighted average cost of capital) the revenue required. The Commission does not appear to adequately address the issue of affordability to customers.

A number of businesses have also proposed significant price increases for particular services or tariff components over the regulatory period. These proposed tariffs changes are likely to result in significant impacts for particular customer groups. (xxiii)

Taking into account the price of on-farm reticulation and storage assets (pipes, tanks, troughs etc) essential to the success of the Pipeline Project will add approximately another \$100m to the \$688m WMPP cost announced by GWMWater. This extra cost is allocated in the WMPP directly to GWMWater customers and is a cost customers must bear before any water or benefit flows. The customers are also obliged to bear the cost of filling those on-farm channels which are to be filled, but the extent and the cost are not yet defined. The customers are all in drought-declared areas, all are eligible to apply for Exceptional Circumstances assistance, many are bearing record debt burdens (\$400,000 average per farm at June 2007) and few will find these capital costs affordable. Clause 14(a)(vii) of the WIRO refers.

There is a further aspect of the draft tariff to which a resolution of the Northern Grampians Shire Council on 27 March 2008 refers. The resolution requires me to write to the Commission regarding two related proposals of GWMWater. The first is the proposal that GWMWater will levy a water rate on a landholder whose land is adjacent to the Wimmera Mallee Pipeline. The second is that the pipeline will extend to land not previously served by the channel system.

It is unreasonable that a utility service provider may consider a landholder “a customer” and levy a fee on the ground that a pipeline is adjacent to their land.

Rural water rates have been levied in the past to those properties connected to the channel system on a per farm basis, regardless of whether the water is delivered or not, and the charge for water from channels has not been metered. The Wimmera Mallee Pipeline will pass properties which were not previously customers of GWMWater's channel supply, because of changes in route and because of the extension of the pipeline network. Many of the landholders of these properties have developed cropping, grazing or other farming businesses necessarily independent of the supply of services from a Water Authority. It would be entirely unfair to start charging people who over many years, and at great expense, have built up their own water supply systems – catchment dams, bores, troughs, pipes, windmills, pumps etc. – just because it is proposed to take a pipe near their property. But that is what GWMWater has proposed.

In Melbourne, there are many streets in which two broadband cables run. Are landholders in the street customers of both Optus and Telstra, whether or not their land contains a house, whether or not they opt to purchase information content services from one or both carrier? Of course, they are not. We ask that the Commission does not permit the regulated entity to charge landholders for any 'service' other than the supply of water.

Given that businesses are now able to compel certain customers to take up recycled water services, the principles outlined in the 2005 review may no longer be appropriate. In particular, the principle allowing businesses to maximise revenue from recycled water services should no longer be applied. Therefore the Commission is proposing that the principles be amended to ensure that recycled water prices are set so as to:

- have regard to the price of any substitutes and customers' willingness to pay
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand) and
- include a variable component.

In their Water Plans, the majority of water businesses proposed to continue to use pricing principles to determine charges on a case-by-case basis for large unique or non-residential customers. However, a number of businesses have not amended the proposed pricing principles to reflect the removal of the requirement to maximise revenue. Other businesses failed to indicate how they would set recycled water prices over the regulatory period. In response to the Draft Decision these businesses are required to reflect the Commission's proposed pricing principles. (xxiv)

Council supports the Draft Decision of the Commission to require prices to be set for recycled water. The supply of recycled water is a function of (some) Water Authorities. The product is clearly a substitute for potable water for some customers. The service should be priced and the price of the service should be regulated in the same way as the price of potable water.

**New customer contributions**

In certain circumstances new customers may be required to make an upfront contribution to the costs of connecting to a water business's existing water, sewerage and recycled water networks. Existing non-serviced property owners are also required to make upfront contributions for the cost of connection. Water businesses can also levy a new customer contribution that will recover the financing costs associated with bringing forward the provision of shared distribution assets.

In their Water Plans, the majority of businesses noted their support for the Victorian Water Industry Association proposal for levying new customer contributions based on water use and efficiency. The Victorian Water Industry Association proposal is to base the scheduled charge for new customer contributions on the potential impact on future water demand of the new development, generally by using lot size as a determinant. Essentially there would be three levels of contribution:

- a minimum \$550 per lot per service for water, sewerage and dual pipe recycled water (total \$1,650 per lot) for developments designed to have minimum impacts on future water demand
- \$1,100 per lot per service for water, sewerage and dual pipe recycled water (total \$3,300 per lot) for water sensitive urban developments which will require further investment in infrastructure within a six year period
- \$2,200 per lot per service for water, sewerage and dual pipe recycled water (total \$6,600 per lot) — for developments designed in such a way that properties will create demand for water resources over and above high-density, water efficient homes.

The Commission is proposing to approve the Victorian Water Industry Association proposal on the basis that the proposed scheduled charges provide customers with price signals promoting sustainable water use. (xxv)

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VICTORIA  
2008 WATER PRICE REVIEW  
DRAFT DECISION  
EXECUTIVE SUMMARY XXVI

For the reasons submitted, we ask that the Commission does not permit the regulated entity to charge landholders for any 'service' other than the supply of water.

The Commission must also be satisfied that prices provide appropriate signals about the costs of providing services and incentives for sustainable water use and take into account the interests of customers. (2)

The market signals provided by water prices, both current prices and those proposed in the Commission's Draft Decision, are not the signals which are appropriate to the responsible use of water. State law requires the pricing of water to be cost-based and not based upon the market laws of supply and demand. Because water prices are not determined by the market, controls on consumption currently extend to rationing and water restrictions. Our current point is only that the Commission cannot reasonably be satisfied that water prices provide appropriate incentives for sustainable water use because State law requires water to be priced on the cost of supply.

a GWMWater's total CO<sub>2</sub> emissions are projected to increase 252 per cent as a result of the Wimmera Mallee Pipeline coming online. GWMWater is aiming to reduce CO<sub>2</sub> emissions resulting specifically from energy consumption by 15 per cent for each year of the regulatory period through the purchase of green power and other offsets. (16)

If landholders within GWMWater's territory may not buy water from other Water Authorities, the Shire submits that reciprocity must apply. GWMWater should be obliged by a decision of the Commission in respect of the period 2008-2013 (during which carbon trading commences) to buy its carbon credits from its customers.

GWMWater stated that as a result of the reduced water allocations and increased water restrictions, it will incur an estimated overall loss of revenue across the current regulatory period of \$5.2 million. While its Water Plan stated that the business intends to recover the foregone rural revenue (through the revenue cap) it does not state explicitly that it intends to recover the foregone revenue for the urban side of the business. Through investigating the templates, the Commission established that GWMWater intends to recover both the rural and urban foregone revenue, amounting to \$1.2 million and \$4 million respectively. (94)

GWMWater's statement regarding its estimated loss of revenue is hypothetical. GWMWater has made assumptions regarding what the total use of water would have been in the absence of reduced water allocations and increased water restrictions. Those assumptions are not explicit and GWMWater has not addressed the reduction of water use which occurred because customers voluntarily economised because supply was short.

Is this \$4m the price of water that GWMWater says urban customers would have used if they could have watered their vegetables with a hose instead of a bucket?

The Shire asks:

- that the Commission requires GWMWater make its assumptions explicit; and
- that the Commission does not permit the regulated entity to charge customers for water which customers did not buy or use.

The Commission is comfortable with GWMWater recovering any foregone revenue from the rural business through the revenue cap, as established in the previous review. With regard to the lost revenue from the urban business, the Commission is of the view that GWMWater would not become financially unviable if it was not able to recover the foregone revenue. (96)

Is the \$1.2m the price of water that GWMWater says rural customers would have used if their dams had been filled by channels? Channel runs were cancelled by GWMWater because they would have lost somewhere between 80% and 100% in seepage and evaporation. The water supply available for channel runs in 2007-08 was depleted by the losses incurred by GWMWater channel runs in previous seasons. A channel run in 2007-08 in some cases would not even have reached many customers.

The Shire asks:

- that the Commission requires GWMWater make its assumptions explicit; and
- that the Commission does not permit the regulated entity to charge customers for water which customers did not buy or use during 2007-08.

The "Grampians Wimmera Mallee Water Water Plan 2008-2013" reflects, in the water prices proposed, the cost blowout in the WMPP. But the "Water Plan" should also take proper account of the revenue brought forward by the accelerated construction of the WMPP. The accelerated construction had the desired effect of greatly improving the benefit/cost ratio of the WMPP largely by advancing the resultant benefits including the revenue stream. This factor hugely outweighs the higher costs incurred by accelerating construction. The Shire submits that the water prices for all years of the Water Plan must reflect the improved revenue stream to GWMWater resulting from the early completion of the WMPP.

The "Grampians Wimmera Mallee Water Water Plan 2008-2013" announced a process to avoid costs to GWMWater of some reservoirs and infrastructure no longer essential to GWMWater's water supply role.

The Shire submits that:

- The role of a Water Authority extends beyond water supply;
- The role of GWMWater includes water storage and the control of environmental flows;
- The State is the customer for environmental flows;

- The costs of reservoirs and infrastructure required for environmental water storage and environmental flows should be allocated to the State as customer and not to the water supply customers of GWMWater.

Yours sincerely



Glen Davis  
CHIEF EXECUTIVE OFFICER