

Craig Watkins

25th January 2013

The Commissioner
Essential Services Commission
Level 2/35 Spring Street
Melbourne VIC 3000

Dear Commissioner,

Re: Water Price Review 2013-18

I submit the following pages for your consideration. I am an irrigation water customer on the Coliban system. As you are no doubt aware, Coliban is in the process of undertaking a major rural modernisation project in the Harcourt area. I have raised concerns about flow rates (water service levels under the new system) with Coliban consistently since December 2009. In more recent weeks active agitation on my part has ultimately resulted in a meeting with relevant engineers/managers at Coliban as recently as yesterday. While I am reassured by a number of comments made during this meeting, a significant amount of prior communication from Coliban is at odds with the most recent input. I thus trust you will carefully consider the comments made in this submission. Should you have any need for clarification on any matters raised I would be more than happy to provide you with additional input.

Regards,

Craig Watkins

Executive Summary

Significant concern exists that the Harcourt rural modernisation project as currently articulated by Coliban Water represents a substantial reduction in service provision levels to customers. Harcourt customers are being asked to pay for modernised water services at a significantly increased cost for a substantially reduced delivery capability (according to information currently promulgated to customers).

Rural irrigation water supply must match demands at some level. In Coliban information sessions during the second half of October 2012, customers thorough enough to ask were advised that flow rates for smaller volume customers would be equivalent to supply of licence volume over a full 12 month period. A previous round of information sessions in December 2009 had declared a flow rate equivalent to supply of licence volume over 8 months.

Strenuous objections were raised in December 2009 on the basis that flow rates at this low level clearly do not provide an irrigation supply, and most certainly do not provide a level of service equivalent to that provided at present through the channel system. Coliban's advice of a 12-month period to achieve licence volume delivery at the October 2012 sessions makes it clear that the modernised rural system as planned at that point in time represents a major decline in water service levels to irrigation customers.

Discussions held as recently as yesterday by the current author (Dr Craig Watkins) with Dr Dharma Dharmabalan (Coliban's General Manager of Infrastructure), and Mr Paul Jackson (Coliban's Project Manager/Engineer) paint a very different picture. In complete contrast to formal customer communications and promulgated project updates, Dr Dharma Dharmabalan has advised that flow rates of 8 and 12 month delivery were used for project analysis and design purposes only, and that there is little likelihood for customers to be unhappy with delivery flow rates. It has been made clear that the in-ground infrastructure (pipelines) are of abundant capacity for any delivery scenario. The one possible project component which could conceivably require variation are the Variable-Speed-Drive pumps.

While this advice is reassuring, it is unfortunately so counter to multiple forms of advice received from Coliban over the last 3+ years, including a letter received from the Coliban Managing Director, Mr Jeff Rigby, dated only two weeks ago, that I am not yet willing to assume that a proper level of water delivery applicable to an irrigation supply will be provided to customers by the Harcourt modernisation project.

I believe it is appropriate that the commissioner in accordance with WIRO 2012, clause 12, should ask for clarification on this vital issue from Coliban. Rural water customers, like any customers, do not appreciate significant price increases. However, of more crucial importance is that a substantial degradation in service levels should not accompany such price increases.

Supply Flow Rates for the Harcourt Modernisation Project

Rural water supply in the Harcourt region is primarily an irrigation supply. Irrigation demand faces fluctuations on multiple time scales based on weather and seasonal variations in temperature. Usage from one rural property to another will vary based on diverse factors such as the species of crop under irrigation, soil conditions, and on-site catchment and storage capability. Almost without exception irrigation demand only begins in Spring (which tends to be mid October at the earliest in the region), and ends as we enter Autumn (perhaps around the end of April). The irrigation demand tends to track the rise in temperature, resulting in a peak irrigation period of only a few months. An

irrigation supply delivered smoothly over a period of four months, and available over a longer period would seem reasonable, and is effectively the capability provided by the existing channel system.

In speaking with Coliban engineers it is clear that pipeline sizing considerations are not impacted by delivery over a four month period compared to an 8 or 12 month period used in the project design phase. Pump design factors however may change, and it is thus important that Coliban uses realistic scenarios in their design process.

In the October 2012 information sessions Coliban have advised customers having the presence of mind to ask, flow rates equivalent to a 12 month period for licence volume delivery for licence volumes less than 5ML, and flow rates equivalent to 8 month delivery for larger licence volumes. There was never any explicit discussion of these 8 and 12 month periods by Coliban in the written material sent to all customers, nor crucially any indication of why a two-class system of entitlements was considered appropriate/equitable.

A letter received from Coliban, dated the 9th of January 2013 and signed by Mr Jeff Rigby, Managing Director, mentions that it is believed the design “meets the usage needs of the majority of customers”. The same letter clarifies the 12 month period needed for delivery of licence volume. Such a system clearly **does not** meet my usage needs, and there is certainly no reason for me to expect I have magically departed from the usage needs of the majority of customers. This letter also mentions: “The sizing of pipes in the system has a direct impact on the costs customers will be subject to.” – While this fact may be true, the implied message in this letter is that any changes to delivery rates would require a change to pipe sizing – clearly in blatant disagreement with verbal advice received yesterday from Dr Dharma Dharmabalan, Coliban General Manager of Infrastructure.

A modernised rural water delivery system for Harcourt which provides capability for supply to all irrigation users in the system of their licence volume over a 4 month period would appear to be crucial. Anything less would clearly be a reduction in service levels compared to the existing decrepit open channel system. The major gain from modernisation of the Harcourt system is vested in water savings made by Coliban. Harcourt rural customers are being asked to pay increased prices for water supply, and while there may be some improvement in supply reliability, the gain to the customer from the project is only modest at best. Without provision of a supply that has the capability of “matching” the peaky nature of irrigation demand by design based on a 4 month delivery period, there would be a substantial overall decrease in customer service level provided by this “modernisation” project.

Any attempt to shift costs to the customer side by requiring larger customer dams is clearly counter-productive. Larger water storages typically have lower surface area to volume ratios and lower perimeter to volume ratios, both significant for losses. As much as possible the water is better left in the reservoir until the irrigator demand requires it.

The dichotomy between small and large irrigation users in terms of flow rates (perhaps caused by the heavy involvement of large irrigation customers on the Harcourt Water Services Committee), is apparently echoed in terms of mention of a capped service fee at an 80mm meter level. I believe it is appropriate for the commissioner to consider this matter in relation to WIRO 2012 Clause 14(1) (c).

“Pressurised System”

Page 77 of Coliban's Water Pricing Submission claims that as customers will have a “pressurised

system” it is believed appropriate that service fees are aligned with those applying to urban non-residential customers. The commissioner should note that unlike urban non-residential customers the “pressurised system” does not extend to the customer premises. Supply is intended/designed to flow into customer tanks and/or dams. Customers must pay significant additional amounts on top of the Coliban charges to maintain and run pumps to distribute the water to where it is used.

Capacity Charge Considerations

Page 77 of Coliban's Water Pricing Submission discusses the intention for the capacity charge to be converted to an infrastructure fee based on the customer's licensed volume. The difference would appear to be decoupling any allocation decisions from significant impact on Coliban revenues. While it is possible that there is some merit to this from Coliban's perspective, it is difficult to see how this translates to any advantage to customers. Reduced allocations have substantial loss implications for all irrigators. Memory is still fresh from watching thousands of dollars worth of trees die only a few short years ago.

I contend that it is crucial to help ensure good water resource management that Coliban shares in any loss to the maximum extent during periods of reduced allocation. I thus ask the commissioner most strenuously to consider disallowing this change. Should this change be allowed it would imply that the losses of customers during times of reduced allocation is increased and the incentive for allocations to be decreased by Coliban is enhanced. This is clearly not “de-coupling” at all, and surely seems to only encourage poor water resource management within Coliban.

Excess Fee

Page 77 of Coliban's Water Pricing Submission attempts to justify a very large excess usage fee of \$3000 per Ml. The justifications given appear to be very weak, and it is believed that an excess fee of more like \$1000 will meet the needs of encouraging trading within the system while not being overbearing. Should it be deemed a higher fee is truly necessary then a stepped rate would seem sensible. Coliban should not be concerned with small accidental over entitlement use. Having a very large excess fee applicable immediately would be seen as draconian in nature and would do little to encourage good strong relationships between Coliban and the rest of the community. I believe the commissioner should ask Coliban to consider reduced excess fees and possibly a stepped rate.

Real Price Increase

The last paragraph on page 77 of the Coliban submission states: “There is no real price increase proposed over the regulatory period for the infrastructure fee, volumetric charge, and termination fee.” While this statement may be true in the strict sense, it can also be viewed as misleading. It clearly does not imply that there is no real price increase when customers are moved from the existing channel system to the new modernised system. In this case there is very clearly a significant real price increase (purportedly for improved service).

Flexibility in Customer Demands

This point is perhaps far outside the scope of the commissioner, but is raised here for want of a better forum:

It is worthwhile noting that various users have different usage demands. Some users have relatively consistent demands from year to year (subject to weather issues), but others clearly require more

water in dry times. In recent history the dry times are precisely those years where water has not been allocated. This effectively impacts customers who primarily hold licence volume for the dry times to a larger extent than other customers. The key point is simply that customer demands differ. The provision of a modernised rural reticulation system provides an opportunity to consider modernisation of how water is licensed.

The time is perhaps opportune to consider providing a truly modern system where customers can use water flexibly. The most obvious suggestion is that customers should be able to “bank” some portion of their allocation to allow for future usage in times of reduced allocation. Any system would need to be very simple and to avoid confusion would probably need to be the same over at least the whole of the state and perhaps the nation. We have smart phones – perhaps a “smart” water system is something which the 21st century will produce!

Management of the Coliban System

Clause 14(1)(a), item (i) of the Water Industry Regulatory Order 2012, mentions inefficient expenditure by the regulated entity. The Harcourt community has seen a succession of colour information sheets and Coliban-employee-heavy information sessions over the last 3+ years. While colour printing is not a big-ticket item in the overall equation, and perhaps only a person-month or two have been expended on community information sessions, the real question is what has been achieved to date. From the perspective of many not much has changed in 3+ years. Unfortunately, for those wishing to analyse the situation more carefully a dearth of information is available to the public. I had cause to trawl through Coliban Board meeting summaries in a failed attempt to locate real information. These board meeting summaries clearly hold precious little information of any sort and I believe it is entirely fair to claim that they do not enlighten anyone and serve little real purpose.

I suspect it is more a question for the Minister than for the Commissioner, but I strongly believe that public accountability is only possible with sensible board meeting summaries. I challenge any manager at Coliban or any Coliban board member to look me in the eye and state that the board meeting summaries serve any public information purpose as they currently exist. It is now 2013 – there is no reason for operating in the dark ages or being afraid of cold war spies. The public needs to have transparency to help keep things honest. With publicly available information at present it would seem to be quite impossible to tell if the Coliban board was being manipulated or is dysfunctional in some other way. We need as much transparency as possible. I suspect that the reason the board summaries are available publicly is that there is a decree of transparency lurking somewhere, yet these summaries clearly **can not** be claimed by anyone to provide any transparency.

