

G-MW's Pricing Submission proposals that apply to D&S diverters on unregulated streams rest, as in 2015 and 2019, on a tendentious defence of an unfair tariff regime. As convener of *Justice for Domestic Users*, a group that challenged the ESC's approval of the pricing regime proposed in G-MW's 2015 Pricing Submission, it is disappointing to see that little, if anything, has changed.

My submission includes new evidence and arguments that I hope will assist ESC accept that its decision in 2016 to approve the proposals developed by G-MW as part of its Diverters Tariff Strategy was mistaken. It examines prices of comparable services prices (NSW D&S diverters and GVW's township customers) and challenges the cost allocation assumptions G-MW has used.

Appendix 1 analyses the report commissioned from DGC/Aither by G-MW to review its proposed charges for D&S diverters, while my 2015 submission to the ESC on G-MW's 2015 pricing submission is also appended (Appendix 2).

The fees for diverters on unregulated streams whose only 'service' from G-MW is a 2ML D&S licence, which G-MW proposes to leave unchanged, remain exorbitant, particularly since most D&S licencees will have few or no livestock and use much less than 2 ML. The situation for D&S-only diverters on regulated streams is similar, since unlike irrigators the needs of almost all D&S diverters could be met by minimum environmental flows. However this submission concentrates on the plight of diverters on unregulated streams.

It argues that G-MW's Pricing Submission does not show adequate regard for many matters specified in the ESC's guidance and substantially overrates G-MW's compliance with at least two of the four PREMO areas set by the ESC. For example, G-MW's consultation process certainly had multiple strands, but none of these seriously tackled the need to fully consult D&S-only users who make up a very large share, perhaps most, of the customer base and which ESC specifically required G-MW to address.

The range of flaws and errors in G-MW's Pricing Submission and its supporting documentation are set out under the various requirements that the ESC advised G-MW it should follow. These are:

Disputed attestation by Board Chair	Page Ref.
Information and documentation . . . is reasonably based, complete and accurate in all material respects	2
Supporting information is available to justify the assumptions and methodologies used	3
Submission satisfies the requirements of the guidance paper	3
Unmet Guidance Paper obligation	
S. 33(3)(a) of ESC Act:	3
S. 33(3)(d) of ESC Act:	4
Page 15 para 3 requirement of Guidance paper:	5
Section 3.8.2 of the Guidance paper:	6
Section 3.19.2 (last dot point) on p.55 of the Guidance paper:	6
Overrated PREMO requirement	
Risk — has Goulburn-Murray Water sought to allocate risk to the party best positioned to manage that risk? To what extent has Goulburn-Murray Water accepted risk on behalf of its customers?	7
Engagement — how effective was Goulburn-Murray Water's customer engagement to inform its price submission?	7

Board Chair attestation (completeness and accuracy)**Requirement:**

Information and documentation provided in the price submission and relied upon to support Goulburn-Murray Water's price submission is reasonably based, complete and accurate in all material respects.

Response:

The cost allocation assumptions that have been used to derive the tariffs applicable to D&S diverters on unregulated streams are not reasonable.

As set out in my critique of the Aither/DGC report (Appendix 1), it is not reasonable to apply deeming costs to all unmetered users. It appears that meter-based deeming is done almost entirely for diverters with entitlements greater than 2ML. It is doubtful whether G-MW's deeming work is in fact necessary, but if it is to be done there is no reason why 2ML users should be required to bear the brunt of the costs. Such costs should be apportioned across all G-MW's customers.

As is also argued in my Aither/DGC critique, it is likewise unreasonable that inspection and surveillance costs should be unrelated to entitlements. In the absence of irrigators in the system, there would be no need for G-MW to undertake inspection and surveillance since there would be sufficient water for D&S-only users in almost all streams. On this basis it is irrigators alone who should bear inspection and surveillance costs. But if inspection and surveillance work is largely directed at detecting water theft, the costs need to be borne by the taxpayer, or else the work should be abandoned. Theft is a policing issue, and policing is a cost that should be borne out of general tax revenue. Moreover, since water theft also pertains to private rights holders exceeding their entitlements and to others with crown land frontages extracting water without a licence, neither group being G-MW customers, it is unreasonable that honest users must bear these costs.

Likewise, my Aither/DGC critique also argues that some, probably most, of the costs of customer billing is driven by service points numbers not by customer numbers. With no data presented on the nature and number of customer support queries, it stands to reason that it is the number of service points that drive customer queries. Also the more service points a customer has the more complicated the billing process and the more data input that is required.

For reasons which are not clear, the Aither/DGC report did not deal with the Access Charge which is a flat rate based on service points (\$85pa for unregulated diverters). G-MW's decision in the DTS to base the access fee on service points rather than entitlement was and is indefensible, driven by faulty logic and a flawed principle. According to G-MW's 2015 Pricing Submission (Table 57, p.98), the access charge covers *'the cost of ensuring water is accessed in line with management rules and plans, [and] includes managing allocations, rosters, restrictions and water ordering'*.

On this basis the underlying activities relating to diverters on unregulated streams are presumed to monitoring and responding to catchment rainfall and streamflow data. On this basis the charge should be allocated according to water entitlement volume, not a service point basis. This is hard to reconcile with the claim in the DTS (p.13) that *'GMW's costs are mainly driven by the number of service points as this determines the number of site visits required, letters sent etc [not] entitlement size'*. It seems likely some confusion within G-MW about what the access charge actually covers and this may explain why G-MW did not ask Aither/DGC to examine the access charge.

Assuming the charge does cover those things that the 2015 Pricing Submission claims it covers, levying the access charge on a service point basis is completely unreasonable.

Despite the claim to be 'free from error' (ref p.35) the GPS includes at least one highly significant factual error in relation to the origin of the current diverters tariff structure (p.85). A critical supporting document on which G-MW's Pricing Submission relies for support - - the DGC/Aither report into diverters fees - - also includes a variety of non-trivial errors (see Appendix 1), and although strictly not errors it misrepresents several matters. These misrepresentations are sufficiently serious to be treated as errors, such as the claim (p.78) that the decision to leave unregulated diversion tariffs unchanged reflected *'the outcomes from extensive customer engagement with the wider diversions customer base'*. Or that *'there is no foreseen impact on other customers'* (p.85).

There also appear to be errors in the way G-MW computes and distributes corporate overheads. The exclusion of gifted assets from the RAB affects the derivation of prices has the effect of reducing G-MW's depreciation expense and this means that unregulated and groundwater diverters bear a higher share of corporate overheads than would otherwise be the case.

Another error arises from the exclusion of capital project expenditure >\$1M (p.88 para 4) from corporate overhead allocation on the strange presumption that such projects *'are generally outsourced and therefore not overhead intensive.'* A review of Ms Quick's diary or that of her General Manager for Infrastructure Delivery, or the Board min'sutes, or G-MW's email/correspondence registry would quickly prove this proposition dubiousness.

Board Chair attestation (supporting information available)

Requirement:

Supporting information is available to justify the assumptions and methodologies used.

Response:

I suspect that information supporting the assumptions behind the high charges for D&S diverters does not exist, since had it existed G-MW would probably have published it in its Pricing Submission and certainly would have provided it to Aither/DGC to review.

Board Chair attestation (satisfies guidance)

Requirement:

The price submission satisfies the requirements of the 2024 water price review guidance paper issued by the Essential Services Commission in all material respects.

Response:

The non-compliance with this requirement is set out below and on the following pages.

Section 33(3)(a) of ESC Act

Requirement:

The Commission must have regard to the particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made

Response:

Nowhere does the submission address the particular circumstances of Domestic and Stock users, these mostly being people for whom the water extracted is akin to the supply of town water for household use and whose needs are quite distinct from irrigators, for whom the water supplied supports for the carrying on of a business.

A reasonable person might suppose that the needs of people for domestic water should take precedence over the supply of water for business needs, and G-MW might claim that restrictions in drought aim to maintain streamflows for stock and domestic users.

However, as argued elsewhere in this submission, in the absence of irrigators in the catchment, there would be no need for restrictions, since the legitimate needs of D&S users could be met by natural flows, unless of course a stream was dry, in which case rosters and restrictions would be of no help.

G-MW's probable claim also sits uneasily with a principle of the Diverters Tariff Strategy (DTS), which is that the tariff structure should '*encourage agricultural production*'. For example, in supporting the pricing structure relating to catchment and aquifer access costs the DTS (p.13) states that a service point rather than a volumetric approach '*also helps promote agricultural production, as it reduces costs for larger commercial enterprises*'.

It may also be relevant that the exposure draft for the 2014 Water Bill that was released for public comment proposed changes to the wording of the current Section 8(1)(a) right to take water for domestic and stock purposes from a waterway to which a person has access "by a public road or public reserve" – the latter to be changed to "Crown land" – would have meant that the right would have applied to far more land across Victoria than it does currently. Although this proposed change was not ultimately adopted, the proposal is consistent with the notion that D&S rights are in a different class to irrigation rights.

Section 33(3)(d) of ESC Act

Requirement:

The Commission must have regard to any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries.

Response:

Despite the detailed analysis of the unregulated diverters tariff structure in NSW that I presented to G-MW in 2018, and despite the ESC Act requirement, nowhere does the submission look at interstate benchmarks despite the ease with which this can be done.

NSW Water, whose prices are set by IPART, publishes an internet calculator where prices for various types of licensed extraction rights can be found.

(<https://www.waternsw.com.au/customer-services/water-pricing/billing-calculators/unregulated-bill-calculator>).

2023-24 charges for D&S diverters in NSW on two unregulated waterways comparable to those in the Goulburn-Murray area are \$344.86 (Murrumbidgee) and \$345.26 (Murray), 10% higher than G-MW's D&S tariff (\$378.91). However, even these charges are exorbitant, having risen substantially over the past three years without good reason.

A more relevant benchmark that G-MW could - - and should - - have analysed in its submission is with the price for reticulated water supplied by its urban counterpart, Goulburn Valley Water. From the perspective of domestic users the water supplied by Goulburn Valley Water has several significant advantages over G-MW's, namely that it is piped to the property and emerges from the pipe under pressure.

G-MW's submission, were it to comply with S. 33(3)(a) of the ESC Act, should have compared the tariffs faced by G-MW D&S diverters who only require water for domestic purposes with the [tariffs faced by GVW customers](#). If such domestic-use-only diverters used, say, 0.33ML pa, GVW would charge them \$380, comprising a \$178 service charge plus \$202, based on GVW's raw (non-potable) water volumetric charge. This can be compared with G-MW's D&S charge for diverters on unregulated streams of \$379.

But whereas G-MW's unregulated D&S diverters must pay for their pump, for pump maintenance, for fuel (or electricity) for pumping, for a storage tank and for installing and maintaining the pipes connecting the pump with the tank, GVW's raw-water customers bear no such costs. As much as anything, this highlights G-MW's unreasonable charges for domestic users.

ESC Guidance (Page 15, paragraph 3)

Requirement:

Goulburn-Murray Water's price submission must clearly and succinctly identify and explain how its proposal demonstrates value for money for customers.

Response:

This requirement seems to have been ignored. G-MW's submission does not '*clearly and succinctly identify and explain how its proposal demonstrates value for money for customers*'. This would have required it to confront the question of how to value water diverted from streams for domestic use, among other uses including irrigation of pasture and orchards, watering of stock and intensive livestock production.

Perhaps G-MW did not do so because, at least in relation to diverters, it commonly claims to be only a licencing body, not a water supply body. This claim is made despite also claiming to 'deliver water' to diverters (eg Table 5 in its Annual Report)

While it may be free to claim to only be a licensing body, it should nevertheless be obliged to explain why its charges for D&S diversion licences - - which apparently do not entail any supply - - should be so much higher after customer's own costs are included than those charged by water supply bodies for the equivalent reticulated and pressurised water (see previous page).

Elsewhere in this submission it is shown that these inflated charges are due to the various cost allocation assumptions it has used that load D&S diverters with costs that they are not, or should not be, responsible for. Indeed, one of the few good points in the Aither/DGC report is that despite not examining them it emphasises the high dependence of the tariff structure on G-MW's cost allocation assumptions.

In its own defence of its tariffs for D&S diverters, G-MW's submission relies principally on the Diverters Tariff Strategy (DTS) developed a decade ago. But in doing so, the Submission includes several misrepresentations that are effectively errors. G-MW's Submission states (p.85, Table 65, first para) that:

Following extensive customer engagement, on 1 July 2014 GMW commenced implementation of significant reforms to tariffs for regulated and unregulated surface water and groundwater diversion customers. The main impact of the changes was a re-distribution between small and larger users to better reflect the costs of service provision. Initially, a four-year transition was proposed by us and approved by the ESC. This was later extended to six years and completed in 2019/20.

Neither the DTS nor G-MW's 2015 Pricing Submission entailed '*extensive customer engagement*'. The DTS was developed by a Working Group that as far as can be established included no D&S-only diverters, and mainly entailed consultation with G-MW's Water Services Committees which are dominated by irrigators and likewise, as far as can be established, included no D&S-only diverters. In relation to consultation on the 2015 Pricing Submission:

the Commission reviewed Goulburn-Murray Water's consultation and considered that many of Goulburn-Murray Water's communications about the access fee did not sufficiently highlight information about the price increase for small diversion customers . . .

Regarding the four-year transition, G-MW's 2015 Pricing Submission proposed a two-year transition, and it was the ESC that extended it to four years. And the eventual 'phase-in' was in fact 5 years since the DTS implementation effectively started on 1 July 2015, since the new fee structure that commenced on 1 July 2014 involved no real price rise.

ESC Guidance (Section 3.8.2)**Requirement:**

For total and annual forecast operating expenditure and for each major service category, forecast operating expenditure for each year of the next regulatory period, and beyond to 2031-32, must be further broken down where relevant, in the financial model template, for:

- operations and maintenance
- customer service and billing
- guaranteed service level (GSL) payments
- licence fees
- corporate
- other operating expenditure.

Response:

This requirement has been overlooked. Table 29 (p.55) of G-MW's submission provides aggregate OPEX by major service category, but there is no breakdown elsewhere of the specified expenditure components of this aggregate. Perhaps it is included in the reference documents that G-MW makes available to the ESC, but this seems unlikely.

In relation to D&S diverters, the report by Aither/DGC does indeed provide additional information, but Aither/DGC acknowledge that the quality of the data in their report is heavily affected by the underpinning assumptions, most of which I challenge (Appendix 2).

ESC Guidance (p.v and Section 3.19.2 last dot point)**Requirement:**

Specific information to allow us to assess [how] Goulburn-Murray Water's proposed diversion tariff structure appropriately accounts for the circumstances of unregulated domestic and stock users. Unregulated domestic and stock users are a sub-set of diversion customers, who receive water from unregulated catchments (for example rivers, creeks and small waterways) through licenses managed by Goulburn-Murray Water.

Goulburn-Murray Water's price submission must provide the following information in relation to diversion tariffs that are payable by domestic and stock users:

- details about how the relevant tariff classes have been established (including whether and how all customers within the relevant tariff class receive the same services); and
- information that demonstrates that prices charged to all types of users in each relevant tariff class reflect an efficient cost of providing the relevant services to customers in that tariff class.

Response:

None of the above requirements have been properly met.

G-MW is likely to argue that while its Price Submission may not meet them, they have been met via the Aither/DGC review it commissioned. However, the Aither/DGC review includes a number of qualifications regarding G-MW's cost allocation assumptions (Appendix 1) nor did Aither/DGC examine either the access or resource management charges.

Given the probable ongoing relationship with G-MW (the DGC part of the consultancy probably has close ties with G-MW, being based close by in Tatura and Aither was also engaged to review the whole Pricing Submission), the caveats in the Aither/DGC report regarding G-MW's cost allocation assumptions take on a particularly significance. Coming on top of the exclusion of the access and resource management charges, they point to a review that does not meet ESC guidance.

Overrated PREMO requirement - Risk**Requirement:**

[H]as Goulburn-Murray Water sought to allocate risk to the party best positioned to manage that risk? To what extent has Goulburn-Murray Water accepted risk on behalf of its customers?

Some of the elements of risk identified by ESC in its 2022 guidance paper for G-MW are that it should demonstrate:

- that it has sought to manage any financial risks before transferring them to customers,
- a robust process for identifying risk, and how it has decided who should bear these risks? That is, customers are not paying more than they need to,
- how proposed tariffs are consistent with providing signals about the efficient cost of delivering services,
- [if] higher variable tariffs versus fixed may reflect a business taking on greater volume risk on behalf of customers.

Response:

None of the above risk requirements as they apply to D&S-only customers - - probably G-MW's biggest single customer class - - have been addressed.

Despite failing to demonstrate compliance with the four points (above) set out in ESC's guidance, G-MW elected to award itself a PREMO score of 2.6 - - a fraction over the margin between 'advanced' and 'standard'. This score that G-MW has awarded itself is unjustifiable as is its failure to mention the transfer of its risk to D&S users.

Overrated PREMO requirement - Engagement**Requirement:**

[H]ow effective was Goulburn-Murray Water's customer engagement to inform its price submission?

Two of the four elements of engagement identified by ESC in its 2022 guidance paper for G-MW are that :

- The form of engagement undertaken by G-MW should be tailored to suit the content on which it is seeking to engage, and to the circumstances facing its customers and community, including First Nations people and people experiencing vulnerability.
- G-MW must provide participants in its engagement process with appropriate information, given the purpose, form and the content of the engagement, and a reasonable and fair opportunity to participate as part of the process.

Response:

The consultation process with diverters was heavily reliant on G-MW's Water Service Committees - - which comprise irrigators and no D&S-only diverters - - but there were numerous other consultation deficiencies. These include

- failure to present sufficiently disaggregated expenditure data or customer statistics (much less the GPS itself) to enable customers to make properly informed input (refer also to WIRO Clause 11(d)(i))
- no disclosure of the 'effective reach' of the consultation process with small diverters, despite unmetered diverters - - most of whom are D&S customers - - comprising around 80% of the diverter customer base.

- No apparent attempt to try and engage specifically with the 'silent majority' of diversion customers (ie 2ML domestic users) beyond the Ovens Group. Where it does reference consultation the the Ovens Group, it refers to them as being 'a small number' implying that they do not represent customer views more widely
- No consultation with Ovens Group on the selection of the so-called 'independent' consultant and then forcing the Ovens Group to obtain the Aither-DGC Report via Fol instead of publishing it on its website.
- I was the only D&S diverter invited to join the Unregulated and Groundwater Diverters Tariff and Pricing Working Group in 2018 ahead of G-MW's 2019 Pricing Submission, but my input seems to have been ignored. For example, despite the detailed analysis I presented to the Working Group about the (then) much fairer tariff regime for unregulated diverters in the Murray and Murrumbidgee catchments in NSW, G-MW decided to ignore this in its 2019 Pricing Submission.
- Repeated claims in its submission about how 'extensive' the consultation was, but the only invitation to a F2F meeting I received was too far away for me to be able to attend. There were no Zoom meetings where ordinary people might be able to challenge G-MW and oblige its representatives to publicly answer awkward questions that might expose the flaws and unfairness of the the fees charged to D&S users.
- Contradictory statements are also to be found in the submission. Whereas it is reported (Table 58: Overview of proposed changes to prices and tariff structures) that:
No changes are proposed for diversion tariffs as they remain aligned with ESC pricing principles and reflect the outcomes from extensive customer engagement with the wider diversions customer base,
it is elsewhere reported in relation to unregulated diverters (Table 65: Review of unregulated domestic and stock users' tariff and prices) that
Little feedback has been received from the wider diversions customer base.

The observations above make one question whether G-MW's commitment to engagement is more focussed on process than outcomes.

Another insight into G-MW's commitment to engagement can be found in correspondence relating to my attempt to obtain a copy of the Aither/DGC Report. My email sent to G-MW in June (the third I sent and the only one to elicit a reply) is as follows:

On 16 May I wrote to reception@gmwater.com.au, as the website then said one should, seeking a copy of the report to GMW by Aither and DG Consulting.

I sent a follow-up email on 29 May reiterating this request. See email trail below.

No response has been received.

Meantime, through a network of concerned D&S diverters on unregulated streams, I have learned that GMW does not intend to release the report, instead requiring that customers wishing to know the details must put in an FOI request, on the grounds that GMW is unable to issue a redacted version of the report unless this course is taken.

For an organisation that claims to be accountable, GMW's failure to disclose to customers - who pay for its existence - the financial underpinnings of its costs, on the grounds of commercial sensitivity is certainly not displaying accountability. GMW is a public monopoly trading public goods and not competing with any other business and so should be prepared to publish the Aither and DG Consulting unexpurgated. If however GMW insists that the report contains secret commercial

information it should be prepared - - acknowledging the depth and breadth of concern about its exorbitant water use charges for 2ML D&S diverters on unregulated streams - - to redact the relevant bits and release it as part of a proper consultation process. To do otherwise would signal that GMW's claims to excellence, honesty, accountability, courage and caring are meaningless.

It seems to me that the shortcomings of its consultation process for the 2024-2028 Pricing Submission also reflect a less than open approach. The roadshow email of 8 June indicates that such consultation documents as GMW has prepared will only be revealed to customers at each of the roadshow events, so not available to peruse ahead of attending. While the email states that workshops will be held in addition to the drop-in sessions, it is not clear whether these workshops will discuss the whole pricing package, or will focus on specific elements. Given that small D&S diverters make up a large proportion of GMW's customers, probably more than half, will GMW be hosting workshops that deal with the specific issues they face? These include the unreasonable annual charge and the inability of diverters to 'hibernate' their licences. Whereas big users are able to have their voices heard through the water service committees, no such opportunity exists for small D&S diverters.

The substantive part of the eventual response from G-MW (23 June) follows below:

The review undertaken by Aither and DG Consulting contains sensitive commercial information. As such, we require this to go through the Freedom of Information (FOI) request process to ensure that the disclosure of the document is handled appropriately, in adherence to privacy regulations and to safeguard sensitive data. We are committed to fulfilling FOI requests within the established guidelines.

Further information regarding Diversions Pricing and Service Standards has recently been added to the GMW "Your Say" page Diversions Pricing | Pricing Submission 2024 | Your Say @ GMW (gmwater.com.au). GMW have arranged to meet with the Upper Ovens Unregulated Unmetered Stock and Domestic Customer representative group in July.

Your Say @ GMW details where drop in sessions are, the availability of one to one appointments and online opportunities for customers to 'have their say' on our proposed pricing and service standards.

Following the engagement roadshow, GMW will develop a draft Pricing Submission. This will be submitted to the ESC in September. The ESC will make a draft decision and undertake public consultation before the final determination.

GMW are always looking for new Water Services Committees members where a vacancy exists and would welcome the voice of Domestic and Stock customer.

Despite knowing of my interest in D&S pricing since 2015, the invitation to join a Water Service Committee only came after the 2023 Price Submission was close to being finalised and only arose because of my protest about G-MW withholding the Aither/DGC report. It is also significant that the invitation appears to acknowledge the absence of any D&S-only voices on its Water Services Committees.

Given the above deficiencies, and despite G-MW's consultation efforts, the PREMO rating of 2.6 that it assigned itself is unsupportable. Its proper PREMO rating for 'engagement' can only be classed as 'basic'.

Appendix 1: Critique of DGC/Aither review of G-MW customer and service point fees

DGC/Aither statement	Page ref	Comment
<p><i>The DGC/Aither team has relied on the data provided by GMW to undertake this review. Whilst the project team has applied professional scepticism and judgement to interrogate this data and seek to understand the basis for cost estimates provided by GMW, independently verifying specific estimates of input costs was outside the scope of this review.</i></p>	<p>p.9, 2nd last para</p>	<p>This is a serious flaw in the review, especially since at various points where 'professional scepticism' might be expected to apply, this has not necessarily been the case with the consultants variously citing the 'rigour' or other similar term in expressing confidence in G-MW's approach.</p>
<p><i>The WSC members advised the WSCs had a long history of input to diversions tariff reviews, including the 2013 review and the additional review/revisiting of these issues in 2018 to ensure they were fit for purpose.</i></p>	<p>p.10 3rd para</p>	<p>True, but DGC/Aither apparently did not ask what the licence size of these 4 WSC consultees were, nor the licence size of their WSC colleagues. As was elaborated extensively in my 2015 submission, the WSCs (understood to be all irrigators with no D&S reps) were key drivers behind the DTS and its false premise that big users were subsidising D&S diverters.</p>
<p><i>The 2018 revisiting of the tariff review issues ensured that a representative of small water users was included.</i></p>	<p>p.10 1st dot point</p>	<p>I was the sole D&S user in the 2018 'review', and was effectively ignored, despite my several detailed analytical critiques offered.</p>
<p><i>The principles underpinning the tariff reforms put in place have been widely tested with customers</i></p>	<p>p.10 2nd dot point</p>	<p>Not so. The 2013 DTS was based on a deeply flawed consultation (as elaborated in my 2015 submission and as the ESC recognised), with its main 'principle', being one that showed G-MW to be, in effect, a mouthpiece for a particular customer group, ie irrigators. The 2018 consultation was done with a group chosen by G-MW all of whom, except me, were irrigators, and it did not include any documented 'principles'.</p>
<p><i>These reviews had concluded that previous tariff arrangements had resulted in large users cross subsidising small users and didn't reflect the true costs of service provision.</i></p>	<p>p.10 3rd dot point</p>	<p>The DTS was premised on the idea that large users were cross-subsidising small (ie D&S) users, and proceeded to develop biased cost-driver arguments - - rebutted in my 2015 submission and reinforced with additional data in my principle submission here - - that purported to prove this.</p>
<p><i>The WSC representatives were of the view that the review was a good example of how customer diversity was taken into account and was a rigorous exercise.</i></p>	<p>p.10 4th dot point</p>	<p>The 4 WSC consultees may indeed hold this view, but it is not based in fact. In none of the consultations that purportedly support these excessive charge for D&S users has the extent of small user involvement been documented. When there has been some such consultation as with the Upper Ovens group their input has been belittled with the suggestion that it does not represent of D&S-only diverters more broadly.</p>

Appendix 1: Critique of DGC/Aither review of G-MW customer and service point fees

DGC/Aither statement	Page ref	Comment
<i>Domestic & stock (D&S) users are often unaware of the amount of management that is required for water sharing and ensuring compliance, especially in drought.</i>	p.10 6 th dot point	There are two separate activities referred to here – 'water sharing' which is supposedly covered by the access fee, and 'compliance' which is covered by the service point fee. These activities are funded by fixed charges set a service point basis with no volumetric component, despite the principal beneficiaries being irrigators who have more water at stake when drought hits than D&S diverters.
<i>The WSC members were not aware of widespread concern from users over diversions fees and charges, noting that this concern seemed to be localised amongst a group of licence holders in the Upper Ovens and some surrounding streams.</i>	p.10 8 th dot point	It is unsurprising that WSC members are unaware of widespread concern since they move in irrigator circles and have little to no engagement with D&S users. I can assure ESC that the great majority of D&S-only customers on unregulated streams resent the unreasonable charges imposed by G-MW but feel powerless to change things.
<i>Diversions Inspectors go out to small streams with mainly D&S users many times to sort out issues and water use/water sharing. This generates significant costs.</i>	p.10 9 th dot point	An evidence-free contention that DGC/Aither should have explored. Since many smaller streams are unlikely to support irrigators it is inevitable that it will be D&S users that are involved. What is unstated is whether the root cause is 'private rights' people using excessive amounts or whether 'water theft' is involved. In both cases the costs arising should be borne by the taxpayer generally, not by licensed users. Or if by users, then costs should be spread across all GMW customers according to licensed volume, not borne preponderantly by honest D&S diverters.
<i>Given the wide range of issues raised by this group, it could be observed that GMW has not been able to effectively communicate what activities it undertakes that benefit this user group, or how fees and charges relate to water management activities for whatever reason. This may be a product of communication approach from GMW or the ability and willingness of customers to digest communication from GMW.</i>	p.12 last para	This observation by DGC/Aither is concerning since it suggests that DGC/Aither pre-judged the issues it had been asked to investigate. The idea that the opposition from the Upper Ovens diverters to the D&S pricing regime reflects poor communication by G-MW is absurd, and the alternative suggestion - - that the Upper Ovens people are either reluctant or incapable of understanding - - is deeply condescending.
<i>It is apportioned based on customer numbers across all customer groups, as GMW assert that all the costs of providing the customer administrative services (that make up the customer fee) benefit all customers and customer groups in a reasonably equal manner.</i>	p.14 2 nd para	Fundamental shortcoming. This is one of the key matters that DGC/Aither was appointed to investigate yet despite the questionable logic of apportioning each of the identified costs - - including the larger items - - on a customer rather than a service point basis, DGC/Aither apparently accepts G-MW's contention without question.

Appendix 1: Critique of DGC/Aither review of G-MW customer and service point fees

DGC/Aither statement	Page ref	Comment
<p><i>The total cost for this deeming activity was then apportioned across all unmetered service points. Some of the activity is directed to deeming usage by D&S users however much of the activity is directed to monitoring, assessing, and managing usage by unmetered irrigation users. The rationale used by GMW to justify apportioning this activity cost across all unmetered service points is that management of usage within individual water entitlements benefits all users by ensuring effective sharing of the resource, and D&S users were considered to receive significant protection through management of irrigation use to protect minimum flows and ensure availability of water for D&S use</i></p>	<p>p.21 2nd last para</p>	<p>Indefensible! In the absence of irrigators, whether metered or unmetered, the only water extraction from unregulated streams would be D&S, in which case the only role for G-MW would be to collect an annual fee, for which deeming would be automatically set (as at present) at 2 ML (ie zero deeming cost) and there would be no need for G-MW to do anything else - - including compliance and enforcement - - since actual D&S use will almost always be <2ML pa, and so have little impact on streamflows. Also, why should small licenced diverters pay for the protection of flows that also provide benefit to metered irrigators, as well as private right holders? Further, if G-MW's rationale is accepted, why not also apportion the costs across bulk diverters and the Environmental Water Holder?</p> <p>The alternative approach would be to apportion the deeming costs across all unmetered irrigators, ie those with licenced volumes >2ML and <10ML. Doubtless they would protest, but G-MW needs to face that problem which is entirely of its own making.</p> <p>The fundamental question - - why deeming is needed - - is not even asked.</p>
<p><i>The cost information provided by GMW is representative of cost apportionments developed by GMW in consultation with SMEs. This pricing method is currently fit-for-purpose based on the inputs that GMW has, however, there is a potential for increased risk of inaccuracy through the number of assumptions required to derive each price. It will be important to revisit these methods once more contemporary data is collected and should be used to minimise the number of assumptions required to derive representative costs and increase transparency and the evidence of cost attribution to each respective service.</i></p>	<p>p.40, para 1</p>	<p>Why were a diversity of customers not involved in agreeing cost apportionments given that this is fundamental to the tariff structure composition?</p> <p>Why should G-MW treat this as something that only Subject Matter Experts can assist with? Cost accounting is not rocket science!</p> <p>And why did Aither/DGC apparently not test any of the assumptions, electing instead to accept that an indefensible tariff structure should remain for 4 more years?</p>
<p><i>However, many costs provided in the high-level assessment were taken at face value due to the limited detail provided.</i></p>	<p>p.40 para 2</p>	<p>Why did DGC/Aither not query any of the 'face value' data, instead relying on GMW's assurances that they were OK? And why did G-MW not provide more detailed data?</p>

Appendix 1: Critique of DGC/Aither review of G-MW customer and service point fees

DGC/Aither statement	Page ref	Comment
<p><i>There are several cost components that rely on assumptions that haven't been clearly defined. In this case, no assessment can be made about the validity of fee.</i></p>	<p>p.40 para 3</p>	<p>Given this frank acknowledgement, DGC/Aither's finding in its summary that the pricing is 'fit-for-purpose' is surprising.</p>
<p><i>There are differences between the catchments across GMW's region and there are differences within catchments between upper and lower sections. GMW's management of waterways and groundwater bores is dynamic in nature, increasing during extended drier periods and dropping off during wetter periods. Where and when service point issues arise can vary across and within catchments depends on a range of factors.</i></p>	<p>p.41 third last para</p>	<p>More than half of G-MW's unmetered service point fee of \$145 relates to 'Annual site inspection and surveillance' (ref Table 14). In the case of my river (Acheron) GMW inspectors are rarely seen inspecting D&S service points - - and why would they given the high and reliable flows it carries. Did DGC/Aither ask G-MW for evidence of the results of its inspection and surveillance on unregulated streams, in terms of prosecutions or warning letters issued?</p> <p>More fundamentally, why should honest 2ML licenced diverters, most of whom will use much less than 2ML, be paying for a policing cost that benefits all Victorians?</p>
<p><i>D&S customers and unmetered irrigation customers are considered to benefit equally from the broader catchment inspections, supervision and compliance activities undertaken by GMW.</i></p> <p><i>None of the information provided by GMW would lead to a position that Diversion D&S customers should be treated differently to Diversion unmetered irrigation customers. Separating D&S from Unmetered Irrigation in Diversions is not considered to have any intrinsic merit.</i></p>	<p>p.41 final 2 paras. (See also p.42 para 6)</p>	<p>This assertion is disputed. Lack of 'intrinsic merit' is a neat way of dismissing this idea without due consideration. Unmetered irrigation diverters (>2<=10 ML) have more at stake in times of drought and have a greater capacity to overuse by virtue of generally higher pump capacity and so pose a greater over-extraction risk than 2 ML D&S diverters. Moreover, as DGC should have noted, all 2ML diverters, are deemed - - without testing - - to use 2ML.</p> <p>It should be recognised tha a 2ML D&S licence is more akin to a riparian right which is free or to a residential town supply, which in the case of GVW, is less costly than GMW's charges (see my main submission).</p> <p>If a consultation process is to be genuine, it would include responding to the expressed wishes of D&S 2ML diverters (with the Upper Ovens Group following on from Justice for Domestic Users) to be treated fairly, the first simple step in which would be to separate them as a specific class.</p>

Appendix 1: Critique of DGC/Aither review of G-MW customer and service point fees

DGC/Aither statement	Page ref	Comment
<p><i>Based on the information provided by GMW, the underlying costs and assumptions associated with determining the customer fee are considered reasonable and aligned to the fee being levied. The current customer fee was not found to be materially over or under recovering the costs it is intended to encompass.</i></p>	<p>p.42 para 1</p>	<p>Relying on G-MW's assumptions means that DGC/Aither was unable to properly analyse this issue. For example the costs of customer billing (a big chunk of the customer fee) are much more related to the number of service points than the number of customers since the preparation of a bill requires the updating and retrieval of usage data that relates to service points not customers. My main submission explores this matter.</p>
<p><i>The review undertaken indicates that GMW's pricing method for service point fees is currently fit-for-purpose based on the cost information inputs that GMW has available.</i></p>	<p>p.42 para 3</p>	<p>This is disputed. How is it fair that unmetered diverters (incl regulated and groundwater), whose licensed volume equates to barely one-fortieth of the overall licensed diversion volume - - around 500GL - - must pay one third of all service point costs of which '<i>inspection and surveillance</i>' is the main component?</p>
<p><i>This review also noted that data on costings, numbers of meters and other key inputs to calculation of fees and charges was spread across quite a range of different documents. In a number of instances, there were also variations in values for the same parameter across these different sources. While these differences were relatively minor and did not materially affect the calculation of fees, they highlighted that there is an opportunity for GMW to improve its methods of data collection and provision and create a single source of truth for the data used for determining fees and charges.</i></p>	<p>p.42 last para and on to p.43</p>	<p>G-MW's customer and usage profile data is seriously inadequate. For example its 2022-23 Corporate Plan indicates 6,780 D&S customers using 12 GL in total, while its 2022-23 Annual Report indicates 9,706 D&S customers using 23 GL in total with no explanation provided in the latter for the discrepancy.</p> <p>It may be that such data inadequacies '<i>did not materially affect the calculation of fees</i>', but for public consultation to be effective a detailed and accurate understanding of customer and usage profiles is critical, G-MW's failure to disclose detailed and accurate customer and usage profile data is a major shortcoming of its entire consultation process.</p>
<p><i>The lower levels of customer contact and lower physical visibility of GMW staff in Diversions compared to the Irrigation Districts is a point of difference. GMW could consider regularly communicating to Diversion customers about what GMW is doing that benefits them, the licencing regime, inspection program and compliance activities.</i></p>	<p>p.43 last para</p>	<p>Or to be blunt, G-MW should increase its propaganda expenditure to better subdue ungrateful D&S unregulated diverters.</p>

GMW pricing proposals for D&S diverters: unfair and unjustified.

Submission to ESC on Water Plan 4

SUMMARY

This submission to the ESC argues that the pricing proposals for domestic and stock (D&S) diverters presented by Goulburn Murray Rural Water Corporation (GMW) in its *Submission to Price Review 2016 (Water Plan 4)* are deeply flawed and should be rejected by the ESC. The arguments supporting this position, many of which are interrelated and are which are elaborated in the body of this submission, identify process failings, analytical failings and policy failings:

1. The *Diverters Tariff Strategy (DTS)*, on which the relevant sections of the draft and final *Water Plan 4* are based, was regarded in these latter documents as effectively settled rather than being open to challenge. This may have been defensible if the process used to develop the DTS was fair and the arguments underpinning it were robust but this is not so.
2. The small working group chosen by GMW to assist develop the DTS is likely to have been heavily weighted towards larger water users - - who benefit greatly from the proposed price reductions - - with small domestic and stock users - - effectively unrepresented. GMW has refused to disclose the exact composition by licensed volume of the working group, while a freedom of information (Fol) request has failed to shed any light on the licensed volume profile of Regional Water Services Committee (RWSC) members from which the DTS Working Group was drawn.
3. The consultation process that preceded the finalisation of the DTS had absurdly short time frames and was not properly communicated to those users adversely affected, thus disenfranchising small users who were not otherwise alerted to what was being proposed.
4. Where a 'user-charge' far exceeds the costs it is supposed to cover it becomes, de facto, a tax. Taxes can only be set by Parliament, not public commercial bodies like GMW.
5. An explicit foundation of the DTS is that the economic benefit to the Goulburn Murray region from large commercial water users requires that they be given price relief - - at the expense of small users, principally D&S customers. No evidence is adduced in support of this position, which essentially assumes that the economic benefit to the community that small water consumers contribute can be ignored.
6. The fact that GMW's short-run costs are largely fixed is no reason to have such a high proportion of its income from diverters set through fixed charges. Significantly, if D&S users were the only class of users permitted to extract water from GMW waterways - - in particular from unregulated streams - - GMW would barely need to incur any diverter-related costs since the amount of water extracted compared to the available streamflows would be insignificant. GMW's organisational infrastructure only exists because of the huge water volumes needed to irrigate crops and pasture and it is irrigators - - not D&S diverters - - who should be paying a higher proportion of GMW's costs.
7. In restructuring the tariff structure for diverters away from volumetric charges towards fixed charges GMW is failing to ensure proper price signals for using a scarce public resource, and one that is becoming scarcer due to climate change.
8. After the proposed price increases, D&S users - - who pay for their own extraction infrastructure and running costs - - will be paying annual fees of almost one quarter the amount paid by urban domestic Goulburn Valley Water consumers for pressurised drinking water delivered to their home. And on a per ML basis D&S users on unregulated streams will be paying 50 times more per ML than large diverters. The inequity of this new structure is appalling.

A number of these issues are outlined in my main submission to GMW on Draft Water Plan 4 (which is appended to this submission and should read as part of it) but several are developed further here.

Issue #1: Water Plan 4 treating DTS pricing proposals as settled

All GMW customers were invited by letter to comment on the draft Water Plan 4 however it is immediately apparent from the location of customer consultation forums (see table below from Water Plan 4) that the real target of the consultation was irrigators, not diverters. Most D&S-only diverters - - those whose only water licence is D&S - - are from upstream locations far distant from the venues listed. In my case the nearest venue was Tatura 1½ hour's drive from Taggerty. It is also relevant to note that a special consultation session was held exclusively for "major account diversion customers" - - despite such customers being the biggest beneficiaries of the proposals.

Table 1 – Summary of customer forums in relation to the draft submission

Location	Sessions	Number of customers
Tatura	1 for major account gravity customers	14
Tatura	1 for major account diversion customers	6
Cohuna	1 for major account gravity customers	16
Cobram	3	11
Kyabram	3	32
Wangaratta	2	12
Shepparton	3	17
Rochester	3	11
Kerang	2	32
Swan Hill	1	23
Newbridge	1	6
Pyramid Hill	3	39
Kyabram	1 (additional)	62
Various	6 all day drop in opportunities at GMW regional offices	8
Total	25 (excluding all day drop in opportunities)	289

The feedback received via these different mechanisms covers a variety of issues and perspectives.

Source: GMW Pricing Submission, p.5

In emailing my draft submission on Water Plan 4 to GMW on 29 July I stated that: *prior to finalising my submission, I would be keen to participate in a face-to-face consultation, whether via a workshop or one on one, as indicated in section 3.3.4 of the Draft Plan.* No such opportunity was provided to me. I did receive a phone call from a senior GMW officer, but his stance was to defend GMW's proposals rather than engage in the substance of my arguments (since at the time of his call he had not had an opportunity to read my submission). A subsequent letter to me from another senior GMW officer provided information on the DTS consultation process (see issue #3) and again defended GMW's proposals rather than engage in the substance of my arguments.

A fair conclusion from these observations, together with the fact that the final Water Plan 4 did not respond to the substance of the criticisms, is that the proposals were not really open to change.

Issue #2: Potential bias towards large diverters in DTS consultation process

On several occasions I have asked GMW to provide me - - on a de-identified basis - - with the licenced extraction volumes of members of the DTS Working Group. This was refused with a letter to me of 6 August from a GMW senior officer stating only that membership was *diverse in licence volume, type and size, [including] large, medium and small licence holders with involvement from both groundwater, regulated and unregulated customer groups*. Accordingly I sought through FoI to obtain the licensed volumes - - again on a de-identified basis - - of all members of GMW's four RWSCs from which membership of the DTS Working Group was drawn. This request sought access to the "Details of Interests" declarations that RWSC members are required to complete, specifically the category asking members to declare: *any interest in water entitlements, regardless of size, and should include information on volume, type of entitlement and location*.

Earlier this month I received the results which can be summarised as follows:

Content of declaration	Number of declarations
n/a" or "/" or "-" or blank	25
"none"	1
"nil"	5
Licence disclosed but volume/type not specified	2
>100 ML	6
3 ML	1

It is difficult to believe that only 9 of 40 RWSC members hold water entitlements and these results suggest that GMW does not pay much attention to potential conflicts of interest that may arise from its advisory committee system. If members are not required to fully declare their interests, how is GMW able to assure its customers about the integrity of its consultative processes? While the GMW's WSC *Operating Rules* provide that WSC members have no conflict of interest arising from their water entitlements if they are making decisions/recommendations on pricing changes where they will be affected by the changes "in the same ways as thousands of other customers", this proviso would clearly not be met if Committee members came from a class of customers who benefited from the pricing changes, while a very large class of customers adversely affected were unrepresented.

By not disclosing information about the representativeness of the group that worked with GMW on developing the DTS, it is not possible for me, or the ESC, to know whether decisions that led to its development were clouded by potential conflicts of interest.

Issue #3: Inadequacy of DTS consultation process

GMW has ignored the Victorian Government requirement under the *Statement of Obligations* to engage in effective consultation with customers. In relation to the DTS this is evidenced by:

- No letter being sent to consumers advising them about the planned increased tariffs for small diverters, especially 2 ML D&S diverters, despite these being the only class of customers being subject to major tariff increases under the *Diverters' Tariff Strategy*.
- No mention being made in the July 2013 Newsletter article on the DTS advising readers of the proposed doubling of charges for a whole class of customers, namely 2 ML D&S diverters, when this was by far the biggest adverse change proposed.
- No mention being made in either of the Press Releases advertising consultation opportunities on the DTS alerting journalists of the proposed doubling of charges for a

whole class of customers, namely 2 ML D&S diverters, when this was probably the most newsworthy change proposed

- Reliance on press releases - - that failed to disclose key elements of the DTS - - as a surrogate means of communicating with customers when a direct mailout warning them directly of the financial impact was the proper course of action.
- A consultation period that was effectively only three weeks - - and in reality much shorter given the inadequacy of advertising it - - which is much too short to allow customers to carefully consider and respond to what was being proposed.
- Reliance on a select and unrepresentative group (see #2 above) to endorse the proposals.

Despite these evident shortcomings, and the lack of substantive submissions on the DTS, GMW has repeatedly informed its customers, and the ESC through its submission, of the “extensive consultation” that underpins the DTS. A better way of describing the DTS consultation process would be “superficial” rather than “extensive”.

Issue # 4: Tax versus user charge

Where a ‘user-charge’ far exceeds the costs it is supposed to cover it becomes, de facto, a tax. Taxes can only be set by Parliament, not public commercial bodies like GMW. Examining counterfactual positions is often a good way of assessing the reasonableness of many policies. If there was no irrigation in Victoria, GMW would not need to exist, however if D&S users did not exist there would be almost no change to GMW’s operations.

Issue #5: Presumed economic benefits accruing from larger commercial enterprises

The DTS states that *tariffs should encourage productive agriculture as that underpins the regional economy and community*. However this position should be rejected by the ESC. Rather best practice tariff structures for water should balance economic efficiency, social equity and environmental sustainability. And suggesting - - in the absence of any economic analysis - - that lowering tariffs for big irrigators at the expense of D&S users leads to greater agricultural production overall is simply an article of faith, not fact.

It may also be important to note that at the time the DTS was developed the AUD\$ was at historically high levels due to the mining boom and agricultural exporters were suffering. The controversy over Government support from SPC Ardmona comes quickly to mind. There was therefore considerable community pressure to find ways of supporting exporters, but without the appearance of Government subsidies. With water being a significant input cost, lowering water charges - - even if just for large diverters - - would have been appealing, especially if it was at the expense of the small and ‘invisible’ D&S users.

However with the AUD\$ having fallen to around 70 US cents, the merits of favouring big irrigators in the tariff structure should be re-examined. The ESC should also carefully consider how favouring big irrigators in the tariff design sits with the ACCC pricing principles.

Issue #6: Unjustified shift in tariff structure away from volumetric to fixed charges

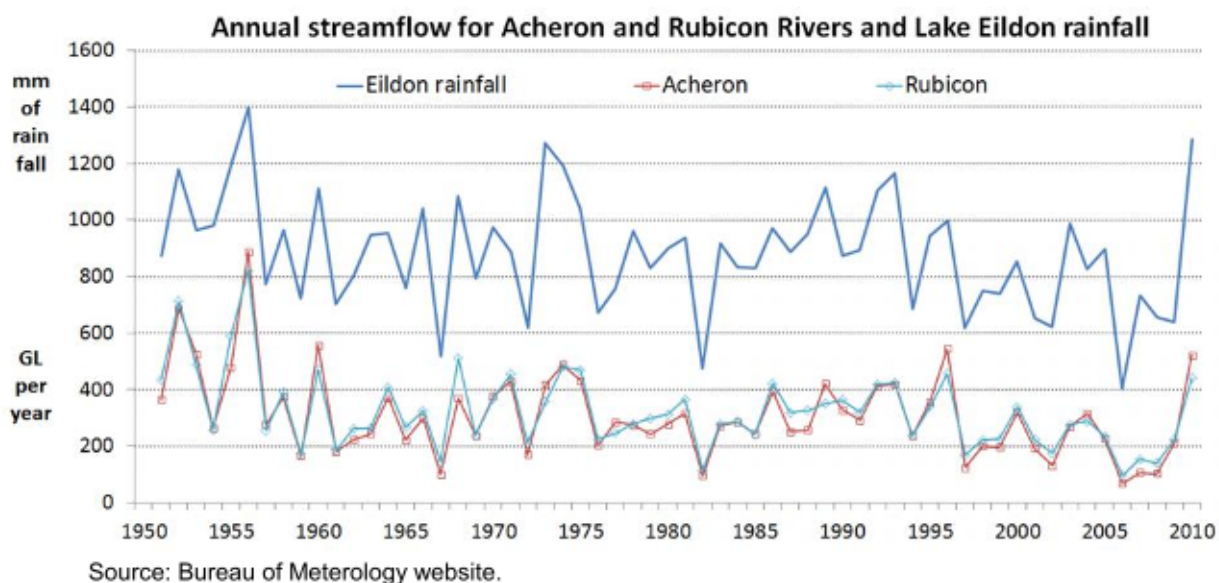
The flawed logic behind GMW's proposals for increased fixed charges is set out in my original submission on draft Water Plan 4 (attached) and should be considered as part of this submission.

The underlying problem is that Water Plan 4 takes a rudimentary activity-based costing approach by using easily measurable apparent cost drivers as the basis for tariffs (e.g number of service points, number of customers) rather than considering whether these are indeed the real drivers of GMW's costs. It is a tariff structure designed by accountants, not economists, and yet economic efficiency is a key requirement of the first of the ACCC's 5 water pricing principles. It is worth restating that if D&S users disappeared GMW cost structure would barely change, but if irrigation disappeared, so would GMW.

Issue #7: Ignoring climate change

It is little short of preposterous that in the face of declining rainfalls and streamflows in SE Australia, caused by catastrophic anthropogenic climate change, GMW would seek to create an incentive for big water users to increase their water consumption. Under Water Plan 4 large diverters on unregulated streams will see a massive drop in their bills, paid for by small D&S users such as me.

The following chart shows the annual rainfall at Lake Eildon and the streamflow records for the past 60 years for the two major tributaries immediately downstream, the Rubicon and Acheron, the latter being an unregulated stream supporting many diverters.



The decline in rainfall and streamflow over this period is immediately apparent and would be even more stark so if later years' data was also available. While not shown on the chart, the 30 year average rainfall for the period 1981-2010 is down 10% on the previous 30 years, but the streamflows are down more than 20% over the same period.

In proposing these huge pricing cuts for large diverters on unregulated streams in the face of declining streamflows GMW is not only showing a worrying disregard for the very resource that it is responsible for managing, but is also disregarding the ACCC's 5th pricing principle which is to facilitate efficient water use.

Issue #10: Inequitable impact of new structure

Amongst the arguments in my attached submission to GMW, it is particularly worth noting the end result for customers at the end of the proposed 3 year phase-in period¹. The right hand column shows that after the price rises over the next four years (on top of the increase in 2015-16), D&S users on unregulated streams will be paying 50 times more per ML than large diverters, around double that of small gravity irrigators in the Central Goulburn district, and far more than D&S groundwater users in the Shepparton District.

This pricing contrast is so stark that it is hardly surprising that GMW's Water Plan 4 submission disguises the comparisons by presenting only percentage changes rather than dollar amounts and not comparing the price changes for diverters alongside those for gravity customers.

		Indicative annual bill					Indicative annual bill	Cost per ML
	ML pa	2015-16	Proposed fee increases				2019-20	2019-20
			2016-17	2017-18	2018-19	2019-20		
unregulated stream diverter								
Small	2	\$282	\$70	\$89	\$35	\$35	\$511	\$255.50
Medium	70	\$804	\$0	-\$15	\$38	\$38	\$865	\$12.36
Large	280	\$2,245	-\$650	-\$405	\$48	\$48	\$1,286	\$4.59
regulated stream diverter								
Small	2	\$285	\$78	\$94	\$36	\$36	\$529	\$264.50
Medium	40	\$1,263	\$129	\$66	\$63	\$64	\$1,585	\$39.63
Large	170	\$4,149	\$143	\$68	\$162	\$166	\$4,688	\$27.58
Shepparton district groundwater								
Small	20	\$251	\$5	\$2	\$20	\$20	\$298	\$14.90
Medium	170	\$630	-\$104	-\$133	\$20	\$20	\$433	\$2.55
Large	500	\$1,465	-\$345	-\$430	\$20	\$20	\$730	\$1.46
Central Goulburn gravity								
Small	3	\$330	\$30	\$31	\$31	\$31	\$453	\$151.00
Medium	110	\$7,908	\$246	\$244	\$265	\$267	\$8,930	\$81.18
Large	410	\$25,576	\$451	\$445	\$531	\$539	\$27,542	\$67.18

Source: 2016-2020 Water Plan: What it means for our gravity customers, GMW, July 2015, and 2016-2020 Water Plan: What it means for our diversion customers, GMW, July 2015

The price of \$255.50 per ML in 5 years is approaching one quarter the current price of pressurised drinking water just down the road for Goulburn Valley Water customers in Buxton, or in Shepparton, of \$1,136 per ML. And domestic users in Buxton or Shepparton are not obliged to pay for a pump, maintain a pump, fuel a pump or provide on-site storage. While the figure of \$1,136 excludes the supply charge levied by Goulburn Valley Water, that is fully appropriate given the absence of infrastructure (apart from GMW itself) required to support D&S diverters on unregulated streams.

¹ Please note that the table and comments correct two errors in my GMW submission

Appendix

**Prior submission by N. Legge to Goulburn Murray RWC on
2016 Draft Water Plan**

SUMMARY

The pricing increases to be applied to domestic and stock (D&S) diverters under the *Draft 2016 Water Pricing Plan* prepared by Goulburn Murray Water are grossly unfair, and amount to a subsidy D&S users pay to larger users. The arguments supporting the pricing increases have been developed without proper consultation with those most adversely affected and are deeply flawed.

After the proposed price increases, D&S users – who pay for their own extraction infrastructure and running costs - will be paying annual fees approaching one quarter the amount paid by urban domestic consumers for pressurised drinking water delivered to their home. And on a per ML basis D&S users on unregulated streams will be paying 50 times more per ML than large diverters.

Goulburn Murray Water should amend its *Draft 2016 Water Pricing Plan* to limit D&S fee increases from 2016-17 onwards to CPI.

ISSUES

Extent of consultation

Frequent reference is made to the extensive consultation that has occurred in relation to the *Diverters' Tariff Strategy* which underpins the 2016 Water Plan. For example:

"GMW consulted a wide group of diverters during the development of the strategy."

"... in preparing the draft 2016 Water Plan there has been extensive consultation about tariff strategies during development and implementation stages, ..."

(2016 Water Pricing Submission)

However, such consultation seems to have mainly entailed the water services committees, or their members, which are dominated by users with commercial interests. While a *GMW Newsletter* (July 2013) invited consultation on the *Diverters' Tariff Strategy*, the accompanying article made no mention of the alarmingly large price increases proposed for small diverters, especially D&S diverters. As such many D&S customers, me included, would not have realised how critical it was that our voice should be heard. Confining dissemination of the existence of the Strategy to a Newsletter article is not good enough for such a critical issue. Rather, all diversion customers should have been sent a summary of the Strategy and invited to comment.

The *Diverters' Tariff Strategy* states:

"We sought views and comments on a draft of this Diverters' Tariff Strategy during our consultative process in July/August 2013 and stakeholder feedback was considered when developing this final tariff strategy."

A *GMW Newsletter* (Dec 2013) states that feedback on the Tariff Strategy principles was overwhelmingly positive, yet does not present any statistics on the source of that feedback. In fact one of the principles adopted by the Working Group - "encourage agricultural production" - suggests a disproportionate influence of larger agricultural interests. There is no evidence that the interests of D&S users are reflected anywhere. The agreement by WSC members to proposals that benefit larger commercial users at the expense of under-represented small users is potentially a conflict of interest which GMW may not have recognised.

It thus seems that the consultation that has occurred so far has neglected small diverters, especially D&S licensees, despite them being affected by the pricing structure in a highly adverse way.

This approach by GMW contravenes the Victorian Government's *Statement of Obligations* which requires Water Corporations to consult effectively with its customers, i.e. not just its Water Services Committees. It states:

In developing the Water Plan the Corporation must undertake effective consultation with:
(a) its customers and customer committees on matters of concern to its customers,
(b) [etc.,];

In the section of its 2016 Water Plan outlining the extent of consultation that has occurred, it would be helpful if G-M Water were to present statistics illustrating the source of input to the Strategy. For example:

- a) The number of customers holding only a D&S license who were represented on the Strategy Working Group
- b) The number of customers holding medium or large entitlement license (<10ML) who were represented on the Strategy Working Group
- c) Statistics revealing the overall number and proportion of different class of diverters consulted on the new tariff structure, aside from participants on the Strategy Working Group.

Why Domestic and Stock licensees are different

Unlike commercially-motivated customers, a 2ML D&S licence is a longstanding right of rural property owners adjacent to streams. As such it needs to be treated differently from commercial licence holders whether they are diverters, gravity or groundwater licensees.

A D&S licence permits a modest basic use for household use, watering of a kitchen garden and watering points for stock. This modest usage should be seen as part of the economic fabric of rural communities and not subordinate to irrigation rights as in the *Diverters' Tariff Strategy*. The ability of D&S licence holders to protect waterways via offstream watering points represents a positive contribution to the health of our waterways which is something that one would hope GMW would recognise, and encourage.

Another fundamental point the Strategy ignores is that if the only water users in the Goulburn Murray area were diverters from unregulated streams GMW wouldn't need to exist, or at least would have trivial costs compared to the current structure. While GMW does incur management costs for D&S users on regulated streams, this is not the case for groundwater D&S users and certainly not the case for unregulated streams. And in the case of regulated streams, the construction of storages to regulate flow will almost always have arisen due to demands attributable to irrigators, not D&S users.

Even if all GMW's 1,189 D&S customers used their entire 2ML entitlement each year, this would amount to barely 2GL which is less than 0.2% of the 1,440GL GMW delivered to irrigators and diverters on regulated rivers in 2013-14.

Under-entitlement use by D&S licensees

I also regard my D&S entitlement as drought insurance since I have a dam which can meet much of my non-potable water requirements. Indeed I have not used any of my allocation since the 2009 'Black Saturday' fires since I still have not finished rebuilding, so have not yet established a kitchen garden and am carrying no livestock.

The pricing proposals neglect to take account of such circumstances which apply especially to D&S users who cannot trade water. This issue was recognised in the *Diverters' Tariff Strategy* as follows:

"Licensees also understand that many diverters do not fully utilise their licence entitlement each year, which can benefit other licensed users by delaying when restrictions need to be introduced or, when water is plentiful, adding to the 'pool' of water available to other licensed user."

Despite recognising this issue in the Strategy document, no account appears to have been taken of it in the pricing structure.

Consequences of G-M Water's proposals made transparent

The following table – based on data presented in the 2016 Draft Plan - shows how unfair G-M Water's proposals really are. The right hand column shows that after the price rises over the next four years (on top of the increase in 2015-16), D&S users on unregulated streams will be paying 50 times more per ML than large diverters, almost as much as small gravity irrigators in the Central Goulburn, and far more than D&S groundwater users in the Shepparton District.

		Indicative annual bill		Proposed fee increases			Indicative annual bill	Cost per ML
	ML pa	2015-16	2016-17	2017-18	2018-19	2019-20	2019-20	2019-20
unregulated stream diverter								
Small	2	\$282	\$70	\$89	\$35	\$35	\$511	\$255.50
Medium	70	\$804	\$0	-\$15	\$38	\$38	\$865	\$12.36
Large	280	\$2,245	-\$650	-\$405	\$48	\$48	\$1,286	\$4.59
regulated stream diverter								
Small	2	\$285	\$78	\$94	\$36	\$36	\$529	\$264.50
Medium	40	\$1,263	\$129	\$66	\$63	\$64	\$1,585	\$39.63
Large	170	\$4,149	\$143	\$68	\$162	\$166	\$4,688	\$27.58
Shepparton district groundwater								
Small	20	\$251	\$5	\$2	\$20	\$20	\$298	\$14.90
Medium	170	\$630	-\$104	-\$133	\$20	\$20	\$433	\$2.55
Large	500	\$1,465	-\$345	-\$430	\$20	\$20	\$730	\$1.46
Central Goulburn gravity								
Small	11*	\$330	\$30	\$31	\$31	\$31	\$453	\$41.37
Medium	548*	\$7,908	\$246	\$244	\$265	\$267	\$8,930	\$16.31
Large	1716*	\$25,576	\$451	\$445	\$531	\$539	\$27,542	\$16.05

* These figures based on multiplying the ML per day figures by 365

The price of \$255.5 per ML in 5 years is approaching one quarter the current price of pressurised drinking water just down the road in Buxton, or in Shepparton, of \$1,136 per ML. And domestic users in Buxton or Shepparton are not obliged to pay for a pump, maintain a pump, fuel a pump or

provide on-site storage. While the figure of \$1,136 excludes the supply charge levied by Goulburn Valley Water, that is appropriate given the absence of infrastructure (apart from GMW itself) required to support D&S diverters on unregulated streams.

It should be noted that where a 'user-charge' far exceeds the costs it is supposed to cover it becomes, de facto, a tax. And taxes can only be set by Parliament, not public commercial bodies.

Service point Fee

Although D&S sites incur a lower service point fee than metered sites (\$100 vs \$200 in 2015-16, and \$100 vs \$300 in 2016-17) the \$100 fee remains unreasonably high and appears to include costs attributable to metering. Service point costs that include costs associated with metered points are grossly unfair. Successive Governments have long had the power to require D&S points to be metered but for reasons largely related to cost-effectiveness have chosen not to do so. For G-M Water to adopt a fee structure in which unmetered users pay for costs due to metered users is unfair and at odds with ESC pricing principles.

The GMW information sheet '*Diversion fees and services*' dated July 2015 indicates that the non-meter related costs underpinning the \$100 service point fee comprise

"Performing both routine and random checks of your water source to ensure you're able to access water as efficiently as possible and your supply is not compromised by illegal removal of water."

In relation to the access efficiency element this should be of concern only to the customer, not to GMW. In relation to the 'policing' element, it is hardly fair that honest users should be obliged to bear these costs, especially since much water theft presumably occurs via unlicensed extraction points. More significantly, the application of a service point approach to apportioning these costs is particularly unfair given that the need to guard against water theft is most critical for large users since it is their entitlements that could be most jeopardised by overextraction. A volumetric based tariff would be a far fairer way of funding the costs of policing.

Moreover, in the 7 years I have been a D&S licensee I have never had a visit from GMW inspector to inspect my service point. It would be of great help to those attempting to analyse the fairness of the proposals if GMW presented statistics show the profile of sites – according to licence size - that water inspectors have visited over the past few years.

It has been suggested that GMW's inspectorial function is designed to protect D&S users and so they should pay for this protection regardless of whether D&S users themselves are inspected. This is fallacious. Asking D&S users to bear any share of the inspectorial costs, much less such a disproportionate share as is proposed, is akin to requiring cyclists, or even pedestrians, to pay registration fees to use public roads. Since the need to pave roads, to have traffic signals, to have traffic police, and so on is unquestionably due to motor vehicles, it is motorists who should pay, not incidental users like cyclists and pedestrians.

D&S users are in an analogous situation. D&S users are the most longstanding users of our streams and it is irrigators who should bear the lion's share of GMW's inspectorial role.

Access Management Fee

"Tariffs should encourage productive agriculture as that underpins the regional economy and community." (DTS Nov 2013)

"The Working Group considered that this approach would encourage agricultural production by larger commercial enterprises." (DTS Nov 2013)

While encouraging agricultural production is a worthy goal, this does not extend to sanctioning providing a financial benefit from one class of customers to another. As stated above, the modest usage by D&S customers should be seen as part of the economic fabric of agricultural communities and not a source of subsidy to large commercial enterprises.

The establishment of a service point based access fee is particularly unfair on D&S users. The services that the GMW information sheet *'Diversion fees and services'* lists as comprising access services are far more closely linked with entitlement volume than with service points. Moreover none of the listed services apply to D&S users.

Resource Management Fee

A per ML basis for setting the resource management fee (\$2.94 in 2015-16 for unregulated surface water diverters) is appropriate, but it is unclear why users drawing water from regulated streams and rivers are exempt. While these users may pay an entitlement storage fee, they also benefit from the resource management services identified in the GMW information sheet *'Diversion fees and services'* and should pay accordingly.

Service Fee

There are only two services identified in the GMW information sheet *'Diversion fees and services'* - helping with inquiries and providing advice about access. It is very hard to see how these warrant a flat annual fee, much less one set at \$100. Surely advice about access bears a fairly close relation to the volume of entitlement. The lack of any statistics in GMW's *Diverters' Tariff Strategy* publication showing otherwise suggests that the move from a volumetric charge to a flat fee is motivated, at least in part, by a desire for commercial users – those presumed to have been consulted in developing the Strategy – to see their charges drop.

Given the size of the charge, it is assumed that the information sheet *'Diversion fees and services'* has neglected to list billing costs as one of the services that the Service Fee aims to cover since billing was specifically identified in the *Diverters' Tariff Strategy* and appears not to fit in any of the other fee items. This being the case, it should be emphasized that billing costs do not necessarily warrant a flat fee structure.

A billing system if designed just for D&S would be very simple and certainly would not cost \$800,000 pa to run, as set out in the *Diverters' Tariff Strategy*. In particular, it would not need to include a delivery volume itemisation, simply an invariant annual charge. Also the billing system costs entailed in amalgamating separate licenses and service points into a single customer charge is not a cost that should be shared amongst sole D&S users. Water registry costs should also not be borne by D&S customers who are not involved in trading. For, these reasons requiring Sole D&S customers to bear a pro-rata share of overall billing costs based on total GMW customer numbers is grossly unfair.

Approach to costing

“The approach adopted by the Working Group, and approved by GMW’s Board, reflects the fact that most of GMW’s costs relate to the number of licences or water shares issued or to the number of service points monitored. It recognises that these costs generally do not vary significantly in proportion to a customer’s entitlement volume.” (DTS Nov 2013)

At a superficial level this statement may be defensible, however it is critical to subject it to deeper analysis. For example, G-M Water’s capital costs (depreciation and return on capital) are mainly related to water volumes. And while GMW’s short run costs may be fixed, in the long run all its costs are variable. As is argued earlier, the entire GMW organisation exists to support irrigators and would not need to exist if the only users were D&S users.

And the bigger the irrigation volume, the more critical is the role of GMW. A risk-management approach to assessing operational priorities for diverters would presumably entail most effort being directed to areas of highest risk, whether in terms of delivery efficiency, water security or revenue loss.