

Water Price Review  
Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne 3000



30 Jan 2008

Dear Commissioners,

I wish to make a submission regarding South Gippsland Water's Water Plan and pricing . I also enclose a copy of the submission made directly to South Gippsland Water in September last year.

I believe South Gippsland Water's new plan is excessively conservative in water demand projections , proposals for capital works to augment water storages , and consequently in proposed prices to customers.

### **Demand and Supply**

Some of the previous plan's capital works have been deferred to the new business period , due to the need for emergency spending of \$8.5 million on pumping when security of supply , particularly to Leongatha , was threatened in 2006/7 . Leongatha endured about 17 months continuous stage 4 restrictions in 2006 and 2007. To keep the Ruby Creek system at about 18% capacity , continual pumping from bores and the Tarwin River was necessary from about October 2006.

The new plan includes two deferred augmentation projects – augmentation/cum/'dam safety' in Korumburra (Coalition Creel project) and a 200 MI Yarram offstream storage (p.26) as well as augmentation for the villages of Fish Creek and Toora. Only continued bore and stream pumping can augment Leongatha's supply under South Gippsland Water's scenario for the next 5 years.

On page 77 of the water plan the projected annual consumption from Ruby Creek 2008/9 to 2012/13 is 1834 MI. The system's capacity is 1910 megalitres. Total consumption in 2004/5 was 2067 MI; in 2005/6 it was 2037 MI ; in 2006/7 it was 1566 MI including augmentation by pumping, with stage 4 restrictions applying from 1 July 2006. Traditionally Leongatha's small storages would be topped up at various times during the year in 'normal' climate conditions. When el nino and climate change bring no or reduced autumn breaks, reduced spring and hardly any summer rain , topping up over the year doesn't occur. The problem is storage capacity not total annual rainfall.

South Gippsland Water argues that Leongatha's demand will contract to the convenient figure of 1834 MI because residents will reduce demand to near drought- restricted levels and because of dramatic reductions by Murray Goulburn which in the past has used 60% of the water from the Ruby Creek system. The factory has announced that their aim is to become self-sufficient in water within 10 years, and was promised \$1.6 million by the state government to subsidise the infrastructure costs. At the community consultation meeting in Leongatha in about September 2007 SGW's spokesman showed a graph demonstrating how supply would meet demand in the Ruby Creek system over the next 5 years. This seemed to assume 'normal' inflows and a steady successful stepped reduction in demand by Murray Goulburn . This graph appeared very tight and relies on Murray Goulburn's plans proceeding on schedule and on budget , reduced per capita demand from residents , and significant reductions in demand by other major users and also 'other' users. In 2004/5 ' other' users i.e. Non-domestic/farm , untreated by agreement , concessional and water used in the production of potable water , consumed 409 MI from Ruby Creek . This category has disappeared from the table on page 77 , with only 'supply by agreement demand' quoted at a mere 25 MI/year.

South Gippsland Water's demand projections have not been altogether reliable in the past. Actual connections outstripped the projected figures in the past 3 years ( p.23). Leongatha's residential district is expanding at a steady pace and substantial retirement developments are under way and planned. The overall comparisons of projected and actual demand show that in the 'normal' year, 2005/2006, actual urban demand by Murray Goulburn, other major customers and agreement customers outstripped water plan projections by about 9%(p.23) though residential demand was slightly below plan projections. In drought conditions the water plan's 200,000kl figure for bulk water ( sold to Westernport from Lance Creek ) was more than tripled; residential and Murray Goulburn use from Ruby Creek perforce dropped, but 'other major customers' and 'agreement customers' used more than projected as well.

These anomalies cast doubt on the projections for the Ruby Creek system over the next 5 years. Leongatha's security of supply could well be at risk again in the next 5 years with a return of el Nino exacerbated by climate change. No new businesses dependent on substantial town water supplies are likely to be attracted to Leongatha.

Despite the recent history of exceptionally low supply and continuing over-plan demand by some consumers, South Gippsland Water seems happy to rely on emergency pumping and talk of a review of all water augmentation projects in the light of the government's desalination decision. It beggars belief that water bought from the desalination company and piped to Leongatha could be competitively priced with water captured in an augmented or off-stream storage closer to Leongatha.

### **Capital Works**

The plan outlines a program of some supply augmentation, though none for the largest severely-affected communities, as well as overdue sewerage works for small communities. Security of water supply to townships is not mentioned, but rather seems to be studiously ignored. All augmentation projects are put in doubt by the proviso that a review will be needed in light of the desalination project which is unlikely to be completed during the plan's time frame.

The review must include thorough cost-benefit and environmental impact comparisons of augmentation of inland storages with the purchase and piping of desalinated water to inland towns in South Gippsland.

The plan laments that while the projected capital expenditure is 'relatively modest' (p.58) - arguably far too modest in the circumstances - it will require a 'considerable draw-down of debt', though it will enhance the RAB considerably. Prior decisions about the amount to spend on capital, legislated responsibilities and perhaps a desire to spread funds around the authority's area of responsibility seem to have determined the capital works plans, not prioritised needs.

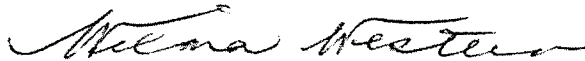
### **Pricing**

In deciding the average price increase of 3.7% one suspects that South Gippsland Water has had an eye to what is politically acceptable, though 3.7% is a 'real' not a nominal increase. Again the amount seems to have been influenced by a predetermined amount allocated to operating and capital expenses and a 'safe' option, rather than a result of identifying all urgent needs and prioritising them, the options for meeting the needs, then examining how the necessary funds can be raised.

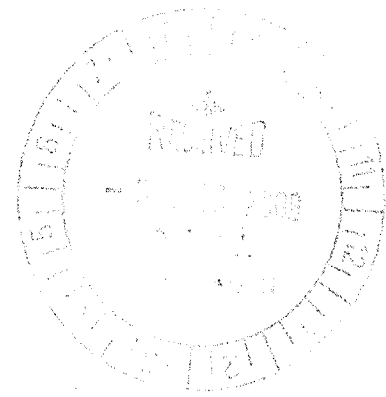
In rejigging charges to put more emphasis on the volumetric factor while holding fixed charges relatively steady, costs will be increased to tenants and large water users by about 8% per annum. If 8 % per annum is regarded as the maximum reasonable increase to these users , surely the 3.7% overall is overly conservative when there is an urgent need for more funds for capital works.

It is relevant that South Gippsland Shire Council insisted that a rate increase of 6% was necessary while Bass Coast's was higher . Un fortunately much of local government's rate revenue will be spent on activities less essential and valuable than secure and high quality water supplies and environmentally responsible waste water treatment .

Wilma Western



Water Plan Draft Submissions  
South Gippsland Water  
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10 September 2007

Dear Sir

I would like to make the following submission regarding the Water Plan for 2008/9 to 2012/13.

The South Gippsland Water Plan 2008/9 to 2012/13 is overly conservative and will not fulfil several of the Board's stated objectives and compliance standards. Important aspects of the plan are also provisional because the document states : "if desalinated water is found to be a viable option for South Gippsland all future water supply augmentations as set out in the South Gippsland Water, Water Supply demand Strategy and this Water Plan would need to be re-evaluated".(p.9)

Whatever the costs and benefits of desalination, desalinated water will not be supplied from Wonthaggi before 2011-2012 , so at the very least this statement will condemn the communities of Leongatha , Koonwarra , Fish Creek and Yarram to several more years of high level restrictions. Leongatha has borne high level restrictions in 1998 , 2002 , 2006 and 2007 so far , with a continuous 14 months run of level 4 restrictions currently. To maintain this minimal level of supply, continual pumping from bores , creeks and the Tarwin River was carried out. The capital cost of emergency augmentation of water supply in the whole South Gippsland area was 7.5 million over the past year.with operating costs over 1 million. (p.58)

Wonthaggi and Inverloch are also currently on level 4 restrictions with emergency augmentation being carried out ,largely because the Board was willing to supply 625.6 megalitres to Westernport Water when the previous Plan forecast 200 megalitres of sales to Westernport. All customers of South Gippsland Water suffer extra charges because the board sold that 625.6 megalitres for a mere \$43,000 when the retail price of the water would have been \$500,000 (p.24).

Wonthaggi and Inverloch are currently dependent on pumping from the Powlett River for this low level supply,with river levels falling now. It is totally unsatisfactory that the Plan makes no statement about the Board's policy on further short term supply or price of water supplied in future from Lance Creek to the Westernport area.

The above information demonstrates that the supply standard of of high level restrictions no more frequent than every 10 years has not been met during the last decade and has little chance of being met in continuing drier conditions for the period of the new water plan . It is mere wishful thinking to state that the average levels of water consumption achieved by permanent residential water users 2006 /7 will be willingly adopted on a permanent basis , and quite unfair as the restrictions have not applied equally across SGW's area.

The Leongatha public meeting held late October or early November 2006 made it clear that residents were willing to accept level 4 restrictions in short term exceptional circumstances only but they demanded assurances that reliable permanent augmentation, for example from the long-planned Wilkur Creek off – stream storage , would take place very soon. The corporation's spokespeople gave the meeting assurances there would be action on this.

But it seems that the Board had little intention of doing anything of the sort , because no permanent surface water augmentation for the Ruby Creek system was included in the new Plan even before

the government's surprise announcement re the Wonthaggi desalination project.

Instead the Water Plan relies on:

- 1. a permanent reduction in residential usage close to the level 4 restricted usage for permanent residents of the East/West district.(p.80)
- 2.continuing but less dramatic reduction in non-residential use (excluding majors) in the East/West district but there is an unexplained continuing increase on non-residential use for the Southern District
- 3.reduced usage by Murray Goulburn of a minimum 30% by 2008/2009;and continuing large reductions from then on .

These basic assumptions are not satisfactory.

- 1.the planned residential average usage is close to the levels achieved under widespread high level restrictions and it masks the variations – i.e.harsh restrictions on Ruby Creek customers and lesser restrictions elsewhere . Leongatha residents are not willing to continue under prolonged high level restrictions and should not be expected to.
- 2. any new non-residential use seems to be virtually ruled out for the East/West district
- 3.the supply demand graph for the Ruby Creek system presented at SGW's Leongatha consultation on 30 August showed a very tight situation relying on significant stepped reductions in usage by Murray Goulburn ; continued restricted supplies to other users and continuous pumping from the Tarwin River ( presuming the necessary permits could be obtained) and from bores ( assuming the aquifer was not overcommitted). This was by no means reassuring.

Furthermore and most importantly, this scenario rules out any new water-reliant industry in Leongatha. For the township of Leongatha , the stated priority objective : “ facilitate regional development and ...enabling infrastructure” is a hollow joke.

The Plan's statements regarding desalination are also unsatisfactory. Of course SGW needs to investigate how much of the Wonthaggi plant's supply could be potentially available to South Gippsland ( and for how many years given the large projected increases in Melbourne's population) – with relation to Wonthaggi , Inverloch and the coastal communities to the West. There would need to be rigorous cost-benefit analyses,including possible contract obligations regardless of weather or stream-flow conditions , and cost-benefit and environmental impact comparisons with other possible supplies.

But to claim that the desalination plant will affect supplies to Yarram , Fish Creek and Leongatha stretches credibility.

Even assuming desalinated supplies were available to supplement Ruby Creek storages over the long-term, surely installing piping and pumping expensive desalinated water from Wonthaggi to Leongatha would be more costly than off-stream augmentation from good flows in nearby untapped streams. Then there is the issue of South Gippsland Water's obligation to pay for contracted desalinated supplies regardless of how full the existing storages might be.

The Plan stresses the importance of limiting the authority's capital expenditure because of the need to contain debt levels. SGW already has carried-forward tax losses (pp57,58). There is no comparison with benchmark 'gearing'levels . To halt capital expenditure on off-stream water supply augmentation, especially for the inland towns , and hugely increase operating expenses through purchase and transport of desalinated water is not necessarily a good business decision.

Expenditure figures in the Plan give consumers no basis for comparison , for example , what is included under "corporate"? How does the percentage spent on 'corporate' compared with 'operating' measure up with other country water authorities? The percentages labelled 'corporate' especially in the sewerage section seem rather high.

It does not strengthen SGW's case to use transparent,unconvincing 'spin' portraying capital expenditure on small town sewerage schemes as 'response to growth' when the schemes are overdue and necessary to fulfil statutory obligations protecting health and the environment.(p.58)However they are most welcome to those communities.

While briefing South Gippsland Shire Council on the Water Plan , Mr Evans claimed proposed water rates increases were considerably less than expected. After the 2006/2007 experience , most water customers actually expect significant rises ,especially in volumetric costs . South Gippsland Water's East/West customers know there are several untapped surface water catchments,some of which could provide extra storage at modest cost and minimal environmental impacts. The Board's satisfaction at their relatively low projected increases seems shortsighted .

The figures for the Ruby Creek system show that in a relatively 'normal' rainfall year such as 2004/5 2067 megalitres were used, more than the 1910 megalitres total capacity of the reservoirs. There have been steady increases in residential connections in Leongatha in recent years. But SGW seems willing to subject Leongatha to a continuing regime of restrictions , total reliance on Murray Goulburn's ability and willingness to continuedramatic reductions in its water usage from the Ruby Creek system , continued high level pumping costs , and an inability to cater for further regional growth in the inland towns of Leongatha and Korumburra.

We believe these decisions need to be changed.

Wilma and Peter Western