

# 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
<b>Total</b>	<b>25 (excluding all day drop in opportunities)</b>	<b>289</b>

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

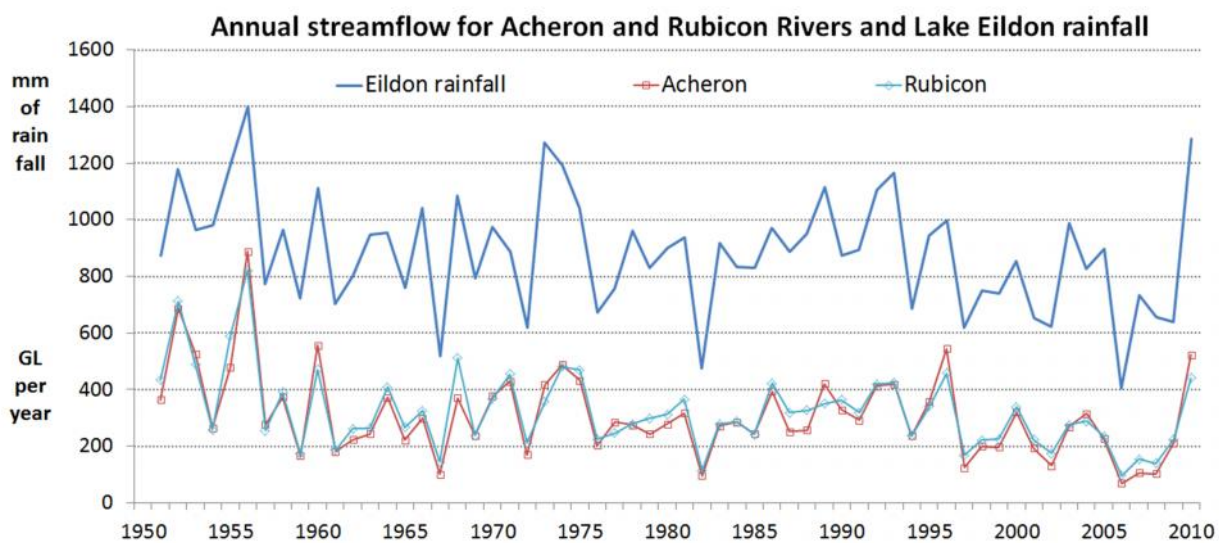
The flawed logic behind GMW's proposals for increased fixed charges is set out in my original submission on draft Water Plan 4 (attached) and should be considered as part of this submission.

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.



Source: Bureau of Meteorology website.

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 5<sup>th</sup> 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 period<sup>1</sup>. 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	2016-17	2017-18	2018-19	2019-20	2019-20	2019-20
<b>unregulated stream diverter</b>								
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
<b>regulated stream diverter</b>								
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
<b>Shepparton district groundwater</b>								
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
<b>Central Goulburn gravity</b>								
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.

<sup>1</sup> 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 *Diverter's 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.

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<b>Central Goulburn gravity</b>								
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.