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Essential Services Commission
Level 2, 35 Spring Street
Melbourne 3000

GWM WATER PLAN 2008-2013

We have followed with interest and some dismay the planning, development and now construction of the Wimmera Mallee Pipeline.

This first cost blowout is of no surprise when considering the project had been costed out when a barrel of oil was $30, but before tenders had been called the oil price had already risen to $60 barrel. Petroleum based products such as PVC make up 80% of the materials used. The cost had nowhere else to go but up.

$7 million was provided to prepare 3 Business Cases to achieve an outcome which would sustain and enhance the viability of the region and be fair and equitable in the sharing of costs and benefits across the region.
Now we understand the 3 Business Cases are no longer relevant and that since the securing of tenders the project is now a work in progress.

WIMMERA MALLEE PIPELINE COST INCREASES

The original cost of $501 million had allowances for material price increases, built in.
Now we have a cost shortfall of $268 million how can this be?

State and Federal Government are both only contributing to the capital cost and have capped their contribution at $167 million each.
How are we as farmers in the midst of a 10 year drought, with this year looking like another failure, expected to fund the shortfall. The Water Plan (p78) states "More than 90% of the area serviced by GWM Water has been drought-affected and qualifies for EC funding". 10,000 Urban customers are on a pension or health care cards, which is 40% of the total residential customer base.
The average farm debt level in the region is now over $500,000.

On farm costs of $82 million have always been included in any previous costing for the WMPL.
Why, is the cost of the project now quoted to be $688 million <u>exclusive</u> of on farm costs? If the project costs have risen, then farmer's costs would also have risen at the same rate, than the total <u>inclusive</u> cost of the WMPL would be in the vicinity of $811 million.

A major risk to the WMPL was if the capital and operating cost estimated for the project proved to be greater than expected. An economic assessment had been tested on a range of capital and operating cost to demonstrate the worth of the project. With the cost at $501 million, a 15% increase in capital cost of the major component items in the pipeline would still represent a positive Benefit Cost ratio of $1.09($1.09 return for every $1 spent)(Vol. 2 WMPP Business Case)
With the cost blowout representing a 53% increase in major components, the pipeline would represent a negative Benefit Cost ratio of 0.78 (0.78 return for every $1 spent)
Other risks were: - Forecast sale of water, which is available for future growth, not taken up. Cost per megalitre too expensive. Water capacity inadequate.
Decrease in the customer base and an agriculture downturn in the region.

Some additional costs were excluded from the original costing including,
: hydrants and tanks for fire fighting.
: land acquisition costs for pump station/balancing storages.
: legal costs – easements.
: river and headwork improvements.
: management and water for lakes and wetlands.
: power line upgrades and usage increases.
: culvert and bridge maintenance after channel decommissioning.
Whether the Water authority or Councils cover these additional costs, it will be the rate payer who ultimately pays.
How can the region afford this?

The project is well on its way to topping a $1 billion. Users are responsible for administration costs, maintenance, repairs and full cost recovery of the project, replacement of pumps and storage linings after 20 years and pipes around 50 years.
All to come from a consumption based Tariff! The Water Plan 2008-2013 seeks a price increase of 17.1% nominal in the first year.
How high will this be in the following 5 years?

State and Federal Government along with the community, should direct GWM Water to fully complete the pipeline stages they have started, as this would clearly indicate the true cost of instillation, power usage, pump cost, water usage and water savings.
To continue on with no accurate figures would be irresponsible given the regions economic climate.
GWM Water might find their pipes will lead to no one!

Yours Sincerely

Tanya Clark.