

Gippsland Resources Group (GRG)

Response to

2008 Water Price Review, Draft Decision Volume 2

Gippsland Water - March, 2008

Essential Services Commission (ESC)

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Having read both Volumes of the 2008 Water Price Review, the Victorian Auditor-General's report 'Planning for Water Infrastructure in Victoria: April 2008' and after attending the ESC forum at the Century Inn, Traralgon on 28th April, 2008, Gippsland Resources Group (GRG) offer the following comments in response to the Review:

Consultation

We found the consultation to be very poor quality. Considering that Gippsland Water's draft Plan was lodged with the ESC on 31st September, 2007 before the one and only public forum was held, GRG's view about the nature of the consultation can only be cynical. At the original meeting and the meeting held in April, 2008 we did not notice any person or group that appeared to be supportive on the plan. We believe it is a sad reflection on the Board of Gippsland Water that they expect their 2008-2013 infrastructure and capital works program of \$250 million (approximately), developed with the State government, to proceed with so little scrutiny and public approval.

The makeup of the Board indicates a bias toward business that is evident in the Plan given that ordinary small customers are expected to subsidise the larger users. To achieve an equitable result there should be community members on the Board actively representing community interests in fair pricing of water ordinary small customers. It has become obvious since the original launch of the Plan that there was a basic major flaw and that Gippsland Water has been less than forthcoming about the prices paid for water by the six major industrial users. It appears that 'big six' use seventy three percent of the allocation while ordinary small customers use twenty seven percent. Yet ordinary people aren't allowed to know the prices paid by the 'big six' as these are deemed to be 'commercial in confidence'. We appear to be subsidising the major users under the Plan.

Commercial in Confidence

Normal practice in the industries that GRG have been involved in limits 'commercial in confidence' to the tendering process and the letting of contracts and/or framing agreements. Under what definition are the industrial tariffs to be kept secret indefinitely? National competition policy dictates that one group cannot subsidise another and to do so

is deemed to be illegal. The Chairman of the ESC acknowledged this at the meeting on the 28th April, 2008 and confirmed the situation on *ABC Radio* the following day. He added that he had been assured by Gippsland Water that there was no cross subsidisation. Before the draft Plan is finally approved the ESC should ensure that the industrial tariffs of the 'big six' are made openly available for public scrutiny.

It is obvious that this Plan was conceived without due consideration for the consumer's capacity to pay. Power prices were increased in January, 2008 by an average seventeen percent, the cost of living has skyrocketed and fuel has gone through the roof. It has become extremely difficult for those of fixed incomes, particularly pensioners, to manage. The hardship provisions apparently provided by Gippsland Water aren't practical. The proposed price rises will have an inflationary effect.

Our research over the last eight months has revealed many glaring anomalies which need to be rectified and demonstrate why the Plan should not be approved in its present form.

Gippsland Water Factory

The Water Factory commenced with little consultation and has an estimated cost of \$120 million. The government has apparently contributed \$50 million to the project (41.69%) from various sources. Since construction began the cost has blown out, depending on the accuracy of the information, up to \$174 million. For example, the ESC draft decision price review 2007 rates the cost at \$170 million while a Gippsland Water advertising feature appearing in the *Latrobe Valley Express* (11/2/08) rates the cost at \$174 million. What is the real budget and why is the government still only prepared to commit \$50 million to this uncapped construction (28.74%).

(A) Beneficiaries

So far the only beneficiary of the recycled water from the Gippsland Water Factory is the APM, Maryvale. Obviously, the balance of the 'big six' is not interested in the recycled product and the APM itself is only going to use a minimal amount. The vast majority of this water is to be piped down the regional outfall sewer (ROS) in an attempt to relieve

the foul odour emanating from some forty kilometers of open drain in the Longford area. It is worth recalling that the ROS was a direct result of government policy in the 1980s and has long been most unpopular with Gippsland's regional community.

Other Suggested Uses for Recycled Water

GRG believe more appropriate uses for the recycled water could be:

1. Drought proofing of sporting grounds at minimal cost along the pipeline route to the outfall;
2. Replenishment of wet lands;
3. Regeneration of environmental flows in rivers and waterways.

Assumed License Fees

Apart from being expected to wear the State's highest water price increases (100%) in the Gippsland Water Plan, the same applies to license fees. Table 4.4 from the ESC's draft Decision shows the DHS and EPA license fees at \$460,000 (2007 prices). Compare this to Barwon which has a much larger consumer base at \$210,000: less than half the Gippsland rate. Table 4.5 Assumed ESC License Fees shows \$120,000 from 2008 to 2013. Barwon is costed at \$100,000 from 2008 to 2013. At the public meeting on 28th April, 2008 the Chairman of the ESC advised that the calculation of these fees was 'revenue based'.

Omission of Analysis on Volumetric and separate service charges

In their draft Decision, the ESC has failed to include an analysis of the charges proposed for volumetric usage of water and the separate service charge all property owners must pay. This omission means that property owners who implement strategies to reduce water consumption will be penalized by the proposed massive increases in the service charge. This will be a disincentive to conserve water. It also ignores the threats posed by climate change to the whole economic strategy.

Capital Works subsidized by Concessional Rebates?

The ESC draft Decision fails to analyse the cost of providing capital works budget through concessional rebates from low income customers. Cost comparisons should be included in the final decision between proposed funding arrangements, concession sourced rebates and direct government contributions. Rough calculations undertaken by GRG that assume the contribution of concession sourced rebates to subsidize the infrastructure works program show such sources of capital to be in the order of twenty five percent more costly than direct government contributions to the works program.

Loch Sport Sewer Project \$45 million

It appears that this project is a carry-over from the previous State government. As such it is, again, a result of government policy. Loch Sport is not in Gippsland Water's jurisdiction and although Gippsland Water consumers are expected to carry the cost they receive no apparent benefits.

Victorian Auditor-General's Report, April, 2008

The Report is centered on planning for water infrastructure in Victoria. A sustainable water strategy for the central region of Victoria was completed in October, 2006. This led to a \$4.9 billion Victorian water plan to be developed quickly over a six month period. A recurring theme in this report, in GRG's opinion, is the marked lack of consultation with consumers and stakeholders in the development of this strategy. There appears to be little application to Gippsland Water's resource structure in the development of this strategy either.

(A) Victorian Water Trust (VWT)

The Minister for Water is responsible for funding from the VWT and has an advisory council to recommend funding for projects such as major recycling, water sensitive urban design and water use efficiency.

Conclusions

Projects that are government policy such as the Gippsland Water Factory at \$125 million and the Loch Sport sewer project at \$45 million and that confer no direct benefit for Gippsland Water consumers while having a Victoria-wide significance should be funded by government agencies such as the Victorian Water Trust.

The Gippsland Water Plan 2008-2013 should be revamped to exclude the government projects in order to arrive at a Plan that is fair and equitable to Gippsland Water's ordinary small consumers and rate payers.