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Advance Morwell Inc.

Chairman: John Guy

Secretary: Keith Brownbill

5 February 2008

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

emailed to water@esc.vic.gov.au

Dear Sir

GIPPSLAND WATER DRAFT FIVE-YEAR WATER PLAN

Advance Morwell wish to submit the following comments on the Issues Paper relating to the Gippsland Water draft five-year Water Plan. Advance Morwell is a not-for-profit organisation with 150 members representing local business, large corporations and the general community. Our committee works hard to improve the economic and social wellbeing of residents of Morwell and the wider Latrobe City.

We have identified three key factors in the Gippsland Water submission that have a significant cost impact on the proposed doubling of tariffs over the term of the plan.

1. Gippsland Water Factory

The Gippsland Water Factory is the key cost element in the plan, the twin drivers of this facility being the need to provide additional wastewater disposal capacity for the expansion of Australian Paper and elimination of odour emissions from the open channel section of the Regional Outfall Sewer. The concept is bold and innovative, and a commendable contribution to the principles of resource conservation and sustainability.

Stage 1 of the project treats 35ML a day of domestic sewage and recycles 8ML a day of treated water to Australian Paper. The remainder is returned to the Regional Outfall Sewer and delivered to Dutson Downs for discharge to the ocean. Although this is a worthy initial beneficial use of the Gippsland Water Factory, the fact that the whole operational cost of the facility will be borne by Gippsland Water urban customers is untenable since it represents a substantial cross subsidy and forms a large component of the proposed doubling of tariffs and charges over the five-year period.

This information had not been publicly disclosed prior to the release of the draft water plan and it came as a shock to the community, representing an annual increase of around \$150 on the urban water and wastewater domestic bill. The increase is even greater if finance and depreciation charges are taken into account. It is acknowledged that the operational cost associated with removal of odour from the open sewer section is attributable to Gippsland Water urban customers but not the component related to the treatment and supply of recycled water to Australian Paper.

Retention of local industries such as Australian Paper is an important matter for the local community but Gippsland Water urban customers should not have to contribute to the economic viability of this business.

In our view, the Victorian Government should subsidise the operational cost of supply of recycled water to Australian Paper, not Gippsland Water urban customers. While the government contribution of \$50M towards the capital cost of the project is appreciated, this should be supplemented by on-going operational support on an annual basis.

It is disappointing that stage 1 of the Gippsland Water Factory could not satisfactorily address the salt and colour problems with the Australian Paper wastewater and a further stage of treatment will be required to recycle the remaining 28ML a day of wastewater for beneficial purposes. We understand that all of the capital and recurrent charges associated with Stage 2 will be borne by industrial or agricultural customers for the treated water, but we believe future industrial or agricultural customers should also absorb portion of the Stage 1 treatment costs thus lessening the future cost burden on urban customers.

Advance Morwell attended a focus group meeting last year to discuss the proposed interpretative centre attached to the Gippsland Water Factory. The meeting aimed to find uses for the facility that would achieve self-sufficiency in meeting operational costs. There has been no feedback on the outcome of these discussions but we understand that a capital allowance of \$5M has been factored into the overall capital cost of Stage 1. We seek reassurance that the operational cost of this facility is not included in the operational cost of the Gippsland Water Factory borne by urban customers.

2. Major Customers Subsidy

Gippsland Water is a unique regional authority where 70% of the annual demand for water is delivered to five major customers. Although details of the bulk water supply contracts are not publicly available, we understand it is well below a fair market rate and represents another unreasonable cross subsidy from the urban customers of Gippsland Water. Moreover the low cost of bulk water discourages best practice water conservation measures being adopted by these major industries.

We recommend that the Essential Services Commission approach the Victorian Government to either review the cost of bulk water supplied to major customers of Gippsland Water or alternatively subsidise Gippsland Water for the loss in revenue from this concession. This issue also has implications for the business case being prepared by the Victorian Government for the proposed delivery of treated wastewater from the metropolitan area to the Latrobe Valley.

3. Loch Sport Sewerage Scheme

The Gippsland Water five-year Water Plan provides an amount of \$45M for the Loch Sport sewerage scheme and associated infrastructure works. While acknowledging that this is a worthwhile and necessary project, the town is outside the Gippsland Water district. We recommend that the Essential Services Commission request the Victorian Government to separately fund these works to avoid placing an additional cost burden on Gippsland Water urban customers.

Removal of the foregoing cross subsidies would considerably reduce the cost structure of the draft Water Plan and lessen the scale and timing of the proposed of tariff increases. Advance Morwell firmly believe the proposed tariff increases are excessive, directly affecting the large number of concession card holders and low income families residing in Morwell and increase the financial pressures faced by them in meeting payments for water and sewerage services. Around of 30% of Gippsland Water customers are on concession rates with Morwell having a much higher percentage in this category.

It is noted that Gippsland Water has not commented on how it will deal with customer impacts except to outline its Hardship policy.

We recommend the Essential Services Commission make strong representation to the Victorian Government to introduce a more generous concession scheme for low-income customers before approving any part of the Gippsland Water draft five-year Water Plan.

In closing, we wish to draw attention to the fact that of the thirteen urban water authorities, only Gippsland Water and GMMWater propose to double their water and wastewater tariffs and charges over the next five years. All of the others propose an increase ranging between 14% and 56% except for Coliban Water. This reinforces our view that the Gippsland Water draft five-year Water Plan requires further consideration by the Essential Services Commission before releasing a Draft Decision on the proposal.

Yours sincerely

Secretary

cc Russell Northe MLA
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