



Northern Grampians Shire Council

4 January, 2008

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Enquiries :Glen Davis (03) 5358 8700

Mr Greg Wilson
Chairman
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000



Dear Mr Wilson

GRAMPIANS WIMMERA MALLEE WATER PLAN 2008-13

I refer to the document Grampians Wimmera Mallee Water Plan 2008-2013 dated October 2008 (GWM Water Plan). This document is published on your website as "**2008-13 Water Plan final Version.DOC**"

Northern Grampians Shire has great concern about strategic aspects of the GWM Water Plan.

A water plan is intended principally as a statement to customers and the community of the ways in which the Water Authority will supply essential services and finance its operations. The GWM Water Plan appears to fall short in some essential respects.

GWMWater in this document:

- Announced a blow-out in the cost of the Wimmera Mallee Pipeline Project (WMPP) but did not publish new costs in a format comparable to the \$501m project approval (the new estimate omitted the cost component for on-farm infrastructure whereas the project approval included that component);
- Proposed a revenue increase in year one of 17.1% attributed largely to the Pipeline Project, claimed confidence in the new project cost, but made no price projections for the remaining four years of the 2008-2013 Plan;
- Announced draft water price increases ranging from 5% to 81.3% for year one, acknowledging that the Essential Services Commission will need to be satisfied that what is proposed is affordable to the Region; and
- Announced a process to avoid (or transfer to others) costs to GWMWater of some reservoirs and infrastructure no longer essential to GWMWater's water supply role.

GWMWater claimed (letter 8 October 2007 to Chair ESC) that the 2008-13 Water Plan was "prepared in accordance with Part 3 of the Statement of Obligations".

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In a Media Release dated 20 December 2007, GWMWater undertook to "revisit" pricing aspects of the Water Plan and to submit to the ESC "in early 2008" pricing proposals for the duration of the Plan.

The Northern Grampians Shire submits to the ESC for consideration as follows.

COMPLIANCE

The Grampians Wimmera Mallee Water Water Plan 2008-2013 does not appear to comply with the Statement of Obligations. The Water Price review timetable issued by the Minister pursuant to section 41 of the *Essential Services Commission Act 2001* refers.

The Shire understands that Grampians Wimmera Mallee Water Water Plan 2008-2013 is required to comply not only with the Statement of Obligations, but with the Water Industry Regulatory Order 2003 (WIRO) and with the *Water Industry Act 1994 (Act)*. The Water Plan does not appear to satisfy the following requirements:

- "the prices contained in the Water Plan are those which the regulated entity proposes it be permitted to charge for prescribed services over the term of the Water Plan..." . Paragraph 14(1)(a) of the WIRO refers.
- "the expenditure forecasts contained in the Water Plan must reflect the efficient delivery of the proposed outcomes contained in the Water Plan and take into account a planning horizon that extends beyond the term of the Water Plan." Paragraph 14(1)(b) of the WIRO refers.

Northern Grampians Shire notes the relevant powers of the Commission under paragraph 10 of the WIRO.

CUSTOMER INTERESTS

Taking into account the price of on-farm reticulation and storage assets (pipes, tanks, troughs etc) essential to the success of the Pipeline Project will add approximately another \$100m to the \$688m WMPP cost announced by GWMWater. This extra cost is allocated in the WMPP directly to GWMWater customers and is a cost customers must bear before any water or benefit flows. The customers are also obliged to bear the cost of filling those on-farm channels which are to be filled, but the extent and the cost are not yet defined. The customers are all in drought-declared areas, all are eligible to apply for Exceptional Circumstances assistance, many are bearing record debt burdens and few will find these capital costs affordable. Clause 14(a)(vii) of the WIRO refers.

The Shire has sought the commitment of the Victorian Government that any increase in the cost of the WMPP over its \$501m approval will be met by external sources other than GWMWater and its customer base. On 30 October 2007, the State addressed the current GWMWater WMPP cost estimate with a further \$99m and during the national election campaign, the Federal Labor Party committed a further \$124m. At this stage, an extra \$25m of the current project cost blowout (on top of the estimated \$100m for on-farm reticulation and storage assets) is allocated to customers and no commitments have been made in the event the

current WMPP cost estimate proves understated. Paragraph 14(1)(b) of the WIRO refers.

GWMWater states the revised project cost results from tender prices accepted already (April 2007) for the majority of the project. It is not clear to customers that GWMWater had finance and approval for the commitments it has undertaken. The Shire will be among those customers keen to hear the State's explanation of how the current pipeline contracts were funded. We note that GWMWater did not approach customers when the project cost blow-out became apparent. The first customer consultation on this subject occurred concurrent with the publication of the Draft Water Plan. Customers had no prior warning of a blowout and no opportunity to consider the pricing proposals. Both the Draft and the Water Plan are documents which appear not conform to the WIRO in that they do not propose prices for the duration of the Plan. Customer consultation has been less than the Shire would have thought necessary and the opportunity for consultation following "revisited prices" may be brief. The Commission's audit powers under paragraphs 17 and 19 of the WIRO refer.

One-year water prices for a five year Plan were proposed in the Water Plan. If the Pipeline Project cost increase is fully funded by State and Federal governments, GWMWater has commented that water prices beyond year one can be contained to the consumer price index (CPI). We ask that water prices no greater than CPI beyond year 1 be included for the duration of the 2008-2013 Plan. The Commission's powers under paragraph 10 of the WIRO refer.

The calculation of the year one prices is, we understand, a matter for the Commission. The Procedural Requirements and the relevant Regulatory Principles of the WIRO refer. In consultation with customers, GWMWater has compared its proposed year one prices with increases for the 2008 year proposed by other Water Authorities. The Shire observes:

- Price comparisons are not a relevant consideration for the pricing of prescribed services;
- Prices of relevant other regulated entities are draft and not yet approved and
- All factors, particularly those arising from the costs of the provision of services but also those providing incentives for the sustainable use of water resources, relevant to the setting of prices are different for each regulated entity.

Proposed price increases ranging from 5% to 81.3% and producing revenue increases of 17.1% for year one (2008) raise the question of affordability. This question has been canvassed by RMCG as contractors to the Wimmera Development Association in a September 2007 report. The conclusion is that, owing to drought and debt, "farmers have a greatly reduced capacity to contribute to the increased cost of the pipeline and indicates that they will also have little willingness to contribute, if not outright opposition and resistance." That conclusion was fully supported by those farmers present at GWMWater's presentation of the Draft Water Plan and this Shire has seen much subsequent evidence.

The Shire publicly addresses the affordability of Council rates at least once per year. Part 8 Division 1 of the *Local Government Act 1989* refers. In recent years, this Shire and neighbouring Shires have held the average rises in rates to 5% per annum largely because ratepayers are unable to afford higher rises. To raise rates more would have invoked more applications for waiver of rates or charges on the grounds of financial hardship (section 171 of the *Local Government Act 1989* refers). A December 2007 report to the Municipal Association of Victoria showed that Council rates account for 0.92% of household expenditure State wide. The Shire submits that water price rises higher than 5% per annum in 2008 will not be affordable by many customers in this Shire. The Shire notes an earlier conclusion of the Commission:

The Commission considers that proposed price paths that include larger increases earlier in the period are not an inappropriate approach to pricing. However, these proposals would need to clearly outline the reasoning and adequately address any issues relating to customer impacts. In general the Commission would expect the proposed price path to:

- provide the same revenue over the five year regulatory period in net present value terms
- have been set with regard to customer preferences
- not result in a significant price shock in the first year of the subsequent regulatory period.

Prices proposed in the GWMWater Plan for customers supplied by agreement rise by 81.3% in 2008. This huge proposed increase raises the question of the price elasticity of demand. Much of the water lost to evaporation, seepage and retail shrinkage in GWMWater's channel system is planned, in the WMPP, to be allocated to this customer category, potentially including intensive users such as aquaculture, stone fruits, grape vines and nurseries. The potential for growth of these industries becomes questionable if such price rises are allowed to apply.

The Grampians Wimmera Mallee Water Water Plan 2008-2013 reflects, in the water prices proposed for year one (2008) the cost blowout in the WMPP. But the Water Plan appears to take no account at all of the revenue brought forward by the accelerated construction of the WMPP. The accelerated construction had the desired effect of greatly improving the benefit/cost ratio of the WMPP largely by advancing the resultant benefits including the revenue stream. This factor hugely outweighs the higher costs incurred by accelerating construction. The Shire submits that the water prices for all years of the Water Plan must reflect the improved revenue stream to GWMWater resulting from the early completion of the WMPP.

The Grampians Wimmera Mallee Water Water Plan 2008-2013 announced a process to avoid costs to GWMWater of some reservoirs and infrastructure no longer essential to GWMWater's water supply role.

The Shire submits that:

- The role of a Water Authority extends beyond water supply. (DSE website outlines roles);
- The role of GWMWater includes water storage and the control of environmental flows;
- The State is the customer for environmental flows;
- The costs of reservoirs and infrastructure required for environmental water storage and environmental flows should be allocated to the State as customer and not to the water supply customers of GWMWater.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Glen Davis', written in black ink.

Glen Davis
CHIEF EXECUTIVE OFFICER