This 8 page document is for the response to the Review of the Water Charge Rules Issues Paper dated May 2015. It was completed on the 24th June 2015.
My name is Peter Beex and I am an irrigator from [redacted] in the Murray Valley, Victoria.

Question 3. Is the ACCC's guidance material useful? In what ways could it be improved?

Below is an extract from the ACCC website
IV. Proposed regulated charges
In providing detail on proposed regulated charges the application should also: • compare proposed regulated charges in the forthcoming regulatory period to charges faced by customers in the current regulatory period. • identify the regulated charges that are significantly different to charges faced by customers over the current regulatory period • identify the main reasons why it is proposed that charges change from charges levied in the current regulatory period. 13 As an attachment, also list proposed charges/fees in the forthcoming regulatory

Dot point number three says "identify the main reasons why it is proposed that charges change from charges levied in the current regulatory period."
What does the ACCC actually do about the increases in some fees? The Infrastructure Use Fee has increased from $5.46 to $6.08 in 2014/15 to 2015/16 in the Murray Valley, an increase of 11%.

The findings from the Report of the Independent Review of the Water Act 2007 clearly demonstrate the water charging objectives within the Murray Darling Basin. Basin wide consistency in water charging regimes states; "The intention of part 4 was to ensure that water charges are set on a consistent basis; it is not intended to produce consistent charges per se.
This objective has been overlooked by the ACCC with the increase in the IUF. If the ACCC looked at the other valley charges it would have noticed that Shepparton has had a decrease in IUF. This is now inconsistent with the Act as GMW moves towards single pricing. "The panel also notes that it is consistent with the objects of the Act that users in higher cost systems pay higher charges."
I believe the ACCC needs a better understanding of the stakeholder's viewpoint. At present the ACCC relies on the IIO for information regarding consultation. The ACCC should ask the irrigators directly what they see about annual prices and fees levied for individual services. This could be achieved online with responses taken in a similar format as the issue paper.

Question 17. Are the schedules of charges produced by infrastructure operators sufficiently clear and detailed to meet the needs of customers and potential customers?

Goulburn Murray Water (GMW) releases a pricelist for the oncoming season. This pricelist is sent out in June for the following irrigation season. The customer receives the pricelist but does not know which individual charge applies to them from the pricelist.
GMW does specify all regulated charges. There are six fees for bulk water, six fees for entitlement storage, thirteen fees for water delivery, five fees for surface drainage, one for community surface drainage and eight fees for subsurface drainage.
GMW does not allow a customer to be able to determine what they owe for a specific time period for the type of service received. The customers' knowledge is the only determinate for understanding which fee is applicable to them. Future customers would not be able to determine which fees are applicable to them.
The schedule of charges (GMW Pricelist) does not include a statement setting out the process for determining the amount of the regulated charges. From the new pricelist there is no column to show the previous years' charges or previous charged fee and how much the increase is. The first bills will be for the IAF which is sent in isolation from other fees in October. Other bills for other fees will not be seen to well into the New Year.

When the pricelist is sent out the "Your Fees Explained" document is not sent with it although this document can be downloaded from the GMW website.

The largest of my GMW charges is the **Infrastructure Access Fee (IAF)**. The definition supplied on the GMW web page your fees explained describes the IAF as;

> This fee applies to the amount of ML per day of delivery share you hold and it recovers most of the cost operating, maintaining and renewing the delivery network in your Irrigation district. The delivery network can include channels, pipes, bridges, road crossings siphons and subways.

The description does not show how the fee is calculated. It explains what it is; however there is no explanation that the total delivery shares held in that valley are multiplied by the annual fee to calculate the expenditure in that valley.
For example there are 2655 delivery shares in the Murray Valley. If the delivery shares are multiplied by $3069/DS this would equal $8148195 for annual expenditure. This information is not available to ordinary GMW customers but this information would allow customers to know how much is been spent and see that expenditure should equal customer payments from delivery shares.
The charged fee does not reflect the length of channel so an irrigator can compare the fees charged in the Murray Valley per km of channel for operating, maintaining and renewal of the delivery network with other valleys.
The data that is used for calculating IAF are held within GMW and are not freely available. Total delivery shares held in each valley with the intended amount of expenditure in each valley should be available.

So in conclusion the schedule of charges produced by GMW for IAF is not sufficiently clear and can lead to cross subsidisation with one valley paying for another valley's costs. This can occur if one valley collects more revenue and the extra revenue is spent in another valley.
The schedule of charges issued from GMW for IAF does not allow a customer to be able to determine what they owe for a specific period for the type of service received.
Also question 3 BWCOP need to be emphasised in the objectives part (d).

Casual Infrastructure Use Fee is explained;

Casual Infrastructure Use Fee This fee applies to each ML of water you have delivered during the season in excess of your Annual Delivery Allowance (ADA). Your Annual Delivery Allowance is your delivery share (ML per day) multiplied by 270 for Gravity Irrigation Areas and by 365 for Pumped Irrigation Districts.

The description above only explains the calculations for charging casual use fees. The explanation does not describe how or where fees will be spent.
As an IIO, GMW must have pricing 3-4 years in advance with the waterplan being in place. GMW does not take into account any earnings from casual use as it is impossible to estimate how much will be collected over that time. This could create a barrier to trade, question 42, as IAF will be higher as casual use users are not contributing to the infrastructure fees on a regular ongoing basis leaving this to delivery share holders.
Fees for Infrastructure are collected with the Infrastructure Access Fee. Irrigators who attract casual use fees should be given delivery shares to match the shortfall and billed appropriately as all water users are. (question 44). This way GMW can calculate the charge rate using the delivery shares into the future and have user-pay contribution from all users (question 3). Casual Use Fee description is unclear and does not meet the needs of customers. It is a “bonus” to GMW above the calculated IAF charge.
This casual use fee can be eliminated for greater transparency with no impact to customers and no impact to GMW.

Infrastructure Use Fee is explained

Infrastructure Use Fee This fee recovers a portion of the costs of operating, maintaining and renewing the delivery network in your Irrigation District. The fee applies per ML of water used during the season on your property.

Infrastructure use fee (IUF) is for the operation of the delivery network. Costs for maintaining and renewing are charged in the IAF. If charges are obtained from IUF for maintaining and renewing the delivery network this will lead to a lack of transparency. For example when GMW calculates expenditure for the waterplan they use the number of delivery shares in the IAF.
Transparency will be compromised as GMW is gradually increasing the IUF for some valleys as a plan to create single pricing in waterplan 4. This financial year the infrastructure usage fee has increased from $5.46/ML of water used to $6.08/ML an increase of 11% in the Murray Valley. Shepparton has decreased the fees for IUF down to $9.34 a decrease of 16% over two years. The intent will be that all the valleys in the GMID will have the same price per ML of water used when waterplan 4 is implemented, regardless of the length of channels to supply the water.
The description above for IUF does not allow a customer to be able to determine what they owe for a specific time period for the type of services received. It does not include a statement setting out the process for determining the amount of the regulated charge. It shows the fee amount charged per ML water used but has no relationship to how the fee is calculated. This also applies to question 3 BWCOP (d) achieving price transparency.
Question 41 if water usage charges increase and IAF also increase in the Murray Valley and the opposite happens in the Shepparton Valley investment will leave the Murray valley. This can distort an irrigator’s decision to invest in Murray Valley.

Service Point Fee (SPF) is explained

Recovers the costs of operating and maintaining irrigation service points and meters in the Irrigation Areas. The fee applies for each service point.

This fee is also unclear. The fee for a dethridge wheel in action for thirty years is $300 per year. The cost of a new Mag flow with local read is $350 and a new Mag flow with remote operate is $400 per year in the 2015/16 year.

Under the GMW Blueprint for waterplan 4 the fees are explained in detail with the rationale behind the pricing. Local read dethridge wheels will remain at $300, remote read meters will increase to $750 and large automatic outlets with remote reads will increase to $950.

Consumer Affairs Laws may not apply to the new meters, however the cost of the meter could be broken down to ensure no installation costs are included in the purchased price. So fit for purpose legislation may be needed to warrant the purchase of electromagnetic flow meters and in turn protect irrigators from unreasonable maintenance costs.

This could mean that irrigators have forcibly purchased meters that have a possible projected lifespan of less than the life of the dethridge wheel. If assumed that a dethridge wheel costs $300 a year to maintain and read, then a remote electromagnetic meter would cost less than $300 to read. The cost of maintenance for an electromagnetic meter with remote read will cost $950 less $300 per year. This is $650 per year for maintenance alone.

Questions 7 ask what are my views on how the ACCC has used its enforcement powers in relation to the water charge rules. The answer in relation to SPF is that it has done very little.

Question 8 asks how could the ACCC improve its approach to achieving compliance with the water charge rules. The answer for SPF is to have open and transparent dealings between the IIO and meter manufacturer. As the manufacturer is the sole supplier of the meters and GMW is a monopoly operator extra transparency needs to be demonstrated. Transparency would include the following requirements for IIO when charging for SPF.

The IIO should include in the schedule of charges the following points;

- show the individual price of the components that make up the meters.
- show the cost of installation
- show all warranties given on each component of the meter, with component replacement time frames.
-Fixed fees for repair costs and parts replacement. This could be opened up to competition from other repairers. This could address the potential use of market powers in question 24.
- provide a log of repairs and maintenance showing fault and repair costs.

For an irrigator to determine how the SPF is calculated today is impossible. There is no statement setting out the process for determining the amount of the regulated charge.

18. Would a prescribed template enable easier comparison across infrastructure operators? Would it assist infrastructure operators to comply with the pricing transparency requirements of the WCIR?

Adding a template (cost analysis) with cost per channel length charged would allow for greater transparency (IAF). This would be achieved by having a continuous log of costs per km over a number of years and will show excess charges even if the annual fees have not increased due to rationalisation of channels. The same type of template for IUF with actual water deliveries per km of channel in each valley would also give greater transparency.

ESCV is concerned with price variances. GMW increases are carefully managed with 1.5% increased per annum plus CPI, this gives the effect that there is little price variance so no waves amongst irrigators. However it is unreasonable that price variance would stop an IIO from creating more irrigation districts to better reflect the costs. Another template with user pay principles needs to be in place with reference to the expert panel. “The intention of part 4 was to ensure that water charges are set on a consistent basis; it is not intended to produce consistent charges per se.”

“The panel also notes that it is consistent with the objects of the Act that users in higher cost systems pay higher charges.”

The point is there may be price variance to achieve user pays principles. It is unreasonable that this may take to 2020, thirteen years after the water act 2007 and four years after waterplan 3.

So a template (user-pay objectives) for infrastructure operators to ensure user pay objectives are ticked off firstly and thoroughly is necessary.

As an irrigator I am concerned about cross subsidisation with the other districts held within the GMW District. Valleys were created from past boundaries with a lot of overlap. The Broken Creek remains half in Murray Valley and half in Shepparton with costs not clearly allocated to the Broken Creek irrigators and Shepparton irrigators paying for some of the infrastructure to deliver water down the Broken Creek.

19. Are the publication requirements in relation to schedule of charges appropriate?

Together with question 17 Infrastructure Operators should have to send copies of the schedule of charges to the ACCC or ESCV. Also adding to this for large infrastructure operators who provide pricing for 3-4 years in advance all documentation should be forwarded.

This financial year the infrastructure usage fee has increased from $5.46/ML of water used to $6.08/ML an increase of 11% in the Murray Valley. There is no requirement to show individual increases in fees to the regulator. However GMW released a Blueprint for pricing for waterplan 4. This blueprint is available on the GMW website http://www.g-mwater.com.au/general-information/pricing-review than click on Blueprint. This blueprint explains how GMW intends to go down the path of single pricing across all the valleys in the Goulburn Murray Irrigation District.

The blueprint shows how GMW will move to a single price across the GMW district with all valleys paying the same amount for each of the fees charged. The blueprint will take GMW further away from price transparency and further away from the water charging objectives especially Part 2 (i) with user pay principles.

It is my belief that GMW understand clause 7 of the water charging principles to mean that all pricing (and not pricing principles) should be consistent across sectors and jurisdictions where entitlements are able to be traded. This may need to be clearly reinforced with the comments from the expert panel on the Report of the Independent Review of the Water Act 2007. The comments about Basin wide consistency in water charging regimes with valley to valley pricing, on page 62 of the Review, makes it clear that prices are to reflect the costs and no cross subsidisation across valleys.

Question 41 Under what circumstances could differences in charging arrangements between infrastructure operators distort an irrigator's decisions regarding water use or trade.

There has been and continues to be trade from zone 6 to zone 1a South Australia. Recently the south Australian Government entered the Victorian market to purchase high reliability water share (HRWS).

The advantage for South Australia is they can hold water in the HRWS without incurring an $11.80/ML bulk water charge. So in purchasing HRWS from zone 6 it would be a good decision to transfer this entitlement into zone 1a.

Question 42. Are there examples of infrastructure operator practises imposing a barrier to trade.

A lot of water has left the zone 6 Murray region mainly to SA because of lower bulk water charges for holding HRWS . The conglomerate of investors in the South Australian water market relies on the SA water market operator to secure a home for the entitlement water. This possibly has been achieved by advertising for Low Reliability Water Shares at a price well above market value. The intention is to receive phone calls from willing sellers to find that the order has already been filled. Whilst with the call to sell LRWS the water trader asks if they would like to store entitlement water for $16/ML/year.

So now not only is HRWS moving to SA the entitlement water is been held in LRWS accounts set up by water traders and creating a shortfall of water for trading and in turn pushing up entitlement water.

This season the water price may increase rapidly as allocations are reduced because of the large volumes of carry over water, set up from the initial HRWS sales.

Question 43. What measures could be taken to address any distortions arising from different infrastructure operator charging practises?

Level the playing field for bulk water charges so investors can enter the zone 6 water market and leave the HRWS in the zone 6. This in turn will create competition between the zones and help create a real price for HRWS.

Question 44. Should there be a general requirement for all infrastructure operator's charging arrangements to be consistent with all the Basin water charging objectives and principles.

As with the answer to question 43, yes there should be consistent charging arrangements.

Question 53 Do the WCTFR inhibit IIO's from making efficient network augmentation or rationalisation decisions? If so, how?

Since the WCTFR rules came into effect in 2009 IAF have increased from $2385 in 2009/10 to $3069 in 2015/16. This is an increase of $684 per year (29%) for each delivery share held within the Murray valley.

Murray Valley has decreased the channel length from 1200km to half way between estimated reductions to 500km. This minimum length may be slightly larger as the backbone maybe extended to meet some outcomes.

Murray valley has lost more than 10% of the delivery shares held in 2009. This means for every surviving delivery share holder an increase of 10% in their annual fees for IAF.

The above information was taken from the GMW Blueprint document.

GMW has used termination of delivery shares as an inducement for the connections project and previous to that NVIRP. If the projected outcome from the blueprint is correct this termination of delivery share will increase to 20% in 2018.

The ability of the IIO's to waiver termination fees has caused irrigators to "hang out" for the golden handshake deals that the neighbour received years before. The cost of the connection project now is been eaten up with extra Modco's and legal wrangling and delay. For a lot of irrigators who have always been on the backbone some still have dethridge wheels and may miss out on any upgrades from the connections project. (As mentioned in the SPF the high fees charged for the new electromagnetic meters are a deterrent for irrigators to want the new technology.) Although these same irrigators will have to pay the extra IAF to compensate for the termination fees without payment from other irrigators.

The connections project will spend $193,940,818 in the Murray Valley without any reduction in IAF; this means that the termination fee gifted from the Murray Valley will be worth $24m. (That is equivalent to 3 years of expenditure in the Murray valley).

The WCTFR inhibit IIO's from making efficient network rationalisation decisions because they looked for the spur channels that need to be rationalised that had the largest delivery shares to do first. Now as the next tier of rationalisation takes place from the lesser delivery share held areas the irrigators want a value paid to them equivalent to what the earlier rationalised irrigators received.

The WCTFR was to create a balance between investment certainty for operators and flexibility for irrigators. I believe that this would have been achieved without the IIO's ability to waive/discount termination fees at their discretion. Now the balance is in the favour of IIO,s as they use termination fees as a carrot to entice irrigators to sign up to the connection project. Meanwhile the majority of irrigators who miss out will be left with the burden of financing the IAF disproportionately.