



# Designing Water Tariffs

Balancing the interests and preferences of  
Customers and our business

ACCC/AER Regulatory Conference 2014

# Introduction

- **Our region, our assets and our customers**
- **Historical Context**
- **Formation of GMW**
- **Environmental Context**
- **Blueprint 2013 - need for redesign of tariff structure**
- **Tariff Strategy Principles**
- **GMW's Fundamental Commitments and Strategic Outcomes - Stable and predictable pricing**
- **Customer feedback today**
- **Challenges going forward**

# Goulburn-Murray Water Region



Distribution Assets -  
Current Replacement  
Cost \$1.9 billion

### Irrigation and Drainage Assets

Open Channels 6,770 km  
Pipelines 252 km  
Drains 3,142 km  
Structures 23,333 No.  
Meters 21,335 No.  
Drain Inlets 8,333 No.

### Domestic and Stock Assets

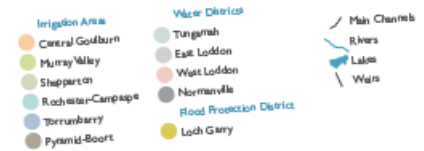
Open Channels 517 km  
Pipelines 292 km  
Structures 753 No.  
Meters 374 No.

## WATER STORAGES

	Capacity (ML)		
Murray Storages		Goulburn Weir	25,500
Dartmouth Dam*	3,906,000	Waranga Basin	432,360
Hume Dam†	3,038,000	Greens Lake	32,500
Yarrawonga Weir*	117,500	<b>Campaspe Storages</b>	
Torrumbarry Weir*	36,810	Lake Eppalock	304,650
<b>Ovens Storages</b>		<b>Loddon Storages</b>	
Lake Buffalo	23,340	Cairn Curran Reservoir	147,130
Lake William Howell	13,500	Tullaroop Reservoir	72,950
<b>Broken Storages</b>		Tullaroop Reservoir	8,000
Lake Nillahcootie	40,400	<b>Bullarook Creek Storages</b>	
Lake Mokoan	365,000	Newlyn Reservoir	3,300
<b>Goulburn Storages</b>		Hepburns Lagoon	3,000
Lake Eildon	3,334,158		

\* Murray-Darling Basin  
Commission asset

† Managed by NSW  
Constructing Authority



**Assets \$5.8 billion  
(\$1.6 billion of MDBA Assets)**



**Manage 17 dams**

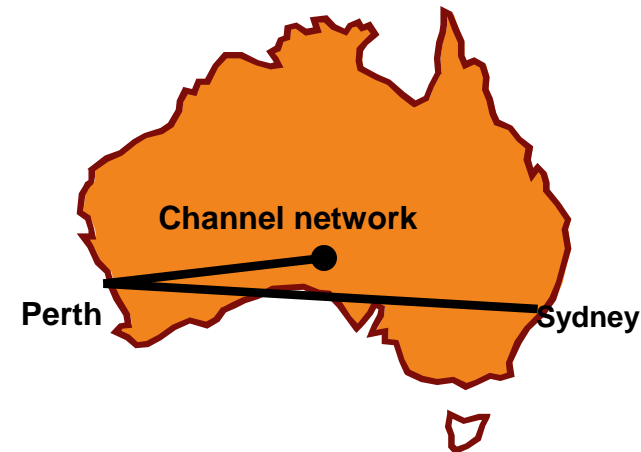
12,000,000 ML of storage\*  
70% of Victoria's water storage capacity  
Can store 6 years of entitlements  
Age: 11 – 138 years

**76,000 structures**

Road crossings  
Culverts  
Bridges  
Regulating gates & drop bars  
50,000+ outlets & meters

**Gravity irrigation delivery**

6,300 km of channels  
3,000 km of drains  
900 km of pipes  
150,000 km of unregulated rivers and streams



# Our Customers



## 14,000 customers

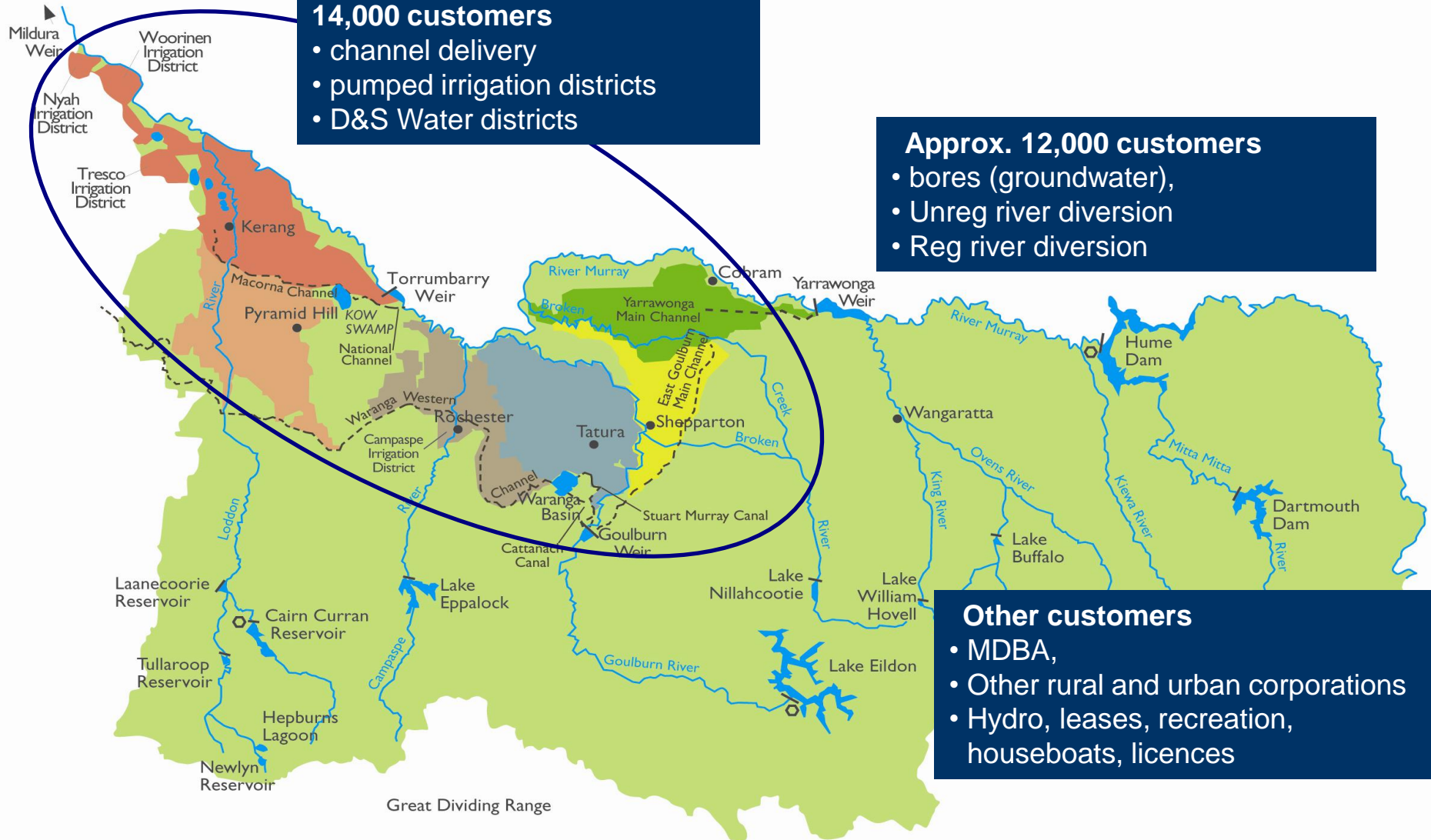
- channel delivery
- pumped irrigation districts
- D&S Water districts

## Approx. 12,000 customers

- bores (groundwater),
- Unreg river diversion
- Reg river diversion

## Other customers

- MDBA,
- Other rural and urban corporations
- Hydro, leases, recreation, houseboats, licences



- **Prior to 1994**
  - Tariffs – complex and granular tariff structure
  - Regional based pricing and decentralised decision making
  - Customers dissatisfied – irrigation farmers taking their concerns to Parliament
  - Driven by customer demand for change – Formation of GMW in 1994



## ■ Formation of GMW

- From 1994 continued with a proliferation of tariffs, prices and structures
- With changes in environment, services and customer expectations, additions were made to the tariff structures and prices
- No tariff and pricing restructure considered
- Administrative burden increased and accuracy issues became more evident
- Continued to operate districts as small businesses



# Environmental Context



- Introduction of independent economic regulation in 2006
- 2006/2007 worst recorded drought in history
- Water unbundling occurred in 2007
- Northern Victorian Irrigation Renewal Project (NVIRP) started in December 2007
- Late 2010, early 2011 series of high rainfall events with flooding across Victoria
- Marked improvement in water resources across following from 2010/11 period
- NVIRP merged with GMW in 2011/12
- GMW Transformation



# Blueprint 2013

## Drivers for Change in Tariff and Pricing

GOULBURN-MURRAY  
WATER



- **As a business**
  - Not for profit, resizing its infrastructure, transforming the business.
  - Deemed inefficient by our customers
  - Struggling to manage the complexities of tariffs and prices
  - Customers not able to understand our pricing, what services they received and what they were paying for.
  - Time to redesign the tariff structure to more accurately reflect costs



- **Development of our Tariff Strategy**
  - Primarily focussing on gravity, diversion and more recently drainage
  - Needed to get customers on board to inform what Tariff Structure should look like
  - Established Water Service Committees (WSC) across the region
  - Set up Tariff Strategy Advisory Group from Chairs of the WSC
  - Established principles for Tariff and Price Structure Review

# Principles underpinning Tariff Structure Review



## ■ Objective

A simple tariff which is accountable to customers – able to be understood and explained easily

## ■ Principles

- Tariffs should encourage productive irrigation
- Simple, clear and transparent to understand and manage
- Tariffs are equitable i.e. cost reflective
- Send clear signals on the real costs of providing the service
- Provide predictability
- Generate sufficient revenue for financial sustainability
- Encourage efficient water markets

- **Development of our Strategies aligned with GMW's Fundamental Commitments and Strategic Outcomes**
- **Partnering with our customer**
  - Moving from an engineering led business to customer focus / led business
- **Stable and predictable pricing**
  - Desire to take volatility out of our prices
  - Defining, targets and measuring our performance
- **Cleaned out excess baggage**
  - Simplified a range of transactions and reduced fees
  - Closed out district accruals/bank balances
  - Reduced number of Miscellaneous fees and Charges



## Customer feedback today

- Customer expectations to realise benefits from transformation, modernisation and tariff strategy implementation
- Customers favour 90/10% fixed/variable fit
- Customers eager to see tariff structure change implemented at faster pace as they see benefits from the change, e.g. Diverters' Strategy – tariff structure is more cost reflective and transparent
- Customer want further simplification of fees and charges, e.g. convergence of Infrastructure Access Fee to single price across the irrigation districts.
- Customers still not fully aware of the regulatory regime we operate under



## Challenges going forward

- Reform requires the delivery of the total package
- Balancing the interests of WSC, gravity and diversion customers
- Managing slower tariff reform process
  - Regulatory considerations
  - Stable and predictable prices
- Managing wide range of views from our customers
- Managing change has been difficult for many people in rural environment
- Large number of small customers not engaged compared with small number of large customer engagements
- Customers not fully aware of regulatory environment

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**Thank you**