

# Goulburn-Murray Water

## Diverters' Tariff Strategy



October 2013





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# 1. Introduction

Goulburn-Murray Water (GMW) held a business-wide review of its overall tariff strategy to ensure that the structure of its future charges could support the delivery of cost effective services and aligned with its new business objectives and operating environment.

In developing the first draft of the Tariff Strategy the Chairs of Water Services Committees (WSC) formed an Advisory Group to draft recommendations to the GMW Board on the best way forward.

In 2012, GMW published its Tariff Strategy Discussion Paper which identified principles and targets for key tariff structure changes to be implemented by 2020.

The Advisory Group agreed on the objective of developing a simple tariff, which is accountable to customers, is clearly understood and explained easily.

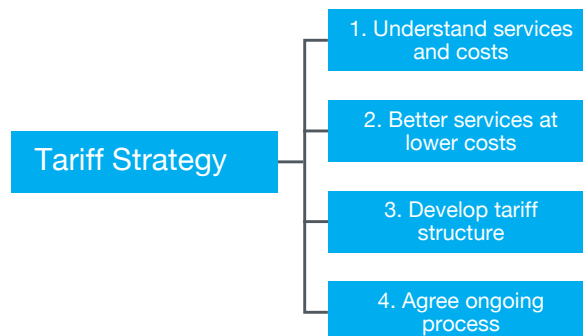
The Advisory Group agreed on the following principles to help guide the development of GMW's Tariff Strategy:

- **Tariffs should encourage irrigated agricultural production which underpins the regional economy and community;**
- **Tariffs are equitable but should be cost reflective;**
- **Simple clear and transparent to understand and manage;**
- **Send clear signals on the real costs of services;**
- **Provide predictability and stable prices;**
- **Generate sufficient revenue making GMW financially sustainable; and**
- **Encourage efficient water markets, facilitating speedy trading with low costs.**

A Diverters' Tariff Strategy Working Group was established to explore the issues, develop proposals and oversee the activities, which relate specifically to diversion customers. The Working Group comprise diverters and GMW Board Directors. The Working Group met four times during the past year assessing and developing the recommendations and proposals in the Draft Diverters' Tariff Strategy.

The final strategy will now provide a framework for the on-going delivery of services to our diversion customers. The strategy has the following objectives:

- To build a shared understanding of the services that diverters receive, the activities we undertake to deliver those services and the costs that we incur
- To provide better quality services at lower costs
- To develop a tariff structure that will align these improved services, costs and charges
- To develop an ongoing process to validate future services and charges



## Why we are publishing this Diverters' Tariff Strategy?

GMW with the assistance of the Diverters' Tariff Strategy Working Group prepared, developed and consulted on a proposed strategy for future tariffs for licensed diverters across northern Victoria. It covers licences to take and use water from groundwater bores as well as regulated and unregulated surface water diversions.

The tariff strategy relates to diversions which are licensed under sections 51 and 67 of the Water Act 1989 or access to water shares for regulated surface water diverters. The strategy does not apply to landholders with private rights to water for domestic and stock use.

The Diverters' Tariff Strategy is a further step in our engagement with stakeholders, customers and the public on diverter tariff issues. It discusses and assesses the current arrangements and the challenges facing GMW in developing the draft strategy.

This strategy also explains the Working Group's initial analysis and how it considered specific tariff issues in its review of pricing proposals for diverters.

We sought views and comments on a draft of this Diverters' Tariff Strategy during our consultative process in July/August 2013 and stakeholder feedback was considered when developing this final tariff strategy.

GMW's Board approved the final Diverters' Tariff Strategy in September 2013.



# 1. Introduction

## The structure of this paper

**Section 2** discusses the current arrangements and the challenges that the Working Group identified with the current tariff structure. It describes the current tariff arrangements for groundwater diverters, unregulated surface water diverters and regulated surface water diverters.

**Section 3** sets out the Working Group's staged approach to developing a revised tariff structure. It describes the Working Group's analysis and thinking as to the cost, and type, of services that are provided to diverters by GMW. It sets out the Working Group's assessment and consideration for a future tariff structure, which forms the basis of indicative charges.

**Section 4** provides the analysis and recommendations for indicative charges, built on earlier considerations of the Working Group about the future structure of the tariffs.

**Section 5** summarises the implications of the new tariff strategy on customer bills.

**Section 6** sets out the next steps and provides an indicative timeline for the implementation of the Diverters' Tariff Strategy.



## 2. Current arrangements

We provide services to three different groups of diverters:

- Groundwater licensees who take water from a bore
- Diverters from unregulated surface water systems (the term 'unregulated' means that there are no GMW or Murray-Darling Basin Authority (MDBA) weirs, storages or dams on the river system to control the flow of water. Diversions from unregulated streams are still formally licensed).
- Diverters from regulated surface water systems (where the water is controlled and released down the river on demand from a GMW or MDBA dam or storage)

The table below shows the current number of groundwater and surface water customers and total entitlement volumes by type.

Table 1: GMW Diverters by type

Diverter Group	Type	Customer numbers	Entitlement volumes (ML)
<b>Groundwater</b>	Intensive Water Supply Protection Areas & Groundwater Management Areas	1,830	343,262
	Other Groundwater Management Areas	533	71,958
	Unincorporated areas	605	33,902
	<b>Total groundwater</b>	<b>2,968</b>	<b>449,122</b>
<b>Surface water</b>	Unregulated	4,240	81,608
	Regulated	3,536	169,219
	<b>Total surface-water</b>	<b>7,776</b>	<b>250,827</b>



## 2. Current arrangements

### Groundwater diverters – current charges

Current tariffs for groundwater diverters are based largely on the size of the licence, with a fixed 'Service fee' to cover administrative costs (applied per property). An extra 'Intensive Management Fee' applies in areas where resource management plans are required and covers the costs of developing, implementing and administering these plans.

While the service fee is fixed and not dependent on entitlement size, the entitlement and intensive management fees vary according to licence volume. A fee is also applied for each additional groundwater service point.

For holders of small entitlements the fixed 'service fee' is a significant proportion of their total bill but this becomes less as the licence entitlement increases in size.

Table 2: GMW's current charges for groundwater diverters 2013/14 (\$)

Tariff component	Charges (\$)	Size of entitlement (ML)				
		10	20	50	150	250
<b>Service fee \$</b>	185.00	185	185	185	185	185
<b>Entitlement \$/ML</b>	3.83	38	77	192	575	958
<b>Intensive mgt \$/ML</b>	4.73	47	95	237	710	1183
<b>Additional service point</b>	105.00					
<b>Total \$</b>		<b>270</b>	<b>357</b>	<b>614</b>	<b>1,470</b>	<b>2,326</b>
<b>Service fee as % of total</b>		69%	52%	30%	13%	8%

### Unregulated surface water diverters – current charges

Current tariffs for unregulated surface water diverters are also based largely on the volume of the entitlement held on the licence, with a fixed 'Service fee'. The following table sets out the charges applicable to an unregulated surface water diverter in the Goulburn system. Slightly different entitlement prices apply in the Murray system; however the service fee is the same.

Table 3: GMW charges for unregulated surface water diverters in the Goulburn system 2013/14

Tariff component	Charges (\$)	Size of entitlement (ML)				
		10	20	50	150	250
<b>Service fee \$</b>	185.00	185	185	185	185	185
<b>Entitlement \$/ML</b>	25.23	252	505	1,262	3,785	6,308
<b>Total \$</b>		<b>437</b>	<b>690</b>	<b>1,447</b>	<b>3,970</b>	<b>6,493</b>
<b>Service fee as % of total</b>		42%	27%	13%	5%	3%

The 'service fee' is a less significant part of average bills as the entitlement charge is higher in terms of \$/ML.

## 2. Current arrangements

### Regulated surface water diverters – current charges

Regulated surface water diverters take their water directly out of the river but order their water from a storage in the same way as an irrigator in a district. These diverters have an unbundled entitlement so their tariff is based on:

- A 'service fee' similar to other diverters;
- An entitlement storage fee related to the volume of *Water Share* held; and
- A '*Water Delivery*' charge (ML/day) which provides a right to take water out of the waterway that is equivalent to *Delivery Shares* in irrigation districts.

The following table identifies charges applicable to a regulated diverter in the Goulburn system.

Table 4: GMW charges for regulated surface water diverters in the Goulburn system 2013/14

Tariff component	Charges (\$)	Size of entitlement (ML)				
		10	20	50	150	250
<b>Service fee \$</b>	185.00	185	185	185	185	185
<b>Storage - HRWS \$/ML</b>	9.85	99	197	493	1,478	2,463
<b>Water delivery \$/ML/day</b>	583.86	58	117	292	876	1,460
<b>Total</b>		<b>342</b>	<b>499</b>	<b>970</b>	<b>2,539</b>	<b>4,108</b>
<b>Service fee as % of total</b>		54%	37%	19%	7%	5%

### Fees for Service

Licensees also pay for a range of transactions outside their annual charges, on the basis of a 'fee-for-service', for example licence renewal and water trading fees. These fees vary between the types of licence held and seek to recover the administrative costs that GMW incurs.

These fees can be considerable for licensees, and can act to deter prudent commercial outcomes and be a disincentive to trade. Note that these fees and charges do not form part of this tariff strategy, but forms part of GMW's ongoing review of fees and charges, with changes occurring from 2013/14.



## 2. Current arrangements

### Current challenges

The current tariff structure has raised a number of challenges:

- Licence holders have seen little connection between the 'services' they received, the work that GMW undertakes, the costs that GMW incurs and the charges that licence holders face.
- Charges are mainly related to the volume of the entitlement. So, an unregulated diverter with a 150ML entitlement faces a charge of \$3,810, while a diverter with a 10ML licence is charged \$422. The Working Group identified that the size of the entitlement was not the main driver of GMW's costs and noted that larger users were concerned that they are subsidising smaller users.
- Large users hold only a small proportion of the total entitlement but contribute most of the charges (see Table 5 below for an example of this).
- Almost all surface water diversion licences are renewed every year, while most groundwater diversion licences are for either five or fifteen years. That is inconsistent.
- Licensees are concerned that other parties benefit from the licensing function but do not contribute to its costs, such as:
  - Domestic and stock users who hold private rights under section 8 of the Water Act,
  - the environment which benefits from protection of ecosystem functions,
  - the wider population who use and value the resource for recreation.
- Licensees also understand that many diverters do not fully utilise their licence entitlement each year, which can benefit other licensed users by delaying when restrictions need to be introduced or, when water is plentiful, adding to the 'pool' of water available to other licensed users.

Table 5: Groundwater diverters: licence numbers, volumes and charges.

Licence Size	Service		Volume (ML)		Charges	
>400ML	276	9%	188,631	42%	46%	
250-400ML	276	9%	85,333	19%	17%	
100-249ML	767	25%	125,754	28%	26%	
5-99ML	1380	45%	49,403	11%	10%	
<5ML	368	12%	898	0.2%	<1%	
<b>Total</b>	<b>3,067</b>		<b>449,122</b>			

It can be seen that the 9 percent of the groundwater customer base with more than 400ML of entitlement contributed 46 percent of the total revenue, whereas the 57 percent of smaller users (with less than 100ML) only contributed about 10 percent of charges.

- All charges are fixed whether or not the licensee uses the water, as GMW's costs do not vary greatly in proportion to volumes used. Many groundwater and unregulated surface water diverters only use around 30 percent of their licence volume in most years. While this means there is a relatively high carrying cost of holding a licence it can provide some incentive to use available entitlement or trade to someone who will.
- In areas where structural change is underway, unregulated surface water licences tend to be underutilised. In these cases, little water is being diverted so the river is close to natural flows. However, the same fixed charges still apply. But landholders do not want to hand-in their licences as this would deny them rights in the future.

## 2. Current arrangements

### Commitment to improve services at lower costs

GMW seeks to improve its services and lower its charges by driving down its costs and delivering cost effective services to diverters.

A number of major initiatives have been proposed:

- An expected saving of around \$0.9M to be made over the next 12 months due to reforms to the Diversion Support Unit, which will see some activities taken on by other areas within GMW (a further estimated \$1.6M saving is expected to be made over the next 3 years as a result of improved licensing processes and efficiencies in diversion field based activities - GMW will seek to pass on these saving to its customers through lower charges);
- Exploring alternative approaches to meter reading to reduce the need for site visits;
- Licence terms are being extended to increase certainty and reduce costs (see below);
- Options to provide greater flexibility in water trading are being explored to allow licensees to realise value from their entitlements; and
- Other initiatives have been considered in parallel with the Diverters' Tariff Strategy:
  - Licence renewal – the current frequency of licence renewal varies by type of licence. GMW is currently reviewing licence terms and, except where there is significant uncertainty about resource sustainability, and is setting a standard licence renewal period of 15 years for all groundwater licences. Similar approaches are being developed for works licences and surface water diversion licences. This will give greater certainty to licensees and reduce annual costs of renewal.
  - Shepparton Irrigation Region - Groundwater resources in the Shepparton Irrigation Region (SIR) are different from those in other aquifers. A separate process has reviewed these issues and GMW has developed a suite of proposals that will lead to changes in groundwater management costs in the SIR.
  - Other uses - GMW also services a number of other diversion customers. These include:
    - Non-consumptive uses such as fish-farming and small-scale hydro power generation.
    - Commercial uses such as dairy wash-down.
- The new tariff structure is considered appropriate for these users.



The Working Group took a staged approach to develop the new tariff structure. This involved:

- Confirming the services and functions that GMW provides to diverters and seeing how these could be improved.
- Identifying the costs that GMW incurs in delivering those functions and testing whether these costs were appropriate and efficient.
- Assessing how far these costs varied between different types of diverters and whether we could manage with a standard charge across types of diverter.
- Reviewing the basis for future charges, making sure that the drivers of GMW's costs were reflected in its charges.
- Developing a draft tariff structure and charges from future projected costs.

## 3. Review of GMW's costs and charges

### What are GMW's Services?

The Working Group reviewed the services that GMW provides to diverters to ensure that the group understood what functions and activities GMW performs and why.

The working group identified five core functions that included:

1. **Account management:** GMW provides services to set up and manage customers' accounts, answer queries and issue bills. It also maintains licensing records with the Water Registrar.
2. **Site compliance:** GMW is responsible for monitoring the terms of individual diversion licences and any works licences held. GMW also owns the meter that measures the volume of water diverted. There are the up front capital costs of the meters as well as ongoing meter reading and maintenance costs.
3. **Catchment and aquifer access compliance:** GMW manages rights to use licences in a catchment or aquifer in line with any agreed resource management plan. That protects the property rights of all licence holders as well as wider catchment stakeholders such as the environment.
4. **Resource Management:** GMW works with licensees and other stakeholders to develop resource management plans. The costs of developing these plans is subsidised by The Department of Environment and Primary Industries to reflect the wider beneficiaries involved.
5. **Licence renewal:**<sup>1</sup> this is the function of assessing and renewing the licence. This process is currently charged as a 'fee for service' not as part of the annual charges. The frequency of this renewal is being amended

1. As discussed previously in Section 2.4 of this paper the work relating to licence renewal is part of GMW ongoing review of charges and does not form part of this tariff strategy.

This analysis confirmed that GMW manages a licensing regime. That involves developing sustainable resource management plans and then ensuring compliance occurs at a site and catchment/aquifer scale. It is important to note that GMW does not sell water to licensees; rather it licenses and manages access.

It was recommended by the Working Group that this structure provides a robust basis for future tariffs as it sends clear signals to licensees as to the services they receive and is cost reflective.

### What costs do we need to recover?

The Working Group identified the costs that GMW is likely to incur in delivering these four functions. Table 6 sets out the projected average annual costs of the diversions business for the financial years 2014/15 and 2015/16.

Table 6: Projected average annual cost of functions (2014/15 and 2015/16)

Account mgt	Site compliance	Access compliance	Resource mgt
\$0.8M	\$2.3M	\$2.1M	\$1.8M

The table shows a total annual cost of around \$7M recovered through annual charges.

### How should we share those costs between different types of diverters?

The Working Group then assessed whether the costs of GMW's services were consistent across the different types of diverters or whether they were specific to different groups. The Working Group considered whether standard charges could be applied across all diverters or whether separate charges would need to be established by type of diverter.

One of the key principles of tariff reform is to establish charges that are easy to understand and efficient to manage. This view supports having standard charges across groups. On the other hand, the principle that charges should be cost reflective requires separate charges to recover costs from those customers who drive the need for the service.

### 3. Review of GMW’s costs and charges

The Working Group reviewed the different functions and their costs. The key findings were:

- **Accounts:** the cost of holding an account is consistent across all three diverter groups (and also the same for all of GMW’s retail customers).
- **Site compliance:** the primary determinant of cost at the site scale is the meter that is held. This drives most of the cost. The Working Group was of the view that it would prudent to have a limited number of meter charges that were also broadly consistent across other parts of GMW. However, the Working Group also considered the costs of monitoring site compliance with works licences and referrals that relate to the specific licensees.
- **Access (Catchment and aquifer compliance):** the Working Group found that the regimes in place for flow monitoring, water ordering, roster management, flow assessment etc. vary significantly between the three main diverter groups, as regulated diverters do not have resource management plans and groundwater licensees do not require flow assessment. The Working Group concluded that having different charges for these three groups of diverters seemed appropriate.
- **Resource management:** historically GMW has prioritised its resource management focus on a few high risk aquifers and catchments through the development of statutory management plans. In future local management plans will be developed for all aquifers and catchments. So standard charges are justified to reflect the consistent costs across locations and types of diverter. However, resource management costs are currently greater in groundwater aquifers. Equally, costs do not apply to regulated diverters as they pay storage charges for their Water Shares. This supports the proposal for separate resource management charges for the three diverter groups.



The outcome of this review was a recommended structure for charges; where charges are consistent between groups for accounts management and site compliance, but separate for access compliance and resource management.

Table 7: Structure of charges between diverter groups

Type	Accounts	Site	Access	Resource
Groundwater	Standard Fixed Charge	By Meter type	Separate	Separate
Unregulated			Separate	Separate
Regulated			Separate	Storage fee



## 3. Review of GMW's costs and charges

### How should we recover those costs?

The Working Group next considered what would be the fairest way to recover the costs of each of the functions. Traditionally there has been a standard fixed customer charge and then the remainder of GMW's costs recovered as \$/ML, based on the licence or entitlement volume. This tends to load charges onto larger users with large volumes, which generally does not reflect the costs that GMW actually incurs in providing its services.

In developing its recommendations, the Working Group reviewed the agreed tariff principles with consideration given to the first three principles, namely:

- **Encourage agricultural production:** Tariffs should encourage productive agriculture as that underpins the regional economy and community.
- **Simple, clear and transparent to understand and manage:** Customers want to understand what they are paying for without too much complexity.
- **Tariffs are equitable:** A similar service should attract a similar fee, and charges should be cost reflective.

The Working Group considered each of the functions in turn identifying the most appropriate metric to use as the basis for future charges. The Working Group's recommendations were:

- **Accounts:** the Working Group thought that the best metric is a cost per customer as this is what drives costs and it is equitable and cost reflective.

- **Site costs:** the Working group identified two elements to the cost drivers:
  - Measurement based costs which should be recovered per service point in line with the 'service point fee' approach in the irrigation districts.
  - Other licence compliance costs which should be recovered on a per site basis.
- The Working Group proposed to use the meter costs as a proxy for site based costs and charges. This approach is cost reflective as it reflects the majority of costs, is not unduly complex and is consistent with the approach taken for gravity customers.
- **Catchment and aquifer access costs:** the objective of this work is to protect the access rights of each diverter and the wider rights of the environment. GMW's costs are mainly driven by the number of service points as this determines the number of site visits required, letters sent etc and is not driven by entitlement size. The Working Group was of the view that this charge should be recovered on a similar basis and not by reference to the size of the licence held. This approach is considered by the Working Group to be equitable as it is cost reflective. It also helps promote agricultural production, as it reduces costs for larger commercial enterprises.
- **Resource management:** the Working Group considered that the larger the licence volume the greater the potential impact on the resource, so the charge should relate to the size of the licence. This approach was viewed as simple and equitable by the Working Group. Note that the equivalent change for regulated surface water diverters is the storage fee they pay for entitlement held in GMW or MDBA storages.



## 4. Indicative charges

The following analysis and recommendations built on the earlier considerations of the Working Group, and on the future structure of tariffs, to develop a set of indicative charges. The charges were determined by dividing the total cost of the agreed function by the number of the unit for the relevant metric (i.e. the number of customers or ML of licence entitlement).

Please note that the draft unit charges discussed in this section are calculated based on 2012/13 data (including customer numbers, service points, entitlement volumes etc.) and average costs over the next three years are assumed using this information. The charges are therefore indicative only, as actual future charges will rely on up to date information at that time.

### Customer accounts

The Working Group considered two variables: the total costs of running the billing system for diversion customers and the total number of account holders. This generates a unit charge per customer of about \$80.

Table 8: Unit charge for customer accounts

Cost (\$)	Customer Numbers	Unit Charge
~\$800,000	10,234	\$80

This standard charge meets the tariff principles as it is easy to understand and is cost reflective.

### Site management

The site costs relate to compliance monitoring, measurement and the costs of meters. The new charge is to be based on the number and type of metered outlets. This is a reasonable proxy for the two key cost drivers.

The Working Group proposed to apply a two level fee related to meter size and site requirements:

- A fee for a standard meter for larger irrigation/ commercial users (unit charge of \$300).
- A fee for smaller customers, D&S users and deemed supplies (unit charge of \$100).

In Table 9 below the split between these categories is made at a 10ML licence volume to calculate indicative charges. The exact cut-off point is still to be determined during the tariff implementation process.

Table 9: Proposed unit charge for site/meter charges

Site	Cost (\$)	Customers by meter size	Unit Charge
Small ( $\leq$ 10ML)	\$450,000	~4,500	\$100
Standard ( $>$ 10ML)	\$1,850,000	~6,200	\$300
<b>Total</b>	<b>\$2,300,000</b>	<b>10,700</b>	

The Working Group was of the view that this charge is equitable as it is cost reflective and simple to understand.



## 4. Indicative charges

### Access management - Catchment/aquifer

The costs of managing access at a catchment or aquifer scale differ between the three classes of diverters, so in this section the charges are split between the three groups. In each case the charge will relate to the number of service points.

Table 10: Indicative charges for access management: \$/service point

Diverter type	Cost	Service points	\$/Service point
Groundwater	\$310,000	2,400	\$130
Unregulated	\$955,000	4,800	\$200
Regulated	\$835,000	4,200	\$200
<b>Total</b>	<b>\$2,100,000</b>	<b>11,400</b>	

The Working Group were of the view that this charge is cost reflective, as the number of service points drives GMW's costs to manage water access and compliance. This approach varies from the current tariff structure which apportions charges based largely on the size of the entitlement held. The Working Group considered that this approach would encourage agricultural production by larger commercial enterprises.

### Resource Management

The Working Group recommended that resource management costs should be recovered by reference to the volume of the licence held and considered this approach to be equitable and cost reflective.

However, these costs are only recovered from groundwater and unregulated surface water diverters, as regulated surface water diverters pay a storage fee for all entitlement held.

Table 11: Indicative unit charge for groundwater resource management (excludes Shepparton Irrigation Region groundwater customers)

Cost	ML	\$/ML
\$1,080,000	237,000	\$4.55

At present groundwater diverters pay an '*Intensive Management Fee*' if they draw water from an aquifer subject to a management plan. These fees pay for all costs relating to the development and ongoing administration of management plans. In future, all groundwater diverters will be subject to appropriate management plans, so a proposed charge of \$4.55/ML will therefore apply.

Table 12: Indicative unit charge for unregulated surface water resource management

Cost	ML	\$/ML
\$230,000	82,000	\$2.80



## 4. Indicative charges

### Summary tariff

The following table summarises the charges proposed with meter charges suggested by size.

Table 13: New tariff structure and indicative level of charges for diverters

	Accounts	Site compliance		Access	Resource Mgt
Metric	\$/licensee	Large	Small	\$/service point	\$/ML
Groundwater	\$80.00	\$300.00	\$100.00	\$130.00	\$4.55
Unregulated	\$80.00	\$300.00	\$100.00	\$200.00	\$2.80
Regulated	\$80.00	\$300.00	\$100.00	\$200.00	-

## 5. Implications of the tariff changes

The Working Group assessed how the new structure of charges would affect the size of the bills that diverters would face. The Working Group evaluated the changes in bills by type of diverter. In each case four standard customers were analysed at 2ML, 10ML, 150ML and 400ML entitlement size.

The intent of this section is only to compare and contrast current and indicative future charges. An implementation plan will manage an appropriate transition to a new tariff structure, and ensure adjustments to the proposed tariff changes carefully consider impacts on customers.

In the case of groundwater diverters, the current charges paid for by the different licence sized users are set out in Table 14. It was assumed that these users also pay for the current intensive management fee as indicated in the table. Note the tables below exclude current and indicative future charges for Shepparton Irrigation Region groundwater customers. Indicative charges for SIR customers will consider proposed management changes which will be the subject of a separate consultation process.

Table 14: Current groundwater charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Service fee	185.00	185	185	185	185
Entitlement \$/ML	3.83	7.7	38	575	1,532
Intensive mgt \$/ML	4.73	9.5	47	710	1,892
Additional Service point	105				
<b>Total \$</b>		<b>202</b>	<b>270</b>	<b>1,470</b>	<b>3,609</b>



## 5. Implications of the tariff changes

Table 15 shows indicative fees that groundwater customers would pay under the new tariff structure.

Table 15: Proposed annual groundwater charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Customer charge	80	80	80	80	80
Site charge	100/300	100	100	300	300
Access	130	130	130	130	130
Resource Mgt	4.55	9	46	683	1,820
<b>Total</b>		<b>319</b>	<b>356</b>	<b>1,193</b>	<b>2,230</b>

The Working Group found a rebalancing of cost recovery for groundwater customers, although this change was not as marked as with the unregulated surface water diverters as shown below.

The tariff changes will lead to an increase in annual groundwater charges for the 2ML, 10ML sized licences and a reduction in annual groundwater charges for the 150ML and 400ML sized licence users.

Table 16: Current unregulated surface water charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Service	\$185	185	185	185	185
Licence	\$25.23/ML	50.5	252	3,785	10,092
<b>Total</b>		<b>236</b>	<b>437</b>	<b>3,970</b>	<b>10,277</b>

Table 17 shows the indicative bills that those licensees would face under the proposed new tariff structure. The Working Group reviewed data that showed a typical 150ML unregulated surface water licence has two; and a 400ML licence has three, metered service points.

Table 17: Proposed annual unregulated surface water charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Customer charge	80	80	80	80	80
Site charge	100/300	100	100	600	900
Access	200	200	200	400	600
Resource Mgt	2.80	6	28	420	1,120
<b>Total</b>		<b>386</b>	<b>408</b>	<b>1,500</b>	<b>2,700</b>

## 5. Implications of the tariff change

The Working Group found that the new tariff structure provided a rebalancing in cost recovery from larger to smaller licence holders in line with the cost drivers identified.

The proposed changes would lead to an increase in annual unregulated surface water charges for the 2ML sized licence user and a reduction in annual unregulated surface water charges for the 10ML, 150ML and 400ML sized licence users.

Table 18 shows the current annual fees that regulated surface water diverters pay under the existing tariff arrangement.

Table 18: Current regulated surface water charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Service fee	185	185	185	185	185
Entitlement Storage	9.85	19.7	99	1,478	3,940
Water delivery	583.86	11.7	58	876	2,335
<b>Total</b>		<b>216</b>	<b>342</b>	<b>2,539</b>	<b>6,460</b>

Table 19 shows indicative bills that regulated surface water diverters may face under the new tariff structure. The Working Group reviewed modelling which showed that a regulated surface water diverter with 400ML of water shares typically has two service points. The entitlement storage fee is retained to allow comparability of the revised total bill with the other diverters.

Table 19: Proposed annual regulated surface water charges: different customer sizes (\$)

Tariff component	Charges	2ML	10ML	150ML	400ML
Customer charge	80	80	80	80	80
Site charge	100/300	100	100	600	900
Access	200	200	200	400	600
Entitlement storage fee	10	20	100	1,500	4,000
<b>Total</b>		<b>400</b>	<b>480</b>	<b>2,080</b>	<b>5,080</b>

The tariff changes will lead to an increase in annual regulated surface water charges for the 2ML and 10ML sized entitlement holder and a reduction in annual regulated surface water charges for the 150ML and 400ML sized licence users.

The proposed four part tariff structure (customer, site compliance, access management and resource management) reflects the four different functions that GMW performs. That gives clarity to the tariff. Diverters will be able to see how their charges relate to the work that GMW does and the costs that it incurs.

## 5. Implications of the tariff change

The approach adopted by the Working Group, and approved by GMW's Board, reflects the fact that most of GMW's costs relate to the number of licences or water shares issued or to the number of service points monitored. It recognises that these costs generally do not vary significantly in proportion to a customer's entitlement volume.

The new tariff structure and methods of cost-sharing will see a rebalancing of costs and charges between customer groups. Overall, it means that customers with smaller entitlements will pay more and those with larger entitlements will pay less.

The basis for cost sharing for each of the charges meets the agreed tariff principles. The approach proposed supports three principles in particular:

- Equity and cost reflectivity;
- Simplicity and;
- Promoting agricultural production.



## 6. Next Steps

In formulating the new tariffs for diverters across Northern Victoria, this strategy has been developed with the assistance of the Working Group whose membership comprises groundwater, unregulated surface water and regulated surface water diverters.

The Diverters' Tariff Strategy is also part of GMW's broader tariff strategy review as set out in its Blueprint released in April 2013.

In line with its Customer Service Charter, GMW intends to keep stakeholders informed of tariff implementation through regular website updates ([www.gmwater.com.au](http://www.gmwater.com.au)) and its newsletters.

A detailed tariff implementation program will be in place by early 2014 with continued Regional Water Services Committees oversight of this process.

It is anticipated that the implementation and transition to a new tariff structure will commence in 2014/15.



# Notes

