



Produced by Goulburn-Murray Water

BASIN PRICING IN THE BROKEN VALLEY

Q. What is basin pricing?

Basin pricing is method of pricing that ensures the actual costs of harvesting and storing water in a river basin are shared amongst the water users within that same basin.

Q. What is the current method of water pricing?

Currently G-MW pools together its share of the costs for operating storages in the Goulburn, Loddon, Campaspe, Broken and Bullarook basins to produce one average bulk water price called the Goulburn system price. This is known as system pricing.

Q. Why has the G-MW Board decided to move towards basin pricing?

System pricing results in significant cross subsidies between low cost basins and high cost basins. It is important that sound decisions are made when major investments are required. Given that large amounts of money are needed to be invested in upgrading storages and making them more efficient, it is important that customers understand the real costs of bulk water supply in their basin.

As part of G-MW's ongoing tariff reform we have been progressively working to reduce cross subsidies and ensure that water prices share the costs to operate, maintain and replace water supply systems between customers who use these systems in a fair way.

Q. When will basin pricing start?

At this stage the G-MW has made an "in principle" decision to introduce basin pricing on a case by case basis with a view to progressively implement this change across G-MW. One of the triggers for change will be proposals for major capital works within a particular basin.

Q. Why was the Broken basin chosen as the first to implement basin pricing?

The decommissioning of Lake Mokoan requires important decisions to be made on major capital works and purchase of water entitlements. It is important that customers understand the likely future costs for bulk water, so we will be discussing these changes in the Broken valley first.

Q. Has G-MW had independent advice about basin pricing? Why have we not heard about basin pricing before now?

G-MW engaged independent consultants Frontier Economics to review its pricing policies in 2005. This resulted in a number of recommendations for changes to pricing for delivery services in irrigation areas which have now been implemented with widespread support from customers. This review also recommended that G-MW should move from system pricing for bulk water to basin pricing.

At the time in 2005 the G-MW Board did not immediately implement this recommendation. The decommissioning of Lake Mokoan requires important decisions to be made on major capital works and purchase of water entitlements. It is important that customers understand the real costs of bulk water supply in this basin.

Q. What consultation has taken place to date, and how can we be involved in future transition arrangements?

The concept of basin pricing is not new and has been discussed for many years. The introduction of basin pricing was recommended in the review by Frontier Economics in 2005. That review consulted widely with customers, and in particular with the water services committees who had significant input into the review and widely supported its findings.

The G-MW Board plans to implement basin pricing on a progressive basis and will ensure customers have sufficient opportunity to adjust to the new regime. Further discussions on prices will be held with all water services committees in due course including the Goulburn System Water Services Committee and the Broken Catchment Committee. In addition all G-MW prices and tariffs are overseen by the Essential Services Commission which has a process which includes opportunity for all customer to make comments on G-MW's proposed prices.

Q. Why are costs expected to rise in the Broken basin, is this because lake Mokoan is being decommissioned?

G-MW estimates as a guide that bulk water costs will rise by around \$40 to \$50 in the Broken. This is mostly because water in the Broken basin is far more expensive to store and harvest, per Megalitre, than the Goulburn basin. Currently customers in the Goulburn basin, which is the lowest cost basin in the Goulburn system are cross subsidising prices in the Broken basin.

The de-commissioning of Lake Mokoan also avoids the need for expensive dam upgrade works which were likely to be needed. These works were broadly estimated to cost around \$20m and would have had significant impact on prices had Lake Mokoan not been de-commissioned.

Q. Will all customers be impacted by basin pricing?

Yes, once introduced basin pricing will apply equally for all customers in a particular basin. That means for customers in lower cost basins price reductions will apply to all customers including irrigation licences, commercial licences, D&S licenses

etc. Conversely in higher cost basins, those costs will be shared proportionately between all customers, again including irrigation licences, commercial licences, D&S etc.

Q. When will unbundling occur in the Broken system and what will be the implications of basin pricing?

It is proposed that unbundling of water entitlements will occur on 1 July 2007 in the Broken system. Basin pricing will have no immediate implications for entitlements in the Broken valley, as the timing for transition to basin pricing has not yet been discussed with WSCs. It has been agreed that where any unbundled entitlement is not associated with land (i.e held in the 10% of entitlements that are not linked to land) the owner will be required to pay the basin price for these water entitlements, even if the transition to full basin pricing has not occurred for entitlements linked to land in that system.

Further information on Unbundling can be found at:

<http://www.g-mwater.com.au/browse.asp?ContainerID=unbundling>

Q. When will water trade in/out of the Broken basin begin and what will be the impact of basin pricing be on the tradability of Broken water?

The timing for trade in/out of the Broken basin has not yet been determined. The key factors that affect the tradability (and price) of a water entitlement in the market are its reliability, the trading rules that apply and the availability of buyers sellers. If all other factors are equal, the ongoing charges associated with an entitlement will also be a consideration when a buyer is assessing the market price for an entitlement.

Unbundled entitlements will all trade as tagged water shares. This means that they will retain the same characteristics and reliability regardless of whether they are owned by a Broken irrigator or a South Australian irrigator. As noted above, all unbundled water shares (i.e. not just Broken water shares) that are traded interstate or unlinked from land will immediately attract basin pricing.

Further information on Water Trading can be found at:

<http://www.g-mwater.com.au/browse.asp?ContainerID=watertrading>