



Werribee System Reconfiguration Project

Werribee Customer Engagement

Paper 4

August 2024

Paper intent

This paper and meeting 4 of the CRG aims to focus on the following two points raised by the CRG in their 10 Points identified in meeting 1:

Point 7. Water pricing must be competitive and affordable.

Point 4. Suppose we are required to sell our existing water rights (asset). We reserve all rights to negotiate its value.

This paper and the meeting will include:

- An update on progress with the preliminary business case and the funding submission for a detailed business case for the potential reconfiguration,
- Answers to questions asked by the CRG about water service pricing, and a discussion on pricing principles for a new recycled water supply
- An initial discussion about how a potential transition from river entitlement to a recycled water supply might work.

Business Case Development

The Preliminary Business case for the Werribee System Reconfiguration project is nearly complete. This sets out the problems reconfiguration is addressing, the costs involved, and the benefits that could be delivered. Subject to agreement on the business case, the project partners propose to seek funding from the National Water Grid Authority (NWGA) in November 2024, to part fund the next stage of the project, which is the detailed business case.

A detailed business case is required to demonstrate the project is ready to build and to enable funding of construction.

The steps to complete for the November submission are:

- Agree final versions of the preliminary business case and funding submission with each of the project partners.
- Each project partner to approve the funding submission and their funding contribution to the detailed business case.
- **Determine support (or otherwise) for the business case and funding submission from growers.**
- Determine support (or otherwise) for the business case and funding submission from Traditional Owners.
- Ministerial approval for the funding submission.

A decision on the funding submission is expected around May 2025 which would allow the detailed business case phase to commence in July 2025.

The detailed business case is expected to take 30 months to complete. It includes:

- Resolving new water sharing arrangements for surface water that underpin the benefits to environment, Traditional Owners and urban supply.

- Agreeing terms of transition, pre commitment and recycled water supply with growers.
- Developing the infrastructure design and costing.
- Complete preparation work for all approvals.

The diagram below provides more information on the three phases of the project.



The application for funding for the detailed business case needs to indicate grower engagement and support.
Due for submission November 2024

The application for funding for construction needs to demonstrate grower pre commitment.

Pricing

Expectations

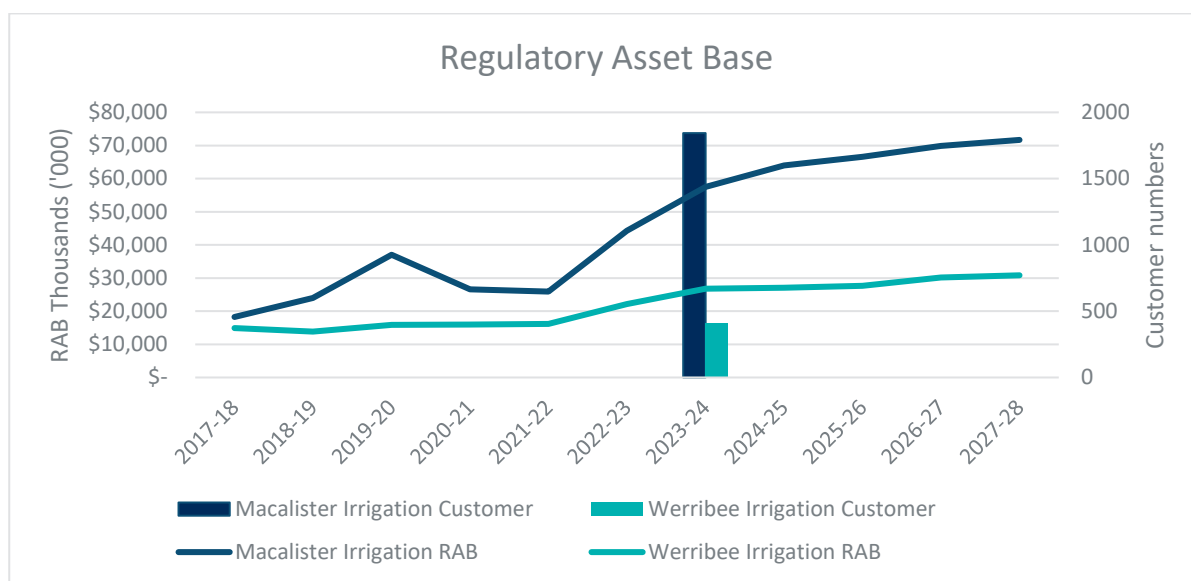
There are a range of factors that may influence pricing for a new recycled water supply, including the final design and cost of construction and operation, stakeholder and government contributions to fund the project, and grower contributions. Other investors may expect that the Werribee customers will pay something towards the project cost. At the meeting, we will ask growers to discuss their expectations about prices for a new recycled water supply.

To inform this discussion, and to respond to questions that growers have asked at previous meetings, information on current prices is included below.

Why is pricing different for Macalister Irrigation District customers?

Southern Rural Water prices reflect the costs of providing the water service, and SRW does not cross-subsidise between its different customer groups. Werribee customers pay for the costs to provide their services, and Macalister Irrigation District customers pay for the costs to provide their services.

The Werribee Irrigation District is more expensive to operate per megalitre than the Macalister Irrigation District. The district is smaller (about 10% the size of the Macalister Irrigation District), so has less economies of scale (for all its inputs) and is supported by relatively complex and expensive headworks and delivery systems. The Macalister Irrigation District relies on Lake Glenmaggie. Werribee pays for Melton and Pykes Creek, a share of Merrimu and their associated tunnels and weirs, and all water deliveries will be by pipelines and automated outlets.



The table above shows that the regulatory asset base (the accumulation of the value of investments over time) and the customer numbers for the two districts. Whilst the Macalister Irrigation District has a higher RAB than the Werribee Irrigation District, it has a far greater customer base across which to distribute the maintenance and financing costs.

How Capex translates to price paid for water services

Prices are regulated by the Essential Services Commission and determined every five years via the price submission. During this process water businesses will assess their revenue requirement which is the sum of operational expenses including a one percent productivity (reduction in expenses each year), depreciation and the cost of capital. Where the current tariffs don't cover the revenue requirements an adjustment to the tariffs are proposed.

In Southern Rural Water's most recent pricing submission in 2023 the revenue requirement for Werribee in 2024-25 is \$5m this will be paid for by the 244 Werribee customers. Roughly 60% of the revenue require is from operational activities, 25% is from depreciation of assets and the remaining 15% from capital costs. Southern Rural Water sought a 1% increase in revenue requirement each year for years between 2023-24 to 2027-28 in addition to the Consumer Price Index to cover the current gap between current tariffs and revenue requirement.

Why do I pay for my water if I do not use it?

Charges are for infrastructure, not water. Whether or not water is harvested by a dam or delivered by a pipeline, Southern Rural Water's costs to provide the service are largely the same.

Irrigation pricing in Victoria has always been infrastructure based, with customers paying for our *capacity* to harvest and deliver, not whether they order or use the water supplied by that infrastructure.

What is the average river and recycled water price over the past five years?

The nominal prices for the past 5 years for river water and recycled water are as follows:

	2020-21	2021-22	2022-23	2023-24	2024-25	Average
River HRWS	\$130	\$130	\$135	\$147	\$154	\$139
River LRWS	\$65	\$65	\$67	\$73	\$77	\$69
Recycled	\$361	\$361	\$379	\$407	\$424	\$386

(excluding Delivery Share and service point fees)

The Effective Price of Water (overall cost/volume of water delivered)

In considering future pricing it is useful to identify the current overall 'effective price' of water in the district, this is an indication of the overall average price per ML of water delivered. This is done by dividing the anticipated total water charges by the estimated volume of water to be delivered.

The average water volume supplied to WID over the last 5 years is 9691 ML/yr (2865 ML/yr of recycled water and 6826 ML/yr of river water).

The total estimated water charges for river water plus recycled water is \$6.5M.

Dividing \$6.5M by 9691 ML of water gives an effective cost of water of \$670 per ML.

Note that this is an average cost across the district. Each customer may have a different effective cost depending on their individual water use.

Considering the above information and in order to inform the preliminary business case, SRW is keen to understand what is the likely range that customers would be willing to pay for the new recycled water supply.

Transition of River Entitlement

A key element for the potential reconfiguration project to succeed is to transition sufficient river water entitlement from the WID and replace this with recycled water. A successful business case would demonstrate that the recovered river water can provide catchment wide benefits that justify funding of the replacement recycled water supply.

At a district level the business case assumes that 10,977 ML of HRWS and 5170 ML of LRWS is replaced with 10,760 ML/yr of recycled water in a scenario where all of the river water entitlement is transitioned.

To achieve sufficient progress towards the range of catchment wide benefits identified in the business case, modelling to date indicates that at least 75% of the total WID river entitlement (HRWS +LRWS) will need to be transitioned out of the WID.

To ensure the funding is sufficient for the recycled water supply infrastructure, the ratio of river water returned to recycled water supplied will need to remain similar to the business case for the district as a whole. In broad terms this means for every 1000 ML/yr of recycled water volume there will need to be 1000 ML of HRWS and 500 ML of LRWS returned.

We acknowledge that individual grower's circumstances are different and we fully support the opportunity for individual growers to negotiate the value of their existing surface water entitlements and any future portfolios supported by recycled water.

The exact approach to transferring entitlement will need to be determined as part of the detailed business case, noting that some growers do not own all of the entitlement that they utilise (some entitlement is leased). SRW wishes to explore with the CRG how the transfer of entitlement could work at an individual level to inform the work we need to do in the next phase.

To inform the preliminary business case SRW would like to discuss the following question with the CRG

- Is transitioning 75% or more of the WID river entitlement achievable?
- Given growers hold different amounts of river water entitlement how do growers see the transition occurring to achieve the district wide outcomes in a fair and equitable way?