Delivery Share Review Summary Report

Community Discussion Paper

Acknowledgements

Department of Environment, Land, Water and Planning acknowledges the Australian Aboriginal and Torres Strait Islander people of this nation. We acknowledge the traditional custodians of the lands on which our Department is located and we pay our respects to ancestors and Elders, past and present. DELWP is committed to honouring Australian Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

Accessibility

If you would like to receive this publication in an alternative format, please telephone the DELWP Customer Service Centre on 136186, email customer.service@delwp.vic.gov.au or via the National Relay Service on 133 677 www.relayservice.com.au. This document is also available on the internet at www.delwp.vic.gov.au.

1. Background

1.1 What a delivery share is

Delivery shares are used in the Goulburn-Murray and Sunraysia irrigation districts to provide rights to irrigators to access water delivery infrastructure. Part of the fixed charges paid by irrigators, delivery share guarantees the holder access to the irrigation system and helps to share the costs of operation and maintenance across all people in the system who can use water. A delivery share:

- Is an entitlement to have water delivered to land in an irrigation district, defined by a rate of megalitres (ML) per day.
- Gives access to a share of the available capacity in the channel or piped network that supplies water to a property.
- Is linked to land and stays with property if the water share is traded away.
- Is linked to a fixed annual charge that must be paid regardless of water use.

Created as part of the unbundling reforms of 2007 when water rights were separated from land, delivery shares were designed to perform five critical functions to service irrigators and manage infrastructure as water volumes and use shifted through trade. These original functions are:

1. *To oblige water corporations to continue to provide a delivery service.*

The Ministerial Directions on Delivery Entitlements (2007) require that a water corporation continue to provide a delivery service where a delivery share exists, and that the delivery service can only be reduced or cease with the agreement of the delivery shareholder, or by adopting a statutory reconfiguration plan under Part 7A of the Victorian *Water Act 1989*.

2. *To share access during periods of congestion in irrigation district delivery networks.*

Delivery share entitlement gives a right of access to the irrigation system at a specified rate in ML per day. Delivery shares reflect the capacity of the system to deliver that rate. They provide a minimum guarantee of the amount of water and rate of flow that can be provided to the outlet linked to that delivery share. In cases where there are more customer orders than the system can deliver, the delivery share rate can be used to share or ration delivery capacity between users.

3. *To apportion the costs of a shared delivery system.*

The amount of delivery share attached to a property was determined by the prior water right held at July 1, 2007, and linked closely to historic use. Those who had historically used the most water would contribute the most to ongoing maintenance and operation costs, with fixed fees - the infrastructure access fee in Goulburn-Murray Water (GMW) and the delivery share fee in Lower Murray Water (LMW) charged per delivery share. Farmers who required less water could transfer or terminate their delivery shares, while those with increased water requirements could acquire additional delivery shares or pay for casual use.

4. *To protect other users of shared systems (third parties) from price shocks as water trade alters the number of users and amount of water use.*

Delivery shares provide a fixed charge base to keep prices stable for all users as water use fluctuates. This is a stabilising effect to counter the potential for large shifts in water use enabled through unbundling and water trade, and acknowledges that the costs of operating and maintaining irrigation infrastructure are predominantly fixed, rather than varying in proportion to water use. Regulators like the Essential Services Commission (ESC) agree that termination fees act to smooth the impacts of people exiting irrigation, preventing price spikes and helping to maintain infrastructure through periods of structural adjustment.

5. *To signal opportunities to optimise network efficiency and rationalise irrigation infrastructure.*

Irrigators can increase, transfer or terminate their delivery shares as their water requirements change within the capacity constraints of the delivery infrastructure. It was intended for changes in the amount and locations of delivery share to reflect long term trends in water demand and signal to the water corporation where the irrigation system's efficiency could be improved. This includes where it is no longer financially viable to maintain infrastructure as the user base cannot meet the costs. In the Sunraysia districts, delivery share held is generally constrained by the annual use limit (AUL).

Delivery shares are the basis for fixed charges, which are a significant component of water-related costs for customers, regardless of how much water they have used – if any. The prices charged by water corporations are determined by each corporation working with customer representatives, through the ESC water pricing submission process. The ESC is an independent body responsible for making sure water corporation prices abide by all regulatory requirements. These include regulating the price, quality and reliability of services provided by rural water corporations so that they promote the long-term interests of Victorian consumers.

The Australian Competition and Consumer Commission (ACCC) is responsible for the overall pricing regulation principles and arrangements for irrigation infrastructure operators within the Murray-Darling Basin. The ACCC has accredited the ESC to determine the regulated charges of infrastructure operators in Victoria. This means the ESC must review and approve the tariffs and prices charged by LMW and GMW before they can be implemented.

There is more detail about delivery shares, the history of their development and how they are currently used in Goulburn-Murray and Sunraysia districts in the Delivery Share Review Preliminary Findings Report.

1.2 Why delivery shares are being reviewed

The Victorian Government is reviewing delivery share arrangements in northern Victoria to support irrigation communities and districts as they adjust to rapid, continuing changes in land and water use.

This is part of action 4.3 in *Water for Victoria* to examine how delivery shares are working now in the Goulburn-Murray and Sunraysia irrigation districts and how their future use can support affordable and resilient irrigation districts that are attractive to new businesses.

It has been 10 years since unbundling reforms separated water from land in Victoria and delivery shares were introduced, giving rights to irrigators to access water delivery infrastructure. It is now time to review how delivery shares have performed and explore options to address community concerns with current arrangements, improve functionality and performance and provide more value to people who hold delivery share.

Patterns of water use have changed – dramatically in some cases – since 2007 (Figure 1). Irrigation communities are adjusting to big changes in water availability through climate change and water recovery under the Murray-Darling Basin Plan. Market conditions, production changes, better technology and irrigation modernisation have also affected water use on farms. The rapid pace of change is set to continue.

We have listened to the main issues about delivery shares raised by stakeholders, including water corporation representatives, active irrigators, industry representatives and people with delivery share who do not own or use water[1].

We have analysed data on delivery shares held, water use, fixed charges and water trade to evaluate the issues and build a clear understanding of how delivery shares are currently performing.

There are clear issues around the balance between delivery shares held, infrastructure capacity and water use, but there are also complicated links to broader issues.

1. This included discussions with GMW irrigators through the Water Services Committee chairs and deputies, 25-year asset strategy working group and tariff and pricing working group, LMW representatives, the Victorian Farmers Federation, Dairy Australia, and individual irrigators who contacted the Government.

Delivery share alone is not the cause or cure for the challenges facing irrigators in northern Victoria. There is no single option or simple approach that resolves the difficult, connected issues that contribute to irrigators' concerns about delivery shares.

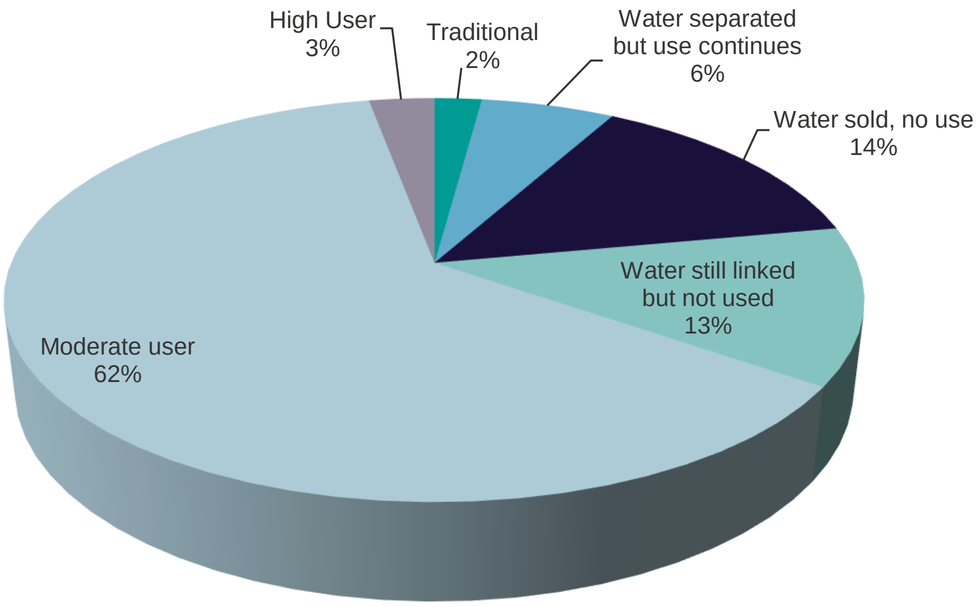

Figure 1: A breakdown of GMW customers based on the current relationship between delivery shares held and water used shows significant change since water rights were unbundled. In 2007, almost 100% of GMW irrigators had water use in the 'traditional' category, with delivery shares aligned with water use and amount of high reliability water shares held.

1.3 How the review is being done

The Delivery Share Review began in 2017 with the Department of Environment, Land, Water and Planning (DELWP) working closely with GMW, LMW and other key stakeholders.

It examines the function and performance of delivery share as the entitlement that requires a water corporation to maintain connection to the shared delivery infrastructure within an irrigation district and the irrigator's right to water supply from that infrastructure.

The review uses data and evidence from both rural water corporations and the Victorian Water Register to understand how delivery shares are performing, to explore trends and relationships and to evaluate options for change.

The delivery share review connects closely with other current projects and work programs looking at issues around water trade and pricing that impact on delivery share. This review's preliminary findings and recommendations will be provided to GMW's Transformation Panel for consideration in that process.

The review has put together options to change or replace delivery share by looking at the data around current delivery shareholdings and water use. The resulting 18 options have been categorised by the nature of the change and assessed against set criteria by independent experts.

Three further options have been developed, producing a total of 21 (Table 1). The extra three options apply to information and processes about delivery shares and their use and did not need to be assessed against the criteria.

The criteria used to assess the options were:

1. How the option aligns with the original design purposes of delivery shares and compares with services provided by current arrangements to:
    a. Manage the obligation to continue a delivery service
    b. Manage level of service, including rationing in congestion events

c. Share the fixed costs of irrigation infrastructure

d. Protect from price shocks as water is traded

e. Signal areas that could be rationalised

2. Whether the option provides any valuable extra or emerging purposes.

3. To what extent the option complies with Victoria's water policy principles. That is, the extent to which:

    a. The changes and any proposed products are well-specified and understandable

    b. The changes are consistent with the guiding principles and frameworks for water markets and pricing

    c. The changes are feasible to implement from an infrastructure operation and administration perspective, and the benefits of implementation exceed the costs

    d. The impacts on different customer groups and districts can be identified and managed.

Options that accord with the principles have been nominated as preliminary recommendations. Contributions from the irrigation community will help to refine the different options to develop the final recommendations for changes to delivery share arrangements in northern Victoria.

Some options may be relevant to a specific water corporation (Table 1) because of the differences between the GMW and LMW districts, such as pumped and gravity and horticulture and annual cropping. Some options will be interdependent and may be recommended as a series, while others will be incompatible. The next stage of the review will look at relationships between options and specific districts in more detail.

The final recommendations will go on to be put into action. Some will be put in place directly through the water corporations while others may require changes to Government regulations and the Victorian Water Register. Recommendations that affect tariffs and pricing will be part of water corporations' next price submissions to the ESC.

The findings will also feed into the GMW transformation process to support approaches for the continuing productivity and profitability of the Goulbourn-Murray Irrigation District (GMID).

2. Current performance of delivery shares

The current delivery share arrangements have been in place since the unbundling of water rights in 2007 when what had been a single water right was separated into three entitlements:

- A water share – an ongoing entitlement to a share of the water available in a water system. A water share can be bought and sold separately to land and does not stay with the property if the land is sold.
- A water-use licence or water-use registration for non-irrigators – an entitlement to irrigate specific parcels of land. The licence is tied to the land and automatically transfers to the new owner if the land is sold.
- A delivery share – an entitlement to have water delivered to land within an irrigation area, defined by a rate in ML per day. It stays with the land when water is traded.

The delivery share rate is calculated differently by each rural water corporation. The calculations were based on the length of the irrigation season, the water needs of traditional crops and the type of infrastructure in the two regions.

Goulburn-Murray Water

Delivery shares in the GMID were used to determine an annual delivery allowance (ADA): the amount of water that can be delivered to the land without incurring extra costs in casual use fees.

The annual delivery allowance is based on the delivery share in ML per day, multiplied by the number of days in the irrigation season when water can be delivered.

Charges are administered through the infrastructure access fee.

- Delivery Share (ML/day) = (D&S allowance [ML] + Water Rights [ML]) ÷ 100 days
- Annual Delivery Allowance (ML/year) = Delivery Share (ML/d) x Length of delivery season (270 d/year in the gravity systems).

As a result irrigators in the GMID are entitled to receive a volume of water up to 270 times the amount of delivery share they hold. The 270-times multiple is deemed to reflect water use per water right plus sales water before unbundling.

Water deliveries that exceed the annual delivery allowance attract casual use charges. Those who do not hold any delivery shares but wish to use water may do so, and will be charged at the casual use rate.

Lower Murray Water

Delivery shares in Sunraysia districts are defined by a rate of ML per day multiplied over a 14-day delivery period. Although charges are based on a 14-day period, delivery is currently managed on a 7-day cycle. AULs set out in water use licences limit the maximum water volume that may be applied per year.

Charges are administered through the delivery share fee.

- Delivery Share (ML/day) = (Garden entitlement [ML] + Water Rights [ML]) x 0.12 ÷ 14 days
- Total water volume delivered limited by the AUL for the land

Irrigators in Sunraysia districts who do not own delivery shares or who use water above their delivery shares are charged for that use at the casual use rate, with the maximum amount of water used capped at the AUL.

This review found there is a need to improve community understanding of what delivery shares provide and how they can be used. There are clear opportunities to improve the available information and ensure that it is provided to active irrigators and delivery shareholders who do not use water. This includes people who buy land with delivery shares attached who need to be informed about the rights and obligations that come with owning delivery shares.

2.1 Performance against design purposes

The current performance of delivery shares has been assessed against the aims or purposes behind their original design. This is to offer a base case for comparing alternative options. It helps us identify the strengths and weaknesses of the current system and understand how and why delivery shares are not working as intended. This assessment helped to inform the options.

The original purposes of delivery share were to:

1. **Manage the obligation to continue a delivery service**

Delivery share obligates rural water corporations to provide access to infrastructure that can deliver the volume of water a customer is entitled to over time by the amount of delivery share they hold. The channels, pipes and pumps making up this infrastructure were designed with the necessary capacity to support the delivery shares held at time of construction/reconfiguration. Delivery shares have provided a strong basis for protecting rights to delivery, even as northern Victoria’s irrigation districts have experienced significant change and structural adjustment.

2. **Manage level of service, including rationing in congestion events**

Water trade has broken down the essential relationship between infrastructure capacity and delivery share, while modernisation and standardisation of outlets have changed peak flow requirements. As a result the relationship between number of delivery shares held and the level of service experienced is no longer closely aligned. Also congestion and rationing are now rare and this decreases the value of holding delivery shares for accessing water. When congestion does happen in the GMW districts customers have chosen not to start rationing as other water sharing methods suit their requirements better. This means the links between delivery shares and service levels are no longer clear in the GMID. The link is stronger in the Sunraysia districts.

3. **Share the fixed costs of irrigation infrastructure**

Delivery shares do currently share the fixed costs for operating and maintaining irrigation infrastructure across the user base, but there is room for improvement in managing the fairness, equitability and flexibility of cost sharing. As trade has redistributed water and more efficient irrigation techniques have reduced on-farm water use, the relationship between water used and delivery charges has started to break down, especially in the GMID. Some users experience quite different levels of service for the same delivery shareholdings. With the low levels of termination happening, many customers hold a disproportionate amount of delivery shares for their current use, leaving significant costs for landholders who are not generating income through water use. These factors are more pronounced in the GMID than the Sunraysia districts.

4. **Protect from price shocks as water is traded**

Termination fees at the current multiple of 10-times the annual delivery share charge (infrastructure access fee for GMW customers and delivery share fee for LMW customers) have been very effective at smoothing prices for remaining active irrigators as water trade has developed. Voluntary termination levels have been very low in both GMW and LMW districts, maintaining a consistent number of shares across which fixed charges are distributed. This has helped to maintain fixed fees at a fairly constant rate per delivery share despite significant changes in water use. For example, in the GMID, on average, charges have not increased by anywhere near 30 per cent despite approximately 30 per cent of water entitlements trading out.

5. **Signal areas that could be rationalised or reconfigured**

Termination fees associated with delivery shares have worked well to protect against price shocks, but the numbers of customers willing or able to terminate is very low and does not reflect the number holding much larger amounts of delivery share than the water they use. Around a quarter of GMW customers have low or no water use compared with their delivery shareholdings. Their decisions not to terminate unused delivery shares mean that appropriate signals are not being given to water corporations for certain areas. This is where delivery infrastructure could be rationalised to reduce ongoing costs for remaining users, or where costs savings could be found by changing operations to reflect the service levels required. Conversely, in the Sunraysia districts redevelopment and expansion of existing plantings means delivery share is starting to have scarcity value and rationalisation of assets is not a priority.

Questions for stakeholders
☐ Are there any new or emerging reasons for delivery shares that can be added to their design purposes?
☐ Are there any design purposes that are no longer relevant and can be dismissed?

3. Evaluating alternative options

While delivery shares have served to share infrastructure costs and protect from price shocks, changes since unbundling have altered the relationship between delivery share, water use and level of service. The reduction in water available for irrigation from climate change and water recovery under the Basin Plan has contributed to a mismatch between irrigation infrastructure, delivery shares and water use.

This mismatch has been entrenched in places by the cost of termination. Farmers who no longer own water and do not wish to irrigate are unwilling or unable to pay the termination fees to exit. As well as generating major financial stress, people not exiting means the necessary signs for rationalising and optimising irrigation networks are not received. The masking of signals means infrastructure cannot be managed optimally, potentially increasing fixed costs and obscuring opportunities for sensible reconfiguration.

Options in this paper that will progress to recommendations for further investigation need to improve on the current performance of delivery shares, i.e. they either improve on their original design purposes and/or provide additional benefits beyond their original purpose to water corporation customers. An initial evaluation of the alternative options generated during consultation is provided here to show how they would perform against current delivery share arrangements.

The 21 options considered have been grouped into five categories based on the type of change proposed (Table 1). These sections summarise the options investigated through the delivery share review and grade their performance against the assessment criteria. Full explanations of each option and more detailed evaluation are provided in the Delivery Share Review Preliminary Findings Report which is available on the Engage Victoria website (engage.vic.gov.au).

The options have been scored against each criterion using the following categories:

Score	Definition
Yes	The option supports or facilitates this criterion
Partial	The option partially fulfils the criterion, or further development of the concept is needed to make an informed assessment, including contributions from stakeholders
No	The option does not meet the requirements for the specified criterion

The options considered have been grouped into three grades of findings based on the outcomes of assessments:

- **Recommended** – these options meet all the assessment criteria, and based on this initial assessment improve on the current delivery share arrangements. These options will now be considered in greater detail and refined through the next stage of the review, helped by feedback from stakeholders.
- **Investigate further** – these options meet most of the assessment criteria but it is uncertain if they out-perform the current delivery share arrangements. In many cases a more thorough assessment is required. We need stakeholders' feedback to find out the preferred design or structure and if the irrigation community sees these as useful options.
- **Not recommended** – these options do not meet key assessment criteria, and are not considered to perform as well as the current delivery share arrangements. In many cases they increase administration costs and add complexity but do not address the root causes of concerns around delivery shares. Some impose a transfer of costs between charge types that can increase prices for active irrigators. These options will only be evaluated further where stakeholders can provide a strong case and set out how potential outcomes would improve on current delivery share arrangements and how costs would be mitigated.

Table 1: The 21 options considered in the delivery share review are grouped into five categories. Options may be more relevant to a specific water corporation due to the differences in their infrastructure or customer requirements.

	Option	Relevance to water corporation GMW	Relevance to water corporation LMW
Specification of a delivery share			
1	Reducing the ADA	✓	
2	Resizing of current delivery shares	✓	
3	Reallocation of delivery shares	✓	
4	Linking delivery shares to AUL		✓
Delivery shares and service			
5	Seasonal delivery shares	✓	✓
6	Different delivery service level products	✓	
7	Limited term contracts	✓	
Use in systems operation			
8	Priority ordering lead times	✓	✓
9	Priority volumetric access	✓	✓
10	Implement flow rates linked to delivery shares	✓	✓
Facilitating a market in delivery shares			
11	Delivery Share Markets	✓	✓
Tariff and pricing principles			
12	Amnesty period for unwanted delivery shares	✓	✓
13	Increase contribution of environmental water use to district operations and maintenance costs	✓	✓
14	Applying comparable delivery shares on water that is traded out of the region	✓	✓
15	Government subsidies	✓	✓
16	Alter the recovery basis for IAF	✓	✓
17	Alter the level and application of the usage fee	✓	✓
18	Alter the level and application of the Termination Fee	✓	✓
Additional recommendations			
19	Distribution of water efficiency dividends	✓	
20	Spatial decision-making processes	✓	✓
21	Information, communication and transparency	✓	✓

4. Specification of a delivery share

These options explore alternatives to what a delivery share does, including what it provides the holder and how it links to infrastructure capacity. The main objectives behind these options are to resolve mismatches between delivery shares held and water use and to increase the demand for delivery shares in districts with an oversupply, which may stimulate a viable market for transfer of delivery shares.

With significant trade of water entitlement out of the GMID since unbundling, relationships between use and delivery share have changed. Around 25 per cent of GMW customers use significantly less water than their delivery share rights provide for. . This includes a number of customers who do not intend to irrigate their properties but must continue to pay the fixed delivery share charges.

In the Sunraysia districts, there is a surge of redevelopment and expansion of existing plantings. Delivery share is starting to have scarcity value and infrastructure upgrades are being identified to remove some capacity constraints within district networks.

4.1 Options for changing the specification of a delivery share

4.1.1 **Option 1: Reducing the annual delivery allowance (ADA)**

The volume of water available per delivery share could be reduced by decreasing the ADA to a multiple that is less than 270 times the delivery share volume. Water use above this multiple would attract casual use fees. This would theoretically generate demand for more delivery shares from irrigators who are currently using water volumes between the reset ADA value and the current 270 multiple.

If enough irrigators were required to take up more delivery shares, this could potentially reduce the price per delivery share. It could also create a market for those with excess delivery shares to trade their unwanted shares, rather than paying termination fees.

Note that this option applies only to GMW districts.

Findings:

- Fewer than 10 per cent of GMW customers use more than 100 times their delivery shareholding, and only 3 per cent use a volume over 250 times greater (see Figure 1), indicating that the impact of this option may be marginal.
- This option risks locking in under-use of the network, while costs across the customer base would not significantly reduce as the infrastructure costs would remain the same.
- Unless accompanied by active measures to reconfigure the system and reduce overall costs, this option may be inequitable, impacting on active irrigators to benefit people who have sold water but not terminated their delivery shares.
- An alternative approach is to use stepped tariffing structures to effectively reduce the ADA through price signals, rather than redefining the entitlement.

Investigate further through tariff and pricing principles.

4.1.2 **Option 2: Resizing of current delivery shares**

The customer value or demand for delivery shares may also be increased through resizing the flow rate associated with all delivery shares on issue within a district. This would involve applying a resizing factor across the board.

For example, with a resizing factor of 0.5, 1 ML per day of delivery share would be resized to become 0.5 ML per day of delivery shares. With no change to the ADA multiplier, irrigators could still receive 270 times their delivery shares, or 135 ML per year. In essence, the volume delivered to each property before casual use fees apply would be halved. This assumes that such a reduction would encourage active users with delivery shareholdings to take up more delivery shares to avoid the risk of casual use charges.

This option applies most in GMW districts where water use has decreased at a greater rate than delivery shares have been relinquished.

Findings:

- The costs of operating and maintaining the irrigation system will remain unchanged, indicating that any reduction in price will be significantly less than the reduction in ML per day per delivery share.
- This option is complex to administer because of rescaling issues in the Water Register, expected higher communications and engagement needs around resizing issues and extra expenses to be recovered.
- Unless accompanied by active measures to reconfigure the system and reduce overall costs, this option may be unfair, impacting on active irrigators to benefit people who have sold water but not terminated their delivery shares.

Not recommended.

4.1.3 **Option 3: Reallocation of delivery shares**

Under this option, all serviced properties within an irrigation district wanting to continue having the option of taking deliveries would be required to hold enough delivery share to support effective irrigation of the property. The assumption is this would force water users not currently owning delivery shares and paying casual use charges instead to take up delivery shares. It would make sure all active water users contribute proportionally to the system that benefits them.

If there are enough 'free riders' within a district, the increase in the total delivery shares on issue that would result from this option would lead to downwards pressure on price for the infrastructure access fee.

This option applies mainly to the GMW districts.

Findings:

- Requires many landowners to make binding decisions on the long-term future of their properties in a short period of time, and moves away from established water policy principles supporting individual choice and flexibility in existing systems.
- Realigns the fixed costs of providing the system by those who potentially benefit from its use, and may help identify properties that no longer require service and assist in reconfiguration efforts.
- A major, complex and costly reform that would be difficult to implement administratively and legally, and would require major development work that does not resolve the imbalance between fixed infrastructure costs and declining water use.
- May be useful as part of full modernisation of water supply systems or reconfiguration of major sub-systems to make sure that systems are sized to meet the needs of those prepared to share the costs.

Not recommended.

4.1.4 **Option 4: Linking delivery shares to annual use limits**

AULs were introduced in northern Victoria to manage salinity risks by limiting the amount of water that can be applied to a parcel of land in any given year. This option would create a link between delivery shares and AUL so that the annual delivery allowance from the delivery shares held does not greatly exceed the AUL available for the property. The exact correlation between AUL and delivery share would need to be determined. Any changes to the annual delivery allowance would also impact on this option.

This option would be most relevant in Sunraysia districts where AUL is scarcer and there is an existing active market.

Findings:

- May help to maximise economic outcomes by aligning allocation of scarce AUL and delivery share resources in Sunraysia districts, and may support the expansion of irrigation in areas that are currently constrained.
- Moves away from current water policy principles supporting individual choice and flexibility in existing systems and reduces risk management opportunities available using market-based mechanisms.
- Relatively simple, low-cost option with little likelihood of negative stakeholder reaction.

Investigate further.

4.2 Assessment against criteria

	Criteria	Option 1 - Reducing the ADA	Option 2 - Resizing of current delivery shares	Option 3 - Reallocation of delivery shares	Option 4 - Linking delivery shares to AUL
Category: Specification of a delivery share					
Design purposes	Manage obligation to continue a service	Yes	Yes	Yes	Yes
Design purposes	Manage level of service, including rationing	Yes	Partial	Yes	Yes
Design purposes	Share fixed costs	Partial	Partial	Yes	Yes
Design purposes	Protect from price shocks	Partial	Partial	Partial	Yes
Design purposes	Signals for rationalisation	Partial	Partial	No	Partial
Design purposes	Additional/emerging purposes	Supports trade in delivery shares	Supports trade in delivery shares	Align system size to demand through reconfiguration	Supports expansion
Policy principles	Well-specified product(s)	Yes	Yes	Yes	Yes
Policy principles	Compatible with regulatory frameworks and principles	Partial	Partial	Partial	Yes
Policy principles	Feasible to implement	Yes	Yes	No	Yes
Policy principles	Impacts identifiable and manageable	Partial	Yes	Partial	Yes
Preliminary finding		**Investigate further via tariff and pricing principles**	**Not recommended**	**Not recommended**	**Investigate further**

Questions for stakeholders
☐ Do you think that any of the options have merits for the system as a whole?
☐ Which option(s) can be pursued further, and why?

5. Delivery shares and service

These options consider providing different types of service at different price points and/or contracts where doing this benefits all system users. This may include seasonal, peak/off-peak and variable service level products. These options may be able to use available network capacity better where peak demand is high, or adjust service levels in areas where demand is low or variable and lower levels of service may meet customer needs.

5.1 Options for different service products

5.1.1 **Option 5: Seasonal delivery shares**

Existing 'full season' delivery shares can be subdivided into smaller seasonal delivery shares, allowing new crops to be developed that could be grown when traditional horticultural water demands are low. Tariffs related to delivery shares would be split and charged across the seasonal shares.

Current delivery shareholders could sell or transfer the seasonal shares they don't need to property owners looking to expand plantings in these shoulder periods. Sellers of unwanted seasonal delivery shares would be able to reduce their fixed costs, while buyers of specific seasonal delivery shares would face lower fixed costs, reducing the barrier to entry.

This option is most relevant in the Sunraysia districts where crop water demands and the use of delivery share are high and in summer.

Findings:

- Offers customers improved choice and flexibility, but also allows users to continue to hold all their current rights and provides options for adjusting delivery shareholdings without generating terminations.
- Could improve the use of existing delivery network assets, resulting in lower prices for water users as costs are spread over a bigger customer base.
- Adds extra complexity to the delivery share regime and billing system, although the total cost for fixed charges should not increase.
- Seasonal variability and climate change will mean that there will be future risks around changes on growing seasons for crops and/or rainfall patterns.

Recommended.

5.1.2 **Option 6: Different delivery service level products**

Where changes in delivery service level can provide changes in related tariffs - the infrastructure access fee for GMW customers and the delivery share fee for LMW customers - that improve the value proposition for delivery shareholders, specific products can be designed to meet customer preferences. Although this option could incorporate better levels of service, most users are expected to be interested in lower levels of service that are still appropriate for some enterprises. In return there could be a lower fixed infrastructure charge.

If this option is to proceed, it would take considerable analysis and design to fully scope the delivery service levels offered and establish what reductions could be offered in fixed infrastructure charges. Consideration will also need to be given to how this option interacts with reconfiguration and rationalisation.

This option applies mostly to GMW customer groups with different needs for levels of delivery service are emerging.

Findings:

- Provides lower fixed annual costs and greater flexibility for irrigators who only use water opportunistically. The number of these customers is likely to grow as water availability reduces. It better aligns some of the costs of operating and maintaining irrigation systems with the cash flow for farm businesses.
- Specific service levels could be developed that meet local needs and be adjusted over time as those needs change, increasing flexibility and resilience. However, changes to service levels need to produce real reductions in the annual costs to maintain and renew the infrastructure. This may not be feasible as it depends on customer preferences, infrastructure limitations and economic assessment.
- Will require all users in a channel system to agree to the changed level of service, which may be difficult to achieve. It will take major consultation and communications, including addressing concerns that it would lock out future opportunities for changing into crops that require a higher level of service.

Investigate further.

5.1.3 **Option 7: Limited term contracts**

Under this option, irrigators would be offered the opportunity to surrender their current standard delivery share in exchange for entry into a limited term contract for provision of delivery services. The contract-based delivery shares offered would have a clear term, for example 10, 15 or 30 years. At the end of the term no termination fees would be payable, but there would be no obligation on the water corporation to continue providing an irrigation service.

The infrastructure access/delivery share fees for the limited term contract may be discounted compared to the fee for standard delivery shares. Combined with the removal of obligations to pay future termination fees, this would be a key incentive to move into this arrangement. The parties would need to negotiate about further contract service provision when the contract ends, but the starting position would be disconnection of service and subsequent asset reconfiguration.

This option may apply most to GMW customers as it helps to progress practical reconfiguration. It may also lower barriers to new investment.

Findings:

- Uptake of limited term delivery share contracts would provide strong signals for reconfiguration, with benefits for managing future costs for delivery services while supporting customers to make well-managed exits where desired.
- Provides an extra opportunity for flexible service delivery arrangements which could form part of a package of measures to address delivery share and reconfiguration aims.
- Considerable analysis and design would be required to fully scope the arrangements, develop the delivery share contracts and establish what reductions could be offered in fixed infrastructure charges, including legal advice.
- This opportunity may only be offered in selected zones within a district where it is considered that reconfiguration is likely or will be required in the medium term. This may require forecasting of the future irrigation suitability and viability of certain areas.

Recommended.

5.2 Assessment against criteria

		Category: Delivery shares and service		
Criteria		Option 5 - Seasonal delivery shares	Option 6 - Different service level products	Option 7 - Limited term contracts
Design purposes	Manage obligation to continue a service	Yes	Yes	Yes
Design purposes	Manage level of service, including rationing	Yes	Partial	Yes
Design purposes	Share fixed costs	Yes	Yes	Yes
Design purposes	Protect from price shocks	Yes	Yes	Yes
Design purposes	Signals for rationalisation	No	Partial	Yes
	Additional/emerging purposes	Supports expansion and trade in delivery shares		Supports business planning
Policy principles	Well-specified product(s)	Yes	Yes	Yes
Policy principles	Compatible with regulatory frameworks and principles	Yes	Partial	Partial
Policy principles	Feasible to implement	Yes	Partial	Partial
Policy principles	Impacts identifiable and manageable	Yes	Partial	Partial
Preliminary finding		**Recommended**	**Investigate further**	**Recommended**

Questions for stakeholders

☐ Do you think different delivery service products would be useful in your part of the delivery system, thinking about your own requirements and neighbouring properties?

Based on your water use patterns, what seasonal delivery share products would you find valuable:

☐ 3 seasons (winter-spring, summer, autumn)
☐ 4 seasons (winter, spring, summer, autumn) with a new winter product in the GMID
☐ Monthly
☐ Other (please describe)

Would you be interested in delivery share products that provide different levels of service?

- ☐ Yes: a lower standard of service (interruptible supply, less channel maintenance, etc.) if the associated infrastructure access fee/delivery service fee was lower
- ☐ Yes: a premium delivery service at a higher price point – likely restricted to backbone areas – that guaranteed uninterruptible supply at an agreed flow rate and volumetric limit
- ☐ No, neither

Do you support the use of limited term contracts?

- ☐ As a tool to support sensible reconfiguration, with a view to reducing the costs of the irrigation district
- ☐ As something you might be interested in yourself

6. Use in systems operation

Some delivery shareholders are concerned that casual users enjoy virtually all the benefits of holding delivery share, without incurring the related fixed charges. While casual use fees in GMW are higher per ML than use with delivery shares, casual users pay only for the water used and do not contribute annual fixed charges.

In LMW casual use is charged at an equivalent rate per ML to holding delivery shares. These options explore how delivery shares can be used in system planning and operations to provide clear benefits to holding delivery shares that provide real value to customers. They are intended to increase the benefits to customers of holding delivery shares and can be implemented within the current systems operation framework.

6.1 Options for using delivery shares in system operations

6.1.1 **Option 8: Priority ordering lead times**

Access to the delivery ordering system would be constrained based on the delivery shares held. Those with the highest holdings of delivery shares would have the earliest advanced access to ordering slots, with casual users restricted to selecting from the remaining vacant slots. For example, in the Robinvale Irrigation District access to spare capacity in the system 48 hours in advance gives customers who want to take water in excess of their Volumetric Restriction time to plan and place orders.

A range of other refinements to this basic concept could be used to tailor the service offering to the needs of different areas and user groups, including filtering and rejecting casual orders if localised congestion issues arose within the delivery network, or in the river upstream of the district offtake.

Findings:

- Provides tangible benefits for delivery share users in day to day ordering as well as for managing rationing in congestion periods, although it needs careful design to ensure a fair system.
- Further work is needed on the design of the priority access scale to identify the most appropriate relationships between delivery share holdings and ordering lead times, and to investigate the need for major and potentially costly changes to ordering and scheduling software.
- Irrigators may not perceive that the benefits outweigh the extra complexity that would be added to the current simple water ordering process.

Investigate further.

6.1.2 **Option 9: Priority volumetric access**

To make sure that water users get access to volumes consistent with their delivery share holdings, ordering systems could be amended for delivery shareholders to receive priority access to available deliveries over each irrigation cycle. The volume ordered in any irrigation cycle would be limited to the delivery share ‘volume’, calculated for LMW as the delivery share units held over a 7-day period, or for GMW as 10 times the delivery share held.

Volumes above the delivery share volume may be ordered as tentative orders, which could be overwritten by delivery share volume orders, or confirmed if still valid 24 hours before the ordered delivery time. Details of how this option would be put into action needs to be refined with customers.

LMW already uses a concept like this called a Maximum Order Flow Rate, which is used in equitably sharing pump station and distribution network capacity (including local spur capacity). They also use a peak/off peak function within the Volumetric Restriction (VR) to equitably manage customer orders during popular irrigation hours (noon to 6 pm) in the Robinvale high pressure system.

This option most likely suits LMW customers as it ensures irrigators can take water at volumes to meet peak crop demands.

Findings:

- Provides tangible benefits for delivery share users in day to day ordering and supports the value of delivery shares in accessing volumes of water in peak periods, as well as for managing rationing in congestion periods.
- Could encourage casual users to take up delivery shares and pay fixed charges and may stimulate interest in delivery share trading.
- Benefits may be limited in GMW's area and this option may have questionable value in areas that do not experience demands at or above system capacity.

Investigate further.

6.1.3 **Option 10: Implement flow rates linked to delivery shares**

Under this option determined flow rates (DFR) would be established for each property in ML per day as an attribute of the delivery share. Water users may be required to limit the rate of delivery to their properties to the DFR on any day during peak demand periods. Outside peak demand periods, water users may be able to take deliveries at higher rates than their DFR if there is spare capacity in the network.

Findings:

- Improves management of access to services by providing daily water sharing based on delivery shares, will assist with rationing available capacity in high demand periods, especially on smaller channels/pipelines, and will improve compliance management.
- Feasible and cost effective to put into action, but requires some preliminary work and software changes.
- Does not provide major benefits in areas that do not currently experience demands at or above system capacity.

Investigate further.

6.2 Assessment against criteria

Category: Use in system operations				
	Criteria	Option 8 - Priority ordering lead times	Option 9 - Priority volumetric access	Option 10 - Implement flow rates linked to delivery shares
Design purposes	Manage obligation to continue a service	Yes	Yes	Yes
	Manage level of service, including rationing	Yes	Yes	Yes
	Share fixed costs	Yes	Yes	Yes
	Protect from price shocks	Yes	Yes	Yes
	Signals for rationalisation	Partial	Partial	No
	Additional/emerging purposes		Improves congestion management	
Policy principles	Well-specified product(s)	Yes	Yes	Yes
	Compatible with regulatory frameworks and principles	Yes	Yes	Yes
	Feasible to implement	Partial	Partial	Partial
	Impacts identifiable and manageable	Yes	Yes	Yes
Preliminary finding		**Investigate further**	**Investigate further**	**Investigate further**

Questions for stakeholders

Do you see value in delivery shares giving priority access to water ordering systems and /or water take?

How often are these circumstances an issue for your business and which impose the biggest imposts?

- ☐ Inability to secure preferred ordering slots
- ☐ Inability to take as much water as required within a delivery period
- ☐ Inability to take water at the optimum flow rate for your system

What elements of service are a higher priority for you? Please rate in order:

- ☐ Access to preferred ordering windows
- ☐ Access to a guaranteed water volume over a delivery period
- ☐ Access to a guaranteed minimum flow rate (daily rate of take)

7. Facilitating a market

While delivery shares must be linked to land, the land they apply to is not specified. They can be moved between properties, either by one owner redistributing existing delivery shares, or through trade. Trade and markets in delivery shares have not experienced much demand yet, but there is growing interest as water markets mature.

Delivery share markets would be more localised than water entitlement or allocation markets because of their close connection with system capacity and need for hydraulic connection so that associated water volumes can move with the delivery shares.

Buyers may be limited to landholders adjacent to infrastructure physically interconnected to the seller's supply channel or pipeline. Values are likely to vary widely, partly because of the small market size and the range of local supply and demand combinations that will arise. Anecdotal evidence points to a negative value for delivery shares in some situations, like where a potential ‘seller’ may pay a ‘buyer’ to take over a delivery share rather than continue to pay annual charges or pay a costly termination fee.

7.1.1 **Option 11: Delivery share markets**

This option looks at how water corporations could actively progress markets in delivery share, providing a portal for all information on available trades and prices and checking to decide if a trade is possible within the constraints of the infrastructure.

The Government would also need to improve the depth and performance of markets, including amending legislation, providing information and advice to customers, developing online tools and trading platforms and setting guidelines for traders and intermediaries. This could be done through the Victorian Water Register.

Information products and communication tools would need to be developed to support a market, including providing information on channel capacity and available delivery shares, trading rules and market prices. This is explored further in Additional recommendations in section 9.

LMW is developing key tools to support expanded delivery share markets. GMW also recognises the need for better information on system capacity and delivery share commitments to understand capacity limits and support delivery share trade.

Findings:

- This option could promote turnover in some markets, supporting redistribution of delivery shares, and add value to other options adopted. It will have less impact as a stand-alone measure and trade will be limited by low demand in places.
- As markets develop other aspects of delivery share trade to be investigated include limited term transfers, or temporary trading of delivery shares within an irrigation season. There may also be scope for wider trade opportunities, including between districts and from districts to extraction shareholders on rivers.
- The similar needs of water corporations to implement this option may create opportunities to standardise systems/tools and share costs for development of capacity and trade assessment tools. Developing these tools will incur costs so transactions costs for users need to be evaluated.

Recommended.

7.2 Assessment against criteria

Criteria		Option 11 - Facilitating markets in delivery shares
Design purposes	Manage obligation to continue a service	Yes
	Manage level of service, including rationing	Partial
	Share fixed costs	Yes
	Protect from price shocks	Yes
	Signals for rationalisation	Yes
	Additional/emerging purposes	Provides scope for additional products and trade opportunities
Policy principles	Well-specified product(s)	Yes
	Compatible with regulatory frameworks and principles	Yes
	Feasible to implement	Yes
	Impacts identifiable and manageable	Yes
Preliminary finding		**Recommended**

Questions for stakeholders
Do you support markets in delivery share that are actively facilitated by your water corporation?
What approaches to trades can water corporations facilitate? ☐ Surrender and reissue of delivery shares (not terminations for exit) ☐ Managed transfer within pricing blocks ☐ Direct trade between buyer and seller
Should water corporations have the right to restrict trade into areas that they plan to rationalise in the future?
Under what conditions can water corporations issue new delivery shares? ☐ Where there is no hydrological capacity for trade ☐ Where doing so will significantly reduce the costs to other delivery shareholders (e.g. new large developments) ☐ Only where there are no delivery shares to be traded ☐ Other

8. Tariff and pricing principles

The prices that water corporations charge their customers, including the infrastructure access fee for GMW customers and the delivery share fee for LMW customers, are set through water corporation pricing submissions to the ESC. To be accepted by the ESC, pricing submissions must comply with the water pricing principles set by the ACCC.

The Victorian Government cannot override prices set by the water corporations through the ESC process. This means that changes to the fixed charges related to delivery shares – the infrastructure access fee and delivery share fee – cannot be made through this review. But this review can examine the policy principles and frameworks supporting water pricing.

The principles we examined have been broken down into three categories:

- system-wide, policy-based changes to the tariff structure
- changes to the infrastructure access fee or delivery share fee and how they are recovered
- changes to charges that are calculated based on the number of delivery shares.

8.1 System-wide changes

8.1.1 **Option 12: Amnesty period for unwanted delivery shares**

There are some holders of delivery share who are either no longer irrigating, irrigating less, have bought property with delivery shares attached but have no intention to irrigate, or are looking to exit irrigation. These people have not opted to pay termination fees to get rid of these excess delivery shares, which indicates that termination fees are not acting as expected.

The premise of this option is that holders of delivery shares would be able to relinquish some or all their surplus delivery shares for a specified period during which termination fees would not apply, or could be reduced.

Findings:

- The revenue loss will be significant - up to $8 million a year for 10 years in the GMID - and is greater than the potential cost savings from resulting reconfiguration opportunities attributed to those relinquishing delivery shares.
- The main beneficiaries are people wishing to relinquish delivery shares, who save the costs of termination and avoid significant costs from continuing to hold delivery shares they do not want or

need.

- The remaining holders of delivery shares and the water corporation would be exposed to a lower revenue base, without any proportionate decrease in the cost base and putting upward pressure on prices.
- An amnesty would set a precedent for future amnesties, potentially undermining the longer-term commitment to full cost recovery in the rural water sector.

Not recommended.

8.1.2 **Option 13: Increase contribution of environmental water use to district operations and maintenance costs**

This involves increasing infrastructure use charges associated with environmental water deliveries, with a corresponding decrease in charges to irrigators.

As environmental water holders don't own land they cannot hold delivery shares, but they do require access to some parts of irrigation district infrastructure or natural waterways within them to deliver environmental water. Under current environmental watering arrangements, the environmental water holders pay a charge that is consistent with their use of district infrastructure. The charges applied for delivery of this water are not subject to the interdependent regulatory processes that apply for irrigation, and are not developed as transparently as regulated charges. There are no consistent state-wide pricing principles for determining these charges.

The Victorian Government recognises the need for improved environmental charging arrangements that are clear, transparent and equitable and has initiated a state-wide review through *Water for Victoria*.

Findings:

- As environmental water charges come under a different policy framework and regulatory approach to irrigation-related tariffs and pricing, the ACCC and ESC's assessment criteria do not apply.
- Future arrangements for environmental water charges, not just infrastructure use charges, are being determined through the state-wide review of environmental water charges and will not be considered further through the delivery share review.
- Officers reviewing environmental water charges have been advised of the option to provide more equity between irrigators and environmental water use in contributing to district operations and maintenance costs and this option will be investigated further in that review.

Investigate further.

8.1.3 **Option 14: Applying comparable charges on water that is traded out of the region**

This option would develop a charge equivalent to a delivery share that would be applied to water entitlements traded out of the region. This charge would apply even if the entitlements were not delivered through the irrigation networks or were traded interstate.

This would apply to both environmental water entitlements that are transferred to another region and water entitlements held by private diverters that are transferred to another region. It is based on the idea that water entitlement holders purchasing water in a district and moving it somewhere else would continue to pay for part of the infrastructure costs for the original district to address the loss of available revenue within that district.

Findings:

- The ACCC bans the cancellation or compulsory termination of delivery shares on the sale of water entitlements and prohibits the application of shadow delivery charges when water trades out of an irrigation infrastructure operator's area.
- This option does not comply with the water pricing principles, particularly the user pays principle. It is likely to result in charges that do not reflect costs for remaining customers and contribute to

economically inefficient use of irrigation assets.

Not recommended.

8.1.4 **Option 15: Government subsidies**

This option calls for the Government to provide targeted subsidies to cover infrastructure maintenance costs which would reduce the cost to provide a service, e.g. cover the maintenance costs on assets that have been gifted to GMW through the GMW Connections Project. It addresses the perception that government modernisation programs have installed assets with higher maintenance costs that increase the costs to be recovered through the fixed infrastructure charges. In effect this would be a cost transfer from users of the systems on to the wider Victorian community through taxation.

Findings:

- This option fails to satisfy key principles regarding the economically efficient use of water infrastructure and user-pays principles, with the subsequent pricing signals not being based on full cost recovery and ongoing administration costs.
- It could undermine signals for efficient investment and use of infrastructure and has the potential to undermine the existing regulatory framework based on full cost recovery.

Not recommended.

8.2 Changes to the infrastructure access fee and delivery share fee

8.2.1 **Option 16: Alter the recovery basis for infrastructure access fee (IAF) and delivery share fee (DSF)**

This option considers alternative structural approaches to recovering the infrastructure access fee or delivery share fee fixed costs that are not based on the amount of delivery shares held. Delivery shares were originally assigned to irrigators in proportion to the volume of entitlement held.

With significant trade out of some public irrigation districts and changes between customers, there may be an argument for calculating a new base for delivery shares that reflects the use of the network rather than water use at the time of unbundling.

Conceptually, this offers charging structures that are more closely linked with either water use or the costs of providing delivery services. Four alternative models were assessed:

a. Area that is serviced by the connection (hectares)
b. Area recently irrigated (hectares) or average consumption (e.g. over the last three years)
c. Change the balance in the recovery of fixed charges between the IAF and service point fee
d. Distance-based charging mechanism (i.e. distance from off-take)

Findings:

- Further development of models is required to determine if this option complies with regulatory requirements. Currently it is uncertain whether it would meet most criteria. The models proposed also present potential issues for implementation that need a more detailed assessment.
- Depending on the specific model(s), there would likely be high ongoing administration costs to maintain the information on which the charge is based.
- There would be significant impacts on customers, especially for larger users who may be worse off if a re-basing of the charge was done. It would take extensive consultation and collaboration with customers to identify and develop acceptable models and transition arrangements.
- Work is required to increase the transparency of the cost make-up of the infrastructure access fee or delivery share fee, including looking at what parts of this charge are relevant in calculating termination fees.

Investigate further.

8.3 Changes to charges related to delivery shares

8.3.1 **Option 17: Alter the level and application of the use fee**

This option involves changing the levels and application of both the use and casual use fee. It is intended to increase the value of holding delivery shares, potentially increasing uptake and reducing per delivery share costs across the system. Two models have been assessed:

a. Changing the threshold for which the casual use fee is applied. For example, a change in the threshold may result in the casual use fee applying when use is 100 times the delivery shares held, where the current threshold is 270 for GMW gravity district delivery shares.
b. Having a stepped use charge based on the annual delivery allowance (ADA) – equivalent to an inclining block tariff. More work is needed on the design of the stepped scale of increasing delivery charges to identify the most appropriate steps and a suitable scale of charges.

The biggest scope for change is within GMW gravity districts, where the ADA currently allows water use up to 270 times the delivery share volume before casual use fees are charged.

Findings:

- This option satisfies some of the principles, but more details of specific options is required to make a more definitive assessment, together with broader potential changes to the role and purpose of delivery shares.
- Assuming changes reflect costs it could be more economically efficient, but it will be difficult to show that a tiered use charge structure truly reflect costs.
- These options offer a tariff-driven alternative to reducing the ADA, which has potential to deliver the same intended outcome without some of the difficulties involved in changing the specification of what a delivery share provides.

Investigate further.

8.3.2 **Option 18: Alter the level and application of the termination fee**

This option relates to the termination fees that are attached to the infrastructure access fee. The current termination charge is set at 10 times the annual infrastructure access fee or delivery share fee for each delivery share extinguished. This amount is the maximum termination charge under current ACCC rulings.

These high exit fees are a barrier to leaving irrigation and protect the revenue base of GMW and LMW from sudden, material changes to the level of water demand. The flipside of this is that it can create a material barrier to entry for potential customers who see delivery shares as a liability rather than an asset.

Discounting or waiving the termination fee is different from offering an amnesty as there is no set period of time and specific conditions can be developed for these reductions to apply.

This option has two potential aspects:

a. increasing or decreasing the termination fee
b. reducing the termination fee multiplier when termination involves full surrender of all delivery shares attached to a property (except D&S) and can progress reconfiguration and rationalisation of assets so that remaining customers are no worse off than if a 10 times multiplier was applied.

Regardless of the aspect used, there is also a requirement for more transparency with the rationale and conditions for discounting or waiving the termination fee, and for reporting to customers on how termination fees collected are used to manage the costs associated with the infrastructure access fee or delivery share fee tariffs.

Findings:

- This option meets some of the principles but is likely to perform poorly in others and would need to be considered more broadly concerning the future role and purpose of delivery shares.
- Discounting termination fees best aligns with the principles where full termination helps to allow rationalisation or reconfiguration of shared infrastructure, as long as the savings generated by

infrastructure changes were equal to or greater than the termination fee that has been waived.

- Transparent and repeatable criteria are required to decide when discounts could be applied and to calculate the discount. This will help with practical reconfiguration of assets as the requirements in irrigation districts change.

Recommended.

8.4 Assessment against criteria

The criteria for the tariff and pricing options are different. They do not alter the current delivery share arrangements or how delivery shares perform themselves. They do not impact on the design purposes and there are no extra or emerging purposes, so there is no point assessing their performance against the design purposes.

For criteria relating to policy principles, the proposed changes to tariff and pricing structures are mainly related to compatibility with regulatory frameworks and principles. The options in this category have been assessed against a more detailed breakdown of the ACCC and ESC frameworks and principles for water pricing.

These principles focus on setting tariffs but they do not consider the transitional issues linked to changing existing tariff structures. Given this, the assessment also considered an extra principle regarding distributional impacts to make sure that any distributional impacts negatively affecting customers can be managed through transition.

There may be other more detailed or specific economic regulatory requirements that influence the feasibility of the options.

	Criteria	Option 12 - Amnesty period on unwanted delivery shares	Option 13 - Increase contribution of environmental water	Option 14 - Apply comparable charges on water traded out	Option 15 - Government subsidies	Option 16 - Alter the recovery basis for IAF/DSF	Option 17 - Alter the level and application of the usage fee	Option 18 - Alter the level and application of the Termination fee
		Category: Tariff and pricing principles						
		System-wide changes				Changes to the IAF/DSF	Changes to charges related to delivery shares	
Regulatory requirements	Promote the economically efficient use of water infrastructure assets	Partial	Any changes to environmental water charges must be assessed against the relevant policy and regulatory frameworks for environmental water management and delivery. This falls outside the scope of the delivery share review.	No	No	Partial	Partial	Partial
	Ensure sufficient revenue streams to allow efficient delivery of the required services	No		Partial	Yes	Partial	Partial	Partial
	Give effect to the principles of user pays	Yes		No	No	Partial	Partial	Yes
	Achieve pricing transparency	Yes		No	Partial	Partial	Yes	Yes
	Facilitate efficient water use and trade in water entitlements	Yes		No	Yes	Yes	Partial	Yes
	Minimise distributional impacts resulting in negative customer impacts	No		No	Partial	No	Partial	Partial
Additional impacts identified		Significant revenue shortfall would result in major cost increases to remaining users, impacting on the continuing viability of the GMID		Decreases the economic efficiency of irrigation assets, decreasing the long-term viability of the GMID	Loss of effective price signals risks inefficient use of irrigation assets, decreasing the long-term viability of the GMID	High ongoing administration costs	Potential impacts on water allocation markets	Impacts on options for managing reconfiguration and investment
Preliminary finding		**Not recommended**	**Investigate through the Environmental Water Charges review process**	**Not recommended**	**Not recommended**	**Investigate further:** - **Charge by area serviced** - **Distance-based charging**	**Investigate further**	**Recommended**

Questions for stakeholders
Do you support further examining options around tariffs and pricing, given that any recommendations would have to be developed through the Essential Services Commission water pricing submission process and may not reduce your bills?
System-wide changes
Would you support significant changes in the basis for charging infrastructure fees, understanding that there would be no change in the total cost to be recovered?
Changes to the infrastructure access fee/delivery share fee
Which of the options would you most like to see further investigated? ☐ Area that is serviced by the connection (hectares) ☐ Distance-based charging mechanism (i.e., distance from off-take)
Changes to charges related to delivery shares
Would you support significant changes in when casual use fees apply and the amount charged for casual use, understanding that there would be no change in the total cost to be recovered?
Which of the options would you most like to see further investigated? ☐ Casual use fees apply for any use over 100 times the delivery shares held ☐ Stepped charges for use above 100 times the delivery shares held ☐ Other changes in the usage fee (please describe)
If you support stepped charges, at what volume above 100 times delivery share should they commence? ☐ 100 times, 50 ML steps ☐ 100 times, 100 ML steps ☐ 150 times, 50 ML steps ☐ 150 times, 100 ML steps ☐ Other (please describe)
Would you support discounting or waiving termination fees for existing customers where the full surrender of delivery share progresses practical reconfiguration? ☐ Anywhere in the system ☐ Only where assets can be rationalised ☐ Not at all

9. Additional recommendations

The review has identified other opportunities to improve on current delivery share arrangements that do not alter what a delivery share provides, how it works or the basis of associated charges. These extra opportunities have been captured as preliminary recommendations because they help to improve current delivery share arrangements, are straightforward to put into action and align with Victoria’s water market principles and frameworks.

9.1 Distribution of water efficiency dividends (Option 19)

Efficiency dividends refer to volumes of water that have been retained for use through water efficiency and modernisation works. The volume of these water savings is calculated as the long-term average annual yield, and can be converted into water entitlements.

Delivery shareholders fund the maintenance and operation of the irrigation system, including replacing assets with modernised equipment that reduces losses. In cases where modernisation has generated water efficiency dividends that accrue to irrigators, any well-defined water efficiency dividends should be returned to customers on the basis of delivery shares as this reflects the contribution each has made to the costs of operating the system.

The form of this benefit is to be negotiated between the water corporation and its customers to reach an agreed model.

9.2 Spatial decision-making processes (Option 20)

Many decisions around asset reconfiguration, rationalisation and level of service need to be made at the spur, cluster or channel scale, rather than the individual property scale or through centralised decision making. Water corporations are to develop a clearly articulated process for initiating spatial decision-making, with customers and the water corporation working together to arrive at agreed delivery options. This process will support the implementation of options for fixed-term contracts and termination fee discounts, as well as helping to progress infrastructure reconfiguration.

Customers must also be able to initiate conversations with their neighbours to develop proposals, with the water corporation's support.

This recommendation supports and implements the findings of the GMW Strategic Advisory Panel review[2].

9.3 Information, communication and transparency (Option 21)

Open, transparent and effective communication around water charges and associated rights and obligations is essential to allow customers to make informed decisions and to maintain trust between water corporations and their customers.

The information currently available around delivery shares must be improved and opportunities identified through this review include:

a. Water corporations to provide transparent information on all costs charged to customers, and in particular the costs recouped through the infrastructure access fee/delivery share fee and other fees for water delivery charges, including changes over time.

b. Water corporations to provide up-to-date reporting on channel capacity, use and delivery shares. This would support markets in delivery shares as well as identifying opportunities for reconfiguration and informing decision-making led by customers.

c. Water corporations to provide information to all customers on what delivery shares provide and how they can be used, including discussion on changes in water use, trade and regulation that have occurred.

d. Stricter requirements for real estate information statements and Section 32 Vendor Statements to disclose any delivery shares attached to land for sale, all associated tariffs and charges including termination fees, and options for reducing or eliminating delivery share.

Questions for stakeholders

Are there any other options you think should be included in the delivery share review? Please describe them.

What is most important to you in how decision-making processes are run?

- ☐ Clear understanding of the process and legal rights and responsibilities
- ☐ Privacy of your information
- ☐ Fixed timelines for decision-making
- ☐ Ability to easily initiate the process yourself
- ☐ That it maximises opportunities for the individual
- ☐ That it maximises the benefits for all users of the system and looks to long term outcomes
- ☐ Other (describe)

What aspects of delivery shares do you want more information about?

- ☐ What holding a delivery share entitles you to
- ☐ What your requirements are when buying or selling a property

2. The Minister for Water introduced a Strategic Advisory Panel in 2017 to assist GMW to deliver its Strategic Plan. The Minister has received the report from the Strategic Advisory Panel and has adopted the 30 recommendations made: https://www.water.vic.gov.au/media-releases/2018/gmw

☐ How delivery shares are used in determining your level of delivery service and system access

☐ How the charges linked to delivery shares are used by the water corporation

10. Have your say

This Summary Report catalogues all the options examined through the Delivery Share Review. It presents options that have been flagged as preliminary recommendations, as well as those that need more design and investigation to confirm their viability if they are supported by the irrigation community.

DELWP is looking for contributions to refine and confirm these initial findings through a public submission process. We are inviting feedback from irrigators and the community to help refine the preliminary recommendations and develop final policy recommendations that make sense and meet the needs of the Goulburn-Murray and Sunraysia irrigation districts now and into the future.

You are invited to complete the questions for stakeholders throughout this report or by doing the survey form online.

You can also email a submission to rural.water@delwp.vic.gov.au.

Your feedback will help us to understand community preferences and refine the options that have been graded as recommended or for further investigation.

If you have an option that has not been covered in this report or you disagree with the preliminary findings, you are invited to submit a case for that option(s), setting out the assessment criteria that would be met, the outcomes that would be provided, and how costs would be met.

Submissions that demonstrate an improvement on current delivery share arrangements will be considered in the next phase of the review.

The preliminary recommendations will be open for community consultation and public submissions until Monday 20 August 2018.

Opportunities to learn more and have your say about the Delivery Share Review include contributing:

- Through GMW's Water Services Committees
- Through LMW's Customer Service Advisory Committees
- Online through Engage Victoria at www.engage.vic.gov.au
- By attending community meetings – details are on Engage Victoria

For more information about the Delivery Share Review and opportunities to get involved please contact the project team at rural.water@delwp.vic.gov.au

10.1 Next steps

After community consultation the initial findings presented in this paper will be refined from the conceptual level to be assessed for feasibility. This in-depth analysis will consider:

- Community acceptance, concerns and preferences for the initial findings, including further specification of design, functionality and anticipated impacts.
- Identification of any policy, regulatory changes or expansions to the functionality of the Victorian Water Register that would be required, and high-level assessment of economic feasibility.
- Assessment of implications for linked water entitlement and market elements, such as extraction shares, headworks charges and trading rules, and interaction with other reviews and policy areas like environmental water charges and delivery shortfall risks.

The work done in this next stage, and reporting on how feedback received from the community has been used to refine the recommendations, will be captured and made available to the public through the Delivery Share Review Community Response report. The report will be released through the Engage Victoria website in late 2018.

10.2 Final recommendations and implementation

Once refined and finalised, the options that have been determined to improve the current performance or value of delivery shares will become the final recommendations to the Minister for Water.

DELWP will work with the rural water corporations and their customers to develop implementation plans that set out how the final recommendations will be designed and when they will be rolled out in their districts.

The outcomes of this process will also feed into water corporation activities, including their pricing submissions to the ESC and GMW's transformation process.

The water corporations will be responsible for informing their customers of the potential implications of any policy changes and for engaging with their customers as any changes are put into action.