



Southern Rural Water Determination

1 July 2018 – 30 June 2023

19 June 2018



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Contents

1. General	1
1.1. Introduction	1
1.2. Application	1
1.3. Effective period	2
1.4. Modification of time periods	2
1.5. Summary and structure	2
1.6. Definitions and interpretation	2
1.7. Annexure	3
2. Price control	4
2.1. General principles	4
2.2. Ancillary matters	4
2.3. Annual adjustment of prices	5
2.4. Price changes during a billing period	11
2.5. Reporting requirements	11
3. Uncertain or unforeseen events	13
3.1. General principle	13
3.2. Consideration by the commission	13
3.3. Procedure	14
4. Material error and unintended consequences	16
Schedule 1 – Definitions and interpretation	17
A Definitions	17
B Interpretation	18
Schedule 2 –Application fees	20
Schedule 3 – Rural Prices	23
Schedule 4 – Calculation of revenue cap revenue requirements for each regulatory year	26
Schedule 5 – Application of prices	27
5.1 Miscellaneous fees and charges	27
Schedule 6 – Pricing principles	28
6.1 Recycled water pricing principles	28
6.2 Pricing principles where scheduled prices do not apply	28
6.3 Pricing principles for recoverable capital expenditure	29
6.4 Pricing principles for miscellaneous services not included in Schedule 2	29
6.5 Guidelines	29

6.6 Pricing principles for termination fees	29
Schedule 7 – Adjustment for costs associated with annual updates to the trailing average cost of debt	30
Formula 1: Determining the nominal cost of debt	30
Formula 2: Determining the real cost of debt	30
Formula 3: Determining the real regulatory rate of return	30
Annexure A	32

1. General

1.1. Introduction

- (a) Clause 14 of the **WIRO** requires the commission to either:
- (i) approve the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated, as proposed by the **regulated entity** in its **price submission**; or
 - (ii) specify the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated.
- (b) On 13 June 2018, the commission made its decision under the **WIRO** in respect of:
- (i) the prices which Gippsland and Southern Rural Water Corporation (trading as Southern Rural Water) (ABN 70 801 473 421) (**Southern Rural Water**) may charge for **prescribed services** during the **regulatory period**; and
 - (ii) the standards and conditions of service and supply which **Southern Rural Water** has included in its **price submission**.
- (c) This Determination is made by the commission under section 33 of the **ESC Act**, pursuant to clauses 10 and 14 of the **WIRO**.
- (d) The purpose and reasons for the making of this Determination are to:
- (i) give effect to the decision of the commission referred to in clause 1.1(b)(i);
 - (ii) specify the maximum prices which **Southern Rural Water** may charge for **prescribed services** during the **regulatory period** or the manner in which such prices are to be calculated, determined or otherwise regulated;
 - (iii) facilitate the achievement of the commission's objectives in the **ESC Act** and the **WI Act**; and
 - (iv) reflect the requirements in the **WIRO**.
- (e) The reasons for the making of this Determination are as set out in the decision published by the commission on 19 June 2018.

1.2. Application

This Determination applies to **Southern Rural Water** and its successors and assigns in respect of the business carried on by **Southern Rural Water** at the date of this Determination.

1.3. Effective period

(a) **Term**

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette or 1 July 2018, subject to clause 1.3(b), has effect until the earlier of the date on which it is amended or revoked by a later determination or 30 June 2023.

(b) **Next regulatory period**

Subject to clause 2.3(c)(ii) and clause 2.3(d)(ii), if the commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2023, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of **prescribed services** provided by **Southern Rural Water** between 1 July 2023 and the date on which the determination for the **next regulatory period** comes into effect.

1.4. Modification of time periods

The commission may, by notice to **Southern Rural Water**, extend or reduce the time by which, or the period within which, **Southern Rural Water** or the commission must comply with an obligation under this Determination.

1.5. Summary and structure

Clause 2 of this Determination specifies the prices which will apply to **prescribed services** during the **regulatory period** and sets out the procedure and formula according to which prices may be adjusted during the **regulatory period** on an annual basis. Clauses 3 and 4 provide for the circumstances in which prices may be adjusted during the **regulatory period** otherwise than in accordance with clause 2.

1.6. Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1; and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

1.7. Annexure

- (a) For convenience, Annexure A to this Determination summarises:
 - (i) the assumptions underpinning the prices to apply to ***Southern Rural Water*** during the ***regulatory period*** or the manner in which such prices are to be calculated, determined or otherwise regulated; and
 - (ii) the standards and conditions of services and supply additional to those specified in the ***Code*** which will be provided by ***Southern Rural Water*** pursuant to the decision referred to in clause 1.1(b)(ii).
- (b) For the avoidance of doubt, Annexure A does not form part of this Determination.

2. Price control

2.1. General principles

Subject to this Determination:

(a) Scheduled prices

Southern Rural Water must not charge more than:

- (i) the scheduled prices in Schedule 2 and Schedule 3, during the first ***regulatory year***; and
- (ii) the amounts determined in accordance with clause 2.3, during each subsequent ***regulatory year***,

in respect of those prescribed services to which the scheduled prices in Schedule 2 and Schedule 3 relate.

(b) Application principles

The application principles in Schedule 5 will apply to the prices charged by ***Southern Rural Water*** in respect of ***prescribed services*** during the ***regulatory period***.

(c) Pricing principles

During the ***regulatory period***, ***Southern Rural Water*** must apply the pricing principles in Schedule 6 when determining the prices to apply to the ***prescribed services*** to which the pricing principles in Schedule 6 relate.

2.2. Ancillary matters

(a) New prices

If a ***new price*** is introduced under clause 2.3:

- (i) that ***new price*** is deemed to be included in Schedule 2 or Schedule 3 with effect from the start of the subsequent ***regulatory year***; and
- (ii) any new application principle specified in respect of that ***new price*** is deemed to be included in Schedule 5 with effect from the start of the subsequent ***regulatory year***.

(b) Contracts

Where ***Southern Rural Water*** has entered into a contract (a ***relevant contract***) which relates to the provision of ***prescribed services*** prior to 1 July 2018, ***Southern Rural Water*** may charge the prices for ***prescribed services*** which are

set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 and Schedule 3 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 6 will apply for the remainder of the **regulatory period**.

(c) Dispute Resolution

Any question as to whether a price has been set in accordance with this Determination will be determined by the commission on the basis of the commission's interpretation of this Determination.

(d) Publication

Southern Rural Water must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that is relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. The list must clearly indicate in respect of each price, the amount determined in accordance with this Determination, the amount of GST payable and the total price (in a manner consistent with the requirements of the *Competition and Consumer Act 2010* (Cth)).

(e) GST

Southern Rural Water will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

2.3. Annual adjustment of prices

(a) Schedule 2: Adjustment

Subject to Schedule 2 and clause 2.3(c)(iii) the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formula in clause 2.3(c)(i) and the procedure in clause 2.3(e), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) Schedule 3: Adjustment

Subject to Schedule 3, clause 2.3(d)(iii), and Schedule 7 the scheduled prices in Schedule 3 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formulas in clause 2.3(d)(i) and the procedure in clause 2.3(e), and will apply to the **prescribed services** to which the scheduled prices in Schedule 3 relate in that **regulatory year**.

(c) Schedule 2: Formula

(i) Subject to Schedule 2, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**. The average price movement for the **relevant regulatory year** and for each subsequent **regulatory year** in the **regulatory period** determined in accordance with the **revised tariff schedule** must not exceed the weighted average price movement that would otherwise have applied under this Determination as calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m P_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m P_{t-1}^{ij} q_{t-2}^{ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m ap_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m P_{t-1}^{ij} q_{t-2}^{ij}}, i = 1, \dots, n; j = 1 \dots m$$

Where:

Southern Rural Water has n tariff categories, which each have up to m tariff components, and where, for each **regulatory year** t for which the calculation is undertaken:

- p_{t-1}^{ij} is the tariff charged in **regulatory year** $t-1$ for component j of tariff i
- p_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied
- ap_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is applied
- q_{t-2}^{ij} is the quantity of component j of tariff i that was sold in **regulatory year** $t-2$, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** $t-2$ or a forecast of the quantity of component j of tariff i that is expected to be sold in

regulatory year t-2

- (ii) If the Commission has not made a determination in respect of the prices to apply in the next regulatory period on or before 30 June 2023, PPM_t will be set equal to zero and Schedule 2 tariffs will be adjusted in accordance with the following formula for regulatory years commencing on or after 1 July 2023 until the date on which this determination is amended or revoked by a later determination:

$$p_t = p_{t-1} \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t)$$

where:

p_t is the price component for **regulatory year 't'**

p_{t-1} is the price component for **regulatory year 't-1'**

$\frac{CPI_t}{CPI_{t-1}}$ for the particular **regulatory year** is:
the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

PPM_t is the prescribed price movement for the price component for **regulatory year t** determined in accordance with Schedule 2.

- (iii) An increase in tariffs in Schedule 2 in a **regulatory year** must not exceed the weighted average of all Schedule 2 price increases in that **regulatory year** by more than 5% in real terms.

(d) Schedule 3: Formulae

- (i) Subject to Schedule 3 and Schedule 7, each price for the **prescribed services** referred to in clause 2.3(b) will be adjusted in accordance with the

following formulae with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \leq cap_t$$

$$cap_t = rev_t \times \frac{CPI_t}{CPI_{base}} + RRR_t^{rev\ cap\ adj} + \left(cap_{t-1} - \sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-1}^{ij} \right) \times \frac{CPI_t}{CPI_{t-1}} \times (1 + RRR_t)$$

where **Southern Rural Water** has n tariff categories, which have up to m tariff components, and where:

- p_t^{ij} is the proposed tariff component j of tariff i for **regulatory year** t
- q_t^{ij} is the forecast quantity of tariff component j of tariff i for **regulatory year** t
- cap_t is the revenue cap for **regulatory year** t calculated in accordance with the formula set out above
- cap_{t-1} is the revenue cap for **regulatory year** $t-1$: for the second year of the **regulatory period**, cap_{t-1} is equal to rev_t for the first **regulatory year** as set out in Schedule 4. For subsequent **regulatory years**, cap_{t-1} is the amount calculated for **regulatory year** $t-1$ in accordance with the formula set out above
- rev_t is the total revenue requirement for **regulatory year** t as set out in Schedule 4
- $RRR_t^{rev\ cap\ adj}$ Is the trailing average cost of debt adjustment to revenue requirement that applies to revenue cap tariffs:

$$RRR_t^{rev\ cap\ adj} = (RRR_t - RRR_t^{det}) \times \left(\frac{RAB_{opening,t}^{det} + RAB_{closing,t}^{det}}{2} \right) \times \frac{CPI_t}{CPI_{base}}$$

Where,

- RRR_t Is the post-tax 'vanilla' regulatory rate of return in real terms for **regulatory year** 't' rounded to 2 decimal place, i.e. 4.347% is rounded to 4.35% (refer to formula in Schedule 7)
- RRR_t^{det} Is the determination real post tax 'vanilla' regulatory rate of return in **regulatory year** 't'
- $RAB_{opening,t}^{det}$ Is the determination opening regulatory asset base in **regulatory year** 't'
- $RAB_{closing,t}^{det}$ Is the determination closing regulatory asset base in

regulatory year 't'

CPI_{base} Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter in year 2018 equal to 112.6

P_{t-1}^{ij} is the actual tariff component j of tariff i for **regulatory year** t-1

q_{t-1}^{ij} is the estimate of the actual quantities of tariff component j of tariff i for **regulatory year** t-1

$\frac{CPI_t}{CPI_{t-1}}$ for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2023, the regulatory requirement for **regulatory year** t " rev_t " will be set equal to " $(rev_{t-1} * \frac{CPI_t}{CPI_{t-1}})$ " for the purpose of adjusting prices in accordance with the formulae in clause 2.3(d)(i) for **regulatory years** commencing on or after 1 July 2023 until the date on which this determination is amended or revoked by a later determination.
- (iii) An increase in any scheduled price in Schedule 3 in a **regulatory year** must not exceed the weighted average of all scheduled price increases in that **regulatory year** by more than 10% in real terms.

(e) Adjustment procedure

- (i) At least 40 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period**, **Southern Rural Water** must submit its proposed prices for the **prescribed services** referred to in clause 2.3(a) and 2.3(b) to apply in that subsequent **regulatory year** (the **revised scheduled prices**) to the commission for approval, together with sufficient information to enable the commission to assess whether the

proposed prices comply with this Determination including in relation to the proposed prices for the **prescribed services** referred to in clause 2.3(b):

- (A) the forecast quantities for **regulatory year** t “ q_t^{ij} ” (referred to in the relevant formula in clause 2.3(d)(i));
 - (B) the estimate of actual quantities for **regulatory year** $t-1$ “ q_{t-1}^{ij} ” (referred to in the relevant formula in clause 2.3(d)(i));
 - (C) information which explains the calculation of the items referred to in subparagraphs (A) and (B) above;
 - (D) information relating to any **new price** which **Southern Rural Water** proposes to introduce in **regulatory year** t ; and
 - (E) any other information required by the Commission
- (ii) The commission will approve the **revised scheduled prices** if it considers that:
- (A) the **revised scheduled prices** in respect of clause 2.3(a) have been calculated in accordance with the formula set out in clause 2.3(c)(i) with any necessary adjustments to comply with clause 2.3(c)(iii);;
 - (B) the **revised scheduled prices** in respect of clause 2.3(b) have been calculated in accordance with the formulae set out in clause 2.3(d)(i) with any necessary adjustments to comply with clause 2.3(d)(iii); and
 - (C) the items referred to in clause 2.3(e)(i)(A) and (B) are reasonable.
- (iii) The commission will be deemed to have approved the **revised scheduled prices** if it has not provided notice under clause 2.3(e)(iv) to **Southern Rural Water** within 30 **business days** from the date of its receipt of the **revised scheduled prices**.
- (iv) If the commission does not approve the **revised scheduled prices**, the commission:
- (A) will provide notice to **Southern Rural Water** (including a statement of its reasons);
 - (B) may request **Southern Rural Water** to provide any additional information specified by the commission;
 - (C) will take any additional information provided by **Southern Rural Water** into account; and
 - (D) will determine the **revised scheduled prices**.
- (v) For the avoidance of doubt, any **new price** approved by the Commission under clause 2.3(e)(ii) or deemed to have been approved by the Commission

under clause 2.3(e)(iii) will be a **revised scheduled price** for the purpose of clause 2.3(e).

2.4. Price changes during a billing period

(a) Application of this clause

This clause 2.4 applies where **Southern Rural Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

(b) Method of charging

Southern Rural Water must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change, but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

2.5. Reporting requirements

(a) **Southern Rural Water** must make available to the commission all information reasonably requested by the commission from time to time for the purpose of enabling it to confirm that **Southern Rural Water** is complying with this Determination.

(b) Without limiting clause 2.5(a), if, during the **regulatory period**, **Southern Rural Water** enters into a **new contract** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 6 relate, **Southern Rural Water** must, within 30 **business days** of the date of the **new contract**, on request provide the commission with a notice specifying:

- (i) details of the **new contract**; and
- (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

(c) Without limiting clause 2.5(a), if **Southern Rural Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:

- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **Southern Rural Water** proposes to stop providing the **prescribed service**; and

- (ii) in the case of a refusal to provide a ***prescribed service*** to a customer, or potential customer, ***Southern Rural Water*** must provide a notice to the commission within 5 ***business days*** of the refusal, stating the nature of the ***prescribed service*** and the reason for the refusal.

3. Uncertain or unforeseen events

3.1. General principle

- (a) With effect from the commencement of the second **regulatory year** in the **regulatory period**, **Southern Rural Water** may apply to the Commission for the amendment of this Determination and/or the adjustment of the scheduled prices in Schedule 2 and/or the adjustment of the **revenue requirements** in Schedule 4 to reflect increased or decreased costs incurred by **Southern Rural Water** and/or increased (or, in the case of **prescribed services**, decreased) revenue received by **Southern Rural Water** as a result of an event which could not reasonably have been foreseen (or, in the case of **prescribed services**, was uncertain) at the time this Determination was made (an **uncertain events application**).
- (b) Whether or not **Southern Rural Water** makes an application under clause 3.1(a), **Southern Rural Water** must promptly notify the commission upon becoming aware of an event which could form part or all of the basis of an application.
- (c) The commission may take action under clause 3.3(b) in respect of an **uncertain events application** where the commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this Determination provided that the commission is satisfied that such action takes into account the interests of customers. Generally the matters taken into account will include positive and negative influences on revenue and expenditure. The commission may limit an adjustment to only some events or a single event.

3.2. Consideration by the commission

(a) Examples of uncertain and unforeseen events

The matters that may, at the discretion of the commission, be taken into account by the commission under this clause 3 include:

- (i) actual licence fees or contributions payable by **Southern Rural Water** during a particular **regulatory year** during the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 24 of the *Environment Protection Act 1970* (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in Annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **Southern Rural Water** on major capital projects;

- (iii) a change in or to any of the following:
 - (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 1970* (Vic);
 - (B) any licence issued pursuant to any of the Acts referred to in clause 3.2(a)(iii)(A);
 - (C) a **relevant tax**; or
 - (D) the Statement of Obligations; or
 - (E) the introduction or cessation of a statutory carbon price or tax or a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

(b) Exclusions

In considering an **uncertain events application**, the commission will not take into account matters that:

- (i) are or should be within **Southern Rural Water's** control;
- (ii) were or should have been known by **Southern Rural Water** at the time the Determination was made;
- (iii) could reasonably have been foreseen by **Southern Rural Water**;
- (iv) should be or should have been planned for or managed by **Southern Rural Water**, and/or
- (v) reflect inefficient expenditure by **Southern Rural Water**.

(c) Dispute resolution

Any question as to whether a matter should be taken into account by the commission under this clause 3 will be determined by the commission in its absolute discretion.

3.3. Procedure

(a) Application process

- (i) An **uncertain events application** must be accompanied by a statement setting out:
 - (A) the details of each relevant uncertain or unforeseen event;
 - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the **regulatory period** and/or the amount and timing of any increase

or decrease in revenue associated with the relevant event during the **regulatory period**;

- (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 3.3(a)(i)(B); and
- (D) details of the proposed action to be taken by the commission under clause 3.3(b).

- (ii) The commission may identify an event or events which it considers has had or may have a material impact on **Southern Rural Water's** operating and/or capital expenditure and/or revenue and may decide to take action under clause 3.3(b) in the absence of an **uncertain events application** by **Southern Rural Water**.
- (iii) The commission may request **Southern Rural Water** to provide any additional information specified by the commission in connection with an **uncertain events application**.

(b) Action by the commission

If the commission is satisfied of the matters set out in clause 3.1(c) in respect of an **uncertain events application** or an event identified by the commission under clause 3.3(a)(ii), the commission may, in its absolute discretion:

- (i) amend this Determination or adjust the scheduled prices in Schedule 2 and/or the revenue requirements in Schedule 4 with effect from a date and in a manner decided by the commission (in respect of one or more events) at a time decided by the commission; or
- (ii) take the **uncertain events application** into account in making its determination in respect of the prices which **Southern Rural Water** may charge for **prescribed services** in the **next regulatory period**.

4. Material error and unintended consequences

Where the commission is satisfied that in any material respect:

- (a) this Determination or any information relied upon in the making of this Determination contains an error, deficiency or miscalculation;
- (b) any information on which this Determination was based was false or misleading in a material respect; or
- (c) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

The commission may decide to amend this Determination and/or specify a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

In most cases, an amendment will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the WIRO.

In some limited circumstances, the commission may amend this Determination without further consultation, or with only limited consultation. This will be the case where an amendment is not sufficiently material to warrant a full consultation process, or where there is urgency that justifies the commission moving quickly, as set out in clause 16(c) of the WIRO. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).

Schedule 1 – Definitions and interpretation

A Definitions

business day means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

Code means the applicable *Customer Service Code* made under the **WI Act**.

ESC Act means the *Essential Services Commission Act 2001* (Vic).

GST has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

miscellaneous services means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 and/or Schedule 3 or determined in accordance with the relevant pricing principles in Schedule 6.

new contract means any contract for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period**.

next regulatory period means the period commencing on 1 July 2023 and ending on a date specified by the commission.

prescribed services has the meaning given in the **WIRO** and includes **miscellaneous services**.

price submission has the meaning given in the **WIRO**.

regulated entity has the meaning given in the **WIRO**.

regulatory period means the period commencing on 1 July 2018 and ending on 30 June 2023.

regulatory year means each period of twelve months commencing on 1 July and ending on 30 June.

relevant contract means a contract which relates to the provision of **prescribed services**.

relevant tax means any tax imposed by or payable directly or indirectly to any government or public authority in the Commonwealth of Australia (including **GST**) but excluding:

- (a) the licence fees referred to in clause 3.2 of this Determination;
- (b) penalties and interest for late payment of any tax; or
- (c) any tax that replaces any of the taxes referred to in (a) and (b), where tax includes any rate, duty, charge or other like or analogous impost.

Water Act means the *Water Act 1989* (Vic).

WI Act means the *Water Industry Act 1994* (Vic).

WIRO means the Water Industry Regulatory Order 2014 as at the date of this Determination.

B Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any “notice” to be given or matter to be “notified” must be in writing.
- (i) The symbol ‘ Σ ’ requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.
- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
 - (i) **regulatory year** ‘t’ is the **regulatory year** in respect of which the calculation is being made;

- (ii) **regulatory year** 't-1' is the **regulatory year** immediately preceding **regulatory year** 't';
- (iii) **regulatory year** 't-2' is the **regulatory year** immediately preceding **regulatory year** 't-1'.

Schedule 2 –Application fees

This schedule should be read in conjunction with Schedule 5 and Schedule 6.

Tariff and Price Component	Price 1 July 2018	PPM Year 2	PPM Year 3	PPM Year 4	PPM Year 5
2.1 Irrigation District					
Application to amend district boundary	1175.00	0.0%	0.0%	0.0%	0.0%
2.2 Irrigation District: Delivery Shares					
Applications relating to Delivery Shares, Water Use Licences and Registrations, and Drainage Diversion Agreements	237.50	0.0%	0.0%	0.0%	0.0%
2.3 Issue of Take and Use or Underground Disposal Licence					
Fixed Component – Domestic and Stock	752.50	0.0%	0.0%	0.0%	0.0%
Fixed Component – Volume up to 20ML	1645.00	0.0%	0.0%	0.0%	0.0%
Fixed Component – Medium Impact	2070.00	0.0%	0.0%	0.0%	0.0%
Fixed Component – High Impact	3335.00	0.0%	0.0%	0.0%	0.0%
Volumetric Component	20.30	0.0%	0.0%	0.0%	0.0%
Water Availability Assessment	112.00	0.0%	0.0%	0.0%	0.0%
2.4 Amendment / Amalgamation of Licence					
Licence Amendment – Significant	555.00	0.0%	0.0%	0.0%	0.0%
Licence Amendment – Minor	122.00	0.0%	0.0%	0.0%	0.0%
2.5 Transfer of Licence					
Low Impact Transfer (Up to 20ML or Amalgamation)	375.00	0.0%	0.0%	0.0%	0.0%
Medium Impact Transfer	805.00	0.0%	0.0%	0.0%	0.0%
High Impact Transfer	2065.00	0.0%	0.0%	0.0%	0.0%
2.6 Construction Licences – New					
Construct Farm Dam – Not Potentially Hazardous and No Engineering	965.00	0.0%	0.0%	0.0%	0.0%
Construct Farm Dam – Potentially Hazardous and No Peer Review	2630.00	0.0%	0.0%	0.0%	0.0%

Tariff and Price Component	Price 1 July 2018	PPM Year 2	PPM Year 3	PPM Year 4	PPM Year 5
Construct Farm Dam – Potentially Hazardous, Peer Review or On-Stream Dam Requiring a s.51 Licence	5445.00	0.0%	0.0%	0.0%	0.0%
Construct, Alter or Decommission Class A or B Bore	448.00	0.0%	0.0%	0.0%	0.0%
Construct, Alter or Decommission Class C Bore	1280.00	0.0%	0.0%	0.0%	0.0%
Construct, Alter or Decommission Class D Bore	1690.00	0.0%	0.0%	0.0%	0.0%
Construct Additional Investigation Bore	101.50	0.0%	0.0%	0.0%	0.0%
2.7 Construction Licences – Existing					
Hazardous Dam – Operating Licence	1320.00	0.0%	0.0%	0.0%	0.0%
Farm Dam – Alter or Decommission	745.00	0.0%	0.0%	0.0%	0.0%
Amend, Renew or Transfer Works Licence	122.00	0.0%	0.0%	0.0%	0.0%
Bore Construction Licence Renewal	122.00	0.0%	0.0%	0.0%	0.0%
2.8 Private Works					
Private Works – Domestic & Stock Pipe Permit	320.00	0.0%	0.0%	0.0%	0.0%
Private Works - Other	620.00	0.0%	0.0%	0.0%	0.0%
Transfer Licence to Use Works	237.50	0.0%	0.0%	0.0%	0.0%
2.9 General					
Applications – Additional Assessment	132.00	0.0%	0.0%	0.0%	0.0%
Information Statement	112.00	0.0%	0.0%	0.0%	0.0%
Information Report – Mail Out or Standard	395.00	0.0%	0.0%	0.0%	0.0%
Information Report – Short	112.00	0.0%	0.0%	0.0%	0.0%
Information Report - Complex	1230.00	0.0%	0.0%	0.0%	0.0%
Special Meter Reading	112.00	0.0%	0.0%	0.0%	0.0%
Diversion Works on Crown Lands	330.00	0.0%	0.0%	0.0%	0.0%
Miscellaneous Fees and Charges	Actual cost				

As set out in clause 1.1(d) of this Determination, the role of the commission in making this Determination is limited to specifying the maximum prices that **Southern Rural Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the role of **Southern Rural Water** to apply a tariff in accordance with the **Water Act**. The commission does not have a role in hearing disputes about individual billing issues that users may have.

Schedule 3 – Rural prices

This schedule should be read in conjunction with Schedule 4, Schedule 6 and Schedule 7.

Tariff and Price Component	Unit	Price 1 July 2018
Irrigation / Regulated systems		
3.1 Macalister Irrigation / Macalister and Thomson Regulated Systems		
Macalister/Thomson Water Share – High Reliability	ML	12.90
Macalister/Thomson Water Share – Low Reliability	ML	6.45
MID Delivery Share	ML/day	5255.00
Delivery Share — Termination Fee*	ML/day	78825.00
MID Service Point – Metered Outlet	No.	208.50
Macalister/Thomson/MID Service Point – Metered Pump	No.	109.50
Macalister/Thomson/MID Service Point – Unmetered	No.	48.75
Macalister/Thomson/MID Usage	ML	9.95
MID Casual Use	ML	53.90
MID Drainage Diversion Entitlement and Sales	ML	19.35
Salinity Mitigation	ML	00.55
3.2 Werribee and Bacchus Marsh Irrigation / Werribee Regulated System		
Werribee System Water Share – High Reliability	ML	127.00
Werribee System Water Share – Low Reliability	ML	63.50
WID Delivery Share	ML/day	15180.00
Delivery Share — Termination Fee (WID)*	ML/day	227700.00
BMID Delivery Share	ML/day	10870.00
Delivery Share — Termination Fee (BMID)*	ML/day	163050.00
WID Service Point – Metered Outlet	No.	234.00
Werribee System/WID Service Point – Metered Pump	No.	117.00
Werribee System/WID Service Point – Unmetered	No.	58.50
BMID Service Point – Metered Outlet	No.	204.00
BMID Service Point – Metered Pump	No.	102.00
BMID Service Point – Unmetered	No.	52.25
WID Casual Use	ML	239.00
BMID Casual Use	ML	256.00
WID Drainage Diversion Entitlement and Sales	ML	112.00

Tariff and Price Component	Unit	Price 1 July 2018
Unregulated surface and groundwater		
3.3 Licence Charges		
Take and Use Licence	No.	368.00
Operating Licence – Decontamination Bore & Hazardous Dam	No.	238.50
3.4 Licenced Volume Charges		
Surface Water Licenced Volume & Sales – Standard	ML	11.80
Surface Water Licenced Volume – Offstream Winterfill	ML	8.26
Aquaculture Diversion Rate	ML	78.25
Groundwater Licenced Volume	ML	4.05
3.5 System Management Charges		
Surface Water – Thorpdale	ML	9.50
Surface Water – Latrobe System	ML	11.40
Surface Water – Maribyrnong	ML	51.00
Groundwater – Deutgam	ML	27.10
Salinity Mitigation	ML	00.55
Groundwater Control Pump Usage	ML	25.25
3.6 Bulk Entitlement Charges		
Western Water	All agreements	1916138.00
Gippsland Water	All agreements	662908.00
Melbourne Water	All agreements	59147.00
Latrobe power companies	All agreements	1102885
3.7 Transfer of Licence		
Simple Transfer (Repeat Temporary Transfer or Sale of Property)	App	122.00

*Delivery share termination fees are excluded from the revenue cap

As set out in clause 1.1(d) of this Determination, the role of the commission in making this Determination is limited to specifying the maximum prices that **Southern Rural Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the role of **Southern Rural Water** to apply a tariff in accordance with the **Water Act**. The commission does not have a role in hearing disputes about individual billing issues that users may have.

Schedule 4 – Calculation of revenue cap revenue requirements for each regulatory year

This schedule should be read in conjunction with clause 2.3(d), Schedule 3 and Schedule 7.

Revenue requirements for regulatory years

\$m 2018-19

	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue cap revenue requirement	28.35	28.23	28.06	27.89	27.75

Schedule 5 – Application of prices

5.1 Miscellaneous fees and charges

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
Issue of take and use or underground disposal licence	An application made in accordance with section 51 or section 76 of the Water Act
Amendment/amalgamation of licence	An application made in accordance with section 59A or section 73A of the <i>Water Act 1989</i>
Transfer of licence	An application made in accordance with section 62 or section 74 of the Water Act
Construction licence	An application made in accordance with section 67 of the Water Act
Information statement	An application made in accordance with section 158 of the Water Act

Schedule 6 – Pricing principles

6.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where ***Southern Rural Water*** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to ***Southern Rural Water*** or pursuant to other government policies that apply to ***Southern Rural Water*** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

6.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 and Schedule 3 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner;
- the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the commission;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer);

- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the commission;
- where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

6.3 Pricing principles for recoverable capital expenditure

The recovery of capital works costs (including for remedial and upgrade work) for Lake Narracan and Yallourn Weir must be at actual cost and following consultation between **Southern Rural Water** and the relevant entitlement holder.

6.4 Pricing principles for miscellaneous services not included in Schedule 2

Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

6.5 Guidelines

Southern Rural Water must comply with any guidelines issued by the commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 6 relates.

6.6 Pricing principles for termination fees

Southern Rural Water may apply termination fees to irrigation customers who surrender delivery entitlements during the **regulatory period**.

Any termination fee levied by **Southern Rural Water** must be calculated and applied in accordance with Directions on Delivery Entitlements, made under section 228 of the **Water Act**.

Schedule 7 – Adjustment for costs associated with annual updates to the trailing average cost of debt

Formula 1: Determining the nominal cost of debt

$$CoD_t^{nominal} = \sum_{i=t-10}^{t-1} \frac{CoD_i^{nominal}}{10}$$

$CoD_t^{nominal}$	<p>Is equal to the simple average of the 10 years up to (but not inclusive of) regulatory year 't' of:</p> <ul style="list-style-type: none"> - The data series outlined in Table 1 of Annexure A <p>and</p> <ul style="list-style-type: none"> - RBA Table F3 – Non-financial corporate BBB-rated bonds – Yield – 10 year target tenor [Series ID FNFYBBB10M] <p>from 1 April to 31 March before the start of regulatory year 't' (e.g. 1 April 2017 to 31 March 2018 in relation to 2018-19)</p>
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Formula 2: Determining the real cost of debt

$$CoD_t^{real} = \frac{(1 + CoD_t^{nominal})}{(1 + \pi^{det})} - 1$$

π^{det}	Is the inflation factor which is equal to 2.3% for all regulatory years
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Formula 2 outlines the process for converting the trailing average cost of debt from nominal to real using the Fisher equation.

Formula 3: Determining the real regulatory rate of return

$$RRR_t = 0.4 \times CoE_t^{real} + 0.6 \times CoD_t^{real}$$

RRR_t	Is the post-tax 'vanilla' regulatory rate of return in real terms for regulatory year 't' rounded to two decimal places, i.e. 4.347% is rounded to 4.35%
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CoE_t^{real}	Is the real cost of equity determined through Southern Rural Water 's PREMO rating, which is equal to 4.9% for 2018-19 to 2022-23
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Schedule 7 – Adjustment for costs associated with annual updates to the trailing average cost of debt

**The Common Seal of the
Essential Services
Commission** was affixed to
this Determination with the
authority of the commission.



Date: 19 June, 2018

A handwritten signature in black ink, appearing to be 'Ron Ben-David', written over a horizontal line.

Dr Ron Ben-David

Chairperson

Annexure A

Table 1 Historical cost of debt (nominal)

Per cent

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cost of debt	6.92%	7.36%	7.05%	6.31%	5.27%	7.05%	5.36%	5.27%	4.91%	4.53%

Table 2 Forecast real regulatory rate of return

Per cent

	2018-19	2019-20	2020-21	2021-22	2022-23
Regulatory rate of return	4.13%	4.13%	4.13%	4.13%	4.13%

Table 3 Benchmark revenue requirement

\$m 2018-19

	2018-19	2019-20	2020-21	2021-22	2022-23
Operating expenditure	22.3	22.0	22.0	22.1	22.5
Return on assets	2.8	3.3	3.7	3.8	3.9
Regulatory depreciation	3.9	4.7	5.5	6.0	6.4
Adjustments from last period	0.0	0.0	0.0	0.0	0.0
Non-prescribed revenue offset of revenue requirement	0.0	0.0	0.0	0.0	0.0
Tax allowance	0.0	0.0	0.0	0.0	0.0
Total	29.0	30.1	31.2	32.0	32.7

Table 4 Updated regulatory asset base
\$m 2018-19

	2012-13	2013-14	2014-15	2015-16	2016-17
Opening RAB at 1 July	40.4	46.8	48.2	45.4	49.1
<i>Plus</i> Gross capital expenditure	11.7	20.2	15.1	18.1	21.7
<i>Less</i> Government contributions	0.0	3.3	8.0	5.8	7.8
<i>Less</i> Customer contributions	0.8	11.0	4.8	3.1	12.7
<i>Less</i> Proceeds from disposals	0.0	0.9	0.9	0.9	0.6
<i>Less</i> Regulatory depreciation	4.5	3.6	4.2	4.6	4.8
Closing RAB at 30 June	46.8	48.2	45.4	49.1	44.9

Table 5 Rolled forward regulatory asset base
\$m 2018-19

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening RAB at 1 July	44.9	62.5	73.0	86.4	92.8	93.3
<i>Plus</i> Gross capital expenditure	40.8	45.3	27.9	15.7	8.5	7.9
<i>Less</i> Government contributions	16.4	22.1	6.6	1.9	0.0	0.0
<i>Less</i> Customer contributions	1.5	8.0	2.5	1.1	1.3	0.9
<i>Less</i> Proceeds from disposals	0.8	0.7	0.7	0.7	0.7	0.7
<i>Less</i> Regulatory depreciation	4.6	3.9	4.7	5.5	6.0	6.4
Closing RAB at 30 June	62.5	73.0	86.4	92.8	93.3	93.3

Table 6 **Approved licence fee and environmental contribution assumptions**
\$m 2018-19

	2018-19	2019-20	2020-21	2021-22	2022-23
Essential Services Commission licence fee	0.02	0.02	0.02	0.02	0.03
Department of Health and Human Services licence fee	0.00	0.00	0.00	0.00	0.00
Environment Protection Authority licence fee	0.00	0.00	0.00	0.00	0.00
Environmental contribution	0.54	0.53	0.52	0.51	0.49

Table 7 **Bulk water purchases**
\$m 2018-19

	2018-19	2019-20	2020-21	2021-22	2022-23
Bulk water purchases	1.35	1.35	1.35	1.35	1.35

Table 8 **Major capital projects**

Projects	Expected start date	Expected completion date
Werribee office redevelopment	2018-19	2018-19
Werribee irrigation district modernisation	2018-19	2019-20
Bacchus Marsh irrigation district modernisation	2018-19	2019-20
Maffra weir operating gear	2018-19	2019-20
Asset management system upgrade	2018-19	2019-20
Macalister irrigation district 2030 1B	2018-19	2020-21
Macalister irrigation district 2030 2	2018-19	2022-23

Macalister irrigation district channel bank renewal	2018-19	2022-23
Glenmaggie re-paint spillway gates	2018-19	2022-23
Groundwater and rivers meter replacement	2018-19	2022-23

