

Southern Rural Water draft decision

2018 Water Price Review

28 March 2018



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Summary

In September 2017, Southern Rural Water provided a submission to us proposing prices for a five year period starting 1 July 2018

This draft decision sets out our preliminary views on Southern Rural Water's price submission.^{1 2}

We invite interested parties to comment on our preliminary views in this draft decision before we make a final decision and issue a price determination in June 2018. Details on how to make a submission on our draft decision are provided in Chapter 4.

Southern Rural Water has committed to improve outcomes for customers

Our draft decision proposes to approve a revenue requirement that will allow Southern Rural Water to deliver on its customer service commitments, government policy, and obligations monitored by Environment Protection Authority Victoria and Department of Health and Human Services.

Some of the ways Southern Rural Water plans to improve outcomes for customers are by:

- proposing flat or declining prices for most customers
- increasing access to support for customers experiencing financial hardship.

Our draft decision approves a slightly lower revenue requirement than proposed by Southern Rural Water

Our draft decision proposes to approve a revenue requirement of \$154.8 million for Southern Rural Water over the five year period starting 1 July 2018.³ This is \$2.4 million or 1.6 per cent lower than proposed by Southern Rural Water. The adjustments reflect minor corrections made by Southern Rural Water to its financial model, after we received its price submission.

Our draft decision accepts the operating and capital expenditure forecast by Southern Rural Water.

¹ Clause 16 of the Water Industry Regulatory Order 2014 requires us to issue a draft decision.

² Southern Rural Water's price submission is available on our website at www.esc.vic.gov.au.

³ The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services. Along with forecast demand, it is an input to calculating the prices to be charged by a water corporation.

Compared to Southern Rural Water's original proposal, our draft decision results in lower prices (on average) for customers. Based on our draft decision, on average Southern Rural Water's prices over 2018-19 to 2022-23 will fall by about 1.6 per cent compared to its original proposal.⁴

Southern Rural Water must respond to our draft decision and propose individual tariffs that reflect our initial views on the revenue requirement. Southern Rural Water's response will determine the price and bill impact of our draft decision across customer groups.

We accept Southern Rural Water's proposals to simplify tariffs

Our draft decision accepts Southern Rural Water's proposed tariff structures, some of which are being simplified. Among the changes are Southern Rural Water's proposals to combine some existing tariffs, and rename others which created customer confusion. It also proposed to remove periodic license renewal fees for surface and groundwater customers, and revise the structure of a number of their miscellaneous application fees to provide greater simplicity.

Our draft decision does not accept changes proposed by Southern Rural Water to its form of price control

Southern Rural Water's proposal for a form of price control that is based on customer bill movements is not consistent with the requirements of the WIRO, namely; customers will not be provided with signals on the efficient costs of individual services and it does not promote the efficient use of prescribed services by customers. Southern Rural Water must resubmit an annual rebalancing constraint on its proposed revenue cap form of price control that satisfies the requirements of our guidance. However, we note that Southern Rural Water may choose to apply its own constraint on bill movements that may arise from any tariff rebalancing during the regulatory period.

Southern Rural Water's price submission is rated as 'Advanced' under PREMO

Our draft decision is to accept Southern Rural Water's PREMO self-rating of its price submission as 'Advanced' (Table A). Our draft decision on Southern Rural Water's PREMO rating is supported by the increased value the corporation will deliver its customers. Generally, prices will remain stable or most will fall, and services will be improved in areas prioritised by customers. We found Southern Rural Water's Engagement to be 'Leading', justified by the opportunity its customer committees had to influence the corporation's proposals. Feedback to us from each of the chairs of

⁴ This is an indicative percentage change on prices based on the percentage change in draft decision revenue requirement compared to the proposed revenue requirement.

Southern Rural Water’s committees was very positive about Southern Rural Water’s engagement approach.

Our PREMO rating is an assessment of the water corporation’s price submission. It is not an assessment of the water corporation itself.

Table A **PREMO Rating**

	Overall PREMO rating	Risk	Engagement	Management	Outcomes
Southern Rural Water’s rating	Advanced	Standard	Leading	Advanced	Advanced
Commission’s rating	Advanced	Standard	Leading	Advanced	Advanced

Among the 15 draft decisions we have released so far, Southern Rural Water is one of eight corporations for which we propose to approve an ‘Advanced’ rating (Table B).

Table B **Draft decision on PREMO – overall rating**

Leading	Advanced	Standard	Basic
Goulburn Valley Water	Barwon Water	Coliban Water	Wannon Water
	Central Highlands Water	East Gippsland Water	
	City West Water	Gippsland Water	
	GWMWater	Lower Murray Water (urban)	
	North East Water	Westernport Water	
	South East Water		
	Southern Rural Water		
	Yarra Valley Water		

1. Our role and approach to water pricing

We are Victoria's independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO) which is made under the *Water Industry Act 1994* (Vic) (WI Act) and sits within the broader context of the *Essential Services Commission Act 2001* (Vic) (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 19 water corporations operating in Victoria.

We are reviewing the prices 17 water corporations propose to charge customers from 1 July 2018

Our review of the prices proposed by the water corporations covers the prescribed services listed in the WIRO.⁵ The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water corporations.⁶

In September 2017, Southern Rural Water provided a submission to us proposing prices for a five year period starting 1 July 2018. Our task is to assess the price submission against the legal framework that governs our role, and make a price determination that takes effect from 1 July 2018. The price determination will specify the maximum prices Southern Rural Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that explains the reasons for our price determination.

We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory factors we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act. In reaching this draft decision we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental

⁵ The review excludes Melbourne Water and Goulburn-Murray Water. In 2016 we approved prices for Melbourne Water to 30 June 2021 and for Goulburn-Murray Water to 30 June 2020.

⁶ The prescribed services are listed at clause 7(b) of the WIRO.

and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

- the matters specified in our guidance⁷
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

A separate document lists the specific objectives and the various matters the commission must have regard to when making a price determination and provides a guide to where the commission has done so in this draft decision.⁸

In 2016, we issued guidance to Southern Rural Water to inform its price submission. The guidance set out how we will assess Southern Rural Water's submission against the matters we must consider under clause 11 of the WIRO.

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Southern Rural Water's proposed prices.⁹

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.¹⁰

The 2018 price review is the first we've undertaken under our new water pricing approach

In 2014, the Victorian Government reviewed and revised the WIRO. The changes allowed us more flexibility to decide on the pricing approach we use in Victoria's water sector. In April 2015 we released a consultation paper to start reviewing our pricing approach.¹¹

Over 2015, we held a series of workshops and hosted a conference (in November) to hear from stakeholders and explore alternative ways to approach water pricing.

⁷ Essential Services Commission 2016, *2018 Water Price Review, Guidance paper*, November.

⁸ Essential Services Commission 2018, *Southern Rural Water draft decision, 2018 Water Price Review – commission's consideration of legal requirements*, 28 March. This is located on our website at www.esc.vic.gov.au.

⁹ This is a requirement of the WIRO, clause 14(b).

¹⁰ This is provided for under the WIRO, clause 14(b)(i).

¹¹ Essential Services Commission 2015, *Review of Water Pricing Approach, Consultation paper*, April.

In May 2016, we released a position paper setting out our proposed new pricing approach, and invited submissions.¹² We met with each water corporation and other interested parties to help inform their submissions. Submissions were supportive of the overall proposal, in particular the greater focus on customer engagement and value.

We finalised our new approach to water pricing in October 2016.¹³

Our new pricing approach builds on many aspects of the previous approach. We continue to use the building blocks to estimate the revenue requirement for a water corporation.¹⁴ Our guidance explains the building blocks and how we use it to estimate the revenue requirement.¹⁵

Among the key changes, the new approach introduces new incentives to help ensure water corporations deliver the outcomes most valued by customers. Our new PREMO framework rewards stronger customer value propositions in price submissions, and an early draft decision is available for price submissions we can assess in a short timeframe.¹⁶ The PREMO incentive is described next.

Our consultation on the pricing approach informed the guidance we issued water corporations in November 2016 to inform price submissions for the 2018 water price review.

PREMO

PREMO stands for **P**erformance, **R**isk, **E**ngagement, **M**anagement, and **O**utcomes. The purpose of PREMO is to provide an incentive for water corporations to deliver outcomes most valued by customers. It includes incentives for a water corporation to engage with customers to understand their priorities and concerns, and take these into account.

PREMO links the return on equity allowed in the revenue requirement to the value delivered by a water corporation to its customers. Under PREMO, a higher level of ambition in terms of delivering customer value results in a higher return on equity.

¹² Essential Services Commission 2016, *A new model for pricing services in Victoria's water sector, Position paper*, May.

¹³ For more detail on the new water pricing approach see: Essential Services Commission 2016, *Water Pricing Framework and Approach: Implementing PREMO from 2018*, October.

¹⁴ The revenue requirement is the forecast amount that a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services.

¹⁵ Essential Services Commission 2016, *Guidance Paper*, op. cit., pp. 8–9.

¹⁶ In December 2017 we issued early draft decisions for East Gippsland Water, South East Water, Westernport Water and Yarra Valley Water.

Our PREMO rating is an assessment of the water corporation's price submission. It is not an assessment of the water corporation itself.

The 2018 water price review is the first time we've applied our PREMO incentive mechanism

For the 2018 water price review, a water corporation's ambition in terms of delivering customer value is being assessed against four elements of PREMO – Risk, Engagement, Management and Outcomes.¹⁷

A water corporation must self-assess and propose a rating for its price submission as 'Leading', 'Advanced', 'Standard' or 'Basic'. Its proposed return on equity will then reflect its PREMO rating. A 'Leading' submission has the highest return on equity, and a 'Basic' submission the lowest. We assess the justification for the PREMO rating, and also rate the price submission. This process determines the return on equity reflected in the revenue requirement.¹⁸

¹⁷ The Performance element of PREMO will be assessed at the review following the 2018 water price review.

¹⁸ Essential Services Commission 2016, *Guidance paper*, op. cit., pp. 45–49.

2. Our assessment of Southern Rural Water's price submission

We have made our draft decision on Southern Rural Water's price submission after considering: Southern Rural Water's price submission, its responses to our queries, and written submissions from interested parties (a list of submissions is provided in Appendix A).

Any reports, submissions, or correspondence provided to us which are material to our consideration of Southern Rural Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included a number of matters water corporations must address in their price submissions. Southern Rural Water's price submission addressed each of these matters. Our preliminary assessment of these matters is provided in this chapter.

Southern Rural Water must submit a response to our draft decision and provide an updated financial model by 8 May 2018 (via email to water@esc.vic.gov.au). The response will be published on our website. We also invite other interested parties to make a submission.

We intend to make a price determination for Southern Rural Water in June 2018.

All financial values referred to in this chapter are in \$2017-18.

Regulatory period

Southern Rural Water proposed a five year regulatory period. Our draft decision accepts Southern Rural Water's proposal as it is consistent with our guidance. Our guidance proposed to approve a five year regulatory period, subject to any alternative and justified proposal.¹⁹

Customer engagement

Our guidance required Southern Rural Water to engage with customers to inform its price submission.

The engagement by Southern Rural Water:

- took place between September 2016 and June 2017
- used a range of methods including on-line and phone surveys, regional focus groups, one on one interviews, social media, attendance at industry field days
- was informed by findings from its ongoing engagement program and its four customer consultative committees, which represent each of the four major irrigation areas
- covered topics such as service improvements related to water trading, maintenance of irrigation assets, water security and its strategy for the Macalister Irrigation District.

More detail on Southern Rural Water's engagement is available in its price submission.²⁰

Evidence that Southern Rural Water's engagement influenced its proposals includes:

- customer feedback in workshops informing the nature of its asset renewals program
- increasing the number of grants available to customers experiencing financial hardship, reflecting feedback about the importance of accessible and affordable services
- maintaining the current mix of fixed and variable charges in residential customer bills, reflecting feedback from customers that they did not support increasing variable charges.

The influence of Southern Rural Water's engagement on its proposals supports the objectives in our pricing framework relating to efficiency and the interests of consumers.²¹

¹⁹ For detail on the reasons for using five years as the default regulatory period, see: Essential Services Commission 2016, *Guidance paper*, op. cit., p. 21.

²⁰ Southern Rural Water's price submission is available on our website at www.esc.vic.gov.au.

²¹ See for example, WIRO clauses 8(b)(i), 8(b)(ii), 8(b)(iii), 11(d)(iii), and ESC Act Sections 8(1), 8A(1)(a).

Outcomes

The outcomes Southern Rural Water proposes to deliver over the five year period starting 1 July 2018 are:

- Southern Rural Water provides great customer service
- Southern Rural Water's water supply system enables good practice irrigation
- Southern Rural Water manages water resources well, maintaining a good balance between customer needs as a water user and the sustainability of the resource
- Southern Rural Water works to manage customer water needs and entitlements
- Southern Rural Water keeps prices as low as possible.

Southern Rural Water proposed measures and activities it will use to report on progress against achieving each outcome. These are set out at pages 5 to 10 of its price submission. Southern Rural Water proposes to report annually against its output targets, available on its website and via newsletters targeted to each customer group and region. Performance is regularly reviewed in detail with Customer Consultative Committees.

We will engage with Southern Rural Water to finalise the measures and targets used to assess performance against its outcomes, and how it will report this publicly. Performance against these measures will inform our assessment during future price reviews.

Revenue requirement

The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services. Along with forecast demand, it is an input to calculating prices.²²

Southern Rural Water proposed a revenue requirement of \$157.2 million over a five year period starting 1 July 2018. Our draft decision proposes to reject the revenue requirement in Southern Rural Water's submission and instead approve a revenue requirement of \$154.8 million. This reflects our assessment of each element that comprises the revenue requirement, including forecast expenditure.

Our draft decision on the revenue requirement is set out at Table 2.1.

²² We met with officers of the Department of Environment, Land, Water and Planning, Department of Health and Human Services, and Environment Protection Authority Victoria, to discuss their expectations of Southern Rural Water in the regulatory period from 1 July 2018. We had regard to their views in our draft decision.

Table 2.1 Draft decision – revenue requirement

\$ million 2017-18

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Operating expenditure	22.5	22.1	22.1	22.3	22.7	111.7
Return on assets	2.8	3.2	3.6	3.8	3.8	17.2
Regulatory depreciation	3.8	4.6	5.3	5.9	6.2	25.9
Draft decision – revenue requirement	29.1	30.0	31.1	31.9	32.7	154.8

Note: Numbers have been rounded

Table 2.2 summarises proposed changes to the revenue requirement.

Our final decision will be based on the latest available information. Accordingly, as well as responding to our draft decision and providing an updated price schedule, Southern Rural Water must update its revenue requirement and prices to reflect our April 2018 updates to estimates for the cost of debt and inflation.

There may be changes in laws or government policy before we make a price determination. If any such changes occur between the draft decision and the price determination, and impact on the revenue requirement, Southern Rural Water should update its price submission and also provide us with an updated financial model. Any updates will be publicly available on our website.

Table 2.2 Adjustments to revenue requirement

\$ million 2017-18

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Proposed revenue requirement	30.3	30.9	31.5	32.0	32.6	157.2
Operating expenditure	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3
Return on assets	-0.1	-0.1	0.03	-0.01	-0.1	-0.3
Regulatory depreciation	-0.7	-0.3	0.1	0.4	0.6	0.2
Total adjustments	-1.3	-0.8	-0.4	-0.1	0.1	-2.4
Draft decision – revenue requirement	29.1	30.0	31.1	31.9	32.7	154.8

Note: Numbers have been rounded

Operating expenditure

Operating expenditure is an input to the revenue requirement. Southern Rural Water’s price submission provides information on its forecast operating expenditure at pages 22 to 23.

We assess both:

- controllable costs – those that can be directly or indirectly influenced by a water corporation’s decisions
- non-controllable costs – those that cannot be directly or indirectly influenced by a water corporation’s decisions.

For controllable operating expenditure, our assessment process first confirms an efficient baseline, based on the last year of actual costs prior to our price review (that is, 2016-17). We then consider the forecast costs relative to this baseline, including the proposed efficiency improvement rate and forecast growth, and any proposed cost changes relative to the baseline.

For non-controllable expenditure (including government charges and licence fees) we confirm the proposed forecasts, with reference to the relevant regulatory body where appropriate.

Table 2.3 sets out our draft decision on Southern Rural Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement (Table 2.1). Details of our assessment and

Our assessment

reasons for our proposed adjustments to Southern Rural Water’s proposal follow, with a summary of our adjustments shown at Table 2.4.

We consider our proposed operating expenditure in this draft decision better reflects the expenditure that a prudent service provider would incur when acting efficiently to achieve the lowest cost in delivering the outcomes specified in Southern Rural Water’s price submission.

The benchmark operating expenditure that we propose to adopt for Southern Rural Water does not represent the amount that Southern Rural Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently and to maintain services over the regulatory period.

Table 2.3 Draft decision – operating expenditure
\$ million 2017-18

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Controllable costs	20.2	20.2	20.2	20.2	20.2	100.9
Non-controllable costs	2.3	2.0	2.0	2.1	2.5	10.8
Bulk services ^a	1.3	1.3	1.3	1.3	1.3	6.6
Environmental contribution ^b	0.5	0.5	0.5	0.5	0.5	2.5
Licence fees - ESC ^c	0.019	0.019	0.019	0.019	0.028	0.102
Licence fees - DHHS ^c	0.002	0.002	0.002	0.002	0.002	0.010
Licence fees - EPA ^c	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.1	0.1	0.3	0.7	1.6
Draft decision – operating expenditure	22.5	22.1	22.1	22.3	22.7	111.7

^a Bulk services covers the supply of bulk water and sewerage services

^b The Environmental Contribution collects funds from water corporations under the WI Act

^c Licence fees are paid to cover costs incurred by Department of Health and Human Services, and the Essential Services Commission in their regulatory activities related to the water corporation

Note: Numbers have been rounded

Our assessment

Southern Rural Water proposed a total forecast controllable operating expenditure of \$103.0 million over a five-year regulatory period. For the reasons set out below, we propose to reduce this by \$2.1 million to establish a benchmark controllable operating expenditure of \$100.9 million:

Correction to its price submission:

- During our initial assessment of Southern Rural Water's price submission and financial template, we identified a number of errors in its operating expenditure data which Southern Rural Water subsequently corrected. It had used incorrect figures for inflation and the cost of debt, resulting in a \$0.07 million reduction in the 2016-17 baseline year. The net impact is a \$0.37 million reduction across the period, which we have included in Table 2.4 and the financial model.²³

Baseline controllable operating expenditure:

- Southern Rural Water has proposed downward adjustments of \$1.42 million to its actual 2016-17 baseline year controllable operating expenditure to remove one-off legal costs and its renewals annuity allowance. The resultant figure of \$21.20 million is 3 per cent below the benchmark of \$21.92 million allowed for 2016-17 in the previous price determination. Southern Rural noted its 8 per cent savings in annual operating costs compared to its 2013–18 price determination. These savings were contributed to the modernisation projects, offsetting costs for customers. We consider this reflects an efficient baseline cost to forecast annual operating expenditure.

Efficiency improvement and cost changes:

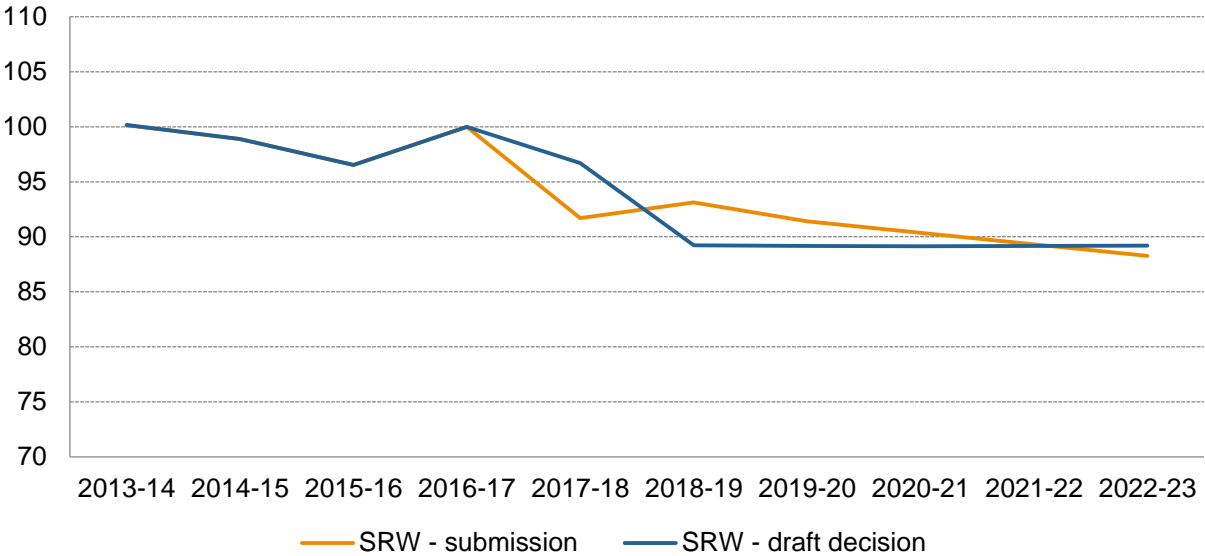
- Southern Rural Water has not proposed any new cost variations above the baseline controllable operating expenditure. However, it has proposed to remove \$0.67 million (3 per cent) from this baseline amount as an annual productivity saving. Noting no growth adjustment is applied to the baseline for rural water corporations, this means Southern Rural Water has proposed the largest percentage reduction to controllable operating expenditure of all the water corporations.
- Any increases or decreases in operating costs will be managed by Southern Rural Water within its operating expenditure baseline and productivity savings.
- Southern Rural Water had included costs for providing state environmental water in its baseline expenditure, with the forecast totalling \$1.75 million across 2013–18. We consider the provision

²³ Refer to the financial model that accompanies this draft decision, available at www.esc.vic.gov.au/waterpricereview.

of environmental water is not a prescribed service, as defined under the WIRO.²⁴ Accordingly, we have removed the associated costs from operating expenditure, as well as removing the corresponding revenue from prescribed revenue recovery (this is explained further in our prices and tariff structures section).

We consider applying the \$2.13 million reduction to Southern Rural Water’s total proposed controllable operating expenditure forecast better meets the requirements of the WIRO and the criteria for prudent and efficient expenditure outlined in our guidance.²⁵ This brings about annual controllable operating expenditure that is on average 4.8 per cent lower than the baseline year (see Figure 2.1).

Figure 2.1 Controllable operating expenditure
Index: 2016-17=100



Submission – based on actual historical and forecast values provided by the water corporation in its price submission.
Draft decision – includes any corrections or adjustments to historical and forecast values arising from our assessment.

For non-controllable operating expenditure, we have adjusted Southern Rural Water’s forecasts where required based on the latest information received from the relevant regulatory authorities on their licence fees and the environmental contribution. The values we have adopted for our draft decision are set out in Table 2.3 above.

²⁴ See section ‘Victorian environmental water’ under Tariff structures on page 26. Based on our legal advice, we have transferred any costs or revenues related to the Victorian environmental water charge from prescribed (regulated), to non-prescribed services in the financial model.

²⁵ Essential Services Commission 2016, *Guidance paper*, op. cit., p. 31.

For the environment contribution, we have used the 2018-19 value provided by the Department of Environment, Land, Water and Planning and assumed that this will remain flat in nominal terms (decline in real terms) across the 2018–23 regulatory period.

We have assumed the licence fees for the Department of Health and Human Services, the Environment Protection Authority Victoria and the Essential Services Commission remain flat in real terms across the period, but with a 50 per cent increase for our commission fee in 2022-23 to align with our regulatory review cycle.²⁶

We have increased Southern Rural Water's forecast non-controllable operating expenditure by \$0.22 million across the 2018–23 period, resulting from our adjustments to:

- correct the 2016-17 baseline year, which totals \$0.019 million reduction across the period (as mentioned under controllable operating expenditure)
- decrease our commission licence fee to \$0.02 million per year, with \$0.03 million in 2022-23 (a total reduction of \$0.003 million)
- decrease the environment contribution from \$0.54 million to \$0.53 million for 2018-19 and decline this value across the period (a total reduction of \$0.20 million).

Overall, non-controllable operating expenditure will decrease by \$0.50 million from 2017-18 to 2018-19, predominantly due to a forecast 58.5 per cent reduction in capital works for Latrobe power companies (other non-controllable costs). This \$0.43 million charge in 2018-19 is then forecast to reduce for 2019-22, but rises to a total of \$0.66 million in 2022-23.

Prior to making our final decision, we will adjust for the latest inflation and external bulk charges data.

Table 2.4 sets out our proposed adjustments to both controllable and non-controllable operating expenditure.

²⁶ The Department of Health and Human Services and the EPA Victoria provided their latest 2016-17 licence fees for making our draft decision. We have also based our forecast on our 2016-17 commission licence fee.

Table 2.4 Adjustments to operating expenditure

\$ million 2017-18

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Proposed total operating expenditure	22.9	22.6	22.6	22.8	23.2	114.1
Baseline year corrections	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Corrections to state environmental water	-0.3	-0.4	-0.4	-0.4	-0.3	-1.8
Total adjustments to controllable costs	-0.4	-0.4	-0.4	-0.4	-0.4	-2.1
Baseline year corrections to non-controllable opex	-0.004	-0.004	-0.004	-0.004	-0.004	-0.019
Licence fees	-0.002	-0.002	-0.002	-0.002	0.007	-0.003
Environmental contributions	-0.016	-0.028	-0.039	-0.051	-0.062	-0.195
Total adjustments to non-controllable costs	-0.022	-0.034	-0.045	-0.057	-0.059	-0.217
Draft decision – total operating expenditure	22.5	22.1	22.1	22.3	22.7	111.7

Note: Numbers have been rounded

Regulatory asset base

The regulatory asset base is used to estimate the return on assets and regulatory depreciation in the revenue requirement. Our guidance required Southern Rural Water to propose its:

- closing regulatory asset base at 30 June 2017
- forecast regulatory asset base for each year of the regulatory period from 1 July 2018.

Our assessment

Closing regulatory asset base

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period to 30 June 2017. This helps to ensure prices reflect the actual net expenditure of a water corporation.²⁷

We compared Southern Rural Water's actual net capital expenditure for 2012-13 to 2016-17 with the forecast used to approve maximum prices for the period from 1 July 2013. We undertake a prudence and efficiency review where a water corporation's net capital expenditure is more than 10 per cent above the forecast used to approve maximum prices for the period from 1 July 2013. We believe this approach is reasonable given capital expenditure can be relatively 'lumpy' in nature.

In its price submission, Southern Rural Water assumed \$29.01 million net capital expenditure over the period from 2012-13 to 2016-17. We identified relatively minor adjustments to the estimates adopted by Southern Rural Water, which increased this to \$29.05 million. This figure is 39.7 per cent lower than the forecast used to approve maximum prices for the period from 1 July 2013. After adjusting for past net capital expenditure, Southern Rural Water also calculated its closing regulatory asset base in accordance with the requirements of our guidance. For these reasons, our draft decision proposes to approve a closing regulatory asset base for 30 June 2017 of \$44.1 million.

Table 2.5 sets out our draft decision on Southern Rural Water's regulatory asset base at 30 June 2017.

²⁷ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflects revenue earned from new connections made to the water corporation's water, sewerage or recycled water networks.

Table 2.5 Closing regulatory asset base
\$ million 2017-18

	2012-13	2013-14	2014-15	2015-16	2016-17
Opening RAB 1 July	39.6	45.9	47.3	44.5	48.2
Plus gross capital expenditure	11.5	19.8	14.8	17.8	21.3
Less government contributions	0.0	3.2	7.9	5.7	7.7
Less customer contributions	0.8	10.8	4.7	3.0	12.4
Less proceeds from disposals	0.0	0.8	0.9	0.8	0.6
Less regulatory depreciation	4.4	3.6	4.1	4.5	4.7
Closing RAB 30 June	45.9	47.3	44.5	48.2	44.1

Note: Numbers have been rounded

Forecast regulatory asset base

The forecast regulatory asset base is calculated having regard to the closing asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Table 2.6 sets out our draft decision on Southern Rural Water's proposed forecast regulatory asset base from 1 July 2018.²⁸ Our assessment of the components of the forecast regulatory asset base is set out below.

²⁸ Our guidance required water corporations to provide an estimate of the components of its regulatory asset base for 2017-18. This is so we can assess the opening asset base for 1 July 2018. Our guidance noted that where the 2017-18 forecasts for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2013 price determination, the lower amount must be used (otherwise the 2013 determination forecast applies). The estimates for 2017-18 will be confirmed at the price review following the 2018 water price review.

Table 2.6 Forecast regulatory asset base
\$ million 2017-18

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening RAB 1 July	44.1	61.3	70.9	83.3	89.7	90.2
Plus gross capital expenditure	40.1	43.7	26.6	15.4	8.3	7.8
Less government contributions	16.1	21.7	6.5	1.9	0.0	0.0
Less customer contributions	1.5	7.9	2.4	1.1	1.2	0.9
Less proceeds from disposals	0.8	0.7	0.7	0.7	0.7	0.7
Less regulatory depreciation	4.5	3.8	4.6	5.3	5.9	6.2
Closing RAB 30 June	61.3	70.9	83.3	89.7	90.2	90.2

Note: Numbers have been rounded

2017-18 net capital expenditure

In our guidance paper, we noted we would use the 2013 determination forecast for 2017-18 net capital expenditure to establish the forecast regulatory asset base (the exception was where actual net capital expenditure was lower than the 2013 forecast, when the lower amount would be used).

This approach helps to limit incentives for a water corporation to delay capital works until the last year of a regulatory period.²⁹ Consistent with our approach in past price reviews, we considered allowing higher amounts when justified by the water corporation.

Southern Rural Water proposed a higher amount for 2017-18 capital expenditure than forecast in 2013. The expenditure above the forecast reflects infrastructure modernisation works across the Macalister, Werribee, and Bacchus March irrigation districts. We note that the projects relate to improved services and delivering cost efficiencies. All projects have received state and commonwealth government funding. The higher than forecast expenditure is not related to project delays. For these reasons, our draft decision proposes to accept Southern Rural Water's forecast

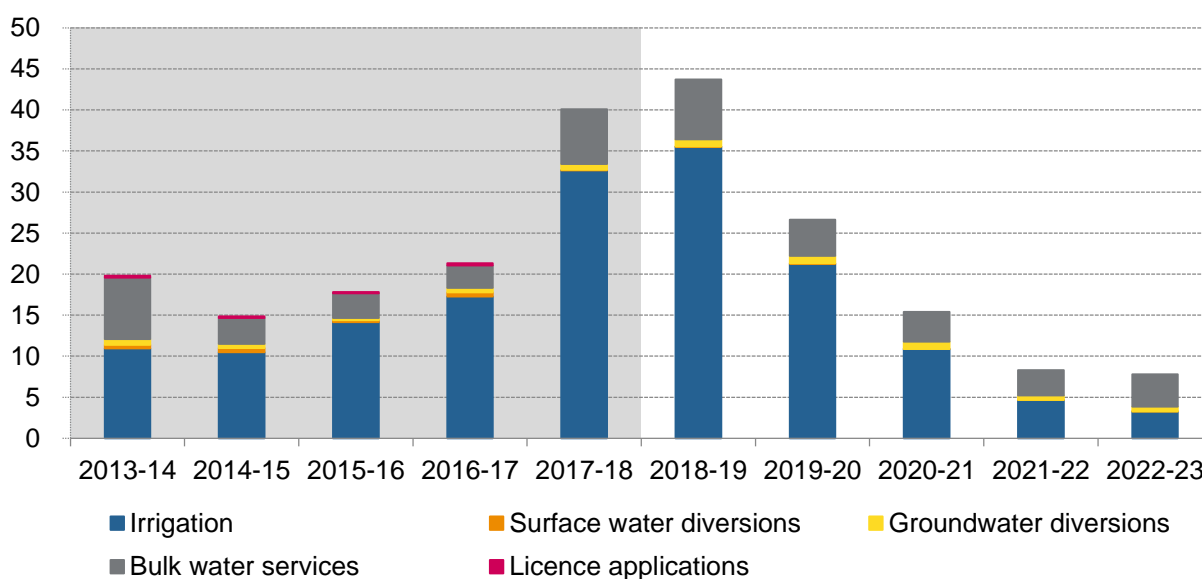
²⁹ Even if unintentional, delayed projects provide an undue benefit to a water corporation, as customer prices assume capital works proceed to schedule.

capital expenditure for 2017-18 in its forecast regulatory asset base. We note that the 2017-18 capital expenditure will be confirmed for inclusion in Southern Rural Water’s regulatory asset base at its 2023 price review.

Capital expenditure

Capital expenditure is an input to estimating the regulatory asset base. Southern Rural Water’s forecast capital expenditure and supporting information is provided at pages 24 to 28 of its price submission. This is summarised in Figure 2.2, for the current 2013–18 period, and as proposed by the water corporation for the 2018–23 period.

Figure 2.2 Total capital expenditure by service category
\$ million 2017-18



Note: actuals for 2013-14 to 2016-17 and water corporation forecasts for 2017-18 to 2022-23

Southern Rural Water proposed a total gross capital expenditure of \$103.4 million over a five-year regulatory period. For the reasons set out below, we propose to reduce this by \$1.6 million to establish a benchmark gross capital expenditure of \$101.8 million:

- Southern Rural Water advised us of a correction during our review. It had incorrectly included costs for recoverable Latrobe capital works under gross capital expenditure when these costs were already included under non-controllable operating costs. We have accepted the correction, which reduces gross capital expenditure for 2018–23 by \$1.6 million.
- Southern Rural Water’s corrected total gross capital expenditure of 101.8 million for 2018–23 is \$12.0 million (or 10.6 per cent) lower than its 2013–18 capital spend of \$113.8 million. The primary driver for the 2018–23 forecast is renewals.

- Southern Rural Water developed its 2018–23 capital expenditure estimates based on its expenditure over the last 10 years for projects or programs less than \$250,000. It then reduced this average by 25 per cent to create a new baseline capital expenditure provision for routine renewal and replacement of its assets. Its objective was to drive efficiency in its capital planning by creating a scarcity of funding for projects.³⁰
- We requested selected documents from Southern Rural Water as a representative sample to demonstrate its asset management processes and justification for its capital expenditure program. Based on the sample of documents reviewed, these demonstrate that Southern Rural Water has a robust approach for developing project scope, the timing of works and cost estimates.
 - We reviewed the business cases for the Maffra weir operating gear project and the asset management system upgrade project, which are Southern Rural Water’s largest and fourth largest projects without government or customer contributions for the period. We also reviewed the capital procedure manual.
- We note Southern Rural Water does not engage consultants to undertake statistical analysis (e.g. Monte-Carlo analysis) across its projects costs unlike most water corporations and as suggested in our guidance. Southern Rural Water considers transparent discussions with customers about over or underspend is better value than investing in statistical analysis techniques for capital projects. We consider this approach is reasonable as Southern Rural Water’s supporting documentation demonstrated its use of engineering consultants and past similar projects to develop its cost estimates.
- Southern Rural Water’s price submission did not specifically identify how it would manage uncertainty in timing, scope and cost from capital works. However Southern Rural Water did note that it will seek government co-funding of the final stage of modernisation under the MID2030 strategy. If unsuccessful, Southern Rural Water will consult with customers on the existing \$10 million of its funding, which could mean a reduced scope or reduced prices. Regarding uncertain expenditure, we note the following:
 - Southern Rural Water will need to demonstrate the prudence and efficiency of any additional costs if they are indeed incurred during the 2018–23 period if seeking to include them in the regulatory asset base.
 - Variations in capital expenditure from forecast during the 2018–23 period will form a key part of our assessment of the Performance element of PREMO at the next price review.

³⁰ Southern Rural Water’s price submission is available on our website at www.esc.vic.gov.au

Table 2.7 below sets out the correction to Southern Rural Water’s forecast to establish our draft decision benchmark for gross capital expenditure, consistent with our guidance and WIRO principles.³¹ This benchmark is used to calculate the forecast regulatory asset base (Table 2.6) and the revenue requirement (Table 2.1).

Table 2.7 Draft decision – gross capital expenditure
\$ million 2017-18

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Proposed gross capital expenditure	44.1	26.7	15.5	8.6	8.5	103.4
Latrobe recoverable works correction	-0.4	-0.1	-0.1	-0.3	-0.7	-1.6
Draft decision – gross capital expenditure	43.7	26.6	15.4	8.3	7.8	101.8

Note: Numbers have been rounded

The benchmark that we adopt for Southern Rural Water does not represent the amount that the water corporation is required to spend or allocate to particular projects. Where we have made an adjustment to exclude a project’s capital expenditure from Southern Rural Water’s revenue requirement, we are not requiring the corporation to remove that project. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Southern Rural Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

Customer contributions

Customer contributions are deducted from gross capital expenditure and are not included in the regulatory asset base. Unlike urban water businesses, where customer contributions to capital are mostly a result of standard new customer contribution charges, Southern Rural Water does not generate contributions from customer contribution charges.

³¹ Essential Services Commission 2016, *Guidance paper*, op. cit., p. 35.

Southern Rural Water has proposed to utilise savings captured in a modernisation fund to offset the costs of proposed modernisation capital projects in agreement with customer committees, as highlighted on page 28 of Southern Rural Water’s price submission.

Our draft decision proposes to accept Southern Rural Water’s forecast for customer contributions.

Cost of debt

Our guidance required Southern Rural Water to use estimates of the cost of debt provided by the commission to estimate its revenue requirement. Southern Rural Water used the cost of debt values we specified to calculate its revenue requirement. For this reason, our draft decision accepts the cost of debt proposed by Southern Rural Water, as set out in Table 2.8.

Table 2.8 Trailing average cost of debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cost of debt (nominal)	6.9%	7.4%	7.0%	6.3%	5.3%	7.1%	5.4%	5.3%	4.9%	4.9%*

* Estimated cost of debt – we will update the 2017-18 figure before the final decision and price determination.

Note: Numbers have been rounded

From 2016, we accepted a ten-year trailing average approach to estimating the benchmark cost of debt, changing from an on-the-day approach. The trailing average approach better aligns the actual cost of debt for an efficient business to the regulated benchmark, compared with an on-the-day approach.³² We consider the ten year trailing average approach helps to minimise risk to water corporations and provides better incentives for long-term investment.

Return on equity – PREMO rating

Southern Rural Water rated its price submission as ‘Advanced’. Based on its PREMO self-rating, Southern Rural Water proposed a rate of return on equity of 4.9 per cent per annum. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Advanced’.³³

The return on equity is similar to the range of rates we have approved in past reviews for the water industry. We have also had regard to the return on equity allowed or estimated by regulators in other Australian jurisdictions recently for the water industry.³⁴

³² For more detail on the trailing average and on the day approaches to the cost of debt, see Essential Services Commission 2016, *Water pricing framework*, op. cit., p. 27.

³³ Essential Services Commission 2016, *Guidance paper*, op. cit., p. 49.

Our draft decision proposes to accept Southern Rural Water's PREMO self-rating and proposed return on equity of 4.9 per cent per annum. Our assessment of Southern Rural Water's proposed PREMO rating is set out in Chapter 3.

Regulatory depreciation

Regulatory depreciation is an input to calculating the regulatory asset base. Southern Rural Water's forecast regulatory depreciation was calculated using a straight line depreciation profile.³⁵ We noted in our guidance that we prefer this approach.³⁶

Our draft decision on regulatory depreciation differs from Southern Rural Water's proposal due to our proposed adjustments to capital expenditure. Our final decision will confirm the regulatory depreciation to be reflected in the forecast regulatory asset base.

Our draft decision on regulatory depreciation is shown in Table 2.6.

Tax allowance

The tax allowance is an input into the revenue requirement. Southern Rural Water has proposed no allowance for tax in its revenue requirement. Our draft decision is to accept the forecast as it was calculated consistently with the method required by our guidance.³⁷

Demand

Along with the revenue requirement, demand forecasts are an input to calculating prices.

Southern Rural Water's demand forecasts are set out at page 30 of its price submission, and are also included in its financial model. Our draft decision proposes to accept Southern Rural Water's demand forecasts for the purpose of approving maximum prices as we consider they were estimated in a manner that is consistent with the requirements of our guidance.

³⁴ Essential Services Commission of South Australia 2016, *SA Water regulatory determination 2016, Final determination*, June; Independent Pricing and Regulatory Tribunal 2017, *WACC biannual update*, August.

³⁵ For the period from 2018-19 to 2022-23, Southern Rural Water proposed a regulatory depreciation of \$25.7 million.

³⁶ Essential Services Commission 2016, *Guidance paper*, op. cit., p. 42.

³⁷ Essential Services Commission 2016, *Guidance paper*, op. cit., pp. 50–51.

Form of price control

Southern Rural Water proposed to continue with its current form of price control, a hybrid revenue cap, but change its annual rebalancing constraints as set out on pages 31 to 33 of its price submission.

Southern Rural Water proposed:

- to continue managing the majority of annual tariffs under a hybrid revenue cap and application fees, except for simple transfer fees, under a tariff basket³⁸
- to manage simple transfer fees within the hybrid revenue cap³⁹
- an annual rebalancing constraint of 5 per cent on any individual customer's bill for tariffs under the hybrid revenue cap
- an annual rebalancing constraint of 5 per cent for application fees under the tariff basket.

Our draft decision is to accept Southern Rural Water's proposed hybrid revenue cap. Our guidance noted that we would generally approve a continuation of existing arrangements.

We do not accept the proposed shift of simple transfer fees to the hybrid revenue cap as Southern Rural Water has not provided the commission with sufficient information on the strategy underlying the proposal.⁴⁰

We note the proposal for an annual rebalancing constraint on individual customer bills is not consistent with the requirements of the WIRO, namely; customers will not be provided with signals on the efficient costs of individual services⁴¹ and it does not promote the efficient use of prescribed services by customers.⁴² Southern Rural Water must resubmit an annual rebalancing constraint on its proposed revenue cap form of price control that satisfies the requirements of our guidance.⁴³

We propose to approve Southern Rural Water's proposed annual rebalancing constraint of 5 per cent on application fees under a tariff basket. We note that this is tighter than the existing rebalancing constraint of 10 per cent, which will improve price stability.

³⁸ Southern Rural Water confirmed the proposed continuation of a tariff basket for application fees in a response to a RFI. It also confirmed that it is removing application fees for licence renewal.

³⁹ Southern Rural Water provided clarification on which charges this was related to in a response to a RFI.

⁴⁰ Our guidance sets out on page 54 that businesses must provide sufficient information for us to make a decision.

⁴¹ In reference to WIRO clause 11(d)(ii) and 11(d)(i).

⁴² In reference to WIRO clause 8(b).

⁴³ Southern Rural Water can impose a rebalancing constraint of 5 per cent on bills as a business decision.

Our assessment

Tariff structures

Southern Rural Water's proposed tariffs are set out at pages 31 to 34 of its price submission and on our website.⁴⁴

Southern Rural Water's prices will be affected by our draft decision on the revenue requirement. Because of this, our draft decision does not approve maximum prices for each tariff. We will provide final maximum prices in our final decision. However, we have considered the impact of significant changes in the level of prices on customers as part of this draft decision.

Southern Rural Water proposed to:

- simplify tariff structures in the Macalister, Werribee and Bacchus Marsh Irrigation areas and the Macalister and Thompson and Werribee Regulated systems for easier understanding
- simplify tariff structures for unregulated surface and ground water for easier understanding
- remove the intensive management charge for Koo Wee Rup groundwater as additional monitoring costs are no longer incurred
- simplify the naming of its tariffs and remove charges that are no longer applicable to any customers
- remove licence renewal fees for surface and groundwater licences, in response to customer feedback, and fund the renewal process via the existing annual licence charges
- simplify its miscellaneous fees (application charges), reduce the cost of repeat transfers and revise the tiered structure for surface and groundwater applications. Southern Rural Water confirmed that these changes are consistent with the miscellaneous pricing principles.⁴⁵

As outlined in our guidance, we have provided the water corporations with a large degree of discretion to decide on individual tariff structures.⁴⁶ This recognises water corporations are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Price levels

Southern Rural Water proposed:

- an annual decrease of 2.3 per cent for surface and groundwater charges
- to maintain Macalister and Werribee irrigation districts charges at the 2017-18 level

⁴⁴ In response to the commission's request, a complete tariff schedule was provide by Southern Rural Water and is available on our website.

⁴⁵ Southern Rural Water confirmed this via a response to a RFI.

⁴⁶ Essential Services Commission 2016, *Guidance paper*, op. cit., p. 55.

- to maintain water share fees in the Macalister and Thomson and Werribee regulated systems at the 2017-18 level
- an annual price increase of 2.9 per cent for Bacchus Marsh irrigation district charges, reflecting the increase in costs associated with the proposed modernisation works.

We consider Southern Rural Water's proposed price increases for the Bacchus Marsh irrigation district reflect the efficient costs of providing services, and were supported by customer feedback on modernisation within the district.

Unique services

Southern Rural Water has confirmed its proposed tariffs for recycled water and miscellaneous services are calculated in accordance with the pricing principles referenced in our guidance.

Victorian environmental water

A submission by the Victorian Environmental Water Holder (VEWH) noted inconsistencies in charging arrangements for environmental water between water corporations.⁴⁷ It also noted inconsistent approaches to how water corporations charged for environmental water services (mainly differences in whether corporations' treated environmental water services as a prescribed or alternatively, a non-prescribed service).

We do not have a role in setting the maximum price for environmental water as the services provided to VEWH are not defined as a prescribed service in the WIRO.⁴⁸

Draft decision

For the reasons set out above, our draft decision accepts Southern Rural Water's proposed tariff structures as set out at pages 31 to 34 of its price submission and as outlined in the proposed tariff schedule published on our website.

Prior to our final decision and price determination, Southern Rural Water must submit updated prices to reflect our draft decision on the revenue requirement, and our updates to cost of debt and inflation estimates, which we will provide in late April 2018.

⁴⁷ Victorian Environment Water Holder 2017, *Submission on water corporation water pricing proposals*, 9 November.

⁴⁸ The commission has never regulated Victorian environmental water charges. The charge was implemented by corporations during 2012-13 to 2017-18 as a ministerial directive.

Adjusting prices

Southern Rural Water did not propose any price adjustment mechanisms in its price submission, but provided further detail in response to our queries. It proposed:

- to continue with its existing uncertain and unforeseen events mechanism
- to accept a cost of debt adjustment mechanism determined by the commission.

Our draft decision accepts Southern Rural Water's proposal to continue the existing uncertain and unforeseen events mechanism. We noted in our guidance that we propose that the mechanism continues in its current form.

We require Southern Rural Water to work with the commission on a revised price adjustment formula, allowing for adjustments to reflect movements in the cost of debt.

Financial position

In approving prices, we must have regard to the financial viability of the water industry.⁴⁹ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* (Vic) and the Water Industry Regulatory Order (2014) to mean that the prices we approve should provide a high level of certainty that each water corporation can generate sufficient cash flow to deliver on service commitments, including financing costs arising from investments to meet service expectations.

Southern Rural Water's price submission and the supporting financial model provided estimates for key indicators of financial performance. These estimates were based on Southern Rural Water's assumptions about revenue and expenditure. Our draft decision proposes adjustments to revenue and expenditure. We have reviewed the key indicators of financial performance based on our draft decision. Under our draft decision, we consider Southern Rural Water will generate sufficient cash flow to deliver on service commitments, including financing costs arising from investments to meet service expectations.

⁴⁹ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

3. PREMO rating

PREMO is an incentive mechanism that links the return on equity to a water corporation's level of ambition in delivering value to its customers.

For the 2018 price review, a water corporation must rate its price submission as 'Leading', 'Advanced', 'Standard' or 'Basic'. The rating is based on an assessment against the Risk, Engagement, Management and Outcomes elements of PREMO. A 'Leading' price submission is allowed the highest return on equity, and a 'Basic' the lowest.

The assessment tool included in our guidance directs a water corporation to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

In Chapter 2, we noted our draft decision is to accept Southern Rural Water's proposed return on equity of 4.9 per cent, based on the justification provided for the level of ambition in its price submission. Below, we set out our preliminary assessment of Southern Rural Water's proposed PREMO rating.

Our review of Southern Rural Water's PREMO self-rating

Southern Rural Water's proposed PREMO rating, and our draft decision is summarised below.

Table 3.1 PREMO Rating

	Overall PREMO rating	Risk	Engagement	Management	Outcomes
Southern Rural Water's rating	Advanced	Standard	Leading	Advanced	Advanced
Commission's rating	Advanced	Standard	Leading	Advanced	Advanced

We agree with Southern Rural Water's proposed overall PREMO self-rating of 'Advanced'. This is reflected in the return on equity we propose to approve for Southern Rural Water at page 22.

We also agree with Southern Rural Water's proposed PREMO self-ratings for each element of PREMO. In support of its self-ratings for the Management, Outcomes, and Risk elements of PREMO, we note:

- Southern Rural Water's forecasts for improvements in efficiency. Under its proposal, Southern Rural Water's forecast for controllable operating costs in 2022-23 (the final year of its next regulatory period) was more than 3 per cent lower than its 2016-17 result. This is the largest percentage reduction to controllable operating costs proposed by any corporation in the current price review.
- Informed by its engagement program, Southern Rural Water is proposing improvements in service outcomes. This, along with generally flat or falling prices demonstrate Southern Rural Water's commitment to delivering better value to customers, consistent with an 'Advanced' PREMO rating for Outcomes.
- Southern Rural Water has proposed no changes to its approach to managing Risk on behalf of its customers. Its price submission addressed key risks being managed by the water corporation, including its approach to revenue and water supply risk. On this basis we agree with Southern Rural Water's proposed 'Standard' rating for Risk.

Southern Rural Water's engagement for its price submission relied heavily on the structures it has in place to inform its long-term business strategy. This includes drawing on its existing customer committees, results from its detailed biennial customer surveys, and customer field days. To inform its price submission it also undertook additional targeted engagement through surveys, focus groups, and one-on-one interviews, in order to design and test its proposals.

Southern Rural Water justified much of its self-rating of 'Leading' for Engagement on the basis of the quality of its engagement with its existing customer committees. In order to assess this we contacted the chair of each customer committee to get their feedback on how Southern Rural Water engaged with the committee and the level of influence committees had on the proposals in the price submission.

All chairs provided positive feedback about Southern Rural Water's approach to engagement. This included the representativeness of committee members of the customer base, the appropriateness of the information committees received in order to provide a basis for feedback, the accountability of Southern Rural Water on issues committee members raise, and the opportunity each committee had to influence Southern Rural Water's proposals. On this basis, our draft decision also proposes to approve a 'Leading' rating for Southern Rural Water's Engagement.

4. We invite feedback on our draft decision

We invite feedback from stakeholders on our draft decision before we make a final decision and price determination. Our final decision and price determination will be made in June 2018.

Stakeholders may comment on any aspect of our draft decision, including the information we have relied upon in our assessment (such as Southern Rural Water's price submission). Feedback may also cover:

- additional matters or issues we should consider before making our final decision
- whether our draft decision on Southern Rural Water's price submission has adequate regard to the matters in clause 11 of the WIRO and our guidance.

How to provide feedback:

Attend a public forum

We may hold a public forum in April or May 2018. Forums provide an opportunity for interested parties to discuss key features of our draft decisions. We will publish details of public forums at www.esc.vic.gov.au/waterpricereview.

Provide written comments or submissions

Written comments or submissions in response to this draft decision will be due in early May 2018.

We require submissions by this date so we have time to fully consider submissions for our final decision. Comments or submissions received after this date may not be afforded the same weight as submissions received by the due date.

We would prefer to receive comments and submissions via our website at www.esc.vic.gov.au/waterpricereview.

Alternatively, you may send comments and submissions by mail to:

2018 Water Price Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

We usually make all comments and submissions publicly available in the interests of transparency. If you wish part or all of your submission to be private, please discuss with commission staff.

We invite feedback

If you cannot access documents related to our price review, please contact us to make alternative arrangements (phone (03) 9032 1300).

Next steps

Indicative dates are provided below. To keep up-to-date, visit our website at www.esc.vic.gov.au/waterpricereview.

- April or May 2018 – public forum.
- 8 May 2018 – closing date for submissions on our draft decision.
- June 2018 – release date for final decision and price determination.

APPENDIX A – submissions received

Name or organisation	Date received
Environment Protection Authority Victoria	12 December 2017
Consumer Action Law Centre	15 November 2017
Victorian Environmental Water Holder	9 November 2017
Mr G Mallon	7 November 2017