

OFFICIAL



2024 Goulburn-Murray Water price review

Guidance paper

13 September 2022



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Summary

The 2024 water price review will set the maximum prices that Goulburn-Murray Water can charge for its prescribed services from 1 July 2024. This is Goulburn-Murray Water's first price review under the PREMO incentive framework.¹

PREMO incentives provide up-front rewards for ambitious proposals delivering better customer value. However, Goulburn-Murray Water is ultimately accountable for delivering on its commitments.

We expect Goulburn-Murray Water to engage with its customers and customer committees to understand their preferences for prices and service levels. Goulburn-Murray Water will use engagement insights to inform the outcomes it proposes to deliver in its price submission.

Goulburn-Murray Water's price submission also needs to consider major challenges confronting its community. This includes the impact of climate change, heightened economic uncertainty, and customer vulnerability.

While we anticipate that these challenges will be prominent in price submission considerations, they do not materially affect the nature of our guidance. We still expect Goulburn-Murray Water to justify its forecasts and show how it has sought to manage the risks of uncertainty on behalf of its customers. The price submission must also incorporate the efficient cost of meeting its government obligations.

This guidance paper sets out how we will assess Goulburn Murray Water's price submission. We will do so in line with the requirements of the Water Industry Regulatory Order 2014.

If we can assess Goulburn-Murray Water's price submission in a shorter timeframe – subject to the clarity, quality and strength of its justification and proposals – we may be able to release an earlier draft decision for Goulburn-Murray Water.

The PREMO framework affords greater autonomy for Goulburn-Murray Water if it demonstrates clear ownership of its proposals. Key to this is the requirement in our guidance that Goulburn-Murray Water's board attests to:

¹ We first introduced our PREMO (Performance, Risk, Engagement, Management and Outcomes) framework at our 2018 price review of 17 water businesses. Currently we regulate Goulburn-Murray Water's prices under the Commonwealth Water Charge Rules 2010 and the Victorian Water Industry Regulatory Order 2014. These two price regulation frameworks are largely consistent, with the key difference being the PREMO incentive for a water business's price submission.

- the quality and accuracy of its price submission
- its commitment to the customer outcomes proposed.

Ultimately, we expect Goulburn-Murray Water’s price submission to reflect its ‘best offer’ to its customers, irrespective of PREMO price submission ratings.

The price submission must be lodged with us by **Friday 29 September 2023**.

We received feedback on our draft guidance paper

We consulted on our draft guidance with Goulburn-Murray Water and interested stakeholders over June to July 2022. We received five submissions on our draft guidance, including one from Goulburn-Murray Water, which are listed in [Appendix F](#). We consider all of the issues raised in the submissions have been addressed in our guidance paper.

Specifically in relation to submissions received from unregulated domestic and stock users, we have amended Section 3.19 to require specific information to allow us to assess Goulburn-Murray Water’s proposed diversion tariffs tariff structure appropriately accounts for the circumstances of unregulated domestic and stock users. Unregulated domestic and stock users are a sub-set of diversion customers, who receive water from unregulated catchments (for example rivers, creeks and small waterways) through licenses managed by Goulburn-Murray Water.²

For completeness, we note that Water Industry Regulatory Order 2014 (**WIRO**),³ defines a *diversion service* as a service provided by a regulated entity in connection with the management, extraction or use of groundwater or surface water. The Commission considers that this service definition encompasses diversion services provided to customers who receive water from both regulated and unregulated catchments.

² Unregulated catchments are those in which flows are natural flow of the stream and not controlled by the corporation using storages.

³ The WIRO is available at <http://www.gazette.vic.gov.au/gazette/Gazettes2014/GG2014G043.pdf#page=45>, pp. 41-51

1. About this guidance

1.1. Our role

We will undertake a review of the maximum prices that Goulburn-Murray Water can charge for its rural water services for the regulatory period from 1 July 2024 (the **2024 price review**).

Our pricing powers and functions in Victoria's water industry are governed by the Water Industry Regulatory Order 2014 (**WIRO**), which sits within the broader context of the *Water Industry Act 1994* (Vic) (**WI Act**) and the *Essential Services Commission Act 2001* (Vic) (**ESC Act**).

We must make a price determination which determines the maximum prices (or the manner in which prices are to be calculated, determined or otherwise regulated) that Goulburn-Murray Water may charge for prescribed services from 1 July 2024.⁴

Clause 14 of the WIRO (provided at **Appendix A**) requires us to assess a price submission prepared by Goulburn-Murray Water, and form an opinion on whether the price submission:

- complies with the guidance issued by the commission under clause 13 of the WIRO
- has adequate regard for the matters specified in clause 11 of the WIRO.

If we form a view that a price submission satisfies the guidance and WIRO matters, then we must approve Goulburn-Murray Water's price submission. If not, the WIRO affords us discretion to specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.⁵

1.2. Regulation of Goulburn-Murray Water's prices under the WIRO

In the regulatory period to 1 July 2024, Goulburn-Murray Water's prices are regulated as follows:

- Infrastructure-related services are regulated under the Commonwealth Government's Water Charge (Infrastructure) Rules 2010 (**WCIR**). These rules cover approximately 95 per cent of Goulburn-Murray Water's total regulated costs.
- Groundwater, unregulated surface water diversions and some miscellaneous services that are not infrastructure related, are regulated under the WIRO.

⁴ WIRO, clause 10(a). The prescribed services are listed at clause 7(b) of the WIRO.

⁵ WIRO, clause 14.

In April 2022, the Australian Competition and Consumer Commission (**ACCC**) announced its decision that Goulburn-Murray Water will cease to be a Part 6 operator under rule 23 of the WCIR after 30 June 2024.⁶ Goulburn-Murray Water's current regulatory period runs from 1 July 2020 to 30 June 2024. Accordingly, from 1 July 2024 we will regulate prices for Goulburn-Murray Water's infrastructure-related services under the WIRO.

1.3. About this paper

This paper is the guidance we are required to issue to Goulburn-Murray Water under clause 13 of the WIRO (provided in **Appendix B**). To comply with clause 13 of the WIRO, the guidance sets out our approach to the price review and information requirements for price submissions.⁷

Where possible we have sought to minimise compliance costs for Goulburn-Murray Water.⁸ In considering the information required to support a price submission, much of the information should be readily available to Goulburn-Murray Water and relevant for other purposes such as corporate planning or internal scrutiny of project justification and prioritisation.

Much of the supporting information detailed in this guidance can be provided by completing the commission's financial model template that forms part of Goulburn-Murray Water's price submission. We encourage Goulburn-Murray Water to keep its price submissions as clear and succinct as possible.

To this end, Goulburn-Murray Water need not include all the supporting information for the claims made in its submission. However, it must be able to provide any supporting information requested by us.

1.4. Water pricing framework and approach

We implemented our PREMO water pricing approach for the first time at the 2018 water price review. The 2024 review will be the first time we assess Goulburn-Murray Water's prices under PREMO. The PREMO incentive framework includes financial, reputational and procedural incentives to align the interests of Goulburn-Murray Water with the customers it serves.

⁶ Refer to the ACCC's website for its decision: <https://www.accc.gov.au/regulated-infrastructure/water/water-projects/goulburn-murray-water-decisions-under-part-6-of-the-water-charge-rules-2010/goulburn-murray-water-part-6-ceasing-decision>, accessed 18 May 2022.

⁷ Clause 13 of the WIRO also requires us to provide guidance following consultation with the regulated entities. Over the course of 2022, we consulted on the various elements of this guidance.

⁸ Under clause 4C(a) of the WI Act, we have an objective to ensure the costs of regulation do not exceed the benefits, wherever possible.

PREMO stands for Performance, Risk, Engagement, Management, and Outcomes. Goulburn-Murray Water must demonstrate its level of ambition in delivering value-for-money for customers in its price submission across four of the five elements of PREMO:

- Risk — has Goulburn-Murray Water sought to allocate risk to the party best positioned to manage that risk? To what extent has Goulburn-Murray Water accepted risk on behalf of its customers?
- Engagement — how effective was Goulburn-Murray Water’s customer engagement to inform its price submission?
- Management — is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes — do proposed service outcomes represent an improvement, the status quo, or a reduction of service levels?

The Performance element of PREMO considers how well a water business has performed against its proposed Outcomes and other aspects of performance. As this is Goulburn-Murray Water’s first review under PREMO, we have not previously approved a set of Outcomes that would inform a Performance assessment. Accordingly, we will not assess Goulburn-Murray Water under the Performance element of PREMO.

Key elements of the pricing approach are:

- an emphasis on the role of customer engagement to inform and influence the price submission
- linking the return on equity earned by Goulburn-Murray Water to the level of ambition in its price submission for Risk, Engagement, Management and Outcomes
- flexibility mechanisms to help ensure the pricing approach accounts for the diversity of Goulburn-Murray Water and its customers, and to allow for a streamlined price review process.

An independent review found PREMO was successful in contributing to better outcomes for Victorian water customers at the 2018 water price review, including through lower prices and better targeted services.⁹

⁹ farrierswier 2019, Victoria’s water sector: The PREMO model for economic regulation, 28 March.

Our price submission requirements for Goulburn-Murray Water are largely consistent with those in the guidance we issued for the water businesses participating in our 2023 water price review.¹⁰ We have also reflected some key changes included in the 2023 water price review guidance, in our guidance for Goulburn-Murray Water.¹¹ For example, we require Goulburn-Murray Water to demonstrate inclusive engagement with First Nations people and with customers experiencing vulnerability in its price submission.

The high-level PREMO incentive framework is set out in a paper published by the commission in 2016.¹² Although informed by our framework and approach paper, where there are any inconsistencies, this guidance paper takes precedence for the purpose of informing the content of Goulburn-Murray Water's price submission.

1.5. Amendments to this guidance

We may issue additional guidance or amend this guidance during the price review. The need to issue additional guidance or amend guidance may arise from any changes to law, regulations, or in the economic environment. We will consult with the regulated entity and relevant stakeholders where any additional guidance or amendment to the guidance is required.

1.6. Structure of this guidance

The guidance is structured as follows:

- Chapter 2 sets out:
 - the manner in which we propose to regulate prices
 - our approach and methodology to assessing a price submission and making a price determination
 - the impact of PREMO on price submission information requirements
 - our approach to consultation during the review process
 - the assessment process and the 2024 price review timeline.
- Chapter 3 sets out:

¹⁰ Essential Services Commission 2021, 2023 water price review: Guidance paper, 26 October.

¹¹ The main change under the 2023 water price review is the introduction of the Performance element of PREMO and associated guidance for the businesses. However, this requirement does not apply to Goulburn-Murray Water.

¹² Essential Services Commission 2016, Water pricing framework and approach: Implementing PREMO from 2018, October.

- the ‘governing criteria’ for each of the components of the building block methodology which will inform the nature and scope of the matters to be included in the price submission, and form the basis of our assessment of the price submission
- the supporting information required to be included in the price submission.

1.7. Interpretation of this guidance

If Goulburn-Murray Water requires clarification or interpretation on any matters relating to our pricing framework or this guidance, it should contact commission staff.

2. Our approach to the price review

This chapter sets out:

- the manner in which we will regulate prices¹³
- our approach and methodology to assessing Goulburn-Murray Water's price submission and making a price determination¹⁴
- the impact of PREMO on price submission information requirements
- our approach to consultation during the price review process¹⁵
- the assessment process and the 2024 price review timeline.¹⁶

2.1. How we will regulate prices

Clause 12(b) of the WIRO provides that a price determination may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated, for regulated services in a manner consistent with section 33(5) of the ESC Act — that is, in any manner we consider appropriate.

We will use a building block methodology to determine the forecast revenues that will provide Goulburn-Murray Water with a reasonable opportunity to recover a rate of return on prudent and efficient capital expenditure on assets, a return of the cost of investing in those assets (through depreciation), prudent and efficient operating costs, a benchmark tax allowance and recovery of costs required to deliver on its service outcomes and comply with relevant health, safety, environmental, social and other regulatory obligations over the next regulatory period.¹⁷ (A list of obligations is shown in Section 3.7.)

For a defined regulatory period, our assessment methodology involves the following steps:

- first, outcomes that Goulburn-Murray Water proposes to deliver to its customers will be assessed to validate that they reflect government (and technical regulator) obligations or demonstrated customer needs

¹³ WIRO, clause 13(a)(i).

¹⁴ WIRO, clause 13(a)(ii).

¹⁵ WIRO, clause 13(a)(iv) and 13(a)(viii).

¹⁶ WIRO, clause 13(a)(vi) and 13(a)(vii).

¹⁷ Next regulatory period covers the period from 1 July 2024.

Our approach to the price review

- second, the following ‘building blocks’ will be determined in accordance with governing criteria for each element (specified in Chapter 3), to:
 - establish an efficient benchmark level of forecast operating expenditure for the next regulatory period
 - establish an efficient benchmark level of forecast capital expenditure for the next regulatory period
 - roll-forward the regulatory asset base
 - apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach
 - a benchmark return on equity value determined by Goulburn-Murray Water’s PREMO rating
 - establish a return of capital through a regulatory depreciation allowance
 - establish a benchmark tax allowance.
- These ‘building blocks’ will determine the forecast revenue that is required for Goulburn-Murray Water to deliver on its service outcomes and obligations.

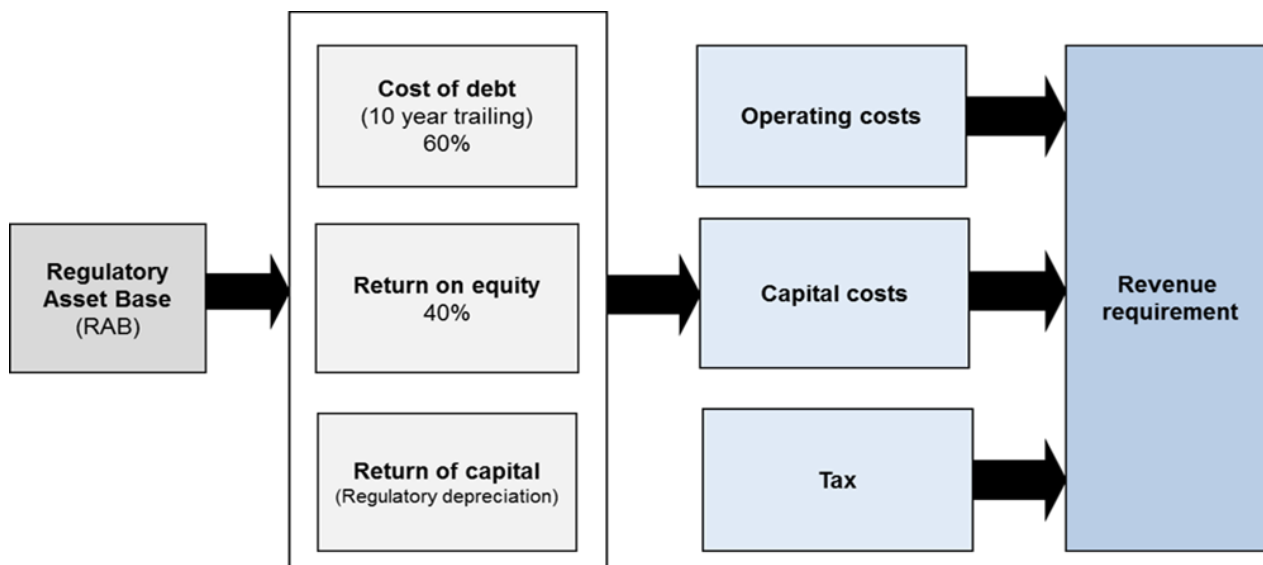
A summary of the building block methodology is shown in Figure 2.1.

Once the revenue requirement for the regulatory period has been determined using building blocks, the form of price control that will be applicable to Goulburn-Murray Water specifies how this revenue is to be translated into customer prices.

The prices charged by Goulburn-Murray Water have been regulated under a revenue cap form of price control. Subject to meeting the requirements of our guidance, we continue to provide Goulburn-Murray Water with discretion to propose and justify the form of price control to be applied for its regulatory period.

Our price determination will specify the prices that are to apply from 1 July 2024, and the prices or the manner in which prices will be calculated for the remaining years of the regulatory period.

Figure 2.1 Revenue under building blocks



2.2. Approach and methodology for assessing the price submission

Our regulatory task is to assess Goulburn-Murray Water’s price submission and form a view about whether or not the price submission:²⁰

- has adequate regard for the matters specified in clause 11 of the WIRO
- complies with guidance we issue under clause 13 of the WIRO.

Assessing the extent to which the submission has regard for matters specified in Clause 11

Clause 11 of the WIRO refers to matters specified in the ESC Act, the WI Act, the guidance we issue under clause 13 of the WIRO, and a number of pricing principles (at clause 11(d)) that we must have regard to in making a price determination.²¹

To facilitate our assessment, Goulburn-Murray Water is required to support the proposals in its price submission by reference to the matters in clause 11 of the WIRO.

²⁰ WIRO, clause 14(b)(i).

²¹ The matters referred to in clause 11 of the WIRO have been grouped into themes in Appendix C.

In doing so, Goulburn-Murray Water is required to place particular emphasis on the matters in clause 8(b) of the WIRO which primarily relate to the promotion of various types of efficiency.²² Chapter 3 sets out discrete considerations the price submission must address in order to demonstrate Goulburn-Murray Water has fully and meaningfully addressed clause 11 of the WIRO.

Assessing compliance with this guidance

Goulburn-Murray Water must lodge its price submission with us by **29 September 2023**. We expect the price submission (including the financial model template provided by the commission) to comply with Chapter 3 of this guidance. We will assess whether Goulburn-Murray Water has sufficiently justified its proposals in accordance with the governing criteria in Chapter 3, and satisfied all of the information requirements.

Consequences if we assess non-compliance with this guidance

Consistent with clause 14 of the WIRO, if we form a view that a price submission complies with our guidance, and has adequate regard for the matters specified in clause 11 of the WIRO, then we must approve the proposals in the price submission. Otherwise, clause 14 of the WIRO allows us discretion to specify maximum prices, or the manner in which its prices are to be calculated, determined or otherwise regulated.²³ This may include us specifying prices for a shorter regulatory period than proposed by Goulburn-Murray Water.

While we expect that Goulburn-Murray Water's price submission will comply with the requirements of this guidance, our review will generally focus on matters that have a material impact on the prices customers pay or the services customers receive. We will work with Goulburn-Murray Water to facilitate this outcome. In practice, if Goulburn-Murray Water's price submission has not fully complied with the guidance, our intention is to provide the business with an opportunity to provide the required information before we make a draft decision.

²² In summary, clause 8(b) of the WIRO provides that in having regard to the overarching objectives in the ESC Act, particular emphasis is to be placed on:

- (i) 'the promotion of efficient use of prescribed services by customers;
- (ii) the promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry; and
- (iii) the provision to regulated entities of incentives to pursue efficiency improvements.'

²³ WIRO, clause 14(b)(i).

2.3. Approach to assessing PREMO price submission ratings

The PREMO incentive mechanism links the return on equity reflected in approved prices to the level of ambition expressed in a price submission.²⁴ The return on equity will depend on whether the price submission is rated as 'Leading', 'Advanced', 'Standard' or 'Basic'.

Section 3.14 discusses the manner in which Goulburn-Murray Water should assess its price submission to decide on the submission's PREMO rating, and therefore the return on equity to be reflected in its proposed prices. Appendix E includes a PREMO assessment tool that Goulburn-Murray Water must use to inform its PREMO ratings.

The tool includes a set of guiding questions that set out the matters to be considered in assessing a price submission PREMO rating, and examples of what might constitute a 'Leading', 'Advanced', 'Standard' or 'Basic' rating for each applicable element of PREMO

Informed by its assessment for the four applicable elements of PREMO (that is, Risk, Engagement, Management and Outcomes), Goulburn-Murray Water must propose an overall PREMO rating for its price submission. The assessment tool guides Goulburn-Murray Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, form of price control, tariffs, and demand.

A price submission must meet all of the requirements set out in Chapter 3 of this guidance, which represents the minimum requirements for a 'Standard' overall PREMO rating.

We will also rate Goulburn-Murray Water's price submission with our decision on the PREMO rating determining the benchmark return on equity to be reflected in approved prices.

Goulburn-Murray Water should have confidence that well justified PREMO self-ratings – specifically those that provide credible information supporting the self-ratings – will be assessed reasonably by us. We want to reward ambition that provides improved value to customers.

Our PREMO rating is an assessment of Goulburn-Murray Water's price submission. It is not an assessment of Goulburn-Murray Water itself.

2.4. Our consultation process during the 2024 price review

A focus on customer engagement by Goulburn-Murray Water under PREMO should result in less need for direct engagement by us with its customers. This is consistent with our objective to

²⁴ See our pricing approach paper for further context: Essential Services Commission 2016, Water pricing framework and approach: Implementing PREMO from 2018, October.

emphasise the business and customer relationship, and to provide greater autonomy to Goulburn-Murray Water.

We expect price submissions to be heavily informed by customer engagement. As in past price reviews, we will invite submissions from interested parties on the proposals contained in Goulburn-Murray Water's price submission prior to making a draft decision.

Following the release of our draft decision, we will invite submissions and intend to engage with customers, either by holding public meetings and/or through online platforms, before we make our final decision and issue a price determination.²⁵

We will consult with agencies such as the Department of Environment, Land, Water and Planning, Department of Health and the Environment Protection Authority Victoria.

We will make our papers (including the reports of consultants assisting with our review), Goulburn-Murray Water's price submission, and submissions from other interested parties, available on our website in accordance with our submissions policy (www.esc.vic.gov.au).²⁶

If there is information that Goulburn-Murray Water or a stakeholder does not want disclosed publicly, due confidentiality or commercial sensitivity, the matter should be discussed with commission staff before lodging the submission.

2.5. 2024 price review process and timeline

Goulburn-Murray Water must lodge its price submission with us by **29 September 2023**.²⁷ If Goulburn-Murray Water fails to lodge its submission by this date, we may use our discretion to specify maximum prices.²⁸

We will assess Goulburn-Murray Water's price submission using a three-stage review process:

- **Stage 1** — Initial evaluation to verify the quality and strength of the submission and the proposed outcomes for customers, and to establish what further verification work might be required to inform our draft decision. If very little is required, we may fast track the price

²⁵ WIRO, clause 16(b).

²⁶ View our submissions policy at <https://www.esc.vic.gov.au/about-us/our-policies/our-submissions-policy>.

²⁷ Clause 13(vi) of the WIRO requires us to provide guidance on the timing and processes we propose to follow in making a price determination. Clause 13(vii) also requires us to specify the date by which Goulburn-Murray Water is required to deliver its price submissions to us.

²⁸ WIRO, clause 14(b)(ii).

submission through the assessment process and make an earlier draft decision to accept prices, or propose relatively minor changes, effectively bypassing stage 2.

- **Stage 2** — Conduct further verification work as required, which may range from simple requests for further information through to a full review of cost forecasts by an expert consultant. We may make our draft decision once we have completed the additional review (or reject the price submission if unable to reach a draft decision based on the information submitted).
- **Stage 3** — Public consultation on our draft decision, leading to our final decision and a price determination for Goulburn-Murray Water.

Figure 2.2 sets out our assessment process and timeline for the 2024 price review. All dates other than the price submission due date (29 September 2023) are indicative and will be confirmed later in the price review.

Our flexible assessment process – fast tracking our price submission assessment

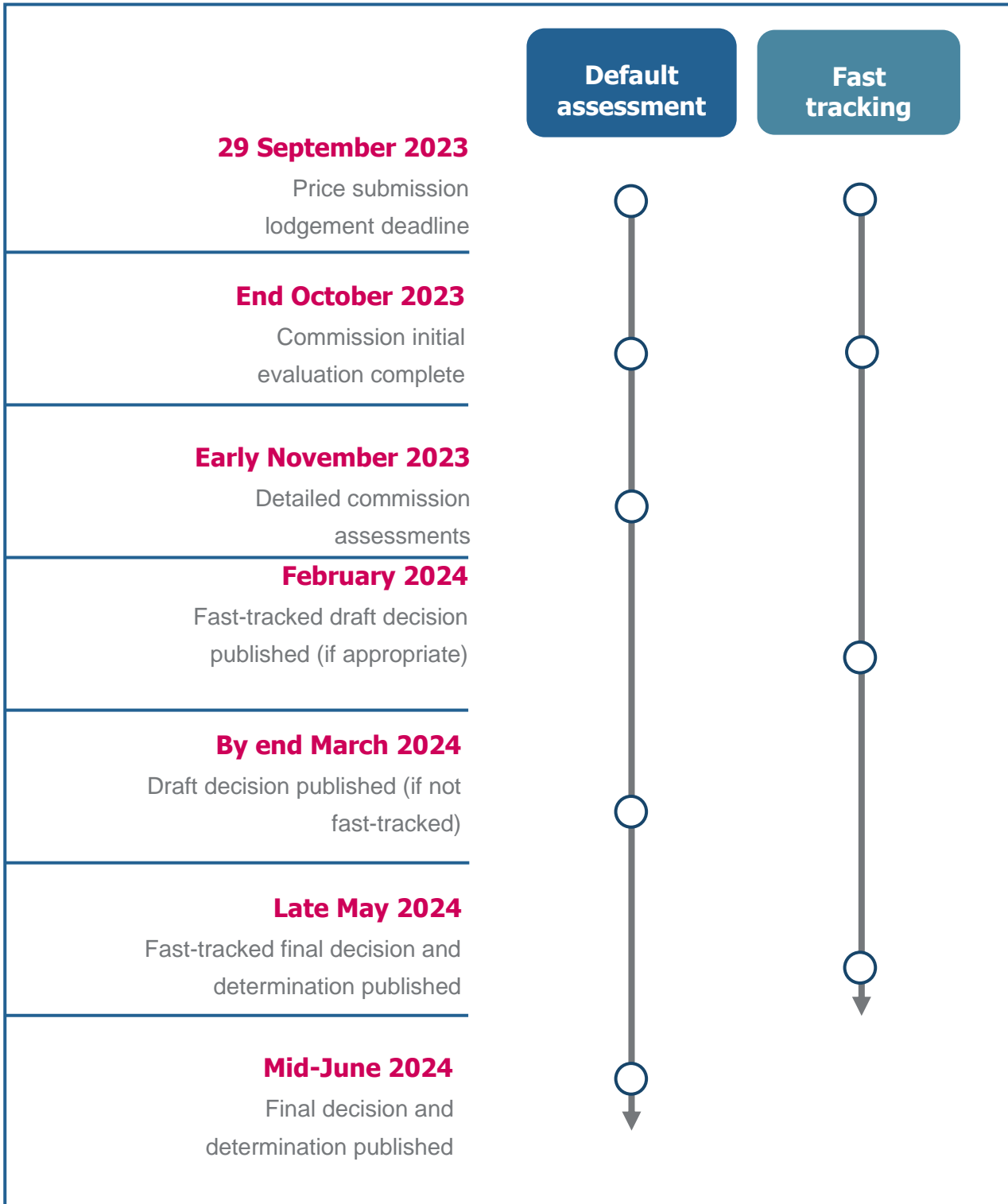
A decision to fast track a high quality price submission to an earlier draft decision will provide Goulburn-Murray Water with early certainty over its price proposal and allow it to focus its resources on delivering its services to customers with a reduced regulatory burden.

As highlighted above, to facilitate a quick and simple stage 1 assessment (and the possibility of fast tracking), Goulburn-Murray Water's price submission must clearly convey its key messages and data to us. This guidance informs Goulburn-Murray Water on what to include in its price submission, consistent with this stage 1 assessment. The financial model template (Section 3.22.3) must also be accurately completed for Goulburn-Murray Water to be eligible for an early draft decision.

The decision to fast track a price submission remains at our discretion, considering the quality and accuracy of the submission and any other matter we consider to be relevant. Our decision on fast tracking will be heavily informed by how well Goulburn-Murray Water demonstrates it has captured the views of its customers and explains how it has considered feedback.

Following the release of a fast-tracked draft decision, if our review process finds there are issues that need to be further explored, we may revert a price submission back to the default assessment process described in Figure 2.2.

Figure 2.2 Price review timeline and assessment process



3. Required contents of a price submission

Pursuant to clause 13(a)(iii) and 13(a)(v) of the WIRO, this chapter sets out the governing criteria and supporting information requirements for the major components of Goulburn-Murray Water's price submission, covering the regulatory period commencing 1 July 2024 (the next regulatory period).

Goulburn-Murray Water should prepare its price submission with the commission as its target audience. Although the price submission will be released publicly, the content and language should be tailored to facilitate our review. Goulburn-Murray Water may consider other ways – such as fact sheets – to communicate its proposals to other stakeholders, including its customers.

Goulburn-Murray Water's price submission must clearly and succinctly identify and explain how its proposal demonstrates value for money for customers — that is, what outcomes will be delivered to customers in return for the prices they pay, and how this reflects what customers value most.

The information requirements specified in this chapter reflect the information we need to undertake the 2024 price review consistent with the WIRO. Much of the information requested would already exist within normal business practice, such as, documentation for internal planning and corporate reporting. Also, much of the detail can be provided by completing the commission's financial model template that forms part of Goulburn-Murray Water's price submission (see Section 3.22.3).

To support clear and succinct price submissions, Goulburn-Murray Water need not include all the supporting information for the claims made in its submission. However, Goulburn-Murray Water must be able to provide any supporting information requested by us. For example, a consultant's report may be referenced in a submission without providing the full report as an attachment. We may request copies of material supporting a price submission, including (where required) through the issue of compulsory information notices under the ESC Act.

We expect Goulburn-Murray Water's price submission will focus on those matters having a material impact on the prices customers pay or the services they receive.

Under our PREMO incentive framework, a price submission must address all of the requirements set out in this guidance to achieve a 'Standard' rating or higher.

3.1. Managing risk

The WIRO requires us to place particular emphasis on matters relating to various efficiencies in undertaking our regulatory functions in Victoria's water sector.²⁹

Efficiency is promoted when risk is adequately identified, quantified, and allocated. Prices should reflect the costs incurred in delivering services and incorporate reasonable assumptions about risk.

Goulburn-Murray Water's price submission must be informed by a robust risk identification process, considering a long-term planning horizon. We anticipate such analysis is undertaken by the business as part of its normal business planning. Significant risks must be identified in a price submission. A price submission must also demonstrate that risk has been allocated appropriately, and where Goulburn-Murray Water has decided it is best placed to do so, identify the approaches it proposes to manage the risk.

Appendix D summarises some of the major risks a water business may face, and potential approaches already in our framework, such as mitigation for inflation, and other options that Goulburn-Murray Water may propose to deal with risks. Some of these relate to climate change, including operational risks related to asset security, and we anticipate that Goulburn-Murray Water will propose initiatives aimed at addressing climate change in response to its own planning and government policy.

There are mechanisms in the framework that enable Goulburn-Murray Water to deal with uncertainty in relation to demand forecasts, including the form of price control. There are also provisions in the price determination (which we propose to continue) to enable reconsideration of pricing within a regulatory period due to uncertain or unforeseen events. This includes where revenues or costs vary significantly from forecasts.

In past reviews, we observed many water businesses adopting overly risk-averse assumptions in price submissions, which implies that customers are expected to bear more than an efficient allocation of risk. One result of this is that proposed prices were higher than they need to be.

For example, in past price submissions some water businesses have:

- proposed to include the costs for highly uncertain projects and large contingencies in capital expenditure forecasts (and therefore, prices)
- sought to justify price increases on the basis of financial viability concerns, without providing evidence they have fully explored other avenues to manage financial performance.

²⁹ WIRO, section 8(b).

We expect Goulburn-Murray Water to manage the risks associated with uncertain capital forecasting. To help ensure customers pay no more than they need to, rather than including upfront allowances for uncertain projects and contingencies, Goulburn-Murray Water should seek alternative ways to mitigate construction and capital forecasting risk, such as through good project or contract management.

Alternatively, Goulburn-Murray Water could exclude planned but not fully scoped projects, or projects with uncertain delivery schedules, from upfront cost recovery, noting that actual prudent and efficient capital expenditure will be rolled into its asset base at the end of the regulatory period.

The water sector already adopts techniques such as real options analysis to inform decision making as circumstances unfold, including in relation to infrastructure works. We note evidence of use of options analysis (or similar methods), along with Goulburn-Murray Water's approach to dealing with uncertainty and allocating risk in relation to demand, can be used to support its PREMO price submission rating.

If the business is concerned about financial viability, it should demonstrate financial risks through credit rating assessments undertaken by an independent credit rating agency. Goulburn-Murray Water should also demonstrate that it has sought to manage any financial risks before transferring them to customers.

In later sections of Chapter 3, we have specified where we require information on Goulburn-Murray Water's consideration of risk to support the business's proposals in specific areas including length of the regulatory period, expenditure, demand, form of price control, and tariffs. Expenditure proposals related to climate change adaptation and mitigation need to consider our expenditure guidance in Chapter 3.

We are also seeking evidence that Goulburn-Murray Water has given strategic consideration to risk and identified those that may have a material impact on the prices customers pay, or the services they receive. This is the focus of the information requirements in Section 3.1.1.

3.1.1. Supporting information

In its price submission Goulburn-Murray Water must:

- identify any significant risks that may impact on customer prices or services, and if requested, make available to us scenario analysis for each risk including an assessment of the nature and scale of the risk and its probability of occurring
- identify how it has addressed significant risks through its proposals, explain how Goulburn-Murray Water has considered the allocation of risk, and demonstrate how its proposals support efficiency

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- provide evidence that Goulburn-Murray Water has given strategic consideration to the allocation and management of risk in developing its price submission. This may involve providing references and making available to us material on the business's risk identification and management framework or processes, rather than including detail in its price submission.

Upon request, Goulburn-Murray Water must also make available to us the following information about significant risks it proposes to manage that require cost allowances:

- the categorisation of the risk (as operational or financial risk, for example)
- measurement of the risk including:
 - the nature and scale of the risk
 - the probability of the risk event occurring
 - factors influencing the probability of the risk event occurring
 - the financial or service impact of the risk if it occurs
- options considered for allocating the risk
- rationale for the allocation of the risk, given alternative options
- an explanation of why the regulatory risk mitigation tools listed in [Appendix D](#) do not adequately mitigate the risk
- the role customers will be expected to play in dealing with these risks and how customers will be engaged in this process.

3.2. Regulatory period

3.2.1. Criteria

We are required to set the term of the regulatory period over which Goulburn-Murray Water's price determination will apply.³⁰ We propose to set a four-year regulatory period starting 1 July 2024, but remain open to a proposal for a typical five-year regulatory period or other alternatives in Goulburn-Murray Water's price submission. We have adopted four-years as the default period in our guidance because this has been the term of Goulburn-Murray Water's most recent regulatory periods.

A risk associated with a longer regulatory periods is that revenue or expenditure outcomes could diverge significantly from the benchmarks used to establish prices. This could result in customers paying prices which are significantly above, or below, those required to recover efficient costs.

³⁰ WIRO, clause 9.

Accordingly, if Goulburn-Murray Water proposes a regulatory period longer than four years, it is required to demonstrate that the benefits of a longer period outweigh the potential risks. As well, the submission should propose checks and balances that will apply during the longer period to ensure customers are receiving value for money.

Relatively short regulatory periods can increase the cost of reviews for stakeholders and weaken the autonomy Goulburn-Murray Water has to focus on service delivery for its customers.

If Goulburn-Murray Water is considering a regulatory period other than four years it should engage with us as soon as possible.

3.2.2. Supporting information

If Goulburn-Murray Water proposes a four-year regulatory period, it needs only to state this in its price submission. If Goulburn-Murray Water proposes a different term, then the submission must:

- provide reasons for the proposed regulatory period length, having regard to the benefits and risks identified in Section 3.2.1, including demonstrating that the benefits of a longer or shorter period outweigh the risks and costs from a customer's perspective
- outline the results of customer engagement on the length of regulatory period, and how feedback has been considered.

In addition, if Goulburn-Murray Water proposes a regulatory period longer than four years, the price submission must:

- demonstrate that the expenditure forecasts and asset management plans underpinning the price submission are sufficiently robust, particularly having regard to the capacity of the assets and demand forecasts towards the end of the proposed regulatory period
- include details of mechanisms that will provide both us and customers with confidence that prices reflect value for money and efficient service delivery after year five of the proposed regulatory period
- describe how Goulburn-Murray Water will keep customers engaged throughout the longer regulatory period, including how it will update customers on performance
- describe how Goulburn-Murray Water will adapt to changing customer needs during the regulatory period, within the constraints of the determination, for example, the approach to re-aligning capital programs in response to customer preferences
- outline Goulburn-Murray Water's approach to dealing with uncertainty and risk during the regulatory period, particularly financial viability risk, having regard to the mechanisms for mitigating risk outlined in [Appendix D](#).

3.3. Customer engagement

The WIRO requires us to set out our expectations regarding customer consultation by Goulburn-Murray Water in developing its price submission.³¹ Goulburn-Murray Water must engage with its customers and customer committees to inform its price submission. The purpose of this engagement is for Goulburn-Murray Water to understand the priorities of its customers, including the nature of products and services expected. This is to enable Goulburn-Murray Water to deliver outcomes that matter most to its customers.

Goulburn-Murray Water is best placed to design and undertake engagement to suit its circumstances and those of its customers. Accordingly, we have not prescribed how Goulburn-Murray Water should engage.

We have included a focus on engagement by businesses with First Nations people and people experiencing vulnerability.³³ This recognises the importance of inclusive engagement, which we know the Victorian water sector has already prioritised.

The following key principles should guide the engagement undertaken by Goulburn-Murray Water:

- The form of engagement undertaken by Goulburn-Murray Water should be tailored to suit the content on which it is seeking to engage, and to the circumstances facing its customers and community, including First Nations people and people experiencing vulnerability.
- Goulburn-Murray Water must provide participants in its engagement process with appropriate information, given the purpose, form and the content of the engagement, and a reasonable and fair opportunity to participate as part of the process.
- Goulburn-Murray Water's engagement process should give priority to matters that have a significant influence on the services provided and prices charged by the business.
- Goulburn-Murray Water should start engagement early in its planning. The engagement should be ongoing to keep testing proposals with customers.

We note that insights from Goulburn-Murray Water's engagement may complement its justification for forecast operating or capital expenditure. However, customer support should not be used on its own to justify the prudence and efficiency of expenditure proposals. Refer to Sections 3.8 and 3.9 for our expenditure criteria.

³¹ WIRO, clause 13(a)(iv).

³³ This guidance progresses some actions of the commission's 'Getting to fair' strategy relating to the water industry. See Essential Services Commission 2021, Getting to fair: Breaking down barriers to essential services, August.

3.3.1. Criteria

The following assessment criteria set out below relate to the principles set out in Section 3.3.

Our assessment of Goulburn-Murray Water's engagement will consider:

- Goulburn-Murray Water's justification for its decisions on how and when to engage, and the matters that it decided to engage on, including for First Nations people and people experiencing vulnerability. This includes how Goulburn-Murray Water has justified that its engagement was sensitive and appropriate for the people it was seeking to engage with, including First Nations people and people experiencing vulnerability.
- Whether customers, and others who are affected by the outcomes of the price submission were given a reasonable and fair opportunity to participate, particularly in relation to matters that have a significant influence on the services provided and prices charged by Goulburn-Murray Water. This includes consideration of the time available, and information provided to support input by participants.
- How feedback received through engagement was considered by Goulburn-Murray Water in reaching its proposals, and what feedback was provided to customers.
- Goulburn-Murray Water's justification for how it will address customer and community expectations that will not or cannot be met.

3.3.2. Supporting information

Goulburn-Murray Water's price submission must:

- Describe and justify how and when Goulburn-Murray Water engaged with its customers, customer committees and community.
- Explain how Goulburn-Murray Water ensured its engagement was universal and inclusive of customers and community affected by the outcomes proposed in the price submission, including First Nations people and people experiencing vulnerability. The submission must also explain how engagement was sensitive and appropriate for the people it was seeking to engage with.
- Describe and justify the matters covered by its engagement processes.
- Explain what Goulburn-Murray Water learned from customer engagement, and how it satisfied itself that customers were given a reasonable and fair opportunity to participate, and that any views expressed were sufficiently representative of its customers.
- Explain how feedback was considered by Goulburn-Murray Water in reaching its proposals.
- Explain how Goulburn-Murray Water will address expectations that will not or cannot be met.

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Goulburn-Murray Water must make available, or provide on request, resources and materials provided to customers during its engagement, as well as any customer feedback about the engagement program.

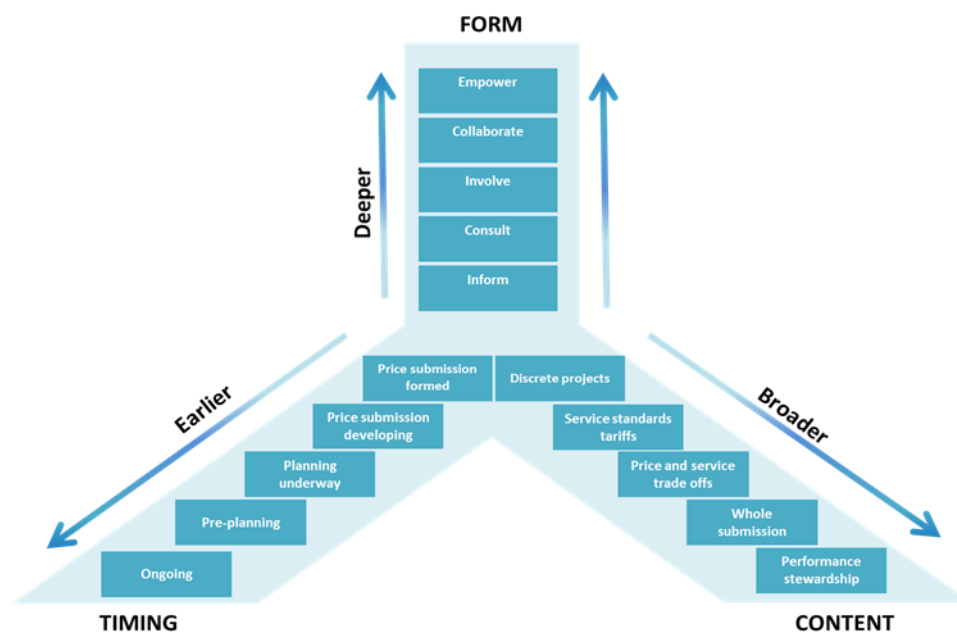
3.3.3. Customer engagement and PREMO

As noted in Section 3.3.1, we have not prescribed how Goulburn-Murray Water engages with its customers and community. While not trying to anticipate the method of engagement decided on by Goulburn-Murray Water, we note that adopting forms of engagement that provide for deeper participation and influence for customers will support the achievement of a higher PREMO Engagement rating.

Goulburn-Murray Water may wish to use the customer engagement diagram (Figure 3.1) as a descriptive tool of its overall program, or of individual activities. For example, it can show how Goulburn-Murray Water has evolved engagement since its last price review. This will support its PREMO price submission ratings.

More detail on our PREMO assessment for Engagement can be found in the assessment tool in [Appendix E](#).

Figure 3.1 Customer engagement diagram



3.4. Outcomes

Goulburn-Murray Water must propose a set of outcomes that represent the value its customers will receive during the next regulatory period. Goulburn-Murray Water must define output measures,

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with associated annual targets, that will be monitored during the next regulatory period to demonstrate the achievement of each outcome.

This set of outcomes and performance targets is essentially Goulburn-Murray Water's commitment to its customers for the regulatory period. Actual performance against these output measures and targets will allow Goulburn-Murray Water to clearly demonstrate whether its customers received the value they paid for. It will also inform the rating for the Performance element of PREMO at the next price review.

We acknowledge that Goulburn-Murray Water engaged with its customers on its service standards for the 2020 water price review in a manner consistent with the type of outcomes that would typically be put forward under the PREMO framework. We expect Goulburn-Murray Water will retest service expectations with its customers and look to leverage its existing service standards to develop measures and targets for its outcomes.

Goulburn-Murray Water must report at least annually to its customers on its performance against the specified output measures for each outcome. We expect Goulburn-Murray Water to complete its outcome self-assessments as soon as practical after the conclusion of each financial year and promote these to its customers. We will also report Goulburn-Murray Water's annual performance against its outcome commitments through our annual Outcomes Report published on our website.

3.4.1. Criteria

Proposed outcomes must demonstrate linkages to customer preferences, as revealed through Goulburn-Murray Water's customer engagement program.

Proposed output measures for each outcome must:

- be relevant to, or be a reasonable proxy for, the delivery of the outcome they represent
- be measurable
- be clearly defined and unambiguous
- be easy for customers to understand
- have performance targets listed for each year of the regulatory period.

Goulburn-Murray Water must outline how it will address shortfalls in meeting an outcome. It must also commit to reporting at least annually to its customers on its performance against its proposed output measures for each outcome.

3.4.2. Supporting information

Goulburn-Murray Water's price submission must:

Required contents of a price review

- present a set of customer outcomes, linked to customer preferences, each with clear and unambiguous output measures and associated targets
- for each output measure state the performance target for each year of the regulatory period and provide past performance (for at least the last two years before the regulatory period)
- explain how the outcomes, output measures and targets were informed by Goulburn-Murray Water's customer engagement program
- specify the key actions, activities, and programs that Goulburn-Murray Water will undertake to meet its targets (and consequently outcomes)
- demonstrate the connection between the output measures, key actions, activities and programs proposed and achievement of a specified outcome
- present and explain any cost increases or savings for operating or capital expenditure that correspond to each outcome (Sections 3.8 and 3.9)
- explain how the cost increases or cost savings are reflected in prices charged to customers
- explain how Goulburn-Murray Water will respond to underperformance in delivery of its outcomes
- outline a process by which it will report at least annually to its customers on its performance against the specific output measures for each outcome.

Goulburn-Murray Water may also choose to describe in its price submission how the business might adapt its outcomes, output measures and targets to respond to changing customer preferences, including an ongoing customer engagement program to inform business priorities throughout the next regulatory period.

3.5. Service standards relating to reliability and faults

A service standard allows a water business to define a level of service a typical customer should expect to receive. We require Goulburn-Murray Water to define service standards and specify targets in the following areas, in accordance with the provisions in the forthcoming Water Industry Standard – Rural Customer Service:¹⁸

- assessing and/or processing licencing and other administrative applications;
- responding to correspondence or complaints and providing information for each applicable service;
- providing a reliable water supply; and
- any other customer-related areas

¹⁸ Essential Services Commission 2022, Water Industry Standard - Rural Customer Service: Draft, 14 June, pg.5

A price review provides Goulburn-Murray Water with an opportunity to review its service standards and corresponding targets in consultation with its customers.

Goulburn-Murray Water must also explain how any proposed changes in service standard targets relative to equivalent service standard targets in the current regulatory period were informed by customer preferences, as well as the resulting impacts on expenditure forecasts and customer value.

3.6. Guaranteed service levels

Goulburn-Murray Water may propose guaranteed service levels (GSLs) for the regulatory period from 1 July 2024 (a GSL scheme). GSLs could be used to define Goulburn-Murray Water's commitment to deliver a specified service level to individual customers. For each GSL, Goulburn-Murray Water commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.³⁵

A GSL scheme is one way a business can support its rating for the Risk element of PREMO. The customer payment or rebate amounts established under the GSL scheme can indicate the extent to which Goulburn-Murray Water is taking on revenue risk to provide incentives for it to deliver efficient levels of service to customers.

3.6.1. Criteria

If Goulburn-Murray Water chooses to implement a GSL scheme, the scheme must:

- reflect the main service priorities and concerns of customers, informed by Goulburn-Murray Water's customer engagement
- provide incentives for Goulburn-Murray Water to provide efficient service levels to all customers
- define each GSL in a way that is easy to understand, and is able to be reported.

3.6.2. Supporting information

If applicable, Goulburn-Murray Water's price submission would need to specify each GSL and the corresponding payment or rebate amount that will apply where a customer has received a level of service below the guaranteed level.

³⁵ Essential Services Commission 2020, Rural Water Customer Service Code, August, clause 10. We note we are planning to release a revised code later in 2022, please visit our website: <https://www.esc.vic.gov.au/water/codes-and-guidelines/customer-service-codes/water-codes-review-2021>, last accessed 16 June 2022.

For any new GSL, a price submission must:

- explain the basis for the GSL, including how it has been informed by customer engagement
- specify whether benefits to customers will take the form of payments or rebates
- explain the reasons for the proposed size of the customer payment or rebate that applies to each GSL.

3.7. Revenue requirement

Our decision on Goulburn-Murray Water's revenue requirement for the next regulatory period must meet the WIRO objectives of promoting and providing incentives for efficiency in the regulated entities. This includes efficiency in, and the financial viability of, the regulated water industry.³⁷

The revenue requirement proposed in its price submission must provide Goulburn-Murray Water with sufficient revenue to efficiently meet all of its legislative, regulatory and policy obligations. This includes, but is not limited to, the following items listed in Box 3.1.

Box 3.1 Legislative, regulatory and policy obligations

- Water Charge (Infrastructure) Rules 2010 (Cth), primarily the rules relevant to an infrastructure operator¹⁹ (for example, rules regulating water planning and management charges,²⁰ schedule of charges²¹ and termination fees²²)
- Legislation and matters administered by the Essential Services Commission
- Legislation and matters administered by the Environment Protection Authority Victoria
- Legislation and matters administered by the Department of Health
- Legislation and matters administered by the Department of Environment, Land, Water and Planning
- Health and safety legislation
- Gender Equality Act 2020 (Vic)

³⁷ WIRO, section 8(b).

¹⁹ Water Act 2007 (Cth), section 4, see definition of 'infrastructure operator'.

²⁰ Water Charge Rules 2010 (Cth), rules 7, 9 and 9A.

²¹ Water Charge Rules 2010 (Cth), rules 11, 13 and 15.

²² Water Charge Rules 2010 (Cth), rules 71 to 75.

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- Climate Change Act 2017 (Vic)

3.7.1. Criteria

The required revenue for Goulburn-Murray Water for the next regulatory period will be estimated by the building block approach, under which the building blocks are:

- prudent and efficient forecast operating expenditure — determined in accordance with Section 3.8
- prudent and efficient forecast capital expenditure — determined in accordance with Section 3.9
- return on the regulatory asset base (RAB) — determined in accordance with the sections below:
 - the ‘roll forward’ of the RAB — determined in accordance with Section 3.11
 - the cost of debt — determined in accordance with Section 3.13
 - return on equity — determined in accordance with Sections 3.14 and 3.15
- return of capital through a regulatory depreciation allowance — determined in accordance with Section 3.12
- a benchmark tax allowance — determined in accordance with Section 3.16.

The revenue requirement is net of any additional revenue earned from regulated assets outside of scheduled tariffs — for example, revenue from the sale of water entitlement allocations. The revenue requirement is also net of any revenue earned from non-prescribed services (discussed at Section 3.22.9).

Any changes need to have regard to the trend in customer arrears, the impacts of business support measures for payment difficulty, and the economic outlook.

3.7.2. Supporting information

The price submission, including the financial model, must specify Goulburn-Murray Water’s forecast total revenue requirement for each year of the next regulatory period.

The price submission must also provide an estimate of the required revenue for each year after the next regulatory period to at least 2031-32. It must provide a brief explanation of the trend in the forecast over the next two regulatory periods from 1 July 2024.

3.8. Forecast operating expenditure

3.8.1. Criteria

The forecast operating expenditure to be included for the purposes of calculating Goulburn-Murray Water's revenue requirement is operating expenditure which would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering on service outcomes over the regulatory period, considering a long-term planning horizon (prudent and efficient forecast operating expenditure).

We consider that a prudent and efficient operating expenditure forecast has the following characteristics:

- Baseline year expenditure is reflective of efficient operating costs and is used as a basis to forecast expenditure.
- Forecast operating expenditure incorporates reasonable expectations for expenditure growth and cost efficiency improvement.
- Expenditure requirements above the baseline year (adjusted for growth and efficiency improvements) are fully explained and justified.

Operating expenditure with uncertain outcomes

If Goulburn-Murray Water seeks additional operating expenditure for investments where the outcomes are uncertain (for example, pilot or demonstration projects) we expect it to consider how risk is being shared if customers are being asked to cover all additional expenditure. Businesses should also clarify how they will demonstrate the value of these investments to customers.

Goulburn-Murray Water would need to demonstrate the prudence and efficiency of this expenditure at the next price review if seeking to have it included in the baseline, or to support new or ongoing expenditure in its price submission.

3.8.2. Supporting information

A price submission must include a forecast of total prudent and efficient operating expenditure for each year of the next regulatory period. Forecast operating expenditure is to be presented separately for each major service category.³⁹

For total and annual forecast operating expenditure and for each major service category, forecast operating expenditure for each year of the next regulatory period, and beyond to 2031-32, must be further broken down where relevant, in the financial model template, for:

- operations and maintenance
- customer service and billing
- guaranteed service level (GSL) payments
- licence fees
- corporate
- other operating expenditure.

Forecasts for the environmental contribution and Murray-Darling Basin contribution must also be provided in the financial model template. Where future amounts are not yet available, Goulburn-Murray Water must use the last known annual amount as its annual forecast in subsequent years.

Goulburn-Murray Water must also provide actual operating expenditure for the current regulatory period (using latest forecasts for 2023-24), categorised in the same way as above, in the financial model template.

Goulburn-Murray Water must provide any government and/or customer funded operating expenditure categorised by the relevant capital project or program.

Forecast operating expenditure must be presented relative to a reference or baseline operating year (Box 3.2), with allowance for expenditure growth (for example, based on customers or demand growth) and cost efficiency improvements over the next regulatory period. Any significant changes in the forecast years' costs relative to this baseline year must be clearly presented and explained. This must include how they are reflected in the proposed customer outcomes and how they represent improved customer value (Section 3.4).

Our financial model template sets out the forecast operating costs consistent with this approach.

³⁹ The major service categories include irrigation, drainage, water supply districts (domestic and stock), surface water diversions, groundwater diversions, bulk water services, and customer service and billing. Water supply districts cover Normanville, Tungamah, East Loddon, East Loddon North, Mitiamo and West Loddon.

Box 3.2 Baseline controllable operating expenditure

In preparing forecast operating expenditure, Goulburn-Murray Water must establish a baseline controllable operating expenditure comprising of efficient recurring controllable costs from the last full year of actual data (2022-23) for those activities and services that are expected to be incurred throughout the next regulatory period.

The baseline is established from the actual prescribed operating expenditure for 2022-23, and adjusted as follows:

- Remove any non-controllable expenditure.⁴⁰
- Remove any one-off or non-recurring expenditure items incurred in that year, or add any normally occurring items that did not occur in that year.
- Remove any further ongoing cost savings or efficiency commitments that will be realised in the final year of the current regulatory period (2023-24).

Goulburn-Murray Water must justify the adjustments proposed to the baseline year in order to establish the baseline controllable operating expenditure, and demonstrate that this represents efficient ongoing operating costs consistent with any efficiency targets for the current regulatory period.

Where actual prescribed operating expenditure for 2022-23 is above the benchmark allowance for that year, the price submission must explain whether this has resulted from expenditure growth above forecast, unmet efficiency targets, or a combination of these. The price submission should also highlight how customers have been impacted by any change from forecasts.

Goulburn-Murray Water's baseline year actual expenditure must reconcile with its audited regulatory account data.

Using the 2022-23 baseline controllable operating expenditure, Goulburn-Murray Water must propose and justify:

- its forecast expenditure growth rate assumptions for each year, including for 2023-24⁴¹

⁴⁰ Controllable costs are those that can be directly or indirectly influenced by Goulburn-Murray Water's operational decisions. Examples of non-controllable costs include external temporary water purchases, regulatory licence fees, the environmental contribution, and the Murray Darling Basin contribution.

⁴¹ Businesses should draw on Victoria in Future forecasts, Australian Bureau of Statistics data, and other information as required.

- its annual cost efficiency improvement rate for each year, including for 2023-24
- how proposed cost changes deliver improved customer value.

Goulburn-Murray Water's price submission must also:

- demonstrate why any proposed cost increases are not covered within the growth allowance, or by inflation, or absorbed within the stated net efficiency improvement rate
- demonstrate how proposed cost changes relate to the proposed customer outcomes and the associated outputs and deliverables (Section 3.4), and in particular:
 - identify and explain operating expenditure savings or new operating expenditure arising from capital expenditure and projects, and how they relate to the forecast cost efficiency improvement rate
 - explain any trend or major annual variations in forecast operating expenditure, including identifying cost items that are having an upward or downward influence on operating expenditure, compared with historic operating expenditure⁴²
- demonstrate that proposed costs associated with new or revised regulatory obligations and policy requirements are prudent and efficient
- set out and – where relevant – justify the non-controllable cost forecasts, including:
 - external temporary water purchases
 - regulatory licence fees
 - environmental contribution
 - Murray-Darling Basin contribution
 - any other proposed non-controllable costs.

Goulburn-Murray Water's price submission should explain the business's approach to allocating shared costs, or reference documentation that may be requested by the commission to verify the chosen approach.

Capitalising expense items

We usually expect water businesses' cost forecasts will align with statutory accounting principles. However, businesses may propose to capitalise certain expense items (where it is appropriate) to spread the cost recovery over a longer timeframe where it meets the guidance

⁴² Including, but not limited to, assumptions and trends relating to:

- wage and salary escalations, total labour costs and employee number assumptions
- electricity and energy costs, and underlying volume and load assumptions
- information technology costs
- other risks that have been identified.

and WIRO requirements. This might include expenditure that delivers benefits to customers over a long timeframe.

For example, in the case of a major IT-related project, the development and implementation costs of a new system might be justified as capital expenditure and recovered over the expected life of the new system, while any licencing and ongoing operating costs would remain as operating expenditure.

Other examples where this might apply include large irregular operating costs that are not incurred every regulatory pricing period but provide a customer benefit over two or more regulatory periods.

Goulburn-Murray Water's price submission will need to clearly show where expense costs have been capitalised, and provide justification against our guidance and WIRO to explain:

- why it is appropriate to do so
- what the depreciation (cost recovery) period will be
- a comparison showing the revenue or price impact for both treatments (operating expenditure compared with capital expenditure).

We do not envisage this will result in a large transfer of overall expenditure from operating to capital, or vice-versa.

3.9. Forecast capital expenditure

Capital expenditure forecasting involves anticipating the scope, timing and costs for a large number of various sized projects. This ranges from the replacement of existing assets at the end of their lives, to the construction of major new assets and facilities.

In preparing capital forecasts, Goulburn-Murray Water should avoid including speculative capital expenditure in its price submission forecasts. Where capital projects are not fully scoped, costed or internally approved (for example, via an approved business case) at the time of preparing the price submission, Goulburn-Murray Water should consider the following options so that customers are not asked to bear the full cost should the project scope or timing change:

- Include sufficient expenditure to cover only the development costs of the project, with efficient actual construction costs incurred during the period to be rolled into Goulburn-Murray Water's RAB at the end of the period, along with any accumulated interest. This provides sufficient revenue allowance for the project to proceed during the next regulatory period, with cost recovery to commence in the following regulatory period at no net loss to Goulburn-Murray Water.

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- Include development costs and a notional allowance for construction, with the balance of efficient construction costs – plus associated interest if required – to be rolled into the RAB at the end of the period. This allows a reasonable portion of the project, based on the various options and cost estimates at the time of preparing the price submission, to be included in prices.
- Identify the project as a possible ‘uncertain or unforeseen event’ to be addressed via the mechanisms outlined in Section 3.20 during the regulatory period.

Goulburn-Murray Water should also consider the above options for projects where the benefits are unclear or have not been fully defined, or where the linkages to customer value have not been established.

3.9.1. Criteria

The forecast capital expenditure to be included for the purposes of determining the required revenue is capital expenditure that would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering service outcomes, considering a long-term planning horizon (prudent and efficient forecast capital expenditure).

We consider that prudent and efficient capital expenditure has the following characteristics which reduce the risk borne by customers:

- Required expenditure is based on a P50 estimate, in which there is an equal likelihood of project costs being higher or lower than forecast. A P50 estimate may not be appropriate where a proposed capital program is dominated by one or two major projects.
- Contingency allowances are optimised.
- Forecast capital expenditure for renewals incorporates expectations for a reasonable rate of improvement in cost efficiency.
- Risks of project delays and cost overruns are managed through contractual agreements with service providers.

Where actual construction costs are found to exceed their efficient level, we will not roll these inefficient expenditures into the regulatory asset base. Inefficient costs will be borne by Goulburn-Murray Water and will not be recovered from customers.

3.9.2. Supporting information

Goulburn-Murray Water’s price submission must include a forecast of total prudent and efficient capital expenditure for the next regulatory period. Forecast capital expenditure for each year of the next regulatory period, and beyond to 2031-32 must also be included.

Forecast capital expenditure is to be presented by major service category and by the following cost drivers:⁴³

- Forecast capital expenditure to maintain service standards (renewals)
- Forecast capital expenditure to expand services (growth)
- Forecast capital expenditure to make improvements or upgrades to existing services or to comply with existing or changed government or regulator obligations (improvements/compliance).

Goulburn-Murray Water's financial model template must also specify actual capital expenditure for the current regulatory period (including the 2020 price determination forecast for 2023-24), and also for 2017-18, the final year of the previous period, for each major service category and the three cost drivers.

Goulburn-Murray Water's price submission must identify and explain any material cost or timing discrepancies between actual capital expenditure in the current regulatory period and the level of capital expenditure approved in its current price determination. This must include a reconciliation showing how Goulburn-Murray Water has met its commitments to delivering its major capital projects in the current regulatory period, consistent with the annual major project reporting that has occurred over the period. Impacts on customer service levels and value due to non-delivery must also be identified.

We expect that Goulburn-Murray Water will report to both customers and the commission on the outcomes that have been achieved from capital expenditure in trials or pilots in the current regulatory period, and in particular, an assessment of customer value for money. As well as providing an assessment of customer value for money arising from trials or pilots, where relevant, price submissions must identify how the outcomes of these trials or pilots have informed proposed future projects and expenditure. This is necessary to inform whether it is efficient to support any expansion of pilot programs into future capital expenditure.

Capital expenditure will fall into one of three key types:

- Major capital projects — large, discrete capital investment projects (may be completed within a regulatory period, or may span more than one period).
- Capital programs — ongoing programs of capital expenditure allocation, containing multiple works or projects (for example; channel renewals, ICT equipment upgrades, etc.).

⁴³ Major service categories include irrigation, drainage, water supply districts (domestic and stock), surface water diversions, groundwater diversions, bulk water services, and customer service and billing. Water supply districts cover Normanville, Tungamah, East Loddon, East Loddon North, Mitiamo and West Loddon.

- Other capital expenditure — typically, smaller discrete projects and programs.

Goulburn-Murray Water must present the capital expenditure forecasts set out according to these three key types, as follows:

Major capital projects — comprising the ‘top 10’ discrete capital projects, by total capital cost, to be started or completed during the next regulatory period. Goulburn-Murray Water may also include significant discrete projects that fall outside the top 10 by cost but are scheduled for the next regulatory period. For each of these major projects, provide:

- the project name and scope, and relevant major service and asset category
- justification for the project, including the cost driver
- start and completion dates
- total capital cost (itemising any government or customer contributions), and expenditure by year
- objectives of the project, including how the project aligns with the various customer outcomes proposed (Section 3.4) or addresses any major risks (Section 3.1)
- and have available:
 - a business case outlining the options considered for achieving the identified objectives and the approach to identifying the optimal solution⁴⁴
 - risk analysis of the selected option and plans to mitigate the identified risks to ensure the project can be delivered on budget and on time
 - the incentive and penalty payment arrangements with contractors⁴⁵
 - information to identify whether the project has, or will be, the subject of competitive tendering.

Capital programs — all key capital expenditure programs or allocations that will be ongoing throughout the regulatory period, excluding any discrete projects separately specified in the ‘top 10’ major capital projects. For each program, provide:

- the program or cost allocation name, and relevant major service category
- the cost driver
- total capital cost (itemising any contributions), and expenditure by year

⁴⁴ This should also include an assessment of a ‘do nothing’ option. Cost comparisons of various options should consider P5, P50 and P95 estimates. Forecasts for capital expenditure must be based on the P50 estimate.

⁴⁵ A business’s proposed prices must reflect incentive and penalty payment arrangements that are based on a symmetrical sharing of risk for delivery or non-delivery of projects.

- objectives of the program, including how the program aligns with the various customer outcomes proposed (Section 3.4) or addresses any major risks (Section 3.1)
- historical annual costs, and an explanation for significant increases or decreases in the forecast average annual expenditure
- and have available:
 - the list of projects included within the program or cost allocation for the next regulatory period, and business cases and options analyses
 - a description of the methodology for assessing risk and prioritising projects within the program
 - the cost estimation basis.

Other capital expenditure — all other capital expenditure not associated with a defined major project or major capital program should be grouped into one or more programs as appropriate. These are to be included under capital programs and information provided in the same way.

Consistent with the capital expenditure breakdowns (by type and major service category) in the price submission or financial model template where appropriate, Goulburn-Murray Water must also:

- for each year of the next regulatory period, and beyond to 2031-32, provide annual forecasts for capital expenditure separately identifying (where appropriate) and reconciling:
 - total capital expenditure
 - contributions (government and customer)
 - gifted assets
 - proceeds from asset sales
 - written down value of assets disposed
 - net capital expenditure.
- explain the methodology used to estimate forecast capital expenditure
- identify and explain the key assumptions which underpin the capital expenditure forecasts by each major service category, and how any risks or uncertainties have been addressed
- justify the timeframe for delivering the proposed new capital expenditure given Goulburn-Murray Water's delivery of major projects in the past
- explain the reasons for the trend or any major annual variations in forecast capital expenditure, including identifying cost items that are having an upward or downward influence on capital expenditure, compared with historic capital expenditure
- justify the total forecast capital expenditure against the criteria in Section 3.9.1, considering:
 - forecast demand

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- any relevant industry or economy-wide benchmarks of expenditure
- the substitution possibilities between forecast operating expenditure and forecast capital expenditure.

Our financial model template sets out the forecast capital expenditure consistent with the breakdowns and methodology described Section 3.9.2.

3.10. Return on regulatory asset base

A regulatory rate of return is applied to the regulatory asset base (RAB) to calculate the annual return on the RAB to be included in the revenue requirement. The regulatory rate of return comprises two components: a return on equity and a cost of debt.

The benchmark cost of debt will be determined based on a trailing average approach. A benchmark gearing level of 60:40 debt to equity will apply.

The formula for the regulatory rate of return (post-tax, real) is therefore:

$$\text{Regulatory rate of return (RRR)} = \text{Re } 0.4 + \text{Rd } 0.6$$

Where: Re = PREMO rate of return on equity

Rd = benchmark 10 year trailing average rate for the cost of debt.

The benchmark regulatory rate of return must be calculated in nominal terms, and then converted to real terms.⁴⁶

3.11. Forecast regulatory asset base

3.11.1. Criteria

The regulatory asset base (RAB) calculated for the purposes of determining the revenue requirement must reflect capital expenditure (less regulatory depreciation, contributions and/or asset disposals) which would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering on service outcomes, considering a long-term planning horizon (prudency criteria).

The opening RAB must be calculated as follows:

⁴⁶ The Fisher equation will be used to convert cost of debt from nominal to real estimates; that is:

$(1 + \text{nominal rate}) = (1 + \text{real rate}) * (1 + \text{inflation rate})$. Refer to Section 3.13.1. for our approach to estimating the forecast inflation in the financial model template.

Opening RAB 1 July 2024 = RAB at 1 July 2020, adjusted to reflect 2019-20 actuals

- + Actual capital expenditure (gross) for 2020-21 to 2022-23
- + Forecast capital expenditure (gross) for 2023-24*
- Actual contributions for 2020-21 to 2022-23
- Forecast contributions for 2023-24**
- Forecast regulatory depreciation for 2020-21 to 2023-24*
- Proceeds from disposal of assets for 2020-21 to 2022-23
- Forecast proceeds from disposal of assets for 2023-24**

(* denotes the forecast used in the 2020 price determination)

(** denotes the latest available forecast for 2023-24)

Where the up-to-date 2023-24 gross capital expenditure forecast is lower than the forecast benchmark for that year in the 2020 price determination, then Goulburn-Murray Water must use the lower amount.

The same approach is used to determine the opening value for each subsequent year in the next regulatory period, using the forecasts for capital expenditure, customer and government contributions, regulatory depreciation and disposals. The RAB will also be adjusted for the difference between forecast and actual capex from the previous regulatory period.

3.11.2. Supporting information

A price submission must propose:

- the closing value for the RAB at 30 June 2023 (using actual data)
- the opening value of the RAB at 1 July 2024 (calculated according to the criteria above)
- the forecast value of the RAB for each year of the next regulatory period, in accordance with the prudence criteria set out in Section 3.11.1.
- the forecast value of the RAB for each year after the next regulatory period until at least 2031-32.

A price submission must also:

- provide estimates for regulatory depreciation (Section 3.12)
- provide separate data and justify estimates for:
 - government contributions — federal, state and local government contributions towards the capital cost of a project

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- customer contributions — upfront cash payments made by new customers
 - the value of gifted assets — assets constructed and then handed over to Goulburn-Murray Water to operate and maintain
- include estimates of revenue expected from disposal of assets for each year from 1 July 2024, to be deducted from the roll forward of the RAB.

3.12. Regulatory depreciation base

We recognise a return of capital expenditure (regulatory depreciation) for an asset when the asset enters service. We prefer a straight-line depreciation profile.

The estimates and profiles for regulatory depreciation should reflect reasonable assumptions about asset life and utilisation.

Goulburn-Murray Water can propose an alternative approach to straight-line depreciation having regard to the following assessment principles:

- The depreciation rate should account for technological change, projected future demand and any other factors that may affect the value of the assets in the future.
- The technical lives of assets.
- Impact on prices over the long-term.

3.13. Cost of Debt

We will use a 10 year trailing average approach to estimate the benchmark cost of debt. The trailing average approach will determine the whole cost of debt, covering the risk-free rate and debt risk premium. We use a Reserve Bank of Australia (RBA) data set to estimate the cost of debt, and also add an amount to reflect debt raising costs. The averaging period will be the 10 years preceding the year in which the rate applies.

Each year, the 10 year trailing average cost of debt will be updated by rolling forward the data series by one year, such that:

- the cost of debt for the roll-forward (previous) year reflects the yields of the RBA 10 year BBB rated corporate bond – Reserve Bank of Australia Table F3 series FNFYBBB10M
- the annual update is a simple average of 12 months of the RBA 10 year BBB rated corporate bond over 1 April to 31 March and the assumption of 0.15 per cent per year for debt raising costs
- the trailing average is a simple average of 10 years of cost of debt
- the cost of debt is calculated in nominal terms.

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The historical data series for the cost of debt calculated using the method described above is set out in Table 3.2.

Table 3.2 Historical cost of debt (annual values for calculating trailing average)
Nominal values

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost of debt	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	3.75% ^a	3.75% ^a

^a The cost of debt for 2022-23 and 2023-24 will be updated to reflect annual averages based on actual data, prior to the final decision, consistent with the methodology outlined in section 3.13.

Data source: Treasury Corporation Victoria and the Essential Services Commission.

Goulburn-Murray Water is not required to submit information on the cost of debt in its price submission, because the cost of debt will be determined on the basis of the data outlined in Table 3.2. However, Goulburn-Murray Water must use the values above to estimate its revenue requirement and prices, subject to any updates before we make a price determination (the values in Table 3.2 will be reflected in the financial model template we provide to Goulburn-Murray Water).

3.13.1. Forecast for expected inflation

The forecast for expected inflation is an input to calculating the trailing average cost of debt.⁴⁹ We need to convert the nominal cost of debt to real terms consistent with our real post-tax pricing model. Our approach to estimating expected inflation is as follows:

- We estimate expected inflation based on the midpoint of 'RBA geometric' and 'bond breakeven' inflation rates.
- The 'RBA geometric' inflation rate is the RBA forecast consumer price index inflation rate for year one and two of the regulatory period, and the midpoint of the RBA target inflation band of two to three per cent from years three to ten.
- The 'bond breakeven' inflation rate is implied by the difference between the yields on 10-year nominal and indexed (inflation-linked) Commonwealth Government Securities.

We will estimate expected inflation using this methodology closer to the release of the financial model template to Goulburn-Murray Water, and we intend to re-estimate the expected inflation prior to the draft decision and the final decision.

⁴⁹ The Fisher equation will be used to convert cost of debt from nominal to real estimates; that is:
Real cost of debt = (1 + nominal cost of debt) / (1 + forecast inflation rate) - 1

This approach is consistent with the approach we have adopted at recent price reviews.

3.13.2. Approach to forecasting the cost of debt for the revenue requirement

To establish a revenue requirement, we need to adopt an assumption for the future nominal cost of debt, noting estimates are ‘trued up’ for actuals annually during the regulatory period.

In past reviews, to calculate the revenue requirement at the time of our price determination we have used the 10 year trailing average figure used for the first year of the next regulatory period, for all years of the regulatory period.

To estimate the revenue requirement for the next regulatory period, we will adopt the most recent annual cost of debt (at the time of our determination) as the new figure that is rolled in to the 10 year trailing average. This is the approach for the 2023 water price review in response to feedback in 2022 from water businesses. Adopting the most recent annual figure will reduce variations from the revenue requirement (and prices) established during our price reviews, as actual figures replace the forecasts. It is also consistent with the principle that the current cost of debt is a better predictor of the future cost of debt than the average rate over the prior 10 year period.

For Goulburn-Murray Water’s price submission, we will provide the actual cost of debt for 2022-23 and the March quarter 2023 consumer price index around end of April 2023. We will then update the actual cost of debt for 2023-24 for our final decision.

In Section 3.20, the guidance notes that Goulburn-Murray Water must propose an annual adjustment mechanism to allow prices to adjust as actual cost of debt replace the forecasts.

3.14. PREMO rating

The return on equity to be reflected in prices will be established via the PREMO incentive mechanism, under which Goulburn-Murray Water’s return on equity will be linked to the level of ambition expressed in its price submission.

Under PREMO, Goulburn-Murray Water must self-assess the level of ambition of its price submission as either ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. We will also independently assess the price submission and also rate it as ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. This two-stage PREMO assessment and rating process will determine the return on equity to be reflected in approved prices.

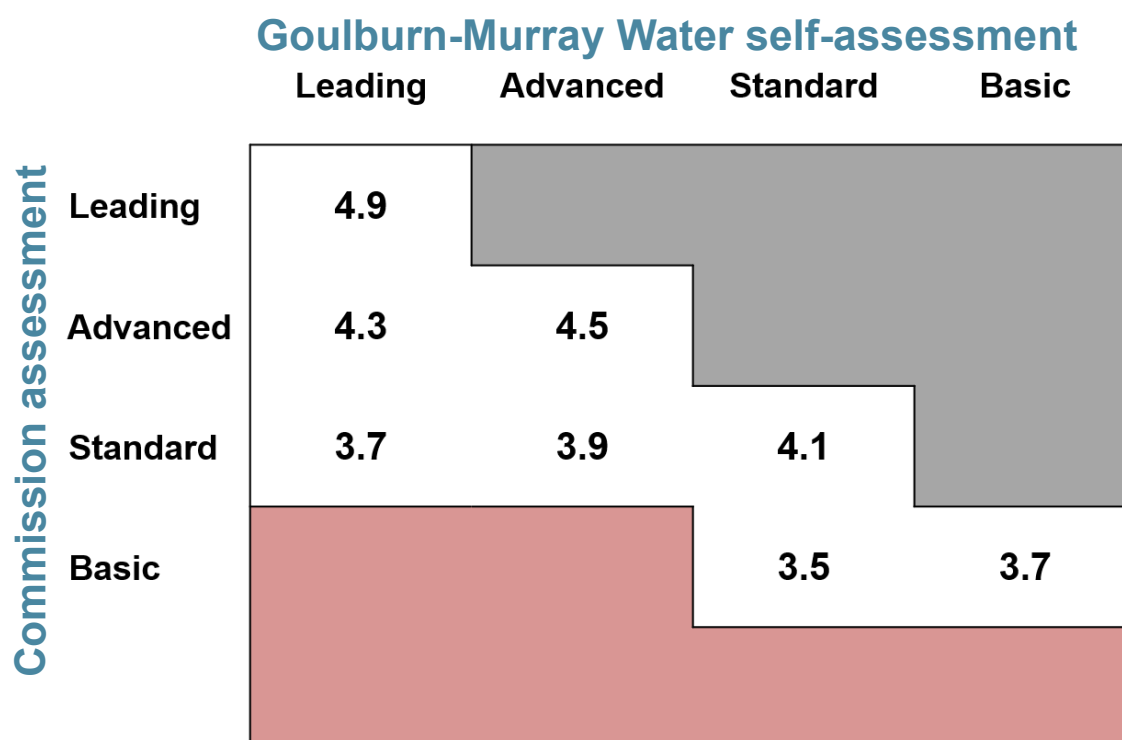
The range of possible values, in real terms, for the return on equity resulting from the two-stage assessment and rating process is provided in Figure 3.2.

The values in the matrix are the same as those currently adopted for the 2023 water price review (covering 14 water businesses).

We note that the lowest value in the matrix is above the estimated cost of debt, and therefore supports revenue sufficiency for Goulburn-Murray Water.

Figure 3.2 Regulated return on equity

Real per year rate (per cent)



Note: Goulburn-Murray Water must self-assess its price submission before lodging with us. We then complete our assessment of the price submission.

The best outcomes for Goulburn-Murray Water in terms of the return on equity will be achieved when the commission and the water business align in their respective assessments. Situations of aligned assessments are represented by the upper diagonal of the matrix shown in Figure 3.2. The more ambitious the submission according to both Goulburn-Murray Water and the commission, the greater will be the allowed return on equity.

The grey shaded area above this diagonal indicates where we will not assess a price submission more favourably than the Goulburn-Murray Water’s self-assessment. This provides an incentive for Goulburn-Murray Water to put forward its best offer, and to provide an honest assessment of the appropriate price submission rating.

If we find Goulburn-Murray Water has overstated its ambition, then the return on equity will be lower than had it accurately assessed itself. This can be seen in the diminishing values moving left along each row in Figure 3.2.

Consistent with the WIRO, we consider that the incentives embedded in the return on equity matrix at Figure 3.2 are in the best interests of Victorian water customers, as it reduces the likelihood of Goulburn-Murray Water being allowed rates of return that are not commensurate with the outcomes it proposes to achieve. It also supports an incentive-based framework that will deliver better consumer outcomes.

The (red) shaded zone at the bottom of the matrix represents an area within which we will reserve our discretion. For example, we may require Goulburn-Murray Water to resubmit its proposal if we rate its submission to be in this part of the matrix.

Together, the design features of the matrix provide Goulburn-Murray Water with a strong incentive to assess its price submission accurately and honestly.

If the commission downgrades Goulburn-Murray Water's PREMO rating during its price submission assessment, the commission may – at its discretion – elect to include specific conditions or performance criteria in the price determination that, if met, would allow Goulburn-Murray Water to apply to have its original PREMO rating restored. This would likely involve Goulburn-Murray Water demonstrating efficiency improvements or better service during the regulatory period, over a timeframe we specify. A successful application to the commission may result in an increase in revenue requirement corresponding to the higher equity return rate, which would in turn be reflected in prices.

For the 2024 price review, the ambition expressed in a price submission will be rated according to four elements of PREMO — Risk, Engagement, Management and Outcomes. We will not assess the Performance element because this is Goulburn-Murray Water's first review under the PREMO framework.

Goulburn-Murray Water must self-rate its price submission for each of these four elements and use these ratings to arrive at its overall PREMO rating and corresponding return on equity.

3.14.1. Criteria

Goulburn-Murray Water must include a price submission self-rating of 'Leading', 'Advanced', 'Standard' or 'Basic'. Its price submission must also identify the rating for the Risk, Engagement, Management and Outcomes elements of PREMO.

We will agree with Goulburn-Murray Water’s self-ratings where transparent and credible evidence has been provided that justifies the ratings. The guiding questions in Table 3.3 set out the matters we will consider in assessing Goulburn-Murray Water’s proposed rating for each PREMO element.

Appendix E includes a PREMO assessment tool that Goulburn-Murray Water must use to inform its PREMO ratings. The tool includes examples of what might constitute a ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’ rating for each element of PREMO. Informed by the assessment for each element of PREMO, Goulburn-Murray Water must propose an overall PREMO rating for its price submission. Appendix E also includes a scoring methodology to assist businesses with this rating process, noting use of the scoring methodology is not mandatory.

Goulburn-Murray Water’s price submission must address all of the requirements set out in this guidance to achieve a ‘Standard’ rating or higher.

Table 3.3 Guiding questions for PREMO assessment

PREMO Element	Guiding questions
Risk	<ul style="list-style-type: none"> • To what extent has Goulburn-Murray Water demonstrated a robust process for identifying risk, and how it has decided who should bear these risks? That is, customers are not paying more than they need to. • To what extent does any proposed guaranteed service level (GSL) scheme provide incentives for Goulburn-Murray Water to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?
Engagement	<ul style="list-style-type: none"> • To what extent has Goulburn-Murray Water justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers? • To what extent has Goulburn-Murray Water demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement? • To what extent has Goulburn-Murray Water demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged? • To what extent has Goulburn-Murray Water explained how it decided when to carry out its engagement?

PREMO Element	Guiding questions
	<ul style="list-style-type: none"> • To what extent has Goulburn-Murray Water demonstrated how its engagement with customers has influenced its submission? • To what extent has Goulburn-Murray Water demonstrated that its engagement was inclusive of consumers experiencing vulnerability? • To what extent has Goulburn-Murray Water demonstrated that its engagement was inclusive of First Nations people?
Management	<ul style="list-style-type: none"> • To what extent has Goulburn-Murray Water demonstrated how its proposed prices reflect only prudent and efficient expenditure? • To what extent has Goulburn-Murray Water justified its commitment to cost efficiency or productivity improvements? • To what extent has Goulburn-Murray Water justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects? • To what extent has Goulburn-Murray Water provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes? • To what extent has Goulburn-Murray Water demonstrated its price submission is an “open book”?
Outcomes	<ul style="list-style-type: none"> • Has Goulburn-Murray Water provided evidence that the outcomes proposed have considered the views, concerns and priorities of customers? • Has Goulburn-Murray Water provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested? • Has Goulburn-Murray Water proposed outputs to support each of its outcomes, which are measurable, robust and deliverable? • Has Goulburn-Murray Water provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes? • Has Goulburn-Murray Water demonstrated a process to measure performance against each outcome and to inform customers?

3.14.2. Supporting information

A price submission must provide information that satisfies the procedural requirements set out in the criteria above. A price submission must also:

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- identify the reasons for the self-ratings for the Risk, Engagement, Management and Outcomes elements of PREMO, with reference to the guiding questions above
- identify the reasons for the price submission’s overall PREMO rating.

3.15. Return on equity

The price submission PREMO rating proposed by Goulburn-Murray Water will correspond with a value for a return on equity to be reflected in its price submission (Table 3.4).²³

Table 3.4 Maximum return on equity for each PREMO rating

Real per year rate (per cent)

	Leading	Advanced	Standard	Basic
Maximum return on equity to be reflected in business’s proposed revenue requirement	4.9	4.5	4.1	3.7

3.15.1. Criteria

Goulburn-Murray Water’s proposed revenue requirement must incorporate a value for the return on equity that is no higher than the value specified in Table 3.4 for its proposed price submission rating. For example, an ‘Advanced’ rating will correspond with a maximum return on equity of 4.5 per cent. No further supporting information regarding Goulburn-Murray Water’s return on equity is required.

3.16. Tax allowance

3.16.1. Criteria

The tax allowance included for the purposes of determining the required revenue must reflect an estimate of the corporate income tax to be paid, less the imputation credits that would be received by a hypothetical private investor in Goulburn-Murray Water. In estimating the value of imputation credits Goulburn-Murray Water must multiply the annual estimated corporate income tax bill by an imputation factor.⁵⁰

²³ As stated in Section 3.14, we will review the return on equity values prior to issuing our final guidance.

⁵⁰ While franked dividends are not generally paid by government businesses, in order to maintain competitive neutrality, it is necessary to make an assumption of the value of imputation credits for a hypothetical private investor in the regulated entity. Therefore, it will be necessary to assume a value of imputation credits in the tax calculation.

This is consistent with the income tax calculation in the financial model template.

3.16.2. Calculating the tax allowance

Once populated by Goulburn-Murray Water, the financial model template will include an estimate of the business's future nominal tax allowance based on the following formula:

$ETC_t = (ETI_t \times r_t) (1 - \gamma)$, where:

- ETC_t is an estimate of the future nominal tax allowance
- ETI_t is an estimate of the taxable income for each regulatory year
- r_t is the expected statutory income tax rate for each regulatory year
- γ is the value of imputation credits (which will be at the rate of \$0.50 for every \$1 of company tax paid, as in past price reviews).

In relation to the estimate of ETI_t for each year of the next regulatory period:

- the revenue and expenditure estimates used in the calculation are the same revenue and expenditure estimates used to establish maximum prices (except that customer contributions and gifted assets are treated as revenue)
- the interest expenses (deductions) reflect the nominal cost of debt and the assumed stock of debt (that is, gearing multiplied by the regulatory asset base)⁵¹
- the calculation allows for an adjustment to reflect tax depreciation.

The financial model template adjusts the nominal tax allowance for inflation to derive the real tax allowance for each regulatory year. This estimate must be used by Goulburn-Murray Water as the basis for its tax allowance forecasts. The forecast tax allowance may also be informed by Goulburn-Murray Water latest estimate of tax to be paid over the next regulatory period.

The financial model template allows the tax rate to be entered for each year of the next regulatory period, to allow Goulburn-Murray Water to reflect any expected changes in the applicable tax rate. Goulburn-Murray Water should estimate the applicable tax rate and include it in the relevant input fields in the financial model template.

3.16.3. Supporting information

The price submission must propose a total tax allowance for the next regulatory period. An estimate must also be provided for each year of the next regulatory period.

⁵¹ The tax allowance benchmarks in the price determination will be kept constant for the regulatory period, and will not vary with the cost of debt.

The price submission must also:

- state the basis on which the tax allowance for the next regulatory period has been calculated
- in the financial model template, provide an estimate of the income tax for each year after the next regulatory period up until at least 2031-32
- make available to us Goulburn-Murray Water's latest corporate forecasts for annual tax payments for the next regulatory period, and the basis for the forecasts.

3.17. Demand

Demand is a key input to prices and is relevant to the assessment of capital and operating expenditure. As well as considering the risk mitigation tools available in the regulatory framework (see [Appendix D](#)), Goulburn-Murray Water needs to make available to us evidence that a range of supply and demand scenarios have been modelled.

3.17.1. Criteria

Demand forecasts proposed by Goulburn-Murray Water must represent the best available estimates derived from an appropriate forecasting methodology. Assumptions on the key drivers of demand over the next regulatory period must be well-explained and reasonable. These assumptions must be based on the latest data and evidence available.

3.17.2. Supporting information

The price submission must summarise Goulburn-Murray Water's demand forecasts, including expected trends for the next regulatory period, as well as outline the key assumptions adopted to develop those forecasts. Goulburn-Murray Water should use at least an eight year (two regulatory periods) horizon for demand forecasting and scenario work, and reflect this in its price submission.

The price submission must also include the following:

- A description of the forecasting methodology used and the justification for using the methodology.
- A description of the key demand forecasting issues including reasonable assumptions about the key drivers of demand, such as:
 - supply restrictions
 - environmental conditions, including water inflows and the availability of water
 - commodities, including the treatment of water as a derived demand
 - any elasticity assumptions
 - demographic impacts, where appropriate.

- Evidence that a range of supply and demand scenarios were modelled. This should include normal supply and water restriction scenarios, and consideration of a range drivers. Written justification must be provided for the selection of the forecasts proposed.
- Tabular information that summarises the demand forecasts adopted for eight years for each service and region, and provide comparable historical information on demand.
- Reference to any external reports or information relied upon.
- An explanation of how demand forecasts are consistent with proposed expenditure, in terms of the level and nature of expenditure.
- If applicable, a description of how forecasts have accounted for the impact of any proposed changes to tariff structures or form of price control expected in the next regulatory period. If Goulburn-Murray Water proposes to continue with a revenue cap form of price control we would expect less detailed information as volumes are corrected for in the annual price adjustments. Goulburn-Murray Water will need to exercise discretion and match the level of detail contained in its demand forecasts with the materiality of the demand information (and hence revenue impacts) captured.

The financial model template will require Goulburn-Murray Water to provide detail on actual demand numbers and demand forecasts for every tariff and tariff category. If detailed forecasts at this level are unavailable, Goulburn-Murray Water must explain why and provide estimated demand for these services. The detail in the model does not need to be reproduced in the price submission.

3.18. Form of price control

Goulburn-Murray Water currently uses a revenue cap form of price control. We anticipate Goulburn Murray Water will continue to use a revenue cap. In considering whether to approve the proposed form of price control, we will have particular regard to whether the proposal involves a continuation of existing structures or whether changes are proposed. We note that different forms of price control may apply to different services.

Where an existing price control structure is being continued, the justification requirements below may be satisfied more easily. Where a change is proposed, however, Goulburn-Murray Water will need to provide evidence to demonstrate that the new price control better satisfies the requirements in clause 11 of the WIRO than the existing structure.

3.18.1. Rebalancing constraint

Goulburn-Murray Water has a rebalancing constraint of ± 10 per cent, which helps to support price stability. We anticipate Goulburn-Murray Water will continue with a rebalancing constraint of ± 10 per cent for the next regulatory period. We note that rebalancing constraints apply:

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- on the weighted average price movement
- on tariffs and not on bills
- on real price changes and not nominal price changes.

This means that if Goulburn-Murray Water proposes to continue with its current rebalancing constraint, it must limit the weighted average price change to ± 10 per cent (in real terms) in any single year beyond the first year, unless the tariff is exempt from the rebalancing constraint. Goulburn-Murray Water must identify in its price submission any tariffs that it proposes to exempt from the rebalancing constraint.

3.18.2. Criteria

We will assess proposals against the following factors:

- Goulburn-Murray Water's justification for the proposed form of control, including its consideration of efficiency and risk allocation and management.
- Goulburn-Murray Water's approach to consultation on the form of control and how the views of customers were considered.
- Where a change to the form of price control is proposed, and whether Goulburn-Murray Water has considered and demonstrated that appropriate transition strategies will be implemented for affected customers.
- The administrative complexity of the proposed form of control.
- The ability of customers to understand the resulting tariffs and tariff movements throughout the regulatory period.

In assessing Goulburn-Murray Water's proposed form of price control, in particular where a change is proposed, we will place a strong weighting on the feedback received from its customers.

3.18.3. Supporting information

A price submission must:

- clearly state the proposed form of price control to apply to each service over the next regulatory period
- include the formula to give effect to the form of price control, including any proposed side constraints if Goulburn-Murray Water is proposing a revenue cap form of price control
- if applicable, specify and justify which tariffs are subject to the tariff basket form of control and how those tariffs are grouped, according to similar cost structures, and customer class.

If changes to the form of price control are proposed by Goulburn-Murray Water, then a price submission must:

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- explain how the proposed form of control would operate and the affected services
- demonstrate Goulburn-Murray Water has consulted with potentially affected customers, and explain how the feedback from customers informed its proposals, and how the change benefits customers
- provide data and supporting information that describes how the proposed form of price control is consistent with providing signals about the efficient cost of delivering services and how it is likely to impact on price stability
- explain how Goulburn-Murray Water has considered risk allocation and management, including demand and financial risk
- explain how a transition to a new form of price control may impact customers and Goulburn-Murray Water's approach to minimising any adverse impacts.

3.19. Prices and tariff structures

Goulburn-Murray Water made significant tariffs reforms as a result of the 2020 price review, including moving to a common water delivery charge across its six gravity irrigation districts and requiring all retail water customers to pay water storage fees based on a system-wide approach. We considered these tariff reform proposals were more cost reflective than its previous approach and were also consistent with the WCIR pricing principles.

If Goulburn-Murray Water proposes tariff reforms in its 2024 price submission, it should engage with its customers and take into consideration their views in its proposal, and ensure the reforms are consistent with the WIRO and pricing principles.

A price submission must list each of its proposed tariffs to apply in the next regulatory period and include:

- each element of a multi-part tariff structure
- a price for each tariff
- where relevant, the pricing principles that it proposes to apply in setting prices.

We anticipate prices for service categories such as irrigation, drainage, water supply districts, surface water, bulk water and miscellaneous, will be set with reference to pricing principles. The pricing principles for miscellaneous services are outlined in Section 3.19.4.

There may be instances where tariffs are proposed that relate to a very small proportion of revenue or are applicable to very few customers. In these cases, Goulburn-Murray Water may propose specific pricing principles.

In developing its pricing proposal, we encourage Goulburn-Murray Water to consider the tariff assessment principles listed in Table 3.5.

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Table 3.5 Tariff principles

Principle	Description
Sustainable revenue	Tariff structures, levels and the form of price control should ensure an economically sustainable revenue stream over the regulatory period.
Subsidy free pricing and inefficient bypass	For each tariff class, the revenue expected to be recovered should lie on or between an upper bound representing the stand alone cost of serving the customers in that class and a lower bound representing the avoidable cost of not serving those customers.
Tariff structures	Tariff structures should be simple, understandable and cost reflective. Bulk Water Charges Structure — A two part charge comprising a fixed charge and a volumetric component to recover a bulk supplier’s revenue requirement from its customers for each bulk water service.
Determining fixed charges	Fixed charges should be calculated to recover the difference between the total revenue requirement for a tariff class and the revenue recovered through volumetric charges.
Determining volumetric charges	The volumetric charge should have regard to the long run or short run marginal costs, where appropriate.
Customer focus	Tariff and service offerings, and the form of price control, should have regard to the ability of customers to understand the tariff and service offering and respond to price signals, customer preferences and needs in relation to service standards or new services, the costs of implementing the tariff offering, including administration and marketing costs and price path stability.
Locational and postage stamp pricing	<p>Postage stamp pricing comprises retail tariffs that do not reflect any differences in costs of distribution systems by time or location. Postage stamp pricing should be applied when water supply is predominantly interconnected and/or is more equitable and administratively simple.</p> <p>Locational pricing comprises tariffs that vary by location, reflecting the cost structure of water supply, transport and treatment across Goulburn-Murray Water.</p> <p>Locational pricing should be applied when water supply is less integrated and where there are material differences in costs between water networks.</p> <p>The WIRO does not specify whether a business should use locational or postage stamp pricing. It is up to Goulburn-Murray Water to make the case for which is most appropriate.</p>

The principles in Table 3.5 provide guidance for Goulburn-Murray Water to check its proposed tariffs are consistent with the WIRO, including that tariffs provide signals to customers about the efficient costs of providing services. Compliance with the tariff assessment principles may also support Goulburn-Murray Water’s proposed PREMO rating.

Required contents of a price review

We will consider the clarity and robustness of Goulburn-Murray Water's proposed tariff strategy. In our view, tariff reform should proceed according to a publicised and planned sequence to provide for customer certainty.

Ideally Goulburn-Murray Water's tariff strategy should:

- anticipate and include plans to deal with customer impacts, and any indirect effects of change. We expect to see evidence of substantial customer engagement and consideration of transition strategies in Goulburn-Murray Water's tariff proposals
- consider price constraints to limit the movement of tariffs in a year to ensure that customers do not face substantial price shock in any one year.

Goulburn-Murray Water should consider timeframes for planning and cost projection beyond the limits of next regulatory period when designing tariff structures to cover its costs.

For all tariff proposals, Goulburn-Murray Water should identify the prices and tariff structures it is proposing to implement over the next regulatory period, and should identify material changes to prices being proposed. It should also provide clear links between the proposed price changes and their drivers, such as new government obligations or material changes in the revenue requirement.

We expect Goulburn-Murray Water to clearly articulate the basis for any differences in tariffs and charges for its customers with regards to differences in costs.

3.19.1. Criteria

We will assess Goulburn-Murray Water's proposals against the following factors:

- Goulburn-Murray Water's consideration of risk and efficiency — particularly how proposed tariffs are consistent with providing signals about the efficient cost of delivering services.
- The extent to which proposed new tariffs or tariff structures are consistent with the tariff assessment principles in Table 3.5.
- Goulburn-Murray Water's approach to consultation on the tariff structures and how the views of customers were considered.
- Whether Goulburn-Murray Water has considered and demonstrated that appropriate transition strategies will be implemented for any materially affected customers.
- Where applicable, whether Goulburn-Murray Water has justified changes to its tariff strategy
- The ability for customers to understand the resulting tariffs and tariff movements throughout the regulatory period.

For price levels, we will assess Goulburn-Murray Water's against the following factors:

- Goulburn-Murray Water's justification for the proposed prices, particularly how proposed prices are consistent with providing signals about the efficient cost of delivering services, and providing incentives for the business to pursue efficiency improvements.
- How Goulburn-Murray Water has taken into account the interests of customers, in particular low income and vulnerable customers.
- Whether Goulburn-Murray Water has adequate transition strategies in place to manage the impacts of significant price shocks for affected customers.

In making a decision under clause 11 of the WIRO, we will have particular regard to whether tariffs are continuing in the same form as applied during the last period, or whether changes are proposed.

We recognise that an important objective includes avoiding price shocks for customers where possible. Where an existing tariff structure is being continued, this may be satisfied more easily. Where changes are proposed, however, Goulburn-Murray Water will need to provide evidence to demonstrate that the amended tariff structure better satisfies clause 11 of the WIRO than the existing structure.

3.19.2. Supporting information

Goulburn-Murray Water's price submission must:

- Include a tariff schedule listing each tariff and the price (or principles) proposed, including each element of a multi-part tariff structure.
- Outline Goulburn-Murray Water's tariff strategy and highlight any major proposed changes during the regulatory period commencing 1 July 2024.
- Provide indicative bill impacts for Goulburn-Murray Water's key customer groups, including the attributes applying to each customer size.
- Include a summary of Goulburn-Murray Water's approach to consultation on its proposed tariffs and how the views of customers informed the price submission.
- For any changes in Goulburn-Murray Water's tariff structures and principles, or new tariffs:
 - state how each tariff is to be applied – for example, frequency of charging, customer class, applying prices through connection or meter size
 - describe the relationship between the proposed price for a service and the associated short run or long run marginal cost

Required contents of a price review

- provide data and supporting information that describes how proposed tariffs are consistent with providing signals about the efficient cost of delivering services⁵³
 - justify how the proposed change delivers better signals to Goulburn-Murray Water’s customers about the efficient costs of service provision
 - describe how Goulburn-Murray Water has considered risk and its allocation and management
 - provide a summary of Goulburn-Murray Water’s approach to consultation and how the views of customers informed the price submission.
- For real price changes of more than 10 per cent for any tariff in any year for the next regulatory period:⁵⁴
 - describe the relationship between the cost of service provision and the proposed price
 - provide a summary of Goulburn-Murray Water’s approach to consultation, including the approach to identifying affected customers
 - summarise the customer feedback received on the proposed price increase
 - describe the transition arrangements considered, and ultimately proposed, for affected customers.
- Provide estimated tariffs for each service for each year beyond the next regulatory period up until 2031-32 in the financial model template.
 - Provide the top 10 miscellaneous charges by forecast revenue for the next regulatory period and the following period up until 2031-32 in the financial model template.
 - Provide supporting information that describes how proposed miscellaneous tariffs are calculated in accordance with requirements in the WIRO and the pricing principles provided in Section 3.19.3.
 - Provide the following information in relation to diversion tariffs that are payable by domestic and stock users:
 - details about how the relevant tariff classes have been established (including whether and how all customers within the relevant tariff class receive the same services); and

⁵³ We require the price submission to propose prices that seek to reduce and minimise cross-subsidies. The extent to which this may be achieved will depend on a range of factors, including how well any adverse customer impacts may be managed. These issues will need to be explored in the price submission.

⁵⁴ Clause 11(d)(ii) of the WIRO requires the commission to have regard to the principle that prices should provide signals about the efficient costs of providing services, while avoiding ‘price shocks’ where possible. For the purposes of the 2018 price review, we defined a price shock as an increase of greater than 10 per cent in any year for any individual tariff. For any proposed price increases of greater than 10 per cent in any year, Goulburn-Murray Water will consider the merits of the increase while having regard to the cost of delivering the particular service (that is, cost reflectivity) and the impacts on its customers.

- information that demonstrates that prices charged to all types of users in each relevant tariff class reflect an efficient cost of providing the relevant services to customers in that tariff class.

3.19.3. Pricing principles for miscellaneous services

Prices for miscellaneous services must be set according to actual costs 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
- 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.

3.20. Adjusting prices

A price submission must specify any proposed price adjustment mechanisms to apply in the next regulatory period. The 2020 price determination includes common mechanisms that allow for prices to adjust to account for:

- uncertain or unforeseen events
- a 'pass through' of changes in some costs, such as taxes, during the regulatory period.

Our view is that these adjustment mechanisms have worked well, and we propose these arrangements will continue. In the past, water businesses have also provided specific price adjustment mechanisms, which we have approved and included in their respective determinations.

The proposed price control formulas must continue to include a mechanism to allow for price adjustments to occur on an annual basis.

Goulburn-Murray Water should propose the adjustment mechanism and be prepared to provide the supporting information requirements. Goulburn-Murray Water will need to be prepared to provide evidence to demonstrate how the adjustment mechanism satisfies the requirements in clause 11 of the WIRO.

As part of the 'trailing average' approach to estimating the cost of debt outlined in Section 3.13, the commission applies a standard adjustment mechanism that applies to all businesses each year of its pricing period to reflect movements in the cost of debt. Accordingly, Goulburn-Murray Water is not required to propose a price adjustment mechanism. However, Goulburn-Murray Water should identify in its price submissions the prices that should reflect annual changes to the cost of debt.

Required contents of a price review

We will consider proposals addressing other events that may require a pass-through to adjust prices during the regulatory period, provided a clearly articulated justification is included in the submission. Where there is a potential policy or regulatory change that is known but uncertain in its impact on Goulburn-Murray Water's costs, the change may be nominated in the business's price submission as a potential pass-through, or uncertain or unforeseen event. Capital projects which are anticipated, but have not been fully scoped or costed (as described in Section 3.9) may be nominated as an uncertain event.

3.20.1. Criteria

In approving proposed pass-through or uncertain or unforeseen events, we will consider:

- the extent to which the event is outside Goulburn-Murray Water's control and poses significant risk of cost changes during the period
- the extent to which the nominated event is uncertain in its impacts and timing
- whether it is reasonable that Goulburn-Murray Water's customers should bear risk associated with the nominated event
- the impact of the nominated event on efficiency incentives for Goulburn-Murray Water
- the ability for Goulburn-Murray Water to otherwise manage the risk and cost impact posed by the event – for example, in its form of price control, tariff structures or approach to contracting.

3.20.2. Supporting information

Goulburn-Murray Water's price submission must include the following elements:

- Specify any proposed price adjustment mechanisms to apply in the next regulatory period, and specify the proposed process and/or formula for adjusting prices.
- If proposing new or changed price adjustment mechanisms, the price submission must:
 - clearly specify and explain how the adjustments would work
 - demonstrate that Goulburn-Murray Water has sought to appropriately balance revenue and cost risk between Goulburn-Murray Water and its customers, without materially impacting on price stability
 - justify any proposal against relevant matters in clause 11 of the WIRO and consistency with proposed outcomes.

For any identified pass-through or uncertain and unforeseen events, a price submission must also:

- describe each proposed event, and explain why it is uncertain in its timing or impacts on Goulburn-Murray Water or its customers
- explain why it is appropriate that Goulburn-Murray Water should bear risk associated with the event

Required contents of a price review

- explain how Goulburn-Murray Water considered the impacts on its incentives to pursue efficiencies
- propose a price adjustment mechanism to implement the pass-through.

3.21. Financial position

The financial model template will calculate estimates for the four financial indicators specified in Table 3.6 for each year to 2031-32. Goulburn-Murray Water must populate the financial model template to enable our assessment of the business’s financial position in the context of the prices proposed in its price submission.

Goulburn-Murray Water should also provide us with the findings of any independent ratings assessments conducted by an independent credit ratings agency since 1 July 2020.

Table 3.6 Financial indicators

Indicator	Calculation	Benchmark Range	Description
Primary indicator — used to determine size of any viability adjustments			
FFO interest cover	$(\text{FFO} + \text{net interest}) / \text{net interest}$	> 1.5 times < 1.8 times used as a caution	Measures the extent of the cash flow buffer a water business has to meet its debt obligations.
Secondary indicators — used only as contextual information to determine whether an adjustment is necessary			
Net Debt / Regulatory Asset Value (%) (Gearing)	$(\text{Interest bearing liabilities} - \text{cash}) / \text{RAV}$	< 70 per cent	Measures the debt component of the regulatory capital structure.
FFO / Net debt (%)	$\text{FFO} / (\text{Interest bearing liabilities} - \text{cash})$	> 10 per cent	Measures the extent to which the serviceability of debt is improving, remaining stable, or declining.
Internal financing ratio (%)	$(\text{FFO} - \text{dividends}) / \text{net capital expenditure}$	> 35 per cent	Measures the extent to which an entity has cash remaining to finance a prudent portion of capital expenditure after making dividends.

Notes: FFO refers to ‘funds from operations’ and RAV refers to the ‘regulatory asset value’. Regarding FFO interest cover, the commission believes the 1.8 times benchmark signals a need for caution from the business and closer observation by the commission in its price reviews and performance reporting. But until a business breaches or is forecast to breach the benchmark of 1.5 times, it is unlikely the commission would make a viability adjustment.

Required contents of a price review

3.22. Additional requirements

3.22.1. Executive summary

A price submission must contain a summary which outlines and brings together the key elements of its proposals. The summary should include:

- an overview of Goulburn-Murray Water's proposed prices
- indicative bill impacts of the proposed prices, by key Goulburn-Murray Water customer groups
- an overview of the outcomes proposed for Goulburn-Murray Water customers, including how services will change from previous levels
- Goulburn-Murray Water's nominated PREMO rating
- an attestation from the Goulburn-Murray Water board on the quality and accuracy of information provided in the price submission.

3.22.2. Board attestation

Our guidance requires the Goulburn-Murray Water board to attest to the quality of its price submission and its compliance with our guidance (in all material respects). Our reason for including the attestation is to promote board involvement and ownership of its business's proposals. This attestation, endorsed by a resolution of the board of directors, must be included in the price submission.

The form of the required attestation is as follows:

The directors of Goulburn-Murray Water having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2024 water price review:

- information and documentation provided in the price submission and relied upon to support Goulburn-Murray Water's price submission is reasonably based, complete and accurate in all material respects;
- financial and demand forecasts are Goulburn-Murray Water's best estimates, and supporting information is available to justify the assumptions and methodologies used; and
- the price submission satisfies the requirements of the 2024 water price review guidance paper issued by the Essential Services Commission in all material respects.

To support its PREMO rating, Goulburn-Murray Water may wish to make information on the procedures implemented available to us. This will ensure its price submission reflects the requirements of our guidance.

Required contents of a price review

The justification for Goulburn-Murray Water's final PREMO self-rating is always the sole responsibility of Goulburn-Murray Water, even if it engages a third party to review and advise on its proposed PREMO self-rating.

3.22.3. Financial model

Goulburn-Murray Water must complete the financial model template prepared by the commission to accompany its price submission. Goulburn-Murray Water's price submission must be consistent with the data provided in the financial model template.⁵⁸ Where there is any discrepancy between the price submission and the financial model template, we will rely on the data in the financial model template.

The financial model template will clearly identify the cells for which a Goulburn-Murray Water must provide data. Goulburn-Murray Water must not amend any other cells in the financial model template. This includes adding rows, columns, or information not requested by the commission.

The model will include a forecast inflation rate (refer to Section 3.13.1 for information on our approach to estimating forecast inflation). The inflation rate will be used to estimate components of the regulatory rate of return (see Section 3.10) and estimates for financial indicators (see Section 3.21).

We will provide the following values to Goulburn-Murray Water to enter into the financial model template at around end of April 2023:

- actual March quarter annual CPI value for 2023-24
- actual cost of debt value for 2022-23 and an updated estimate cost of debt value for 2023-24.⁵⁹

3.22.4. Requirement for reasonably-based information

All information contained in Goulburn-Murray Water's price submission (and financial model template – see Section 3.22.3) must be reasonably-based. All financial and demand related information must represent Goulburn-Murray Water's best available estimates at the time of finalising the submission.

⁵⁸ The financial model template requires Goulburn-Murray Water to provide detailed information on key assumptions underpinning its prices (such as expenditure estimates) so we can assess its proposal. The model also provides a mechanism for Goulburn-Murray Water to estimate its revenue allowance and prices. The model will require both historic and forecast data. Historic data must be consistent with Goulburn-Murray Water's regulatory accounts.

⁵⁹ We will replace the cost of debt estimate for 2022-23 with the actual value before making our final decision.

3.22.5. Basis upon which information is provided

All financial information, including prices, operating and capital expenditure, in Goulburn-Murray Water's price submission and financial model template must be in 2023-24 dollars, with the March quarter 2023 CPI as the base.

All reports, studies or any other materials (for example, research reports, policy documents, and cost benefit analysis or studies) which are relied upon in the price submission must be made available to the commission at lodgement or on request.

3.22.6. Confidentiality

We will publish Goulburn-Murray Water's price submission, financial model template and any supplementary information on our website. If there is information that Goulburn-Murray Water does not want disclosed publicly, due to confidentiality or commercial sensitivity, this should be discussed with commission staff before lodging the price submission. As per our submissions policy, we may require Goulburn-Murray Water to provide a redacted version for public disclosure on our website.⁶⁰

3.22.7. Accessibility

The commission intends to use the Engage Victoria platform for its consultation during Goulburn-Murray Water's 2024 water price review. If not addressed by Goulburn-Murray Water's price submission lodged with the commission, the water business must provide an accessible version of its price submission and supplements (public versions) **by 6 October 2023**.

3.22.8. Notification of changes to assumptions

During the price review, Goulburn-Murray Water must promptly advise us if it becomes aware of any event that may require substantial changes to the assumptions underpinning the proposals in its price submission. Goulburn-Murray Water must also explain the basis for any changes to assumptions, explain the impact on its proposals, and demonstrate compliance with relevant sections of the guidance.

In the event of any changes, Goulburn-Murray Water must promptly provide us with an updated financial model template, reconciling changes to the financial model template provided to the commission with its price submission as lodged on 29 September 2023.

⁶⁰ View our submissions policy at <https://www.esc.vic.gov.au/about-us/our-policies/our-submissions-policy>.

3.22.9. Non-prescribed services

While we have no role in regulating prices for non-prescribed services, we need to be satisfied that these services have been correctly classified as not related to regulated services, and that the costs of these services are accurately identified and excluded from the regulated cost base.

Goulburn-Murray Water's price submission must provide or reference information that demonstrates that the costs of non-prescribed services have been excluded from its expenditure and price calculations.

Where Goulburn-Murray Water identifies costs to deliver both prescribed and non-prescribed services, the business's price submission must justify the extent that costs are relevant to prescribed services, and should be recovered from customers through regulated prices.⁶¹

Our financial template will require further information on the costs and revenue of non-regulated services. The template will also allow Goulburn-Murray Water to lower customer prices by using revenue from these activities to offset its regulated revenue requirement.

⁶¹ Prescribed services are set out in WIRO, clause 7(b).

Appendix A – Approach for making a price determination

Excerpt from Water Industry Regulatory Order 2014.

WIRO clause 14

- a) In making a price determination the Commission may 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) The Commission may only specify the maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated, if:
 - i. the price submission of the regulated entity does not, in the Commission's opinion, comply with the guidance provided by the Commission under clause 13 or have adequate regard for the matters specified in clause 11; or
 - ii. the regulated entity failed to submit a price submission to the Commission within the time period specified for this by the Commission.

Appendix B – Matters to include in guidance

Excerpt from Water Industry Regulatory Order 2014 with references to the *Essential Services Commission Act 2001* (Vic).

WIRO clause 13(a)

Before making a price determination and following consultation, including with the relevant regulated entity, the Commission must provide guidance to the regulated entity setting out:

- i. the manner in which the Commission proposes to regulate the prices which the regulated entity may charge for prescribed services for the regulatory period consistent with section 33(5) of the ESC Act and this Order;
- ii. the approach and methodology which the Commission proposes to adopt to assess a price submission and make a price determination for the regulatory period consistent with section 33(2) of the ESC Act and this Order;
- iii. the Commission's expectations of the nature and scope of matters to be addressed by the regulated entity in its price submission;
- iv. the Commission's expectations regarding customer consultation by the regulated entity in developing its price submission;
- v. the Commission's expectations of the information required to be provided by the regulated entity to enable the Commission to make a price determination;
- vi. the timing and processes the Commission proposes to follow in making a price determination consistent with section 35 of the ESC Act and the Commission's Charter of Consultation and Regulatory Practice;
- vii. the date by which the regulated entity is to deliver its price submission to the Commission; and
- viii. any other matter that the Commission considers should be included in the guidance provided to the regulated entity or in the regulated entity's price submission.

Appendix C – Matters Goulburn-Murray Water and the commission must have regard to

Excerpts from Water Industry Regulatory Order 2014, the *Essential Services Commission Act 2001* (Vic), and the *Water Industry Act 1994* (Vic).

Economic efficiency and viability matters	Industry/business specific matters
<ul style="list-style-type: none"> • promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO] • promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO] • provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO] • efficiency in the industry and incentives for long term investment [s 8A(1)(a), ESC Act] • efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s 33(3)(b), ESC Act] • financial viability of the industry [s 8A(b)(1), ESC Act] 	<ul style="list-style-type: none"> • particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s 33(3)(a), ESC Act] • return on assets in the regulated industry [s 33(3)(c), ESC Act] • ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s 4C(b), WI Act]
Benchmarking	Health, safety and social obligations
<ul style="list-style-type: none"> • any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s 33(3)(d), ESC Act] 	<ul style="list-style-type: none"> • the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act] • to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation)

and social obligations of regulated entities [s 4C(c), WI Act]

Customer matters	Other
<ul style="list-style-type: none">• in performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers [s 8(1), ESC Act] without derogating from that objective. The Commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s 8(2), ESC Act]• enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO]• provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO]• take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]	<ul style="list-style-type: none">• the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s 8A(1)(c), ESC Act]• consistency in regulation between States and on a national basis [s 8A(1)(f), ESC Act]• the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities [s 8A(1)(e), ESC Act]• wherever possible, to ensure that the costs of regulation do not exceed the benefits [s 4C(a), WI Act]

Appendix D – Risk management

Types of risk

Water businesses face a range of risks, both within and outside of their control, as set out in the following table.

Risk	Example of the risk and mitigation strategies
Inflow	An inability for Goulburn-Murray Water to meet customer demand due to extended low rainfall and inflows.
Demand forecasting	Actual customer demand during a regulatory period differs materially from the forecasts. It can be mitigated through effective demand forecasting and scenario modelling, variable tariff structures, or the form of price control.
Operational	Goulburn-Murray Water experiencing a breach of environmental or customer performance standards, which can result from inadequate processes within water businesses, asset failures or external factors. Goulburn-Murray Water can manage these risks through managing operating policies, capital investment, maintenance policies, contracts and insurance.
Construction	Underestimating costs or project delays. Goulburn-Murray Water can manage these risks through effective forecasting and contract management, as well as including contingency allowances in cost forecasts. Including cost contingencies in water revenue allowances transfers risk of project cost overruns to customers. Goulburn-Murray Water should also factor in reasonable timelines for approval processes.
Regulatory and policy	Changes in laws and regulations that materially affect the costs or revenue potential of Goulburn-Murray Water, and are typically mitigated via a pass-through mechanism.
Financial	Arise from factors which affect the whole economy, such as rising interest rates or economic downturn. These risks are reflected in the cost of debt which forms part of the regulatory rate of return.
Business	Loss of revenue due to new technology or a change in the competitive landscape. Goulburn-Murray Water can mitigate some of these risks through innovative business practices and continually seeking cost efficiencies.

Regulatory risk mitigation tools

The regulatory regime established through the WIRO and developed in detail through previous reviews generally identifies, categorises and allocates risk in accordance with standard principles and seeks to provide efficiency incentives to Goulburn-Murray Water. The regulatory framework provides the following tools to mitigate or manage risk:

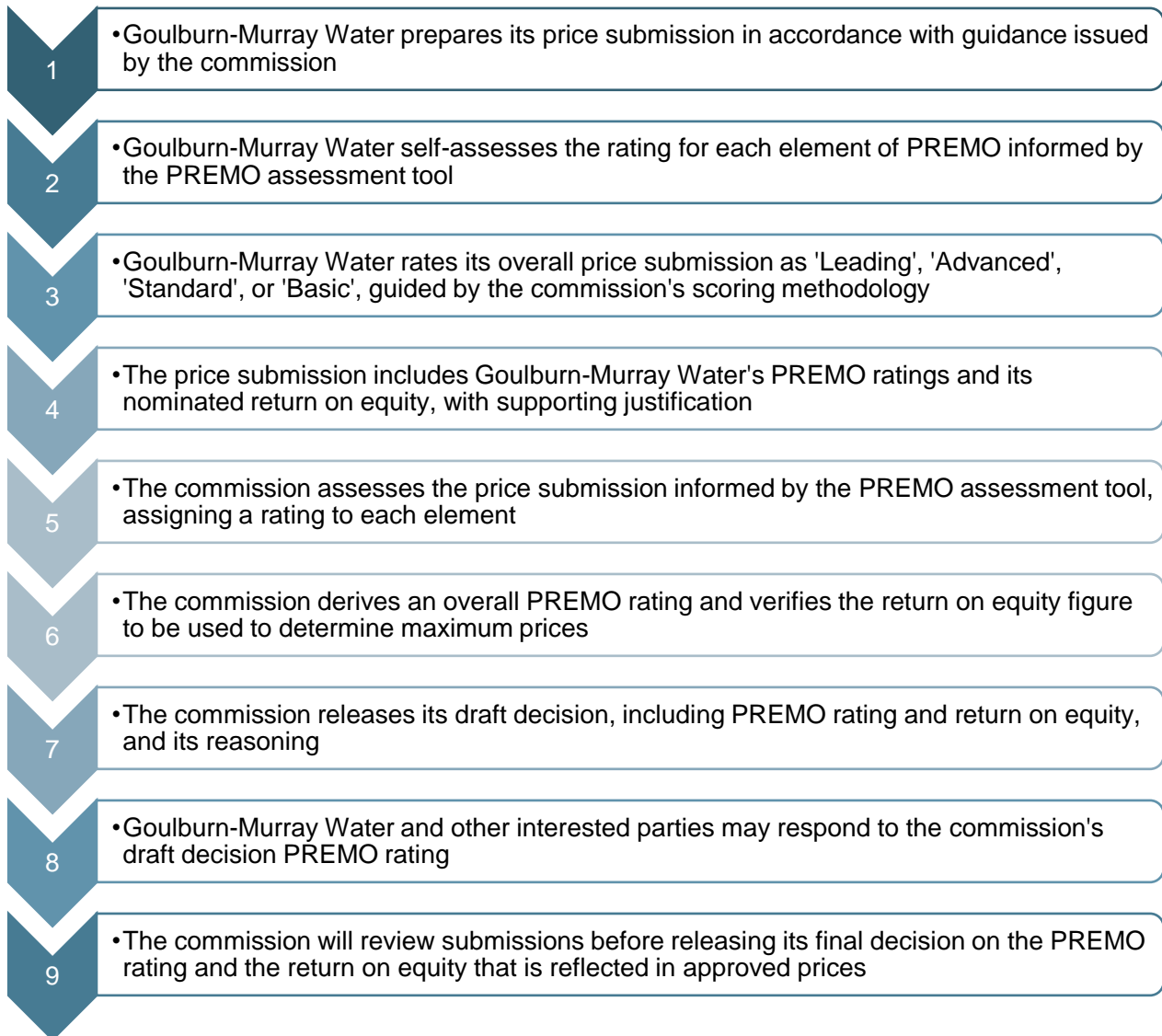
Mitigation tool	Description	In this guidance
Recovery of forecast operating and capital expenditure	The forecast expenditure contained within the price submission must be consistent with the risk allocation and incentives provided within the regulatory framework. Therefore, it is important that forecasts are prepared on this basis. Where Goulburn-Murray Water seeks recovery of costs for managing risks, we expect it to demonstrate the need for this and provide supporting information in its price submission.	Sections 3.8 and 3.9
Indexation of prices	This ensures that Goulburn-Murray Water remains fully responsible for management of controllable costs, and that it does not need to bear the full risk associated with general price inflation. We note there are also annual tariff adjustments to reflect movements in annual inflation.	Section 3.13.1
Rate of return	This provides compensation for non-diversifiable risk.	Section 3.10
Form of the price control	The commission notes that the form of price control can assist in managing the risk that actual demand varies from forecast demand.	Section 3.18
Tariff structures	We set guiding principles for new tariff structures. The impacts of any shift in the mix of service and variable charges in tariffs on risk sharing between the Goulburn-Murray Water and its customers will need to be addressed in the price submission.	Section 3.19
Length of the regulatory period	A shorter regulatory period can reduce the risk of forecasting uncertainty.	Section 3.2
Pass-through mechanisms	Significant uncertainties that materially affect Goulburn-Murray Water and that occur within the regulatory period are generally treated as pass-through events. These events must be clearly identified in the price determination. The uncertain or unforeseen events mechanism established by the commission for the 2008 and 2009 water price reviews provides another option for managing and mitigating risks, subject to certain criteria.	Section 3.20

Appendix E – Establishing a PREMO rating

PREMO rating process

The steps for Goulburn-Murray Water and the commission to establish the PREMO rating for the business's price submission is outlined in Figure A.⁶²

Figure A Process for rating a price submission



⁶² For further information, see Essential Services Commission 2016, Assessing and rating PREMO price submissions: A consultation paper prepared by commission staff, October, pp. 5–7.

PREMO assessment tool

The PREMO assessment tool provides the following:

- A set of guiding questions for rating price submissions. These will help businesses understand what evidence and justification we expect.
- Examples to demonstrate what might constitute 'Leading', 'Advanced', 'Standard' or 'Basic' ambition for the PREMO elements.

The assessment tool **does not** provide an exhaustive list of what may be considered by Goulburn-Murray Water or the commission in arriving at a price submission rating. Businesses may provide further arguments to support their ratings. If Goulburn-Murray Water considers that it does not meet one of the examples in the tool for a given rating, this does not mean it cannot achieve that overall rating, as it should consider on-balance how it meets the guiding questions.

The PREMO assessment tool is provided in the following pages for the Risk, Engagement, Management and Outcomes elements of PREMO.

Performance element

We will not assess or rate the Performance element as part of this 2024 water price review.

Risk

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
<p>To what extent has Goulburn-Murray Water demonstrated a robust process for identifying risk, and how it has decided who should bear these risks? That is, customers are not paying more than they need to.</p> <p>To what extent does the proposed guaranteed service level (GSL) scheme provide incentives for Goulburn-Murray Water to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?</p>	<p>Goulburn-Murray Water has not met the requirements of the commission's Guidance Paper in relation to risk.</p> <p>Goulburn-Murray Water has sought to transfer risk to customers which is not supported by customer views.</p> <p>Goulburn-Murray Water has not sought to minimise cost and/or price impacts from risk management.</p>	<p>Goulburn-Murray Water meets the requirements of the commission's Guidance Paper in relation to risk.</p>	<p>Goulburn-Murray Water has implemented a new approach that reduces prices through better risk management, or through accepting risk on behalf of customers.</p>	<p>Goulburn-Murray Water has implemented an approach that reduces costs through better risk management, to a level that sets it apart from industry peers.</p> <p>In its price submission, Goulburn-Murray Water proposes correction mechanisms to adjust the return on equity where its performance does not meet the outcomes established at the price review.</p>
	<p>Goulburn-Murray Water cannot demonstrate compliance with risk standards specified in the Statement of Obligations.</p>	<p>Goulburn-Murray Water demonstrates compliance with risk standards specified in the Statement of Obligations (e.g. ISO 55000).</p>	<p>Goulburn-Murray Water has been accredited for compliance with risk standards specified in the Statement of Obligations.</p>	
	<p>Proposed projects have incomplete scope, no business cases, or are not feasible in terms of timelines for delivery.</p>	<p>Goulburn-Murray Water can demonstrate that it has thoroughly evaluated the feasibility of commencement and completion dates for major projects. Business cases are available for all major projects.</p>	<p>Goulburn-Murray Water can demonstrate a robust optimisation process that has informed what projects need to be completed, and the timing of those projects. For example, real options analysis has informed planning and ability to adapt to changing circumstances (for example, variations in demand from forecast) and is evident in proposals.</p>	
	<p>Goulburn-Murray Water cannot demonstrate that its aggregate capital expenditure forecasts are consistent with a P50 estimate (noting this is likely not to be appropriate where a business's capital program is dominated by one or two projects).</p>	<p>Goulburn-Murray Water has undertaken a Monte Carlo analysis for all major projects.</p> <p>Goulburn-Murray Water can demonstrate that its aggregate capital expenditure forecasts are consistent with a P50 estimate (noting this is likely to be inappropriate where a program is dominated by one or two projects). The estimate must be based on the latest credible information on costs.</p>		

Continued on the following page

Risk

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
		<p>Goulburn-Murray Water uses regulatory tools such as the pass through and uncertain or unforeseen events mechanisms where appropriate for projects with uncertain timing or costs.</p> <p>Goulburn-Murray Water has evaluated whether major projects should be funded via capital or operating expenditure for pricing purposes.</p>		
		Goulburn-Murray Water continues without a GSL scheme or has proposed a GSL scheme that is on par with those of industry peers.	<p>Goulburn-Murray Water has proposed a GSL scheme to provide greater service accountability to customers, or to provide increased incentives to deliver services efficiently.</p> <p>Goulburn-Murray Water has proposed a GSL scheme that compares favourably to industry peers in terms of incentives to deliver services efficiently.</p>	
	Goulburn-Murray Water adopts assumptions that seek to maximise unit rates proposed.	The unit rates used to evaluate projects and options reflect recent historical trends, and/or independently verified market forecasts.		
	Goulburn-Murray Water cannot support its assessment of financial viability by reference to cash flow projections and independent benchmarks (for example, credit rating metrics).	Goulburn-Murray Water can support its assessment of financial viability by reference to cash flow projections and independent benchmarks (for example, credit rating metrics).	Goulburn-Murray Water has had its financial position reviewed by an independent credit ratings agency.	
	The form of price control and/or tariffs over allocates risk to customers (for example, higher fixed tariffs versus variable may reflect a business putting more volume risk on its customers).	Through the form of price control and tariffs proposed, the submission appropriately balances revenue and cost risk between Goulburn-Murray Water and its customers, without materially impacting on price stability (for example, higher variable tariffs versus fixed may reflect a business taking on greater volume risk on behalf of customers).		

Engagement

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
<p>To what extent has Goulburn-Murray Water justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers?</p> <p>To what extent has Goulburn-Murray Water demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement?</p> <p>To what extent has Goulburn-Murray Water demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?</p> <p>To what extent has Goulburn-Murray Water explained how it decided when to carry out its engagement?</p> <p>To what extent has Goulburn-Murray Water demonstrated how its engagement with customers has influenced its submission?</p>	<p>The form of customer engagement is not justified as being fit for purpose given the content and circumstances facing Goulburn-Murray Water and its customers.</p> <p>Information provided to customers was written in technical jargon, and/or was not appropriate for customer use.</p> <p>Goulburn-Murray Water provided selective or incomplete information to customers that biased the responses or did not provide sufficient context for customer input.</p> <p>Engagement has not occurred on matters that are important to customers or significant to the outcomes they receive and prices they are charged.</p>	<p>The form of customer engagement is justified as being fit for purpose given the content and circumstances facing Goulburn-Murray Water and its customers. For example, information was appropriate, participants had time to learn about the issues, form opinions, and influence Goulburn-Murray Water's proposals. Methods supported inclusion and effective participation.</p> <p>Goulburn-Murray Water demonstrates that the information provided to customers was appropriate given the purpose, form and content of customer engagement.</p> <p>Goulburn-Murray Water demonstrates that engagement has occurred on matters that customers reveal are the most important to them.</p>	<p>The onus is on Goulburn-Murray Water to make the case as to why it might rate its customer engagement as Advanced or Leading. This justification could be based on the following elements:</p> <ul style="list-style-type: none"> • Unbiased feedback about the appropriateness of the engagement given the context and quality of the engagement program it delivered. For example, independent participant reviews, or demonstrated use of independent chairpersons. • Participants in the engagement program provide feedback that Goulburn-Murray Water has delivered on the engagement commitments given by the business (for example, on what matters would participants provide feedback, and the influence they would have on business decisions). • The level of customer influence on proposals. A strong alignment between Goulburn-Murray Water's proposals and the preferences and interests elicited in its engagement program would correspond to a higher rating. This includes undertaking engagement in a way that gives customers a strong voice or helps to overcome power imbalances. • The level and quality of participation of people who are experiencing vulnerability, or whose vulnerability might be exacerbated as a result of the outcomes of the price submission. • The level and quality of involvement of First Nations people in matters that affect them. 	

Continued on the following page

Engagement

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
<p>To what extent has Goulburn-Murray Water demonstrated that its engagement was inclusive of consumers experiencing vulnerability?</p>	<p>Engagement was undertaken late, after Goulburn-Murray Water had developed its key strategies and priorities.</p>	<p>Goulburn-Murray Water demonstrates that engagement was undertaken early, prior to locking in key strategies and priorities.</p>		
<p>To what extent has Goulburn-Murray Water demonstrated that its engagement was inclusive of First Nations people?</p>	<p>Goulburn-Murray Water has failed to demonstrate that its engagement program elicited information that it could use to shape the strategic direction and priorities in its price submission.</p> <p>Goulburn-Murray Water has not retested its position and proposals with customers as it developed its price submission.</p>	<p>Goulburn-Murray Water demonstrates it used engagement methodologies that elicit views that are representative of the customer base.</p> <p>Goulburn-Murray Water demonstrates that it re-tested its position and proposals with customers as it developed its price submission.</p>		
	<p>The price submission does not clearly link the outcomes of engagement to the outcomes proposed, and the alignment of outcomes to expenditure and prices.</p>	<p>The price submission describes what was learned from customer engagement, and how this influenced its proposed outcomes, expenditure (composition and level) and prices.</p>		
	<p>Goulburn-Murray Water has not provided reasonable justification for instances where its proposed outcomes are not consistent with customer views.</p>	<p>In any instances where outcomes proposed are not consistent with customer views, Goulburn-Murray Water provides reasonable justification.</p>		

Management

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
<p>To what extent has Goulburn-Murray Water demonstrated how its proposed prices reflect only prudent and efficient expenditure?</p> <p>To what extent has Goulburn-Murray Water justified its commitment to cost efficiency or productivity improvements?</p> <p>To what extent has Goulburn-Murray Water justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?</p> <p>To what extent has Goulburn-Murray Water provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?</p> <p>To what extent has Goulburn-Murray Water demonstrated its price submission is an “open book”?</p>	<p>Goulburn-Murray Water has not proposed productivity improvements.</p> <p>Forecast operating expenditure incorporates a rate of efficiency improvement that is below the average rate for a Standard rated business at the 2018 water price review.</p> <p>Proposals relating to major expenditure changes, projects or reforms are not adequately supported by multiple and independent measures to support justification.</p>	<p>Forecast operating expenditure incorporates a rate of efficiency improvement equivalent to the average rate of a Standard rated business at the 2018 water price review (approximately 1.4% pa).</p> <p>Multiple and independent measures are used to support justification for the prudence and efficiency of major expenditure changes, projects or reforms.</p> <p>The price submission/expenditure forecasts include delivery of government policy commitments (reflected at efficient cost).</p>	<p>Goulburn-Murray Water has proposed a significant improvement in the cost efficiency of the services delivered.</p> <p>Forecast operating expenditure incorporates a rate of efficiency improvement equivalent to the average rate of an Advanced rated business at the 2018 water price review (approximately 1.9% pa) Alternatively, evidence is provided that demonstrates Goulburn-Murray Water is at or near to the efficiency frontier for the sector.</p> <p>The operating expenditure forecast places Goulburn-Murray Water well ahead of the industry average in terms of cost efficiency.</p>	<p>Goulburn-Murray Water has proposed a very significant improvement in the cost efficiency of the services delivered.</p> <p>Forecast operating expenditure incorporates a rate of efficiency improvement that is significantly above the average rate of an Advanced rated business at the 2018 water price review. Alternatively, evidence is provided that demonstrates Goulburn-Murray Water is a leader in relation to operating at the efficiency frontier for the sector.</p> <p>Forecast operating expenditure incorporates a rate of efficiency improvement that places Goulburn-Murray Water as a leader in the industry.</p> <p>The operating expenditure forecast places Goulburn-Murray Water as a leader in the industry in terms of cost efficiency.</p>
	<p>Goulburn-Murray Water has not provided timely access to robust business cases that validate the basis for all major projects and capital programs.</p> <p>Goulburn-Murray Water has not proposed efficiency improvements in relation to its capital renewals program.</p>	<p>Goulburn-Murray Water can provide business cases and justification for all major projects and capital programs, including evidence that a range of options have been considered.</p> <p>Forecast depreciation adopts a straight-line calculation approach. Alternative approaches are clearly justified.</p>	<p>Goulburn-Murray Water has proposed a significant improvement in the efficiency of its capital program.</p>	<p>Goulburn-Murray Water has proposed a very significant improvement in the efficiency of its capital program.</p> <p>The rate of improvement in capital expenditure efficiency places Goulburn-Murray Water as a leader in the industry.</p>

Continued on the following page

Management

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
	The Board of Directors has not attested that that it has undertaken appropriate internal procedures to assure themselves of the quality and accuracy of their price submission. The attestation included in the commission's guidance is not included with the price submission.	The Board of Directors has attested that it has undertaken appropriate internal procedures to assure themselves of the quality and accuracy of their price submission. The attestation included in the commission's guidance is provided with the price submission.		
	The price submission does not address all requirements set out in the commission's guidance.	The price submission addresses all requirements specified in the commission's guidance.		
	The price submission and its supporting documents contain errors and/or omissions of sufficient concern to the commission.	The price submission and its supporting documents contain no material or obvious errors or omissions.		
	The financial model template is incomplete and/or inconsistent with the price submission.	The financial model template provided to the commission is completed with no material error and requires minimal adjustment by us. The financial model template is consistent with the written price submission.		
	The price submission and supporting information are provided to the commission after the time requested.	The price submission and supporting information are provided to the commission by the time requested.		
	The price submission is contradictory across main elements of the submission (for example, there is inconsistency between Goulburn-Murray Water's demand forecasts and capital works program).	The price submission is internally consistent, demonstrating alignment between different elements of the price submission (for example, there is consistency between the outcomes proposed, and demand and expenditure forecasts).		

Continued on the following page

Management

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
	<p>Forecasts for expenditure (including benchmarks for labour, energy and construction costs) and demand are not based on sound methodologies and assumptions.</p>	<p>Forecasts for expenditure (including benchmarks for labour, energy and construction costs) and demand are based on sound methodologies and assumptions.</p>		
	<p>Goulburn-Murray Water has not provided evidence that it has actively sought to reprioritise its expenditure plans to mitigate the cost and price impacts of any new obligations (whether imposed by government or technical regulator, or to address a new service priority revealed through engagement).</p>	<p>Goulburn-Murray Water can demonstrate that it has actively sought to reprioritise its expenditure plans to mitigate the cost and price impacts of any new obligations (whether imposed by government or technical regulator, or to address a new service priority revealed through engagement).</p>		
	<p>Goulburn-Murray Water has not proposed adequate mitigation strategies to avoid any price shocks.</p>	<p>Goulburn-Murray Water has proposed adequate mitigation strategies to avoid any price shocks.</p>		
	<p>Goulburn-Murray Water has not provided timely access to meaningful and robust supporting documentation, on request from the commission.</p>	<p>Goulburn-Murray Water retains meaningful and robust supporting documentation to justify its proposals, with ongoing access available to the commission.</p>		
	<p>Goulburn-Murray Water is not transparent in providing information to the commission on stakeholder views, or any other information or assessments that may be relevant to the assessment of key initiatives or proposals.</p>	<p>Goulburn-Murray Water is transparent in providing information to the commission on stakeholder views or other information or assessments that may be relevant to the assessment of key initiatives or proposals.</p>		

Outcomes

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
<p>Has Goulburn-Murray Water provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?</p> <p>Has Goulburn-Murray Water provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?</p> <p>Has Goulburn-Murray Water proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?</p> <p>Has Goulburn-Murray Water provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?</p> <p>Has Goulburn-Murray Water demonstrated a process to measure performance against each outcome and to inform customers?</p>	<p>Goulburn-Murray Water has proposed degradation in customer outcomes, not justified or supported by customer feedback. This represents a reduction in customer value.</p> <p>Outcomes are not defined in ways that reflect the customer service experience.</p> <p>Goulburn-Murray Water has proposed outputs that are not appropriate measures of performance for each outcome proposed. Measures and deliverables are not clearly defined.</p>	<p>The outcomes proposed are broadly consistent with existing levels of service provided to customers.</p> <p>All outcomes proposed have been defined in ways that reflect the customer service experience.</p> <p>Goulburn-Murray Water has proposed outputs that are appropriate measures of performance for each outcome proposed. Measures and deliverables are clearly defined and unambiguous.</p>	<p>The outcomes proposed reflect a significant improvement in customer value delivered. This might be demonstrated by significant improvements in output targets (or performance measures) for outcomes that matter most to most customers, or similar targets at significantly lower prices.</p> <p>Goulburn-Murray Water proposes outcomes that are well ahead of the industry average or Goulburn-Murray Water's own past performance (measured by reference to output targets).</p>	<p>The outcomes proposed reflect a very significant improvement in customer value delivered.</p> <p>Goulburn-Murray Water proposes outcomes that lead the industry.</p>

Continued on the following page

Outcomes

Guiding questions	Examples for a Basic submission	Examples for a Standard submission	Examples for an Advanced submission	Examples for a Leading submission
	<p>The outcomes proposed do not clearly reflect customer preferences and priorities revealed through engagement.</p>	<p>The outcomes proposed have been prioritised by Goulburn-Murray Water in terms of importance to customers as revealed through customer engagement. Goulburn-Murray Water's expenditure forecasts reflect the prioritisation of outcomes.</p>		
	<p>Where applicable, Goulburn-Murray Water has not explained or justified why outcomes proposed are not consistent with customer preferences and priorities.</p>	<p>Where applicable, Goulburn-Murray Water has explained or justified why outcomes proposed are not consistent with customer preferences and priorities.</p>		
	<p>The level and composition of forecast expenditure is inconsistent with the outcomes proposed.</p> <p>The expenditure profile has not changed to reflect customer priorities.</p>	<p>The level and composition of forecast expenditure is consistent with the outcomes proposed.</p> <p>The expenditure profile has changed where required to reflect customer priorities.</p>		
	<p>Goulburn-Murray Water has not committed to a process for monitoring and reporting to customers on its performance against outcomes.</p>	<p>Goulburn-Murray Water has an established customer performance reporting approach that is targeted to customer needs, including across different regions and customer types.</p>	<p>The performance reporting approach is justified as being well ahead of peers in terms of accessibility, transparency and information provided to customers on performance.</p>	

An approach to establishing a PREMO rating

We have developed a scoring methodology to assist Goulburn-Murray Water in rating its price submission against the four elements of PREMO and to rate its overall price submission. We have provided the following scoring methodology as a guide to accompany the PREMO assessment tool. It is not mandatory that Goulburn-Murray Water uses the scoring methodology to rate its price submission.⁶³

Weighting

Goulburn-Murray Water should give equal weighting to all four elements — Risk, Engagement, Management and Outcomes — when establishing an overall PREMO price submission rating.

Scoring and assessment tool

It is not an expectation that Goulburn-Murray Water rate or allocate a score against all the matters listed in the PREMO assessment tool, as these are provided as examples of the matters that should be considered. Rather, these examples should be used to guide the rating or score for each of the four PREMO elements.

The scoring methodology is predicated on the level of confidence with which Goulburn-Murray Water or the commission considers that an element of PREMO meets a particular ambition rating.

Table B summarises possible scores for each element of PREMO graded by confidence level. The component scores for each element of PREMO would be aggregated to inform an overall price submission rating.

Further to the above, to achieve a given PREMO price submission rating, no individual element should be rated lower than 'very confident' in a lower rating category, if applicable. For example, a price submission should not be rated 'Standard' if any element is scored lower than 1.5 (very confident the element is 'Basic'). The same principle would apply to other levels of ambition.

⁶³ We do not allocate a score against all the matters listed in the PREMO assessment tool when we assess a water business's price submission.

Table B An approach to scoring for an overall PREMO rating

Rating	Possible scores for each element of PREMO		Aggregated score for overall PREMO ratings
Leading	4	Very confident the element is 'Leading'	15.5 to 16
	3.75	Confident the element is 'Leading'	
Advanced	3.5	Very confident the element is 'Advanced'	11.5 to 15.25
	3.25	Confident the element is 'Advanced'	
	3	Satisfied the element is 'Advanced'	
	2.75	Reasonably confident the element is 'Advanced'	
Standard	2.5	Very confident the element is 'Standard'	7.5 to 11.25
	2.25	Confident the element is 'Standard'	
	2	Satisfied the element is 'Standard'	
	1.75	Reasonably confident the element is 'Standard'	
Basic	1.5	Very confident the element is 'Basic'	4 to 7.25
	1.25	Confident the element is 'Basic'	
	1	Satisfied the element is 'Basic'	

To reiterate, the scoring methodology outlined in Table B is only a guide. We will assess Goulburn-Murray Water’s reasoning for its overall price submission PREMO rating. The score shown in Table B is not justification alone for a particular price submission rating. Similarly, Goulburn-Murray Water ultimately has the discretion to select any PREMO price submission rating, even if it may not correspond with an aggregated score.

Appendix F – Submissions received on our draft guidance

Date	Name or organisation
19 July 2022	C and J Reid
18 July 2022	Unregulated Domestic and Stock Water Users
17 July 2022	R Hall
22 July 2022	Goulburn-Murray Water
22 July 2022	Lower Murray Water Strategic Advisory Committee