

18 February 2015

Our ref: C/15/1090

Mr John Calleja
Acting Managing Director
Goulburn-Murray Water
PO Box 165
Tatura VIC 3616

Dear Mr Calleja



G-MW PRICE REVIEW – WIRO GUIDANCE

I am writing to consult with Goulburn-Murray Water on the guidance for the 2016 price review for services (groundwater and some miscellaneous services) covered by the Water Industry Regulatory Order 2014 (WIRO). The proposed guidance is attached to this letter.

As you are aware, the Commission has already released a Guidance Paper for services covered by the Water Charge (Infrastructure) Rules (WCIR). The Commission has sought, to the extent possible, to align the guidance under the WIRO with the Guidance Paper under the WCIR in order to minimise regulatory cost to G-MW.

The Commission welcomes comment from G-MW by 6 March 2015 after which we will finalise and release the guidance.

We will place this letter and the attachment on our website and invite public comment. If your staff wish to discuss this consultation, please contact Jason Fitts on 9032 1335.

Yours sincerely



David Heeps
Chief Executive Officer

1.1 INTRODUCTION

The purpose of this paper is to consult with stakeholders on the Commission's proposed guidance for Goulburn-Murray Water's (G-MW) 2016 water price review. We will consider feedback prior to releasing a final guidance paper in March 2015. This draft guidance covers the Commission's minimum requirements for the information in G-MW's price submission for the regulatory period 1 July 2016 – 30 June 2020 for regulated services covered by the Water Industry Regulatory Order 2014 (WIRO).

Recent changes to the WIRO require the Commission to issue guidance covering a range of matters to inform G-MW's price submission, and to consult prior to issuing guidance. The matters we must address in our guidance are provided at Box 1.1. The Commission has already released a Guidance Paper for services covered by the Commonwealth Water Charge (Infrastructure) Rules (WCIR) in which it committed to releasing additional guidance once changes to the WIRO had been finalised.

Although most of G-MW's services are regulated under the WCIR, a small proportion of G-MW's revenue is derived from non-infrastructure related miscellaneous services, and groundwater services covered by the WIRO. This guidance covers these services.

While complying with the WIRO, the Commission aims to promote administrative simplicity and minimise any regulatory cost that might arise from G-MW being regulated under two regulatory systems, particularly given that the WIRO covers such a small proportion of G-MW's regulated services. To achieve this, the Commission seeks, where possible, to align the regulatory requirements in this guidance with those in the guidance issued in 2014 under the WICR. In most cases, similar objectives and principles of the two systems of regulation, particularly ensuring customer engagement and prudent and efficient prices, will mean this will not be difficult to achieve. The decision to approve charges associated with services covered by the WIRO will be made in accordance with clauses 10 and 11 of the WIRO.

1.2 HOW TO PROVIDE FEEDBACK

Stakeholders may wish to provide feedback on this guidance before the Commission finalises it. Written comments received by 13 March 2015 will be considered by the Commission.

We would prefer to receive written comments by email to water@esc.vic.gov.au.

You can also send comments by mail to:

Water Team

Essential Services Commission

Level 37, 2 Lonsdale Street

Melbourne VIC 3000

The Commission's normal practice is to publish feedback on our website. If you do not wish us to disclose information publicly, please provide a confidential version and a version that is suitable for publication.

13. Commission guidance and price submission

- (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.
- (b) The Commission may at any time vary or add to the guidance provided to the relevant regulated entity following consultation, including with the regulated entity.

1.3 MANNER OF REGULATING PRICES

The Commission proposes to continue with price caps for groundwater services and pricing principles for miscellaneous services, as was adopted at G-MW's last price review. If G-MW is exploring changing its form of price control, it is expected to discuss this with customers and the Commission as soon as possible. Any change in approach will need to be justified in its price submission in accordance with the WIRO framework.

1.4 APPROACH AND METHODOLOGY

For this price review, the Commission proposes to use the building block methodology it applied at G-MW's last price review.¹ The approach aligns with the approach adopted for G-MW's services under the WCIR. The building block methodology sets revenue to reflect efficient costs of service provision. Further, it provides for the financial viability of the regulated business. Thus, it is consistent with the efficiency and financial viability requirements in the WIRO.

1.5 NATURE AND SCOPE OF PRICE SUBMISSION

G-MW's price submission must provide sufficient information for the Commission to assess G-MW's proposals for services, expenditure, revenue and tariffs. A significant amount of the information we require should be readily available to G-MW, and should be relevant for other purposes such as corporate planning or project justification and prioritisation. Consequently the price review process seeks to minimise the costs of our review for G-MW.

¹ The Commission will consider alternatives to the building block methodology in a consultative process this and next year. This process will not affect G-MW's price review.

1.6 G-MW'S CONSULTATION ON PRICE SUBMISSION

G-MW must consult with its customers during the development of its price submission. The Commission will assess all G-MW's proposals on the basis of whether or not G-MW has consulted thoroughly with customers, particularly with those affected by proposals.

To facilitate our assessment, G-MW's price submission must detail the nature and extent of its consultation processes, including matters on which it has consulted, and customers' responses. The Commission may reject parts of G-MW's price submission if it considers that consultation was unsatisfactory.

1.7 INFORMATION REQUIREMENTS OF PRICE SUBMISSION

G-MW's price submission needs to explain and justify its proposed prices. The submission must, among other things demonstrate how G-MW has had regard to the matters in clause 11 of the WIRO, while giving emphasis to matters related to economic efficiency and financial viability (consistent with clause 8 of the WIRO).

The submission should provide stakeholders with a clear understanding of G-MW's price proposals and provide sufficient information for the Commission to analyse and review its proposals. G-MW should consider the needs of different stakeholders that are likely to have an interest in its submission. For example, customer committees and customers must be consulted on issues such as prices and levels of service.

G-MW will be required to complete a financial model based on the one used at the last price review, and include the model with its price submission. The model should separate out groundwater costs from G-MW's other services. G-MW is required to provide the stand-alone prudent and efficient costs associated with providing groundwater services. All financial values in G-MW's price submission and financial model must be in real 2015-16 dollars (with the March quarter 2015 CPI as the base). G-MW's written submission and its financial model must be consistent. G-MW should submit financial data for its groundwater services on a stand-alone basis to enable the Commission to assess their cost reflectivity.

Any changes made by G-MW to its proposals during the price review must be reflected by G-MW in its financial model. Any adjustments to the model made by G-MW must be explained to the satisfaction of the Commission. The Commission will retain discretion not to incorporate any adjustments to G-MW’s financial model in our assessment of prices if the reasons for the changes are unclear or not justified.

1.8 DUE DATE AND TIMING AND PROCESSES

An indicative timetable for the price review consultation process is set out in table 1.1. The timetable updates the one in G-MW’s earlier guidance following the Commission’s approval of G-MW’s application to extend its deadline for its price submission until 31 August 2015.

TABLE 1.1 INDICATIVE CONSULTATION TIMETABLE

<i>Indicative Dates</i>	<i>Activity</i>
31 August 2015	Final price submission submitted to ESC
September 2015 to January 2016	ESC assesses the price submission and G-MW responds to Commission and consultant queries
February 2016	ESC releases Draft Decision
February to April 2016	ESC consultation on Draft Decision
May 2016	ESC releases Final Decision