

Goulburn-Murray Water draft decision

2020 Water Price Review

11 March 2020



An appropriate citation for this paper is:

Essential Services Commission 2020, Goulburn-Murray Water draft decision: 2020 Water Price Review, 11 March

Copyright notice

© Essential Services Commission, 2020



This work, Goulburn-Murray Water draft decision, is licensed under a Creative Commons Attribution 4.0 licence [creativecommons.org/licenses/by/4.0]. You are free to re-use the work under that licence, on the condition that you credit the Essential Services Commission as author, indicate if changes were made and comply with the other licence terms.

The licence does not apply to any brand logo, images or photographs within the publication.

Contents

Summary	iii
1. Our role and approach to water pricing	1
2. Our assessment of Goulburn-Murray Water's price submission	3
3. Customer engagement	5
4. Service standards and targets	7
5. Operating expenditure	9
6. Capital expenditure	17
7. Revenue requirement	21
8. Demand	29
9. Form of price control	33
10. Irrigation and drainage tariffs	35
11. Diversion services	43
12. Bulk storage charges	47
13. Service point fees	51
14. Other tariff reform	59
15. Miscellaneous service charges	63
16. We invite feedback on our draft decision	65
Appendix A: Stakeholder submissions	67
Appendix B: Service standards	68

Summary

In November 2019, Goulburn-Murray Water provided a submission to us proposing prices for a four-year period starting 1 July 2020

This draft decision sets out our views on Goulburn-Murray Water's price submission.^{1 2} This paper should be read in conjunction with Goulburn-Murray Water's price submission.

Goulburn-Murray Water provided us with a high-quality price submission, informed by an extensive customer engagement program. We consider Goulburn-Murray Water generally met the requirements of our guidance with its proposals supported by sound justification. As such, our draft decision approves the vast majority of Goulburn-Murray Water's proposals.

We invite interested parties to comment on this draft decision before we make a final decision and issue a price determination in June 2020. Details on how to make a submission in response to our draft decision are provided in Chapter 16.

Prices will fall for most customers with services improving in key areas

Our draft decision proposes to approve a revenue requirement of \$439.4 million for Goulburn-Murray Water over the four-year period starting 1 July 2020.^{3 4} This is around \$65 million lower than the revenue requirement approved for its current four-year pricing period. The reduction mainly reflects cost efficiencies arising from infrastructure modernisation and Goulburn-Murray Water's business transformation program.

On average, Goulburn-Murray Water's prices will fall by around 10 per cent in 2020-21 (compared to 2019-20). Prices will fall by a little less than one per cent per annum for the remaining three years of its regulatory period.⁵

Generally, Goulburn-Murray Water's service standards will remain the same. However, informed by customer engagement, the business is committing to improvements in the following areas:

¹ Rule 28 of the Water Charge (Infrastructure) Rules 2010 requires us to issue a draft decision.

² Goulburn-Murray Water's price submission is available on our website at www.esc.vic.gov.au.

³ The revenue requirement is the forecast amount a water corporation needs to deliver on service outcomes, government policy, and other obligations. Along with forecast demand, it is an input to calculating the prices to be charged by a water corporation.

⁴ We lowered Goulburn-Murray Water's proposed revenue requirement by \$0.27 million or 0.1 per cent to reflect our assessment of its non-controllable expenditure and we corrected for a minor discrepancy in its financial model.

⁵ These reductions are calculated on a revenue weighted average of price movements.

- resolving customer queries at the first call, and to the satisfaction of the customer
- increasing water delivery to gravity irrigation customers (targeting 95 per cent)
- improving reliability to pumped irrigation districts⁶
- communication within 24 hours to diversion customers on restrictions on unregulated streams.

Our draft decision approves Goulburn-Murray Water’s proposal for a common water delivery charge across its six irrigation districts and reforms to bulk storage fees

Currently, Goulburn-Murray Water has five of its six irrigation districts on a common water delivery charge, with Shepparton being the exception. Our draft decision approves Goulburn-Murray Water’s proposal to move to a single charge for all six districts. We consider the costs in each district are sufficiently similar to be covered by a common charge. A single charge supports administrative simplicity and appears to be supported by customers.

We also propose to approve Goulburn-Murray Water’s proposal for all retail customers to pay water storage fees based on system charges. Previously, non-water users were charged a ‘basin’ price, and water users a ‘system’ price.⁷ We consider that customers should pay the same charge for the same service regardless of whether the customer is a water or non-water user.

We propose not to accept the proposed increases in metered and unmetered service point fees for diversion customers as we consider Goulburn-Murray Water has not provided enough information on the costs underlying the price increases. Goulburn-Murray Water may reformulate its proposal in response to this draft decision or provide additional information to support its proposal.

The existing revenue cap form of price control

Our draft decision is to approve Goulburn-Murray Water’s proposal to retain its ‘revenue cap’ form of price control. This means the revenue Goulburn-Murray Water can earn is fixed at the start of the regulatory period, but customer prices may vary annually – within pre-defined limits – so that it can meet its revenue requirement.

⁶ This is a commitment to limit supply interruptions during summer months to eight hours or less.

⁷ Basin and system charges are outlined in more detail in Chapter 12.

1. Our role and approach to water pricing

We are Victoria's independent economic regulator

The Essential Services Commission is Victoria's independent economic regulator. Our role in the water industry includes regulating prices and monitoring the service standards of the 19 Victorian Government owned water businesses. This paper presents our draft decision on Goulburn-Murray Water's price submission for its regulatory period from 1 July 2020 to 30 June 2024.⁸

We are reviewing the prices three water corporations propose to charge customers from 1 July 2020

We are reviewing prices for two urban water corporations (South Gippsland Water and Western Water) and Goulburn-Murray Water.

In November 2019, Goulburn-Murray Water provided a submission to us proposing prices for a four-year period starting 1 July 2020. Our task is to assess the price submission against the legal framework that governs our role and make a price determination that takes effect from 1 July 2020. The price determination will specify the maximum prices Goulburn-Murray Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We will issue a final decision that explains the reasons for our price determination.

We assess prices against the Water Charge (Infrastructure) Rules, Water Industry Regulatory Order, and other legal requirements

Goulburn-Murray Water's prices are regulated under two regulatory frameworks⁹:

- infrastructure-related services are regulated under the Commonwealth's Water Charge (Infrastructure) Rules 2010 (WCIR). These rules cover approximately 95 per cent of Goulburn-Murray Water's regulated costs. In 2019, the Australian Competition and Consumer Commission (ACCC) accredited us to regulate Goulburn-Murray Water.¹⁰ This accreditation

⁸ Under Rule 3 of the WCIR, the regulatory period is defined as four years in duration, which will commence on 1 July 2020 and conclude on 30 June 2024.

⁹ Our PREMO incentive mechanism will not apply to Goulburn-Murray Water's services covered by the WIRO as only a small proportion of these services are part of Goulburn-Murray Water's operations.

¹⁰ In 2019, the Minister for Agriculture and Water Resources, amended the water charge rules with a commencement date of 1 July 2020. These amended rules, the Water Charge Rules 2010, removes the power of the ACCC to accredit State regulators because under these amended rules only the ACCC can regulate the charges of Part 6 and 7 operators.

However, transitional arrangements provide that where the regulator was accredited before the amended rules commence, it may continue as the regulator for Part 6 and 7 infrastructure operators until the end of a transition period provided it remains accredited for that period. This transition period is either the end of the current regulatory period or if

requires us to follow ACCC's pricing principles (made under the WCIR) when conducting our price review.

- Groundwater, some surface diversions and some miscellaneous services, which are not infrastructure related, are regulated under the Water Industry Regulatory Order 2014 (WIRO).

We issued guidance papers to Goulburn-Murray Water on the minimum requirements for the information that it should submit us to support our assessment. These guidance papers are available on our website, www.esc.vic.gov.au.

The WCIR requires us to adopt a building block approach to review Goulburn-Murray Water's proposed prices. Our approach is set out in our guidance paper in section 2.3.

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

the infrastructure operator put in a pricing proposal to the regulator before the commencement date but it has not been approved by that date, then the end of the period to which the pricing proposal relates, which is the case for Goulburn-Murray Water.

Unless revoked by the ACCC under Rule 67 of the WCIR, the period of accreditation for the Essential Services Commission is from 17 February 2022 to 16 February 2032, a period of 10 years.

¹¹ As noted above, only five per cent of Goulburn-Murray Water's business is regulated by the WIRO, which covers its groundwater, some surface diversions and miscellaneous services.

2. Our assessment of Goulburn-Murray Water's price submission

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

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

Our guidance included a number of matters Goulburn-Murray Water must address in its price submission. We found that Goulburn-Murray Water's price submission provided clear and comprehensive information supporting its proposals. Goulburn-Murray Water also provided evidence that its customer engagement captured the main priorities and concerns of customers and that it has taken this feedback into account when developing its price submission.

We generally accept Goulburn-Murray Water's proposals set out in its price submission, subject to a final update of proposed prices in response to this draft decision. We are seeking some further information to inform our final decision on its proposed metered and unmetered service point fees for diversion customers.¹²

Goulburn-Murray Water must submit a response to our draft decision and provide an updated financial model by 24 April 2020 (via email to water@esc.vic.gov.au). The response will be published on our website.

We also invite other interested parties to make a submission in response to our draft decision until that date (see Chapter 16 for details about how to provide feedback).

We intend to make a price determination for Goulburn-Murray Water in June 2020.

¹² Our reasons are set out in Chapter 13.

3. Customer engagement

Our guidance required Goulburn-Murray Water to engage with customers to inform its price submission.¹³

We assess Goulburn-Murray Water's consultation against the requirements of the ACCC's pricing principles for infrastructure-related services¹⁴ and the requirements of the WCIR (see Box 3.1).

Box 3.1 Consultation requirements

Schedule 1 of the WCIR states that water businesses must provide the regulator with:

details of the extent and nature of the consultation processes including matters consulted on and customer feedback received.

Source: WCIR 2010

Goulburn-Murray Water provided details of the nature of its considerations at pages 10 to 30 of its price submission. It used a variety of methods to engage with its customers including deliberative forums, water service committee meetings, and workshops on pricing and service standards. It also sought feedback on its proposals using surveys and online at YourSay@GMW.¹⁵

Goulburn-Murray Water explored customer's preferences on proposed service standards, customer hardship, reform of some tariff structures, communication options, and pricing.

Generally, we found Goulburn-Murray Water made significant improvements to its customer engagement, compared to the approach it adopted to inform its 2016 pricing submission. We also found Goulburn-Murray Water used customer feedback to inform the majority of its price submission. Compared to our 2016 review, we received fewer submissions critical of its proposals and engagement program.¹⁶ We consider Goulburn-Murray Water's engagement met the requirements of our guidance. However, some of the engagement on proposed service point fee

¹³ Essential Services Commission, Goulburn-Murray Water price review 2020: Guidance on price submission under the WCIR, October 2018, pp. 9–11.

¹⁴ *Water Charge (Infrastructure) Rules 2010*.

¹⁵ Specific customer feedback is available on pages 27 and 28 of Goulburn-Murray Water's submission. Survey results and online feedback is presented in Appendix 1 and Appendix 2 of its submission.

¹⁶ We note that we received feedback from two customers on Goulburn-Murray Water's engagement, one generally in support of Goulburn-Murray Water's engagement and the other considered that the engagement overall lacked substance.

reforms was not as in-depth as Goulburn-Murray Water demonstrated in other areas of its price submission. We discuss this further in Chapter 13.

4. Service standards and targets

Goulburn-Murray Water has a set of customer service standards. Each service standard has a target level of service for Goulburn-Murray Water to achieve. In its price submission, Goulburn-Murray Water proposed a number of changes to its service standards to better align them with customer preferences and to clarify the services covered.

Approach to reviewing service standards

The WCIR does not cover Goulburn-Murray Water's service standards, which are regulated under Victoria's legal framework. Under section 4F of the Victorian Water Industry Act 1994, we made a rural customer service code to regulate the standards and conditions of supply of declared services.

Our guidance required Goulburn-Murray Water to propose service standards and targets that reflect customers' priorities and expectations in relation to service delivery and outline how they are supported in its expenditure plans.

In our guidance we stated that our starting point for assessing service standards would be the average levels of service provided in the 2016–2020 regulatory period. Any proposed changes to service standards or targets should be explained. Our guidance also required Goulburn-Murray Water to explain how its services standards and targets have been impacted by the completion of the Connections Project and infrastructure modernisation.¹⁷

Goulburn-Murray Water's proposed service standards

Goulburn-Murray Water's price submission proposed minor changes to service standards to better reflect what was important to customers.¹⁸ It held workshops and a service standard summit in order to meet with customers and identify service priorities.

Goulburn-Murray Water proposed improvements in service standards by:

- committing to resolve customer queries at the first call, and to the satisfaction of the customer
- increasing reliability of water delivery to gravity irrigation customers (targeting 95 per cent)
- improving reliability to pumped irrigation districts compared to current levels (supply interruptions during summer months not more than eight hours)

¹⁷ The connections project is funded by the Victorian and Australian Governments and is aimed at modernising Goulburn-Murray Water's irrigation network. Goulburn-Murray Water is now in the final stages of delivering the project with completion to occur during 2020.

¹⁸ Goulburn-Murray Water, GMW Price Submission 2020–24, November 2019, pp. 19–24.

- timely communication to diversion customers about restrictions on unregulated streams compared to current levels (within 24 hours).

Efficiency targets for delivery in each of its gravity, pumped irrigation and diversion customer groups have been replaced with efficiency targets for its closed piped network and its open channel network respectively. Service standards, including proposed changes are included in Appendix B of this draft decision.

Draft decision on service standards

Our draft decision is to approve Goulburn-Murray Water's proposed service standards as they are consistent with the requirements in our guidance and in particular, service standards were informed by customer engagement. In addition, we consider that:

- information provided to customers about the opportunity for change was open and transparent (see briefing papers on service standards on page 17 of Goulburn-Murray Water's price submission)
- customers supported the removal of some service standards where the measure was not of value to them
- new service standards are equivalent to, or higher than previous targets.

5. Operating expenditure

Operating expenditure is expenditure required to operate Goulburn-Murray Water's infrastructure, maintain its assets and provide administrative support. It is a key input into customer prices as it makes up about 80 per cent of Goulburn-Murray Water's revenue requirement.

Goulburn-Murray Water is in the final stages of modernising its irrigation infrastructure network. This means some of Goulburn-Murray Water's future operating cost requirements (in terms of the nature and magnitude of expenditure) are likely to differ from past costs.

The operating expenditure that we propose does not represent the amount that a business must spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of expenditure to be recovered through prices, and that we consider is sufficient for the business to deliver on its service commitments.

Approach to operating expenditure

We regulate Goulburn-Murray Water's forecast operating expenditure according to the ACCC's pricing principles (Box 5.1) made under the WCIR. Our undertaking to apply these pricing principles was a condition of our accreditation to regulate prices for Goulburn-Murray Water's infrastructure services.

Box 5.1 ACCC's principles for assessing operating expenditure

In making an assessment of the prudent and efficient operating expenditure for the next regulatory period, the regulator must assess:

- the prudence and efficiency of operating expenditure in the previous regulatory period
- the reasons and evidence supporting changes to service standards in the next regulatory period
- the reasons and evidence supporting changes to operating expenditure in the next regulatory period
- reasonable productivity improvements in providing services over the next regulatory period.

Where relevant, a regulator must compare and take into account operating expenditure of similar businesses.

Forecasts must be based on reasonable assumptions of the efficient costs likely to be incurred in this period.

Source: ACCC Pricing Principles under the WCIR, July 2011 (pp 41-42)

We assess both:

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

Our approach for assessing operating expenditure is as follows:

- Establish a base year operating expenditure by reviewing the actual operating costs from the last full year of actual expenditure data (2018-19), and adjust to remove any one-off or non-recurring expenditure items and any inefficient costs.¹⁹
- Assess Goulburn-Murray Water's proposed changes to annual operating expenditure for each year, including the itemised new costs and new savings arising from modernisation, and assess whether identified adjustments are consistent with efficient expenditure.
- Adjust the forecast operating expenditure based on our findings.

¹⁹ Non-recurring expenditure is any one-off expenditure items that will not continue in future years.

We engaged Aither to provide expert advice to inform our assessment of controllable operating expenditure. Aither’s report on its assessment of Goulburn-Murray Water’s expenditure forecast is available on our website.²⁰

Under the ACCC’s pricing principles, we are required to assess whether Goulburn-Murray Water’s forecast costs include reasonable productivity improvements in providing services over 1 July 2020 to 30 June 2024. As part of this, we assessed whether Goulburn-Murray Water has reasonable productivity improvements forecast given modernisation of its infrastructure network and its business transformation project.

We formed our draft decision on operating expenditure after considering Goulburn-Murray Water’s pricing submission, additional information provided by Goulburn-Murray Water, customer and stakeholder submissions, and Aither’s report.

Goulburn-Murray Water’s proposed operating expenditure

Goulburn-Murray Water proposed an operating expenditure of \$337.3 million for the 2020–24 regulatory period (Table 5.1), averaging \$84.3 million per year. This compares to the average annual operating expenditure of \$96.6 million in the current four-year regulatory period and the current average annual benchmark of \$101.2 million approved in our 2016 determination.²¹

Table 5.1 Goulburn-Murray Water’s proposal – operating expenditure

\$ million 2019-20

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Proposed operating expenditure	98.3	97.0	94.1	89.1	83.1	82.6	82.5

Note: actuals for 2017-18 and 2018-19 and forecasts for 2019-20 to 2023-24. Goulburn-Murray Water’s price period is four years from 1 July 2020.

The majority of Goulburn-Murray Water’s proposed operating expenditure is in irrigation services (Table 5.2) followed by spending on bulk water services and the Murray-Darling Basin Authority contribution. Goulburn-Murray Water’s forecast spending levels for most services will decrease or remain flat in real terms over the 2020–24 regulatory period, apart from bulk water services, the environment contribution and the Murray-Darling Basin Authority contribution.

²⁰ Aither, A review of Goulburn-Murray Water’s proposed operating and capital expenditure, March 2020.

²¹ Goulburn-Murray Water’s actual operating expenditure (with a forecast for the 2019-20 year) for the 2016–20 regulatory period is \$386.5 million, which is \$18.2 million lower than the approved amount of \$404.7 million from its 2016 price review: Essential Services Commission, Goulburn-Murray Water Price Review 2016 – final decision, June 2016.

Table 5.2 Goulburn-Murray Water’s proposal – operating expenditure by service

\$ million 2019-20

	Average annual level 2016–20 regulatory period	2020-21	2021-22	2022-23	2023-24
Controllable costs					
Irrigation	53.2	43.5	41.0	41.0	41.0
Drainage	4.1	3.6	3.4	3.4	3.4
Water supply districts	1.1	0.7	0.7	0.7	0.7
Diversions	4.8	4.6	4.3	4.2	4.2
Bulk water services	14.0	17.2	14.4	14.1	14.1
Customer service and billing	4.3	3.3	3.2	3.1	3.1
Controllable costs subtotal	81.6	72.9	66.9	66.4	66.4
Non-controllable costs					
Essential Services Commission licence fee	0.1	0.1	0.1	0.1	0.1
Environment Contribution	2.2	2.7	2.7	2.7	2.7
Murray Darling Basin Authority Contribution	12.7	13.4	13.4	13.4	13.4
Non-controllable costs subtotal	15.0	16.2	16.2	16.2	16.2
Total	96.6	89.1	83.1	82.6	82.5

Source: Goulburn-Murray Water price submission.

Goulburn-Murray Water explained that the main influences on the trend in forecasting operating expenditure for the 2020–24 regulatory period are:

- there is no expected customer growth
- it is committed to absorbing any price increases above the consumer price index for inputs, for example energy and labour

- it has proposed productivity savings of \$45.7 million over the 2020–24 period, resulting from its business transformation and the Goulburn-Murray irrigation district (GMID) modernisation program ²²
- it has proposed \$5.3 million of new operating expenditure for water storage projects over the 2020–24 period.

Our review of operating expenditure

Establishing baseline controllable operating expenditure for 2018-19

Goulburn-Murray Water used the most recent full year of actual operating expenditure data to establish an efficient baseline controllable operating expenditure (\$79.6 million in 2018-19).²³ It proposed downward adjustments to the actual 2018-19 baseline year controllable operating expenditure, removing the following non-recurring expenditure items:

- \$0.3 million for employee termination packages
- \$0.7 million for labour hire
- \$0.3 million as a result of surplus plant disposal.

The resultant figure of \$78.3 million is 20 per cent below the benchmark allowed for 2018-19 in the previous price determination. Aither assessed the proposed 2018-19 baseline and found that the key driver of the operating expenditure savings within the 2016–20 period is a significant reduction in labour costs over the period. In 2013, Goulburn-Murray Water committed to reduce operational expenditure by \$20 million over the following five years, with many of the labour cost savings resulting from the Connections Project, which involved automating, modernising and rationalising the Goulburn-Murray irrigation district. Further labour savings, primarily through the reduction of operations and maintenance staff, were found through Goulburn-Murray Water’s business transformation in 2019-20. Aither recommended no adjustment. We consider that \$78.3 million is an efficient baseline level of controllable operating expenditure from which to assess Goulburn-Murray Water’s proposed changes to expenditure in the 2020–24 regulatory period.

Proposed cost changes and productivity improvements

Goulburn-Murray Water has proposed variations to the forecast baseline including new water storage costs and productivity savings. This includes:

²² Goulburn-Murray Water’s business transformation involves a range of business performance initiatives and outcomes to be achieved in the short, medium and long term, which were identified in the Goulburn-Murray Water Strategic Advisory Panel review. This included changes to project management, capital planning and asset management processes, policies and governance structures.

²³ Controllable costs are those that can be directly or indirectly influenced by a water corporation’s decisions.

- New expenditure of \$5.3 million over the 2020–24 regulatory period for water storage projects, including dam safety investigations and studies as a result of Goulburn-Murray Water’s recent portfolio risk assessment, dam safety design reviews and larger maintenance tasks. Aither reviewed the proposed new expenditure for water storage projects and found that in the 2016–20 period some water storage projects had been incorrectly allocated (based on Australian Accounting Standards) as capital expenditure. Aither confirmed these projects as being additional operating expenditure and not within the baseline operating expenditure in 2018-19.
- Productivity savings of \$21.6 million over the 2020–24 regulatory period resulting from the Goulburn-Murray irrigation district modernisation program. Aither reviewed these productivity savings and noted that while these expenditure reductions are referred to as productivity improvements, these reductions are a mix of productivity, efficiency and cost avoidance. Aither considered the assumed modernisation cost savings to be reasonable.
- Productivity savings of \$24.1 million over the 2020–24 regulatory period as a result of Goulburn-Murray Water’s business transformation. While some of the detail around how these commitments will be delivered is yet to be determined, this reflects that Goulburn-Murray Water is still in the process of implementing its organisational reform. Aither considers the business transformation productivity savings to be reasonable.²⁴

Based on its review of the information provided by Goulburn-Murray Water about the productivity savings, Aither does not consider there to be any material risks of a negative impact on service standards.²⁵

²⁴ Aither, op. cit., pp. 20 and 21.

²⁵ *ibid*, p. vii.

Table 5.3 Goulburn-Murray Water's proposed cost changes

\$ million 2019-20

	2020-21	2021-22	2022-23	2023-24
Goulburn-Murray Water's proposed baseline controllable operating expenditure	78.3	78.3	78.3	78.3
New expenditure on water storage projects	2.7	0.8	0.9	0.9
Goulburn-Murray Water's proposed productivity saving from modernisation	-1.4	-5.4	-5.4	-5.4
Goulburn-Murray Water's proposed productivity saving from business transformation	-6.6	-6.7	-7.4	-7.4
Goulburn-Murray Water's proposed controllable operating expenditure	72.9	66.9	66.4	66.4

Note: numbers have been rounded.

Source: Goulburn-Murray Water's price submission 2020–24.

A written submission from a customer indicated concerns regarding labour costs remaining the same after the modernisation program and when the system is being used at a reduced capacity.²⁶ Goulburn-Murray Water's number of full-time equivalent staff has fallen from 524.3 in 2016-17 to 450.4 in 2018-19. In addition, Goulburn-Murray Water has in place a significant business transformation program over the next four years in response to the modernisation program.

We consider the above cost changes, productivity savings and transformation program to be prudent and efficient. We consider that Goulburn-Murray Water's proposed cost changes and productivity savings are consistent with the requirements of our guidance.

Non-controllable operating expenditure

For non-controllable operating expenditure, we have adjusted Goulburn-Murray Water's forecasts where required based on the latest information received from the relevant regulatory authorities on their licence fees and contributions.²⁷

²⁶ Max Bailey, submission to the Essential Services Commission on 'Goulburn-Murray Water price submission 2020', January 2020, p. 1.

²⁷ Non-controllable costs are those that cannot be directly or indirectly influenced by a water corporation's decisions.

For the Murray Darling Basin Authority contribution we have used the values provided by the Department of Environment, Land, Water and Planning.²⁸ For the environment contribution, we have used the values provided by the Department of Environment, Land, Water and Planning and for this draft decision assumed that this will remain flat in nominal terms (decline in real terms) across the 2020–24 regulatory period. However, the department is currently reviewing the environmental contribution to be recovered over the four years from 1 July 2020, and we will adjust for any changes to the forecast in our final decision.

We have assumed the Essential Services Commission fee remains flat in real terms across the period, but with a 50 per cent increase for our commission fee in 2023-24 to align with our regulatory review cycle. Goulburn-Murray Water has embedded the annual \$0.002 million Department of Health and Human Services licence fee in its baseline controllable operating expenditure.

We have reduced Goulburn-Murray Water's forecast non-controllable operating expenditure by \$0.27 million across the 2020–24 period.

Table 5.4 sets out our proposed adjustments to non-controllable operating expenditure.

Table 5.4 Draft decision on total operating expenditure adjustments

\$ million 2019-20

	2020-21	2021-22	2022-23	2023-24
Proposed controllable operating expenditure (from Table 5.3)	72.9	66.9	66.4	66.4
Proposed non-controllable operating expenditure	16.2	16.2	16.2	16.2
Adjustments				
ESC licence fee	-0.021	-0.021	-0.021	0.009
Environmental contribution	0.040	-0.023	-0.084	-0.144
Total adjustments to non-controllable expenditure	0.019	-0.044	-0.105	-0.136
Draft decision on total operating expenditure	89.1	83.1	82.5	82.4

Note: numbers have been rounded.

²⁸ This contribution is paid by Goulburn-Murray Water to the Murray Darling Basin Authority for managing works that are undertaken across the basin through the Joint Program. For more information see 'Joint programs', Murray-Darling Basin Authority, accessed 3 March 2020, <https://www.mdba.gov.au/about-us/partnerships-engagement/joint-programs>.

6. Capital expenditure

Capital expenditure is expenditure to renew existing assets and establish new assets that service customers over the longer term. The usual drivers of capital expenditure are maintaining customer service standards and compliance with regulatory and government obligations. Funds provided to Goulburn-Murray Water by government or other outside sources for its Connections Project are not included in customers' prices, so are outside the scope of our assessment.

Approach to reviewing capital expenditure

We regulate Goulburn-Murray Water's infrastructure related capital expenditure according to the ACCC's pricing principles. These principles focus on the efficiency and prudence of capital expenditure (Box 6.1) made under the WCIR.

Box 6.1 ACCC's principles for assessing capital expenditure

In making an assessment of the prudent and efficient capital expenditure for the next regulatory period, the regulator must assess:

- the prudence and efficiency of capital expenditure in the previous regulatory period (where relevant to proposed capital expenditure in the next regulatory period)
- the reasons and evidence supporting the commencement of new major capital expenditure projects in the next regulatory period, including whether such projects are consistent with efficient long term expenditure on infrastructure services
- the reasons and evidence supporting levels of capital expenditure in the next regulatory period
- whether the timeframe for delivering the proposed capital expenditure program is reasonable, having regard to the operator's delivery of major projects in the past
- whether the asset management and planning framework of the operator reflects best practice.

Forecasts must be based on reasonable assumptions of the efficient costs likely to be incurred in this period. Subject to confidentiality, external review of an operator's proposed capital expenditure must be made public on the regulator's website.

Source: ACCC Pricing Principles under the WCIR, July 2011 (pp 80-81)

The benchmark that we adopt for Goulburn-Murray Water does not represent the amount that the water corporation is required to spend or allocate to particular capital projects. Rather, it represents assumptions about the overall level of capital expenditure (to be recovered through prices) that we

consider sufficient to operate the business and to maintain or improve services over the regulatory period. Goulburn-Murray Water determines how to best manage the allocation of its revenue and priority of its capital expenditure within a regulatory period.

Goulburn-Murray Water's proposed capital expenditure

Goulburn-Murray Water proposes capital expenditure of \$96.3 million over the 2020–24 regulatory period. This is an average of \$24.1 million per year, compared with average expenditure of \$26.7 million per year in the 2016–20 regulatory period. Goulburn-Murray Water stated that the decrease reflects more agile and prudent asset management practices.

Table 6.1 Goulburn-Murray Water's proposal – capital expenditure

\$ million 2019-20

2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
35.3	38.7	19.4	13.3	28.0	23.5	22.1	22.5

Source: Goulburn-Murray Water's pricing model for the 2020–24 regulatory period.

Goulburn-Murray Water's proposal shows that most of its capital expenditure is on irrigation and bulk water projects (see Table 6.2).

Table 6.2 Goulburn-Murray Water's proposal – capital expenditure by service

\$ million 2019-20

Service	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Irrigation	7.2	15.8	14.4	14.7	14.1	58.9
Drainage	1.4	1.0	1.2	1.2	1.1	4.5
Water supply districts	0.1	4.4	0.1	0.0	0.0	4.6
Diversions	0.6	0.5	0.5	0.5	0.5	1.9
Bulk water	3.9	6.3	7.3	5.7	6.9	26.3
Total	13.3	28.0	23.5	22.1	22.5	96.3

Source: Goulburn-Murray Water's pricing model for the 2020–24 regulatory period.

We formed our draft decision on capital expenditure after considering Goulburn-Murray Water's price submission, information provided by Goulburn-Murray Water to support its forecasts, the expenditure assessment reports prepared by Aither, and customer and stakeholder submissions.

In accordance with the ACCC's pricing principles, we reviewed the prudence and efficiency of Goulburn-Murray Water's proposed capital expenditure program. In consultation with us, Aither selected then reviewed three larger capital expenditure projects scheduled to commence during

the 2020–24 regulatory period to assess Goulburn-Murray Water’s approval and management processes for capital expenditure. Aither’s report is available on our website.

From its review of the selected projects, Aither found that Goulburn-Murray Water’s proposed capital expenditure is prudent, efficient and deliverable within the required timeline. We are also satisfied that Goulburn-Murray Water’s proposed capital expenditure for the 2020–24 regulatory period is supported by sufficient reasons and evidence.

As required by the ACCC’s pricing principles, we instructed Aither to also report on other areas of Goulburn-Murray Water’s capital expenditure program:

- Goulburn-Murray Water’s forecast capital expenditure for the 2016–20 regulatory period is \$38.6 million (27 per cent) less than the capital expenditure approved for this period in our 2016 determination. Aither considers that Goulburn-Murray Water’s underspend against the approved capital expenditure allowance in the 2016–20 regulatory period is appropriate and based on deliberate business decisions.
- Aither found Goulburn-Murray Water has the capacity to resource and deliver its capital expenditure program in the 2020–24 regulatory period. Based on Aither’s findings and our own assessment of Goulburn-Murray Water’s price submission, we are satisfied that the timeframe for delivering the proposed capital expenditure program is reasonable.
- Aither found Goulburn-Murray Water’s approaches to asset management are well established and systematised, except for Goulburn-Murray Water’s new ‘channel-by-channel’ framework, which is still in development. Aither notes that Goulburn-Murray Water’s ‘channel-by-channel’ approach to capital planning for its irrigation and drainage is based on accepting higher levels of risk around asset failure than in previous regulatory periods. Goulburn-Murray Water advised that these higher risks have been communicated to customers and that the price-risk trade-off proposals are understood and accepted by customers. Based on Aither’s report and our own review of Goulburn-Murray Water’s submission, we are satisfied Goulburn-Murray Water’s asset management framework is at an acceptable standard.

A written submission from a customer indicated concerns regarding high capital expenditure.²⁹ We have noted the average capital expenditure forecast per year for the 2020–24 period is \$24.1 million, which is lower than during the 2016–20 regulatory period (\$26.7 million). Also, Goulburn-Murray Water notes its forecast expenditure for 2020–24 excludes up to \$57.8 million of

²⁹ Max Bailey, *op.cit.*, p. 2.

uncertain projects where there is a lack of certainty regarding timing, or where cost estimates are not rigorously developed or tested.³⁰ This is consistent with the requirements of our guidance.

Another written submission suggested customers should be reimbursed for increased fees to support the delivery of a capital improvement expenditure project which did not go ahead during the 2016–20 period.³¹ The capital expenditure benchmark that we adopted for Goulburn-Murray Water in the 2016 review represented assumptions about the overall level of capital expenditure (to be recovered through prices) that we considered sufficient to operate the business.

Goulburn-Murray Water determines how to best manage the allocation of its revenue and priority of its capital expenditure within a regulatory period.

Draft decision on capital expenditure

Based on Aither’s findings and our own assessment of Goulburn-Murray Water’s submission, we are satisfied that Goulburn-Murray Water’s proposed capital expenditure accords with the ACCC’s pricing principles.

For these reasons, we propose to approve the capital expenditure in Table 6.2.

³⁰ Goulburn Murray Water, GMW Price Submission 2020–24, November 2019.

³¹ Central Highlands Water, submission to the Essential Services Commission on ‘Goulburn-Murray Water price submission 2020’, January 2020.

7. Revenue requirement

We must be satisfied that Goulburn-Murray Water's prices are set at a level that generates sufficient revenue for the water business to recover the efficient cost of delivering services over the regulatory period. This revenue does not represent the approval of any particular projects or items of expenditure. Rather, Goulburn-Murray Water should allocate its revenue depending on the most efficient spending options available during the regulatory period, which may change over time.³²

The ACCC's pricing principles require us to use the 'building block' approach to estimate the revenue requirement. Under this approach, the revenue reflects operating expenditure and a return on the regulatory asset base updated annually to reflect additional capital expenditure and regulatory depreciation. Chapter 5 covers operating expenditure, this chapter addresses the regulatory asset base, rate of return and depreciation, all of which depends on capital expenditure (covered in Chapter 6).

Approach to rolling forward the regulatory asset base

We regulate Goulburn-Murray Water's infrastructure related rolled forward regulatory asset base according to the ACCC's pricing principles. Rule 5 of Schedule 1 of the WCIR outlines the requirements for the regulatory asset base (Box 7.1).

³² We received input from officers of the Environment Protection Authority Victoria to discuss their expectations of Goulburn-Murray Water in the regulatory period from 1 July 2020. We had regard to their views in our draft decision. It is the water corporation's responsibility to ensure it has priced accordingly to meet all its legislative and regulatory obligations and requirements during the pricing period.

Box 7.1 Regulatory Asset Base

Details of the Part 6 operator's assets, and their value, that are used to provide infrastructure services:

- a) in respect of each year of the initial period or the regulatory period that is set to expire:
 - i) actual contributions from customers and government
 - ii) actual proceeds from asset disposals and the nature and type of assets sold
 - iii) the regulatory depreciation of assets and the reasons for the depreciation
 - iv) from the above, the actual regulatory asset base
- b) in respect of each year of the following regulatory period:
 - i) forecast contributions from customers and government and the assumptions underpinning those forecasts
 - ii) forecast proceeds from asset disposals and the nature and type of assets anticipated to be sold
 - iii) the regulatory depreciations of assets and the reasons for the depreciation
 - iv) from the above, the forecast regulatory asset base.

Source: WCIR 2010

Draft decision on regulatory asset base

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

- closing regulatory asset base at 30 June 2019
- forecast regulatory asset base for each year of the regulatory period from 1 July 2020.

Closing regulatory asset base

We update the regulatory asset base to reflect actual capital expenditure, government and customer contributions, and asset disposals for the period to 30 June 2019. This helps to ensure prices reflect the actual expenditure of a water corporation.

We compared Goulburn-Murray Water's actual net capital expenditure for 2015-16 to 2018-19 with the forecast used to approve maximum prices for the period from 1 July 2016. We undertake a prudence and efficiency review where a water corporation's net capital expenditure is more than 10 per cent above the forecast used to approve maximum prices for the period from 1 July 2016.

We believe this approach is reasonable given capital expenditure can be relatively ‘lumpy’ in nature.

Our review identified a relatively minor correction to the assumptions adopted by Goulburn-Murray Water for net capital expenditure over the period from 2015-16 to 2018-19.

In its price submission, Goulburn-Murray Water assumed \$135.04 million net capital expenditure over the period from 2015-16 to 2018-19. Through our review of Goulburn-Murray Water’s financial model, we identified a minor adjustment to the estimates adopted by Goulburn-Murray Water, which reduced this to \$135.03 million. This figure is 2.9 per cent lower than the forecast used to approve maximum prices for the period from 1 July 2016. After correcting for past net capital expenditure, Goulburn-Murray Water also calculated its closing regulatory asset base in accordance with the requirements of our guidance. For these reasons, our draft decision proposes to approve a closing regulatory asset base for 30 June 2019 of \$373.6 million.

Table 7.1 sets out our draft decision on Goulburn-Murray Water’s regulatory asset base at 30 June 2019.

Table 7.1 Closing regulatory asset base

\$ million 2019-20

	2015-16	2016-17	2017-18	2018-19
Opening regulatory asset base 1 July	280.8	310.5	337.8	365.8
Plus gross capital expenditure	43.4	35.3	38.7	19.4
Less government contributions	0.2	0.2	0.9	0.1
Less customer contributions	0.01	0.1	0.1	0.2
Less proceeds from disposals	0.0	0.1	0.2	0.1
Less regulatory depreciation	13.5	7.7	9.5	11.1
Closing regulatory asset base 30 June	310.5	337.8	365.8	373.6

Note: numbers have been rounded.

Forecast regulatory asset base

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

Table 7.2 sets out our draft decision on Goulburn-Murray Water’s proposed forecast regulatory asset base from 1 July 2020.³³ Our assessment of the components of the forecast regulatory asset base is set out below.

Table 7.2 Forecast regulatory asset base

\$ million 2019-20

	2019-20	2020-21	2021-22	2022-23	2023-24
Opening RAB 1 July	373.6	374.1	389.6	402.4	414.7
Plus gross capital expenditure	13.3	28.0	23.5	22.1	22.5
Less government contributions	0.4	2.9	1.2	0.2	0.2
Less customer contributions	0.0	0.0	0.0	0.0	0.0
Less proceeds from disposals	0.1	0.1	0.1	0.1	0.1
Less regulatory depreciation	12.3	9.5	9.4	9.5	9.6
Closing RAB 30 June	374.1	389.6	402.4	414.7	427.3

Note: numbers have been rounded.

2019-20 net capital expenditure

Our guidance noted that where the 2019-20 forecasts for net capital expenditure are lower than the forecast benchmark for that year in its 2016 price determination, the lower amount must be used (otherwise the 2016 determination forecast applies). This approach helps to limit incentives for a water corporation to delay capital works until the last year of a regulatory period.³⁴

Rate of return

We set out our approach to the rate of return in our guidance, which aligns with the requirements of the ACCC’s pricing principles. This approach includes the weighted average cost of capital (WACC) parameters required by the pricing principles.

³³ Our guidance required Goulburn-Murray Water to use forecast figures of the components of its regulatory asset base from the 2016 price determination for incomplete years where actual figures are not available. This is so we can assess the opening asset base for 1 July 2020. An adjustment will be made for any difference between the forecast figures and actual figures at the price review following the 2020 water price review.

³⁴ Even if unintentional, delayed projects provide an undue benefit to a water corporation, as customer prices assume capital works proceed to schedule.

We included a WACC estimate in the financial model that we provided to Goulburn-Murray Water to prepare its price submission. This value is established consistently with the requirements of the ACCC pricing principles. Goulburn-Murray Water accepted our WACC parameter of 4.0 per cent included in our financial model.

Draft decision on rate of return

Our draft decision proposes to accept a WACC of 4.0 per cent proposed by Goulburn-Murray Water. This figure may be updated in the final decision, having regard to the latest market conditions.

Approach to calculating depreciation

Regulatory depreciation is an input to calculating the regulatory asset base. In our guidance, we stated Goulburn-Murray Water should estimate regulatory depreciation using reasonable assumptions about asset life and utilisation. We also noted in our guidance that we prefer a straight line depreciation profile.

Goulburn-Murray Water's forecast regulatory depreciation was calculated using a straight line depreciation profile. Goulburn-Murray Water also calculated regulatory depreciation in a manner consistent with our guidance.

Draft decision on regulatory depreciation

Our draft decision proposes to accept Goulburn-Murray Water's forecast regulatory depreciation.

Establishing the revenue requirement

Goulburn-Murray Water proposed a revenue requirement of \$439.6 million over a four-year period starting 1 July 2020. However, our draft decision proposes to approve a revenue requirement of \$439.4 million, 0.1 per cent lower than that proposed by Goulburn-Murray Water. This reflects our assessment of each element that comprises the revenue requirement, as set out in Table 7.3.

Table 7.3 Draft decision revenue requirement

\$ million 2019-20

	2020-21	2021-22	2022-23	2023-24	Total
Operating expenditure	89.1	83.1	82.5	82.4	337.1
Return on assets	15.3	15.8	16.3	16.8	64.3
Regulatory depreciation	9.5	9.4	9.5	9.6	38.0
Tax allowance	0.0	0.0	0.0	0.0	0.0
Revenue requirement	113.9	108.3	108.3	108.9	439.4

Note: numbers have been rounded.

The adjustments we have proposed in our draft decision on the revenue requirement relate to Goulburn-Murray Water's non-controllable expenditure and correcting a minor discrepancy in the 2015-16 customer contribution figure in the financial model. These adjustments resulted in a small decrease of \$0.27 million to the overall revenue requirement. Table 7.4 summarises our proposed changes to the revenue requirement.

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

Draft decision on revenue requirement

Our draft decision proposes to approve a revenue requirement of \$439.4 million over the four-year regulatory period 2020–2024 as set out in Table 7.3.

Table 7.4 Adjustments to revenue requirement

\$ million 2019-20

	2020-21	2021-22	2022-23	2023-24	Total
Proposed revenue requirement	113.9	108.3	108.4	109.0	439.6
- Operating expenditure	0.02	-0.04	-0.11	-0.14	-0.27
- Return on assets	-0.001	-0.001	-0.001	-0.001	-0.002
Total adjustments	0.02	-0.04	-0.11	-0.14	-0.27
Draft decision revenue requirement	113.9	108.3	108.3	108.9	439.4

Note: numbers have been rounded.

8. Demand

Goulburn-Murray Water's demand forecasts are set out at pages 75 to 88 of its price submission and are also included in its financial model. Demand for Goulburn-Murray Water's services can include the demand for water and the demand for service points.³⁵ Goulburn-Murray Water's demand forecasts generally do not have a large impact on customer prices as most of Goulburn-Murray Water's costs are fixed and are recovered by fixed charges. The variable component of Goulburn-Murray Water's water bills, which varies with changes in demand, is generally small.

Approach to reviewing demand

We must ensure that Goulburn-Murray Water's proposed demand forecasts meet the requirements of the WCIR and the ACCC's pricing principles for infrastructure related services. Section 3.13 of the ACCC's Pricing Principles made under WCIR outlines the requirements of demand forecasts (Box 8.1).

³⁵ Service points are the connection point between a farm and a water supply network (channel, pipeline, river or aquifer).

Box 8.1 Water charge infrastructure rules requirements of demand forecasts

The Commission will assess whether Goulburn-Murray Water's proposed forecasts:

- are based on an appropriate and unbiased forecasting methodology
- are based on reasonable assumptions about the key drivers of demand, including:
 - 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
- utilise the best available information, including historical data that can identify trends in demand
- take account of current demand and economic conditions.

Source: ACCC Pricing Principles under the WCIR, July 2011 (pp 54-55)

We reviewed Goulburn-Murray Water's forecasting methodology, demand drivers, historical trends, and assumptions, including accounting for current demand and economic conditions. We note that Goulburn-Murray Water has updated its forecasting method to address recent developments in the Southern Connected Basin that impact the use of irrigation water in the Goulburn-Murray Water irrigation district (GMID).³⁶ As a result, Goulburn-Murray Water's forecast demand for water falls from around 951,691 megalitres to 839,451 megalitres over the regulatory period 2020–2024.

³⁶ These are outlined on pp 73 of the Goulburn-Murray Water price submission.

Draft decision on demand forecasts

We propose to accept Goulburn-Murray Water's proposed demand forecasts because they comply with ACCC's pricing principles, as they:

- are based on an appropriate and unbiased forecasting methodology
- reflect reasonable assumptions about drivers of demand
- utilise the best available information, including historical data, to identify demand trends
- account for current demand and economic conditions.

9. Form of price control

The form of price control can be an important means of managing risk for water businesses and also has implications for how price changes will affect water customers.

Approach to reviewing form of price control

The ACCC's pricing principles allow the commission to apply any form of price control. In our guidance we supported Goulburn-Murray Water maintaining its revenue cap.

Goulburn-Murray Water proposed to continue to apply its current revenue cap to its regulated tariffs with a rebalancing constraint that limits the weighted average real price change to +/- 10 per cent for any individual tariffs in each year of the regulatory period.

Approximately 90 per cent of Goulburn-Murray Water's costs and prices are fixed so the potential risk of material annual price variations is limited under its proposed form of price control and rebalancing constraint. We consider Goulburn-Murray Water's current revenue cap optimises risk sharing between the business and its customers.

Draft decision on form of price control

We propose to accept Goulburn-Murray Water's proposed form of price control as it complies with the ACCC's pricing principles since it balances the requirements of revenue and price stability and includes an appropriate rebalancing constraint on individual tariffs of +/- 10 per cent of the approved price path in each year.

10. Irrigation and drainage tariffs

From here, our draft decision addresses Goulburn-Murray Water's proposed tariff structures and prices.

As noted in our guidance, our view is that Goulburn-Murray Water, in consultation with its customer consultative committees and customers, is best placed to design tariffs and tariff structures that meet its customers' needs, manage its risk and deliver its desired business outcomes.

Goulburn-Murray Water must have regard to the ACCC pricing principles in designing and explaining its tariffs. It is also best able to coordinate and integrate its tariff structures with its broader risk management policies (which include the form of price control and management of service standards, among others).

This chapter covers Goulburn-Murray Water's irrigation and drainage tariffs.³⁷ Goulburn-Murray Water provides gravity irrigation and drainage services to the Goulburn-Murray irrigation district (GMID) which covers 6 irrigation districts, namely Central Goulburn, Loddon Valley, Murray Valley, Rochester, Torrumbarry and Shepparton. Goulburn-Murray Water also provides pumped irrigation and drainage services to customers in the Nyah, Tresco and Woorinen pumped irrigation districts.

Approach to reviewing tariffs

We regulate Goulburn-Murray Water's tariffs according to the ACCC's pricing principles (Box 10.1).

Box 10.1 ACCC's pricing principles for approving tariff structures

Tariff structures should:

- promote the economically efficient use of water infrastructure assets
- ensure sufficient revenue streams to allow efficient delivery of the required services
- give effect to the principles of user pays in respect of water storage and delivery in irrigation systems
- achieve pricing transparency
- facilitate efficient water use and trade in water entitlements.

Source: ACCC Pricing Principles under the WCIR, July 2011 (p 82)

³⁷ Drainage and irrigation tariffs account for about 50 per cent of Goulburn-Murray Water's revenue.

Goulburn-Murray Water’s proposed gravity irrigation delivery tariffs

Goulburn-Murray Water’s irrigation delivery fee proposals are set out at pages 93 to 94 of its price submission and are also included in its financial model. Its main fees for gravity irrigation are an infrastructure access fee, infrastructure use fee, service point fee, service fee, and entitlement storage fee.

Goulburn-Murray Water currently has a two district pricing model for the GMID, with Shepparton charged a higher fee than the five other districts. It proposes a common infrastructure access fee and infrastructure use fee across the GMID from 2020-21, to align the Shepparton delivery charge with the other five districts into a single charge.³⁸ Goulburn-Murray Water outlines in its price submission that the proposed tariff reform is driven by:

- About \$20 million reduction in operating cost (efficiency savings) across the GMID, arising mainly from the Connections Project.
- Significant reduction in operating costs of the Shepparton irrigation district during the 2016–20 regulatory period.
- A change in classification of Broken Creek customers from the Murray Valley to the Shepparton irrigation district, as most of the water supplied to Broken Creek uses Shepparton infrastructure.³⁹
- Support from Shepparton irrigators and other stakeholders for a common charge.

Table 10.1 outlines Goulburn-Murray Water’s proposed irrigation fees from 2020-21. The common irrigation fees would remain at the proposed level in real terms until 2023-24.

³⁸ Goulburn-Murray Water, op. cit., pp. 94–96

³⁹ This effectively increases the Shepparton irrigation district’s customer base.

Table 10.1 Goulburn-Murray Water’s current and proposed irrigation fees
\$2019-20

	Shepparton (2019-20)	The rest of the GMID (2019-20)	Proposed (2020-24)
Infrastructure access fee (\$/ML/day)	4,245.00	2,925.00	2,416.00
Infrastructure use fee (\$/ML)	7.40	5.10	4.89
Casual infrastructure use fee (\$/ML)	71.08	48.97	41.13
Distribution access fee (\$/ML/day)	4,245.00	2,925.00	2,416.00
Distribution use fee (\$/ML)	7.40	5.10	4.89
Termination fee(\$)	42,450.00	29,250.00	24,164.00

Source: Goulburn-Murray Water 2020 water price model

In making our draft decision, we considered Goulburn-Murray Water’s price submission, customer submissions, evidence of Goulburn-Murray Water’s customer engagement, and a report prepared for us by Aither.⁴⁰ We note:

- Based on Goulburn-Murray Water’s engagement, customers appear to support Goulburn-Murray Water’s proposal for common charges. We received a limited number of submissions on Goulburn-Murray Water’s proposal, compared to past reviews.⁴¹
- The costs of servicing the Shepparton district has narrowed in recent years. Aither estimates that Shepparton’s operating cost per delivery share will be reduced from 45 per cent higher than the five other districts combined in 2019-20 to about 11 per cent in 2020-21 (Table 10.2).⁴²
- A common delivery charge across the GMID is likely to reduce complexity of pricing, reduce administrative costs, and reflects the interconnectivity of the modernised GMID.
- Aither found the addition of Broken Creek customers to the Shepparton district spread Shepparton’s costs across a larger delivery share base with limited additional operations costs. Correspondingly, this leads to an increase in the average operating cost base per delivery share

⁴⁰ Our guidance emphasised Goulburn-Murray Water must demonstrate any tariff reform proposals are underpinned by evidence on costs, to ensure Goulburn-Murray Water’s price submission reflects the ACCC’s pricing principles’ focus on ‘user pays’. Also in our guidance, we highlighted the ACCC’s requirement that we have regard to consultation undertaken by Goulburn-Murray Water.

⁴¹ Note we received a submission suggesting Goulburn-Murray Water’s proposed irrigation fee structure is not cost reflective.

⁴² Aither, A review of Goulburn-Murray Water’s proposed tariff reform, Draft Report, February 2020.

of the other five districts currently captured under a common charge. Aither concluded that it was reasonable to transfer Broken Creek to the Shepparton irrigation district as the majority of water delivered to Broken Creek uses the Shepparton irrigation district infrastructure.

Table 10.2 Irrigation district operating cost analysis

\$2019-20

	2019-20	2020-21	2021-22	2022-23	2023-24
Five irrigation areas combined (Central Goulburn, Loddon Valley, Murray Valley, Rochester, Torrumbarry)					
Operating costs (excluding service point costs)	\$30,871,432	\$26,095,867	\$24,389,651	\$24,662,156	\$24,934,160
Delivery shares	13,619	13,306	13,306	13,306	13,306
Operating cost per delivery share	\$2,267	\$1,961	\$1,833	\$1,853	\$1,874
Shepparton district					
Operating costs (excluding service point costs)	\$5,698,200	\$4,379,074	\$4,110,407	\$4,235,483	\$4,321,393
Delivery shares	1,739	2,006	2,006	2,006	2,006
Operating cost per delivery share	\$3,276	\$2,183	\$2,049	\$2,111	\$2,154
Shepparton's operating cost per delivery share than the five combined districts	45%	11%	12%	14%	15%

A key focus of our review was to consider the ACCC's pricing principles' focus on 'user pays'. At Goulburn-Murray Water's 2016 water price review, we noted to meet the ACCC principles, the business needs to demonstrate that district charges are sufficiently similar to be covered by common fees. Taking into account the benefits of common fees noted above, we consider that Goulburn-Murray Water has demonstrated that costs are sufficiently aligned to support a common tariff, and its proposals better meet the requirements of the ACCC's pricing principles.

Draft decision on irrigation tariffs

Our draft decision proposes to approve Goulburn-Murray Water's proposal for a common infrastructure access fee and infrastructure use fee for the GMID.

Goulburn-Murray Water’s proposed Nyah, Tresco and Woorinen pumped irrigation district tariffs

Goulburn Murray Water provides water to customers in the Nyah, Tresco and Woorinen pumped irrigation districts through dedicated piped and pressured supply networks. The three districts have separate pumps and irrigation infrastructure and different irrigation service charges.

Goulburn Murray Water proposes to continue with its existing tariff structure and continue tariff rebalancing (rebalancing between fixed and variable tariffs) that it commenced in 2016.

We approved tariff rebalancing in our 2016 final decision as it better reflected the fixed capital costs incurred by Goulburn-Murray Water in those districts.⁴³ We note that bills for small, medium and large pumped irrigators decrease as a result of the continued tariff rebalancing as the decrease in the infrastructure access fee more than offsets the small increase in the infrastructure use fee.

Draft decision on Nyah, Tresco and Woorinen pumped irrigation tariffs

We propose to approve Goulburn-Murray Water’s pumped irrigation tariffs as it proposes to continue with existing arrangements, and we consider that it continues to comply with the ACCC’s pricing principles.

⁴³ Essential Service Commission, Goulburn-Murray Water Price Review 2016 – Final decision, June 2016, p. 52.

Goulburn-Murray Water’s proposed drainage tariffs (gravity and pumped)

Goulburn-Murray Water operates and maintains a network of surface drains of various ages, design standards and levels of service across the GMID. It applies various rates and charges which are set on an annual basis to raise revenue for funding of the operation, maintenance and replacement of the drainage infrastructure.

Goulburn-Murray Water proposes to maintain its existing tariff structures for drainage tariffs but rebalance some tariffs within its rebalancing constraint to reflect cost full recovery.⁴⁴ For most drainage customers, bills will decrease as a result of Goulburn-Murray Water’s tariff rebalancing.

Draft decision on drainage tariffs (gravity and pumped)

We propose to approve Goulburn-Murray Water’s drainage tariffs (gravity and pumped irrigation) as it proposes to continue with existing tariff structures, promotes cost reflectivity and we consider that it continues to comply with the ACCC’s pricing principle.

⁴⁴ We confirmed with Goulburn-Murray Water that it is limiting any price increases within its rebalancing constraint of 10 per cent per annum proposed in its price submission and the tariff rebalancing reflects cost recovery.

Goulburn-Murray Water’s proposed removal of the Torrumbarry Natural Carriers Rebate

The Torrumbarry Natural Carriers Rebate (rebate), which is applied to each megalitre used, is currently given to some Torrumbarry irrigation customers who pump water from nominated natural carriers (creeks, lakes, lagoons) and pay standard Torrumbarry irrigation delivery fees and prices. Goulburn-Murray Water has stated that the original rationale and rebate formula developed in 1996 is outdated.⁴⁵

For the past three years, the total value of the rebate amounted to \$400,000 (\$2019-20) and has been recovered from the other gravity irrigation customers in the GMID (cross-subsidy).⁴⁶ In 2019-20, the rebate was \$11.02 per megalitre and is applied to Torrumbarry gravity customers who were paying an infrastructure use fee of \$5.10 per megalitre.

Goulburn-Murray Water proposed to transition out the existing rebate by 25 per cent over the next four years and to completely remove it in 2023-24. Goulburn-Murray Water’s transitional arrangement to phase out the rebate is as follows:

Table 10.3 Goulburn-Murray Water proposed rebate phased out timeline
\$2019-20/ML

	2019-20	2020-21	2021-22	2022-23	2023-24
Torrumbarry Natural Carriers Rebate	11.02	8.27	5.51	2.75	0

Source: Goulburn-Murray Water Price Submission.

Goulburn-Murray Water outlined in its price submission that it has received support from the Torrumbarry Water Services Committee and other irrigation customers for the rebate to be removed. We generally agree with Goulburn-Murray Water’s assessment of its proposal against the ACCC’s pricing principles as outlined in its price submission. We consider the removal of the cross-subsidy achieves price transparency and leads to more cost reflective prices.

⁴⁵ The original intention of the rebate was to compensate Torrumbarry irrigation customers for the higher costs and lower service standards that was incurred as a result of undertaking their own private pumping and not relying on the lower delivery cost of natural carriers within the Goulburn-Murray Water system.

⁴⁶ In a response to an information query on 30 January 2020, Goulburn-Murray Water noted that the rebate increases the revenue to be recovered from the other gravity irrigation districts by around one per cent.

Draft decision on Torrumbarry Natural Carriers Rebate

We propose to approve Goulburn-Murray Water's proposal to remove the Torrumbarry Natural Carriers Rebate as it better meets the ACCC pricing principles for the following reasons:

- removal of the cross-subsidy would lead to more cost reflective prices, and provide better signals for consumption and investment decisions
- removal of the rebate will achieve greater price transparency as it will reduce concerns regarding the basis for the rebate.

11. Diversion services

Goulburn-Murray Water provides diversion services to customers who access water from waterways such as rivers, and groundwater.⁴⁷ Its diversion services include the management of water sources, compliance monitoring and administration of accounts. Diversion customers are generally charged an access fee, resource management fee and service point fees. This chapter covers the former two tariffs while service point fees is discussed separately in Chapter 13.

Approach to reviewing diversion charges

Goulburn-Murray Water's diversion proposals are covered by two sets of regulatory criteria:

- We review groundwater services, and surface water diversion services, which do not use Goulburn-Murray Water's infrastructure-related services, against the WIRO.
- We review surface water diversion customers' storage charges, which use Goulburn-Murray Water's storage infrastructure services, against the ACCC's pricing principles (see Box 10.1).

We regulate Goulburn-Murray Water's tariffs according to the WIRO's pricing principles (Box 11.1).

Box 11.1 WIRO's pricing principles for affecting approval of tariff structures

Tariff structures should:

- 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
- provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible
- take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

Source: Water Industry Regulatory Order 2014, Clause 11(d) (i)-(iii).

Our guidance to Goulburn-Murray Water required it to consult with customers affected by its proposals.

⁴⁷ Diversion services account for about five per cent of Goulburn-Murray Water's revenue.

Goulburn-Murray Water's proposed diversion charges

Goulburn-Murray Water proposes:

- to retain the existing tariff structures for regulated and unregulated water access fees, unregulated waterways resource management fee and Shepparton groundwater diversion resource management fee
- a one-off real reduction in access fees of 11 per cent and 53 per cent for regulated and unregulated surface water diversions as well as a reduction in the resource management fee for unregulated waterways
- a groundwater resource management fee of \$3.98 per megalitre from 2020-21
- to charge a resource management fee to 25 identified unregulated surface water licence holders (the licence holders had previously been exempt from the fee due to trading restrictions, which have now been removed, allowing these customers to trade under the standard rules).

We reviewed Goulburn-Murray Water's proposal to rebalance its diversion tariffs within the existing tariff structures. It proposed lower charges to reflect lower operating costs and rebalance tariffs within its proposed tariff rebalancing constraints.⁴⁸

We also reviewed Goulburn-Murray Water's proposal to charge 25 unlicensed surface water holders with a resource management fee and agree with its assessment of its proposal against WIRO requirements as the proposal:

- improves transparency regarding the application of resource management fees and provides for a simpler tariff structure
- removes existing cross-subsidies due to the exemption offered to these customers
- transitions the licences over the four years of the regulatory period.

A written submission from a customer indicated concerns with the prices Goulburn-Murray Water charges to diversion as well as domestic and stock customers.⁴⁹ We note that Goulburn-Murray Water has proposed a four-year transition in order to take into account the interests of customers, including low income and vulnerable customers, and Goulburn-Murray Water forecasts lower levels of operating and capital expenditure for surface water and groundwater diversions for 2020–24 compared to 2016–20.

⁴⁸ This is consistent with ACCC cost reflectivity and user pays pricing principles.

⁴⁹ Cameron Reid, submission to the Essential Services Commission on 'Goulburn-Murray Water price submission 2020–24', December 2019.

Draft decision on diversion services

Our draft decision is to approve Goulburn-Murray Water's proposed diversion tariffs as it proposes to continue with existing arrangements, promotes cost reflectivity and complies with the WIRO pricing principles.⁵⁰

⁵⁰ It also complies with the ACCC's pricing principle of user pays. Essential Services Commission 2018, Goulburn-Murray Water price review 2020: Guidance on price submission under the WCIR, October 2018, p. 39.

12. Bulk storage charges

Goulburn-Murray Water owns and manages storage facilities and assets that store water for wholesale customers (such as urban water corporations and environmental water holders) and retail customers (such as regulated surface water diverters and customers in Goulburn-Murray Water's irrigation districts).^{51 52} Currently, customers pay either a "basin" price or a "system" price for bulk water storage. If the water share is associated with a specific parcel of land (water user) customers pay a 'system' price. If the water share is disassociated with the land, the (non-water user) customer pays a 'basin' price.

Goulburn-Murray Water's existing tariff structure for storage services is as follows:

- A wholesale charge that recovers storage costs from the urban water businesses that use the storages, and from the environmental water holders. These charges are based on the size of the bulk entitlement held in a basin.
- Retail charge paid by irrigators based on the size of the water share held by a customer.

Each of these charges has two prices, which distinguish between high and low reliability water shares.

Approach to reviewing bulk storage service charges

We reviewed Goulburn-Murray Water's proposed bulk storage tariff structure against the ACCC's pricing principles for tariffs (see Box 10.1). In our guidance, we emphasised that Goulburn-Murray Water must explain how feedback from engagement has influenced its proposed prices and any proposed tariff reform.

⁵¹ Northern Victorian regulated water system is divided into the Murray system (which includes the Ovens and King systems) and the Goulburn-Campaspe-Lodden system, which also included Broken River, and is commonly referred to the Goulburn system.

⁵² The formalisation of water sharing and seasonal allocation processes for each basin through the issuing of Bulk Entitlements showed that costs on a per ML of entitlement are much higher in the smaller, lower yielding basins compared to costs in the large, high yielding basins like the Goulburn and Murray. Goulburn-Murray Water on behalf of its retailers pay bulk water charges on a basin pricing basis (as required under its Bulk Entitlement order). To calculate storage charges for water right holders, Goulburn-Murray Water aggregates and averages the basin costs it paid into the two historic system costs for the Murray and Goulburn systems. The commencement of open trade of water shares means that water rights held by its customers may be purchased by customers in other areas (Lower Murray Water or interstate).

Goulburn-Murray Water's proposed bulk storage service charges

In its price submission, Goulburn-Murray Water proposes:

- all retail customers pay the same storage fees regardless of whether their water entitlement is associated with land (i.e. their status as a water or non-water user)
- current non-water users to be charged storage fees based on a system price rather than the basin price
- maintaining the basin pricing approach for bulk entitlement holders, with the possibility to transition bulk charges to a system price during the next price review.

Goulburn-Murray Water submitted that this reform is driven by:

- members of their water services committees expressing concerns about the perceived inequity in storage fees where non-water users were getting a better deal
- an increasing gap between basin and system prices, as a result of more customers disassociating their water from land
- a realisation that the categorisation of water user and non-water user is obsolete (as a result of trade restrictions in water share being abolished) so that there is no longer a difference in service provided based on the categorisation
- overwhelming support from customers (from customer engagement) that the differentiation between water and non-water user should be removed.

Our review of bulk storage charges

We evaluated Goulburn-Murray Water's proposal after considering its price submission, customer submissions and evidence of Goulburn-Murray Water's customer engagement, and a report by Aither.⁵³

We consider that:

- charging customers the same price for the same service is expected to reverse the observed trend of customers disassociating their water from land, especially where the basin price is less than the system price
- revenue earned from the services is sufficient to cover costs
- customers will now more readily understand the basis for charging, as compared to the current mix of system and basin pricing

⁵³ We reviewed Goulburn-Murray Water's proposed bulk storage tariff structure against the ACCC's pricing principles. In our guidance to Goulburn-Murray Water, we emphasised that it must explain how feedback from engagement has influenced its proposed prices and any proposed tariff reform.

- clearer price signals is likely to result in better decisions regarding water use and trade in water entitlements.

We engaged Aither to review Goulburn-Murray Water's calculations to ensure that the proposed entitlement storage fee charges for high and low reliability water shareholder have been properly calculated. Aither found that:

- basin prices and volumes were correctly distributed between the Goulburn and Murray systems
- non-water user entitlements quantities and prices used in calculations were consistent with the financial model
- only high reliability/low reliability prices and quantities (and water allowance storage data for the Goulburn system) were considered in the calculation of high reliability/low reliability system prices
- the weighted average methodology has been correctly applied
- the system charges for the Goulburn and Murray systems are cost reflective but spread evenly across irrigators.

Stakeholders' submission on Goulburn-Murray Water price submission

The following submissions were provided on Goulburn-Murray Water's proposal to shift from basin to system pricing:

- An anonymous submission⁵⁴ argued that despite the move towards system prices, there remains perverse incentives for larger water shareholders to move their entitlements under a different (cheaper) bulk entitlement, thereby causing the system prices to increase over time.
- An anonymous water shareholder⁵⁵, who has previously terminated their service point from the irrigation system and therefore only pays the entitlement storage fee, expressed concerns that they will be unfairly charged additional irrigation fees as a result of the proposed reform.
- Central Highlands Water⁵⁶ expressed support for the removal of the difference between system and basin prices for all customers. However, it questioned why reform to bulk water charges for wholesale customers has been delayed to the next regulatory period, despite the extensive consultation undertaken by Goulburn-Murray Water for this price review.

⁵⁴ Anonymous submission to the Essential Services Commission on 'Goulburn-Murray Water price submission 2020–24', November 2019.

⁵⁵ Anonymous submission to the Essential Services Commission on 'Goulburn-Murray Water price submission 2020–24', January 2020.

⁵⁶ Central Highlands Water, submission to the Essential Services Commission on 'Goulburn-Murray Water price submission 2020–24', January 2020.

In considering submissions regarding the shift from basin pricing to system pricing, we make the following observations:

- The current water entitlement framework in Victoria provides mechanisms for water trading to enable available resources to be put to their most efficient use. As we only approve regulated tariffs for prescribed services, responses to price changes from entitlement holders are beyond the scope of this review.
- In relation to the anonymous water shareholder who expressed concerns about additional charges arising from the tariff reform, Goulburn-Murray Water clarified in a response⁵⁷ that the water shareholder is not liable for any irrigation fees (such as infrastructure access fee and infrastructure use fee) and service point fees but will continue to receive the entitlement storage fee associated with the system they currently belong. Goulburn-Murray Water confirmed that the entitlement storage fee does not include any fees associated with irrigation services.
- We note that Goulburn-Murray Water has not proposed to reform bulk water charges at this point, noting that in its price submission, Goulburn-Murray Water proposed to do so during the forthcoming regulatory period. We will monitor future developments in this space.

Customer impacts of the bulk water charges

Typical irrigation customers owning high reliability water shares in the Goulburn and Murray systems are expected to face a 13 and 21 per cent real decrease in their entitlement storage fee (high reliability water shares) between 2019-20 and 2020-21 respectively. Pumped irrigators in the Nyah, Tresco and Woorinen districts are expected to receive a 21 per cent real decrease in their entitlement storage fee (high reliability water shares) between 2019-20 and 2020-21.

Goulburn-Murray Water acknowledged that non-water users in the Goulburn Basin and Murray Basin would face price increases that exceed the average of other price increases. However, it did not propose any transitional arrangements to reduce the bill impacts for the affected customers in those basins.

Draft decision on bulk storage charges

We propose to approve Goulburn-Murray Water's proposed bulk storage tariff structures because it will improve price transparency and lead to greater efficiency in the use of water resources, which better meets the ACCC's pricing principles.

⁵⁷ Goulburn Murray Water, email response to request for information, 6 February 2020.

13. Service point fees

Service points are the connection point between a farm and the water supply network (channel, pipeline, river or aquifer).⁵⁸ For most significant water users, the service point incorporates a meter to measure water deliveries for water sharing and entitlement compliance management and for charging purposes.

When water was attached to land, the number of service points needed for effective supply to each property was clearly defined and fixed. Water trade and other factors have substantially changed water use patterns and locations, and consequently the need for service points has also changed.

Service point fees were introduced to reflect the costs associated with operating, maintaining and replacing service points. They also provide price signals to encourage removal of unneeded service points which can facilitate the wider rationalisation of distribution network assets.

The modernisation of the gravity irrigation network and a range of other drivers has also led to a need for more accurate meters. There is now a much wider range of meter types installed across water supply systems, which provide different capabilities (such as remote reading, local reading, remote operation) and which may also have different costs. Goulburn Murray Water's approach to service point fees has been evolving to address these issues.

Goulburn-Murray Water currently charges a separate tariff for the following gravity irrigation service points (meters and outlets) for the delivery of water to recover operating and maintenance costs:

- Domestic and Stock – fee recovers the costs of operating and maintaining domestic and stock service points
- Local Operate, Local Read – service point that is manually operated and the meter reading is manually collected
- Local Operate, Remote Read – service point is manually operated and the meter reading is automatically recorded
- Remote Operate, Remote Read – service point is automatically operated and the meter reading is automatically recorded.

It also charges service point tariffs to surface water and groundwater diverters to recover compliance, monitoring, usage, and maintenance of meters at each diversion site for:

- Unmetered service points – refers to service points that do not have a meter installed, or are used only for domestic and stock purposes.

⁵⁸ Service Point Fees account for about 13 per cent of Goulburn-Murray Water's revenue.

- Metered service points – refers to service points where a meter is installed and is used for purposes other than domestic and stock.

Approach to reviewing service point fees

Goulburn-Murray Water's service point fee proposals are covered by two sets of regulatory criteria:

- We review service point fees for gravity districts, pumped districts and water districts, against the ACCC's pricing principles (see Box 10.1).
- We review service point fees for diversion customers against the WIRO (see Box 11.1).

Goulburn-Murray Water's service point fee contain tariffs for services covered by both the WIRO and the WCIR. For this reason, we reviewed this proposal against the requirements of both regulations.

Goulburn-Murray Water's proposed service point fees reform

Goulburn-Murray Water has proposed several changes to the service point fee structure across multiple services, including applying charges more consistently across services and recovering costs differently across its services.

Table 13.1 and 13.2 compares Goulburn Murray Water's current and proposed service point fee structure.

Table 13.1 Goulburn-Murray Water’s current and proposed service point fees

Nominal

Customer groups									
		GMID		Pumped irrigation		Water districts		Diversions	
		2019-20	2023-24	2019-20	2023-24	2019-20	2023-24	2019-20	2023-24
Domestic and Stock	SPF	120	145	120	145	120	145	120	145
	Basis for charging	Per SP	Per SP	Per Additional SP	Per SP	Per Additional SP	Per SP	Per unmetered SP	Per unmetered SP
Local Operate, Local Read	SPF	350	455	120	455	NA	NA	350	455
	Basis for charging	Per SP	Per SP	Per Additional SP	Per SP	NA	NA	Per metered SP	Per metered SP
Local Operate, Remote Read	SPF	850	455	NA	NA	NA	NA	NA	NA
	Basis for charging	Per SP	Per SP	NA	NA	NA	NA	NA	NA
Remote Operate, Remote Read	SPF	1,060	1,070	120	1,070	NA	NA	NA	NA
	Basis for charging	Per SP	Per SP	Per Additional SP	Per SP	NA	NA	NA	NA

Source: Goulburn-Murray Water’s Price Submission: 2020–24.

Note: SPF stands for service point fee and SP stands for service point.

In its submission, Goulburn-Murray Water proposed a four-year transition for the following service point fees outlined in Table 13.2.

Table 13.2 Proposed transitional arrangements for service point fees

Nominal

Service point fee	Districts/customer	2019-20	2020-21	2021-22	2022-23	2023-24
Local operate, local read	GMID	350	375	400	425	455
	Pumped irrigation	NA	115	240	360	455
Local operate, remote read	GMID	850	750	650	550	455
Diversions (metered, excluding domestic and stock)	Unregulated Waterways	350	375	400	425	455

Source: our calculations based on Goulburn-Murray Water's price review model.

Goulburn-Murray Water's proposed transitional tariff path will lead to lower bills for gravity irrigation customers with remote read service points but higher bills for gravity irrigation and pumped irrigation customers with local read service points, as well as diversion customers with metered service points. Pumped irrigation customers with local read service points, who are only currently being charged the domestic and stock service point fees, will face a nearly three-fold increase in their service point fees.

Our review of Goulburn-Murray Water's service point fee proposal

We engaged Aither to review whether the proposed changes in service point charges across the different customer groups are cost reflective.

Amalgamation of Local Read, Local Operate and Local Operate, Remote Read service point fees

Aither examined the cost breakdown of the proposed local read and remote read service points and found that there remains about \$130 cost differential.⁵⁹ We reviewed Goulburn-Murray Water's engagement and found that customers generally supported the proposal.

⁵⁹ Customers receive essentially the same service from Local Read, Local Operate, and Local Operate, Remote Read but currently pay a \$500 difference in fees.

Our draft decision proposes to approve Goulburn-Murray Water's proposed amalgamation of local read, local operate and local operate, remote read service point fees as on balance, we consider that it better meets the ACCC pricing principles.

The application of service point fees to all service points for pumped irrigation and water districts

Goulburn-Murray Water is proposing to bring existing domestic and stock service point fees charged to pumped irrigation and water districts in line with similar fees in the GMID. The rationale given by Goulburn-Murray Water is that it is treating all service points the same way across all customer groups and applying the average cost of operating and maintaining each type of service point at the individual service point level.

Our draft decision proposes to approve Goulburn-Murray Water's proposed application of service point fees to all service points for pumped irrigation and water districts as it will increase efficiency and better meets the ACCC pricing principles.

Metered and unmetered diversion service point fee increase

Diversion customers can own two types of service points, unmetered and metered. Both service point types attract fees to recover the cost of managing compliance with licence conditions at each service point and measuring water use. Metered (excluding domestic and stock) service point fees also recover the costs of maintaining and replacing meters. Aither reviewed Goulburn-Murray Water's cost breakdown for its proposed diversion service point fees and found it difficult to verify Goulburn Murray Water's cost breakdown – for example, it did not receive information about how costs were calculated or Goulburn Murray Water's assumptions on arriving at its proposed costs.⁶⁰

We note that Goulburn-Murray Water is proposing to align service point fees for diversion customers with service point fees in the GMID, thereby simplifying Goulburn-Murray Water's tariff structure and lowering prices for all customers. However, feedback from diversion customers both to Goulburn-Murray Water, and directly to us⁶¹, highlighted preferences for low prices, transparency of prices, and greater transparency on the services customers pay for.

⁶⁰ It should be noted that our 2016 draft and final decisions on service point fees for diverters approved the tariff structure change as it better reflected the underlying costs.

⁶¹ Cameron Reid, op. cit.

Draft decision on metered and unmetered service point fees for diversion customers

On balance, we consider that Goulburn-Murray Water's price submission does not sufficiently justify a proposed increase in the metered and unmetered diversion service point fees as the proposal:

- does not achieve greater cost reflectivity, hence it does not align with the ACCC's pricing principle of 'user pays'
- does not reflect WIRO pricing principles as prices may be derived from inefficient costs, which may not promote the efficient use of service points.

Our draft decision proposes not to accept Goulburn-Murray Water's proposal to increase metered and unmetered diversion service point fees. Goulburn-Murray Water may reformulate its proposal in response to this draft decision or provide additional information specific to metered and unmetered service points for diversion customers in order to support its proposal.

Summary of the draft decision on service point fees

We have summarised our draft decision on the proposed service point fee reform in Table 13.3.

Table 13.3 Summary of the Commission's draft decision on service point fees

Proposed service point fee changes	Draft decision
Increase domestic and stock service point fees for GMID, pumped irrigation and water districts customers	Accept
Apply service point fees for all service points for pumped irrigation and water districts customers	Accept
Amalgamate local operate, local read and local operate remote read service point fees for GMID and pumped irrigation customers	Accept
Increase remote operate, remote read service point fees for GMID and pumped irrigation customers	Accept
Increase domestic and stock metered service point fees for diversion customers	Do not accept
Increase unmetered (excluding domestic & stock) service point fees for diversion customers	Do not accept

14. Other tariff reform

Goulburn-Murray Water has proposed minor changes to its existing tariff structure for the customer service fee, a separate water register fee and new tariffs for a newly constructed Mitiamo water pipeline district.

Goulburn-Murray Water proposed changes to the customer service fee

Goulburn-Murray Water proposed to stop charging customers for each service (currently at \$120 per service) and introduce a single customer service fee charged per customer irrespective of the number of services received. At the same time, Goulburn-Murray Water proposes to unbundle the water register fee from the service fee. In order to provide Goulburn-Murray Water enough time to implement the tariff change, it proposed to introduce the new tariffs from 2021-22 as outlined in Table 14.1.

Table 14.1 Proposed customer service and billing fees

\$2019-20

	2019-20	2020-21	2021-22	2022-23	2023-24
Service Fee	120.00	117.30			
Customer Service Fee			124.22	126.10	123.26
Water Register Fee			13.47	13.47	13.47

Goulburn-Murray Water assessed its proposal against the ACCC pricing principles.⁶²

⁶² We regulate Goulburn-Murray Water's tariffs according to the ACCC's pricing principles. In our guidance to Goulburn-Murray Water, we noted that Goulburn-Murray Water must explain how feedback from its consultation has influenced its proposed prices and any proposed tariff reform.

Table 14.2 Goulburn-Murray Water’s explanation of how its proposal complies with the ACCC’s pricing principles

ACCC Pricing principles	How the principle is achieved
Promote the economically efficient use of water infrastructure assets	No change
Ensure sufficient revenue for the efficient delivery of the services required	Despite lower forecast revenue to be collected from the two new tariffs, Goulburn-Murray Water reported no change in revenue adequacy.
Give effect to the principles of user pays for water storage and delivery in irrigation systems	Removes existing cross subsidies in the recovery of water register costs. Also aligns customer service administrative costs with the fees imposed.
Achieve pricing transparency	Separation of the customer service fee and water register fee provides appropriate signals regarding the costs of providing those services.
Facilitate water use and trade in water entitlements	Not applicable

Source: Goulburn-Murray Water 2020 price submission

Goulburn-Murray Water’s customer feedback indicated a preference to reduce the administrative burden of managing multiple accounts with multiple bills. This proposal will also benefit larger customers who are currently paying multiple services fees. Aither also reviewed Goulburn-Murray Water’s cost calculations and found the charge appropriate and based on reasonable calculations.

Draft decision on Goulburn-Murray Water customer service fee and water register fee

Our draft decision proposes to approve Goulburn-Murray Water’s proposed changes to its service fee as it better meets the ACCC’s pricing principles.

Goulburn-Murray Water's proposed Mitiamo pipeline water district tariffs

In anticipation of the construction of the water pipeline in Mitiamo from 2020-21, Goulburn-Murray Water proposed new tariffs pertaining the new water district. Goulburn-Murray Water has calculated those tariffs based on the tariffs for similar pipelines that Goulburn-Murray Water operates. Aither reviewed these calculations and considered that the proposed tariffs are reasonably based on the cost estimates for the new pipeline.

Draft decision on Goulburn-Murray Water's proposed Mitiamo pipeline tariffs

We consider that Goulburn-Murray Water's proposed tariffs related to the Mitiamo water supply district meet the ACCC's pricing principle of user pays pricing.

15. Miscellaneous service charges

Goulburn-Murray Water provides customers with miscellaneous services often related to the major services that it provides. Many of these services are not used frequently. They include granting and transferring licences for customers.

Approach to reviewing miscellaneous services charges

Miscellaneous services that relate to Goulburn-Murray Water's infrastructure services are regulated under the WCIR. The remainder are regulated under the WIRO (or are not regulated). We reviewed miscellaneous services charges against both the WCIR and the WIRO, to avoid doubt about the regime under which specific services should be assessed. Our guidance outlined the requirements for miscellaneous service charges (Box 15.1).

Box 15.1 Pricing principles for miscellaneous services

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

- direct third party or contractor invoice cost
- direct marginal internal costs, including labour, materials and transport costs
- 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.

Goulburn-Murray Water's proposed miscellaneous services charges

Goulburn-Murray Water submitted a list of all proposed prescribed miscellaneous services with charges for each service are set out at pages 134 to 136 of its price submission.

In its price submission, Goulburn-Murray Water has noted that in its previous regulatory period, various miscellaneous fees and charges have been over or under recovered. Goulburn-Murray Water has proposed to set all miscellaneous fees and charges as cost reflective, beginning from the new regulatory period.

We sought additional information on why miscellaneous fees and charges had over and under recovered over the previous regulatory period. In its response, Goulburn-Murray Water explained at the time of its previous price submission, costs were based on best estimates of the time taken and costs to process various applications. Since then, Goulburn-Murray Water has refined this

estimation process with detailed 'Time and Motion' analysis for all applications by recording the activities and average time spent to complete each application. Goulburn-Murray Water has indicated these reports are updated annually and formed the basis of setting the miscellaneous fees and charges.

Goulburn-Murray Water has indicated that through the detailed analysis, it proposes to set all miscellaneous fees and charges as cost reflective, in accordance with its new approach to allocating internal administrative and overhead costs.

Draft decision on miscellaneous services

We propose to approve Goulburn-Murray Water's proposal. We are satisfied that Goulburn-Murray Water's proposed prescribed miscellaneous services charges are calculated in a way that meets the requirements of the WCIR and the WIRO as the proposed charges are based on the costs of delivering the service.

16. We invite feedback on our draft decision

We invite feedback from stakeholders on our draft decision before we make a final decision and price determination. Our final decision and price determination will be made in June 2020.

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

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

How to provide feedback

Attend a public forum

We will hold a public forum on 15 and 16 April 2020. Forums provide an opportunity for interested parties to discuss key features of our draft decisions. We will publish details of public forums at www.esc.vic.gov.au/waterpricereview.

Provide written comments or submissions

Written comments or submissions in response to this draft decision are due on 24 April 2020.

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

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

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

2020 Goulburn-Murray Water Price Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

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

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

Next steps

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

- 15 and 16 April 2020 – public forum.
- 24 April 2020 – closing date for submissions on our draft decision.
- June 2020 – release of final decision and price determination.

Appendix A: Stakeholder submissions

Stakeholder	Date received
Anonymous	27 November 2019
Cameron Reid	19 December 2019
Adrian Bucci	28 December 2019
Max Bailey	13 January 2020
Central Highlands Water	21 January 2020
Anonymous	21 January 2020
North Central CMA	24 January 2020

Appendix B: Service standards

Category	Outcome	Customer focussed theme	Service Standard (performance measure)	Target
Customer Service – Licencing and Administration	Efficient Operations	We offer timely transactions for our customers	Processing allocation trade applications within five business days	90%
			Processing water share applications within 10 business days	95%
			Processing change of ownership applications within 10 business days	90%
Customer Service – General Administration	Credible Business	We take quick action on complaints to reach resolutions for our customers	Customer Service Complaints to Energy and Water Ombudsman Victoria (per 1,000 customers)	1.0 (modified)
			Customer complaints to Goulburn-Murray Water (per 1,000 customers)	5.68 (removed)
			Complaints process managed to the satisfaction of the customer	85% (new)
			We respond to complaints in writing within three business days	100% (modified)
	Simple Systems	We answer our customers' calls quickly and effectively	Telephone calls answered within 60 seconds	85% (modified)
	Credible Business	The person who answers your call can usually answer your questions	Rate of first point resolution (for phone calls)	2020-21: 64% 2021-22: 66% 2022-23: 68%

				2023-24: 70% (modified)
Diversions Service Standards	Responsive services	Our diversions customers have access to the water resource monitoring data they need	Within two weeks of it being submitted	90%
	Responsive services	We comply with the Local Management Rules we developed with our customers for unregulated streams and groundwater	Access to unregulated stream flows is managed in accordance with restriction triggers in local management rules (existing)	100%
			Customer access to groundwater is managed through seasonal allocations which are announced in accordance with relevant management plans	100%
	Responsive services	Our customers know when restrictions on unregulated streams are in place	Customers receive notification in writing (through SMS, email or written letters) within 24 hours (new)	100% (new)
Water Districts Service Standards	Efficient operations	We supply water to our water districts customers when they need it	Supply interruptions do not exceed 96 hours	100%
			Efficiency achieved as a % of diverted	85% (removed)
Pumped Irrigation Service Standards	Efficient operations	We supply water to our Pumped District customers when and where they need it	Supply interruptions do not exceed eight hours in the summer months and 48 hours in the winter (modified to reflect new summer and winter specific performance measures)	80% (modified)
			Irrigation orders are delivered on the day requested	98%

			Efficiency achieved as a % of delivered	92% (removed)
	Simple systems	Our customers are informed by SMS when there is a supply interruption and again when it is restored	Within two hours	100%
Water Delivery Service Standards		Our GMID irrigators are supplied water when and where it's needed	% of orders delivered on a day requested (increase by 2%)	95% (modified)
			Flow rate is within 10 per cent of order	80%
			% of orders within ± 40 mm of supply level 90% of time	80% (removed)
Drainage Service Standards	Responsive services	We maintain drains to remove excess runoff	Drains are maintained to a level that they are available to remove run-off (modified measure – to replace below)	98% (modified – replacing two)
Maintenance Service Standards			Maintenance requests responded within target (Priority 1-2)	90% (removed)
			Unplanned service interruptions (Less than 12 hours)	5 (removed)
Bulk Water Service Standards	Reliable supply	We maximise harvesting opportunities – to deliver the best water outcomes for our customers	Up to 100 per cent of design storage capacity	100%
	Reliable supply	Our regulated systems are delivering water to meet our customers' demands	Percentage of time a customer demand can be met	99%
	Responsive services	Our customers are informed of seasonal	As per the defined time frames	100%

		determinations on time, every time		
	Responsive services	Our customers are informed about risk of spill announcements on time, every time	As per the defined time frames	100%
	Responsive services	We maintain the minimum required flow rates in our rivers	Flow requirements as specified in the relevant bulk entitlements	98%
Network Delivery Efficiency	Efficient operations	Our delivery systems efficiently deliver water from storage to our customers	Water delivered to customer properties through the closed piped network as a percentage of water extracted (new)	92%
			Water delivered to customer properties through the open channel network as a percentage of water extracted (new)	85%