

Goulburn-Murray Water final decision

2024 Water Price Review

18 June 2024

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Summary

We have made our final decision on Goulburn-Murray Water's prices for the next 4 years

In March 2024, we released our draft decision on the price submission Goulburn-Murray Water submitted to us in September 2023.¹ The draft decision set out our preliminary views on Goulburn-Murray Water's proposals and invited interested parties to make further submissions. We also held a public forum in April 2024. In addition to a response by Goulburn-Murray Water, we received 10 written public submissions (including a group submission) and two confidential submissions on our draft decision. These are available on our website (see Appendix A).

After considering feedback, we have made a price determination for Goulburn-Murray Water.² The price determination sets out the maximum prices Goulburn-Murray Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the 4-year period from 1 July 2024 (2024-28). This final decision sets out our supporting reasons and analysis for the price determination.



Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision confirms the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

¹ Our draft decision for Goulburn-Murray Water is available at www.esc.vic.gov.au/waterpricereview.

² Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water business may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission, *Goulburn-Murray Water Determination: 1 July 2024 – 30 June 2028*, 25 June 2024.

We have approved a revenue requirement of \$478.2 million over 4 years

Our final decision approves a revenue requirement of \$478.2 million over the 4-year period starting 1 July 2024 (see Chapter 4).³ This is \$2.0 million or 0.4 per cent lower than our draft decision, and \$4.1 million or 0.9 per cent higher than Goulburn-Murray Water's proposed revenue requirement. This reflects the combined effect of changes to the cost of debt, long-term inflation rate, updates to licence fees, environmental contributions, and other minor adjustments.

This revenue requirement will allow Goulburn-Murray Water to deliver on its customer service commitments, government policy, statements of obligations, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

Customer bills generally to change by less than inflation from 1 July 2024

Many gravity irrigation customers will experience a steady or lower typical bill before inflation, with some medium and large gravity irrigation customers experiencing slight increases each year. Pumped irrigation typical bills will increase between 3.9 per cent to 4.5 per cent on average each year (excluding inflation) for medium and large customers in the Woorinen region primarily due to increases in the Woorinen pumped irrigation service point fee. Pumped irrigation typical bills increase by around 1.5 per cent on average each year (excluding inflation) for customers in the Tresco area, mostly due to increases in the service point fee (for all customers) and subsurface drainage fee (for medium and large customers). All other pumped irrigation typical bills under Goulburn-Murray Water price submission proposal either decrease or increase slightly by up to 0.2 per cent per year (excluding inflation).

Table A shows the estimated bill change for the medium gravity irrigation customer group under our final decision for 2024-25 in nominal terms (that is, including inflation).

³ Along with forecast demand, the revenue requirement is an input to calculating the prices to be charged by a water business.

Table A Estimated bill changes (including inflation) – for medium customer by irrigation district (2024-25)

Gravity Irrigation district	Bill change
Shepparton	4.3%
Central Goulburn	4.4%
Rochester	4.7%
Loddon Valley	3.8%
Murray Valley	4.7%
Torrumbarry	4.9%

Goulburn-Murray Water has committed to delivering outcomes that reflect customer priorities

Goulburn-Murray Water set out the following outcome commitments for customers:

- reliable supply
- credible business
- fair pricing
- efficient operations
- responsible services
- socially responsible.⁴

Our final decision accepts most tariffs proposed by Goulburn-Murray Water

Consistent with our draft decision, our final decision approves most of Goulburn-Murray Water's proposed tariff reforms as they meet the criteria set out in the guidance:⁵

We approve the following reforms as proposed by Goulburn-Murray Water:

- to move its bulk water pricing from a basin to a two-system pricing approach. This aligns with the two-system pricing approach we approved for entitlement storage fees in 2020. The proposed approach is more cost reflective, simpler and is supported by Goulburn-Murray Water's bulk water customers.

⁴ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 40.

⁵ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, September 2022, p. 51–56.

- to simplify its tariffs for surface and sub-surface drainage to make them more cost reflective and easier for customers to understand.

Consistent with our draft decision, our final decision also accepts most of Goulburn-Murray Water's remaining tariff structures on the basis that they are a continuation of its approach and otherwise meet the requirements of our guidance.

We do not accept Goulburn-Murray Water's proposed service point fees for unmetered customers as we consider it did not provide sufficient cost information to justify the fees. We have reduced unmetered service point fees by around \$18 (or 12 per cent, including inflation) in 2024-25, then allowing increase of inflation each year for the remainder of the period. Unmetered service point fees will not be part of Goulburn-Murray Water's revenue cap for the 2024–28 regulatory period. This means the business cannot recover the revenue reduction arising from our lowering of unmetered services point fees through other tariffs.

We require Goulburn-Murray Water to improve its data collection and cost allocation for service point fees and diversion tariffs to inform its next pricing submission for the 2028 water price review.

Our final decision is to accept Goulburn-Murray Water's proposed revenue cap form of price control as it meets the requirements of our guidance and largely reflects a continuation of current arrangements, consistent with our draft decision.

We have rated Goulburn-Murray Water's price submission as 'Standard' under the PREMO framework

Consistent with our draft decision, our final decision is to rate Goulburn-Murray Water's price submission as 'Standard' under the PREMO framework (Table B). This is the same as Goulburn-Murray Water's self-rating.

Factors in support of this PREMO rating include:

- it provided a price submission and supporting pricing model that were of a high quality
- the business's proposed operating and capital expenditure benchmarks demonstrate the prudence and efficiency of the forecasts in its price submission
- its proposal to absorb any operating cost increases above inflation through operational efficiencies
- the exclusion of some capital investment from customer prices due to uncertainty related to associated projects, thereby ensuring customers do not pay for projects that do not ultimately proceed or change in scope.
- the overall quality of its engagement program and the level of influence it afforded many of its stakeholder groups.

Most outcome targets indicate that Goulburn-Murray Water will maintain its current level of services over 2024–28, which along with its proposed reduction or steady state in bills for most of its customers, indicates a general improvement in customer value.

See Section 1.4 for an explanation of the PREMO framework and Chapter 16 for more detail on our assessment of Goulburn-Murray Water’s price submission.



Our PREMO rating is an assessment of the water business’s price submission and its ambition to deliver outcomes valued by its customers. It is not an assessment of the water business itself.

Table B PREMO rating

	Overall PREMO rating	Risk	Engagement	Management	Outcomes
Goulburn-Murray Water’s self-rating	Standard	Standard	Standard	Standard	Standard
Commission’s rating	Standard	Standard	Standard	Standard	Standard

1. Our role and approach to water pricing

1.1 We are Victoria's independent economic regulator

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

1.2 We are reviewing Goulburn-Murray Water's proposed prices

We are reviewing the prices that Goulburn-Murray Water proposes to charge customers for prescribed services from 1 July 2024. Goulburn-Murray Water's prescribed services include retail water services, storage operator and bulk water services, irrigation drainage services, diversion services (groundwater and surface water) and various miscellaneous services.⁶

Goulburn-Murray Water provided a submission to us proposing prices for a 4-year period starting 1 July 2024. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2024. We make a price determination after issuing a draft decision and considering feedback from interested parties, including any response to the draft decision from the water business.

The price determination specifies 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. This final decision explains the reasons for our price determination.

1.3 We assess prices against the WIRO and other legal requirements

This is the first time that prices for all of Goulburn-Murray Water's infrastructure-related services are regulated under the WIRO.⁷ It is also the first time we are assessing Goulburn-Murray Water under the PREMO framework (see section 1.4).

Clause 11 of the WIRO specifies the mandatory matters we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act, and clause 8 of the WIRO requires that we place particular emphasis on the promotion of

⁶ The full list of prescribed services that are subject to price regulation under WIRO are listed at clause 7(b) of the WIRO. Some of these services are not relevant for Goulburn-Murray Water's regulated water business.

⁷ Prior to 1 July 2024, Goulburn-Murray Water's infrastructure-related services were regulated under the Water Charge (Infrastructure) Rules 2010.

efficiency-related matters. In making a price determination, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act
- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance⁸
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including customers who are on a low income or who are experiencing vulnerability.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so in this draft decision. Table 1.1 summarises the matters we must have regard to and groups them into themes.

In September 2022, we issued guidance to Goulburn-Murray Water to inform its price submission.⁹ The guidance set out how we would assess Goulburn Murray Water's submission against the matters we must consider under clause 11 of the WIRO. It also outlined our expectation that Goulburn Murray Water would comply with certain requirements and specified information that Goulburn Murray Water must provide to us when submitting its price submission.¹⁰

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

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.¹²

⁸ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022.

⁹ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022.

¹⁰ Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

¹¹ This is a requirement of the WIRO, clause 14(b).

¹² This is provided for under the WIRO, clause 14(b)(i).



The power for water businesses to charge fees for services they provide is set out in the *Water Act 1989*.¹³ These provisions in the Water Act also govern the processes for and manner in which water businesses may set and impose fees. Each water business must ensure that it complies with these legislative requirements.

¹³ See part 13, Division 5 and 6 of the Water Act 1989.

Table 1.1 Matters businesses and the commission must have regard to

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO]	particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act]	in performing its functions and exercising its powers, the objective of the commission is to promote the long-term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act]
promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO]	return on assets in the regulated industry [s. 33(3)(c), ESC Act]	
provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO]	ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act]	enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO]
efficiency in the industry and incentives for long term investment [s. 8A(1)(a), ESC Act]		provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO]
efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act]		take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]
financial viability of the industry [s. 8A(b)(1), ESC Act]		

Continued next page

Table 1.1 (continued)

Benchmarking	Health, safety, environmental and social obligations	Other
<ul style="list-style-type: none"> any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act] 	<ul style="list-style-type: none"> the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act] to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s.4C(c), WI Act] 	<ul style="list-style-type: none"> the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s.8A(1)(c), ESC Act] consistency in regulation between States and on a national basis [s. 8A(1)(f), ESC Act] the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities the 8A(1)(e), ESC Act] wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]

Note: References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the Essential Services Commission Act 2001 (ESC Act), and the Water Industry Act 1995 (WI Act).

1.4 PREMO

PREMO stands for **P**erformance, **R**isk, **E**ngagement, **M**anagement, and **O**utcomes. Each element of PREMO is summarised in Box 1.1.

Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- Performance – have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- Risk – has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- Engagement – how effective was the business’s customer engagement to inform its price submission?
- Management – is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes – do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

First introduced at our 2018 water price review, the purpose of PREMO is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives, via the rating of price submissions as Leading (the highest available rating), Advanced, Standard or Basic, depending on the level of ambition expressed by a water business in its price submission. Financial incentives are provided by linking the return on equity to the PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and take these into account in forming its proposals, as outlined in its price submission. These should be evidenced in price submissions by linking the outcomes proposed with findings from a business’s engagement.

The 2024 water price review was the first time we assessed Goulburn-Murray Water's prices under PREMO.¹⁴ Our guidance required Goulburn-Murray Water to demonstrate its level of ambition to deliver value for money to its customers in its price submission across four of the five elements of PREMO: Risk, Engagement, Management and Outcomes. We have not assessed Goulburn-Murray Water against the Performance element during this price review, because we do not have a set of Outcomes established from a previous review under PREMO framework against which to measure performance.

Goulburn-Murray Water was required to self-assess against these four elements and propose a rating for its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic'. Its proposed return on equity will then reflect its proposed PREMO rating. A 'Leading' submission has the highest return on equity, and a 'Basic' submission the lowest. We assess the self-rating and also assess the price submission more broadly, including Goulburn-Murray Water's justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.¹⁵

¹⁴ Goulburn-Murray Water was regulated under the Water Charge Rules (2010) until June 30 2024 - <https://www.accc.gov.au/by-industry/water/water-charge-rules/goulburn-murray-water-decisions-under-part-6-of-the-water-charge-rules-2010/goulburn-murray-water-part-6-ceasing-decision>. These rules did not accommodate our PREMO framework, hence we could not assess Goulburn-Murray Water against the PREMO elements in the 2020 water price review.

¹⁵ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 41–46. We do not rate a business higher than its self-rating, as the PREMO incentive framework is about the business putting forward its best offer and giving an honest assessment of its price submission.

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

We have made our final decision on Goulburn-Murray Water's price submission after considering:

- Goulburn-Murray Water's price submission
- Goulburn-Murray Water's presentation made directly to commissioners
- Goulburn-Murray Water's responses to our queries and our draft decision
- our consultants' reports
- the views of participants in our public forum held on 23 April 2024¹⁶
- written submissions from interested parties (a list of submissions responding to our draft decision is provided in Appendix A).

Any reports, submissions or correspondence provided to us that 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 matters Goulburn-Murray Water must address in its price submission. Goulburn-Murray Water's price submission addressed most of these matters. Our preliminary assessment of those matters was provided in our draft decision.

We consulted on our draft decision, receiving submissions between 26 March and 7 May 2024 and holding a hybrid public forum on 23 April 2024. Themes raised during the forum included prices and charges, management of water flows and the effectiveness of Goulburn-Murray Water's engagement under the PREMO framework. These matters are further discussed in Section 3.1 and Section 4.1.1 of this final decision.

Goulburn-Murray Water provided a response to our draft decision, including a revised financial model that reflected the updated cost of debt and inflation figures we provided to businesses in May 2024.¹⁷ In making our final decision, we have also considered Goulburn-Murray Water's response to our draft decision.

This paper sets out our final decision.

¹⁶ A recording of this forum is available on our website.

¹⁷ All references to Goulburn-Murray Water's price submission in this document refer to Goulburn-Murray Water's original price submission that it provided to us in September 2022 rather than its response to our draft decision.

2.1 Final decision paper outline

This final decision paper is structured around the steps we have taken to arrive at our price determination. In summary, these steps were:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Goulburn-Murray Water has committed to over the regulatory period (Chapter 3).
- Establish Goulburn-Murray Water's revenue requirement using a building block methodology (Chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (Chapters 5 to 14).

Chapter 15 outlines our consideration of Goulburn-Murray Water's financial position, which we have also had regard to.

Chapter 16 outlines our assessment of Goulburn-Murray Water's price submission under the PREMO framework.

Unless otherwise noted, all financial values referred to in this final decision paper are in \$2023-24, which means inflation is excluded.

2.2 Regulatory period

Our final decision is to approve a regulatory period of 4 years from 1 July 2024.

We are required to set the term of the regulatory period over which a water business's price determination will apply.¹⁸ Our guidance proposed that we set a 4-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.¹⁹

Goulburn-Murray Water proposed, and our draft decision proposed to approve, a regulatory period of 4 years. Accordingly, consistent with the reasons outlined in our guidance, our final decision is to set a regulatory period of 4 years.

¹⁸ This is a requirement of the WIRO, clause 9.

¹⁹ For detail on the reasons for using four years as the default regulatory period, see: Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 18.

3. Customer outcomes

The customer outcomes Goulburn-Murray Water plans to deliver over the regulatory period are a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding into its PREMO assessment.

This chapter outlines our views on:

- Goulburn-Murray Water’s engagement with its customers in preparing its price submission (Section 3.1)
- the customer outcomes Goulburn-Murray Water is committing to for the regulatory period (Section 3.2)
- Goulburn-Murray Water’s service standards for the regulatory period (Section 3.3).²⁰

3.1 Customer engagement

Our guidance required Goulburn-Murray Water to engage with customers to inform its price submission. Our guidance also specified key principles to guide Goulburn-Murray Water’s engagement.²¹

As outlined in our draft decision, we consider Goulburn-Murray Water’s engagement aligned with these principles in several ways. Goulburn-Murray Water:

- started engagement early with its program running from September 2021 to September 2023, which enabled the business to receive more than 1,400 pieces of feedback from large-scale gravity irrigators, diverters, urban water authorities and environmental water holders
- used a range of methods to support effective participation, including surveys, focus groups, workshops, drop-in sessions, a dedicated online feedback platform and online pricing simulators to engage with its stakeholders across the region
- tailored its engagement to suit its customers’ circumstances by using methods and timing that would work well for remote and rural areas affected by the pandemic and the October 2022 floods
- engaged on local service issues of importance to the customers and on matters that have a significant influence on the services provided and prices charged

²⁰ Guaranteed services levels are not applicable to rural water businesses and so are not addressed in this final decision.

²¹ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 20.

- engaged in a way that was inclusive of First Nations people and Traditional Owners, including meeting with Dja Dja Wurrung leaders to discuss ongoing engagement and partnership opportunities.

More detail on Goulburn-Murray Water's engagement is available in its price submission.²²

Our draft decision outlined several ways in which Goulburn-Murray Water demonstrated that its engagement influenced its proposals. This included Goulburn-Murray Water introducing:

- a new outcome on social responsibility²³
- simplified drainage tariffs²⁴
- a new service standard relating to the monitoring of ground water applications, and to help urban water business customers manage potential water quality risks²⁵
- a commitment to explore options for temporarily deactivating service points.²⁶

Our draft decision was to accept Goulburn-Murray Water's 'Standard' self-rating for the Engagement element of PREMO as we considered this reflected the overall suitability of its engagement program for the majority of its services, and the overall level of influence afforded to customers.

The draft decision considered submissions from diversion customers on unregulated waterways, which raised concerns about Goulburn-Murray Water's engagement with them on fees and the service point costs for domestic and stock water customers. We acknowledged Goulburn-Murray Water's commitment to improve how it communicates with diversion customers, both on the nature of charges and on value for money.

Feedback on our draft decision was mainly from Goulburn-Murray Water's diversion customers on unregulated waterways. Some submissions reiterated earlier concerns that Goulburn-Murray Water had either not consulted with them sufficiently, or that the consultation did not influence pricing outcomes in the way or to the degree they sought.²⁷ One submission considered Goulburn-Murray Water's engagement on issues relevant to diversion customers was too reliant on water service committees and did not sufficiently extend to diversion customers both within and beyond

²² Goulburn-Murray Water's price submission is available on our website at <https://www.esc.vic.gov.au/water/water-prices-tariffs-and-special-drainage/water-price-reviews/water-price-review-2024>.

²³ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 39.

²⁴ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 79.

²⁵ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 45.

²⁶ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 27.

²⁷ Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 16 April 2024; Rod Hall, submission to the commission's Goulburn-Murray Water draft decision, 17 April 2024; Rod Hall and 24 other domestic and stock customers, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024.

the Upper Ovens area. This submission considered a ‘Basic’ self-rating for the Engagement element of PREMO was appropriate.²⁸

We have considered all feedback we received in written submissions and at the public forum. We have assessed these within the context of Goulburn-Murray Water’s wider engagement program, and accept the overall program was inclusive and demonstrated customers’ influence on services and prices – consistent with the principles of good engagement. We have weighed this feedback alongside the factors in support of the ‘Standard’ rating. Based on the above, our final decision is to retain Goulburn-Murray Water’s self-rating of ‘Standard’ for the Engagement element of PREMO.

Further information on our PREMO assessment of Goulburn-Murray Water’s price submission is included in Chapter 16 of this final decision.

Our assessment of Goulburn-Murray Water’s service point fees in Chapter 10 provides detail on the matters unregulated diverters raised in relation to Goulburn-Murray Water’s price submission.

3.2 Outcomes

Goulburn-Murray Water was not assessed under our PREMO framework at its last price review. However, it engaged with its customers to develop and commit to a set of outcomes as part of its service standards and reported annual performance to its customers via its website throughout the 2020–24 regulatory period.

Actual performance against output measures and targets will be monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It will also inform the rating for the ‘Performance’ element of PREMO at the next price review.

Goulburn-Murray Water proposed to deliver the following outcomes over the regulatory period starting 1 July 2024:

- reliable supply
- credible business
- fair pricing
- efficient operations
- responsible services
- socially responsible.²⁹

²⁸ Nick Legge, submission to the commission’s Goulburn-Murray Water draft decision, 7 May 2024.

²⁹ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 40.

Goulburn-Murray Water's proposed measures and targets that it will use to report on its performance for each outcome are detailed in Appendix 5 on pages 105 to 106 of its price submission.

We considered its proposed set of outcomes for the 2024–28 regulatory period demonstrated an overall improvement in customer value and is consistent with the requirements of a 'Standard' rating for the Outcomes element of PREMO. Multiple submissions provided claimed that certain of Goulburn-Murray Water's proposed outcomes did not have any application to unregulated domestic and stock customers. We note that not all outcomes are relevant to all of Goulburn-Murray Water's customer groups but address the interests of the wider customer base. After considering all submissions received following our draft decision, on balance we have not changed our views expressed in our draft decision on Goulburn-Murray Water's outcomes.

In our draft decision, we noted that some of the proposed outcome measures and targets were not presented in a manner consistent with our guidance requirements. In response to our draft decision, Goulburn-Murray Water amended its outcome measures and targets. Goulburn-Murray Water's final set of measures and targets meets the requirements set out in our guidance.

Among the key initiatives to deliver on its commitments, Goulburn-Murray Water will invest to renew and maintain assets to underpin reliability, and improve IT security to ensure its systems and data remain secure. It has prioritised flow rates and delivery of water to schedule, and reduced processing timelines for applications to support efficient farm operations. Goulburn-Murray Water has also adopted a new 'socially responsible' outcome following customer feedback, which will deliver environmental and cultural outcomes that matter to Traditional Owners and communities. Goulburn-Murray Water has committed to efficiencies to minimise prices.

Following the release of this final decision, we will publish Goulburn-Murray Water's 2024–28 outcomes reporting template, and we expect Goulburn-Murray Water to publish its outcomes commitments prominently on its own website.

Our assessment of Goulburn-Murray Water's outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 16.

3.3 Service standards in relation to service reliability and faults

Goulburn-Murray Water provided a list of service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers required under clause 1.5 of the *Water Industry Standard – Rural Customer Service* (Water Industry Standard). Each water business must specify its own service levels against each of these service standards. Rather than performance measures, these

service standards and corresponding service levels are the minimum level of service customers can expect to receive.

Our draft decision summarised Goulburn-Murray Water's proposed service standards and the reasons we considered they comply with the requirements of the Rural Water Industry Standard.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Goulburn-Murray Water's service standards. Based on the above, our assessment is that the service standards relating to reliability and faults proposed by Goulburn-Murray Water comply with the requirements of the Rural Water Industry Standard.

These service standards and Goulburn-Murray Water's targets until 2028 are set out in Appendix C.

Service standards are set out in our Rural Water Industry Standard. Accordingly, in early 2024-25, we will update the Rural Water Industry Standard to reflect targets set by the water business.

3.4 Guaranteed service levels

Guaranteed service levels define a water business's commitment to deliver a specified level of service. Rural water businesses, such as Goulburn-Murray Water can elect whether or not to implement a scheme.³⁰

Similar to past price reviews, Goulburn-Murray Water has elected to continue without a Guaranteed Service Level scheme for this 4-year pricing period from 1 July 2024. This is consistent with the approach taken by Victoria's other water business that provides only rural water services, which we assessed and approved in 2023.³¹

³⁰ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 25.

³¹ Essential Services Commission, *Southern Rural Water final decision*, 23 June 2023.

4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.³² Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Goulburn-Murray Water's revenue requirement based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 4.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 4.2)
- roll-forward the regulatory asset base (Section 4.3)
- apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 4.4.1)
 - a benchmark return on equity value determined by Goulburn-Murray Water's PREMO rating (Section 4.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 4.5)
- establish a benchmark tax allowance (Section 4.6).

Our final decision is to approve a revenue requirement of \$478.2 million.

Goulburn-Murray Water's price submission proposed a revenue requirement of \$474.2 million over a 4-year period starting 1 July 2024. Our draft decision adopted a slightly higher revenue requirement of \$480.3 million, mainly reflecting updates to our estimate of the long-term inflation. Our final decision adopts a revenue requirement of \$478.2 million (Table 4.1).

Since our draft decision, we have updated our estimate for the cost of debt as well as our forecasts for environmental contributions and licence fees. We have also updated our long-term inflation forecast. The revenue requirement we have approved in our final decision also reflects our final

³² We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Goulburn-Murray Water in the regulatory period from 1 July 2024. We had regard to their views in arriving at our final decision.

decision on Goulburn-Murray Water’s unmetered service point fees (Chapter 10). As we have approved lower unmetered service point fees than proposed by Goulburn-Murray Water, we have offset the revenue requirement by a corresponding amount. As unmetered service point fees will not be part of the revenue cap for the 24-28 period, this means the business cannot recover the revenue reduction arising from our lowering of unmetered services point fees through other tariffs (the impact on the revenue requirement is shown as “revenue requirement adjustment” in Table 4.1 below).

Goulburn-Murray Water’s revenue requirement includes a \$3.4 million return of funds to customers due to Murray Darling Basin Authority (MDBA) bulk water charges being lower than the business estimated for the current regulatory period. This amount is reflected as an adjustment from the last period in Table 4.1.

Another reason for the decrease in our final decision revenue requirement compared to our draft decision is a reduction in forecast operating expenditure related to lower forecasts for environmental contributions and licence fees.

Table 4.1 Final decision on Goulburn-Murray Water’s revenue requirement

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	91.6	92.2	92.8	92.8	369.4
Return on assets	13.4	14.2	14.9	15.8	58.4
Regulatory depreciation	12.5	13.2	13.9	14.4	54.1
Adjustments from last period ^a	-0.8	-0.8	-0.8	-0.8	-3.4
Tax allowance	-	-	-	-	-
Revenue requirement adjustment	-0.1	-0.1	-0.1	-0.1	-0.3
Final decision – revenue requirement	116.7	118.7	120.8	122.0	478.2

Notes: Numbers have been rounded. ^a Return of funds from surplus adjustments to bulk water charges (MDBA)

Our final decision approves a revenue requirement that we consider is adequate for the business to deliver the outcomes it has determined are valued by customers and the community, and meet its legal and regulatory obligations, including for environmental water and sustainability.

The adjustments to Goulburn-Murray Water’s revenue requirement that we have made in our final decision against our draft decision are shown in Table 4.2 with the reasons outlined in the following sections.

Table 4.2 Adjustments to revenue requirement – our draft and final decisions

\$ million 2023-24

	2024 25	2025 26	2026 27	2027 28	Total
A. G-MW's proposed revenue requirement	115.7	117.7	119.8	121.0	474.2
B. Total adjustments proposed in our draft decision	1.5	1.5	1.5	1.6	6.1
Operating expenditure	0.0	0.0	0.0	0.0	0.1
Return on assets	1.5	1.5	1.5	1.5	6.0
C. Draft decision – revenue requirement (C = A+B)	117.2	119.2	121.3	122.6	480.3
D. Total adjustments in our final decision	-0.5	-0.5	-0.5	-0.5	-2.0
Operating expenditure	-0.6	-0.6	-0.5	-0.5	-2.3
Return on assets	0.2	0.2	0.1	0.1	0.5
Tax allowance	-	-	-	-	-
Revenue requirement adjustment ^a	-0.1	-0.1	-0.1	-0.1	-0.3
E. Final decision – revenue requirement (E = C + D)	116.7	118.7	120.8	122.0	478.2

Notes: Numbers have been rounded. Row A shows the total revenue requirement proposed by Goulburn-Murray Water in its price submission. Row B shows the total difference between our draft decision and what Goulburn-Murray Water proposed in its price submission. Row C shows the total revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision. Numbers have been rounded and may not total to the final revenue requirement.
a. This adjustment reflects our final decision on service point fees for unmetered diverters.

4.1 Operating expenditure

Our final decision is to adopt a forecast operating expenditure of \$369.37 million for the 2024–2028 regulatory period.

Operating expenditure is a component of the revenue requirement. Goulburn-Murray Water's price submission provides detail on its forecast operating expenditure from pages 53 to 57.

Our draft decision proposed to adopt a forecast operating expenditure of \$371.64 million for the 4-year period, which was \$0.1 million higher than proposed by Goulburn-Murray Water. Our final decision adopts a forecast operating expenditure of \$369.37 million for the 4-year period, reflecting adjustments made to Goulburn-Murray Water's non-controllable operating expenditure.

Table 4.3 sets out our final decision on Goulburn-Murray Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

Table 4.3 Final decision – operating expenditure

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	75.79	76.34	77.05	77.00	306.18
Non-controllable operating expenditure	15.84	15.81	15.78	15.76	63.19
Murray Darling Basin Authority contribution ^a	14.00	14.00	14.00	14.00	14.00
Environmental contribution ^b	1.75	1.70	1.65	1.60	6.70
Licence fees – Essential Services Commission ^c	0.09	0.11	0.13	0.15	0.49
Final decision – operating expenditure	91.63	92.15	92.83	92.76	369.37

Notes: Numbers have been rounded. ^a 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 contribution.

^b Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. ^c Our licence fee is paid by Goulburn-Murray Water to cover costs incurred by us in performing our regulatory activities related to the water business.

Table 4.4 sets out the adjustments we have made to controllable and non-controllable operating expenditure for our draft decision and final decision. Details of our assessment and the reasons for our final adjustments are included in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Goulburn-Murray Water does not represent the amount that Goulburn-Murray Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

Table 4.4 Our proposed adjustments to Goulburn-Murray Water’s proposed operating expenditure

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn-Murray Water’s proposed total operating expenditure	92.24	92.72	93.35	93.23	371.54
A1 – Our draft decision adjustments to controllable operating costs	-	-	-	-	-
A2 – Our draft decision adjustments to non-controllable operating costs	0.01	0.02	0.03	0.04	0.11
B. Draft decision – total operating expenditure	92.25	92.74	93.38	93.27	371.64
C. Final adjustments to controllable operating costs	0.00	0.00	0.00	0.00	0.00
D. Final adjustments to non-controllable operating costs (D1 + D2)	-0.62	-0.59	-0.55	-0.51	-2.27
D1 – Environmental contribution	-0.64	-0.62	-0.60	-0.58	-2.43
D2 – Essential Services Commission licence fee	0.02	0.03	0.05	0.07	0.17
E. Final decision – total operating expenditure (E = B + C + D)	91.63	92.15	92.83	92.76	369.37

Note: See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in row D (and itemised in rows D1 and D2) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded.

4.1.1 Controllable operating expenditure

Our draft decision proposed to accept Goulburn-Murray Water’s proposed total forecast controllable operating expenditure of \$306.2 million over the 4-year regulatory period.

In relation to controllable operating expenditure, our preliminary findings (outlined in Section 4.1.1 of our draft decision) were that:

- We considered Goulburn-Murray Water’s proposal reflected an efficient baseline cost to forecast annual operating expenditure.

- Goulburn-Murray Water’s proposal effectively offsets all anticipated cost increases through identified efficiency gains, which was a stated key objective in preparing its price submission.
- There is evidence that Goulburn-Murray Water has significantly tested its controllable expenditure requirements and we consider its new forecast operating costs and savings were prudent and efficient.

In response to our draft decision, Goulburn-Murray Water did not make further comment on its controllable operating expenditure proposal. We received several stakeholder submissions that refer to the business’s costs and cost reflectivity in relation to diversion tariffs and service point fees. Our final decision on service point fees for unregulated diverters addresses these issues – refer to Chapter 10. We have considered all submissions in response to our draft decision but our decision regarding Goulburn-Murray Water’s controllable operating expenditure remains consistent with our draft decision because on balance, we consider it reflects prudent and efficient costs.

On the basis that Goulburn-Murray Water’s proposed controllable operating expenditure is consistent with our guidance, our final decision is to accept Goulburn-Murray Water’s forecast controllable operating expenditure of \$306.2 million (Table 4.3).

4.1.2 Non-controllable operating expenditure

In relation to non-controllable operating expenditure, our preliminary findings (outlined in Section 4.1.2 of our draft decision) were:

- Goulburn-Murray Water had followed the approach set out in our guidance paper to forecast its non-controllable operating costs in its price submission.
- We increased Goulburn-Murray Water’s forecast real value of its environmental contribution by \$0.1 million, after we updated our long-term inflation rate from 3.5 per cent per annum to 3.0 per cent per annum.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision where required, and also adjust for the latest inflation data.³³

For the Murray Darling Basin Authority contribution, we have confirmed the forecast of \$14 million per annum (in real dollars) with the Department of Energy, Environment and Climate Action.

³³ Following our draft decision, we have updated our forecast inflation rate from 3.0 per cent per annum, to 2.9 per cent per annum. This has marginally increased the forecast real values of the environmental contribution and our Essential Services Commission licence fee across the next regulatory period. A lower long-term inflation forecast reduces the amount a nominal value is deflated by, producing a higher real value.

For the environmental contribution, we have used the latest forecast values provided by the Department of Energy, Environment and Climate Action (which are in nominal dollars) and deflated them into 2023-24 dollars to express them in real terms. We have applied the same approach to our Essential Services Commission licence fee.³⁴

Given the above, compared to our draft decision, we have decreased Goulburn-Murray Water's forecast non-controllable operating expenditure by \$2.3 million across the 2024–28 regulatory period, resulting from the following adjustments:

- \$2.43 million decrease for the environmental contribution to account for the latest forecast figure and the latest data on inflation
- \$0.17 million increase for the Essential Services Commission licence fee.

Accordingly, in the absence of any new information provided in response to our draft decision, and consistent with the reasoning in our guidance, our final decision is to adopt a revised non-controllable operating expenditure of \$63.19 million over the 2024–28 regulatory period.

4.2 Capital expenditure

Our final decision adopts a forecast capital expenditure of \$114.6 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast capital expenditure of \$114.6 million for the 4-year period, as proposed by Goulburn-Murray Water.

The reasons for our draft decision were that:

- Goulburn-Murray Water demonstrated it has adopted a reasonable approach to developing its capital program, and that its capital expenditure forecasts are prudent and efficient.
- We considered the planned capital expenditure program is achievable, given Goulburn-Murray Water's past track record delivering its capital expenditure program.
- We considered Goulburn-Murray Water's approach to forecasting its capital expenditure is consistent with the requirements of our guidance.

In the absence of any new information provided in response to our draft decision, our final decision is to adopt a forecast capital expenditure of \$114.6 million for the 4-year period (Table 4.6), as proposed in our draft decision because we consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on Goulburn-

³⁴ Our licence fee is based on the expected work program across the 2023–28 regulatory period and is set in nominal terms. The licence fee schedule for each relevant Victorian water business was published in the Victorian Government Gazette No. G 39 on Thursday 28 September 2023.

Murray Water's forecast regulatory asset base (Table 4.6) and revenue requirement (Table 4.1) reflect this benchmark.

The benchmark that we propose to adopt for Goulburn-Murray Water does not represent the amount that Goulburn-Murray Water is required to spend or allocate to particular projects. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period.

4.3 Regulatory asset base

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.³⁵ The regulatory asset base is used to estimate the return on assets (discussed in Section 4.4), and regulatory depreciation (discussed in Section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Goulburn-Murray Water to propose:

- the closing value of its regulatory asset base at 30 June 2023 (using actual data)
- the opening value of its regulatory asset base at 1 July 2024 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2024–25 to 2027–28), in accordance with the prudence criteria outlined in the guidance.

4.3.1 Closing regulatory asset base

Our final decision is to approve a closing regulatory asset base at 30 June 2023 of \$459.7 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2019–20 to 2022–23.³⁶ This helps to ensure prices reflect the actual net expenditure of a water business.³⁷

Our draft decision accepted a closing regulatory asset base of \$459.7 million at 30 June 2023. This was the same figure proposed by Goulburn-Murray Water in its price submission.

³⁵ These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

³⁶ See Section 4.2 for a discussion of Goulburn-Murray Water's capital expenditure.

³⁷ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

In the absence of any new information provided in response to our draft decision, our final decision is to approve a closing regulatory asset base at 30 June 2023 of \$459.7 million (Table 4.5), for the reasons set out in our draft decision.

Table 4.5 sets out our draft decision on Goulburn-Murray Water's closing regulatory asset base at 30 June 2023.

Table 4.5 Final decision – closing regulatory asset base (RAB)

\$ million 2023–24

	2019-20	2020-21	2021-22	2022-23
Opening RAB 1 July	434.2	432.6	446.0	455.0
Plus gross capital expenditure	13.2	28.6	23.1	24.5
Less government contributions	0.3	0.0	2.8	8.7
Less customer contributions	0.2	4.1	0.1	-
Less proceeds from disposals	0.0	0.1	0.2	0.0
Less regulatory depreciation	14.3	11.0	10.9	11.0
Closing RAB 30 June	432.6	446.0	455.0	459.7

Note: Numbers have been rounded.

4.3.2 Forecast regulatory asset base

Our final decision is to approve the forecast regulatory asset base as set out in Table 4.6.

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

Our draft decision accepted the forecast regulatory asset base proposed by Goulburn-Murray Water. As we received no new information relating to the forecast regulatory asset base in response to our draft decision, our final decision is to accept Goulburn-Murray Water's proposed forecast regulatory asset base from 1 July 2024 because it was calculated consistently with the requirements of our guidance.

Table 4.6 sets out our final decision on Goulburn-Murray Water’s forecast regulatory asset base from 1 July 2024, which is the same as that outlined in our draft decision.³⁸

Our final decision on Goulburn-Murray Water’s forecast regulatory asset base reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 4.2 (capital expenditure)
- Section 4.3.2.1 (customer contributions)
- Section 4.5 (regulatory depreciation).

Table 4.6 Final decision – forecast regulatory asset base (RAB)

\$ million 2023–24

	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB 1 July	459.7	471.7	486.8	502.0	513.5
Plus gross capital expenditure	26.2	32.4	30.0	27.1	25.1
Less government contributions	2.9	4.6	1.5	1.5	1.5
Less customer contributions	0.0	-	-	-	-
Less proceeds from disposals	0.1	0.1	0.1	0.1	0.1
Less regulatory depreciation	11.2	12.5	13.2	13.9	14.4
Closing RAB 30 June	471.7	486.8	502.0	513.5	522.6

Note: Numbers have been rounded.

4.3.2.1 Customer contributions

Our final decision is to accept Goulburn-Murray Water’s forecasts for revenue from customer contributions.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.³⁹

³⁸ Our guidance required water businesses to provide an estimate of the components of their regulatory asset base for 2023-24. This was so we could assess the opening asset base for 1 July 2024. Our guidance noted that where the 2023-24 forecasts for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2018 price determination, the lower amount must be used. The estimates for 2023-24 will be confirmed at the price review following the 2024 Water Price Review. Essential Services Commission, *2024 Water Price Review: Guidance paper*, p. 38.

³⁹ Revenue from new customer contributions reflects revenue earned from new connections made to the water business’s; water, sewerage or recycled water networks.

Unlike urban water businesses, where customer contributions to capital are mostly a result of standard new customer contribution charges, Goulburn-Murray Water does not generate contributions from customer contribution charges.

For Goulburn-Murray Water, customer contributions represent the expected proceeds from the sale of created water entitlements in the Macalister Irrigation District. We reviewed Goulburn-Murray Water's forecast customer contributions and consider that they have been estimated in a manner consistent with our guidance.

In the absence of any new information provided in response to our draft decision, and for the reasons set out above, our final decision approves the benchmark revenue from customer contributions proposed by Goulburn-Murray Water and as set out in Table 4.6.

4.4 Rate of return

In establishing the return on assets component of Goulburn-Murray Water's revenue requirement, we have applied a rate of return to Goulburn-Murray Water's regulatory asset base. The rate of return is calculated using a benchmark cost of debt (discussed in Section 4.4.1) and a benchmark return on equity value (discussed in Section 4.4.2).

4.4.1 Cost of debt

Our final decision is to accept the updated cost of debt figures used by Goulburn-Murray Water to calculate its revenue requirement.

Our guidance required Goulburn-Murray Water to use estimates of the cost of debt provided by the commission to estimate its revenue requirement. Our draft decision approved the cost of debt proposed by Goulburn-Murray Water as it used the cost of debt values we specified in our guidance to calculate its revenue requirement. We also noted that our estimate of 6.76 per cent for the cost of debt in 2023-24 would be updated to reflect the latest available data.

In May 2024, we provided Goulburn-Murray Water with an updated cost of debt value from 6.76 per cent to 6.53 per cent for 2023-24.⁴⁰ This reflects a decrease in borrowing costs over the past 12 months. Goulburn-Murray Water used this updated value to recalculate its revenue requirement.

For the above reasons, our final decision adopts the updated figures for the benchmark cost of debt as set out in Table 4.7.

⁴⁰ These updated figures were based on data from the Reserve Bank of Australia on the actual trailing average cost of debt for 2023-24.

Table 4.7 Final decision – 10-year cost of debt

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost of debt (nominal)	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%	6.53%

Note: Numbers have been rounded.

4.4.2 Return on equity

Our final decision is to adopt a return on equity of 4.1 per cent in real terms, which reflects Goulburn-Murray Water’s price submission PREMO rating.

Under our PREMO incentive mechanism, the return on equity we adopt to calculate the revenue requirement is linked to a business’s PREMO rating.⁴¹ As outlined in our guidance, the return on equity we adopt depends on a water business’s self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business’s self-rating and our rating.⁴² We reviewed the return on equity values in the matrix against the regulatory decisions adopted by other water regulators in Australia. We consider that the values in our matrix reflect the medium-term real rates of return.⁴³

Goulburn-Murray Water rated its price submission as ‘Standard’. Based on this PREMO self-rating, Goulburn-Murray Water proposed a return on equity of 4.1 per cent per annum. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Standard’.⁴⁴

Our draft decision adopted Goulburn-Murray Water’s proposed return on equity, which reflected our preliminary overall PREMO rating of its price submission.

⁴¹ See Chapter 16 for an explanation of PREMO and our assessment of Goulburn-Murray Water’s price submission under the PREMO framework.

⁴² Essential Services Commission, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, pp. 41–42.

⁴³ We have had regard to the return on equity adopted by interstate regulators in the following publications: Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW's rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; ESCOSA SA Water Regulatory Determination January 2024, Draft Decision: Statement of reasons; Queensland Competition Authority, Final report - Seqwater bulk water price review 2022–26, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Queensland Competition Authority (QCA), Final Report - Gladstone Area Water Board price monitoring 2020–25, June 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

⁴⁴ Essential Services Commission, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 42.

For the reasons set out in this paper, our final decision on Goulburn-Murray Water's overall PREMO rating remains the same as our draft decision. Therefore, our final decision is to adopt Goulburn-Murray Water's proposed return on equity of 4.1 per cent per year, reflecting our final decision on the overall PREMO rating of its price submission (see Chapter 16).

4.4.3 Long-term inflation forecast

A long-term inflation forecast is used to convert the nominal cost of debt (outlined in Section 4.4.1 above) to real terms. A higher rate of inflation means a lower cost of debt in real terms, which would flow through to a lower revenue requirement and lower prices in real terms, all other things being equal. Conversely, a lower long-term inflation rate means increased prices in real terms, all other things being equal.

In addition to updating our estimate for the cost of debt, in May 2024 we updated our long-term inflation forecast. We advised Goulburn-Murray Water that the long-term inflation rate we calculated was 2.9 per cent. This figure is a further revision from the 3.0 per cent proposed in our draft decision. Goulburn-Murray Water provided updated prices to reflect this revised figure.

In line with our guidance, we adopted our long-term inflation forecast based on the 'RBA geometric mean' and the 'bond breakeven' methods. Each method applies a simple 5-year averaging period.

The estimates we have adopted for each year of the 5-year inflation forecast period under the 'RBA geometric mean' and bond breakeven approach are set out in Appendix D.

4.5 Regulatory depreciation

Our final decision is to accept Goulburn-Murray Water's forecast regulatory depreciation as set out in Table 4.6.

Regulatory depreciation is a component of Goulburn-Murray Water's revenue requirement and is also an input to calculating the regulatory asset base.

As indicated in our draft decision, Goulburn-Murray Water's proposed forecast regulatory depreciation was calculated using a straight-line depreciation profile and in a manner consistent with our guidance.⁴⁵

Our draft decision proposed to accept Goulburn-Murray Water's forecast regulatory depreciation of \$54.1 million for the 2024-25 to 2027-28 regulatory period. As there were no further updates in Goulburn-Murray Water's response to our draft decision, our final decision is to accept the

⁴⁵ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 39.

proposed regulatory depreciation figure because they were calculated in a manner consistent with our guidance.

4.6 Tax allowance

Our final decision is to accept Goulburn-Murray Water's forecast of no tax allowance for the 2024–28 regulatory period.

The tax allowance is a component of the revenue requirement. Goulburn-Murray Water proposed no tax allowance in its revenue requirement for the 2024–28 regulatory period.⁴⁶ Our draft decision proposed to accept the forecast as it was calculated consistently with the method required by our guidance.⁴⁷

In the absence of any new information provided in response to our draft decision, and for the reasons set out above, our final decision is to accept Goulburn-Murray Water's forecast of no tax allowance for the 4-year regulatory period, as set out in Table 4.1.

⁴⁶ Goulburn-Murray Water is forecasting a negative pre-tax net income arising from significant tax losses brought forward from previous years, which results in a zero-tax liability.

⁴⁷ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 47–48.

5. Demand

Once Goulburn-Murray Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices. Our final decision on demand is set out in this chapter, and our final decisions on the form of price control, tariffs and prices are set out in Chapters 6 to 14.

Our final decision is to accept Goulburn-Murray Water's demand forecasts.

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

In our draft decision, we proposed to accept Goulburn-Murray Water's demand forecasts as we considered they were estimated in a manner consistent with the requirements of our guidance.

In the absence of any new information provided in response to our draft decision, our final decision is the same as our draft decision on the basis that Goulburn-Murray Water's demand forecasts were estimated consistently with the requirements of our guidance.⁴⁸

⁴⁸ Essential Services Commission, *2024 Water Price Review: Guidance paper*, 26 October 2021, pp. 47-48.

6. Form of price control

Our final decision is to accept Goulburn-Murray Water's proposed revenue cap form of price control.

Our draft decision proposed to accept Goulburn-Murray Water's proposal to retain a revenue cap form of price control with a rebalancing constraint of ± 10 per cent, because this method:

- largely reflects a continuation of current arrangements
- includes an appropriate safety mechanism to support price stability and protect customers from price shocks
- balances the requirements of revenue and price stability by allowing over and under recoveries of the revenue cap to be passed through to customers
- is consistent with the requirements of our guidance.

In the absence of any new information provided in response to our draft decision, and for the above reasons, our final decision confirms our draft decision and approves Goulburn-Murray Water's revenue cap form of price control.⁴⁹

⁴⁹ As outlined in Chapter 10, service point fees for unmetered diverters will not be part of revenue cap.

7. Irrigation and drainage tariffs

Our final decision is to accept Goulburn-Murray Water's proposed tariff structures for irrigation and drainage.

Goulburn-Murray Water provides gravity irrigation and drainage services to the Goulburn-Murray irrigation district 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, and drainage services to customers in Tyntynder.⁵⁰

7.1 Tariff structures

7.1.1 Irrigation

Goulburn-Murray Water proposed to maintain its existing tariff structures for its irrigation services.

The main fees for irrigation services are the infrastructure access fee, infrastructure use fee, service point fee (discussed in Chapter 10) and entitlement storage fee (discussed in Chapter 9). All customers also pay an additional annual customer fee and water register fee.

Our draft decision proposed to accept Goulburn-Murray Water's proposed irrigation tariff structures on the basis that they are generally a continuation of Goulburn-Murray Water's current approach, otherwise meet the criteria in our guidance and are generally supported by its customers.⁵¹

After considering all submissions received in response to our draft decision, for the above reasons, our final decision confirms our draft decision and approves Goulburn-Murray Water's proposed tariff structure for its irrigation services.

7.1.2 Drainage

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

⁵⁰ Drainage and irrigation tariffs account for about 60 per cent of Goulburn-Murray Water's revenue.

⁵¹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 25.

Goulburn-Murray Water proposed to:

- reduce the number of surface and subsurface drainage pricing entities by amalgamating existing pricing zones
- phase out the surface and subsurface drainage water use fees over 2024-25 to 2031-32 (since this is no longer the driver of drain costs) accompanied by an increase in area fee (since rainfall runoff from irrigated and unirrigated land is now similar)
- combine its primary and community surface drain tariffs from 2025-26
- implement a standard drain diversion site fee of \$55 in 2024-25 and remove the agreement volume fee for surface drainage.

Goulburn-Murray Water proposed to simplify its surface and subsurface drainage tariff structure to make it more cost reflective and easier to understand. Goulburn-Murray Water engaged with customers on the drainage reforms and found most customers were supportive of the reforms.⁵²

Our draft decision accepted Goulburn-Murray Water's proposed drainage tariff structures, on the basis that they meet the criteria in our guidance. We considered Goulburn-Murray Water's proposed tariff reforms meet the requirements of the Water Industry Regulatory Order 2014, including enabling customers to easily understand drainage tariffs and providing signals of efficient costs.

After considering all submissions received in response to our draft decision, for the above reasons, our final decision confirms our draft decision and approves Goulburn-Murray Water's proposed drainage tariff reforms.

7.2 Prices

Our final decision is to accept the revised prices proposed by Goulburn-Murray Water.

In our draft decision, we noted that Goulburn-Murray Water would need to propose updated irrigation and drainage prices to reflect our updates to inflation and cost of debt estimates.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently provided revised prices for its irrigation and drainage services, which reflect our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

⁵² Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 80–82.

Our final decision is to approve the revised irrigation and drainage prices proposed by Goulburn-Murray Water because they have been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

Under Goulburn-Murray Water's revised prices, the typical bill for many gravity irrigation customers will be lower or remain steady (excluding inflation), while some medium and large gravity irrigation customers will experience slight bill increases each year (excluding inflation).⁵³

Typical bills for pumped irrigation services will:

- increase by between 3.9 per cent and 4.5 per cent per year on average for medium and large customers in the Woorinen region primarily due to increases in the Woorinen pumped irrigation service point fee ⁵⁴
- increase by around 1.5 per cent per year on average for customers in the Tresco area, mostly due to increases in the service point fee (for all customers) and subsurface drainage fee (for medium and large customers)
- either decrease or increase slightly by up to 0.2 per cent per year.

⁵³ Note that the gravity irrigation and pumped irrigation bills discussed here include drainage fees where applicable. See Goulburn-Murray Water, GMW Price Submission 2024, September 2023, pp. 91–93 for the typical customer attributes for each of Goulburn-Murray Water's typical bills.

⁵⁴ Refer to Chapter 10 Service Point Fees for more detail.

8. Diversion services

Our final decision is to approve Goulburn-Murray Water's proposed tariff structures and prices regarding the access fee and resource management fee for diversion customers.

Goulburn-Murray Water provides diversion services to customers who access water from waterways such as rivers, and groundwater.⁵⁵ 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. There are no variable charges for diversion customers.

8.1 Tariff structures

Goulburn-Murray Water proposed to maintain its existing tariff structures for the provision of diversion services. This includes:

- metered and unmetered service point fees for regulated and unregulated waterways and groundwater diversion
- access and resource management fees for regulated and unregulated waterways, Shepparton irrigation region and groundwater diversion.

In addition, diversion customers also pay an annual customer fee, a licence fee and licence renewal fee.

Our draft decision accepted Goulburn-Murray Water's proposed tariff structure for the access fee and resource management fee for diversion customers on the basis that they are a continuation of Goulburn-Murray Water's current approach and otherwise meet our guidance.

We received 10 public submissions (including a group submission) and 2 confidential submissions on our draft decision mainly from diverters on unregulated waterways. These customers considered that Goulburn-Murray Water's proposed fees and charges are unfair and too high, and that they are being charged fees but not receiving any service from Goulburn-Murray Water.⁵⁶

⁵⁵ Diversion services account for about 5 per cent of Goulburn-Murray Water's revenue.

⁵⁶ Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 16 April 2024; Rod Hall, submission to the commission's Goulburn-Murray Water draft decision, 17 April 2024; Christopher Maud, submission to the commission's Goulburn-Murray Water draft decision, 20 April 2024; Martin Peet, submission to the commission's Goulburn-Murray Water draft decision, 21 April 2024; Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 25 April 2024; Andrew Bennett, submission to the commission's Goulburn-Murray Water draft decision, 5 May 2024; Nick Legge, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024; Rod Hall and 24 other domestic and stock customers, submission to the commission's Goulburn-Murray Water draft decision, 6 May 2024; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water draft decision, 6 May 2024.

Some of the customers also raised specific issues that apply to domestic and stock customers on unregulated waterways, including that:⁵⁷

- unregulated domestic and stock customers should have separate prices rather than being grouped with all diverters, and that applying deeming costs is not appropriate, instead data should be requested to justify all these prices⁵⁸
- the access fee for unregulated diverters should be based on entitlement volume rather than service points, or should not apply to these customers
- the commission has failed to compare Goulburn-Murray Water's charges for unregulated domestic and stock diverters with Goulburn Valley Water's charges for unregulated domestic and stock customers
- Goulburn-Murray Water's price submission does not meet the commission's guidance and legislative requirements
- Goulburn-Murray Water should have been given a 'Basic' PREMO rating for engagement or a 'Basic' overall PREMO rating.

The same customers expressed several concerns about Goulburn-Murray Water's proposed service point fees for unmetered diverters and domestic and stock customers. We address these issues in Chapter 10.

The commission and its consultant Egis reviewed the submissions from customers in response to our draft decision on access and resource management fees and consider that these submissions raised the same issues as were raised in response to Goulburn-Murray Water's price submission. Given the issues raised by customers and Egis' findings in its review, we agree with Egis that in the future it would be beneficial for Goulburn-Murray Water to improve its data collection on costs and cost allocation for all diversion tariffs, which will further increase the transparency of these costs in future price reviews.⁵⁹

Goulburn-Murray Water's access fee recovers costs associated with streamflow monitoring, rostering and restrictions, investigating sharing issues and developing water access policy. Our

⁵⁷ Rod Hall, submission to the commission's Goulburn-Murray Water draft decision, 17 April 2024; Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 25 April 2024; Andrew Bennett, submission to the commission's Goulburn-Murray Water draft decision, 5 May 2024; Rod Hall and 24 other domestic and stock customers, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water draft decision, 6 May 2024; Nick Legge, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024; Christopher Maud, submission to the commission's Goulburn-Murray Water draft decision, 20 April 2024.

⁵⁸ Deeming is used by Goulburn-Murray Water to assess usage of low volume water users who do not have meters.

⁵⁹ Egis, 2024 Water price review – Assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 26.

consultant Egis has reviewed Goulburn-Murray Water's access fee and advises Goulburn-Murray Water has demonstrated that:

- the costs associated with the diverters' access fee relate to services and activities associated with diversion customers
- the number of service points rather than water entitlements drives the costs as the greater the number of service points, the more involved the management, planning and water ordering systems and processes.⁶⁰

Consistent with our draft decision, we have considered and agree with Egis's findings that it is appropriate to base access fees on the number of service points rather than water entitlements.

As stated in our draft decision, based on information we have reviewed, we are satisfied that the level of licence fees for domestic and stock customers across different water businesses (including in other states) are not directly comparable given the tariff structures are relevantly different.⁶¹ In addition, different water businesses in different areas have different costs and different policy issues applying to each business.

Our final decision accepts Goulburn-Murray Water's proposed tariff structure for the access fee and resource management fee for diversion customers. Goulburn-Murray Water needs to improve its data on costs and cost allocation (by providing more granular information on costs) going forward for all diversions tariffs.

We set out our final decision on Goulburn-Murray Water's proposed tariff structure for service point fees, customer fee and licence fee applying to diverters on unregulated waterways in Chapters 10, 11 and 12, respectively.

⁶⁰ Egis, 2024 Water price review – Assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 24.

⁶¹ The annual total licence charges for Southern Rural Water are the sum of licence fixed charges and licence variable charges and could range from \$404 to \$430 annually, assuming a surface licenced volume of 2ML. Depending on the location, Southern Rural Water said that a System Management Charge may also apply. In New South Wales, if a diverter is looking to put in a diversion channel, the customer would need to apply for a water supply work and/or use approval which would cost \$5,061.02. For stock and domestic customers, if the property fronts the river, it would not require an approval to extract water. However, if the property does not front the river, the customer would need an approval which would cost \$5,061.02. In addition to the cost of the installation of the water supply work, customers may be required to apply for a water access licence and go to market to purchase water within the water sharing plan/water source associated with the area of the approval. See: WaterNSW, [Applications and fees](#) (accessed on 15 February 2024).

8.2 Prices

In our draft decision, we noted that Goulburn-Murray Water would need to propose an updated access fee and resource management fee for diversion services to reflect our updates to inflation and cost of debt estimates.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently provided revised prices for its access and resource management fee for diversion services, which reflect our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

Our final decision is to approve the revised access fee and resource management fee for diversion services proposed by Goulburn-Murray Water because they have been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). After 2024-25, the access fee will decrease between 10 per cent to 4.1 per cent annually for most customers while the resource management fee will decrease by 2.7 per cent on average for some customers, excluding inflation.

Under the revised fees, many diversion customers, including customers on regulated waterways, small groundwater diversions customers and small customers on unregulated waterways will see decreases in their typical bills. This is due to decreases in the level of service point fees, access fees and resource management fees during the 2024–28 regulatory period, and our reduction of the unmetered service point fee discussed in Chapter 10.

Some diversion customers with meters will see increases in their typical bills due to the recovery of higher costs associated with service point fees.

9. Bulk water storage services

Our final decision is to accept Goulburn-Murray Water's proposed tariff structure for bulk water storage services and corresponding proposed prices.

Goulburn-Murray Water owns and manages storage facilities and assets that store water for wholesale customers (such as urban water businesses and environmental water holders) and retail customers (such as regulated surface water diverters and customers in Goulburn-Murray Water's irrigation districts).⁶²

9.1 Tariff structures

Goulburn-Murray Water's existing tariff structure for bulk water services includes:

- A wholesale charge that recovers bulk water 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 by these water businesses and the size of the environmental entitlement held by the Victorian Environmental Water Holder in a river basin. These wholesale customers pay a basin price for bulk water storage services.
- A retail charge paid by irrigators based on the type, size and number of water shares held by a retail customer. Retail charges are referred to as 'Entitlement Storage Fees' in Goulburn-Murray Water's price submission and vary between high and low reliability water shares.

Bulk wholesale charge

In its price submission, Goulburn-Murray Water proposed the following bulk water tariff reform:

- The current basin pricing approach for wholesale bulk water charges levied to wholesale customers will transition to a two-system pricing approach:
 - the Goulburn system (comprising Broken, Goulburn, Campaspe, Loddon and Bullarook basins)
 - the Murray system (comprising Murray and Ovens basins).

⁶² Goulburn-Murray Water on behalf of its retailers pays 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), which is facilitated through a defined tariff structure. For more information, see Goulburn-Murray Water, [GMW Overview](#) (accessed on 16 February 2024).

- The two-system pricing approach will apply from 1 July 2025 to allow time for the relevant Bulk and Environmental Entitlement Orders held by wholesale customers to be updated. Goulburn-Murray Water will continue to engage with its wholesale bulk water customers and the Department of Energy, Environment and Climate Action regarding the updating of the Orders.
- The current prices for bulk water services provided to wholesale customers for 2023–24 will apply in 2024–25 as part of Goulburn-Murray Water’s proposed plan to transition its wholesale customers to system-based pricing.

Our draft decision was to accept Goulburn-Murray Water’s proposed bulk water tariff reform for its wholesale customers as it meets the criteria set out in the guidance. The proposal aligns the pricing approach for wholesale and retail bulk water customers, thereby making them simpler and easier to understand. We also consider charging bulk water fees using a two-system pricing approach is more cost reflective.

In the absence of any new information provided in response to our draft decision, and for the above reasons, our final decision confirms our draft decision and approves Goulburn-Murray Water’s proposed bulk water tariff reform.

Entitlement storage fees

Goulburn-Murray Water proposed no changes to the tariff structure applying to retail customers. The system pricing approach for entitlement storage fees that applies to Goulburn-Murray Water retail customers, and which was reformed as part of the 2020 water price review, is proposed to remain.

Our draft decision was to accept Goulburn-Murray Water’s proposed tariff structure for entitlement storage fees on the basis that they are a continuation of Goulburn-Murray Water’s current approach and otherwise meet our guidance.

In the absence of any new information provided in response to our draft decision, and for the above reasons, our final decision confirms our draft decision and approves Goulburn-Murray Water’s proposed tariff structure for entitlement storage fees.

9.2 Prices

In our draft decision, we noted that Goulburn-Murray Water would need to propose updated bulk water prices (levied to entitlement holders) and entitlement storage fees (levied to water shareholders) to reflect our updates to inflation and cost of debt estimates.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently

provided revised prices for its bulk water storage services, which reflect our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

Our final decision is to approve the revised bulk water prices and entitlement storage fees proposed by Goulburn-Murray Water because they have been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). Under the revised prices, 2024-25 bulk prices will remain the same as 2023-24 bulk prices, excluding inflation. In 2025-26, most of the bulk water prices and entitlement storage fees in the Murray and Goulburn systems will decrease, excluding inflation. For the remaining years of the regulatory period, bulk water prices and entitlement storage fees will remain at the same level in the Murray system and increase by 4 per cent per year in the Goulburn system, excluding inflation.

Goulburn-Murray Water provides bulk water services to several Victorian water businesses. The 2023 price determinations of water businesses receiving these services from Goulburn-Murray Water include a clause that (subject to approval by the commission) enables the pass through of changed prices for storage operator and bulk water services.

The commission may decide to specify a price adjustment or a mechanism for a price adjustment to reflect changed bulk water price assumptions underpinning a water businesses' price determination, provided that any adjustment takes into account the interests of customers.

We have assessed the impacts of changes in Goulburn-Murray Water's storage operator and bulk water services charges to apply from 1 July 2024, and have decided that enabling future price adjustments for Coliban Water, Goulburn Valley Water, GMMWater, Lower Murray Water and Central Highlands Water is justified. These adjustments will apply from 2025-26 until the end of the current regulatory period (i.e. 2027-28), and we will provide further guidance to these businesses on the adjustment mechanism to apply prior to their submission of annual tariffs for 2025-26.

10. Service point fees

Our final decision is to:

- accept the Woorinen Service Point Fee and the service point fee tariff structure for metered customers
- not accept Goulburn-Murray Water's proposed tariff structure for the service point fees applying to unmetered diversion customers
- reduce unmetered service point fees by 12 per cent in 2024-25, then increase them by inflation in each of the remaining 3 years.
- exclude Unmetered service point fees from the calculation of Goulburn-Murray Water's revenue cap for the 2024–28 regulatory period
- accept all remaining service point fees for metered diversion customers.

Service points are the connection point between a farm and the water supply network (channel, pipeline, river or aquifer).⁶³ 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.

Service point fees 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.

10.1 Tariff structures

Goulburn-Murray Water currently charges service point tariffs to recover operating and maintenance costs for the delivery of water to the following irrigation service points (meters and outlets) as follows:

- domestic and stock – service point that relates to domestic and stock customers
- local read – service point that is manually operated and the meter reading is manually collected
- local operate – service point with some electronic features which is manually operated and the meter reading is automatically recorded

⁶³ Service point fees account for about 14 per cent of Goulburn-Murray Water's revenue.

- remote operate – service point is automatically operated and the meter reading is automatically recorded.

Goulburn-Murray Water also charges the following service point tariffs to surface water and groundwater diverters to recover the costs of compliance, monitoring, usage, and maintenance of meters (where installed) at each diversion site:

- unmetered service points – refers to service points that do not have a meter installed, or are used only for domestic and stock purposes
- metered service points – refers to service points where a meter is installed and is used for purposes other than domestic and stock.

Under the current tariff structure, the service point fee for all metered customers is the same (\$455) and the service point fee for all unmetered customers is the same (\$145).⁶⁴

Goulburn-Murray Water proposed to maintain its service point fees tariff structure for the 2024–28 regulatory period after considering stakeholder feedback and findings from a consultant it engaged to review and validate its costing assumptions and logic.⁶⁵ It submitted that the tariff structure is consistent with pricing principles of sustainable revenue and customer focus including in relation to service standards, price path stability and the costs of implementing the tariff offering, including administration costs.⁶⁶

We are satisfied that Goulburn-Murray Water has justified its proposed service point fees for metered diversion customers, because it is a continuation of the current tariff structure and meets the requirements of our guidance.

Goulburn-Murray Water proposed to increase Woorinen’s service point fee (local operate) by 25 per cent annually over the 4-year regulatory period because the electronic meters in Woorinen have reached the end of their useful life and need to be replaced to meet its national metering obligations.

Our draft decision was to:

- accept the Woorinen Service Point Fee and the service point fee tariff structure for metered customers

⁶⁴ The service point fee – remote operate – applies to both gravity and pumped irrigation customers. The average costs approach also applies in this case.

⁶⁵ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 85.

⁶⁶ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 85.

- not accept Goulburn-Murray Water’s proposed tariff structure for the service point fees applying to unmetered customers as we did not consider it meets the requirements of our guidance.

In response to our draft decision, we required Goulburn-Murray Water to:

- recalculate its service point fees for unmetered diverters and domestic and stock customers considering Egis’s findings and recommendations on deeming costs. The recalculation model should clearly set out the assumptions and formulas used and should include notes on the workings of the model. Goulburn-Murray Water should also provide information supporting its assumptions.
- consider reviewing its tariff name for service point fees or tariff description applying to unmetered diverters and domestic and stock customers.

In our draft decision, we stated that over the medium term, Goulburn-Murray Water should improve the collection of actual activity data to improve the robustness of its calculations, in order to support the achievement of objectives in the pricing framework related to efficiency, including cost reflective tariffs.

In response to our draft decision, Goulburn-Murray Water:

- provided further information to support its proposed service point fee, including a matrix of activities that it undertakes in relation to unregulated streams
- committed to improving its collection of data on the matrix of activities it undertakes in relation to unregulated streams and developing a more robust methodology for attributing costs to diversion activities during the 2024–28 regulatory period. This includes forming a customer reference group with diversion customers and increasing the transparency of its costings to improve customers’ understanding about the diversion services it provides and the costs of the tariffs it charges for these services
- proposed to maintain its existing tariff names for diversions because the terminology was accepted by the majority of its customers, but advised it will run a targeted communication campaign to improve customers’ understanding of the diversions tariffs.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently provided revised service point fees, which reflect our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

In most feedback we received in response to our draft decision, diverters raised the following concerns about service point fees that apply to unmetered diverters on unregulated waterways:

- cost assumptions underpinning Goulburn-Murray Water’s price proposals are not reasonable or transparent

- service point fees should not apply to unmetered diverters on unregulated waterways given no service is being provided to them
- it is not reasonable to apply deeming costs to all unmetered users as it promotes cross-subsidisation
- diverters on unregulated waterways should be treated as a separate customer group.⁶⁷

The commission and its consultant Egis have reviewed all submissions received in response to our draft decision and found they raised the same issues that were raised in response to Goulburn-Murray Water's price submission. As noted in our draft decision, we have reviewed and are satisfied that the level of licence fees for domestic and stock customers across different water businesses (including in other states) are not directly comparable given the tariff structures are relevantly different.

Submissions argued that service point fees should not be paid by unregulated domestic and stock users on the basis that they do not receive any services for those fees. In its report, Egis found that costs recovered by the service point fee relate to services and activities associated with all diversion customers, including diverters on unregulated waterways. These activities include inspections associated with compliance, monitoring, measuring use and, where installed, maintaining meters at each diversion site.⁶⁸

However, Egis reviewed Goulburn-Murray Water's response to our draft decision and found that the additional information provided by Goulburn-Murray Water on its unmetered service point fee did not clearly justify maintaining the tariffs proposed by Goulburn-Murray Water in its price submission.⁶⁹ Egis found that some of the costs covered by Goulburn-Murray Water's proposed unmetered service point fee could not be verified using the data provided by Goulburn-Murray Water. Egis recommended that going forward Goulburn-Murray Water should improve its data collection and cost allocation for service point fees. We have reviewed Egis' advice and do not consider that Goulburn-Murray Water's unmetered service point fee meets the requirements of our guidance.

⁶⁷ Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 16 April 2024; Rod Hall, submission to the commission's Goulburn-Murray Water draft decision, 17 April 2024; Christopher Maud, submission to the commission's Goulburn-Murray Water draft decision, 20 April 2024; Martin Peet, submission to the commission's Goulburn-Murray Water draft decision, 21 April 2024; Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 25 April 2024; Andrew Bennett, submission to the commission's Goulburn-Murray Water draft decision, 5 May 2024; Nick Legge, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024; Rod Hall and 24 other domestic and stock customers, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water draft decision, 6 May 2024.

⁶⁸ Egis, 2024 Water price review – assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 21.

⁶⁹ Egis, 2024 Water price review – assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 26.

For the reasons set out above, our final decision is to:

- accept the Woorinen Service Point Fee and the service point fee tariff structure for metered customers
- not accept Goulburn-Murray Water's proposed tariff structure for the service point fees applying to unmetered diversion customers
- reduce unmetered service point fees by 12 per cent (including inflation) in 2024-25 to be equivalent to the price the business had proposed for the final year of the regulatory period (noting the business proposed a declining real price path over the 2024-28 regulatory period)
- exclude unmetered service point fees from the calculation of Goulburn-Murray Water's revenue cap for the 2024–28 regulatory period
- accept all remaining service point fees for metered diversion customers

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). After 2024-25, service point fees will change as follows, on average (excluding inflation):

- decrease by 3.4 per cent per year for domestic and stock irrigation customers and water supply districts customers
- remain the same for unmetered diversions customers
- increase by 4.6 per cent for metered (local operate) irrigation and diversion customers, with the exception of Woorinen's service point fee, which will increase by 25 per cent annually
- increase by 1.8 per cent for metered (remote operate) irrigation customers.

The commission expects improvements in the data collection and cost allocation for service point fees by 2027, to inform the assessment of Goulburn-Murray Water's proposed prices at the 2028 water price review.

11. Other tariffs

Our final decision is to accept Goulburn-Murray Water's proposed tariff structure and revised customer fee and water supply district fees.

Our final decision is to also accept Goulburn-Murray Water's proposed increase in the infrastructure access fee for Cosgrove customers.

11.1 Tungamah water supply service

Goulburn-Murray Water proposed to increase the infrastructure access fee for Cosgrove customers in the Tungamah water supply district by more than 10 per cent. This is to reflect the actual level of services provided to Cosgrove customers and to remove any cross-subsidisation within the Tungamah water supply district.⁷⁰ The proposed change will lead to an increase in bills for Cosgrove customers and a decrease in customer bills of up to 9 per cent for the remaining Tungamah water supply district customers.

Goulburn-Murray Water proposed to provide a rebate on a portion of the infrastructure access fee to Cosgrove customers to avoid price shock. Under Goulburn-Murray Water's proposal, by 2027-28, all the customers within the Tungamah water supply district will be paying a uniform infrastructure access fee.

Our draft decision was to accept Goulburn-Murray Water's proposed increase in infrastructure fee on the basis that it is consistent with our guidance.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently provided revised infrastructure fees, which reflect our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

In the absence of any new information provided in response to our draft decision, and for the reasons set out above, our final decision is to accept Goulburn-Murray Water's revised infrastructure fee for Cosgrove customers.

Our final decision is to also accept Goulburn-Murray Water's proposed tariff structure for water supply services on the basis that they are a continuation of Goulburn Murray Water's current approach and otherwise meet our guidance. Our final decision also accepts Goulburn-Murray

⁷⁰ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 84.

Water's proposed prices for water supply services on the basis that they have been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

11.2 Customer fee

The customer fee recovers the administrative costs of maintaining Goulburn-Murray Water's land and water records, billing, debt management and central customer service.⁷¹ All Goulburn-Murray Water customers are charged this fee regardless of the number of services they receive.

Our draft decision was to accept Goulburn-Murray Water's proposed customer fee on the basis that it largely reflects a continuation of current arrangements and is otherwise compliant with our guidance. We noted that Goulburn-Murray Water would need to propose an updated customer fee to reflect our updates to inflation and cost of debt estimates.

Following our draft decision, we updated our cost of debt estimate and further revised our long-term inflation estimate (from 3 per cent to 2.9 per cent). Goulburn-Murray Water subsequently provided a revised customer fee, which reflects our updates to the long-term inflation and cost of debt estimates, as well as updated environmental contribution forecasts.

We received four submissions regarding the customer fee in response to our draft decision. The submissions raised the following issues:

- the customer fee is inappropriate for unregulated domestic and stock customers because those users do not incur the costs that large customers incur⁷²
- the customer fee is excessive for unregulated domestic and stock customers for keeping an account and sending a bill⁷³
- the customer fee should be calculated based on the number of service points a customer has.⁷⁴

⁷¹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 69–70.

⁷² Rod Hall, submission to the commission's Goulburn-Murray Water draft decision, 17 April 2024; Rod Hall and 24 other domestic and stock customers, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024.

⁷³ Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 25 April 2024.

⁷⁴ Nick Legge, submission to the commission's Goulburn-Murray Water draft decision, 7 May 2024.

Our consultant Egis addressed these issues during its review prior to our draft decision.⁷⁵ Egis' review found that the customer fee is administratively efficient and there would be additional costs to Goulburn-Murray Water and its customers if Goulburn-Murray Water was required to record detailed costs to capture the cost to serve for each customer group.⁷⁶

Our final decision is to approve the revised customer fee on the basis that it has been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). From 2024-25 to 2027-28, the customer fee will increase by 3.1 per cent annually, excluding inflation.

⁷⁵ Egis, 2024 Water price review – assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 25.

⁷⁶ Egis, 2024 Water price review – assessment of Goulburn-Murray Water's tariff reforms – updated final report, May 2024, p. 22.

12. Miscellaneous service charges

Our final decision is to accept Goulburn-Murray Water's proposed miscellaneous service charges.

Goulburn-Murray Water provides customers with miscellaneous services which are often related to the major services that it provides. Goulburn-Murray Water charges fees to cover the costs of providing miscellaneous services. Many of the miscellaneous services are not used frequently and include processing an application, granting and transferring licences for customers.

During the 2016–20 and 2020–24 regulatory periods, Goulburn-Murray Water's miscellaneous fees and charges made losses of \$1.8 million and \$1.3 million respectively rather than recovering efficient costs. Goulburn-Murray proposed to increase several of its miscellaneous charges to transition to cost reflective charges by 2031–32. Goulburn-Murray Water has confirmed that its proposed miscellaneous charges are calculated in accordance with the pricing principles in our guidance.⁷⁷

Our draft decision was to approve the miscellaneous services tariffs because they are calculated in accordance with the pricing principles in our guidance.

We received five submissions from customers who considered licence fees were unfair or too high or should not be charged since there is no service provided.⁷⁸ However, the licence fees proposed by Goulburn-Murray Water are cost reflective and reflect the pricing principles in our guidance. We also reviewed the services being recovered by the licence fee for unregulated diverters (take and use for new applications and renewals) and consider the services and level of activities associated with the service appropriate.

Our final decision is to accept Goulburn-Murray Water's proposed miscellaneous charges on the basis that they have been calculated in a manner consistent with our guidance.

Our price determination for Goulburn-Murray Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

⁷⁷ Goulburn-Murray Water has increased some of these charges by 10 per cent each year over 2024–2028, and notes that most customers do not undertake these transactions or undertake them only rarely.

⁷⁸ Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 16 April 2024; Christopher Maud, submission to the commission's Goulburn-Murray Water draft decision, 20 April 2024; Martin Peet, submission to the commission's Goulburn-Murray Water draft decision, 21 April 2024; Cameron Reid, submission to the commission's Goulburn-Murray Water draft decision, 25 April 2024; Andrew Bennett, submission to the commission's Goulburn-Murray Water draft decision, 5 May 2024.

13. Addressing the interests of customers with low income or those experiencing vulnerability

In making our price determination, we must have regard to whether Goulburn-Murray Water's prices take into account the interests of customers, including low income earners and those experiencing vulnerability.⁷⁹

In our draft decision, we accepted that Goulburn-Murray Water's price submission was informed by engagement that was inclusive for customers more likely to experience vulnerability, including customers severely affected by the 2022 floods.

There was evidence that Goulburn-Murray Water had sought to address the interests of low income customers and those who experience vulnerability. Goulburn-Murray Water proposed to:

- maintain its approach to supporting customers experiencing financial hardship, which it describes as flexible, empathetic and proactive
- continue to make customers aware of the financial hardship assistance available which is highlighted on every customer bill
- continue communication about payment flexibility options
- increase engagement with customers who are experiencing vulnerability, and the agencies that support them.

After considering all submissions received following our draft decision, we have not changed the views expressed in our draft decision on how Goulburn-Murray Water has addressed the interests of low income earners and customers experiencing vulnerability.

⁷⁹ Water Industry Regulatory Order 2014, clause 11(d)(iii).

14. Adjusting prices

Our final decision is to accept Goulburn-Murray Water's proposed price adjustment mechanisms.

Goulburn-Murray Water proposed to maintain its price adjustment mechanism in relation to uncertain and unforeseen events. This is the first time the commission's standard annual adjustment mechanism to reflect movements in the cost of debt will apply to Goulburn-Murray Water.⁸⁰ Consistent with the guidance, Goulburn-Murray Water has identified its tariffs which will be affected by cost of debt changes.⁸¹

Our draft decision was to accept Goulburn-Murray Water's proposed price adjustment mechanism for uncertain and unforeseen events because it is consistent with our guidance.⁸²

In the absence of any new information provided in response to our draft decision, our final decision is to accept Goulburn-Murray Water's proposal to continue its existing price adjustment mechanisms and introduce the commissions standard annual cost of debt adjustment as they satisfy the requirements of our guidance.

⁸⁰ Essential Services Commission, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 56.

⁸¹ Goulburn-Murray Water proposed to reflect cost of debt movements in all its fees except for its: water register fee, drainage diversion site fee, infrastructure use fees in the pumped irrigation and water supply districts, excess fee in the water supply districts and application fees set by DEECA.

⁸² Essential Services Commission, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 56-58.

15. Financial position

We have reviewed key indicators of Goulburn-Murray Water's financial performance and consider that Goulburn-Murray Water will generate sufficient cash flow to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.⁸³ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the *Water Industry Regulatory Order (2014)* to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

Our guidance set out key indicators of forecast financial performance. We have reviewed forecasts for these key indicators based on our final decision on Goulburn-Murray Water's prices. We have assessed that under our final decision, Goulburn-Murray Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

⁸³ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

16. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water business's revenue requirement to that business's level of ambition expressed in its price submission, and delivery of outcomes it proposed in the previous review.⁸⁴ Our guidance required Goulburn-Murray Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism (other than Performance) and arrive at an overall self-rating.⁸⁵ Goulburn-Murray Water did not need to self-rate on the Performance element of PREMO as this is its first assessment under PREMO. We required Goulburn-Murray Water to self-rate its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic', with 'Leading' being the most ambitious and 'Basic' the least.

The assessment tool included in our guidance directed Goulburn-Murray Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We also assessed and rated Goulburn-Murray Water's price submission. As outlined in our guidance, the combination of Goulburn-Murray Water's self-rating and our rating has determined the return on equity we have adopted to calculate Goulburn-Murray Water's revenue requirement in our final decision.

16.1 Our PREMO assessment of Goulburn-Murray Water's price submission

Our final decision is to rate Goulburn-Murray Water's price submission as 'Standard' under PREMO, which is the same as Goulburn-Murray Water's self-rating.

Goulburn-Murray Water's self-rating for each of the PREMO elements (other than Performance) and its overall self-rating are shown in Table 16.1. This table also includes our draft and final ratings of Goulburn-Murray Water's price submission.

⁸⁴ Essential Services Commission, *Water Pricing Framework and Approach: Implementing PREMO from 2018*, October 2016, p. 5.

⁸⁵ We will not assess the 'P' (Performance) element in the 2024 price review because this is Goulburn-Murray Water's first review under the PREMO framework and it does not have an established set of outcomes proposed in the previous review to assess its performance against.

Table 16.1 PREMO rating

	Overall PREMO rating	Risk	Engagement	Management	Outcomes
Goulburn-Murray Water's self-rating	Standard	Standard	Standard	Standard	Standard
Commission's draft decision rating	Standard	Standard	Standard	Standard	Standard
Commission's final decision rating	Standard	Standard	Standard	Standard	Standard

Our preliminary PREMO assessment is set out in our draft decision.

After considering submissions in response to our draft decision, our final decision is to agree with Goulburn-Murray Water's proposed overall PREMO self-rating of its price submission as 'Standard'. This rating is reflected in the return on equity we have approved for Goulburn-Murray Water (see Section 4.4.2).

As noted in Chapter 3, we considered feedback from public submissions and views raised at a public forum we held following our draft decision regarding the PREMO rating for Goulburn-Murray Water's price submission.

We have assessed this feedback within the context of Goulburn-Murray Water's wider engagement program. We consider generally its engagement was otherwise inclusive and demonstrated customers' influence on services and prices – consistent with the principles of good engagement. We have weighed this alongside the factors in support of the 'Standard' rating.

We have also carefully reviewed Goulburn-Murray Water's proposals that affect the risk, management and outcome ratings of PREMO. On balance, we consider that its proposals manage risk between itself and customers adequately, Goulburn-Murray Water has managed to keep its costs under control and its proposed outcomes are consistent with the levels of services provided to customers.

Based on the above, our final decision is to agree with Goulburn-Murray Water's self-rating of its price submission as 'Standard' for each element of PREMO.

In summary, and consistent with our draft decision, the following factors also support Goulburn-Murray Water's self-rating of its price submission as 'Standard':

- it provided a price submission and supporting pricing model that were of a high quality
- the business's proposed operating and capital expenditure benchmarks demonstrate the prudence and efficiency of the forecasts in its price submission

- its proposal to absorb any operating cost increases above inflation through operational efficiencies
- the exclusion of some capital investment from customer prices due to uncertainty related to associated projects, thereby ensuring customers do not pay for projects that do not ultimately proceed or change in scope
- the overall quality of its engagement program and the level of influence it afforded many of its stakeholder groups.

Further, most outcome targets indicate that Goulburn-Murray Water will maintain its current level of services over 2024–28, which along with its proposed reduction in bills for most of its customers, indicates a general improvement in customer value.

Appendix A – Submissions received on draft decision

Name or organisation	Date received
Cameron Reid	16 April 2024
Rod Hall	17 April 2024
Christopher Maud	20 April 2024
Martin Peet	21 April 2024
Confidential Submission	24 April 2024
Cameron Reid	25 April 2024
Andrew Bennett	30 April 2024
Andrew Bennett	5 May 2024
Cameron and Jan Reid	6 May 2024
Rod Hall	7 May 2024
Nick Legge	7 May 2024
Goulburn-Murray Water	7 May 2024
Confidential Submission	7 May 2024

Appendix B – Commission’s consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Goulburn-Murray Water.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.⁸⁶ Our draft and final decisions provide further information on where we have considered our guidance, and Goulburn-Murray Water’s compliance with our guidance, in making our price determination.

Note: all chapter and section numbers referenced below refer to our final decision for Goulburn-Murray Water.

Economic efficiency and viability matters

WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

⁸⁶ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our final decision has therefore had regard to the extent that Goulburn-Murray Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).
- Our assessment of financial viability (Chapter 15).

WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

Additionally, our pricing approach allows a water business to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water business has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water businesses to pursue efficiency improvements.

ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long term investment’.

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water business promotes efficiency in the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

We have had regard to incentives for long term investment by adopting:

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 4.4.1).
- A regulatory rate of return that we consider will enable Goulburn-Murray Water to recover borrowing costs associated with its investment in services and generate a return on assets.⁸⁷

ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in Chapter 15.

ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.

⁸⁷ The regulatory rate of return is comprised of the cost of debt and the return on equity.

In preparing our final decision, we have had regard to the extent Goulburn-Murray Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

Industry specific matters

ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.

Our pricing approach allows each water business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

We have had regard to the prescribed services listed in the WIRO in making our final decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Goulburn-Murray Water to deliver services that are covered by the prescribed services listed in the WIRO.

ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.

Our final decision provides for Goulburn-Murray Water to generate a return on assets through:

- Our consideration of the regulatory asset base (Section 4.3).
- Our consideration of the cost of debt (Section 4.4.1).

- Our consideration of the return on equity (Section 4.4.2).

ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia⁸⁸
- operating and capital expenditure costs per connection throughout Australia⁸⁹
- tariff structures applied by water businesses throughout Australia⁹⁰
- the regulatory rate of return set by other regulators.⁹¹

We are not aware of any international benchmarks that are relevant to our final decision.

WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.

Our pricing approach allows each water business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

⁸⁸ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*, February 2022.

⁸⁹ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*.

⁹⁰ Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁹¹ Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW's rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; Queensland Competition Authority, *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

Our price review also considers the views of stakeholders affected by Goulburn-Murray Water's proposals, including through submissions and public meetings.

Customer matters

ESC Act section 8(1) requires us to have regard to the fact that the 'objective of the Commission is to promote the long-term interests of Victorian consumers'.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long-term interests of Victorian consumers.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs Chapters 7, 8, 9, 10, and 11).

ESC Act Section 8(2) requires us to 'have regard to the price, quality and reliability of essential services' in seeking to achieve the objective in section 8(1) of the ESC Act.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our consideration of demand (Section 5.1).
- Our consideration of tariffs (Chapters 7, 8, 9, 10, and 11).

In terms of the quality and reliability of services, the following sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).

WIRO Clause 11(d)(i) requires us to have regard to whether Goulburn-Murray Water's prices 'enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated'.

We consider that the following matters are relevant when considering whether Goulburn-Murray Water's prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water business's engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

The following sections of our final decision involved consideration of this factor:

- Our consideration of tariffs and the form of price control (Chapters 6, 7, 8, 9, 10, and 11).

WIRO Clause 11(d)(ii) requires us to have regard to whether Goulburn-Murray Water's prices 'provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible'.

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10, and 11).

WIRO Clause 11(d)(iii) requires us to have regard to whether Goulburn-Murray Water's prices 'take into account the interests of customers of the regulated entity, including low income and vulnerable customers'.

We consider that customer value established through prices and customer outcomes, as well as tariff structures, and assistance available to customers having difficulty paying bills is relevant to this objective.

In considering the above factor, we had regard to:

- Our consideration of customer engagement (Section 3.1)

- Our consideration of outcomes (Section 3.2).
- Our assessment of tariff structure and prices (Chapters 7, 8, 9, 10, and 11)

Health, safety, environmental and social obligations

ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.

Our final decision proposes to approve a revenue requirement that will enable Goulburn-Murray Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of the form of price control (Chapter 6).

WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.

Our final decision proposes to approve a revenue requirement that will enable Goulburn-Murray Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Chapters 7, 8, 9, 10 and 11).

Other matters

ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.

In relation to the above, Goulburn-Murray Water does not face any competition in the delivery of its prescribed services within its region. Our final decision takes this into account through our consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business’s customer engagement.

The following sections of our final decision involved consideration of this factor:

- Our assessment of engagement (Section 3.1)
- Our assessment of outcomes (Section 3.2)
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.⁹²

ESC Act section 8A(1)(e) requires us to have regard to the ‘benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities’.

We have had regard to benefits and costs of regulation by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high-quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income customers and those experiencing vulnerability), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁹³

ESC Act section 8A(1)(f) requires us to have regard to ‘consistency in regulation between States and on a national basis’.

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses to implement various forms of price control, including price caps and revenue caps

⁹² Essential Services Commission 2016, Water Pricing Framework and Approach, Implementing PREMO from 2018, October, pp. 11–13.

⁹³ Essential Services Commission, 2023 water price review: Guidance paper, p. 2.

- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

WI Act section 4C(a) requires us to ‘ensure that the costs of regulation do not exceed the benefits’.

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high-quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low-income customers and those experiencing vulnerability), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁹⁴

⁹⁴ Essential Services Commission, 2023 water price review: *Guidance paper*, p. 2.

Appendix C – Service standards

We have accepted the following standards, and conditions of service and supply, and associated targets for Goulburn-Murray Water. Service standards are set out in our Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). Accordingly, in early 2024-25, we will update the Rural Water Industry Standard to adopt these service standards and targets.

Goulburn-Murray Water's service standards

Service standard	2024-25	2025-26	2026-27	2027-28
General				
Processing allocation trade applications within 5 business days	90%	90%	90%	90%
Processing water share applications within 10 business days	95%	95%	95%	95%
Processing change of ownership applications within 10 business days	90%	90%	90%	90%
We process all groundwater transfers within 70 days.	75%	75%	75%	75%
Complaints to GMW per 100 customers (5 year rolling average)	0.36	0.36	0.36	0.36
We respond to complaints in writing within three business days	100%	100%	100%	100%
Telephone calls answered within 60 seconds	85%	85%	85%	85%
Rate of first point resolution (for phone calls)	70%	70%	70%	70%
Water Supply Districts				
Number of supply interruptions for continuous periods in excess of 96 hours	0	0	0	0
Gravity Irrigation				
Irrigation orders are commenced within 24 hours of requested start	95%	95%	95%	95%
Flow rate is within 10% of order	80%	80%	80%	80%
Maintain the channel level within 40mm of the required supply level	80%	80%	80%	80%

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Goulburn-Murray Water's service standards (continued)

Service standard	2024-25 to 2027-28
Diversions	
Customer access to groundwater is managed through seasonal allocations which are announced in accordance with relevant management plans	100%
Access to unregulated stream flows is managed in accordance with restriction triggers in Local Management Rules	100%
GMW will, within 24 hrs of being aware of the need to amend rosters and restrictions, initiate notification to customers impacted by these changes (through SMS, email, written letters, or website content)	100%
Pumped Irrigation	
Irrigation orders are commenced within 24 hours of requested start	98%
Supply interruptions do not exceed eight hours in the summer months and 48 hours in the winter	5
Customers are informed by SMS when there is a supply interruption and again when it is restored, within two hours.	100%
Drainage	
Drains are maintained to a level that they are available to remove run-off	98%
Network Delivery Efficiency	
Water delivered to customer properties through the closed piped network as a percentage of water extracted	92%
Water delivered to customer properties through the open channel network as a percentage of water extracted	85%
Bulk Water	
The ability of each regulated system to deliver water to meet customer demand as a percentage of time	99%
The ability of each regulated system to maximise harvesting opportunities up to 100% of the design storage capacity as a percentage of time	100%
Minimum flow requirements for regulated waterways as specified in the relevant bulk entitlements are satisfied as a % of time	98%

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Goulburn-Murray Water's service standards (continued)

Service standard	2024-25 to 2027-28
Bulk Water (continued)	
Seasonal determination announcements for regulated systems to be made within defined timeframes each month	100%
Risk of spill announcements for relevant regulated systems to be made within defined timeframes each month	100%
Advise urban water suppliers of incidents and operations that could affect raw water quality at a town offtake within one day of GMW becoming aware of the risk	95%

Appendix D – Inputs to calculation of long-term inflation

Inflation – annual estimates (per cent)

	2024-25	2025-26	2026-27	2027-28	2028-29	Average
RBA geometric mean	3.6	3.5	2.7	2.5	2.5	3.0
Bond breakeven	3.6	2.5	2.5	2.5	2.5	2.7
Long Term Inflation						2.9

Note: Figures have been rounded. The long-term inflation estimate is calculated using a 5-year RBA geometric mean and bond breakeven forecast. The 2024-25 commencing year is the annualised March 2024 quarter actual inflation rate - that is, calculated based on the annual percentage change in the Australian Bureau of Statistics March 2024 consumer price index (all groups, Australia).