

**Lower Murray Water**  
**2023 Water Price Review**  
Response to ESC Draft Decision

May 2023

## 1. Summary

The Essential Services Commission (ESC) issued a draft decision on Lower Murray Water's (LMW's) 2023-2028 Price Submission (PS5) on 30<sup>th</sup> March 2023.

LMW has reviewed this draft and appreciates that the ESC has accepted the significant majority of LMW's price proposal components and considered that the price submission generally presented clear and comprehensive information to support its proposals. Further, the ESC recognised the inclusive nature of LMW's customer engagement, that outcome measures and proposed targets reflected an overall improvement in service levels to customers, and that proposed forecasts represented efficient operating expenditure and capital expenditure that were well developed, robust, prudent, and deliverable.

LMW is required to respond to this draft decision and propose individual tariffs that reflect the ESC's initial views on the revenue requirement. In particular, the ESC has requested LMW examine how it may address the impacts of the relatively high inflation environment on prices and customer bills for 2023-24.

The ESC's draft decision proposes relatively minor adjustments to capital and operating cost forecasts, which LMW responds to in this proposal. The ESC has also requested that LMW update its forecast for non-controllable bulk water charges from Goulburn-Murray Water based on a flat rate in real terms (0% price path and not applying the consumer price index (CPI)) for both urban and rural services.

This report and the accompanying revised financial template respond to the above requirements and also reflect the ESC's updated information for cost of debt and CPI (actual to March 2023 and forecast for the 5-year price period).

Given the primary importance of prices and bills to customers and to LMW, this response is structured to address that issue first, then provide comment on other matters in the draft decision as follows:

2. Considering the inflation environment and impact on customer prices and bills
3. Part A – General
  - Customer engagement
  - Cost of debt
  - Return on equity.
4. Part B – Urban
  - Outcomes including performance against outcome commitments, and proposed targets
  - Revenue requirement including operating and capital expenditure, regulatory asset base and regulatory depreciation
  - Demand, tariffs and prices including new customer contributions.
5. Part C – Rural
  - Outcomes including performance against outcome commitments, and proposed targets
  - Revenue requirement including operating and capital expenditure, regulatory asset base and regulatory depreciation
  - Demand, tariffs and prices.
6. Part D – PREMO assessment.

## 2. Considering the inflation environment and impact on customer prices and bills

### 2.1. ESC expectations

The ESC required, in its draft decision summary, that LMW ‘must provide us with further information illustrating how it intends to address the impacts of relatively high inflation on its proposed prices and customer bills for 2023-24’. The ESC continues to note that: ‘Many of the drivers of higher inflation (such as fuel, food and travel) are not major cost items for water businesses. Some high-cost growth areas specific to the water sector such as insurance and chemicals have been accounted for in uplifts to opening base costs for the 2023–28 regulatory period. Accordingly, it may be the case that the inflation that is added to prices in 2023-24 provides an uplift in revenue that is well above a business’s actual costs for the year’.

LMW has carefully considered these ESC requirements at a business-wide level, and both examined recent changes to its current cost base and forecast costs and modelled their impact on forecast prices and bills. Included in the latter are the effects of updates to the ESC’s forecasts for inflation and cost of debt, which have a significant influence. LMW seeks to demonstrate that the assumption that many of the drivers of higher inflation are not major cost items for water businesses is not accurate throughout the response below.

### 2.2. Consideration of the inflation environment and cost bases

The two major cost categories of labour, and energy comprise 41% and 13% respectively, totaling 54% of LMW’s controllable cost base. These cost categories have been examined in detail and are discussed below, along with the forecasts of other costs from a general perspective.

- Labour costs were forecast in PS5 to increase below inflation for the period. In the current highly inflationary environment, significant cost-of-living pressure is likely to be placed on salary and wages to increase them in line with inflation. Recent developments for the pending updated state government wage policy suggests the likelihood of Enterprise Agreement bonuses being incorporated into labour costs by 2023 which will impact LMW in 2025-26. LMW also notes that the labour costs as described within our financials are just one cost element of attracting and retaining a diverse and high performing workforce. The world of work has changed significantly because of the COVID-19 pandemic and other economic and environmental impacts and to remain competitive in the employee market, particularly when located in a remote area of the state, organisations have to increase their employee value propositions in terms of ongoing development and other non-salary benefits to both attract and retain employees. Nevertheless, and with acknowledgement of the risks, LMW has maintained its PS5 forecast for labour costs.
- Energy costs were forecast in PS5 based on a Victorian water industry (agency-wide) forecast for energy prices and overall demand prepared by Schneider Electric to provide an informed and consistent basis across the State’s water businesses. Schneider Electric applied these forecasts to LMW’s site-specific and seasonal energy requirements for both energy and electricity bill tariffs, and Large-scale Generation Certificates (LGC) pricing for emissions reduction. In March 2023, Schneider Electric updated the forecasts which revealed an alarming increase in net energy costs and LGCs of 9% over the forecast included in PS5.

Numerous other costs have been interrogated and have shown increase well beyond inflation which have been considered at length. These include:

- Insurance costs expected to increase by 10% to 15% across the entire portfolio to reflect a continuing hard market cycle compounded by ongoing global impacts of COVID-19 and the war in the Ukraine as well as local impacts of recent flood losses.
- Cleaning and grounds maintenance were recently retendered, resulting in increases of 18% and 150% respectively, compared to 2022-23.
- Chemical costs have increased by 14% over 2021-22 (the most recent non-flood year) noting that the outlook (based on previous experience) is that river water quality rarely fully reverts to pre-flood conditions and that ongoing high chemical dose rates become embedded.
- A tight job market has seen LMW experiencing higher costs than originally anticipated in PS5 to undertake recruitment to attract key personnel. In addition, LMW will also see an uplift in retention costs to keep them.
- Fuel and vehicle costs are significant for LMW's business with extensive travel required by staff across LMW's relatively large service region, with increases of 27% and 23% respectively over the last 12 months.
- Council rates for businesses will increase by 7% in 2023-24.
- Audit fees of \$475k across the pricing submission period were inadvertently omitted in the original submission and will be absorbed by the business.

Overall, changes to LMW's cost base since the submission of PS5 in September 2022 have arisen which give some considerable concern to LMW that operating expenditure increases will be difficult to contain within inflation. LMW consequently proposes to retain its PS5 forecasts for operating expenditure, recognising that it is accepting the risk of cost input increases beyond inflation for the period.

### 3. Part A – General

#### 3.1 Customer engagement

*Ref draft decision (DD) Sec 2.3, p8.*

LMW notes that the ESC considered that LMW engaged early and widely with its urban and rural customers, used a range of methods tailored to suit customer circumstances, and was inclusive of First Nations people and Traditional Owners and vulnerable customers. Overall, the ESC’s preliminary view was that LMW had designed and delivered an engagement program that was responsive to its operating environment and the context of its community and service mix, which includes both rural and urban water services.

LMW accepts the ESC’s draft decision and proposes no changes in this response.

#### 3.2 Cost of debt

*Ref DD Sec 2.4.1 p11.*

LMW’s proposed revenue requirement and prices used the estimated cost of debt figures specified by the ESC in its guidance. These figures have been updated by the ESC and are provided in Table 1 below.

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cost of debt	7.1%	5.4%	5.3%	4.9%	4.5%	4.6%	3.3%	3.0%	3.8%	6.8%

**Table 1: Revised historical cost of debt (annual nominal values for calculating trailing average)**

The updated information has been used by LMW to develop the revised revenue requirement in this response. Prices established during the PS5 period will be adjusted to reflect the 10-year trailing average cost of debt.

#### 3.3 Return on equity

*Ref DD Sec 2.4.2 p11*

LMW notes that the ESC has agreed with LMW’s PREMO self-rating of ‘Standard’ for the price submission, which determines a maximum rate of return on equity of 4.1%.

LMW accepts the ESC’s draft decision and proposes no change in this response.

## 4. Part B - Urban

### 4.1. Outcomes

#### 4.1.1. Performance against outcome commitments 2018-23

*Ref DD Sec 3.1.1, p15.*

LMW notes that the ESC has agreed with LMW's self-assessment that it has, overall, met its outcome commitments in relation to urban services for the period to date. Adjustment of some figures by the ESC to reflect the most recent performance data provided to the ESC through LMW's standard performance reporting regime is noted.

LMW accepts the ESC's draft decision and proposes no change in this response.

#### 4.1.2. Proposed performance measures and targets

*Ref DD Sec 3.1.3, p17*

LMW notes that the ESC has considered that LMW's intentions are clear, and its performance measures and targets will provide a sound basis to track performance and delivery against each urban service outcome.

LMW is working with the ESC to complete the ESC's standard Outcomes Reporting Template which will improve the clarity and accountability of the targets. The completed template will be submitted separately to this response as discussed and agreed with the ESC.

#### 4.1.3. Service standards and guaranteed service levels

*Ref DD Sec 3.1.2 and 3.1.3, p17-18*

LMW notes that the ESC has acknowledged that LMW complies with the requirement of the Urban Water Industry Standard with regard to its service standards and accepts LMW's proposed guaranteed service levels for its urban services.

LMW accepts the ESC's draft decision and proposes no change in this response.

### 4.2. Revenue requirement

#### 4.2.1. Proposed revenue requirement

*Ref DD Sec 4, p21.*

LMW notes that the ESC did not approve LMW's proposed revenue requirement, and instead approved a revenue requirement of \$216.7 million, 1.2% lower than proposed.

The ESC required LMW to update its urban revenue requirement for updated ESC estimates for cost of debt and inflation, any changes to laws or government policy that impact on costs, or any material changes to forecast costs, revenue requirement or prices, including demand.

LMW has considered the requirements of the ESC and provides the revised urban revenue requirement in Table 2 below and detailed in the financial model, reconciled with the ESC's draft decision in Table 3 overleaf.

LMW responds to each of the ESC requirements and discusses differences between the revised figures and the draft decision in the relevant sections following:

- Operating expenditure – refer Section 4.2.2.
- Capital expenditure – refer Section 4.2.3.
- Return on assets – refer Sections 4.2.4 and 4.2.5
- Regulatory depreciation – refer Section 4.3.

	Current	Fifth Regulatory Period					TOTAL
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
Operating expenditure	25.31	29.47	29.57	29.63	30.06	29.44	<b>148.17</b>
Return on assets	7.92	5.01	5.19	5.57	5.92	6.30	<b>27.98</b>
Regulatory depreciation	10.12	10.51	11.08	9.72	9.72	9.52	<b>50.54</b>
Adjustments from last period	0.00	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
Non-prescribed rev offset of rev requirement	(1.10)	(1.10)	(1.10)	(1.10)	(1.10)	(1.10)	<b>(5.50)</b>
Benchmark tax liability	0.00	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
<b>Total revised revenue requirement</b>	<b>42.25</b>	<b>43.89</b>	<b>44.74</b>	<b>43.81</b>	<b>44.59</b>	<b>44.15</b>	<b>221.19</b>

Table 2: Revised Revenue Requirement – \$m 1/1/23

	Current	Fifth Regulatory Period					TOTAL
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
LMW's PS5 urban revenue requirement	42.25	44.08	44.73	43.46	43.88	43.12	2191.27
ESC Draft Decision on revenue requirement		43.7	44.2	42.9	43.3	42.5	216.7
Revised LMW Adjustments*:							
Operating expenditure		0.17	0.16	0.14	0.13	0.12	0.71
Return on assets		-0.19	0.19	0.57	1.02	1.40	2.99
Regulatory depreciation		0.11	0.18	0.12	0.12	0.12	0.65
<b>Total LMW adjustments to revenue requirement</b>		<b>0.19</b>	<b>0.54</b>	<b>0.91</b>	<b>1.29</b>	<b>1.65</b>	<b>4.58</b>

Table 3: Changes to Revenue Requirement from ESC Adjusted – \$m 1/1/23

Note: \*based on the difference between the revised figures in Table 2 and the ESC Draft Decision

#### 4.2.2. Operating expenditure

*Ref DD Sec 4.1, pp22-28.*

LMW notes that the ESC found LMW's approach to forecasting operating expenditure was consistent with the requirements of the ESC guidance and was satisfied that the proposed forecast represented efficient controllable costs. Nevertheless, a total of \$1.75 million for the period was deducted by the ESC for controllable water reticulation and distribution costs (\$1.00 million) and non-controllable environmental contributions (\$0.75 million).

While accepting that the adjusted proposed forecast represented efficient controllable costs, the ESC, as noted in Section 4.2.1 herein, required LMW to update its price submission and financial model for any subsequent changes to laws or government policy that impact on costs, and any material changes to forecast costs (including demand). Further, the ESC required that LMW consider the impact of expected high inflation outcomes on its forecast expenditure in 2023-24.

The ESC also requested that LMW update its forecast Goulburn-Murray Water (G-MW) bulk water charges by maintaining them at a flat rate in real terms (using a price path of zero percent and not applying CPI) for the next regulatory period.

LMW's revised proposal for actual and planned operating expenditure is shown in Table 4 below and is reconciled with the ESC's draft decision in Table 5 below. Discussion on each of the revisions and considerations follows the tables.

\$m, 1/1/23	Current Period		Forecast for Fifth Regulatory Period					TOTAL
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
<b>Controllable opex</b>								
Water	16.76	15.54	16.68	16.49	16.76	16.94	16.70	83.57
Sewerage	10.21	9.50	10.29	10.62	10.47	10.75	10.42	52.54
<b>Total controllable opex</b>	<b>26.97</b>	<b>25.05</b>	<b>26.96</b>	<b>27.11</b>	<b>27.22</b>	<b>27.69</b>	<b>27.12</b>	<b>136.11</b>
<b>Non-controllable opex</b>								
External bulk water charges and water allocation purchases	0.71	0.70	0.70	0.71	0.71	0.71	0.72	3.55
Licence fees	0.12	0.09	0.08	0.08	0.08	0.10	0.10	0.45
Environment Contribution	1.88	1.78	1.72	1.67	1.61	1.56	1.50	8.06
<b>Total non-controllable opex</b>	<b>2.70</b>	<b>2.58</b>	<b>2.51</b>	<b>2.46</b>	<b>2.41</b>	<b>2.37</b>	<b>2.32</b>	<b>12.06</b>
<b>Total prescribed opex</b>	<b>29.67</b>	<b>27.63</b>	<b>29.47</b>	<b>29.57</b>	<b>29.63</b>	<b>30.06</b>	<b>29.44</b>	<b>148.17</b>

Table 4. Revised Actual and Planned Operating Expenditure (\$m 1/1/23)

\$m, 1/1/23	Current Period		Forecast for Fifth Regulatory Period					TOTAL
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
LMW PSS total operating expenditure	29.67	27.63	29.55	29.71	29.84	30.33	29.77	149.21
LMW PSSd total controllable opex	26.97	25.05	26.96	27.11	27.22	27.69	27.12	136.11
ESC Draft Decision controllable opex			26.76	26.91	27.02	27.49	26.92	135.11
Revised LMW adjustments:								
Water reticulation and distribution			+0.20	+0.20	+0.20	+0.20	+0.20	+1.00
<b>Total LMW revised controllable operating expenditure</b>			<b>26.96</b>	<b>27.11</b>	<b>27.22</b>	<b>27.69</b>	<b>27.12</b>	<b>136.11</b>
LMW PSS non-controllable opex	2.70	2.58	2.59	2.60	2.62	2.65	2.65	13.10
ESC Draft Decision non-controllable opex			2.54	2.50	2.47	2.45	2.40	12.35
Revised LMW adjustments*:								
External bulk water charges/allocation purchases			-0.03	-0.04	-0.06	-0.08	-0.08	-0.29



Total revised non-controllable opex	2.70	2.58	2.51	2.46	2.41	2.37	2.32	12.06
Total LMW revised opex	29.67	27.63	29.47	29.57	29.63	30.06	29.44	148.17

Table 5: Changes to Actual and Planned Operating Expenditure (\$m 1/1/23)

Note: \* based on the difference between the revised figures in Table 4 and the ESC Draft Decision

#### *Controllable costs - water reticulation and distribution*

*Ref DD Sec 4.1.1.1 p25-26*

The ESC deducted \$0.2 million per annum or \$1.0 million total for the period for urban water reticulation and distribution costs.

LMW provided information to the ESC to advise that LMW has experienced a high increase in urban reticulation and distribution costs compared to initial PS4 budgets. Over the recent period (FY2020, 2021 & 2022), this cost category has averaged \$2.40 million compared to a PS4 budget of \$1.98 million per annum, with a key reason being the replacement of customer meters. For the PS5 forecast, LMW expects a lesser increase than in recent years, with estimated costs to average \$2.22m across the PS5 period.

Consequently, LMW believes that the information provided may have been misunderstood and applied incorrectly, and as such does not concur with the ESC's draft decision, and the revised forecast included above reverts to the forecast in PS5.

#### *Controllable costs – material changes to forecasts and impact of inflation*

*Ref DD Sec 4, p21 and Sec 5.3.2, p43*

As discussed in Section 2 of this response, LMW has undertaken a detailed review of its cost base for 2023-24, especially key cost categories of energy and labour, and does not propose to revise its operating expenditure forecasts for the forthcoming period. There have been no noted changes to laws or government policy that affect LMW's forecasts. The demand forecast remains unaltered from PS5 as discussed in Section 4.3.1, and consequently there are no impacts of demand on the operating expenditure forecast.

#### *Non-controllable costs – environmental contribution*

*Ref DD Sec 4.1.2 p27-28*

The ESC adjusted the environmental contribution by a \$0.75 million reduction over the forthcoming period to reflect a flat rate in nominal terms. The ESC will update the forecast licence fees and environmental contribution values with the relevant regulatory bodies and adjust where necessary in its final decision.

LMW accepts the ESC's draft decision and proposes no change in this response, but for minor decrease to allow for latest CPI values.

*Non-controllable costs – Goulburn-Murray Water forecast bulk charges.*

*Ref DD Sec 4.1.2 p27-28.*

G-MW is currently developing its 2024-2028 Pricing Submission and has provided LMW with updated draft forecasts for bulk water charges. Given the updated forecasts are for a positive real increase in costs after 2023-24, there is no basis for LMW to model a flat rate in real terms over the entire period.

LMW has updated the financial model accordingly, resulting in a \$0.29 million reduction in forecast bulk water costs compared to PS5 over the forthcoming period.

3.2.3. Capital expenditure

*Ref DD Sec 4.2.*

LMW notes that the ESC accepted the actual capital expenditure LMW incurred from 2017-18 to 2022-23 in full and considered it was appropriate for the purpose of calculating its regulatory asset base (RAB), noting that the ESC considered including the additional \$3.8 million (rounded) for Stage 3 UV Works as a more up-to-date forecast of its expected capital expenditure for 2022-23 (*Refer DD footnote 39, p30*).

The ESC also considered that LMW’s price submission provided evidence that its 2023-24 to 2027-2028 forecasts for capital expenditure were prudent and efficient, had sound justification, were well developed and deliverable, and that LMW had a reasonable approach for developing project scope, the timing of works and cost estimates. The ESC proposed to accept the increase in cost for the Stage 3 UV Works of \$3.8 million but did not consider the expenditure should be carried forward to the 2023-24 year, and consequently removed it from the forecast. This was the only adjustment by the ESC to the forecast capital expenditure, reducing the amount from LMW’s proposed \$98.6 million to \$94.8 million.

The ESC considered that LMW’s proposed exclusion of uncertain projects from the capital expenditure forecast helped to ensure that customers do not pay more than they need to.

LMW’s revised actual and forecast capital expenditure is shown in Table 6 below, including reconciliation to the ESC’s draft decision. Each revised item is discussed below.

(\$m 1/1/23)	Current Period		Fifth Regulatory Period					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	TOTAL
LMW’s PS5 forecast capital expenditure	24.22	13.58	24.49	23.83	17.64	17.23	15.42	98.61
ESC Draft Decision on capital expenditure	24.22	13.58	20.72	23.83	17.64	17.23	15.42	94.85
ESC adjustments	0.00	0.00	-3.77	0.00	0.00	0.00	0.00	-3.77
<b>LMW’s revised forecast capital expenditure</b>	<b>24.22</b>	<b>17.51</b>	<b>20.72</b>	<b>23.83</b>	<b>17.64</b>	<b>17.23</b>	<b>15.42</b>	<b>94.85</b>
LMW revised adjustments*	0.00	+3.93	0.00	0.00	0.00	0.00	0.00	0.00

**Table 6: Revised Urban Forecast Capital Expenditure from ESC Adjusted - \$m 1/1/23**

Note: \* based on the difference between the revised LMW figures and the ESC Draft Decision

#### *Treatment of Stage 3 UV Works Expenditure*

*Ref DD Sec 4.2.1 p29-30 and Sec 4.2.2 p30-31.*

LMW notes that the ESC accepted the increase in costs for this project but did not accept LMW's proposal to carry forward the expenditure to 2023-24 to be consistent with the ESC's guidance.

As explained in LMW's PS5, the reasons for inclusion of \$3.8 million of 2022-23 expenditure are mostly associated with the delivery of Stage 3 UV works. Adjustments to the 2023-24 forecast are:

- The recent forecast of expenditure for UV works indicated that it would exceed the budget estimate of \$12 million that was undertaken in 2017-18 as a part of Price Submission 4 (PS4 i.e., current pricing period) by an estimated \$3.8 million due to the reasons described in PS5 and accepted by the ESC in the draft decision.
- The Stage 3 UV Works project is a major capital investment for the water service and in order for LMW to set pricing at the appropriate level to be financially sustainable, this additional expenditure needs to be accounted for in the closing RAB for 2022-23. However, in the ESC's pricing model template 2022-23 cells were prepopulated with the values based on PS4 estimates and values could not be altered as the cells were locked.
- Therefore, the additional expenditure of \$3.8 million was included in expenditure in 2023-24 so that its value could be applied to the urban water service RAB.

Based on the discussion with ESC representatives on 6 April 2023 and subsequent 'unlocking' by ESC of relevant data fields in the financial model, the model was amended for the capital expenditure for 2022-23, with the most recent forecast value for the Urban being \$3.9 million, with the majority associated with Stage 3 UV Works project, and \$3.8 million has been removed from 2023-24 forecast as recommended in the draft decision. The adjustments are shown in the above table.

#### *4.2.4. Closing regulatory asset base*

*Ref DD Sec 4.3.1 p34-35*

LMW notes that the ESC's draft decision adopted a lower closing RAB as at 30 June 2022 which was \$0.4 million lower than that proposed by LMW, due to adjustments for differences to the approved regulatory accounts.

LMW accepts the ESC's draft decision and proposes no change in this response.

#### *4.2.5. Forecast regulatory asset base*

*Ref DD Sec 4.3.2 p36-37.*

LMW notes that the ESC adopted a lower starting RAB arising from its draft decision on the closing RAB as discussed in Section 4.2.4 above.

The ESC forecast RAB also removed the \$3.8 million increased expenditure proposed by LMW for inclusion in 2023-24 and the associated regulatory depreciation, although it accepted this increase in costs.

LMW's revised forecast RAB is shown in Table 7 overleaf, with each revised item compared to the ESC's draft decision discussed below.

Rolled forward asset base \$m, 1/1/23	4 <sup>th</sup> Period	Fifth Regulatory Period				
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening asset base	196.62	202.09	210.04	220.66	226.51	232.12
plus Gross capital expenditures	17.51	20.72	23.83	17.64	17.23	15.42
less Customer contributions	1.71	1.71	1.71	1.71	1.71	1.71
less Government contributions	0.00	0.00	0.00	0.00	0.00	0.00
less Regulatory depreciation	10.07	10.51	11.08	9.72	9.72	9.52
less Proceeds from disposals	0.26	0.54	0.41	0.37	0.20	0.26
<b>Revised Closing Asset Base</b>	<b>202.09</b>	<b>210.04</b>	<b>220.66</b>	<b>226.51</b>	<b>232.12</b>	<b>236.06</b>

Table 7: Revised Forecast Regulatory Asset Base

#### *Capital expenditure update*

*Ref DD Sec 4.3.2 p36*

Given that LMW has revised its actual and planned capital expenditure (Refer Section 4.2.3), these revisions flow through to updated gross capital expenditures in Table 7, amounting to a reduction of \$3.8 million for 2023-24, and an addition of \$3.9 million to 2022-23.

#### *New customer contributions*

*Ref DD Sec 4.3.2.1 p37/38*

LMW notes that the ESC did not accept LMW's new customer contributions (NCCs) and consequently did not accept LMW's forecast for customer contributions revenue included in the forecast RAB. The ESC required LMW to update its forecast for NCCs, as discussed in Section 4.3.6 below.

While awaiting the ESC's review of NCCs, LMW has provided for no change in the NCC forecast from that provided in PS5, and unchanged contributions are shown in Table 7.

#### *Regulatory depreciation*

*Ref DD Sec 4.4 p38*

Refer to Section 4.2.6 below.

#### 4.2.6. Regulatory depreciation

*Ref DD Sec 4.4 p38.*

LMW notes that the ESC was concerned that LMW's assumed asset life of 30 years is low compared to the average of other businesses of 47 years, and the ESC asked LMW to justify its assumed asset life.

The *remaining* asset life of 30 years is calculated in the Rollforward section of the ESC template and is not used to calculate regulatory depreciation in the template. The template gives the option to over-ride the regulatory depreciation calculated by the template, and LMW has availed itself of that option in this and previous price reviews.

The difference between the Rollforward calculation and the over-ride used by LMW is not as great for the urban business, with the average remaining asset life being around 33.5 years. Relevant to this is

that recent years have seen improvements to our system in regard to technology (SCADA upgrades etc) which have shorter asset lives compared to the previously established pipeline network, which have longer asset lives. Moreover, the majority of combined information technology investment is allocated to the urban business (some 90%).

This is coupled with the fact that the opening RAB at the start of current regulatory regime was at a substantial discount to current cost accounting values. Together this implies that the shorter asset lives that apply to recent capital investments will impact disproportionately on any average life calculated.

LMW has undertaken a detailed review of the asset lives on which the calculation of regulatory depreciation is based and notes the following:

- The asset lives included in the financial model are reasonable in relation to the asset lives in the most recent asset valuation conducted for LMW by the Valuer-General Victoria (VGV) in 2021 (noting that the VGV valuation is limited to infrastructure assets).
- The differences in the average remaining asset life between LMW and other Victorian water corporations could be explainable by significant differences in the age, condition, growth and composition of their respective asset bases, for example, the proportion of values attributable to long-life assets such as dams or long pipelines compared to site assets such as treatment plants, pump stations and new technology. LMW has not undertaken a detailed comparison of these attributes or asset lives.

LMW consequently proposes no change to asset lives included in PS5 and the regulatory depreciation calculation.

LMW accepts the ESC's draft decision with respect to recalculated depreciation arising from adjustments to the RAB for the approved regulatory accounts referred to in Section 4.2.4.

LMW proposes a revised calculation of depreciation arising from proposed changes to the forecast RAB resulting from the updated capital expenditure forecast as detailed in Section 4.2.5.

### 4.3. Demand, Tariffs and Prices

#### 4.3.1. Demand

*Ref DD Sec 5.1 p40.*

LMW notes that the ESC has accepted LMW's demand forecasts for urban services, developed in accordance with the ESC's guidance. The ESC has however requested that LMW must consider updated Victorian Government estimates of population and dwelling growth and identify and justify any changes to demand forecasts.

LMW has reviewed the updated Victorian Government estimates for the relevant local government areas and statistical Standard Areas and has identified a nominal decline in dwelling growth for the forecast period between the Victoria in Future 2019 and 2022 forecasts.

In any case, LMW's growth forecast of 1.1% in PS5 was based on historic connections growth data and understanding of new residential developments under way or highly likely to proceed during the forecast period. Review of the most recent LMW connections data also shows a small decline in connections for 2022/23 compared to previous years, noting that only 8 months data are available for

this year at the time of compiling this document acknowledging that local and short-term factors such as floods and construction constraints, as well as macro factors such as interest rates, may be contributing to this outcome. The period of additional record, of some 8 months, is too short to consider changes to the demand forecast.

Consequently, LMW proposes no change to its urban demand forecasts included in PS5.

#### 4.3.2. Form of price control

*Ref DD Sec 5.2 p40-41*

LMW notes that the ESC accepted LMW’s proposed tariff basket form of price control, as it is consistent with the current approach, provides customers with price certainty, more efficiently manages demand risk, and is consistent with the ESC’s guidance.

LMW accepts the ESC’s draft decision and proposes no change in this response.

#### 4.3.3. Tariff structures

*Ref DD Sec 5.3.1 p41-42*

LMW notes that the ESC accepted LMW’s proposed tariff structures, as they are consistent with the current approach, meet the requirements of the ESC’s guidance, are simple to understand and are generally supported by customers. The urban water two-part tariff is also considered by the ESC to promote efficient use of water.

LMW accepts the ESC’s draft decision and proposes no change in this response.

#### 4.3.4. Prices

*Ref DD Sec 5.3.2, p42-43.*

LMW notes that the ESC, in May 2023, intends to determine prices for LMW in \$2023-24 terms that includes updates for inflation and the cost of debt. The ESC also noted the expectation of a relatively high near-term inflation impact on prices and required LMW to propose updated prices that reflect the draft decision and any updates to its revenue requirement, including potential effects relating to changes to proposed demand, opex (including any material changes to cost inputs and by CPI), capex, RAB, and NCCs. This represents a 0.60% real rate of increase in prices.

The proposed revised urban tariffs and charges as detailed in Table 9 below.

	Current	Fifth Regulatory Period				
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Water Service Charges (20 mm connection)*						
Residential	\$215.46	\$216.75	\$218.05	\$219.35	\$220.67	\$221.99
Non-residential	\$215.46	\$216.75	\$218.05	\$219.35	\$220.67	\$221.99
Sewerage Service Charges (base charge)*						
Residential	\$508.64	\$511.69	\$514.75	\$517.83	\$520.94	\$524.06
Non-residential	\$508.64	\$511.69	\$514.75	\$517.83	\$520.94	\$524.06
Water Volumetric Charges- per kL						
1 <sup>st</sup> tier residential	0.4678	0.4706	0.4734	0.4763	0.4791	0.4820
2 <sup>nd</sup> tier residential	0.8515	0.8566	0.8617	0.8669	0.8721	0.8773

3 <sup>rd</sup> tier residential	1.0946	1.1012	1.1078	1.1144	1.1211	1.1278
Non-residential	0.8515	0.8566	0.8617	0.8669	0.8721	0.8773
<b>Minor Trade Waste*</b>						
Charge	70.76	71.18	71.61	72.04	72.47	72.90

\*Note – When final inflation rate is determined for each year of PS5, the service charges will be rounded so that they are divisible by 4, as they are charged quarterly.

**Table 9: Revised Urban Tariffs – \$ 1/1/23**

#### 4.3.5. Addressing the interests of low income and vulnerable customers

*Ref DD Sec 5.3.3 p43-44*

LMW notes that the ESC has noted that LMW has sought to address the interests of low income and vulnerable customers by providing households with control over water bills, ensuring consistent price changes over time, and maintaining and enhancing hardship programs for customers experiencing vulnerability.

LMW accepts the ESC’s draft decision and proposes no change in this response.

#### 4.3.6. New customer contributions

*Ref DD Sec 5.4 p44-45.*

LMW notes that the ESC’s Draft Decision accepted LMW’s proposed negotiated NCC framework but did not accept LMW’s proposed NCCs and needed to review the element of sunk costs in the calculation.

Further information has been provided to the ESC in response to this matter to explain the basis for calculation of NCCs and the data supporting the calculation.

While awaiting the outcomes of the ESC’s review, LMW has provided for no change to the calculation of NCCs in its revised forecast.

## 5. Rural

### 5.1. Outcomes

#### 5.1.1. Performance against outcome commitments 2018-23

*Ref DD Sec 6.1.1, pp47-49*

LMW notes that the ESC has agreed with LMW's self-assessment that it has, overall, met its outcome commitments in relation to rural services for the period to date.

LMW accepts the ESC's draft decision and proposes no change in this response.

#### 5.1.2. Proposed performance measures and targets

*Ref DD Sec 3.1.1 p50*

LMW notes that the ESC has considered that LMW's intentions with respect to performance measures and targets are clear, and its performance measures and targets will provide a sound basis to track performance and delivery against each rural service outcome.

LMW is working with the ESC to complete the ESC's standard Outcomes Reporting Template which will improve the clarity and accountability of the targets. The completed template will be submitted separately to this response as discussed and agreed with the ESC.

#### 5.1.3. Service standards and guaranteed service levels

*Ref DD Sec 6.2 and 6.3, p50-51*

LMW notes that the ESC has acknowledged that LMW complies with the requirement of the Rural Water Industry Standard with regard to its service standards and accepts that LMW did not propose any rural guaranteed service levels for its rural services on the basis that this has been agreed with customers during its engagement.

LMW accepts the ESC's draft decision and proposes no change in this response.

### 5.2. Revenue requirement

#### 5.2.1. Proposed revenue requirement

*Ref DD Sec 7, p53-54.*

LMW notes that the ESC did not approve LMW's proposed revenue requirement, and instead approved a revenue requirement of \$138.1 million, 0.8% lower than proposed. The adjustments made by the ESC comprise a reduction in non-controllable operating expenditure, and relatively small adjustments for differences to the regulatory account estimates.

The ESC required LMW to update its rural revenue requirement for updated ESC estimates for cost of debt and inflation, any changes to laws or government policy that impact on costs, or any material changes to forecast costs, revenue requirement or prices, including demand.

LMW has considered the requirements of the ESC and provides the revised rural revenue requirement in Table 10 below and detailed in the financial model, reconciled with the ESC's draft decision in Table 11 overleaf.



LMW responds to each of the ESC requirements and discusses differences between the revised figures and the draft decision in the relevant sections following:

- Operating expenditure – refer Section 5.2.2.
- Capital expenditure – refer Section 5.2.3.
- Return on assets – refer Sections 5.2.4 and 5.2.5
- Regulatory depreciation – refer Section 5.3.

	Current	Fifth Regulatory Period					TOTAL
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
Operating expenditure	22.15	20.51	20.49	21.01	21.24	20.86	<b>104.12</b>
Return on assets	4.06	2.81	2.88	3.08	3.30	3.57	<b>15.65</b>
Regulatory depreciation	3.06	3.32	3.58	3.77	3.94	4.07	<b>18.68</b>
Adjustments from last period	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Benchmark tax liability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total revised revenue requirement</b>	<b>29.27</b>	<b>26.65</b>	<b>26.95</b>	<b>27.86</b>	<b>28.49</b>	<b>28.49</b>	<b>138.45</b>

Table 10: Revised Revenue Requirement – \$m 1/1/23

	Current	Fifth Regulatory Period					TOTAL
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
LMW's PSS rural revenue requirement	29.27	26.99	27.26	28.06	28.57	28.29	139.18
ESC Draft Decision on revenue requirement		26.85	27.03	27.82	28.33	28.05	138.08
Revised LMW Adjustments*:							
Operating expenditure		-0.20	-0.30	-0.41	-0.52	-0.47	-1.89
Return on assets		0.01	0.18	0.38	0.60	0.87	2.15
Regulatory depreciation		0.02	0.08	0.07	0.04	0.07	0.18
<b>Total adjustments to revenue requirement</b>		<b>-0.20</b>	<b>-0.08</b>	<b>0.04</b>	<b>0.16</b>	<b>0.44</b>	<b>0.37</b>

Table 11: Changes to Revenue Requirement from ESC Adjusted – \$m 1/1/23

Note: \* based on the difference between the revised figures in Table 10 and the ESC Draft Decision

### 5.2.2. Operating expenditure

*Ref DD Sec 7.1, p56-57.*

LMW notes that the ESC accepted LMW's forecast controllable operating expenditure is consistent with the ESC's guidance requiring no adjustments, is efficient, and has been significantly tested by LMW.

While accepting that the adjusted proposed forecast represented efficient controllable costs, the ESC, as noted in Section 5.2.1 herein, required LMW to update its price submission and financial model for any subsequent changes to laws or government policy that impact on costs, and any material changes to forecast costs (including demand). Further, the ESC required that LMW consider the impacts of relatively high inflation on its proposed prices and customer bills for 2023-24.

The ESC made minor adjustments to non-controllable costs comprising environmental contributions and requested that LMW update its forecast bulk charges by maintaining them at a flat rate in real terms (using a price path of zero percent and not applying CPI).

LMW's revised proposal for actual and planned operating expenditure is shown in Table 12 below and is reconciled with the ESC's draft decision in Table 13 below. Discussion on each of the revisions and considerations follows the tables.

\$m, 1/1/23	Current Period		Fifth Regulatory Period					TOTAL
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
<b>Controllable Costs</b>								
Irrigation	12.99	12.27	11.89	11.93	12.37	12.39	12.17	60.76
Drainage	3.55	3.49	2.90	2.81	2.83	2.97	2.83	14.34
Domestic and stock	0.91	1.08	0.75	0.77	0.78	0.78	0.77	3.84
Surface water diversions	1.59	1.64	1.36	1.34	1.35	1.38	1.35	6.77
Groundwater diversion	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.04
<b>Total Controllable costs</b>	<b>19.04</b>	<b>18.47</b>	<b>16.91</b>	<b>16.86</b>	<b>17.34</b>	<b>17.53</b>	<b>17.11</b>	<b>85.75</b>
<b>Total Non-controllable costs</b>	<b>3.81</b>	<b>3.68</b>	<b>3.60</b>	<b>3.64</b>	<b>3.67</b>	<b>3.71</b>	<b>3.75</b>	<b>18.37</b>
<b>Total revised operating expenditure</b>	<b>22.85</b>	<b>22.15</b>	<b>20.51</b>	<b>20.49</b>	<b>21.01</b>	<b>21.24</b>	<b>20.86</b>	<b>104.12</b>

Table 12: Revised Actual and Planned Operating Expenditure - \$m 1/1/23

\$m, 1/1/23	Current Period		Fifth Regulatory Period					TOTAL
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
LMW PS5 proposed total operating expenditure	22.85	22.15	20.72	20.82	21.46	21.81	21.39	106.20
LMW PS5 proposed total controllable opex	19.04	18.47	16.91	16.86	17.34	17.53	17.12	85.76
ESC Draft Decision controllable opex			16.91	16.86	17.34	17.53	17.12	85.76
Revised LMW adjustments*:								
Minor adjustment			0.00	0.00	0.00	0.00	-0.01	-0.01
<b>Total revised controllable operating expenditure</b>			<b>16.91</b>	<b>16.86</b>	<b>17.34</b>	<b>17.53</b>	<b>17.11</b>	<b>85.75</b>
LMW PS5 proposed non-controllable opex	3.81	3.68	3.60	3.64	3.67	3.71	3.75	18.37
ESC Draft Decision non-controllable opex			3.80	3.94	4.08	4.22	4.21	20.25
Revised LMW adjustments*:								
Bulk water charges			-0.19	-0.29	-0.41	-0.51	-0.46	-1.86
Environment Contribution			0.00	0.00	-0.01	0.00	-0.01	-0.03
Licence fees - ESC			0.00	0.00	0.00	0.00	0.00	0.00
<b>Total non-controllable opex</b>	<b>3.81</b>	<b>3.68</b>	<b>3.60</b>	<b>3.64</b>	<b>3.67</b>	<b>3.71</b>	<b>3.75</b>	<b>18.37</b>
<b>Total Revised operating expenditure</b>	<b>22.85</b>	<b>22.15</b>	<b>20.51</b>	<b>20.49</b>	<b>21.01</b>	<b>21.24</b>	<b>20.86</b>	<b>104.12</b>

Table 13: Revised Actual and Planned Operating Expenditure - \$m 1/1/23

Note: \* based on the difference between the revised figures in Table 11 and the ESC Draft Decision

#### *Controllable costs – material changes to forecasts and impact of inflation*

*Ref DD Sec 7, p54 and Summary p vi.*

As discussed in Section 2 of this response, LMW has undertaken a detailed review of its cost base for 2023-24, especially key cost categories of energy and labour, and does not propose to revise its operating expenditure forecasts for the forthcoming period. There have been no noted changes to laws or government policy that affect LMW's forecasts.

#### *Non-controllable costs – environmental contribution*

*Ref DD Sec 7.1.2 p59-60*

The ESC adjusted the non-controllable operating expenditure by reducing the environmental contribution by \$0.20 million over the forthcoming period, to reflect a flat rate in nominal terms. The ESC will update the forecast licence fees and environmental contribution values with the relevant regulatory bodies and adjust where necessary in its final decision.

LMW accepts the ESC's draft decision and proposes no change in this response, but for minor decrease to allow for latest CPI values.

#### *Non-controllable costs – Goulburn-Murray Water forecast bulk charges.*

*Ref DD Sec 7.1.2 p59-60*

G-MW has provided LMW with updated draft forecasts for bulk water charges. Given the updated forecasts are for a positive real increase in costs after 2023-24, there is no basis for LMW to model a flat rate in real terms over the entire period.

LMW has updated the financial model accordingly, resulting in a \$1.86 million reduction in forecast bulk water costs compared to PS5 over the forthcoming period.

#### *5.2.3. Capital expenditure*

*Ref DD Sec 7.2. p62*

LMW notes that the ESC considered the actual total expenditure incurred in the period 2017-18 to 2022-23 was appropriate for calculating the regulatory asset base, including additional expenditure for Sunraysia Modernisation Project Stage 2, bushfire prevention measures for Merbein and Mildura 17th Street pump stations, and the Millewa river pump station.

The ESC considered LMW's forecast rural capital expenditure was robustly forecast and is prudent, efficient and deliverable, and that LMW had a reasonable approach for developing project scope, the timing of works and cost estimates. While the ESC proposed to accept the increase in cost for the Millewa River Pump Station of \$7.0 million it did not consider the expenditure should be carried forward to the 2023-24 year, and consequently removed it from the forecast. This was the only adjustment by the ESC to the forecast capital expenditure, reducing the amount from LMW's proposed \$50.35 million to \$43.35 million.

LMW's revised actual and forecast capital expenditure is shown in Table 14 below, including reconciliation to the ESC's draft decision. Each revised item is discussed below.

(\$m 1/1/23)	Current Period		Fifth Regulatory Period					TOTAL
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
LMW's PS5 forecast capital expenditure	8.34	6.02	16.08	8.51	8.06	9.30	8.41	50.35
ESC Draft Decision on capital expenditure	8.34	6.02	9.08	8.51	8.06	9.30	8.41	43.35
ESC adjustments	0.00	0.00	-7.00	0.00	0.00	0.00	0.00	-7.00
LMW's revised forecast capital expenditure	8.34	11.08	9.08	8.51	8.06	9.30	8.41	43.35
LMW revised adjustments*	0.00	+5.06	0.00	0.00	0.00	0.00	0.00	0.00

**Table 14. Revised Rural Forecast Capital Expenditure from ESC Adjusted - \$m 1/1/23**

Note: \* based on the difference between the LMW revised figures and the ESC Draft Decision

#### *Treatment of Millewa River Pump Station Expenditure*

*Ref DD Sec 7.2.1 p61/61 and Sec 7.2.2 p63/64.*

LMW notes that the ESC accepted the increase in costs for this project but did not accept LMW's proposal to carry forward the expenditure to 2023-24 to be consistent with the ESC's guidance.

The recent forecast of the capital works program for 2022-23 showed a reduction in capital expenditure for the Millewa River Pump Station (MRPS) project and some of the other projects. Accordingly, the additional expenditure of \$7.0 million previously forecast for the MRPS project was reduced to \$5.5 million and a \$0.4 million reduction in rest of the works program, a net change of \$5.1 million. The reasons for inclusion of \$5.5 million of 2022-23 expenditure associated with the delivery of the MRPS to the 2023-24 forecast are:

- The most recent forecast for the MRPS indicated that actual expenditure for the project would exceed the original estimate undertaken in 2017-18 by around \$5.5 million due to several reasons described in PS5 including scope changes from additional regulatory and environmental requirements and market cost escalation. This additional expenditure was considered by the ESC to largely reflect LMW's response to uncertain circumstances and should be reflected in LMW's closing RAB for 2022-23.
- Due to the scope change from the original concept, LMW has negotiated with NSW Government and obtained a funding commitment, which was included in PS5 as a government contribution.
- The MRPS project is a major capital investment for the rural service and in order for LMW to set pricing at the appropriate level to be financially sustainable, this additional expenditure and the offsetting contribution needs to be accounted for in the closing RAB for 2022-23.
- However, in the ESC's pricing model template 2022-23 cells were prepopulated with the values based on PS4 estimates and values could not be altered as the cells were locked. Therefore, the additional expenditure of \$5.5 million was included in expenditure in 2023-24 so that its value could be applied to the RAB.

Based on the discussion with the ESC representatives on 6 April 2023 and subsequent 'unlocking' by ESC of relevant data fields in the financial model, the model was amended to include the capital expenditure for 2022-23 with the most recent forecast values, with a net change of \$5.1 million, and \$7.0 million has been removed from 2023-24 forecast in accordance with the draft decision. In addition, LMW has

removed the \$3.9 million received from the NSW government included in the forecast for 2023-24 and added revised funding of \$2.0 million into the 2022-23 contributions.

#### 5.2.4. Closing regulatory asset base

*Ref DD Sec 7.3.1 p66-67*

LMW notes that the ESC's draft decision adopted a lower closing RAB as at 30 June 2022 which was \$1.5 million lower than that proposed by LMW, due to adjustments for differences to the approved regulatory accounts.

LMW accepts the ESC's draft decision and proposes no change in this response.

#### 5.2.5. Forecast regulatory asset base

*Ref DD Sec 7.3.2 p68-69.*

LMW notes that the ESC adopted a lower starting RAB arising from its draft decision on the closing RAB as discussed in Section 5.2.4 above.

The ESC forecast RAB also removed the \$7.0 million increased expenditure proposed by LMW for inclusion in 2023-24 and the associated regulatory depreciation, although it accepted this increase in costs. LMW's revised forecast RAB is shown in Table 15 below, with each revised item compared to the ESC's draft decision discussed below.

Rolled forward asset base	4 <sup>th</sup> Period	Fifth Regulatory Period				
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>\$m, 1/1/23</b>						
Opening asset base	108.73	114.23	117.43	121.81	125.60	130.60
<i>plus Gross capital expenditures</i>	11.08	9.08	8.51	8.06	9.30	8.41
<i>less Customer contributions</i>	2.13	0.17	0.17	0.17	0.17	0.17
<i>less Government contributions</i>	0.00	0.00	0.00	0.00	0.00	0.00
<i>less Regulatory depreciation</i>	3.06	3.32	3.58	3.77	3.94	4.07
<i>less Proceeds from disposals</i>	0.39	2.39	0.37	0.33	0.18	0.23
<b>Closing Asset Base</b>	<b>114.23</b>	<b>117.43</b>	<b>121.81</b>	<b>125.60</b>	<b>130.60</b>	<b>134.54</b>

Table 15: Revised Forecast Regulatory Asset Base

#### Capital expenditure update

*Ref DD Sec 7.3.2 p36*

Given that LMW has revised its actual and planned capital expenditure (Refer Section 5.2.3), these revisions flow through to updated gross capital expenditures in Table 15, amounting to a reduction of \$7.0 million for 2023-24, and an addition of \$5.1 million to 2022-23.

#### 5.2.6. Regulatory depreciation

*Ref DD Sec 7.4 p70.*

LMW notes that the ESC did not accept LMW's forecast regulatory depreciation, and recalculated regulatory depreciation based on the ESC's draft decision calculation of the RAB. In addition, the ESC required LMW to provide further information to justify its assumed asset life (30 years compared to average of other businesses of 47 years) and update its forecast for regulatory depreciation.

LMW has undertaken a detailed review of the asset lives on which the calculation of regulatory depreciation is based, discussed in Section 4.2.6. The conclusions for rural are the same as for the urban services noting the approach regarding the Rollforward as demonstrated in Table 16 below.

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Reg Dep per Roll Forward (Existing assets) Rural	5.05	5.05	5.05	5.05	4.60	3.75	3.75	3.75	3.75	3.75
Reg Dep override used for existing assets Rural	3.12	3.01	2.89	2.80	2.67	2.81	3.13	3.08	2.89	2.70

**Table 16: Regulatory Depreciation Rollforward**

As shown in Table 5 above, the regulatory depreciation for existing assets used by LMW for the Rural business is considerably lower than that calculated on the Rollforward sheet. In very broad terms, LMW's approach is equivalent to an assumed asset life of some 44.7 years on average for the Rural Business.

LMW consequently proposes no change to asset lives included in PS5 and the regulatory depreciation calculation.

LMW accepts the ESC's draft decision with respect to recalculated depreciation arising from adjustments to the RAB for the approved regulatory accounts referred to in Section 5.2.4.

LMW proposes a revised calculation of depreciation arising from proposed changes to the forecast RAB resulting from the updated capital expenditure forecast as detailed in Section 5.2.5.

### 5.3. Demand, Tariffs and Prices

#### 5.3.1. Demand

*Ref DD 8.1 p71.*

LMW notes that the ESC has accepted LMW's rural demand forecasts as consistent with the ESC's guidance.

LMW accepts the ESC's draft decision and proposes no change in this response.

#### 5.3.2. Form of price control

*Ref DD Sec 8.2 p71-72*

LMW notes that the ESC accepted LMW's proposed revenue cap form of price control, as it is the same as the current approach, provides sufficient revenue to cover the forecast efficient costs, helps minimise the impact of price changes on customers, and is consistent with the ESC's guidance.

LMW accepts the ESC's draft decision and proposes no change in this response.

### 5.3.3. Tariff structures

*Ref DD Sec 8.3.1 p72*

LMW notes that the ESC accepted LMW’s proposed tariff structures for rural services, on the basis that they are generally a continuation of Lower Murray Water’s current approach and otherwise meet the criteria in our guidance and are generally supported by its customers.

LMW accepts the ESC’s draft decision and proposes no change in this response.

### 5.3.4. Prices

*Ref DD Sec 8.3.2, p72-73.*

LMW notes that the ESC acknowledged LMW’s proposed prices for rural customers are lower for most districts. The ESC required LMW to propose updated prices that reflect the draft decision and any updates to its revenue requirement, which included potential effects relating to changes to proposed operating expenditure (including any material changes to cost inputs and by inflation), capital expenditure, and the RAB.

The updated comparison of changes to prices (including pass through bulk water costs) for reference customers is shown in Table 16 below in real terms (\$ 1/1/23). Percentage change (% change) is average per annum for period 2023-24 to 2027-28.

Rural District	PS4 2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Average annual % Change PS5 from PS4
Mildura (100ML)	\$15,256	\$15,190	\$15,122	\$15,053	\$14,984	\$14,874	-0.51%
Mildura HP (100ML)	\$23,742	\$22,320	\$21,002	\$19,781	\$18,649	\$17,560	-5.85%
Merbein (100ML)	\$11,729	\$11,928	\$12,141	\$12,370	\$12,617	\$12,842	1.83%
Red Cliffs (100ML)	\$12,438	\$12,382	\$12,340	\$12,312	\$12,300	\$12,262	-0.28%
Robinvale (100ML)	\$23,100	\$21,883	\$20,739	\$19,665	\$18,657	\$17,670	-5.22%
Private Diverters (1,000ML)	\$12,953	\$12,982	\$13,006	\$13,042	\$13,079	\$12,728	-0.34%
Total Costs per ML	\$876	\$850	\$826	\$805	\$785	\$765	
ML % Movement		-2.92%	-2.77%	-2.61%	-2.45%	-2.59%	-2.67%
Millewa Rural (4,300kL)	\$8,238	\$7,970	\$7,739	\$7,549	\$7,401	\$7,298	-2.39%
Millewa – Urban (400kL)	\$935	\$933	\$936	\$945	\$959	\$977	0.90%
Yelta/Wargan WWD (3ML)	\$1,764	\$1,706	\$1,672	\$1,639	\$1,606	\$1,575	-2.25%

**Table 16: Revised comparison of changes to unit prices for reference customers**

### 5.3.5. Unique services

*Ref DD Sec 8.3.4, p74.*

LMW notes that the ESC acknowledges that LMW has confirmed that its proposed tariffs for miscellaneous services were calculated in accordance with the ESC's pricing principles.

The ESC required LMW to confirm it has provided a list of its Top 10 miscellaneous tariffs in its financial model. The top 10 miscellaneous charges have not been split out in the financial model tariff but make up less than 4% of revenue. The ESC has been provided with the detail of the schedule and LMW proposes no changes.



## 6. Part D – PREMO Assessment

*Ref DD Sec 9.1.1, p79.*

LMW notes that the ESC has rated LMW's price submission as 'Standard' under PREMO, which is the same as LMW's self-rating. The ESC, however, revised LMW's self-rating of 'Standard' for the Performance element of PREMO and proposed a rating of 'Basic'. This does not affect the overall rating or the return on equity.

LMW accepts the ESC's draft decision and proposes no change in this response.