



# GOULBURN-MURRAY WATER PRICE REVIEW 2016

Final decision

June 2016



**An appropriate citation for this paper is:**

Essential Services Commission 2016, *Goulburn-Murray Water Price Review 2016 — final decision*, June.

# PREFACE

This final decision completes the Essential Services Commission's review of Goulburn-Murray Water's price submission for 1 July 2016 to 30 June 2020.

The Commission assessed Goulburn-Murray Water's price submission in accordance with the Water Charge (Infrastructure) Rules (WCIR) and the Water Industry Regulatory Order (WIRO). We undertook this review in an open and consultative manner. We released a draft decision in February 2016, conducted public meetings on the draft decision in April 2016, and considered public submissions.

The Commission's final decision resulted in a revenue decrease of 4.3 per cent, from Goulburn-Murray Water's proposed revenue of \$493.3 million, to the final approved revenue of \$472.3 million over four years.

Goulburn-Murray Water proposed common fees in its gravity irrigation districts. We have not approved this in full. We consider further reform could be taken to make tariffs more cost reflective.

For larger and medium customers, average prices will be flat or fall. Smaller customers will generally see small price rises due to changes from variable to fixed fees.

Transparency about service delivery and value for money remain integral to the Victorian water sector's regulatory regime. To this end, the Commission will continue to monitor Goulburn-Murray Water's performance in delivering services to its customers.

**Dr Ron Ben-David**  
**Chairperson**



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# SUMMARY

## BACKGROUND — THE PRICE REVIEW PROCESS

This paper sets out the Commission's final decision on the maximum prices for 2016-17 and allowable revenue that Goulburn Murray Water may charge over the four year period from 1 July 2016 to 30 June 2020.

In September 2015, Goulburn-Murray Water provided its price submission to the Essential Services Commission (the Commission). We reviewed the submission according to our guidance for Goulburn-Murray Water<sup>1</sup>, which aligns with the Australian Competition and Consumer Commission's (ACCC) pricing principles. In November 2015, we held public meetings to discuss Goulburn-Murray Water's submission and received written public submissions and an additional submission from Goulburn-Murray Water.

We released our draft decision in February 2016, and once again undertook public consultation, including public meetings. We received written submissions on our draft decision including a further submission from Goulburn-Murray Water.

Where the final decision confirms the position set out in our draft, we have not re-presented the supporting rationale in detail in this report. As such, this report should be read in conjunction with our draft decision. The analysis in this paper focuses on areas where we have reached a different position to that reached in our draft decision, or where Goulburn-Murray Water or other interested parties provided new information that required assessment.

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<sup>1</sup> Essential Services Commission 2014, *Goulburn-Murray Water Price Review 2016 — Guideline on price submission*, August.

## REVENUE REQUIREMENT

The Commission's final decision approves revenue for Goulburn-Murray Water of \$472.3 million for the fourth regulatory period from 1 July 2016 to 30 June 2020 (see table below). This is \$21 million (4.3 per cent) lower than Goulburn-Murray Water's initial pricing proposal. It is \$4.63 million (1 per cent) higher than the amount proposed in our draft decision. Relative to our draft decision the change is attributable to a \$4.6 million increase in operating expenditure (chapter 4).

### GOULBURN-MURRAY WATER'S PROPOSED AND APPROVED REVENUE \$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	Total
Proposed revenue	120.0	122.7	125.1	125.6	<b>493.3</b>
Draft decision on revenue	115.8	116.9	117.6	117.3	<b>467.7</b>
Final decision on revenue	115.9	117.4	119.4	119.6	<b>472.3</b>

Note: numbers are rounded.

## TARIFFS

A key issue in our review has been Goulburn-Murray Water's proposal to charge common infrastructure access and use fees in its gravity irrigation districts. The Commission's final decision approves Goulburn-Murray Water's proposal of common Infrastructure Access Fees and Infrastructure Use Fees in five of its irrigation districts, not including the Shepparton district.

This decision not to include Shepparton reflects the cost differential that the Commission's expert consultant, Indec, identified between Shepparton district and other districts. The Commission considers Goulburn-Murray Water's proposed changes did not meet the ACCC's pricing principle to give effect to user-pays pricing.

In relation to Goulburn-Murray Water's other fees and tariffs:

- The Commission approves Goulburn-Murray Water's proposed prices in Nyah and Tresco Pumped Irrigation District. Prices in these districts will increase across the period to pay for additional capital works (chapter 9).
- The Commission approves Goulburn-Murray Water's proposed irrigation drainage prices. Goulburn-Murray Water will retain current tariff structures for the Price Review 2016 period and consult on pricing reforms to irrigation drainage prior to the next price review (chapter 9).
- The Commission approves Goulburn-Murray Water's proposal for cost reflective tariffs for modern service points (Remote Read and Operate, and Remote Read) installed as part of the Connections Project. Service Point Fees for modernised meters will increase during the regulatory period and be cost reflective by the end of the next regulatory period. Service Point Fees for Gravity Irrigation Domestic and Stock will increase and will be aligned with the Diversions Small Service Point Fee, which has similar running costs and provides a similar service. Similarly, the Local Read Fee will also be aligned with the Diversions Large Service Point Fee (chapter 9).
- The Commission approves the proposed bulk water (storage) prices. Bulk water prices are levied on a basin price however irrigators pay a system charge, which is proposed to be flat across the period. The system charge is the weighted average of the basin price within the system. Other water customers pay a basin charge which is specific to each basin. Goulburn-Murray Water's proposed tariffs for these basins are largely unchanged with the exception of the Broken, Bullarook and Ovens basins, where it intends to increase prices over the course of the regulatory period (chapter 10).
- The Commission approves Goulburn-Murray Water's proposed diversion tariff structures with a transition period for small diverters of four years (chapter 11).
- The Commission approves Goulburn-Murray Water's proposed tariff structures for services such as customer service and billing, and miscellaneous services (chapter 12).

Appendix B includes Goulburn-Murray Water's proposed 2016-2017 prices.

## NON-TARIFF ISSUES

Other main elements of Goulburn-Murray Water's price proposal cover form of price control, demand and service standards. The Commission approves Goulburn-Murray Water's proposed form of price control and accepts Goulburn-Murray Water's revised demand forecast. We approve Goulburn-Murray Water's service standards and targets which are set out in chapter 2.

# 1 INTRODUCTION

This paper presents the Commission's final decision on Goulburn-Murray Water's price submission for the fourth regulatory period from 1 July 2016 to 30 June 2020. The Essential Services Commission is Victoria's independent economic regulator. Our role in the water industry includes regulating prices and monitoring the service standards of the 19 Victorian Government-owned water businesses.

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

- Goulburn-Murray Water's infrastructure-related services are regulated under the Commonwealth Government's Water Charge (Infrastructure) Rules (WCIR). These rules cover approximately 95 per cent of Goulburn-Murray Water's total regulated costs.
- Goulburn-Murray Water's groundwater and some miscellaneous services are not infrastructure related, and are regulated under the Water Industry Regulatory Order (WIRO).

The Commission issued guidance papers to Goulburn-Murray Water to explain the minimum requirements for the information that Goulburn-Murray Water should submit to the Commission. These guidance papers are available on our website at [www.esc.vic.gov.au](http://www.esc.vic.gov.au).

## 1.1 PROCESS OF THE PRICE REVIEW

Goulburn-Murray Water provided us with its price submission in September 2015. The Commission received 17 written submissions from Goulburn-Murray Water's customers and other stakeholders. In November 2015, we held public meetings in Shepparton, Kyabram and Kerang to discuss Goulburn-Murray Water's submission with approximately 50 attendees.

We released our draft decision in February 2016. We received 23 written submissions and held public meetings in Tatura and Kerang in April to discuss the draft decision with approximately 40 attendees. The Commission also engaged Indec to provide us with advice on Goulburn-Murray Water's revised productivity improvement proposal submitted as part of its response to our draft decision.

## 1.2 THE STRUCTURE OF THIS FINAL DECISION

This paper contains our final decision on Goulburn-Murray Water's proposals. It includes some additional analysis by the Commissions' consultant, Indec, and responds to relevant issues raised in submissions. It should be read in conjunction with the Commission's draft decision released in February 2016.

It is structured as follows:

- Chapter 2 sets out our decision on Goulburn-Murray Water's service standards.
- Chapter 3 sets out our decision on the revenue that Goulburn-Murray Water proposed to raise through prices to meet its service standards.
- Chapter 4 sets out our decision on Goulburn-Murray Water's operating expenditure.
- Chapter 5 sets out our decision on Goulburn-Murray Water's capital expenditure program.
- Chapter 6 sets out our decision on Goulburn-Murray Water's method of financing capital investments in its infrastructure.
- Chapter 7 sets out our decision on Goulburn-Murray Water's demand forecasts that are used, with its revenue, to forecast future prices for customers.
- Chapter 8 sets out our decision on Goulburn-Murray Water's form of price control, which determines how prices will change over the regulatory period.
- Chapter 9 sets out our decision on Goulburn-Murray Water's irrigation and drainage tariff structures.
- Chapter 10 sets out our decision on Goulburn-Murray Water's bulk water and storage charge structures.

- Chapter 11 sets out our decision on Goulburn-Murray Water’s diversion tariff structures.
- Chapter 12 sets out our decision on Goulburn-Murray Water’s miscellaneous services tariff structures.
- Appendix A lists the written submissions that we received on our draft decision.



## 2 SERVICE STANDARDS

### 2.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's proposed service standards and targets. Goulburn-Murray Water has a set of customer service standards and each service standard has a target level of service for Goulburn-Murray Water to achieve. In its price submission, Goulburn-Murray Water proposed a number of changes to its service standards, to align them with customers' preferences and better specify the services.

### 2.2 APPROACH TO REVIEWING SERVICE STANDARDS

The Commission regulates service standards under the Water Industry Regulatory Order (WIRO). In our guidance to Goulburn-Murray Water, we stated that any new service standards would need to reflect verified obligations on Goulburn-Murray Water or the service expectations of its customers. For any proposed changes away from the service levels of the third regulatory period, we stated Goulburn-Murray Water should provide evidence of having consulted with customer groups on service and price trade-offs.

### 2.3 COMMISSION'S DRAFT DECISION

In our draft decision we proposed to accept Goulburn-Murray Water's service standards and targets because they were consistent with the requirements in our guidance to Goulburn-Murray Water:

- Goulburn-Murray Water provided evidence that the new service standards were proposed by customers or developed in consultation with customer representative groups.
- For most of the standards that will not change, the proposed service targets associated with the standards are equal to or higher than previous years' targets, or consistent with industry averages.
- We received positive feedback on Goulburn-Murray Water's service standards at the public forums.

The Commission also asked that Goulburn-Murray Water improve transparency of its performance, by reporting annually on its website and to Water Service Committees on its performance against its service targets.

## 2.4 COMMISSION'S REVIEW

In its response to the draft decision, Goulburn-Murray Water proposed two changes to its service standard proposal. The Commission did not receive any public submissions on its draft decision on Goulburn-Murray Water's service standards and targets.

### 2.4.1 DELIVERY EFFICIENCY TARGET

Goulburn-Murray Water's first proposed change was to its delivery efficiency target for gravity irrigation. It proposed to withdraw its inclining target of 79 per cent in 2015-16 to 85 per cent by 2019-20, and instead set the target annually as the system is progressively modernised. Its proposed minimum level of 79 per cent per year reflects recent actual performance.

Goulburn-Murray Water's proposal in response to the draft decision was not consulted on publicly and therefore was not tested for customer preferences in respect of the change. Goulburn-Murray Water also did not include in its proposal the mechanism for how the annual performance target would be set.

In light of the above, the Commission has approved the original proposal to increase the service standard target from 79 per cent to 85 per cent by 2019-20.

## 2.4.2 GRAVITY IRRIGATION STANDARD

Goulburn-Murray Water's second proposal was to change two gravity irrigation service standards to make these standards apply only to customers in the modernised system (with remotely read and operated meters). Goulburn-Murray Water proposed to add the text "for customers within the modernised system" to the two standards as follows:

- *For customers within the modernised system:* % of orders within +/- 10% of flow rate for 90% of time.
- *For customers within the modernised system:* % of orders within +/- 40 mm of supply level 90% of time.

This change to these service standards would leave non-modernised customers without these service standards. Goulburn-Murray Water indicated it was difficult to measure performance for non-modernised customers.

The Commission does not approve this proposed change to the original service standard proposal. These service standards were in place for non-modernised customers during the third regulatory period. The Commission considers these customers should not lose a service standard without consultation and consideration of an alternative standard. In the Commission's view, removing the service standards in these circumstances would be contrary to customer interests.

## 2.4.3 REPORTING ON SERVICE STANDARDS

The Commission confirms its draft decision to require Goulburn-Murray Water to report annually on its website and to Water Service Committees on its performance against the service targets approved in the Commission's final decision.

The Commission will revise the Rural Water Customer Service Code to reflect this final decision on the new service standards and targets.

## 2.5 FINAL DECISION

The Commission approves service standards and targets as set out in table 2.1 below.

The Commission requires Goulburn-Murray Water to report its performance against these targets annually on its website and directly to its Customer Service Committees.

**TABLE 2.1 FINAL DECISION ON SERVICE STANDARDS**

Standard		2016-17	2017-18	2018-19	2019-20
<b>GENERAL CUSTOMER SERVICE</b>					
Licensing and administration					
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	New	90%	90%	90%	90%
Customer service					
Complaints to Energy Water Ombudsman Victoria (per 1000 customers)		0.17	0.17	0.17	0.17
Customer complaints to Goulburn-Murray Water (per 1000 customers)	Modified	3	3	3	3
Telephone calls answered within 30 seconds	Modified	80%	80%	80%	80%
Customer complaints responded to within 10 business days	New	100%	100%	100%	100%
First call resolution	New	50%	52%	54%	56%
<b>GRAVITY IRRIGATION</b>					
Water delivery					
Efficiency achieved as a % of delivered		80.5%	82%	83.5%	85%
% of orders delivered on day requested		93%	93%	93%	93%
% of orders within +/- 10% of flow rate for 90% of time		80%	80%	80%	80%
% of orders within +/- 40mm of supply level 90% of time		80%	80%	80%	80%
Maintenance					
Maintenance requests responded within target (% priority 1-2)		90%	90%	90%	90%
Unplanned service interruptions (>12 hours)		5	5	5	5
Drainage irrigation					
Availability of surface drainage		98%	98%	98%	98%
Availability of sub-surface drainage		98%	98%	98%	98%

PUMPED IRRIGATION					
Irrigation water orders delivered on day requested		98%	98%	98%	98%
Number of unplanned supply interruptions greater than 12 hours	New	5	5	5	5
Efficiency achieved as a percentage of delivered		92%	92%	92%	92%
Notification provided to affected customers on system restoration within 2 hours of unplanned outage	New	100%	100%	100%	100%
WATER DISTRICTS					
Number of supply interruptions for continuous periods in excess of 96 hours	Modified	0	0	0	0
Efficiency achieved as a percentage of delivered		85%	85%	85%	85%
DIVERSIONS					
Groundwater resource monitoring data is collected in accordance with management plan requirements and is readily accessible to our customers. Monitoring data made accessible within two weeks of data being submitted by the monitoring contractor	Modified	90%	90%	90%	90%
Customer access to groundwater is managed through seasonal allocations which are announced in accordance with relevant management plans	Modified	100%	100%	100%	100%
Access to unregulated stream flows is managed in accordance with restriction triggers in Local Management Rules. Number of validated concerns per 1000 customers	Modified	2	2	2	2
BULK WATER					
The ability of each regulated system to deliver water to meet customer demand as a percentage of time	Modified	99%	99%	99%	99%
The ability of each regulated system to maximise harvesting opportunities up to 100% of the design storage capacity as a percentage of time	Modified	100%	100%	100%	100%
Minimum flow requirements for regulated waterways as specified in the relevant bulk entitlements are satisfied as a percentage of time	Modified	98%	98%	98%	98%
Seasonal determination announcements for regulated systems to be made within defined timeframes each month	New	100%	100%	100%	100%
Risk of spill announcements for relevant regulated systems to be made within defined timeframes each month	New	100%	100%	100%	100%

# 3 REVENUE REQUIREMENT

## 3.1 INTRODUCTION

This chapter presents Goulburn-Murray Water's revenue requirement. The Commission must be satisfied that Goulburn-Murray Water's prices are set at a level that provides it with the opportunity to recover the efficient cost of delivering services at approved standards over the fourth regulatory period. This revenue does not represent the approval of any particular projects or items of expenditure. Rather, Goulburn-Murray Water should allocate its revenue depending on the most efficient spending options available during the regulatory period, which may change over time.

## 3.2 APPROACH TO REVIEWING THE REVENUE REQUIREMENT

The Australian Competition and Consumer Commission's (ACCC) pricing principles require us to use the 'building block' approach to estimate the revenue that Goulburn-Murray Water requires to deliver proposed service standards in the fourth regulatory period. Under this approach, the revenue reflects operating expenditure and a return on the regulatory asset base (RAB) updated annually to reflect additional capital expenditure and regulatory depreciation. We review these elements in separate chapters in this decision.

## 3.3 COMMISSION'S DRAFT DECISION

In its draft decision, the Commission reviewed the costs outlined in Goulburn-Murray Water's price submission. We adjusted Goulburn-Murray Water's proposed revenue requirement to reflect a downward adjustment to operating expenditure of \$24 million.

This was due to assumptions for higher productivity improvements, and a difference in the allowance for the forecast Murray-Darling Basin Fee.

The Commission’s draft decision resulted in a revenue requirement for the next regulatory period of \$467.7 million compared to Goulburn-Murray Water’s proposed revenue requirement of \$493.3 million.

### 3.4 COMMISSION’S REVIEW

For our final decision, we reviewed Goulburn-Murray Water’s response to the draft decision and stakeholder submissions. The Commission’s final decision approves a four year regulatory period from 1 July 2016, and a revenue requirement of \$472.3 million (table 3.1). This is \$4.63 million higher than our draft decision. This change in revenue requirement reflects an increase in operating expenditure between the draft decision and the final decision.

**TABLE 3.1 GOULBURN-MURRAY WATER’S PROPOSED AND APPROVED REVENUE**  
\$ million (\$ 2015 16)

	2016-17	2017-18	2018-19	2019-20	Total
Proposed revenue G-MW submission	120.0	122.7	125.1	125.6	493.3
Draft decision on revenue	115.8	116.9	117.6	117.3	467.7
<b>Final Decision</b>	115.9	117.4	119.4	119.6	<b>472.3</b>
Final decision vs. Goulburn-Murray Water’s submission	-4.0 -3.4%	-5.4 4.4%	-5.6 4.5%	-6.0 4.8%	-21.0 4.3%

Note: Numbers have been rounded.

### 3.5 FINAL DECISION

The Commission’s final decision on Goulburn-Murray Water’s allowed revenue is set out in table 3.2.

**TABLE 3.2 FINAL DECISION ON GOULBURN-MURRAY WATER'S REVENUE REQUIREMENT**  
\$ million (\$ 2015-16)

	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>TOTAL</b>
Operating expenditure	96.3	94.9	94.6	93.0	378.8
Return on assets	12.4	13.6	14.5	15.1	55.6
Return of assets	7.2	8.9	10.4	11.5	38.0
Final decision on total revenue requirement	115.9	117.4	119.4	119.6	472.3

Note: Numbers have been rounded.



# 4 OPERATING EXPENDITURE

## 4.1 INTRODUCTION

This chapter sets out the Commission’s final decision on Goulburn Murray Water’s operating expenditure.

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

Goulburn-Murray Water’s proposal sets out its forecast operating expenditure over the fourth regulatory period (1 July 2016 to 30 June 2020). Operating expenditure is the largest component of Goulburn-Murray Water’s revenue requirement.

## 4.2 APPROACH TO REVIEWING OPERATING EXPENDITURE

The Commission regulates Goulburn-Murray Water’s operating costs according to the Australian Competition and Consumer Commission’s (ACCC) pricing principles (box 4.1) made under the Water Charge (Infrastructure) Rules 2010 (WCIR).

As set out in our guidance to Goulburn-Murray Water, we assess its proposed operating expenditure by:

- Establishing a baseline business-as-usual (BAU) operating expenditure using operating expenditure in 2014-15 (the most recent year for which full year data is available), and subtracting any expenditure that is non-recurring or inefficient.<sup>2</sup>
- For each year from 2016-17 to 2019-20, assessing the prudence and efficiency of Goulburn-Murray Water's proposed changes from the BAU estimate for 2014-15. Our guidance noted we would focus on savings (or productivity improvements) arising as a result of infrastructure modernisation.

#### **BOX 4.1: ACCC'S PRINCIPLES FOR ASSESSING OPERATING EXPENDITURE**

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

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

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

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

Source: Australian Competition and Consumer Commission, *Application by Essential Services Commission of Victoria for accreditation Final decision*, 17 February 2012.

<sup>2</sup> Non-recurring expenditure includes any expenditure items that are one-off, or that were incurred in the baseline year but will not continue in future years.

### 4.3 COMMISSION'S DRAFT DECISION

In the draft decision we proposed to reduce operating expenditure because we were not convinced Goulburn-Murray Water's proposal reflected efficient expenditure that would be incurred by a prudent service provider seeking to achieve the lowest cost of delivery service outcomes, in accordance with the Australian Competition and Consumer Commission's (ACCC) pricing principles. Specifically, the difference between Goulburn-Murray Water's proposal and the Commission's draft decision reflects the Commission:

- fully incorporating savings described in Goulburn-Murray Water's Blueprint document
- adopting Murray-Darling Basin Authority (MDBA) contributions based on a longer term average than that proposed by Goulburn-Murray Water
- reversing Goulburn-Murray Water's proposed \$850 000 saving in 2019-20. The Commission's decision not to approve the common gravity irrigation tariff made Goulburn-Murray Water's assumed savings resulting from a common tariff inappropriate.

The Commission's draft decision also stated that forecasts of non-controllable operating expenditure items — namely the MDBA contribution, the Essential Services Commission (ESC) licence fees and the Environmental Contribution — would be updated in line with latest estimates in the final decision.

### 4.4 COMMISSION'S REVIEW

For this final decision, the Commission considered submissions made on the draft decision, including a revised submission from Goulburn-Murray Water. It also considered a report from its expert consultant, Indec, on Goulburn-Murray Water's revised submission.

#### 4.4.1 GOULBURN-MURRAY WATER'S REVISED PROPOSAL

In its submission on the Commission's draft decision, Goulburn-Murray Water:

- did not agree with the Commission's draft decision to further reduce operating costs by \$16 million over the regulatory period. Goulburn-Murray Water initially welcomed this draft decision on operating expenditure<sup>3</sup> on the basis that it showed confidence in Goulburn-Murray Water's ability to continue to drive efficiencies. However its submission stated it did not accept the Commission's draft decision to reduce the operating expenditure to fully reflect the savings specified in Goulburn-Murray Water's 2013 Blueprint savings
- proposed to pass through savings, made since September 2015, of \$4.4 million (a permanent annual saving of \$1.1 million) and savings of \$800 000 from its proposed reform of five of the six irrigation districts' tariffs (a permanent annual saving of \$400 000 rather than \$850 000 for its full reform proposal)
- proposed to reflect any further savings in pricing during the regulatory period as they are achieved.

Goulburn-Murray Water's reasons for its revised proposal were:

- Goulburn-Murray Water passed through operating expenditure savings in the previous regulatory period
- operating costs have increased by more than originally forecast
- there was a risk that savings initiatives would not be achieved in full, because easier savings have already been made
- drier conditions result in higher operating costs. Goulburn-Murray Water stated that during the last drought, the Buffalo and Waranga Basin required pumping twice, costing \$4.5 million. Goulburn-Murray Water submitted similar pumping could be required in 2018-19. Goulburn-Murray Water also expected increased compliance and management services.

Goulburn-Murray Water stated it would attempt to minimise the impact of any increased costs but that the annual impact could be approximately \$3.1 million.

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<sup>3</sup> Goulburn-Murray Water, 2016, Media Release, *GMW Welcomes ESC's Draft Decision*, February.

Goulburn-Murray Water’s revised total operating expenditure proposal was \$9.3 million more than proposed in the Commission’s draft decision (table 4.1).

**TABLE 4.1 GOULBURN-MURRAY WATER’S REVISED PROPOSED OPERATING EXPENDITURE**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	TOTAL
<b>Draft Decision<sup>a</sup></b>	<b>96.2</b>	<b>94.5</b>	<b>92.7</b>	<b>90.7</b>	<b>374.2</b>
Goulburn-Murray Water revisions					
Efficiency savings amendments	1.6	3.2	4.8	6.4	<b>16.0</b>
Reduction for operating savings	-1.1	-1.1	-1.1	-1.1	<b>-4.4</b>
Reduction for savings due to tariff reform	0.0	0.0	-0.4	-0.4	<b>-0.8</b>
<b>Total annual productivity improvement</b>	<b>0.5</b>	<b>2.1</b>	<b>3.3</b>	<b>4.9</b>	<b>10.8</b>
<b>Revised Goulburn-Murray Water submission</b>	<b>96.4</b>	<b>96.2</b>	<b>95.7</b>	<b>95.3</b>	<b>383.6</b>

<sup>a</sup> This draft decision amount is different to the amount published in February because it includes a baseline adjustment. We advised Goulburn-Murray Water of this error after the draft decision was published.

Source: Goulburn-Murray Water, 2016, *Submission on the Commission’s Draft Decision – 2016 Price Review*.

#### 4.4.2 SUBMISSIONS AND COMMISSION’S CONSIDERATION

Submissions on the Commission’s draft decision supported the Commission’s proposal that Goulburn-Murray Water pass on the forecast savings in its Blueprint document.<sup>4</sup> In addition, one submission:

- questioned the level of savings from unifying the irrigation districts
- noted Goulburn-Murray Water identified possible savings in addition to the \$20 million in its Blueprint, which provided Goulburn-Murray Water with a ‘buffer’ to deal with the financial uncertainties

<sup>4</sup> Loretta Warren 2016, *Submission*, April; Dan Mongan 2016, *Submission*, April.

- stated that because Goulburn-Murray Water controlled the Connections Project, it should ultimately bear the risk of any shortfalls in efficiency, not its customers
- stated that Goulburn-Murray Water adopted a conservative approach to its financial ratios, and can afford to provide price relief to its customers.<sup>5</sup>

#### 4.4.3 INDEC REPORT AND COMMISSION'S CONSIDERATION

The Commission engaged Indec to examine the claims about operating expenditure in Goulburn-Murray Water's submission on the Commission's draft decision. Indec's report is available on our website at [www.esc.vic.gov.au](http://www.esc.vic.gov.au). Indec's main findings relate to changes in assumptions of productivity savings and changes in the timing of efficiencies related to tariff reform (table 4.2). Each of these findings is discussed below.

**TABLE 4.2 GOULBURN-MURRAY WATER'S REVISED PROPOSED OPERATING EXPENDITURE**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	TOTAL
Goulburn-Murray Water revised operating expenditure	96.4	96.2	95.7	95.2	<b>383.6</b>
Indec revised productivity savings	0.0	-1.0	-2.0	-3.0	<b>-6.0</b>
Indec revised savings from tariff reform	0.0	-0.2	0.0	0.0	<b>-0.2</b>
<b>Total Indec revised operating expenditure</b>	<b>96.4</b>	<b>95.0</b>	<b>93.7</b>	<b>92.2</b>	<b>377.4</b>

Source: Indec 2016, *2016-20 Review of Water Prices for Goulburn-Murray Water, Additional Analysis*, June

<sup>5</sup> Dan Mongan 2016, *Submission*, April.

## **PRODUCTIVITY SAVINGS**

Indec found that Goulburn-Murray Water is still pursuing productivity savings identified in the 2013 Blueprint and that this will continue regardless of the outcome of the review of the Connections Project. Indec considered many of those productivity savings were achievable regardless of the assumptions underpinning the Blueprint document, a view consistent with the Commission's broader expectations that all water businesses should be pursuing and able to achieve efficiency savings as a part of their normal business planning.

Goulburn-Murray Water's response to the Commission's draft decision proposed a revised operating expenditure that carried forward efficiency gains of \$1.1 million achieved in 2015-16 across the fourth regulatory period — a total of \$4.4 million lower than its original proposal. This proposal captures efficiency gains already realised, but offers up no further improvements moving forward.

Indec considered Goulburn-Murray Water should continue to make further efficiency savings across the next period, and recommended an ongoing productivity adjustment to reduce operating expenditure by \$1.0 million per year for the second, third and fourth years of the regulatory period. The Commission agrees that Goulburn-Murray Water should continue to reduce its operating expenditure, and accepts the further adjustment, totalling a \$6 million reduction across the regulatory period.

These productivity savings are consistent with the Commission's general expectations regarding productivity. In past reviews the Commission has expected productivity savings of at least 1 per cent per year of operating costs. In the last price review, Goulburn-Murray Water offered productivity savings of \$1 million per year, which it significantly exceeded over the course of the regulatory period. It has already achieved \$1.1 million in productivity savings since it submitted its price submission.

## **SAVINGS FROM TARIFF REFORM**

In its response to our draft decision, Goulburn-Murray Water proposed savings due to tariff reform of \$400 000 annually from 2018-19. Indec's review of Goulburn-Murray Water's proposed savings of \$400 000 did not find them unreasonable, however Indec identified grounds for the savings to be achieved earlier and recommended a savings

target of \$200 000 be included in 2017-18. Collectively, proposed savings of \$1 million can be achieved between 2017–2020 from proposed tariff reforms.

The Commission has accepted Indec’s view because Goulburn-Murray Water will introduce the 5:1 uniform tariff in 2016-17, so we think it reasonable that operational changes and the associated savings should commence in 2017-18.

The Commission has accepted Indec’s assessment of Goulburn-Murray Water’s proposal for \$400 000 of annual cost savings from the tariff simplification associated with common fees in its irrigation districts.

#### **4.4.4 NON CONTROLLABLE OPERATING EXPENDITURE ITEMS**

The Commission used the latest advice for the MDBA contribution, the ESC licence fee and the Environmental Contribution in this final decision.

##### **MDBA CONTRIBUTION**

The Commission has adopted \$12 million per year as Goulburn-Murray Water’s MDBA contribution (as opposed to the \$14 million per year originally proposed), to reflect the longer term average contribution. We will address any material variation between this amount and the actual MDBA contribution at the time of the annual tariff approval as a forecast adjustment.

Goulburn-Murray Water accepted this approach in its submission to the draft decision.

##### **ESC LICENCE FEE**

The Commission accepts Goulburn-Murray Water’s proposal of \$80 000 per year for the licence fee which reflects recent costs, except for the first year of the regulatory period in which we have allowed \$110 000 because of the costs of the price review (table 4.3).

**TABLE 4.3 ESC LICENCE FEE**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	TOTAL
ESC licence fee Goulburn-Murray Water proposal	0.08	0.08	0.08	0.08	<b>0.32</b>
ESC licence fee draft decision	0.08	0.08	0.08	0.08	<b>0.32</b>
<b>ESC licence fee final decision</b>	<b>0.11</b>	<b>0.08</b>	<b>0.08</b>	<b>0.08</b>	<b>0.35</b>

Note: Numbers have been rounded.

## ENVIRONMENTAL CONTRIBUTION

After our draft decision, the Department of Environment, Land, Water and Planning (DELWP) has provided updated advice for Goulburn-Murray Water's environmental contribution for the fourth regulatory period. Our final decision reflects this updated advice (table 4.4).

**TABLE 4.4 GOULBURN-MURRAY WATER'S ENVIRONMENTAL CONTRIBUTION**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	TOTAL
Goulburn-Murray Water environmental contribution proposal	1.71	1.71	1.71	1.71	<b>6.83</b>
Goulburn-Murray Water environmental contribution draft decision	1.71	1.71	1.71	1.71	<b>6.83</b>
<b>Goulburn-Murray Water's environmental contribution final decision</b>	<b>1.66</b>	<b>1.63</b>	<b>2.64</b>	<b>2.58</b>	<b>8.51</b>

Note: Numbers have been rounded.

## 4.5 FINAL DECISION

The Commission adopts the benchmark operating expenditure forecast as set out in table 4.5, to establish Goulburn-Murray Water's revenue requirement for the purpose of determining prices for the 2016-17 to 2019-20 regulatory period.

**TABLE 4.5 FINAL DECISION ON GOULBURN-MURRAY WATER'S OPERATING EXPENDITURE**  
\$ million (\$ 2015-16)

	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>TOTAL</b>
Goulburn-Murray Water's price submission proposal	100.1	99.9	99.8	98.5	<b>398.3</b>
Commission's draft decision	96.2	94.5	92.7	90.7	<b>374.2</b>
Goulburn-Murray Water's response to draft decision	96.4	96.2	95.7	95.3	<b>383.6</b>
<b>Commission's final decision</b>	<b>96.3</b>	<b>94.9</b>	<b>94.6</b>	<b>93.0</b>	<b>378.8</b>

Note: Numbers have been rounded.

# 5 CAPITAL EXPENDITURE

## 5.1 INTRODUCTION

Goulburn-Murray Water's proposal sets out its forecast capital expenditure over the fourth regulatory period (1 July 2016 to 30 June 2020). Capital expenditure is a key component of Goulburn-Murray Water's revenue requirement for the regulatory period.

## 5.2 APPROACH TO REVIEWING CAPITAL EXPENDITURE

The Commission regulates Goulburn-Murray Water's infrastructure related capital expenditure according to the Australian Competition and Consumer Commission's (ACCC) pricing principles. These principles focus on the efficiency and prudence of capital expenditure (box 5.1).

### BOX 5.1 ACCC'S PRINCIPLES FOR ASSESSING CAPITAL EXPENDITURE

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

- the prudence and efficiency of capital expenditure in the previous regulatory period (where relevant to proposed capital expenditure in the fourth regulatory period)
- the reasons and evidence supporting the commencement of new major capital expenditure projects in the fourth regulatory period, including whether such projects are consistent with efficient long term expenditure on infrastructure services

- the reasons and evidence supporting levels of capital expenditure in the fourth regulatory period
- whether the timeframe for delivering the proposed capital expenditure program is reasonable, having regard to the operator’s delivery of major projects in the past
- whether the asset management and planning framework of the operator reflects best practice.

Source: Australian Competition and Consumer Commission, *Application by Essential Services Commission Victoria for Accreditation Final decision*, 17 February 2012.

In our guidance, we stated we would test the prudence, efficiency and deliverability of Goulburn-Murray Water’s proposed capital expenditure by reviewing a selection of capital projects across Goulburn-Murray Water’s services. Then, we would apply systemic findings from the review to all capital expenditure forecasts, and possibly a blanket adjustment across all or part of Goulburn-Murray Water’s capital expenditure forecast.

### 5.3 COMMISSION’S DRAFT DECISION

In its draft decision, the Commission was satisfied that most of Goulburn-Murray Water’s capital expenditure proposal was prudent and efficient in accordance with the Australian Competition and Consumer Commission’s (ACCC) pricing principles because:

- the capital expenditure program is supported by adequate reasons and processes to plan and forecast efficient capital expenditure
- Goulburn-Murray Water demonstrated it had the capacity to deliver the proposed capital expenditure program
- the timeframes to deliver the capital program are reasonable
- Goulburn-Murray Water’s asset management framework is reasonable.

The Commission’s draft decision included an adjustment of \$674 000 to account for a reduction in the contingency amount allowed for information communication and technology (ICT) projects — down from 15 per cent of the project costs to 10 per cent.<sup>6</sup>

## 5.4 COMMISSION’S REVIEW

Goulburn-Murray Water’s submission in response to the Commission’s draft decision did not propose any changes to the draft decision’s proposed capital expenditure.

Accordingly, the Commission confirms its draft decision to approve \$136 million for capital expenditure for the fourth regulatory period (table 5.1) on the basis of the reasons set out in the draft decision.

## 5.5 FINAL DECISION

The Commission adopts the benchmark capital expenditure forecast as set out in table 5.1, to establish Goulburn-Murray Water’s revenue requirement for the purpose of determining prices for the 2016-17 to 2019-20 regulatory period.

**TABLE 5.1 FINAL DECISION ON GOULBURN-MURRAY WATER’S CAPITAL EXPENDITURE**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20	TOTAL
Goulburn-Murray Water’s price submission proposal	45.2	32.8	32.5	26.3	<b>136.7</b>
Commission’s draft decision	45.0	32.6	32.3	26.1	<b>136.0</b>
<b>Commission’s final decision</b>	<b>45.0</b>	<b>32.6</b>	<b>32.3</b>	<b>26.1</b>	<b>136.0</b>

Note: Numbers have been rounded.

<sup>6</sup> The adjustment is –\$0.17 million (\$2015-16) in each year of the fourth regulatory period.



# 6 FINANCING CAPITAL INVESTMENTS

## 6.1 INTRODUCTION

This chapter sets out the Commission’s decision on rolling forward Goulburn-Murray Water’s regulatory asset base (RAB). The RAB is the value of Goulburn-Murray Water’s capital investments, on which Goulburn-Murray Water can earn a rate of return and the depreciation over the remainder of the regulatory period. Rolling forward the RAB is the process for deciding the opening value of the RAB in the 2016 to 2020 regulatory period.

## 6.2 APPROACH TO ROLLING FORWARD THE RAB

We set out our approach to rolling forward the RAB in our guidance, which aligns with the requirements of the Australian Competition and Consumer Commission’s (ACCC) pricing principles.<sup>7</sup>

## 6.3 COMMISSION’S DRAFT DECISION ON THE RAB

The Commission’s draft decision on Goulburn-Murray Water’s RAB includes an opening RAB of \$262.8 million (see table 6.1).

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<sup>7</sup> Australian Competition and Consumer Commission, *Application by Essential Services Commission Victoria for Accreditation Final decision*, 17 February 2012.

**TABLE 6.1 GOULBURN-MURRAY WATER PROPOSED RAB ROLL FORWARD**  
\$ million (\$ 2015-16)

<b>CLOSING RAB AS AT 1 JULY 2013</b>	<b>221.6</b>
Plus net capital expenditure 2013-14 to 2014-15	60.6
Less regulatory depreciation 2013-14 to 2014-15	19.4
Less proceeds from disposal of assets 2013-14 to 2014-15	0
<b>Closing RAB as at 1 July 2015</b>	<b>262.8</b>
Plus net capital expenditure (forecasts approved for the fourth regulatory period) 2015-16	29.3
Less regulatory depreciation 2015-16	12.6
Less assumed proceeds from disposal of assets 2015-16	0
Less assumed government/customer contributions 2015-16	0.8
<b>RAB as at 1 July 2016</b>	<b>278.7</b>

The Commission's draft decision also proposed not to approve Goulburn-Murray Water's proposed alteration of its capital expenditure forecast for 2015-16. The Commission considered an adjustment to recognise any higher amounts of capital expenditure should be made in the usual way at the next price review.

The Commission's draft decision proposed to specify the RAB as set out in table 6.2.

**TABLE 6.2 DRAFT DECISION ON GOULBURN-MURRAY WATER'S RAB**  
\$ million (\$ 2015-16)

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<b>Opening RAB</b>	<b>262.8</b>	278.68	312.87	334.28	353.94
Plus gross capital expenditure	29.3	44.99	32.64	32.30	26.13
Less government contributions	0.4	0.62	0.46	0.22	0.22
Less customer contributions	0.4	0.62	0.46	0.22	0.22
Less proceeds from disposals	0	0.00	0.00	0.00	0.00
Less regulatory depreciation	12.6	7.17	8.86	10.43	11.49
Less fully funded government programs/projects		2.39	1.45	1.77	1.25
<b>Closing RAB</b>	<b>278.68</b>	<b>312.87</b>	<b>334.28</b>	<b>353.94</b>	<b>366.88</b>

## 6.4 COMMISSION'S REVIEW OF THE RAB

The Commission did not receive any submissions on its draft decision on the RAB. In addition, estimates of capital expenditure, contributions, disposals and depreciation have not changed since the draft decision. Accordingly, the Commission confirms its draft decision to specify the RAB in table 6.3 on the basis of its reasons set out in the draft decision.

The RAB will be rolled forward at the end of the period based on actual expenditure which replaces the forecast expenditure.

## 6.5 FINAL DECISION ON THE RAB

The Commission's final decision is to set a closing regulatory asset base for 30 June 2015 of \$262.8 million.

The Commission's final decision on Goulburn-Murray Water's forecast regulatory asset base from 1 July 2016 is set out in table 6.3.

**TABLE 6.3 FINAL DECISION ON GOULBURN-MURRAY WATER'S RAB**  
\$ million (\$ 2015-16)

	2016-17	2017-18	2018-19	2019-20
Opening RAB	278.68	312.87	334.28	353.94
Plus gross capital expenditure	44.99	32.64	32.30	26.13
Less government contributions	0.62	0.46	0.22	0.22
Less customer contributions	0.62	0.46	0.22	0.22
Less proceeds from disposals	0.00	0.00	0.00	0.00
Less regulatory depreciation	7.17	8.86	10.43	11.49
Less fully funded government programs/projects	2.39	1.45	1.77	1.25
<b>Closing RAB</b>	<b>312.87</b>	<b>334.28</b>	<b>353.94</b>	<b>366.88</b>

## 6.6 APPROACH TO REVIEWING THE RATE OF RETURN

We set out our approach to reviewing the rate of return in our guidance, which aligns with the requirements of the Australian Competition and Consumer Commission's (ACCC) pricing principles.<sup>8</sup> This approach includes the weighted average cost of capital (WACC) parameters required by the pricing principles.

## 6.7 COMMISSION'S DRAFT DECISION ON THE RATE OF RETURN

In the draft decision, the Commission proposed a weighted average cost of capital (WACC) of 4.2 per cent and stated it will update this figure in the final decision.

We estimated the real risk free rate and a debt margin according to the methodology in the ACCC's pricing principles. Accordingly, the Commission:

- calculated the real risk free rate from the 40 day trading period to 27 May 2016
- developed the range for the debt margin from estimates Incenta prepared for the Commission (available from our website). Our range for the debt margin included an assumed 0.15 per cent debt raising cost, based on information from the Treasury Corporation of Victoria.

The Commission has approved the WACC parameters and WACC in table 6.4 for Goulburn-Murray Water for the fourth regulatory period.

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<sup>8</sup> Australian Competition and Consumer Commission, Application by Essential Services Commission Victoria for Accreditation Final Decision, 17 February 2012.

**TABLE 6.4 FINAL DECISION ON GOULBURN-MURRAY WATER'S REAL POST TAX WACC**

WACC PARAMETER	SOURCE OF PARAMETER	VALUE
Risk free rate of return	ESC estimate	0.6%
Equity beta	ACCC pricing principles	0.70
Equity (market risk) premium	ACCC pricing principles	6.00%
Debt margin (includes debt raising cost)	ESC estimate	2.65–3.15%
Financing structure (debt assets)	ACCC pricing principles	60%
Franking credits	ACCC pricing principles	0.50
Forecast inflation	ESC estimate	2.20%
Vanilla post tax (real) WACC range		3.9–4.2%
Proposed Vanilla post tax (real) WACC		4.2%

## 6.8 COMMISSION'S REVIEW OF THE RATE OF RETURN

The Commission did not receive any submissions on the rate of return. There has also been no material change to any of the WACC parameters since the draft decision.

In this final decision, the Commission adopts a WACC of 4.2 per cent consistent with the draft decision.

## 6.9 FINAL DECISION ON THE RATE OF RETURN

The Commission adopts a WACC of 4.2 per cent.

## 6.10 APPROACH TO CALCULATING DEPRECIATION

In our guidance, we stated Goulburn-Murray Water should estimate regulatory depreciation using reasonable assumptions about asset life and utilisation. Our approach is for Goulburn-Murray Water to begin receiving depreciation when an asset comes into service.

## **6.11 COMMISSION'S DRAFT DECISION ON DEPRECIATION**

In its draft decision, the Commission proposed to approve Goulburn-Murray Water's proposed depreciation forecasts, subject to any amendments required to Goulburn-Murray Water's capital expenditure. The Commission found Goulburn-Murray Water provided sufficient information to support its proposed straight line depreciation approach in accordance with our guidance.

## **6.12 COMMISSION'S REVIEW OF DEPRECIATION**

The Commission did not receive any submissions on Goulburn-Murray Water's proposed approach to depreciation. The Commission confirms its draft decision to approve Goulburn-Murray Water proposed approach to depreciation.

## **6.13 FINAL DECISION ON DEPRECIATION**

The Commission approves Goulburn-Murray Water's proposed straight line approach to depreciation.

# 7 DEMAND

## 7.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's proposed demand forecasts. Goulburn-Murray Water must provide this information to the Commission, so the Commission can calculate prices based on Goulburn-Murray Water's approved revenue.

## 7.2 APPROACH TO REVIEWING DEMAND

The Commission reviewed Goulburn-Murray Water's demand proposals under the Australian Competition and Consumer Commission's (ACCC) pricing principles. In our guidance (which accords with those principles), we noted Goulburn-Murray Water's demand forecasts need to:

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

## 7.3 COMMISSION'S DRAFT DECISION

In its draft decision, the Commission proposed to accept Goulburn-Murray Water's demand forecasts. In the Commission's view the forecasts complied with the ACCC's pricing principles because they:

- are based on an appropriate and unbiased forecasting methodology outlined in Goulburn-Murray Water's price submission
- reflect reasonable assumptions about the drivers of demand outlined in Goulburn-Murray Water's price submission
- use the best available information, including historical data, to identify demand trends. The data in Goulburn-Murray Water's price submission appears to be comprehensive and appropriate for the task of forecasting demand
- account for current demand and current and forecast economic conditions.

## 7.4 COMMISSION'S REVIEW

Updating demand forecasts ensures more accurate prices and closer alignment of revenue generated and its revenue cap. Goulburn-Murray Water submitted revised demand forecasts to the Commission after the draft decision and stated it used the same methodology to determine the forecasts as in its original price submission.

Goulburn-Murray Water submitted the following changes to its demand forecasts:

- Delivery volume forecasts in its original proposal declined after dry conditions worsened across the Goulburn-Murray Irrigation District. This result reflected very low inflows in season 2015-2016 and reduced entitlements held in the districts.
- Delivery shares and connection points forecasts were updated to reflect the mid-term review of the Connections Project. The mid-term review confirmed fewer customers had sought to disconnect than first envisaged. Also, the original submission's service point numbers for remote read/operate and remote read meters were corrected in the revised proposal.
- Diverter entitlement volumes and service point quantities were revised to reflect recent customer data.

In his submission to the draft decision, Goulburn-Murray Water customer Dan Mongan:

- argued that reductions in service points, customers and delivery shares, following the Connections Project, could affect customers through price

- asked the Commission to ensure Goulburn-Murray Water’s demand forecasts included volumes of water expected to be returned to Goulburn-Murray Water customers after modernisation.<sup>9</sup>

The Commission considered Goulburn-Murray Water’s revised demand forecast and submissions made by Mr Dan Mongan. We believe the revised forecasts are reasonable and reflect:

- updates based on the outlook for the allocations for the year ahead
- more recent data on service points and delivery shares, and
- a lower rate of customers exiting the system.

We note that Goulburn-Murray Water’s revenue cap form of price control means that any changes in demand work their way through prices. Goulburn-Murray Water does not receive any windfall. Under the pricing framework, Goulburn-Murray Water is required to update demand forecasts as part of its annual price approval. On this basis we have accepted the revised forecast.

## 7.5 FINAL DECISION

The Commission adopted Goulburn-Murray Water’s revised demand forecasts.

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<sup>9</sup> Dan Mongan 2016, *Submission*, April.



# 8 FORM OF PRICE CONTROL

## 8.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's proposed form of price control. In its price submission, Goulburn-Murray Water proposed to continue with its current form of control.

## 8.2 APPROACH TO REVIEWING FORMS OF PRICE CONTROL

The Australian Competition and Consumer Commission's (ACCC) pricing principles allow the Commission to apply any form of price control. In our guidance we supported Goulburn-Murray Water maintaining its revenue cap.

## 8.3 COMMISSION'S DRAFT DECISION

In its draft decision, the Commission considered Goulburn-Murray Water's revenue cap proposal complied with the ACCC's pricing principles. It balanced the requirements of revenue and price stability, and included a rebalancing constraint on individual tariffs of +/-10 per cent of the approved price path in each year.

In addition to the rebalancing constraint, the Commission's draft decision also addressed the uncertainty surrounding Goulburn-Murray Water's Murray-Darling Basin Authority (MDBA) contribution over the regulatory period. The Commission's decision was to include the long term average value of the contribution in Goulburn-Murray Water's revenue requirement and to address any material variation between this amount and the actual MDBA contribution at the time of the annual approval as a pass through.

## 8.4 COMMISSION'S REVIEW

### 8.4.1 GOULBURN-MURRAY WATER AND STAKEHOLDERS' SUBMISSIONS

In response to the Commission's draft decision, Goulburn-Murray Water noted that the materiality threshold for variation determined in the Water Charge Infrastructure Rules (WCIR) unduly constrained its ability to trigger a variation, or cost pass through. The current arrangements require unforeseen costs to exceed \$15 million, or 5 per cent of the starting RAB over the remainder of the regulatory period.

Goulburn-Murray Water noted that this threshold is higher than that required under other regulatory regimes, including the Water Industry Regulatory Order under which other Victorian utilities are regulated. Goulburn-Murray Water considers the WCIR threshold is too high to manage the risk it faces.<sup>10</sup>

Two submissions on Goulburn-Murray Water's form of control discussed the role of the form of control in managing risk:

- Patrick Connolly submitted that any change to the draft decision revenue to address Goulburn-Murray Water's forecast declining demand and rationalisation of its asset base, extinguishes the risks Goulburn-Murray Water faces and justifies the use of a price cap.<sup>11</sup>
- Dan Mongan stated Goulburn-Murray Water does not require an increase in its revenue requirement to address any loss of variable revenue under the cap.<sup>12</sup>

### 8.4.2 COMMISSION'S CONSIDERATIONS

When considering how best to manage risk, the Commission seeks to balance the potential impacts of unforeseen events on Goulburn-Murray Water's financial viability, customer preferences and potential customer impacts, among other factors.

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<sup>10</sup> Goulburn-Murray Water 2016, *Submission*, April.

<sup>11</sup> Patrick Connolly 2016, *Submission*, April.

<sup>12</sup> Dan Mongan 2016, *Submission*, April.

There are a number of ways in which demand risk can be addressed under the regulatory framework. By adopting a revenue cap form of price control, the Commission does not need to provide additional revenue to Goulburn-Murray Water to address demand risk. The revenue cap also allows Goulburn-Murray Water to change prices to ensure it obtains its allowed revenue regardless of changes in demand.

The Commission confirms its draft decision to approve Goulburn-Murray Water's proposal to maintain a revenue cap with a rebalancing constraint on the basis that:

- it is an appropriate form of price control given Goulburn-Murray Water's cost structure and its uncertain demand and supply environment
- this approach complies with the ACCC's pricing principles, because the revenue cap appropriately balances the requirements of revenue and price stability (subject to including an appropriate rebalancing constraint as proposed by Goulburn-Murray Water).

The Commission also notes that in addition to the form of price control, Goulburn-Murray Water has addressed demand risk through the adoption of tariffs that are largely fixed in nature and are consistent with the nature of their underlying costs.

In relation to reopening constraints, the Commission notes that the approach to reopening is set by the WCIR. If Goulburn-Murray Water incurs drought costs we will consider any application for reopening under the rules. The Commission agrees with Goulburn-Murray Water that the current reopening arrangements may not be sufficiently flexible, however we are obliged to comply with the WCIR.

## 8.5 FINAL DECISION

The Commission approves a revenue cap, with a rebalancing constraint on individual tariffs of +/-10 per cent of the approved price path in each year as Goulburn-Murray Water's form of price control.



# 9 IRRIGATION AND DRAINAGE

## 9.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's proposed irrigation and drainage tariff structures. Goulburn-Murray Water provides infrastructure for irrigation and drainage (including removing water from irrigation and other areas).

## 9.2 APPROACH TO REVIEWING TARIFFS

The Commission regulates Goulburn-Murray Water's tariffs according to the Australian Competition and Consumer Commission's (ACCC) pricing principles (box 9.1).

### BOX 9.1 ACCC'S PRINCIPLES FOR ASSESSING TARIFFS

Tariff structures should:

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

Source: Australian Competition and Consumer Commission, *Application by Essential Services Commission Victoria for Accreditation Final Decision*, 17 February 2012.

In our guidance to Goulburn-Murray Water, we noted that Goulburn-Murray Water would propose a greater commonality of fees for gravity irrigators<sup>13</sup> and supported the principle of common costs being reflected in more common fees. In our guidance the Commission stated:

- locational pricing often reflects a less integrated network with large differences in costs between different water networks
- the substantial alterations to Goulburn-Murray Water's infrastructure from the Connections Project will lead to a more inter-connected network, which will mean customers will increasingly have more uniform service levels
- a more inter-connected network is likely to lead to streamlined tariffs and fees. Where differences in costs for different customers remain, we expect Goulburn-Murray Water to articulate the basis for any differences in tariffs and fees for its customers.

Our guidance emphasised Goulburn-Murray Water must demonstrate any tariff reform proposals are underpinned by evidence on costs, to ensure Goulburn-Murray Water's price submission gives effect to the ACCC's pricing principle of 'user pays'. Also in our guidance, we highlighted the ACCC's requirement that we have regard to consultation undertaken by Goulburn-Murray Water.

### **9.3 COMMISSION'S DRAFT DECISION ON GRAVITY IRRIGATION TARIFFS**

In its draft decision, the Commission, on balance, was not satisfied that Goulburn-Murray Water's proposed Infrastructure Access Fee and Infrastructure Use Fee met the ACCC's pricing principles. We considered the difference between cost of providing irrigation services in the Shepparton district and the other districts was too large for a common fee to achieve the principle of 'user pays' in water storage and delivery in irrigation systems. However we considered Goulburn-Murray Water's costs

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<sup>13</sup> The infrastructure Access Fee is a fixed fee based on customers' delivery shares and the Infrastructure Use Fee is a variable fee based on customers' use of water. Both reflect operations, maintenance and renewals costs in the gravity districts.

in the other five districts, as analysed by Indec, justified common fees for gravity irrigation infrastructure access and use.

The Commission suggested Goulburn-Murray Water may wish to reformulate its fee reform proposal in response to the draft decision or provide additional information to support its proposal. The Commission proposed to approve the continuing use of Goulburn-Murray Water's existing fee structure if it received no additional information or no alternative proposal.

## **9.4 COMMISSION'S REVIEW OF GRAVITY IRRIGATION TARIFFS**

### **9.4.1 GOULBURN-MURRAY WATER'S SUBMISSION ON THE DRAFT DECISION**

In its submission on the Commission's draft decision, Goulburn-Murray Water reiterated its support for uniform pricing. It questioned Indec's methodology for calculating costs, and argued that the Commission's draft decision did not account for arbitrary district boundaries or that Shepparton's infrastructure had not been rationalised.

Goulburn-Murray Water argued there is a trade-off between simplicity and cost reflectivity, and the best option for Goulburn-Murray Water and its customers was to move to a simplified uniform delivery charge.

Goulburn-Murray Water stated that if the Commission did not reconsider its draft decision, Goulburn-Murray Water would accept moving to a 5:1 tariff arrangement, reflecting that Goulburn-Murray Water:

- expects to achieve permanent efficiencies of \$400 000 earlier than originally anticipated due to the 5:1 tariff arrangement
- accepts the 5:1 tariff arrangement would deliver benefits of tariff simplification
- accepts views vary on shared and district costs within Goulburn-Murray Water's business

- is satisfied Indec's cost per district estimate is reasonable despite Goulburn-Murray Water believing there is a higher percentage of central costs.

Goulburn-Murray Water's revised infrastructure access fee based on a 5:1 tariff arrangement is set out in table 9.1.

**TABLE 9.1 GOULBURN-MURRAY WATER'S PROPOSED INFRASTRUCTURE ACCESS FEE**  
\$/ML/Day of delivery share held (\$ 2015-16)

	<b>2015-16</b>	<b>2016-17</b>	<b>2016-17</b>
	<b>Actual</b>	<b>Proposed</b>	<b>Revised</b>
Shepparton	4 454	3 556	<b>4 332</b>
Central Goulburn	3 290	3 178	<b>2 859</b>
Rochester	2 933	2 917	<b>2 859</b>
Loddon Valley	3 332	3 205	<b>2 859</b>
Murray Valley	3 069	3 016	<b>2 859</b>
Torrumbarry	3 131	3 062	<b>2 859</b>

Goulburn-Murray Water's revised infrastructure use fee based on a 5:1 tariff arrangement is set out in table 9.2.

**TABLE 9.2 GOULBURN-MURRAY WATER'S PROPOSED INFRASTRUCTURE USE FEE**  
\$/ML (\$ 2015-16)

	<b>2015-16</b>	<b>2016-17</b>	<b>2016-17</b>
	<b>Actual</b>	<b>Proposed</b>	<b>Revised</b>
Shepparton	9.34	6.34	<b>8.10</b>
Central Goulburn	6.50	6.34	<b>5.85</b>
Rochester	6.50	6.34	<b>5.85</b>
Loddon Valley	7.63	6.34	<b>5.85</b>
Murray Valley	6.08	6.34	<b>5.85</b>
Torrumbarry	7.11	6.34	<b>5.85</b>

## 9.4.2 STAKEHOLDERS' SUBMISSIONS ON THE DRAFT DECISION

Several submissions opposed uniform tariffs for the following reasons:

- Differences in costs between districts remain substantial<sup>14</sup> including for districts with pumping costs during drought.<sup>15</sup> Because of this situation, uniform tariffs do not align with the ACCC's pricing principles, particularly the 'user pays' principle.<sup>16</sup>
- Costs in the districts will continue<sup>17</sup> to change and possibly diverge in the future.<sup>18</sup> The current fee structure should remain until certainty exists around the future of the Connections Project (or charge a common fee incorporating common costs and a separate district specific fee for all other charges).<sup>19</sup>
- The current system makes Goulburn-Murray Water more accountable and efficient<sup>20</sup> by promoting competition via comparison between irrigation districts.<sup>21</sup>
- Uniform standards of service will not be achieved across districts.<sup>22</sup>
- A submission questioned the value placed on Goulburn-Murray Water's savings from tariff reform.<sup>23</sup>
- Goulburn-Murray Water's consultation on uniform tariffs does not support the change.<sup>24</sup>

The main arguments in submissions supporting uniform tariffs<sup>25</sup> were:

- Irrigation boundaries were determined in the 1990s and small changes to district boundaries leads to large changes in cost differences.

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<sup>14</sup> Murray Haw 2016, *Submission*, April.

<sup>15</sup> Patrick Connolly 2016, *Submission*, April.

<sup>16</sup> Dan Mongan 2016, *Submission*, April; Patrick Connolly 2016, *Submission*, April.

<sup>17</sup> Patrick Connolly 2016, *Submission*, April.

<sup>18</sup> Dan Mongan 2016, *Submission*, April.

<sup>19</sup> Victorian Farmers Federation 2016, *Submission*, April; Peter Hacon 2016, *Submission*, April.

<sup>20</sup> Loretta Warren 2016, *Submission*, April; Murray Haw 2016, *Submission*, April.

<sup>21</sup> Peter Hacon 2016, *Submission*, April.

<sup>22</sup> Murray Haw 2016, *Submission*, April.

<sup>23</sup> Dan Mongan 2016, *Submission*, April.

<sup>24</sup> Dan Mongan 2016, *Submission*, April; Colin Fenton 2016, *Submission*, March.

<sup>25</sup> James and Judy Pedretti, Stuart McNab, Rocco Fasano, Leanne Rovers, Gayle Clarke, Ashley Galt, Kevin Minogue, Peter Preston, Committee for Greater Shepparton, Greater Shepparton City Council.

- Legacy issues affected Shepparton because modernisation occurred but not substantial rationalisation, leaving Shepparton with a higher cost structure.<sup>26</sup>
- The principle of user pays has been unfairly applied in light of advice from the ACCC.<sup>27</sup>
- The principle of user pays has been inconsistently applied by the Commission.

### 9.4.3 COMMISSION'S CONSIDERATIONS

The Commission's view on Goulburn-Murray Water's proposed tariff reform reflects the following considerations:

- The legal and regulatory framework within which the Commission's decision is made. This framework includes the ACCC's pricing principles and the propose–respond framework under the Water Charge Infrastructure Rules (WCIR), whereby the Commission must approve Goulburn-Murray Water's proposals if they comply with the regulatory framework.
- The Commission's view that tariff design is primarily the responsibility of water businesses, in consultation with their customers. However, the Commission does assess the tariff designs for consistency with the ACCC pricing principles. In assessing tariffs, the Commission requires a higher burden of justification for those that are being restructured or introduced rather than those that are a continuation of existing tariffs.
- The cost information provided to the Commission by Indec.
- The stakeholders' submissions we received during our consultation process.

We consider that progress on the Connections Project will increase the proportion of common costs in the irrigation districts, as expenditure occurs on central information technology costs, and manual operations in districts declines. The Commission's decisions on forecast operational savings from progress on the Connections Project and from irrigation reform are set out in chapter 4.

<sup>26</sup> Geoff and Natalie Akers 2016, *Submission*, April.

<sup>27</sup> Geoff and Natalie Akers 2016, *Submission*, April.

Shepparton district customers seeking a common fee raised concerns about legacy costs. Indec’s work attempted to address legacy issues that may occur with the timing of capital (and the subsequent inclusion in the underlying RAB) by concentrating on the differences in operating costs. This analysis found that the five districts were similar in terms of operating expenditure profiles but Shepparton was materially higher.

In considering submissions supporting the inclusion of Shepparton in a common fee, the Commission made the following observations:

- Decisions to set irrigation boundaries are largely operational in nature and the current boundaries were determined prior to the Commission’s involvement in regulating prices. The redrawing of these boundaries is not a function over which the Commission has oversight but rather one that Goulburn-Murray Water could consider in its next four-year price submission.
- In relation to legacy issues, several submissions quoted the ACCC from its review of Water Charge Rules, which stated “transitioning towards the objective of user pays and the principle of full cost recovery raises difficult questions of how to deal with legacy issues and the cost of adjustments”<sup>28</sup>. However, we note that this quote must be viewed within the underling context of the ACCC’s broader review which is clearly focused on under recovery of costs and the need to transition to full cost recovery over time. A move towards a common fee that included Shepparton would be less cost reflective than current tariffs and would therefore be inconsistent with the intent of the Water Charge Rules, as well as the ACCC pricing principles — specifically, where tariff structures should “achieve pricing transparency” and “give effect to the principles of user pays in respect of water storage and delivering in irrigation systems”.
- Of all the submissions received, no respondents from districts other than the Shepparton district expressed support for the inclusion of Shepparton in the common tariff or alternatively the cross subsidisation of services in the Shepparton district.

On balance, as set out further below, the Commission decided to approve Goulburn-Murray Water’s proposal of common Infrastructure Access Fees and

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<sup>28</sup> ACCC, 2015, *Review of Water Charge Rules, Draft Advice*, November, p. 40.

Infrastructure Use Fees in five of its irrigation districts, not including the Shepparton district. The resolution of the legacy issues may require further discussion between customers and Goulburn-Murray Water, and more widely.

#### **9.4.4 THE COMMISSION'S RESPONSE TO ISSUES RAISED IN SUBMISSIONS**

Goulburn-Murray Water's submission to the draft decision proposed a price differential between Shepparton and the other five districts that materially exceeds that observed by our expenditure consultant. Rather than address these prices in the first year of the regulatory period the Commission has taken the position that they will be addressed by Goulburn-Murray Water (in consultation with its customers) through the annual resetting of prices in the second year of the regulatory period.

In relation to the contention that the Commission has inconsistently applied the concept of 'user pays', we note that the majority of instances cited in submissions refer to small diversion customers who we understand are transitioning to a user pays approach over time. While these customers may not currently be subject to a price that reflects the full cost of their services, there is a clearly stated intent that this is only an interim arrangement and full cost recovery will be achieved in the near future.

The Commission recognises cost spikes occur in districts, caused by factors such as pumping costs during droughts. In our view, Goulburn-Murray Water could apply for a new tariff at its annual price review if pumping is required in areas such as the Waranga Basin. This approach ensures all customers do not bear pumping costs in a particular area.

In the Commission's view, Goulburn-Murray Water could achieve greater tariff simplification and transparency. For example the Victorian Farmer's Federation's submission proposed a common fee incorporating the RAB, capital expenditure and repayment of past debt, and a separate district fee for all other charges. This may be worth Goulburn-Murray Water's consideration and discussion with its customers.

## 9.4.5 FINAL DECISION ON GRAVITY IRRIGATION TARIFFS

The Commission approves Goulburn-Murray Water's revised proposal for a common Infrastructure Access Fee and Infrastructure Use Fee in Central Goulburn, Rochester, Loddon Valley, Murray Valley and Torrumbarry irrigation districts, with a separate Infrastructure Access Fee and Infrastructure Use Fee in Shepparton district. 2016-17 prices are set out in table 9.3.

**TABLE 9.3 FINAL DECISION ON GOULBURN-MURRAY WATER'S INFRASTRUCTURE ACCESS FEE AND INFRASTRUCTURE USE FEE**

	<b>Infrastructure Access Fee</b> \$/ML/Day of delivery share held (\$ 2015-16)	<b>Infrastructure Use Fee</b> \$/ML (\$ 2015-16)
Shepparton	4 332	8.10
Central Goulburn, Rochester, Loddon Valley, Murray Valley, Torrumbarry	2 859	5.85

## 9.5 COMMISSION'S REVIEW OF DRAINAGE FEES

### 9.5.1 COMMISSION'S DRAFT DECISION ON DRAINAGE FEES

In its draft decision, the Commission proposed to approve Goulburn-Murray Water's proposed drainage fee structure on the basis that it was continuing with the existing arrangements.

### 9.5.2 COMMISSION'S CONSIDERATION OF DRAINAGE FEES

The Commission received no submissions on drainage fees. Goulburn-Murray Water's proposed 2016-17 drainage fees are set out in prices in appendix B. The Commission notes that Goulburn-Murray Water will consult on drainage tariff structures prior to the next price review.

### **9.5.3 FINAL DECISION ON DRAINAGE FEES**

The Commission approves Goulburn-Murray Water's proposed irrigation drainage fees. Goulburn-Murray Water's prices for 2016-17 are set out in appendix B.

## **9.6 COMMISSION'S REVIEW OF NYAH AND TRESKO PUMPED IRRIGATION DISTRICT FEES**

### **9.6.1 COMMISSION'S DRAFT DECISION ON NYAH AND TRESKO PUMPED IRRIGATION DISTRICT FEES**

In its draft decision, the Commission proposed to approve Goulburn-Murray Water's proposed fees in the Nyah and Tresko districts. We considered that Goulburn-Murray Water's proposal to rebalance prices in these pumped irrigation districts to reflect costs incurred accorded with the ACCC's principle of giving effect to 'user pays'.

### **9.6.2 COMMISSION'S CONSIDERATION OF NYAH AND TRESKO PUMPED IRRIGATION DISTRICT FEES**

The Commission received no submissions on the Nyah and Tresko districts' fees. Goulburn-Murray Water's proposed 2016-17 prices in the Nyah and Tresko districts are set out in appendix B. Goulburn-Murray Water will consult on pumped irrigation tariff structures prior to the next price review.

### **9.6.3 FINAL DECISION ON NYAH AND TRESKO PUMPED IRRIGATION DISTRICT FEES**

The Commission approves Goulburn-Murray Water's proposed prices in the Nyah and Tresko districts for 2016-17 as set out in table 9.4.

**TABLE 9.4 FINAL DECISION ON PRICES FOR NYAH AND TRESKO DISTRICTS**  
\$/ML (\$ 2015-16)

	2015-16	2016-17
<b>Woorinen</b>		
Infrastructure access fee	5325.00	5324.84
Infrastructure use fee	17.90	17.90
<b>Nyah</b>		
Infrastructure access fee	4039.00	4302.17
Infrastructure use fee	19.15	19.54
<b>Tresco</b>		
Infrastructure access fee	4976.00	5050.58
Infrastructure use fee	9.97	10.12

## 9.7 COMMISSION’S REVIEW OF SERVICE POINT FEES

### 9.7.1 COMMISSION’S DRAFT DECISION ON SERVICE POINT FEES

In its draft decision, the Commission proposed to approve Goulburn-Murray Water’s proposed service point fee structure because it would lead to greater cost reflectivity, which aligns with the ACCC’s pricing principle of ‘user pays’.

### 9.7.2 COMMISSION’S CONSIDERATION OF SERVICE POINT FEES

In its submission on the draft decision, Goulburn-Murray Water accepted the Commission’s proposal to approve its proposed service point fee structure. One submission identified gravity irrigation Domestic and Stock service point fees are low compared to other water businesses or districts. However this largely included examples of domestic and stock charges in pumped irrigation systems which are not directly comparable with the gravity system. There may be scope to reconsider domestic and stock prices in future reviews.

The Commission did not receive any submissions from gravity irrigation customers about service point fee structures in the draft decision. On this basis we confirm our draft decision to approve the proposed fees.

### 9.7.3 FINAL DECISION ON SERVICE POINT FEES

The Commission approves Goulburn-Murray Water’s proposed Service Point Fees set out in table 9.5.

**TABLE 9.5 FINAL DECISION ON GOULBURN-MURRAY WATER’S SERVICE POINT FEES**  
\$ (Nominal)

	<b>2015-16</b>	<b>2016-17</b>
	<b>Actual</b>	<b>Nominal</b>
Domestic and Stock	80.00	90.00
Local Read	300.00	320.00
Remote Read	350.00	475.00
Remote Read and Operate	400.00	575.00

## 9.8 COMMISSION’S REVIEW OF DRAINAGE FEES

### 9.8.1 COMMISSION’S DRAFT DECISION ON DRAINAGE FEES

In its draft decision, the Commission proposed to approve Goulburn-Murray Water’s proposed drainage fee structure, because it is continuing with the existing arrangements.

### 9.8.2 COMMISSION’S CONSIDERATION OF DRAINAGE FEES

The Commission received no submissions on Goulburn-Murray Water’s proposed drainage fees. Goulburn-Murray Water’s proposed 2016-17 drainage fees are set out in appendix B.

### 9.8.3 FINAL DECISION ON DRAINAGE FEES

The Commission approves Goulburn-Murray Water's proposed drainage fees. Goulburn-Murray Water's prices for 2016-17 are set out in appendix B.



# 10 BULK STORAGE

## 10.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's bulk storage charge structure. Goulburn-Murray Water owns and manages storage facilities and assets that store water for wholesale customers (such as rural and urban water corporations and environmental water holders) and retail customers (such as regulated surface water diverters and customers in Goulburn-Murray Water's irrigation districts).

## 10.2 APPROACH TO REVIEWING BULK STORAGE SERVICES

The Commission reviewed Goulburn-Murray Water's proposed bulk storage tariff structure against the Australian Competition and Consumer Commission's (ACCC) pricing principles for tariffs (see box 9.1). In our guidance to Goulburn-Murray Water, we emphasised that Goulburn-Murray Water, in consultation with its customers, is best placed to design tariff structures that meet its customers' needs while promoting the efficient use of its infrastructure.

## 10.3 COMMISSION'S DRAFT DECISION

In its draft decision, the Commission proposed to approve Goulburn-Murray Water's proposal:

- for its wholesale storage charge structure
- to maintain its current fee structure for retail entitlement storage services
- to retain its existing tariff and charge structures for environmental water holders.

On wholesale charges, the Commission noted that Goulburn-Murray Water had allocated operational overhead costs based on capital expenditure and this approach had a material effect on prices. This Commission does not favour this method of cost allocation because it is unlikely to reflect how these costs are incurred. The Commission considered in its draft decision that Goulburn-Murray Water could review this method, if needed, via consultation with its customers.

## 10.4 GOULBURN-MURRAY WATER'S SUBMISSION ON THE DRAFT DECISION

In response to the draft decision Goulburn-Murray Water proposed a small reduction to system charges in the Goulburn system. Its proposed fees are set out in table 10.1.

**TABLE 10.1 GOULBURN-MURRAY WATER'S PROPOSED ENTITLEMENT STORAGE PRICES**

High reliability water shares \$/ML (\$ 2015-16)

	2015-16	2016-17	2017-18	2018-19	2019-20
Goulburn	10.57	10.57	10.57	10.57	10.57
Murray	13.04	13.04	13.04	13.04	13.04

## 10.5 COMMISSION'S REVIEW

During the consultation process, customers were particularly interested in how Goulburn-Murray Water applied environmental water charges. One submission stated it is not clear how the Bulk Entitlement charges for the Barmah-Millewa Forest Environmental Water Allocation are paid.<sup>29</sup> In response to this query, Goulburn-Murray Water submitted:

<sup>29</sup> Patrick Connolly 2016, *Submission*, April.

- the use of the Barmah-Millewa Forest Environmental Water Allocation is triggered by rules in the Bulk Entitlement (River Murray – Goulburn-Murray Water) Conversion Order 1999 and other Murray bulk entitlements
- the Allocation is not charged a fee because it is rules-based and is an operational requirement of the Murray system, just as minimum flows apply in other systems.

Several submissions raised questions about charges paid by environmental water holders (EWH):

- In response to queries on EWH charges<sup>30</sup>, the Commission reiterates EWHs are subject to the same charges as other bulk storage customers. This includes charges for The Living Murray water account (excluding rules-based allocations such as the one in Barmah-Millewa mentioned above). The Victorian EWH's charges are the subject of a contract between Goulburn-Murray Water and the EWH.
- On the question of prices for EWHs not transparently reflecting costs<sup>31</sup>, the Commission notes the use of delivery share equivalent charges to account for EWHs using the delivery system. The Commission considers Goulburn-Murray Water should adjust charges for EWHs (if necessary) in consultation with its customers.

Other stakeholders raised questions about possible cross-subsidies among bulk water customers<sup>32</sup>:

- Stakeholders were concerned basin and system charging enables customers who move from water to non-water user status to save on Entitlement Storage Fees. The Commission's view is that Goulburn-Murray Water is responsible for consulting with its customers to determine how to balance the system and basin charging approaches. The Commission's guidance indicated that where Goulburn-Murray Water proposed to retain its charges, a lower level of consultation was required. In addition, through consultation, the Commission did not receive indications of widespread dissatisfaction with this method of charging.

<sup>30</sup> Patrick Connolly 2016, *Submission*, April.

<sup>31</sup> Attendee at Tatura 2016.

<sup>32</sup> Dan Mongan 2016, *Submission*, April.

- Stakeholders were concerned about cost sharing between the charges for high and low reliability water shares. Goulburn-Murray Water is responsible for developing its proposed tariffs in consultation with its customers. The Commission considers services that are difficult to forecast due to uncertainty (such as spill water charges) have been dealt with by Goulburn-Murray Water under the revenue cap.
- Stakeholders requested the Commission exclude from customers' prices the maintenance costs for inefficient expenditure under the Connections Program. However, the Commission does not have the authority to assess infrastructure spending under the Connections Program.

The system charges for Goulburn and Murray predate the Commission's regulation and are a cost reflective charge. Goulburn-Murray Water introduced basin charging for non-irrigators, as we understand there was strong support from irrigators to continue with the system basis. The system charges are the weighted average of the basin charges which means they are cost reflective but spread evenly across irrigators. Submissions have argued both ways. Some argued for system charges for all customers. Others noted that basin charges could be applied to all customers but this was not practical for small irrigators.

In the draft decision, we identified some concern about the basin charges for Bullarook, specifically:

- price volatility in small basins
- the method used to allocate overhead charges.

The Commission confirms its draft decision to approve Goulburn-Murray Water's proposed bulk water charges, because they align with the Australian Competition and Consumer Commission's pricing principles and the requirements of the Water Industry Regulatory Order. We do believe there is scope for Goulburn-Murray Water to review its approach to basin and system pricing before the next review of prices.

## 10.6 FINAL DECISION

The Commission approves Goulburn-Murray Water's revised bulk storage charges set out in tables 10.2 and 10.3.

**TABLE 10.2 FINAL DECISION ON GOULBURN-MURRAY WATER'S BULK ENTITLEMENT CHARGES**

High reliability water shares \$/ML (\$ 2015-16)

	<b>2015-16</b>	<b>2016-17 Final decision</b>
Broken	38.43	42.27
Goulburn	8.16	8.15
Campaspe	24.86	24.86
Loddon	40.96	42.19
Bullarook	329.61	362.57
Murray	11.80	10.09
Ovens	48.45	53.29

**TABLE 10.3 FINAL DECISION ON GOULBURN-MURRAY WATER'S ENTITLEMENT STORAGE FEE**

High reliability water shares \$/ML (\$ 2015-16)

	<b>2015-16</b>	<b>2016-17 Final decision</b>
Goulburn	10.57	10.57
Murray	13.04	13.04



# 11 DIVERSION SERVICES

## 11.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's proposed diversion services tariff structures. Goulburn-Murray Water provides diversion services to customers who access water from waterways such as rivers, and groundwater. Goulburn-Murray Water's diversion services are associated with its licensing function under delegation from the minister.

## 11.2 APPROACH TO REVIEWING DIVERSION SERVICES

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

- We reviewed groundwater services, and surface water diversion services, which do not use Goulburn-Murray Water's infrastructure-related services, against the Water Industry Regulatory Order (WIRO).
- We reviewed surface water diversion services which use Goulburn-Murray Water's storage infrastructure services, against the Australian Competition and Consumer Commission's (ACCC) pricing principles.
- Goulburn-Murray Water's diversion proposals contain tariffs for services covered by both the WIRO and the Water Charge (Infrastructure) Rules (WCIR). For this reason, we reviewed the diversion proposals against the requirements of both regulations.
- Our guidance to Goulburn-Murray Water required it to consult with customers affected by its proposals.

## 11.3 COMMISSION'S DRAFT DECISION ON DIVERSION SERVICES TARIFFS

In its draft decision, the Commission considered that Goulburn-Murray Water's proposals for diversion tariff structures would more closely align tariffs with costs, leading to greater cost reflectivity and greater efficiency:

- The access fee would be levied per service point, rather than on the size of a customer's water entitlement because the number of service points is the main cost driver.
- The single service point fee would be replaced by a small and a large service point fee to reflect the level and cost of service to unmetered and metered sites.
- The number of diversion service customer groups would be cut from ten to four, to reflect similar costs in the merged groups.

Goulburn-Murray Water's estimate of the impact of its proposal on the typical bill is set out in table 11.1.

**TABLE 11.1 GOULBURN-MURRAY WATER'S PROPOSED ESTIMATES OF DIVERSION BILL CHANGES**  
(\$ 2015-16)

	Typical bill 2015-16	2016-17	2017-18	2018-19	2019-20
<b>Small customer<sup>a</sup></b>		Annual % change			
Regulated surface water diverter	285	21%	21%	3%	3%
Unregulated surface water diverter	282	18%	20%	3%	3%
Groundwater diverters (intensive)	380	10%	11%	3%	3%
Groundwater diverters (other)	339	18%	16%	3%	3%
SIR Groundwater diverters	251	-4%	-6%	2%	1%
<b>Large customer<sup>a</sup></b>					
Regulated surface water diverter	4 049	1%	-1%	1%	1%
Unregulated surface water diverter	2 145	-33%	-31%	0%	0%
Groundwater diverters (intensive)	3 505	-13%	-11%	0%	0%
Groundwater diverters (other)	2 485	7%	2%	0%	0%
SIR groundwater diverters	1 365	-29%	-46%	-2%	-2%

<sup>a</sup> Goulburn-Murray Water has defined large and small customers on page 100 of its submission.

Source: Goulburn-Murray Water's pricing model for the fourth regulatory period.

The attributes of its large and small customers are set out in table 11.2.

**TABLE 11.2 GOULBURN-MURRAY WATER TYPICAL CUSTOMER ATTRIBUTES**

Attributes	Customer Size	Regulated SW	Unregulated SW	Groundwater
Extraction Share (ML/Day)	Small	0.02		
	Large	2.80		
Entitlement/HRWS (ML)	Small	2	2	20
	Large	280	170	500
Service Point Small	Small	1	1	1
	Large			
Service Point Large	Small			
	Large	1	1	1

Source: Goulburn-Murray Water's 2015 Price Submission

In the draft decision, the Commission reviewed Goulburn-Murray Water's consultation and considered that many of Goulburn-Murray Water's communications about the access fee did not sufficiently highlight information about the price increase for small diversion customers in the first two years of the regulatory period. Because Goulburn-Murray Water's consultation might not have been sufficient, small diverters' views on the increases in tariffs over two years may not be reflected in the proposal.

For this reason, we considered the price increases in the first two years should be spread evenly over the four years of the regulatory period rather than the two years proposed by Goulburn-Murray Water. This longer transition would reduce price volatility and lessen the impact on smaller diverters, in accordance with the ACCC's pricing principles and the WIRO.

## 11.4 COMMISSION'S REVIEW OF DIVERSION SERVICES TARIFFS

In its response to our draft decision, Goulburn-Murray Water submitted that it considers a transition period of two years for small customers is appropriate. However, if the Commission did not reconsider its draft decision, Goulburn-Murray Water proposed to

accept the Commission’s draft decision and implement a four year transition (see table 11.3).

In its submission, Goulburn-Murray Water also presented updated data on the number of diverter service points and diverter entitlement volumes.

**TABLE 11.3 GOULBURN-MURRAY WATER REVISED ESTIMATES OF DIVERSION BILL CHANGES**  
(\$ 2015-16)

	Typical bill 2015-16	2016-17	2017-18	2018-19	2019-20
<b>Small customer<sup>a</sup></b>		Annual percentage change			
Regulated surface water diverter	285	12.7%	13.0%	13.5%	12.9%
Unregulated surface water diverter	282	8.3%	8.1%	10.1%	9.1%
Groundwater diverters (intensive)	380	9%	10%	10%	11%
Groundwater diverters (other)	339	13%	13%	13%	13%
SIR Groundwater diverters	251	-7%	-2%	-2%	2%
<b>Large customer<sup>a</sup></b>					
Regulated surface water diverter	4 049	2.5%	-1.2%	-1.2%	-1.1%
Unregulated surface water diverter	2 145	-11.5%	-16.9%	-14.7%	-20.1%
Groundwater diverters (intensive)	3 505	-2%	-6%	-7%	-7%
Groundwater diverters (other)	2 485	7%	2%	2%	2%
SIR groundwater diverters	1 365	-22%	-25%	-31%	-2%

<sup>a</sup> Goulburn-Murray Water has defined large and small customers on page 100 of its submission.

Source: Goulburn-Murray Water 2016, Submission on the Commission’s Draft Decision – 2016 Price Review.

One submission from a stakeholder opposed extending the transition to higher prices, arguing that:

- larger diverters have been overcharged for licences for many years
- water bills for larger diverters have risen substantially over the past 15 years and this should be reversed sooner rather than later

- if the Commission extends the transition period to four years, small customers will see relatively small dollar rises in their bills per year, but large irrigators will have substantial decreases delayed.<sup>33</sup>

One submission opposing fee increases for domestic and stock diverters called for an analysis of domestic and stock tariff structures and rates, arguing that:

- domestic and stock water use is distinct from irrigation water in its use, its costs and the characteristics of its users
- domestic and stock diverters have less ability to respond to incentives to reduce service points to increase efficiency
- domestic and stock diverters are more likely to have low incomes and be vulnerable to hardship
- domestic and stock diverters do not drive the same metering and billing costs as other customers
- the Commission does not have sufficient information about Goulburn-Murray Water cost drivers to substantiate approving any change.<sup>34</sup>

The Commission recognises that there can be tensions between small and large users regarding cost allocation. The Commission's position is that it is Goulburn-Murray Water's responsibility to manage these tensions and that the best avenue for discussion of relative differences between diverter charges is between Goulburn-Murray Water and its customers. We acknowledge Goulburn-Murray Water undertook consultation prior to proposing reforms to diversion tariffs and many of these issues were raised as part of this consultation.

The Commission has considered all views submitted in response to Goulburn-Murray Water's proposal and our draft decision. Many of the issues raised are outside the scope of the price review given the constraints of the regulatory framework. For example submissions have raised issues in relation to the Water Act (1989),

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<sup>33</sup> Andrew Maher 2016, *Submission*, April.

<sup>34</sup> Nick Legge 2016, *Submission*, April.

assumptions underpinning Goulburn-Murray Water's Diverter's Tariff Strategy and detailed operation issues.

In response to key issues and themes raised in submissions, the Commission's view is that Goulburn-Murray Water's proposed reform complies with the relevant regulatory requirements insofar as:

- A four year transition reduces price shock for low income customers and those vulnerable to hardship.
- Within each of the four diversion categories proposed by Goulburn-Murray Water, costs for compliance and for billing are relatively fixed and these costs are primarily driven by the number of service points.
- The approach appropriately reflects cost estimates for site compliance and billing. (see figure 3.8 in Indec's report titled 2016-20 Review of Water Prices for Goulburn-Murray Water – Tariff Structure Proposals).
- Our analysis of the current proposals suggests that diversion service is largely a fixed cost business because costs are incurred in administering licences rather than water volume.
- In relation to the potential to increase the differential between diversions fees for large and small users, we note that under the legal and regulatory framework set out in the WCIR and WIRO, the Commission must exercise its price determination powers within a “propose–respond” approach to regulation. Goulburn-Murray Water is not proposing to further differentiate diversion charges on the basis of small and large customers. We have assessed Goulburn-Murray Water's proposal on this basis and, for the above reasons, we have determined that it has taken into account the criteria set out in the WIRO, and complies with our guidance paper, as well as the ACCC pricing principles.

## 11.5 FINAL DECISION

The Commission approves Goulburn-Murray Water's revised diversion prices and proposed price path. The 2016-17 prices are set out in appendix B.



# 12 MISCELLANEOUS SERVICES

## 12.1 INTRODUCTION

This chapter reviews Goulburn-Murray Water's principles for setting miscellaneous services charges. Goulburn-Murray Water provides customers with miscellaneous services often related to the major services that it provides.

## 12.2 APPROACH TO REVIEWING MISCELLANEOUS SERVICES CHARGES

Miscellaneous services that relate to Goulburn-Murray Water's infrastructure services are regulated under the Water Charge (Infrastructure) Rules 2010 (WCIR). The remainder are regulated under the Water Industry Regulatory Order (WIRO). We reviewed miscellaneous services charges against both the WCIR and the WIRO, to avoid doubt about the regime under which specific services should be assessed.

## 12.3 COMMISSION'S DRAFT DECISION

In its draft decision, the Commission proposed to approve Goulburn-Murray Water's proposed miscellaneous services charges because they were based on the costs of delivering services. They promoted cost reflectivity, which accords with the Australian Competition and Consumer Commission's pricing principles and the Water Industry Regulatory Order. The Commission also proposed to approve Goulburn-Murray Water's proposed pricing principles for calculating new miscellaneous services charges.

We are satisfied Goulburn-Murray Water's proposed prescribed miscellaneous services charges are calculated in a way that meets the requirements of the WCIR and the WIRO

because all proposed charges are based on the costs of delivering the service. The pricing principles are in box 12.1.

### **BOX 12.1 PRICING PRINCIPLES FOR MISCELLANEOUS SERVICES**

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

- direct third party or contractor invoice cost
- direct marginal internal costs, including labour, materials and transport costs
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

Source: Australian Competition and Consumer Commission, *Application by Essential Services Commission Victoria for Accreditation Final Decision*, 17 February 2012.

## **12.4 COMMISSION'S REVIEW**

The Commission received no submissions on miscellaneous services charges. Goulburn-Murray Water's proposed 2016-17 miscellaneous services charges are set out in appendix B.

## **12.5 FINAL DECISION**

The Commission approves Goulburn-Murray Water's proposed miscellaneous services charges and pricing principles.

# APPENDIX A — WRITTEN SUBMISSIONS

**TABLE A.1 SUBMISSIONS ON THE COMMISSION'S DRAFT DECISION**

<b>Name</b>	<b>Date of submission</b>
Maria Kolovrat	28 February 2016
Colin Fenton	21 March 2016
Nick Legge	05 April 2016
Patrick Connolly	12 April 2016
Geoff and Natalie Akers	16 April 2016
Gayle Clark	18 April 2016
Leanne Rovers	18 April 2016
Greater Shepparton City Council	20 April 2016
Dan Mongan	20 April 2016
Peter and Barbara Tomlinson	20 April 2016
Rocco Fasano	20 April 2016
Peter John Preston	21 April 2016
Stuart McNab	21 April 2016
Kevin Minogue	22 April 2016
Loretta Warren	22 April 2016
Ashley Galt	22 April 2016
Andrew Maher	22 April 2016
Committee for Greater Shepparton	22 April 2016
Murray Haw	25 April 2016
Peter Hacon	25 April 2016
Victorian Farmers Federation	27 April 2016
James and Judy Pedretti	28 April 2016
Goulburn-Murray Water submission in response to draft decision	02 May 2016

# APPENDIX B — GOULBURN-MURRAY WATER'S PROPOSED PRICES (\$ 2015-16)

Business segment	Tariff	Service	Units	2016-17
Gravity Irrigation	Infrastructure Access Fee	Shepparton	\$ / ML/day	\$4,331.71
Gravity Irrigation	Infrastructure Access Fee	Central Goulburn	\$ / ML/day	\$2,858.54
Gravity Irrigation	Infrastructure Access Fee	Rochester	\$ / ML/day	\$2,858.54
Gravity Irrigation	Infrastructure Access Fee	Loddon Valley	\$ / ML/day	\$2,858.54
Gravity Irrigation	Infrastructure Access Fee	Murray Valley	\$ / ML/day	\$2,858.54
Gravity Irrigation	Infrastructure Access Fee	Torrumbarry	\$ / ML/day	\$2,858.54
Gravity Irrigation	Service Point Fee (D&S)*	Shepparton	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (D&S)*	Central Goulburn	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (D&S)*	Rochester	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (D&S)*	Loddon Valley	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (D&S)*	Murray Valley	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (D&S)*	Torrumbarry	\$ / Service Point	\$87.80
Gravity Irrigation	Service Point Fee (LR)*	Shepparton	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (LR)*	Central Goulburn	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (LR)*	Rochester	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (LR)*	Loddon Valley	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (LR)*	Murray Valley	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (LR)*	Torrumbarry	\$ / Service Point	\$312.20
Gravity Irrigation	Service Point Fee (RR)*	Shepparton	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RR)*	Central Goulburn	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RR)*	Rochester	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RR)*	Loddon Valley	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RR)*	Murray Valley	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RR)*	Torrumbarry	\$ / Service Point	\$463.41
Gravity Irrigation	Service Point Fee (RRRO)*	Shepparton	\$ / Service Point	\$560.98
Gravity Irrigation	Service Point Fee (RRRO)*	Rochester	\$ / Service Point	\$560.98
Gravity Irrigation	Service Point Fee (RRRO)*	Loddon Valley	\$ / Service Point	\$560.98
Gravity Irrigation	Service Point Fee (RRRO)*	Torrumbarry	\$ / Service Point	\$560.98
Gravity Irrigation	Service Fee*	Shepparton	\$ / Property	\$107.32
Gravity Irrigation	Service Fee*	Central Goulburn	\$ / Property	\$107.32
Gravity Irrigation	Service Fee*	Rochester	\$ / Property	\$107.32

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Gravity Irrigation	Service Fee*	Loddon Valley	\$ / Property	\$107.32
Gravity Irrigation	Service Fee*	Murray Valley	\$ / Property	\$107.32
Gravity Irrigation	Service Fee*	Torrumbarry	\$ / Property	\$107.32
Gravity Irrigation	Infrastructure Use Fee	Shepparton	\$ / ML	\$8.10
Gravity Irrigation	Infrastructure Use Fee	Central Goulburn	\$ / ML	\$5.85
Gravity Irrigation	Infrastructure Use Fee	Rochester	\$ / ML	\$5.85
Gravity Irrigation	Infrastructure Use Fee	Loddon Valley	\$ / ML	\$5.85
Gravity Irrigation	Infrastructure Use Fee	Murray Valley	\$ / ML	\$5.85
Gravity Irrigation	Infrastructure Use Fee	Torrumbarry	\$ / ML	\$5.85
Gravity Irrigation	Casual Infrastructure Use Fee	Shepparton	\$ / ML	\$73.07
Gravity Irrigation	Casual Infrastructure Use Fee	Central Goulburn	\$ / ML	\$48.73
Gravity Irrigation	Casual Infrastructure Use Fee	Rochester	\$ / ML	\$48.73
Gravity Irrigation	Casual Infrastructure Use Fee	Loddon Valley	\$ / ML	\$48.73
Gravity Irrigation	Casual Infrastructure Use Fee	Murray Valley	\$ / ML	\$48.73
Gravity Irrigation	Casual Infrastructure Use Fee	Torrumbarry	\$ / ML	\$48.73
Gravity Irrigation	Distribution Access Fee	Shepparton	\$ / ML/day	\$4,331.71
Gravity Irrigation	Distribution Access Fee	Central Goulburn	\$ / ML/day	\$2,858.54
Gravity Irrigation	Distribution Access Fee	Rochester	\$ / ML/day	\$2,858.54
Gravity Irrigation	Distribution Access Fee	Loddon Valley	\$ / ML/day	\$2,858.54
Gravity Irrigation	Distribution Access Fee	Murray Valley	\$ / ML/day	\$2,858.54
Gravity Irrigation	Distribution Access Fee	Torrumbarry	\$ / ML/day	\$2,858.54
Gravity Irrigation	Distribution Use Fee	Shepparton	\$ / ML	\$8.10
Gravity Irrigation	Distribution Use Fee	Central Goulburn	\$ / ML	\$5.85
Gravity Irrigation	Distribution Use Fee	Rochester	\$ / ML	\$5.85
Gravity Irrigation	Distribution Use Fee	Loddon Valley	\$ / ML	\$5.85
Gravity Irrigation	Distribution Use Fee	Murray Valley	\$ / ML	\$5.85
Gravity Irrigation	Distribution Use Fee	Torrumbarry	\$ / ML	\$5.85
Gravity Irrigation	Termination Fee	Shepparton	\$ / ML/day	\$43,317.07
Gravity Irrigation	Termination Fee	Central Goulburn	\$ / ML/day	\$28,585.37
Gravity Irrigation	Termination Fee	Rochester	\$ / ML/day	\$28,585.37
Gravity Irrigation	Termination Fee	Loddon Valley	\$ / ML/day	\$28,585.37
Gravity Irrigation	Termination Fee	Murray Valley	\$ / ML/day	\$28,585.37
Gravity Irrigation	Termination Fee	Torrumbarry	\$ / ML/day	\$28,585.37
Gravity Irrigation	Delivery Share Reservation Fee	Shepparton	\$ / ML/day	\$4,331.71
Gravity Irrigation	Delivery Share Reservation Fee	Central Goulburn	\$ / ML/day	\$2,858.54
Gravity Irrigation	Delivery Share Reservation Fee	Rochester	\$ / ML/day	\$2,858.54
Gravity Irrigation	Delivery Share Reservation Fee	Murray Valley	\$ / ML/day	\$2,858.54
Gravity Irrigation	Delivery Share Reservation Fee	Torrumbarry	\$ / ML/day	\$2,858.54
Gravity Irrigation	Overuse Fee*	Shepparton	\$ / ML	\$1,951.22
Gravity Irrigation	Overuse Fee*	Central Goulburn	\$ / ML	\$1,951.22
Gravity Irrigation	Overuse Fee*	Rochester	\$ / ML	\$1,951.22
Gravity Irrigation	Overuse Fee*	Loddon Valley	\$ / ML	\$1,951.22
Gravity Irrigation	Overuse Fee*	Murray Valley	\$ / ML	\$1,951.22

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Gravity Irrigation	Overuse Fee*	Torrumbarry	\$ / ML	\$1,951.22
Bulk Water	Very High RE	Goulburn	\$ / ML	\$8.58
Bulk Water	High RE	Broken	\$ / ML	\$42.27
Bulk Water	High RE	Goulburn	\$ / ML	\$8.15
Bulk Water	High RE	Campaspe	\$ / ML	\$24.86
Bulk Water	High RE	Loddon	\$ / ML	\$42.19
Bulk Water	High RE	Bullarook	\$ / ML	\$362.57
Bulk Water	High RE	Murray	\$ / ML	\$10.09
Bulk Water	High RE	Ovens	\$ / ML	\$53.29
Bulk Water	Low RE	Broken	\$ / ML	\$8.88
Bulk Water	Low RE	Goulburn	\$ / ML	\$4.18
Bulk Water	Low RE	Campaspe	\$ / ML	\$15.35
Bulk Water	Low RE	Loddon	\$ / ML	\$16.61
Bulk Water	Low RE	Bullarook	\$ / ML	\$219.71
Bulk Water	Low RE	Murray	\$ / ML	\$4.58
Bulk Water	Low RE	Ovens	\$ / ML	\$26.65
Bulk Water	Above Entitlement Storage	Goulburn	\$ / ML	\$4.18
Bulk Water	Above Entitlement Storage	Campaspe	\$ / ML	\$15.35
Bulk Water	Above Entitlement Storage	Murray	\$ / ML	\$4.58
Bulk Water	WR Equivalent Entitlement	Goulburn	\$ / ML	\$10.41
Bulk Water	WR Equivalent Entitlement	Murray	\$ / ML	\$11.84
Bulk Water	Coliban Capacity Share	Campaspe	\$ / ML	\$31.19
Bulk Water	HRWS Water User	Broken	\$ / ML	\$10.57
Bulk Water	HRWS Water User	Goulburn	\$ / ML	\$10.57
Bulk Water	HRWS Water User	Campaspe	\$ / ML	\$10.57
Bulk Water	HRWS Water User	Loddon	\$ / ML	\$10.57
Bulk Water	HRWS Water User	Bullarook	\$ / ML	\$10.57
Bulk Water	HRWS Water User	Murray	\$ / ML	\$13.04
Bulk Water	HRWS Water User	Ovens	\$ / ML	\$13.04
Bulk Water	LRWS Water User	Broken	\$ / ML	\$5.18
Bulk Water	LRWS Water User	Goulburn	\$ / ML	\$5.18
Bulk Water	LRWS Water User	Campaspe	\$ / ML	\$5.18
Bulk Water	LRWS Water User	Loddon	\$ / ML	\$5.18
Bulk Water	LRWS Water User	Bullarook	\$ / ML	\$5.18
Bulk Water	HRWS ESF Non Water User	Broken	\$ / ML	\$42.27
Bulk Water	HRWS ESF Non Water User	Goulburn	\$ / ML	\$8.15
Bulk Water	HRWS ESF Non Water User	Campaspe	\$ / ML	\$24.86
Bulk Water	HRWS ESF Non Water User	Loddon	\$ / ML	\$42.19
Bulk Water	HRWS ESF Non Water User	Bullarook	\$ / ML	\$362.57
Bulk Water	HRWS ESF Non Water User	Murray	\$ / ML	\$10.09
Bulk Water	HRWS ESF Non Water User	Ovens	\$ / ML	\$53.29
Bulk Water	LRWS ESF Non Water User	Goulburn	\$ / ML	\$4.18
Bulk Water	LRWS ESF Non Water User	Campaspe	\$ / ML	\$15.35

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Bulk Water	LRWS ESF Non Water User	Bullarook	\$ / ML	\$219.71
Bulk Water	LRWS ESF Non Water User	Murray	\$ / ML	\$4.58
Bulk Water	Service Fee*	Broken	\$ / ML	\$107.32
Bulk Water	Service Fee*	Goulburn	\$ / ML	\$107.32
Bulk Water	Service Fee*	Campaspe	\$ / ML	\$107.32
Bulk Water	Service Fee*	Loddon	\$ / ML	\$107.32
Bulk Water	Service Fee*	Bullarook	\$ / ML	\$107.32
Bulk Water	Service Fee*	Murray	\$ / ML	\$107.32
Bulk Water	Service Fee*	Ovens	\$ / ML	\$107.32
Salinity Mitigation	Salinity Mitigation	Salinity Mitigation	\$ / ML	\$4.55
Loch Garry Waterway	Service Fee	Loch Garry	\$ / Property	\$107.32
Loch Garry Waterway	Flood Protection	Loch Garry	\$ / HA	\$1.38
Surface Drainage	Drainage Service Fee*	Shepparton	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Central Goulburn	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Rochester	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Loddon Valley	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Murray Valley	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Torrumbarry	\$ / Property	\$107.32
Surface Drainage	Drainage Service Fee*	Tyntynder	\$ / Property	\$107.32
Surface Drainage	Drainage Water Use Fee	Shepparton	\$ / ML	\$5.37
Surface Drainage	Drainage Water Use Fee	Central Goulburn	\$ / ML	\$2.90
Surface Drainage	Drainage Water Use Fee	Rochester	\$ / ML	\$2.90
Surface Drainage	Drainage Water Use Fee	Loddon Valley	\$ / ML	\$2.99
Surface Drainage	Drainage Water Use Fee	Murray Valley	\$ / ML	\$3.21
Surface Drainage	Drainage Water Use Fee	Torrumbarry	\$ / ML	\$2.58
Surface Drainage	Drainage Water Use Fee	Tyntynder	\$ / ML	\$4.13
Surface Drainage	Drainage Area Fee	Shepparton	\$ / HA	\$12.90
Surface Drainage	Drainage Area Fee	Central Goulburn	\$ / HA	\$6.75
Surface Drainage	Drainage Area Fee	Rochester	\$ / HA	\$8.75
Surface Drainage	Drainage Area Fee	Loddon Valley	\$ / HA	\$4.14
Surface Drainage	Drainage Area Fee	Murray Valley	\$ / HA	\$9.58
Surface Drainage	Drainage Area Fee	Torrumbarry	\$ / HA	\$4.14
Surface Drainage	Drainage Area Fee	Tyntynder	\$ / HA	\$8.52
Surface Drainage	Drainage Diversion Site Fee	Shepparton	\$ / Site	\$205.70
Surface Drainage	Drainage Diversion Site Fee	Central Goulburn	\$ / Site	\$205.70
Surface Drainage	Drainage Diversion Site Fee	Rochester	\$ / Site	\$205.70
Surface Drainage	Drainage Diversion Site Fee	Loddon Valley	\$ / Site	\$51.42
Surface Drainage	Drainage Diversion Site Fee	Murray Valley	\$ / Site	\$205.70
Surface Drainage	Drainage Diversion Site Fee	Torrumbarry	\$ / Site	\$51.42
Surface Drainage	Drainage Diversion Site Fee	Tyntynder	\$ / Site	\$51.42
Surface Drainage	Drainage Diversion Agreement	Shepparton	\$ / ML	\$2.06
Surface Drainage	Drainage Diversion Agreement	Central Goulburn	\$ / ML	\$2.06
Surface Drainage	Drainage Diversion Agreement	Rochester	\$ / ML	\$2.06

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Surface Drainage	Drainage Diversion Agreement	Murray Valley	\$ / ML	\$2.06
Community Surface Drainage	Community Surface Drainage Fee	Shepparton	\$ / KM	\$659.14
Community Surface Drainage	Community Surface Drainage Fee	Central Goulburn	\$ / KM	\$659.14
Community Surface Drainage	Community Surface Drainage Fee	Rochester	\$ / KM	\$659.14
Community Surface Drainage	Community Surface Drainage Fee	Loddon Valley	\$ / KM	\$659.14
Community Surface Drainage	Community Surface Drainage Fee	Murray Valley	\$ / KM	\$659.14
Community Surface Drainage	Community Surface Drainage Fee	Torrumbarry	\$ / KM	\$659.14
Subsurface Drainage	Subsurface Drainage	Shepparton	\$ / ML	\$1.63
Subsurface Drainage	Subsurface Drainage	Tresco	\$ / ML	\$1.50
Subsurface Drainage	Subsurface Drainage Service Fee	Central Goulburn	\$ / ML	\$1.89
Subsurface Drainage	Subsurface Drainage Service Fee	Rochester	\$ / ML	\$0.82
Subsurface Drainage	Subsurface Drainage Service Fee	Murray Valley	\$ / ML	\$1.35
Subsurface Drainage	Local Benefit Area	Central Goulburn	\$ / HA	\$2.83
Subsurface Drainage	Local Benefit Area	Rochester	\$ / HA	\$17.23
Subsurface Drainage	Local Benefit Area	Murray Valley	\$ / HA	\$4.81
Subsurface Drainage	Local Benefit Water Use	Central Goulburn	\$ / ML	\$1.50
Subsurface Drainage	Local Benefit Water Use	Rochester	\$ / ML	\$9.47
Subsurface Drainage	Local Benefit Water Use	Murray Valley	\$ / ML	\$3.58
Subsurface Drainage	Municipal Local Benefit Area	Central Goulburn	\$ / HA	\$15.07
Subsurface Drainage	Municipal Local Benefit Area	Rochester	\$ / HA	\$67.55
Subsurface Drainage	Municipal Local Benefit Area	Murray Valley	\$ / HA	\$20.24
Subsurface Drainage	Subsurface Drainage Service Fee	Woorinen	\$ / Property	\$107.32
Subsurface Drainage	Subsurface Drainage Service Fee	Nyah	\$ / Property	\$107.32
Subsurface Drainage	Area	Woorinen	\$ / HA	\$1.72
Subsurface Drainage	Water Use	Woorinen	\$ / ML	\$0.71
Subsurface Drainage	Water Use	Nyah	\$ / ML	\$3.77
Water District	Service Fee*	Normanville	\$ / Property	\$107.32
Water District	Service Fee*	Tungamah	\$ / Property	\$107.32
Water District	Service Fee*	East Loddon (South)	\$ / Property	\$107.32
Water District	Service Fee*	East Loddon (North)	\$ / Property	\$107.32
Water District	Service Fee*	West Loddon	\$ / Property	\$107.32
Water District	Water Allowance Storage	Normanville	\$ / ML	\$8.16
Water District	Water Allowance Storage	Tungamah	\$ / ML	\$8.16
Water District	Water Allowance Storage	East Loddon (South)	\$ / ML	\$8.16
Water District	Water Allowance Storage	East Loddon (North)	\$ / ML	\$8.16
Water District	Water Allowance Storage	West Loddon	\$ / ML	\$8.16
Water District	Infrastructure Access Fee	Normanville	\$ / KL per Day	\$166.39
Water District	Infrastructure Access Fee	Tungamah	\$ / KL per Day	\$150.21
Water District	Infrastructure Access Fee	East Loddon (South)	\$ / KL per Day	\$107.41
Water District	Infrastructure Access Fee	East Loddon (North)	\$ / HA	\$2.82
Water District	Infrastructure Access Fee	West Loddon	\$ / HA	\$3.07
Water District	Infrastructure Use Fee	Normanville	\$ / ML	\$112.66
Water District	Infrastructure Use Fee	Tungamah	\$ / ML	\$42.66

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Water District	Infrastructure Use Fee	East Loddon (South)	\$ / ML	\$62.34
Water District	Additional Service Point Fee*	Normanville	\$ / \$ each	\$87.80
Water District	Additional Service Point Fee*	Tungamah	\$ / \$ each	\$87.80
Water District	Additional Service Point Fee*	East Loddon (South)	\$ / \$ each	\$87.80
Water District	Distribution Access	East Loddon (North)	\$ / ML per Day	\$2,858.54
Water District	Distribution Use	East Loddon (North)	\$ / ML	\$5.85
Water District	Overuse Fee	Normanville	\$ / ML	\$1,951.22
Water District	Overuse Fee	Tungamah	\$ / ML	\$1,951.22
Water District	Overuse Fee	East Loddon (South)	\$ / ML	\$1,951.22
Water District	Overuse Fee	East Loddon (North)	\$ / ML	\$1,951.22
Water District	Overuse Fee	West Loddon	\$ / ML	\$1,951.22
Water District	Service Point Fee*	Normanville	\$ / Service Point	\$87.80
Water District	Service Point Fee*	Tungamah	\$ / Service Point	\$87.80
Water District	Service Point Fee*	East Loddon (South)	\$ / Service Point	\$87.80
Pumped Irrigation	Infrastructure Access Fee	Woorinen	\$ / ML/day	\$5,324.84
Pumped Irrigation	Infrastructure Access Fee	Nyah	\$ / ML/day	\$4,302.17
Pumped Irrigation	Infrastructure Access Fee	Tresco	\$ / ML/day	\$5,050.58
Pumped Irrigation	Additional Service Point Fee*	Woorinen	\$ / Additional SP	\$87.80
Pumped Irrigation	Additional Service Point Fee*	Nyah	\$ / Additional SP	\$87.80
Pumped Irrigation	Additional Service Point Fee*	Tresco	\$ / Additional SP	\$87.80
Pumped Irrigation	Service Fee*	Woorinen	\$ / Property	\$107.32
Pumped Irrigation	Service Fee*	Nyah	\$ / Property	\$107.32
Pumped Irrigation	Service Fee*	Tresco	\$ / Property	\$107.32
Pumped Irrigation	Infrastructure Use Fee	Woorinen	\$ / ML	\$17.90
Pumped Irrigation	Infrastructure Use Fee	Nyah	\$ / ML	\$19.54
Pumped Irrigation	Infrastructure Use Fee	Tresco	\$ / ML	\$10.12
Pumped Irrigation	Casual Infrastructure Use Fee	Woorinen	\$ / ML	\$97.78
Pumped Irrigation	Casual Infrastructure Use Fee	Nyah	\$ / ML	\$79.75
Pumped Irrigation	Casual Infrastructure Use Fee	Tresco	\$ / ML	\$84.61
Pumped Irrigation	Termination Fee	Woorinen	\$ / ML/day	\$53,248.35
Pumped Irrigation	Termination Fee	Nyah	\$ / ML/day	\$43,021.72
Pumped Irrigation	Termination Fee	Tresco	\$ / ML/day	\$50,505.82
Pumped Irrigation	Delivery Share Reservation	Woorinen	\$ / ML/day	\$5,324.84
Pumped Irrigation	Delivery Share Reservation	Nyah	\$ / ML/day	\$4,302.17
Pumped Irrigation	Delivery Share Reservation	Tresco	\$ / ML/day	\$5,050.58
Pumped Irrigation	Overuse*	Woorinen	\$ / ML	\$1,951.22
Pumped Irrigation	Overuse*	Nyah	\$ / ML	\$1,951.22
Pumped Irrigation	Overuse*	Tresco	\$ / ML	\$1,951.22
Surface Diversions	Service Fee*	Regulated Waterways	\$ / Property	\$107.32
Surface Diversions	Service Fee*	Unregulated Waterways	\$ / Property	\$107.32
Surface Diversions	Overuse Fee	Regulated Waterways	\$ / ML	\$1,951.22

<b>Business segment</b>	<b>Tariff</b>	<b>Service</b>	<b>Units</b>	<b>2016-17</b>
Surface Diversions	Overuse Fee	Unregulated Waterways	\$ / ML	\$1,951.22
Surface Diversions	Access Fee	Regulated Waterways	\$ / ML/day	\$136.59
Surface Diversions	Access Fee	Unregulated Waterways	\$ / ML ent.	\$5.76
Surface Diversions	Resource Management Fee	Unregulated Waterways	\$ / ML ent.	\$3.08
Surface Diversions	Service Point Fee (Diverters, Small)*	Regulated Waterways	\$ / Service Point	\$97.56
Surface Diversions	Service Point Fee (Diverters, Small)*	Unregulated Waterways	\$ / Service Point	\$97.56
Surface Diversions	Service Point Fee (Diverters, Large)*	Regulated Waterways	\$ / Service Point	\$312.20
Surface Diversions	Service Point Fee (Diverters, Large)*	Unregulated Waterways	\$ / Service Point	\$312.20
Surface Diversions	Access Fee (Service Point)	Regulated Waterways	\$ / Service Point	\$92.68
Surface Diversions	Access Fee (Service Point)	Unregulated Waterways	\$ / Service Point	\$82.93
Groundwater	Service Fee*	Shepparton Irrigation Region	\$ / Property	\$107.32
Groundwater	Service Fee*	Other Intensive	\$ / Property	\$107.32
Groundwater	Service Fee*	Other	\$ / Property	\$107.32
Groundwater	Access Fee	Other Intensive	\$ / ML ent.	\$1.53
Groundwater	Resource Management Fee	Shepparton Irrigation Region	\$ / ML ent.	\$1.95
Groundwater	Resource Management Fee	Other Intensive	\$ / ML ent.	\$4.54
Groundwater	Resource Management Fee	Other	\$ / ML ent.	\$4.54
Groundwater	Overuse Fee*	Shepparton Irrigation Region	\$ / ML	\$1,951.22
Groundwater	Overuse Fee*	Other Intensive	\$ / ML	\$1,951.22
Groundwater	Overuse Fee*	Other	\$ / ML	\$1,951.22
Groundwater	Service Point Fee (Diverters, Small)*	Other Intensive	\$ / Service Point	\$97.56
Groundwater	Service Point Fee (Diverters, Small)*	Other	\$ / Service Point	\$97.56
Groundwater	Service Point Fee (Diverters, Large)*	Other Intensive	\$ / Service Point	\$312.20
Groundwater	Service Point Fee (Diverters, Large)*	Other	\$ / Service Point	\$312.20
Groundwater	Access Fee (Service Point)	Shepparton Irrigation Region	\$ / Service Point	\$87.80
Groundwater	Access Fee (Service Point)	Other Intensive	\$ / Service Point	\$87.80
Groundwater	Access Fee (Service Point)	Other	\$ / Service Point	\$87.80

\* Indicates fees that will be converted to \$2016-17 using an assumed inflation rate of 2.5%. All other fees will be inflated using March quarter CPI.