

The Essential Services Commission is the independent economic regulator of the Victorian water industry. We periodically assesses prices put forward by Goulburn-Murray Water (G-MW) against Commonwealth and State pricing rules. The current review covers 1 July 2016 to 30 June 2020 (fourth regulatory period).

REVIEW OF GOULBURN-MURRAY WATER PRICE SUBMISSION

On 16 June 2016 we released our final decision on the maximum prices and allowable revenue that G-MW may charge over for the fourth regulatory period, which covers 1 July 2016 to 30 June 2020.

Most medium and large customers will see price cuts of between 1 and 10 per cent. Small customers will see small price rises due to changes in meter and some fixed costs.

Our decision reflects the outcomes of a comprehensive consultation program. We received and considered 40 submissions during our review.

REVENUE REQUIREMENT

Prices have been approved based on a revenue requirement of \$472.3 million. This is \$21 million (4.3 per cent) lower than proposed by G-MW.

The lower revenue reflects our assessment of efficient costs for G-MW to deliver its proposed operating and capital expenditure forecasts.

Revenue requirement (\$m 2015-16)

	2016-17	2017-18	2018-19	2019-20	Total
G-MW proposed	120.0	122.7	125.1	125.6	493.3
Final decision	115.9	117.4	119.4	119.6	472.3

* Numbers have been rounded.

OPERATING EXPENDITURE

The revenue requirement reflects an operating expenditure benchmark of \$378.8 million. This is 4.9 per cent lower than proposed by G-MW. The reduction reflects updated forecasts for G-MW's costs and further savings.

The average annual operating expenditure is \$94.7 million (the third regulatory period was \$98.0 million a year).

Operating expenditure (\$m 2015-16)

	2016-17	2017-18	2018-19	2019-20	Total
G-MW proposed	100.1	99.9	99.7	98.5	398.1
Final decision	96.3	94.9	94.6	93.0	378.8

* Numbers have been rounded.

CAPITAL EXPENDITURE

The revenue requirement reflects a capital expenditure benchmark of \$136.0 million, which includes an reduction of \$674,000 that we identified in our draft decision. This reduction reflects a decrease in the level of contingency required for some of G-MW's proposed capital projects.

The main capital project for G-MW is the Connections Project, which aims to deliver the modernisation of irrigation infrastructure, greater water use efficiencies and improved irrigator productivity. However, this program is not reflected in approved prices as it is being funded by the Australian and Victorian governments.

FURTHER INFORMATION

More information, including material from our February 2016 draft decision and past price reviews can be found on the Commission's website www.esc.vic.gov.au.

The Essential Services Commission is the independent economic regulator of the Victorian water industry. We periodically assesses prices put forward by Goulburn-Murray Water (G-MW) against Commonwealth and State pricing rules. The current review covers 1 July 2016 to 30 June 2020 (fourth regulatory period).

IRRIGATION TARIFFS

We approved common fee structures in five irrigation districts, where it was found that costs were common. All districts will see price declines. The Shepparton district will retain separate *Infrastructure Use* and *Infrastructure access fees*.

Our analysis identified potential for Shepparton prices to decrease further from July 2017 and we believe there is scope for G-MW to consult further with customers to make future tariffs more transparent and cost reflective.

Infrastructure access fees (\$/ML/day of delivery share)

	2015-16 Actual	2016-17 Proposed	2016-17 Approved
Shepparton	4454	3556	4332
Central Goulburn	3290	3178	2859
Rochester	2933	2917	2859
Loddon Valley	3332	3205	2859
Murray Valley	3069	3016	2859
Torrumbarry	3131	3062	2859

*Numbers have been rounded.

Infrastructure use fees (\$/ML)

	2015-16 Actual	2016-17 Proposed	2016-17 Approved
Shepparton	9.34	6.34	8.10
Central Goulburn	6.50	6.34	5.85
Rochester	6.50	6.34	5.85
Loddon Valley	7.63	6.34	5.85
Murray Valley	6.08	6.34	5.85
Torrumbarry	7.11	6.34	5.85

*Numbers have been rounded.

BULK WATER (STORAGE) TARIFFS

Entitlement storage fees will remain flat over the four years (Goulburn at \$10.57/ML and Murray at \$13.04/ML for high reliability water shares).

Tariffs for Broken, Bullarook and Ovens basins are intended to increase over the regulatory period.

DIVERSION SERVICES TARIFFS

We approved G-MW's proposed diversion tariff structures. Small diverters have a transition period of four years.

SERVICE POINT FEES

G-MW's proposed Service Point Fees for modernised meters are set to increase during the period and will be cost reflective by the end of the next (fifth) regulatory period.

Service Point Fees for Gravity Irrigation Domestic and Stock will increase and will be aligned with the Diversions Small Service Point Fee.

Similarly, the Local Read Fee will also be aligned with the Diversions Large Service Point Fee.

OTHER TARIFFS

We approved each of the following:

- G-MW's proposed prices in Nyah and Tresco Pumped Irrigation District.
- G-MW's proposed irrigation drainage prices. We consider that G-MW should consult on pricing reforms to irrigation drainage prior to the next price review in 2020.

SERVICE STANDARDS

We approved G-MW's proposed service standards and targets because these were developed in consultation with customers and meet industry standards.

We require G-MW to report annually to Water Service Committees, and on its website, on how it performs against these standards.

G-MW should continue to consult with customers about the suitability of the standards, including for non-modernised customers.