

Goulburn-Murray Water draft decision

2024 Water Price Review

26 March 2024



Acknowledgement

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

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

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

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Summary

Our draft decision considers Goulburn-Murray Water's proposed prices for a four-year period starting 1 July 2024

This draft decision sets out our preliminary views on Goulburn-Murray Water's price submission.¹ Our draft decision should be read together with Goulburn-Murray Water's price submission.



We invite feedback on this draft decision before we make a final decision and issue a price determination in June 2024. Provide feedback via Engage Victoria: <https://engage.vic.gov.au/ESC-water-price-review-2024>

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

Goulburn-Murray Water plans to deliver the following outcomes for customers:

- reliable supply
- credible business
- fair pricing
- efficient operations
- responsible services
- socially responsible.²

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

Goulburn-Murray Water has committed to efficiencies to minimise prices. It proposed lower prices (before inflation) for gravity irrigation, its largest service.

¹ Clause 16 of the Water Industry Regulatory Order 2014 requires the Essential Services Commission to issue a draft decision; Goulburn-Murray Water's price submission is available on our website at www.esc.vic.gov.au.

² Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 40.

Our draft decision approves a revenue requirement that will enable Goulburn-Murray Water to deliver on its proposed outcomes

Our draft decision is to approve a revenue requirement that will allow Goulburn-Murray Water to deliver on its customer service commitments, government policy, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

Our draft decision approves a revenue requirement of \$480.3 million over a four-year period starting 1 July 2024 (Chapter 4).³ This reflects our view of efficient costs. This figure is around one per cent higher than proposed by Goulburn-Murray Water, reflecting our downward adjustment to our long-term inflation forecast from 3.5 per cent to 3 per cent.⁴ The main impact of this is to increase the real cost of debt included in the revenue requirement.

Other than the inflation update, we have not proposed any other cost adjustments relative to Goulburn-Murray's proposals in our draft decision.

Goulburn-Murray Water must respond to our draft decision and propose individual tariffs that take into account our initial views on the revenue requirement, and our upcoming updates to inflation and the cost of debt prior to our final decision.

In June 2024, we intend to determine prices for Goulburn-Murray Water in \$2024-25 terms. This means the annual change in the March Quarter 2024 consumer price index (published by the Australian Bureau of Statistics) needs to be used to calculate 2024-25 maximum approved prices.

Our draft decision accepts key tariff reforms proposed by Goulburn-Murray Water, but not one of its proposed service point fees

Goulburn-Murray Water proposed to:

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

³ The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health. Along with forecast demand, it is an input to calculating the prices to be charged by a water corporation.

⁴ Once the March quarter CPI has been released, the commission will re-estimate the long-term inflation forecast prior to final decision, as stated in our guidance p40. This may change the long-term inflation forecast from 3 per cent.

Our draft decision accepts Goulburn-Murray Water's proposed bulk water and drainage tariff reforms as they meet the criteria set out in the guidance.⁵

Our draft decision also accepts most of Goulburn-Murray Water's remaining tariffs on the basis that they are a continuation of its approach and otherwise meet the requirements of our guidance. We note the business will need to review its proposed prices given our draft decision, and upcoming updates to inflation and the cost of debt prior to our final decision.

Our draft decision does not accept Goulburn-Murray water's proposed tariffs for service point fees for unmetered customers as we consider they are not cost reflective and do not meet the requirements of our guidance. We require Goulburn-Murray Water to recalculate its proposed service point fees for unmetered customers after considering our draft decision, noting that we suggest actual cost data to be collected over the medium to longer term, which will provide greater accuracy.

See chapters 7 to 11 for our review of Goulburn-Murray Water's proposed tariffs.

Our draft decision is to rate Goulburn-Murray Water's price submission as 'Standard' under the PREMO framework

Our draft decision is to rate Goulburn-Murray Water's price submission as 'Standard' under the PREMO framework (Table A). This is the same as the business's self-rating of its price submission.

Key factors supporting this PREMO rating include:

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

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

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

See Section 1.4 and Chapter 16 for an explanation of the PREMO framework.



Our PREMO rating is an assessment of the water business’s price submission. It is not an assessment of the water business itself.

Table A PREMO rating

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

We invite feedback on our draft decision

We invite feedback from stakeholders before we make a final decision and price determination. We expect to release our final decision and price determination in June 2024.

Stakeholders may comment on any aspect of our draft decision, including:

- the information we have relied upon in our assessment (such as Goulburn-Murray Water’s price submission)
- additional matters or issues we should consider before making our final decision
- whether our draft decision on Goulburn-Murray Water’s price submission has adequate regard to the matters in clause 11 of the Water Industry Regulatory Order 2014 and our guidance.

Table B lists specific issues we are seeking feedback on to inform our final decision and price determination for Goulburn-Murray Water.

Table B Specific topic we are particularly interested in stakeholder feedback

Topic	Specific issue	Draft report reference
Service point fees	Fee charged to unmetered diverters	Chapter 10

How to provide feedback and stay up to date

You can stay up to date with our review via Engage Victoria:

<https://engage.vic.gov.au/ESC-water-price-review-2024>

You can provide feedback by:

- taking part in our public forum
- providing written comments or submissions.

Taking part in a public forum

We plan to hold a public forum on 23 April 2024. Forums provide an opportunity for interested parties to discuss key features of our draft decisions. Details of our public forums will be published on the Engage Victoria website.

Provide written comments or submissions

Written comments or submissions in response to this draft decision will be due by 7 May 2024.

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

We would prefer to receive comments and submissions via the dedicated [Engage Victoria website](#).

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

2024 Water Price Review
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Submission and privacy statement

We encourage transparency in our review processes. It is our policy to publish all submissions to the 2024 water price review on the Essential Services Commission website unless the submitter has requested confidentiality. When we publish a submission, we will also include some details about the submitter (your name, not your address) unless the submitter has requested anonymity (does not want to be identified).

You can request confidentiality and/or anonymity in relation to your submission. Requesting this may affect the weight we can give to your submission.

Next steps

Activity	Indicative date
Public forum	23 April 2024
Closing date for submissions on our draft decision	7 May 2024
Release date for our final decision and price determination	June 2024

1. Our role and approach to water pricing

1.1 We are Victoria's independent economic regulator

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

1.2 We are reviewing the proposed prices of Goulburn-Murray Water

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

Goulburn-Murray Water provided a submission to us proposing prices for a four-year period starting 1 July 2024. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2024. The price determination will specify the maximum prices Goulburn-Murray Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We will also issue a final decision that explains the reasons for our price determination.

1.3 We assess prices against the WIRO and other legal requirements

This is the first time that prices for all of Goulburn-Murray Water's infrastructure-related services are regulated under the WIRO.⁷ It is also the first time we are assessing Goulburn-Murray Water under the PREMO framework (discussed further below). Clause 11 of the WIRO specifies the mandatory factors we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act. In reaching this draft decision, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental

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

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

and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance⁸
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including customers who are on a low income or who are experiencing vulnerability.

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

In September 2022, we issued guidance to Goulburn-Murray Water to inform its price submission.⁹ The guidance was in relation to a number of matters relevant to Goulburn-Murray Water's price submission. These matters include the manner in which we propose to regulate prices which Goulburn-Murray Water may charge for prescribed services for the next regulatory period, the approach and methodology we propose to adopt to assess the price submission, our expectations regarding customer consultation, information required to be provided to us, and the timing and processes we will follow to make a price determination.¹⁰ If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Goulburn-Murray Water's proposed prices.¹¹

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

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

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

¹⁰ WIRO, clause 13(a)(i) to (viii).

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

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

Table 1.1 Matters businesses and the commission must have regard to

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> • promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO] • promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO] • provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO] • efficiency in the industry and incentives for long term investment [s. 8A(1)(a), ESC Act] • efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act] • financial viability of the industry [s. 8A(b)(1), ESC Act] 	<ul style="list-style-type: none"> • particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act] • return on assets in the regulated industry [s. 33(3)(c), ESC Act] • ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act] 	<ul style="list-style-type: none"> • in performing its functions and exercising its powers, the objective of the commission is to promote the long-term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act] • enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO] • provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO] • take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]

Continued next page

Table 1.1 (continued)

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

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

1.4 PREMO

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

Box 1.1 PREMO

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

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

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

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

The 2024 water price review will be the first time we assess Goulburn-Murray Water’s prices under PREMO.¹³ Our guidance required Goulburn-Murray Water to demonstrate its level of ambition to

¹³ Goulburn-Murray Water was regulated under the Water Charge Rules (2010) until June 30 2024 - <https://www.accc.gov.au/by-industry/water/water-charge-rules/goulburn-murray-water-decisions-under-part-6-of-the-water-charge-rules-2010/goulburn-murray-water-part-6-ceasing-decision>. These rules did not accommodate our

deliver value for money to its customers in its price submission across four of the five elements of PREMO: Risk, Engagement, Management and Outcomes. It will not be assessed against the Performance element during this review, because this is the first water price review where we have assessed Goulburn-Murray Water and so we do not have a set of Outcomes established under the PREMO framework from a previous review against which to measure performance.

Goulburn-Murray Water was required to self-assess against these four elements and propose a rating for its price submission as 'Leading', 'Advanced', 'Standard' or 'Basic'. Its proposed return on equity will then reflect its proposed PREMO rating. A 'Leading' submission has the highest return on equity, and a 'Basic' submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the Goulburn-Murray Water's justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.¹⁴

PREMO framework, hence we could not assess Goulburn-Murray Water against the PREMO elements in the 2020 water price review.

¹⁴ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 41–46. We do not rate a business higher than its self-rating, as the PREMO incentive framework is about the business putting forward its best offer and giving an honest assessment of its price submission.

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

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

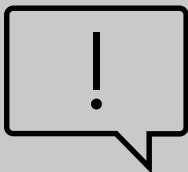
- Goulburn-Murray Water's price submission
- Goulburn-Murray Water's responses to our queries
- our consultants' reports
- written submissions from interested parties (a list of submissions is provided in Appendix A).

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

Our guidance included matters Goulburn-Murray Water must address in its price submission. Goulburn-Murray Water's price submission addressed most of these matters. Our preliminary assessment of these matters is provided in this draft decision.

We found Goulburn-Murray Water's price submission generally presented clear and comprehensive information to support its proposals. Goulburn-Murray Water also provided evidence that its engagement sought to capture the main priorities and concerns of customers, and that it has taken this feedback into account (see Section 3.1 on customer engagement).

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



Goulburn-Murray Water must submit a response to our draft decision and provide an updated financial model by 7 May 2024 (via email to water@esc.vic.gov.au). The response will be published on our website. We also invite other interested parties to make a submission.

We intend to make a price determination for Goulburn-Murray Water in June 2024.

2.1 Draft decision paper outline

This decision paper is structured around the steps we take to arrive at our price determination. In summary, these steps are:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Goulburn-Murray Water has committed to over the regulatory period (Chapter 3).
- Establish Goulburn-Murray Water's revenue requirement using a building block methodology (Chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (chapters 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14).

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

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

2.2 Regulatory period

Our draft decision is to approve a regulatory period of four years from 1 July 2024.

We are required to set the term of the regulatory period over which a water business's price determination will apply.¹⁵ Our guidance proposed that we set a four-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.¹⁶

¹⁵ This is a requirement of the WIRO, clause 9.

¹⁶ For detail on the reasons for using four years as the default regulatory period, see: Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 18.

Goulburn-Murray Water proposed a regulatory period of four years. Accordingly, consistent with the reasons outlined in our guidance, our draft decision proposes to set a regulatory period of four years.

3. Customer outcomes

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

This chapter examines:

- Goulburn-Murray Water’s engagement with its customers in preparing its price submission
- the customer outcomes Goulburn-Murray Water is committing to for the next regulatory period.

3.1 Customer engagement

Our guidance required Goulburn-Murray Water to engage with customers to inform its price submission. Our guidance also specified key principles to guide Goulburn-Murray Water’s engagement.¹⁷

We consider Goulburn-Murray Water’s engagement aligned with these principles in several ways. Goulburn-Murray Water:

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

More detail on Goulburn-Murray Water’s engagement is available in its price submission.¹⁸

¹⁷ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 20.

¹⁸ Goulburn-Murray Water’s price submission is available on our website at www.esc.vic.gov.au.

Goulburn-Murray Water provided evidence that its engagement influenced its proposals, which aligns with our objective to support the interests of consumers. For example, in its price submission, Goulburn-Murray Water proposed:

- outcomes that reflect the key findings from its engagement, including a new outcome on social responsibility in response to customer interest on environmental sustainability¹⁹
- changes to simplify drainage tariffs in response to feedback from customers that existing drainage tariffs were too complex²⁰
- new service standards, including one to alert urban water suppliers about potential water quality risks based on feedback of its significance to urban water corporation customers, and another to monitor the processing of groundwater applications in response to customer feedback advocating for reduced processing times²¹
- to explore options and feasibility of temporarily deactivating service points (that are not being used over multiple years) as a cost cutting measure, in response to strong support from customers that they would take up this arrangement if available.²²

Overall, our preliminary view is that Goulburn-Murray Water designed and delivered an engagement program that was well suited to most of its customers, its operating environment and the context of its diverse and remote communities.

Goulburn-Murray Water's engagement was sensitive to the experiences of its customers, particularly those affected by the 2022 floods and the coronavirus pandemic. It tailored its engagement, including a pause for three months in flood affected areas so customers could focus on recovery. It also provided several online participation opportunities both for meetings and feedback by using a dedicated engagement website with tools not used previously.

Goulburn-Murray Water's engagement was representative and inclusive, including of First Nations people and people experiencing vulnerability. Leaders of the Yorta Yorta, Taungurung and Dja Dja Wurrung Aboriginal parties were contacted for input on their preferred methods for engagement. Goulburn-Murray Water established a dedicated website to engage with people experiencing hardship and updated its business website for ease of access to information for all people, including those with a disability, which exemplified its efforts to include its diverse customer base.

¹⁹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 39

²⁰ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 79

²¹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 45

²² Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 27.

Goulburn-Murray Water's engagement with its established water services committees was influential on its price submission.²³ Eleven committees, which represent the views of customers across the service area and who access the different prescribed services, were involved early in the planning of the price review process on key aspects, including the development of the service plans and several workshops on tariffs and pricing. The committees' feedback assisted the business to gain a closer understanding of the issues and concerns of its customers and provided opportunities for these issues to inform the decision-making process.

We received 13 submissions from unregulated diverters who raised concerns regarding Goulburn-Murray Water's engagement with them.²⁴ Most submissions considered that the business's pricing proposals and engagement efforts did not address the unique needs and concerns on fees and service point costs for domestic and stock water customers. In its price submission, Goulburn-Murray Water has acknowledged this lack of satisfaction and committed to improve how it communicates with diversion customers, both on the nature of charges and on value for money.²⁵

In response to our requests, Goulburn-Murray Water provided us with additional information supporting its engagement with diverters on unregulated waterways including domestic and stock customer in the Upper Ovens.²⁶ The additional information shows that Goulburn-Murray Water reached out to diverters on unregulated waterways including Upper Ovens customers on licence renewals, the development of the service plan for diverters, and during its engagement consultation period.

Our guidance sets out assessment criteria which, among other things, includes consideration of how feedback received through engagement was considered by the business in reaching its proposals, and a justification for how it will address customer expectations that will not or cannot be met.

In giving effect to this, we would expect Goulburn-Murray Water to have more fully explored options raised by these customers before lodging its price submission to us. Our draft decision on

²³ Eleven water services committees with its membership representing the vast region took part in the engagement activities including the committee from diversions customers who source water from regulated and unregulated rivers and streams, groundwater bores and registered and licensed private dams within the catchments of the Ovens, King and Mid-Murray.

²⁴ Submissions to the 2024 Goulburn-Murray Water price review in relation to engagement matters were received from Ian Roy, Nick Legge, Cameron and Jan Reid, Paula D Hall, Samuel McIntosh, Christopher Maud, Rod Hall and five anonymous submissions between 14 November 2023 and 15 Dec 2023.

²⁵ Goulburn-Murray Water, *GWM Price Submission 2024*, September 2023, p. 26.

²⁶ Information included number of meetings delivered, information presented, date and location of meetings, number of attendees and minutes of the engagement activities specific to diverters on unregulated waterways including domestic and stock customers from Upper Ovens.

service point fees for unregulated diverters also identifies issues Goulburn-Murray Water is required to address on this charge, in response to our draft decision – refer to chapter 10.

We recognise the perspectives raised by unregulated diverters on Goulburn-Murray Water's engagement and have weighed these against factors in favour of a 'Standard' rating.

After considering the entirety of Goulburn-Murray Water's engagement across its diverse customer base, our preliminary view is we agree with its self-rating of 'Standard' for its price submission engagement. This is based on the overall suitability of its engagement program for the majority of its services, and the level of influence afforded to customers particularly at the early planning stages through its engagement with its water services committees.

See Chapter 16 for more detail on our PREMO assessment of Goulburn-Murray Water's price submission.

The assessment of Goulburn-Murray Water's service point fees (Section 10) provides detail on matters unregulated diverters raised in relation to Goulburn-Murray Water's price submission. We welcome feedback from diverters on our draft decision on service point fees.

3.2 Outcomes

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

3.2.1 Outcome commitments for 2024–28

Goulburn-Murray Water engaged with its customers to establish and refine its outcomes for the period from 1 July 2024 to 30 June 2028. It proposed to deliver six customer outcomes:

- reliable supply
- credible business
- fair pricing
- efficient operations
- responsible services
- socially responsible.²⁷

Among the key initiatives to deliver on its commitments, Goulburn-Murray Water will continue with projects to modernise its assets and increase investment in IT cyber security to ensure its systems

²⁷ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 40.

and data remain secure. It will decrease costs in other areas to pass savings on to customers, resulting in reduced typical bills (on average) for gravity irrigation customers, excluding inflation.²⁸

It is also proposing a new ‘socially responsible’ outcome following customer feedback, which will deliver on environmental and cultural outcomes that matter to its customers and to Traditional Owners and communities.²⁹

3.2.2 Our assessment of measures and targets

Goulburn-Murray Water proposed a set of 27 measures and targets that it will use to report on performance across the six outcomes. These are set out in Appendix 5 on pages 105 to 106 of its price submission. Performance against these measures will inform our assessment during future price reviews.

We have assessed Goulburn-Murray Water’s proposed measures against the criteria set out in our guidance which states that proposed output measures for each outcome must:

- be relevant to, or be a reasonable proxy for, the delivery of the outcome they represent
- be measurable
- be clearly defined and unambiguous
- be easy for customers to understand
- have performance targets listed for each year of the regulatory period.³⁰

Evidence provided by Goulburn-Murray Water demonstrates that its measures and targets were developed in consultation with its customers, and that they are supported by its customers. Its performance measures and targets were developed in response to customer feedback, through its customer Water Service Committee, various customer workshops, and via its ‘YourSay@GMW’ surveys. We received a customer submission commending Goulburn-Murray Water for incorporating customer feedback into its outcomes.³¹

However, we received six submissions from unregulated diverters raising concerns that Goulburn-Murray Water’s proposed outcomes do not adequately capture the requirements of domestic and stock water customers, particularly for its ‘fair pricing’ outcome.³² Our draft decision

²⁸ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 25.

²⁹ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 44.

³⁰ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 23.

³¹ Samuel McIntosh’s submission to the Essential Services Commission on Goulburn-Murray Water’s 2023 price submission, 8 December 2023.

³² Anonymous submission to the Essential Services Commission on Goulburn-Murray Water’s 2023 price submission, 30 November 2023; Ian Roy’s submission to the Essential Services Commission on Goulburn-Murray Water’s 2023

on service point fees addresses several issues raised by unregulated diverters on the tariff structure and level of these fees – refer to Chapter 10.

Generally, we consider Goulburn-Murray Water's intentions are clear, and its measures and targets will provide a sound basis to track performance and delivery against each outcome. However, some of Goulburn-Murray Water's proposed outcome measures and targets were not presented in a manner consistent with our guidance requirements. We have worked with Goulburn-Murray Water to finalise its outcomes and measures, and consider its final outcome set complies with our guidance requirements.

Goulburn-Murray Water has committed to reporting annually to customers via its website on how it has performed against its outcome commitments.³³

Based on the above, our draft decision accepts Goulburn-Murray Water's self-assessment of 'Standard' for the 'Outcome' element of PREMO, which is discussed further in Chapter 16.

3.3 Service standards related to service reliability and faults

Service standards are a common set of services applicable to all Victorian consumers required under clause 1.5 of the *Water Industry Standard – Rural Customer Service* (Water Industry Standard). Each water business must specify its own service levels against each of these service standards. Rather than performance measures, these service standards and corresponding service levels are the minimum level of service customers can expect to receive.

Goulburn-Murray Water's proposed service standards can be found on pages 45 to 46 of its price submission.

Goulburn-Murray Water proposed retaining the majority of its current service standards with some wording changes for consistency.³⁴ It has proposed removing a service standard for a service now provided by the Department of Environment, Land, Water and Planning.³⁵ It proposed replacing one service standard relating to complaints with a service measure that will inform its performance against Outcome 2 - Credible Business.³⁶

price submission, 1 December 2023; Anonymous submission to the Essential Services Commission on Goulburn-Murray Water's 2023 price submission, 3 December 2023; Cameron and Jan Reid's submission to the Essential Services Commission on Goulburn-Murray Water's 2023 price submission, 04 December 2023; Paula D Hall's submission to the Essential Services Commission on Goulburn-Murray Water's 2023 price submission, 06 December 2023; Rod Hall's submission to the Essential Services Commission on Goulburn-Murray Water's 2023 price submission, 14 December 2023.

³³ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 40.

³⁴ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 46.

³⁵ <https://data.water.vic.gov.au>

³⁶ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 42.

All proposed changes were informed by customer feedback gathered in its initial engagement stages, which was then widely tested.

Goulburn-Murray Water proposed to:

- introduce a standard to maintain the channel level flow rate within a 40mm range of the required supply level (gravity irrigation supply)
- introduce a service standard in relation to advising urban water suppliers of potential water quality risk (bulk water quality)
- introduce a service standard to monitor the processing of groundwater applications (general licensing)
- remove service standard 'diversions customers have access to water resource monitoring data within two weeks of data being submitted by monitoring contractor'
- remove service standard 'complaints process managed to the satisfaction of the customer'.

Based on the above, our preliminary assessment is that the service standards relating to reliability and faults proposed by Goulburn-Murray Water comply with the requirements of the Water Industry Standard.

Service standards are approved in our Water Industry Standard. Accordingly, in early 2024–25, we will update the Water Industry Standard to reflect approved service standards.

3.4 Guaranteed service levels

Guaranteed service levels define a water corporation's commitment to deliver a specified level of service. Rural water businesses, such as Goulburn-Murray Water may elect whether or not to implement a scheme.³⁷

Similar to past price reviews, Goulburn-Murray Water has elected to continue without a Guaranteed Service Level scheme for this four-year pricing period from 1 July 2024. This is consistent with the approach taken by Victoria's other water business that provides only rural water services, which we assessed and approved in 2023.³⁸

³⁷ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 25.

³⁸ Essential Services Commission 2023, *Southern Rural Water final decision*, 23 June 2023.

4. Revenue requirement

The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.³⁹ Along with forecast demand, it is an input to calculating prices.

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

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

Our draft decision is to approve a revenue requirement of \$480.3 million for Goulburn-Murray Water. This figure is higher than Goulburn-Murray Water's proposed revenue requirement of \$474.2 million, due to our update to the long-term inflation estimate.

Goulburn-Murray Water proposed a revenue requirement of \$474.2 million over a four-year period starting 1 July 2024. Our draft decision approves a revenue requirement of \$480.3 million (Table 4.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure. This amount is higher than Goulburn-Murray Water's proposed revenue requirement as we have adjusted our long-term inflation rate.

³⁹ We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Goulburn-Murray Water in the regulatory period from 1 July 2024. We had regard to their views in arriving at our draft decision.

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

Table 4.1 Draft decision on Goulburn-Murray Water's revenue requirement
\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	92.3	92.7	93.4	93.3	371.6
Return on assets	13.2	14.1	14.8	15.7	57.9
Regulatory depreciation	12.5	13.2	13.9	14.4	54.1
Adjustments from last period ^a	-0.8	-0.8	-0.8	-0.8	-3.4
Tax allowance	-	-	-	-	-
Draft decision – revenue requirement	117.2	119.2	121.3	122.6	480.3

Note: Numbers have been rounded.

^a return of funds from surplus adjustments to bulk water charges (MDBA)

Table 4.2 summarises how our draft decision on Goulburn-Murray Water's revenue requirement (row D) differs to the revenue requirement proposed by Goulburn-Murray Water in its price submission (row A). Where our draft decision differs from Goulburn-Murray Water's price submission in relation to a component of the revenue requirement, the adjustment we propose is shown in Table 4.2. The main adjustments relate to Goulburn-Murray Water's non-controllable operating expenditure and return on assets. These changes reflect our adjusted long-term inflation estimates.

Our final decision on Goulburn-Murray Water's revenue requirement will be based on the latest available information. Accordingly, as well as responding to our draft decision and providing an updated price schedule, Goulburn-Murray Water must update its revenue requirement and prices to reflect our updates to estimates for the cost of debt and inflation, which we will advise in April 2024.

There may be changes in laws or government policy before we make a price determination. If any such changes occur between the draft decision and the price determination that impact on its forecast costs and the revenue requirement, Goulburn-Murray Water should update its price submission and provide us with an updated financial model. It also should notify us of any material

changes that impact its forecast costs, revenue requirement or prices (including demand). Any updates to its submission or pricing model will be made publicly available on our website.

Table 4.2 Our proposed adjustments to Goulburn-Murray Water’s proposed revenue requirement

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn-Murray Water’s proposed revenue requirement	115.7	117.7	119.8	121.0	474.2
B. Operating expenditure	0.0	0.0	0.0	0.0	0.1
C. Return on assets	1.5	1.5	1.5	1.5	6.0
D. Draft decision – revenue requirement (A+B+C)	117.2	119.2	121.3	122.6	480.3

4.1 Operating expenditure

Our draft decision is to accept Goulburn-Murray Water’s forecast operating expenditure of \$371.64 million, after adjusting for long-term inflation.

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

We assess both:

- controllable operating expenditure – comprising all costs that can be directly or indirectly influenced by a water corporation’s decisions
- non-controllable operating expenditure – comprising all costs that cannot be directly or indirectly influenced by a water corporation’s decisions.

We engaged FTI Consulting to provide expert advice to inform our assessment of controllable operating expenditure. FTI Consulting’s report on its assessment of Goulburn-Murray Water’s expenditure forecast is available on our website.⁴⁰

⁴⁰ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024.

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

Table 4.3 Draft decision – operating expenditure

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	75.79	76.34	77.05	77.00	306.18
Non-controllable operating expenditure	16.47	16.40	16.33	16.26	65.46
Murray Darling Basin Authority contribution ^a	14.00	14.00	14.00	14.00	14.00
Environmental contribution ^b	2.39	2.32	2.25	2.18	9.14
Licence fees – Essential Services Commission ^c	0.08	0.08	0.08	0.08	0.32
Draft decision – operating expenditure	92.25	92.74	93.38	93.27	371.64

Notes: Numbers have been rounded. ^a This contribution is paid by Goulburn-Murray Water to the Murray Darling Basin Authority for managing works that are undertaken across the basin through the Joint Program contribution.

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

Table 4.4 summarises how our draft decision on Goulburn-Murray Water’s operating expenditure (row D) and its two components differ from the operating expenditure proposed by Goulburn-Murray Water in its price submission (row A). Rows B and C of the table summarise our proposed adjustments to Goulburn-Murray Water’s proposed controllable and non-controllable operating expenditure.

Details of our assessment of Goulburn-Murray Water’s proposal are included in Section 4.1.1 (controllable operating costs) and Section 4.1.2 (non-controllable operating costs).

We consider the operating expenditure proposed in Goulburn-Murray Water’s price submission and our draft decision reflects the expenditure that a prudent service provider would incur when acting efficiently to achieve the lowest cost in delivering the outcomes specified in Goulburn-Murray Water’s price submission.

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

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

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn-Murray Water’s proposed total operating expenditure	92.24	92.72	93.35	93.23	371.54
B. Our total proposed adjustments to controllable operating costs	0.00	0.00	0.00	0.00	0.00
C. Our total proposed adjustments to non-controllable operating costs C1	0.01	0.02	0.03	0.04	0.11
C1 – Inflation update impact on environmental contribution forecast	0.01	0.02	0.03	0.04	0.11
D. Draft decision - total operating expenditure (D = A - B - C)	92.25	92.74	93.38	93.27	371.64

Notes: Our proposed adjustments are the differences between our draft decision and what Goulburn-Murray Water proposed in its price submission. Row A shows the total operating expenditure proposed by Goulburn-Murray Water in its price submission. We have arrived at our draft decision (row D) by proposing the relevant adjustments to non-controllable operating costs shown in row C (and disaggregated in rows C1). Numbers have been rounded.

4.1.1 Controllable operating expenditure

Goulburn-Murray Water proposed a total forecast controllable operating expenditure of \$306.2 million over a four-year regulatory period. For the reasons set out below, we propose to accept Goulburn-Murray Water’s forecast operating expenditure for the 2024–28 regulatory period.

Goulburn-Murray Water’s forecast controllable operating expenditure for the period from 1 July 2024 is estimated through a series of steps:

- Establish a controllable operating expenditure baseline – the baseline comprises the efficient recurring costs from the last full year of data (2022-23) after non-controllable expenditure and one-off items are removed, and normally occurring items are added in.
- Apply a growth rate for operating expenditure for the regulatory period – assumed by Goulburn-Murray Water to be 0.0 per cent per year.
- Make adjustments for additional costs or cost savings expected in future years.

4.1.1.1 Baseline controllable operating expenditure

Goulburn-Murray Water proposed a controllable operating expenditure baseline of \$76.9 million, after removing a net figure of \$3.1 million in non-recurring operating expenditure that occurred in 2022-23. Goulburn-Murray Water's proposed baseline is \$0.3 million (or 0.4 per cent) lower than the benchmark figure of \$77.2 million of controllable operating expenditure for 2022-23 used for our 2020 price determination.

Our expenditure consultant sought information to verify the \$3.1 million in net adjustments Goulburn-Murray Water made to confirm the prudence and efficiency of its baseline.

This net adjustment is comprised of an \$8.8 million reduction in costs (mainly due to the removal of non-recurring costs that the business incurred during its response to the major flooding event in its region in October 2022) and the addition of \$5.7 million in regular costs the business would usually incur, but that were delayed or reprioritised during its flood response. The largest component of the \$5.7 million in regular costs was \$3.6 million in regular labour expenses that had been redirected to the flood response.

Our expenditure consultant found Goulburn-Murray Water's substantiation of these adjustments to be reasonable, and confirmed the \$5.7 million added back into the baseline represents recurrent prudent and efficient costs.⁴¹

Accordingly, our expenditure consultant recommended accepting Goulburn-Murray Water's proposed baseline with no adjustments required.

We have reviewed Goulburn-Murray Water's proposal and the advice from our expenditure consultant and consider Goulburn-Murray Water's proposal reflects an efficient baseline cost to forecast annual operating expenditure for the purpose of our draft decision.

4.1.1.2 Efficiency improvement and growth rate

Instead of proposing an annual efficiency improvement and growth rate to apply to its baseline operating expenditure, Goulburn-Murray Water has forecast increases in costs (\$13 million) and expected cost savings (\$14.4 million) as forecast cost adjustments over the next regulatory period. We consider this is an appropriate approach for a rural water business with little growth movement in customer numbers.

⁴¹ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024, pp. 18–19.

Goulburn-Murray Water's proposal effectively offsets all anticipated cost increases through identified efficiency gains, which was a stated key objective in preparing its price submission.⁴² The proposed adjustments are discussed in more detail in section 4.1.1.3 below.

This approach is consistent with the approach taken by Goulburn-Murray Water in its 2020 water price review, in which it applied a cost growth rate of 0.0 per cent, and proposed productivity savings of \$45.7 million (\$53.1 million, \$23-24 real) across the 2020–24 regulatory period. Goulburn-Murray Water has achieved the controllable operating expenditure productivity savings it proposed in its 2020 price submission.

The cost savings forecast by Goulburn-Murray Water across the 2024–28 regulatory period average \$3.6 million per year, which is the equivalent of an average efficiency improvement rate of 1.2 per cent per annum.

4.1.1.3 Cost adjustments

Goulburn-Murray Water has proposed additional forecast operating expenditure above the annual baseline, including:

- increases in material costs (\$4.2 million)
- information technology and cyber security systems (\$4.1 million)
- cyclical expenditure: dam safety reviews and consultant costs (\$3.7 million)
- increases in insurance costs (\$1.1 million).

The above costs represent an additional \$13.0 million over the regulatory period, or an average of \$3.3 million per annum.

Our expenditure consultant reviewed each of the proposed forecast variations above the baseline and requested further information from Goulburn-Murray Water to justify the increased costs. Our consultant considered the proposed increases were all reasonable and supported by sound rationale. Our consultant found that it represented prudent and efficient expenditure over the next regulatory period, and did not recommend any adjustments.⁴³

Further, as noted in section 4.1.1.2, Goulburn-Murray Water has also forecast \$14.4 million (an average of \$3.6 million per annum) in operating expenditure efficiencies to be delivered through identified costs savings over the regulatory period, including:

- labour efficiencies (\$7.3 million) from the removal of the business's two per cent staff vacancy rate assumption and weekend work

⁴² Goulburn-Murray Water, 2024 water price submission, September 2023, p. 5.

⁴³ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024, pp. 21–26.

- labour efficiencies (\$2.5 million) from reductions in the use of labour hire, contract labour, and overtime
- a further \$0.9 million to be delivered through the consolidation of operating sites, solar energy projects, reduced forecast training budgets and already realised savings.

Goulburn-Murray Water has also removed pay-on-time discounts which, according to Goulburn-Murray Water, will lower its forecast controllable operating expenditure by \$3.8 million across the next regulatory period. Our expenditure consultant reviewed information that underpinned these forecast cost savings and stated that Goulburn-Murray Water had a clear and targeted basis for forecasting each of the savings it identified above. It also noted that Goulburn-Murray Water stated it would implement a reporting framework to manage its achievement of these objectives.⁴⁴

We have considered the advice from our expenditure consultant, and Goulburn-Murray Water's proposal. We consider Goulburn-Murray Water's approach to forecasting its operating expenditure is consistent with the requirements of our guidance. Our preliminary position is therefore that we are satisfied that its proposed forecast represents efficient controllable operating expenditure. There is evidence that Goulburn-Murray Water has significantly tested its controllable expenditure requirements, resulting in flat (excluding inflation) controllable operating expenditure benchmarks across the 2024–28 regulatory period.

4.1.2 Non-controllable operating expenditure

Our process for establishing non-controllable operating expenditure involves:

- obtaining the most recent information from the relevant regulatory authorities on their licence fees and the environmental contribution
- adjusting the forecasts proposed by Goulburn-Murray Water where required.

The values we have adopted for our draft decision are set out above in Table 4.3.

Goulburn-Murray Water has proposed \$65.4 million in non-controllable operating expenditure over the 2024–28 regulatory period. This is a decrease of \$3.7 million compared to the 2020–24 regulatory period, driven by a \$2.1 million decrease in the Murray Darling Basin Authority contribution, and a decrease of \$1.6 million due to forecast decreases in the real value of the environmental contribution.

Our guidance paper sets out our approach for Goulburn-Murray Water to forecast its non-controllable operating costs. We consider the business should forecast its Essential Services Commission licence fee to remain flat in real terms, and for the environmental contribution to

⁴⁴ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024, pp. 26–27.

remain flat in nominal terms (decline in real terms) across the 2024–28 regulatory period. Goulburn-Murray Water has followed this approach in its price submission.

Prior to our draft decision we have updated our forecast inflation rate from 3.5 per cent per annum, to 3.0 per cent per annum. This has increased the forecast real value of the environmental contribution by \$0.1 million (1.2 per cent) across the next regulatory period.⁴⁵ We have adopted this updated figure for our draft decision (see Table 4.4).

For the Murray Darling Basin Authority contribution, Goulburn-Murray Water has stated that it has agreed with the Department of Energy, Environment and Climate Action that a forecast fixed annual amount of \$14.0 million (real) per annum will provide a predictable price path for customers.⁴⁶

For the purpose of calculating the revenue requirement for our draft decision, we have accepted Goulburn-Murray Water's proposed non-controllable operating expenditure, noting the impact of our update to long-term inflation on Greater Western Water's forecast environmental contribution.

Prior to making our final decision, we will update the forecast Essential Services Commission licence fee, environmental contribution and Murray Darling Basin Authority contribution values with the relevant regulatory bodies and adjust where necessary for the latest inflation and external bulk charges data.⁴⁷

4.2 Capital expenditure

Our draft decision is to accept Goulburn-Murray Water's proposed forecast capital expenditure of \$114.6 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Goulburn-Murray Water's forecast capital expenditure and supporting information is provided on pages 58 to 67 of its price submission. Figure 4.2 shows Goulburn-Murray Water's actual gross capital expenditure for 2019-20 and the first three years of the current regulatory period (2020-21 to 2022-23) and forecast gross capital expenditure from 2023-24 to

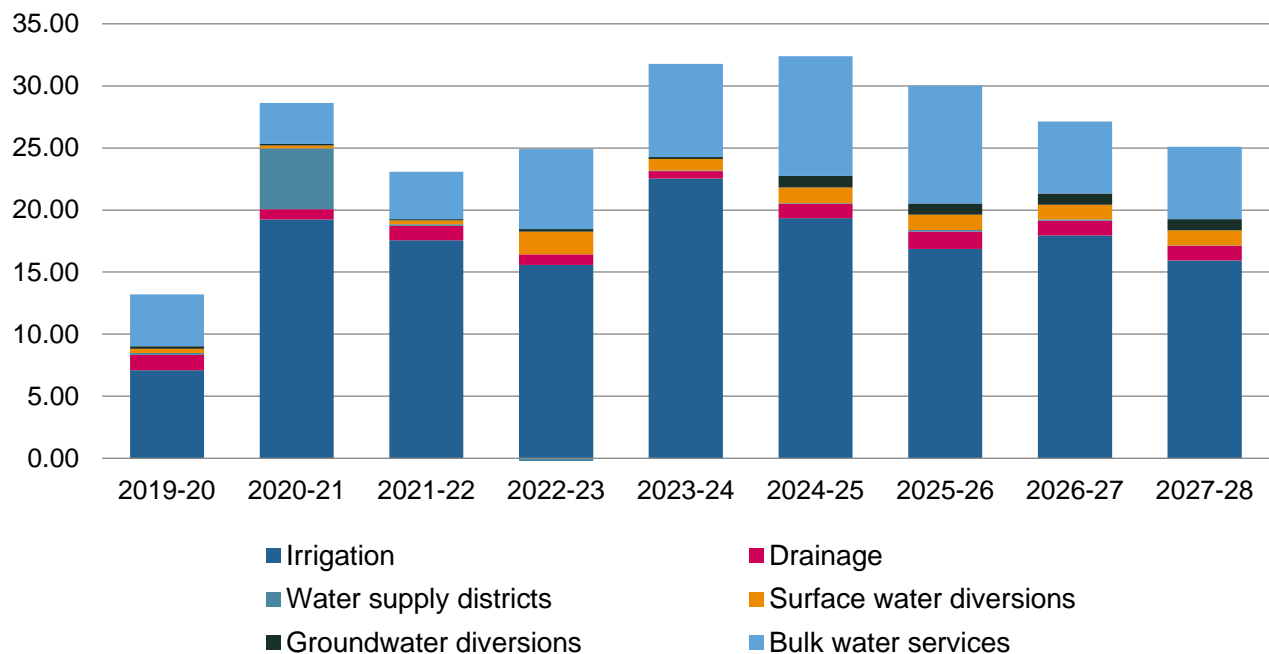
⁴⁵ The environmental contribution is set as a flat nominal value in four-year tranches. The nominal value must be deflated by our forecast inflation to produce a real value, which is then subject to the annual inflation adjustments. A lower long-term inflation forecast reduces this deflation amount, producing a higher real value.

⁴⁶ Goulburn-Murray Water, 2024 water price submission, September 2023, p. 56.

⁴⁷ We anticipate the Department of Energy, Environment and Climate Action will publish the environmental contribution values to apply to each water business from 1 July 2024 during May 2024. Our final decision will include the latest values for Goulburn-Murray Water.

2027-28. The first four years of actual expenditure shown in Figure 4.2 (2019-20 to 2022-23) is relevant to the calculation of the closing regulatory asset base discussed in Section 4.3.1.

Figure 4.2 Gross capital expenditure by service category
\$ million 2023-24



Note: This graph shows actual figures for 2019–20 to 2022–23, and Goulburn-Murray Water’s forecasts for 2023–24 to 2027–28.

We engaged FTI Consulting to provide expert advice to inform our assessment of Goulburn-Murray Water’s capital expenditure. FTI Consulting’s report on its assessment of Goulburn-Murray Water’s expenditure forecast is available on our website.⁴⁸

4.2.2 Forecast Capital Expenditure

For the reasons set out below, our draft decision is to accept the forecast capital expenditure of \$114.6 million proposed by Goulburn-Murray Water for the purpose of calculating its revenue requirement.

Goulburn-Murray Water’s price submission provided evidence that its forecasts for capital expenditure are prudent and efficient. Its total proposed capital expenditure is \$6.7 million (6.2 per cent) higher than capital expenditure in the current 2020–24 period. This is linked to proposed

⁴⁸ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024.

increases in improvement/compliance expenditure compared to the current period (including expenditure on digital and cyber security strategies) and expenditure to deliver renewals of existing assets.

Goulburn-Murray Water's price submission provided evidence that its forecasts for capital expenditure are prudent and efficient. Its total proposed capital expenditure is \$6.7 million (6.2 per cent) higher than capital expenditure in the current 2020–24 period. This is linked to proposed increases in improvement/compliance expenditure compared to the current period (including expenditure on digital and cyber security strategies) and expenditure to deliver renewals of existing assets.

Our expenditure consultant requested selected documents from Goulburn-Murray Water as a representative sample to demonstrate its asset management processes and justification for its capital expenditure program, including its asset management strategy, Digital and Cyber Security Strategies, and major project and program business cases.⁴⁹ Based on the sample of documents reviewed, FTI's workshop with the business, and Goulburn-Murray Water's responses to questions, our consultant found that Goulburn-Murray Water has a robust approach for developing project scope, the timing of works and cost estimates.

Our consultant reviewed information for four major projects and six major programs, and recommended no adjustments to Goulburn-Murray Water's forecast capital expenditure.⁵⁰ We agree with our consultant's view and we consider that, for the purposes of our draft decision, the prudence and efficiency of the expenditure has been justified, consistent with our guidance.

Our preliminary view is that the planned capital expenditure program is achievable given Goulburn-Murray Water's past track record in delivering its capital expenditure program. Over the current 2020–24 regulatory period, Goulburn-Murray Water is expected to deliver most of its planned major projects to schedule.⁵¹

Goulburn-Murray Water has identified that it has excluded uncertain projects from its forecast capital program for 2024–28 period. But it has not identified any specific project costs it has excluded where there is uncertainty in timing, cost, scope and benefits of capital expenditure. For any material additional capital expenditure above the benchmark allowance in the 2024–28

⁴⁹ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024, pp. 32–37, 42.

⁵⁰ FTI Consulting, *Goulburn-Murray Water: Review of Expenditure Forecasts - 2024 Water Price Review*, February 2024, pp. 37–41.

⁵¹ Goulburn-Murray Water deferred its Buffalo outlet and trash racks project, Laanecoorie spillway and outlets project and dam safety projects. It instead constructed fishways at Taylors and Teagarden Creek.

regulatory period that Goulburn-Murray Water proposes to include in the regulatory asset base at the end of the regulatory period, it should note the following:

- Goulburn-Murray Water will need to demonstrate the prudence and efficiency of these costs if they are indeed incurred during the 2024–28 regulatory period if seeking to include them in the regulatory asset base for the 2028–32 price review.
- Deviations from forecasted capital expenditure during the 2024–28 regulatory period will form a key part of our assessment of the ‘Performance’ element of PREMO at the next price review.

We have reviewed Goulburn-Murray Water’s proposals and the advice from FTI Consulting. We agree with our consultant’s assessment and consider Goulburn-Murray Water’s approach to forecasting its capital expenditure is consistent with the requirements of our guidance and the principles in the Water Industry Regulatory Order 2014.⁵²

Based on this, our draft decision for total gross capital expenditure is to accept Goulburn-Murray Water’s proposed benchmark. The benchmark we propose to adopt is set out in Table 4.6.

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

4.3 Regulatory asset base

A water corporation’s regulatory asset base is the value of the corporation’s assets for regulatory purposes.⁵³ The regulatory asset base is used to estimate the return on assets (discussed in Section 4.4), and regulatory depreciation (discussed in Section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Goulburn-Murray Water to propose:

- the closing value of its regulatory asset base at 30 June 2023 (using actual data)
- the opening value of its regulatory asset base at 1 July 2024 (calculated according to the criteria outlined in the guidance)

⁵² Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 32-37.

⁵³ These values were set initially for the water corporations by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

- the forecast value of its regulatory asset base for each year of the regulatory period (2024–25 to 2027–28), in accordance with the prudency criteria outlined in the guidance.

4.3.1 Closing regulatory asset base

Our draft decision is to accept Goulburn-Murray Water's closing regulatory asset base.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2019–20 to 2022–23.⁵⁴ This helps to ensure prices reflect the actual net expenditure of a water corporation.⁵⁵

Goulburn-Murray Water's proposed closing asset base at 30 June 2023 and supporting calculations are provided on page 49 of its price submission.⁵⁶ Goulburn-Murray Water's proposed closing regulatory asset base is consistent with its audited regulatory accounts information over the period 2019–20 to 2022–23.

We compared Goulburn-Murray Water's actual net capital expenditure for 2019–20 to 2022–23 with the forecast used to approve maximum prices for the period from 1 July 2020. Typically, we undertake a prudency and efficiency review where a water business's net capital expenditure is more than 10 per cent above the forecast used to approve maximum prices. We consider this approach is reasonable given capital expenditure can be 'lumpy' in nature.

Goulburn-Murray Water's net capital expenditure over the period from 2019–20 to 2022–23 was \$73.1 million. This is \$22.5 million or 23.5 per cent lower than the forecast used to approve maximum prices for the period from 1 July 2020.

Goulburn-Murray Water explained this variance was caused by its deferral of some customer funded bulk water projects due to the coronavirus pandemic and flooding events in the regulatory period. With the availability of government partner funding, Goulburn-Murray Water then brought forward the construction of fishways at Taylors and Teagarden Creek.⁵⁷ Goulburn-Murray Water asserted this variation in net capital expenditure did not result in any over recovery of revenue in the current period.⁵⁸

⁵⁴ See Section 4.2 for a discussion of Goulburn-Murray Water's capital expenditure.

⁵⁵ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water corporation's water, sewerage or recycled water networks.

⁵⁶ Available at www.esc.vic.gov.au.

⁵⁷ Government contributions are not included in net capital expenditure.

⁵⁸ Goulburn-Murray Water, email response to request for information, 19 January 2024.

We acknowledge Goulburn-Murray Water's explanation, and as this variance is well below the 10 per cent threshold noted above, our draft decision proposes to reflect the \$73.1 million in the closing regulatory asset base.

We consider Goulburn-Murray Water calculated its closing regulatory asset base in accordance with the requirements of our guidance. For these reasons, our draft decision is to accept Goulburn-Murray Water's proposed closing regulatory asset base for 30 June 2023 of \$459.7 million.

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

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

\$ million 2023–24

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

Note: Numbers have been rounded.

4.3.2 Forecast regulatory asset base

Our draft decision is to accept Goulburn-Murray Water’s proposed forecast regulatory asset base.

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

Our draft decision is to accept Goulburn-Murray Water’s proposed forecast regulatory asset base because it was calculated consistently with the requirements of our guidance. Table 4.6 sets out our draft decision on Goulburn-Murray Water’s forecast regulatory asset base from 1 July 2024.⁵⁹ Our assessments of the components of the forecast regulatory asset base are outlined in different sections of this draft decision paper as follows:

- Section 4.2 (capital expenditure)
- Section 4.5 (regulatory depreciation).

⁵⁹ Our guidance required Goulburn-Murray Water to provide an estimate of the components of its regulatory asset base for 2023–24. This was so we could assess the opening asset base for 1 July 2024. Our guidance noted that where the 2023–24 forecast for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2020 price determination, the lower amount must be used. The estimates for 2023–24 will be confirmed at the price review following the 2023 water price review. Essential Services Commission 2022, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 38.

Table 4.6 Draft decision – forecast regulatory asset base (RAB)
\$ million 2023–24

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

Note: Numbers have been rounded.

4.4 Rate of return

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

4.4.1 Cost of debt

Our draft decision is to accept the cost of debt proposed by Goulburn-Murray Water.

Our guidance required Goulburn-Murray Water to use estimates of the cost of debt provided by the commission to estimate its revenue requirement. Goulburn-Murray Water used the cost of debt values we specified to calculate its revenue requirement. For this reason, as set out in Table 4.7, our draft decision is to accept the cost of debt proposed by Goulburn-Murray Water, noting that the cost of debt estimates will be updated following the release of the Reserve Bank of Australia data series.

Table 4.7 Draft decision – cost of debt

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

Note: Numbers have been rounded. ^a Estimated cost of debt – we will update the 2023-24 figure before the final decision and price determination.

4.4.2 Return on equity

Our draft decision is to adopt a return on equity of 4.1 per cent, which reflects Goulburn-Murray Water’s ‘Standard’ PREMO self-rating.

Under our PREMO incentive mechanism, the return on equity we adopt to calculate the revenue requirement is linked to a business’s PREMO rating.⁶⁰ As outlined in our guidance, the return on equity we adopt depends on a water corporation’s self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the corporation’s self-rating and our rating.⁶¹ We reviewed the return on equity values in the matrix against the regulatory decisions adopted by other water regulators in Australia. We consider that the values in our matrix reflect the medium-term real rates of return.⁶²

Goulburn-Murray Water rated its price submission as ‘Standard’. Based on this PREMO self-rating, Goulburn-Murray Water proposed a return on equity of 4.1 per cent per annum. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Standard’.⁶³

⁶⁰ See Chapter 7 for an explanation of PREMO and our assessment of Goulburn-Murray Water’s PREMO rating.

⁶¹ Essential Services Commission 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, pp. 41–42.

⁶² We will continue to monitor market conditions and may amend the return on equity matrix values to reflect any changes to the medium-term outlook prior to releasing our final decision. We have had regard to the return on equity adopted by interstate regulators in the following publications: Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW’s rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water’s water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; ESCOSA SA Water Regulatory Determination January 2024, Draft Decision: Statement of reasons; Queensland Competition Authority (QCA), *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Queensland Competition Authority (QCA), *Final Report - Gladstone Area Water Board price monitoring 2020–25*, June 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater’s prices and services for the period 1 July 2022 to 30 June 2026*, May 2022

⁶³ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 42.

As outlined in Chapter 16, our draft decision is to agree with Goulburn-Murray Water's PREMO self-rating and therefore to adopt its proposed return on equity.

4.5 Regulatory depreciation

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

Regulatory depreciation is a component of Goulburn-Murray Water's revenue requirement and is also an input to calculating the regulatory asset base. Goulburn-Murray Water's forecast regulatory depreciation was calculated using a straight-line depreciation.⁶⁴ We noted in our guidance that we prefer this approach.⁶⁵ For the 2024–28 regulatory period, the total proposed depreciation is \$54.1 million.

Goulburn-Murray Water calculated regulatory depreciation in a manner consistent with our guidance. For this reason, our draft decision proposes to accept Goulburn-Murray Water's forecast regulatory depreciation.

4.6 Tax allowance

Our draft decision is to adopt no tax allowance for the 2024–28 regulatory period.

The tax allowance is a component of the revenue requirement. Goulburn-Murray Water has proposed no tax allowance in its revenue requirement for the 2024–28 regulatory period.⁶⁶ Our draft decision is to accept the forecast as it was calculated consistently with the method required by our guidance.⁶⁷

⁶⁴ For the period from 2024-25 to 2027-28, Goulburn-Murray Water proposed a regulatory depreciation of \$54.1 million.

⁶⁵ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 39

⁶⁶ Goulburn-Murray Water is forecasting a negative pre-tax net income arising from significant tax losses brought forward from previous years, which results in a zero-tax liability.

⁶⁷ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 47–48.

5. Demand

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

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

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

Goulburn-Murray Water's demand forecasts are set out on pages 68 to 77 of its price submission and are also included in its financial model.⁶⁸

Our draft decision is to accept Goulburn-Murray Water's demand forecasts for the purpose of approving maximum prices, because they were developed consistently with the requirements of our guidance – we consider they have used the best available estimates derived from appropriate forecasting methodology.⁶⁹

⁶⁸ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 68–77.

⁶⁹ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp.48–49.

6. Form of price control

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

Our guidance indicated we would have particular regard to whether a water corporation proposed to continue its existing form of price control or introduce a new form.⁷⁰

Goulburn-Murray Water proposed a revenue cap form of price control as set out on page 51 of its price submission. It also proposed a rebalancing constraint of ± 10 per cent to apply to all its prescribed services. This is the same as Goulburn-Murray Water's current approach.⁷¹

Around 90 per cent of Goulburn-Murray Water's costs and prices are fixed so the potential risk of annual price variations is limited under its proposed form of price control and rebalancing constraint. We consider Goulburn-Murray Water's current revenue cap is an appropriate form of control for a rural water business because it helps to ensure price stability.

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

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

⁷⁰ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 49.

⁷¹ We note that rebalancing constraints apply on: the weighted average price movement; tariffs and not on bills; on real price changes and not nominal price changes. Source: Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, pp. 49-50.

7. Irrigation and drainage tariffs

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

Goulburn-Murray Water provides gravity irrigation and drainage services to the Goulburn-Murray irrigation district (GMID) which covers 6 irrigation districts, namely Central Goulburn, Loddon Valley, Murray Valley, Rochester, Torrumbarry and Shepparton. Goulburn-Murray Water also provides pumped irrigation and drainage services to customers in the Nyah, Tresco and Woorinen pumped irrigation districts, and drainage services to customers in Tyntynder.⁷²

Goulburn-Murray Water's proposed tariffs are set out on pages 78 to 103 of its price submission.

7.1 Tariff structures

7.1.1 Irrigation

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

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

Our draft decision is to accept Goulburn-Murray Water's proposed irrigation tariff structures, on the basis that they are generally a continuation of Goulburn-Murray Water's current approach, otherwise meet the criteria in our guidance and are generally supported by its customers.⁷³

7.1.2 Drainage

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

Goulburn-Murray Water proposed to:

- reduce the number of surface and subsurface drainage pricing entities by amalgamating existing pricing zones

⁷² Drainage and irrigation tariffs account for about 60 per cent of Goulburn-Murray Water's revenue.

⁷³ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 25.

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

Goulburn-Murray Water proposed to simplify its surface and subsurface drainage tariff structure to make it more cost reflective and easier to understand. Goulburn-Murray Water engaged with customers on the drainage reforms and found most customers were supportive of the reforms.⁷⁴

The commission engaged Egis Oceania (Egis) to review Goulburn-Murray Water's proposed tariff reforms including for drainage. Egis found that Goulburn-Murray Water has justified its proposed drainage tariff reforms and these reforms should reduce administrative effort and increase customer understandability.⁷⁵

We consider Goulburn-Murray Water's proposed tariff reforms meet the requirements of the WIRO, including enabling customers to easily understand drainage tariffs and providing signals of efficient costs. We did not receive any submissions on the proposed drainage tariff structures.

Based on the above, our draft decision is to accept Goulburn-Murray Water's proposed drainage tariff structures, on the basis that they meet the criteria in our guidance.

7.2 Prices

Goulburn-Murray Water's proposed prices for irrigation and drainage services are set out at pages 94 to 103 of its price submission while the impact on typical customer bills is set out at pages 89 to 90.

Under its pricing proposals, many gravity irrigation customers experience a lower or steady typical bill, with some medium and large gravity irrigation customers experiencing increases of up to 0.4 per cent per year.⁷⁶ Pumped irrigation typical bills increase by 3.5 to 4.1 per cent per year for medium and large customers in the Woorinen region primarily due to increases in the Woorinen pumped irrigation service point fee. Pumped irrigation typical bills increase by around 1.5 per cent

⁷⁴ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 80–82.

⁷⁵ Egis Oceania, *2024 Water price review assessment of Goulburn-Murray Water's tariff reforms – draft report*, March 2024, pp. 10–13.

⁷⁶ Note that the gravity irrigation and pumped irrigation bills discussed here include drainage fees where applicable. See Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 91–93 for the typical customer attributes for each of Goulburn-Murray Water's typical bills.

per year for customers in the Tresco area, mostly due to increases in the service point fee (for all customers) and subsurface drainage fee (for medium and large customers).

The proposed 10 per cent annual increase in the subsurface drainage water use fee for Tresco and Nyah is because this tariff did not recover its efficient costs in the current regulatory period. The proposed price increase for Tresco and Nyah reduced the shortfall in the next regulatory period. All other pumped irrigation typical bills under its price submission proposal either decrease or increase slightly by up to 0.2 per cent per year.

Note however, that Goulburn-Murray Water will need to update its proposed prices in response to our update to long-term inflation in our draft decision, and upcoming cost of debt update.

See Chapter 10 for more details about service point fees.

Goulburn-Murray Water engaged with customers on pumped irrigation and asked customers about the infrastructure required to meet service needs into the future. According to Goulburn-Murray Water, customers understood the need to replace ageing infrastructure. We did not receive any submissions on irrigation and drainage prices.

In June 2024, we intend to determine prices for Goulburn-Murray Water in \$2024-25 terms. This means we will add the annual change in the March Quarter 2024 consumer price index (published by the Australian Bureau of Statistics) to its 2024-25 prices, which will also flow through to customer bills.

8. Diversion services

Goulburn-Murray Water provides diversion services to customers who access water from waterways such as rivers, and groundwater.⁷⁷ Its diversion services include the management of water sources, compliance monitoring and administration of accounts. Diversion customers are generally charged an access fee, resource management fee and service point fees. There are no variable charges for diversion customers.

Goulburn-Murray Water's proposed tariffs, prices and typical customer bills are set out on pages 78 to 103 of its price submission.

8.1 Tariff structures

Goulburn-Murray Water proposed to maintain its existing tariff structures for its oversight of diversion water. This includes:

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

In addition, diversion customers also pay an annual customer fee and annual licence fee. The customer fee applies to all Goulburn-Murray Water customers and is discussed in Chapter 10. The licence fee is one of the miscellaneous charges covered in Chapter 13.

Goulburn-Murray Water proposed no change in tariff structure relating to diversion tariffs. It submitted that its proposed tariff structure is consistent with the guidance.

We received 16 submissions from a total of 34 diverters on unregulated waterways. They are of the opinion that Goulburn-Murray Water's fees and charges are 'unfair' and 'excessive' and that they are not receiving any service from Goulburn-Murray Water.⁷⁸ Some of the customers also

⁷⁷ Diversion services account for about five per cent of Goulburn-Murray Water's revenue.

⁷⁸ Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 30 November 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Ian Roy, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Nick Legge, submission to the commission's Goulburn-Murray Water's 2024 water price review, December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 3 December 2023; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Paula Hall, submission to the commission's Goulburn-Murray Water's 2024 water price review, 6 December 2023; Christopher Maud, submission to the commission's Goulburn-Murray Water's 2024 water price

raised specific issues that apply to domestic and stock customers on unregulated waterways, including:⁷⁹

- to remove the access fee from their oversight of diversion water because they receive no access service
- to base the access fee on water entitlement volume rather than service points
- that the engagement with diverters on unregulated waterways including domestic and stock customers was insufficient
- that licence costs are exorbitant and duplicates their annual service fees
- to benchmark licence fees against licence fees in other states for a similar service
- that Goulburn-Murray Water's PREMO ratings for engagement and risks should be 'Basic' not 'Standard'.

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

Goulburn-Murray Water's access fee recovers costs associated with streamflow monitoring, rostering and restrictions, investigating sharing issues and developing water access policy. Our consultant Egis has reviewed Goulburn-Murray Water's access fee and found that Goulburn-Murray Water has demonstrated that:

- the costs associated with diverters' access fee relate to services and activities associated with diversion customers
- the service point fees rather than water entitlements drive the costs as the greater the number of service points, the more involved the management, planning and water ordering systems and processes are.⁸⁰

review, 13 December and 14 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 13 December 2023; Rod Hall plus 19 other diverters from unregulated waterways, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 December 2023; Sarah Nicholas, submission to the commission's Goulburn-Murray Water's 2024 water price review, 15 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 15 December 2023.

⁷⁹ Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Nick Legge, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Rod Hall and 19 other domestic and stock customers, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 December 2023; Christopher Maud, submission to the commission's Goulburn-Murray Water's 2024 water price review, 13 December and 14 December 2023.

⁸⁰ Egis, *2024 Water price review – Assessment of Goulburn-Murray Water's tariff reforms – draft report*, March 2024, p.24.

We agree with Egis’s findings that it is appropriate to base access fees on the number of service points rather than water entitlements.

Goulburn-Murray Water provided us with information detailing the costs recovered for its services from the different diversion fees and charges. The information Goulburn-Murray Water provided appears to show no duplication between the services being recovered through the licence fees and the other annual fees and charges that apply to diverters on unregulated waterways including domestic and stock customers.⁸¹ Further, on the basis of information we have reviewed, we are satisfied that the level of licence fees for domestic and stock customers across different water businesses (including in other states) are not directly comparable given the tariff structures are relevantly different.⁸²

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

Our draft decision does not accept Goulburn-Murray Water’s proposed tariff structure for service point fees applying to diverters on unregulated waterways for the reasons set out in Chapter 10.

8.2 Prices

Goulburn-Murray Water’s proposed prices are set out on pages 97 to 98 of its price submission while the impact on typical customer bills is set out on pages 89 to 90.

Under Goulburn-Murray Water’s price submission, many diversion customers, including small customers on groundwater diversions, regulated and unregulated waterways, and domestic and stock customers would see decreases in their typical bills. This is due to Goulburn-Murray Water’s proposed decreases in the level of service point fees, access fees and resource management fees

⁸¹ Goulburn-Murray Water has also provided us with additional information supporting its engagement with diverters from unregulated waterways including domestic and stock customer from the Upper Ovens. Our draft decision accepts Goulburn-Murray Water’s self-rating of ‘Standard’ for the Engagement element of PREMO on the basis of the overall suitability of its engagement program and the level of influence afforded to customers particularly at the early planning stages through its engagement with its water services committees. We consider Goulburn-Murray Water’s PREMO assessments on Risk and Engagement in Section 16.1.2 and 16.1.3.

⁸² The annual total licence charges for Southern Rural Water are the sum of licence fixed charges and licence variable charges and could range from \$404 to \$430 annually, assuming a surface licenced volume of 2ML. Depending on the location, Southern Rural Water said that a System Management Charge may also apply. In New South Wales, if a diverter is looking to put in a diversion channel, the customer will need to apply for a water supply work and/or use approval which will cost \$5,061.02. For stock and domestic customers, if the property fronts the river, it will not require an approval to extract water. However, if the property does not front the property, the customer would need an approval which will cost \$5,061.02. In addition, to the cost of the installation of the water supply work, customers may be required to apply for a water access licence and go to market to purchase water within the water sharing plan/water source associated with the area of the approval. See: WaterNSW, [Applications and fees](#) (accessed on 15 February 2024).

during the 2024–28 regulatory period. We consider that the costs attributed to the diversion fees seems reasonable except for service point fees for unmetered diverters.

Some diversion customers with meters will see increases in their typical bills due to the recovery of higher costs associated with service point fees. Goulburn-Murray Water stated that the increase in service point fees is needed to undertake essential maintenance and ensure service needs are met. While our draft decision accepts Goulburn-Murray Water’s proposed capital expenditure without any changes, our draft decision does not accept Goulburn-Murray Water’s proposed service point fees for unmetered diverters as discussed in Chapter 10.

In response to our draft decision, Goulburn-Murray Water will need to update its proposed prices in response to our update to long-term inflation in our draft decision, and upcoming cost of debt update.

9. Bulk water storage services

Goulburn-Murray Water owns and manages storage facilities and assets that store water for wholesale customers (such as urban water corporations and environmental water holders) and retail customers (such as regulated surface water diverters and customers in Goulburn-Murray Water's irrigation districts).^{83 84}

9.1 Tariff structures

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

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

Goulburn-Murray Water's proposed tariffs, prices and typical customer bills are set out on pages 78 to 103 of its price submission.

Bulk wholesale charge

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

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

⁸³ For more information, see Goulburn-Murray Water, [GMW Overview](#) (accessed on 16 February 2024).

⁸⁴ Goulburn-Murray Water on behalf of its retailers pay bulk water charges on a basin pricing basis (as required under its bulk entitlement order). To calculate storage charges for water right holders, Goulburn-Murray Water aggregates and averages the basin costs it paid into the two historic system costs for the Murray and Goulburn systems. The commencement of open trade of water shares means that water rights held by its customers may be purchased by customers in other areas (Lower Murray Water or interstate), which is facilitated through a defined tariff structure.

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

Goulburn-Murray Water considers its proposed bulk water tariff reform for its wholesale customers (entitlement holders) to be a more equitable pricing system as it aligns with the entitlement storage fees, system-wide pricing approach used for its retail customers (water share holders). We also noted in our guidance we considered basing its storage fees on a system-wide pricing approach is more cost reflective than its previous approach.⁸⁵ Goulburn-Murray Water stated that its proposal has been informed by pricing principles which includes cost reflectivity, administrative simplicity, ease of understanding and customer support.

During the 2020 water price review, the commission approved Goulburn-Murray Water’s proposal to maintain the basin pricing approach for bulk water tariffs for wholesale customers, with the possibility to transition these bulk water charges to a system pricing approach in the 2024–2028 regulatory period.⁸⁶

Our consultant Egis undertook a high-level review of Goulburn-Murray Water’s proposed bulk water tariff reform against the requirements of the guidance. Egis considered that Goulburn-Murray Water has justified its proposed bulk water reforms and has not identified any issues.⁸⁷

Goulburn-Murray Water has provided evidence of its consultation and support from its bulk water customers including the Victorian Environmental Water Holder. It proposed a transition plan to allow time for the Bulk and Environmental Entitlement Orders to be updated and to continue to engage with its bulk water customers and the Department of Energy, Environment and Climate Action regarding the updating of the Orders.

We did not receive any submissions from stakeholders about the proposed bulk water tariff reform for Goulburn-Murray Water’s wholesale bulk water customers.

Our draft decision is to accept Goulburn-Murray Water’s proposed bulk water tariff reform for its wholesale customers as it meets the criteria set out in the guidance. The proposal aligns the pricing approach for wholesale and retail bulk water customers, thereby making them simpler and

⁸⁵ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, September 2022, p. 51.

⁸⁶ Essential Services Commission, *Goulburn-Murray Water final decision*, June 2020, p. 34.

⁸⁷ Egis Oceania, *2024 Water price review assessment of Goulburn-Murray Water’s tariff reforms – draft report*, March 2024, pp. 13-14

easier to understand. We also consider charging bulk water fees using a two-system pricing approach is more cost reflective.

Entitlement storage fees

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

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

9.2 Prices

For 2024-25, Goulburn-Murray Water proposed to maintain the 2023-24 levels of bulk water prices (levied to entitlement holders) and entitlement storage fees (levied to water share holders) across the different tariffs.⁸⁸ In 2025-26, most of the bulk water prices and entitlement storage fees in the Murray and Goulburn systems are proposed to decrease.⁸⁹ For the remaining years of the regulatory period, bulk water prices and entitlement storage fees in the Murray system are proposed to decrease further while the Goulburn system are proposed to increase slightly.

In response to our draft decision, Goulburn-Murray Water will need to update its proposed prices in response to our update to long-term inflation in our draft decision, and upcoming cost of debt update.

⁸⁸ Bulk water prices relate to very high reliability, high reliability, low reliability and water reliability bulk entitlements and environmental entitlements. Entitlement storage fees relate to high reliability water share (HRWS), low reliability water share (LRWS), above entitlement storage fee and spill reliability (which applies to Ovens Basin only).

⁸⁹ Bulk water prices in the Murray and Goulburn systems are proposed to decrease by 39 to 98 per cent depending on the basin and the tariff. Goulburn basin bulk water prices and fees are proposed to increase by 2 to 14 per cent (depending on the tariff). The entitlement storage fees in the Murray and the Goulburn systems are proposed to decrease by 14 to 34 per cent depending on the tariff and the system.

10. Service point fees

Service points are the connection point between a farm and the water supply network (channel, pipeline, river or aquifer).⁹⁰ For most significant water users, the service point incorporates a meter to measure water deliveries for water sharing and entitlement compliance management, and for charging purposes.

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

10.1 Tariff structures

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

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

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

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

Goulburn-Murray Water's service point fees are outlined on pages 94 to 98 of its price submission. Under the current tariff structure, the level of service point fees for all metered customers are the same (\$455) and the level of service point fees for all unmetered customers are the same (\$145).⁹¹

⁹⁰ Service point fees account for about 14 per cent of Goulburn-Murray Water's revenue.

⁹¹ The service point fee – remote operate – applies to both gravity and pumped irrigation customers. The average costs approach also applies in this case.

In response to stakeholders' feedback, Goulburn-Murray Water engaged an external consultant to review and validate its current costing assumptions and logic for service point fees.

Goulburn-Murray Water stated in its price submission that its consultant:

- found that its tariffs and pricing method for service point fees are fit-for-purpose but noted that the process relies on a range of assumptions to derive each price
- suggested that Goulburn-Murray Water should consider separating service point fees for diversion and irrigation district customers in the future. Goulburn-Murray Water's consultants noted this does not necessarily mean different prices, but it would allow for flexibility of cost drivers for each group to change in the future.
- determined that separating domestic and stock on unregulated waterways from unmetered irrigation in diversions does not have any intrinsic merit.⁹²

Goulburn-Murray Water proposed to maintain its service point fees tariff structure for the 2024–28 regulatory period after considering its consultant's findings. It considers that the tariff structure is consistent with pricing principles of sustainable revenue and customer focus including in relation to service standards, price path stability and the costs of implementing the tariff offering, including administration costs.⁹³

Our assessment and consideration of stakeholders' feedback

We received 16 submissions from a total of 34 diverters on unregulated waterways. Nine of these submissions raised the following concerns about service point fees that apply to unmetered diverters on unregulated waterways:

- Cost assumptions underpinning price proposals are not reasonable or transparent.
- Service point fees should not apply to them given no service is being provided.
- It is not reasonable to apply deeming costs to all unmetered users as it promotes cross-subsidisation.
- It is not unreasonable for inspection and surveillance cost to be related to entitlements.
- Diverters on unregulated waterways should be treated as a separate customer group.⁹⁴

⁹² Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 85.

⁹³ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 85.

⁹⁴ Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Nick Legge, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Ian Roy, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 3 December 2023; Cameron and Jan Reid, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Rod Hall and 19 other domestic and stock customers, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 December 2023; Christopher Maud, submission to the commission's Goulburn-Murray Water's 2024 water price review, 13 December and 14 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 15 December 2023.

Egis assessed Goulburn-Murray Water's proposed service point fees against the commission's guidance in relation to diversion tariffs that are payable by domestic and stock users.⁹⁵ Egis considered that Goulburn-Murray Water has not demonstrated that the service point fee reflects an efficient cost.⁹⁶ Goulburn-Murray Water reviewed Egis's draft report for errors and omissions, and generally accepted the report's findings.

Egis' findings on key elements of the service point fee are set out below.

Inspection and surveillance

Egis considered that Goulburn-Murray Water needs to improve the accuracy of its data and assumptions underlying the calculations of inspection and surveillance costs (the biggest cost component of service point fee for diverters on unregulated waterways).

They found that many of Goulburn-Murray Water's assumptions for annual inspections are not clearly justified and may be overly simplistic because they may not reflect the actual activity that occurs nor do they adopt a risk-based approach to inspect some sites more frequently than others.

Egis considered that, where possible, efficient costs should be calculated on a risk-based approach so that inspections are tailored to the relative risks for the customer group and suggested that opportunity exists to collect actual activity data and costs to improve robustness of calculations.

Deeming costs

Deeming is used by Goulburn-Murray Water to assess the usage of low volume water users who do not have meters. Egis considered that Goulburn-Murray Water did not provide sufficient evidence that the deeming costs (the second biggest component of service point fee for diverters on unregulated waterways) for each customer group are based on assumptions that promote efficiency.

Egis found that the use of average deeming cost per service point (across all customer groups that are deemed) does not adequately capture the expected variability in activities and costs associated with each of the six methods (area and depth, flow rate and duration, property area and service level, representative sampling, entitlement volume and representative use) used by Goulburn-Murray Water.

⁹⁵ Essential Services Commission, *2024 Goulburn-Murray Water price review: Guidance paper*, September 2022, pp. 55-56.

⁹⁶ Egis Oceania, *2024 Water price review – assessment of Goulburn-Murray Water's tariff reforms – draft report*, March 2024, pp. 18-21.

Egis recommended that a cost for each of the six deeming methods (listed above) should be estimated and the cost for the method which applies to the customer group should be used to calculate the service point fees for that customer group.

We agree with Egis' recommendations regarding actual data collection of activities related to inspection and surveillance to improve cost reflectivity and efficiencies in setting service point fees, which could potentially lower fees. In addition, diverters on unregulated waterways have raised concerns over these issues in both this price review and the 2020 price review. We are aware that Goulburn-Murray Water is open to collecting actual data going forward.

We consider that on balance, as suggested by Egis, Goulburn-Murray Water could collect actual data on activity and costs to improve the robustness of its calculations for service point fees. The proposed data collection could occur every four years to minimise costs. We consider that this will lead to more cost reflective service point fees for domestic and stock customers on unregulated waterways and other unmetered diverters. It will also help increase data transparency and customer knowledge. We also accept Egis's recommendations about estimating the deeming costs.

We consider that, once Goulburn-Murray Water collects and costs actual data on activities, treating domestic and stock customers on unregulated waterways, such as Upper Ovens customers, as a separate customer group could potentially result in higher cost of service for domestic and stock customers on unregulated waterways compared to the current average pricing approach. We note that Goulburn-Murray Water collects around \$3.4 million per annum in revenue from surface water diverters (or approximately 3 per cent of its total revenue requirement).⁹⁷

We also consider that Goulburn-Murray Water should review its tariff name for service point fees or tariff description applying to unmetered diverters and domestic and stock customers. Goulburn-Murray Water defines service point fee as a charge to recover its costs associated with compliance monitoring, water use accounting (deeming, meter readings, overuse management), asset maintenance and replacements (new meters and replacements) and managing authorised use. This could create confusion for customers who do not have meters.

Woorinen service point fees

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

⁹⁷ Current revenue from unmetered diverters on unregulated waterways is about \$0.45 million or about 0.39 per cent of Goulburn-Murray Water's revenue for 2023–24.

capital expenditure for the regulatory period which includes expenditure for the replacement of failed meters at services points (see Section 4.2 for details). Goulburn-Murray Water has also provided additional information supporting its proposed service point fee for Woorinen including options and transition plans considered and its engagement.⁹⁸

Our draft decision

Our draft decision is to:

- accept the Woorinen Service Point Fee and the service point fee tariff structure for metered customers as we consider they meet the requirements of our guidance
- not accept Goulburn-Murray Water's proposed tariff structure for the service point fees applying to unmetered customers as we do not consider they meet the requirements of our guidance.

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

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

Over the medium term, Goulburn-Murray Water should improve the collection of actual activity data to improve the robustness of its calculations, in order to support the achievement of objectives in the pricing framework related to efficiency, including cost reflective tariffs.

⁹⁸ Goulburn-Murray Water said that it held 44 face-to-face and virtual drop-in sessions with customers, including one at Swan Hill to enable easy access for pumped irrigation customers. It received no feedback about the proposed increase in Woorinen prices and no customers attended the drop-in session in Swan Hill.

11. Other tariffs

As noted above, Goulburn-Murray Water's proposed tariffs, prices and typical customer bills are set out on pages 78 to 103 of its price submission.

11.1 Tungamah water supply service

Goulburn-Murray Water's proposed Tungamah water supply service fee is outlined on page 84 of its price submission. Goulburn-Murray Water proposes to increase the infrastructure access fee for Cosgrove customers in the Tungamah water supply district by more than 10 per cent. This is to reflect the actual level of services provided to Cosgrove customers and to remove any cross-subsidisation within the Tungamah water supply district.⁹⁹ The proposed change will lead to an increase in bills for Cosgrove customers and a decrease in customer bills of up to nine per cent for the remaining Tungamah water supply district customers.

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

Egis undertook a high-level assessment of Goulburn-Murray Water's proposed price increases for the Cosgrove customers and did not find any issues with Goulburn-Murray Water's proposal.¹⁰⁰

Goulburn-Murray Water provided us with information that indicated customers supported its proposal during engagement with Cosgrove customers and other Tungamah customers. Goulburn-Murray Water stated that few customers have contacted them during its engagement process, and those customers that did are satisfied with the rationale for the change and Goulburn-Murray Water's proposed implementation approach.

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

11.2 Customer fee

Goulburn-Murray Water's proposed customer fee is set out on pages 69 to 70 of its price submission. The customer fee recovers the administrative costs of maintaining Goulburn-Murray Water's land and water records, billing, debt management and central customer service.¹⁰¹ This

⁹⁹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, p. 84.

¹⁰⁰ Egis Oceania, *2024 Water price review assessment of Goulburn-Murray Water's tariff reforms – draft report*, March 2024, pp. 16-17.

¹⁰¹ Goulburn-Murray Water, *GMW Price Submission 2024*, September 2023, pp. 69–70.

single customer fee was introduced in the current regulatory period replacing previous separate fees for the different services Goulburn-Murray Water provided. All Goulburn-Murray Water customers are charged this fee regardless of the number of services they receive.

We received a submission from a domestic and stock customer on unregulated waterways who considered that Goulburn-Murray Water's approach of excluding gifted assets from regulatory asset base leads to domestic and stock customers on unregulated waterways bearing a higher share of corporate overhead.¹⁰² Egis has undertaken a review of Goulburn-Murray Water's proposed customer fee for diverters. Egis found that Goulburn-Murray Water has demonstrated that depreciation is not included in the calculation of the corporate overhead allocation. Therefore, the exclusion of gifted assets from the regulatory asset base does not impact on how overheads are allocated because overhead allocation does not consider depreciation. We agree with these findings.

Our draft decision is to accept Goulburn-Murray Water's customer fee on the basis that it largely reflects a continuation of current arrangements and is otherwise compliant with our guidance.

In response to our draft decision, Goulburn-Murray Water will need to update its proposed prices in response to our update to long-term inflation in our draft decision, and upcoming cost of debt update.

¹⁰² Nick Legge, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023.

12. Miscellaneous service charges

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

Goulburn-Murray Water's proposed miscellaneous services with charges for each service are set out on pages 100 to 103 of its price submission. We sought additional information through information requests to understand Goulburn-Murray Water's proposed miscellaneous charges.

During the 2016–20 and 2020–24 regulatory periods, Goulburn-Murray Water's miscellaneous fees and charges made losses of \$1.8m and \$1.3m respectively rather than recovering efficient costs. Goulburn-Murray is proposing to increase several of its miscellaneous charges to transition to cost reflective charges by 2031-32. Goulburn-Murray Water has confirmed that its proposed miscellaneous charges are calculated in accordance with the pricing principles in our guidance.¹⁰³

We reviewed Goulburn-Murray Water's engagement with customers on miscellaneous charges. We found Goulburn-Murray Water provided information to customers explaining the miscellaneous charges but had little discussion on the level of increase in charges. We received seven submissions from customers who considered the license fees were too high.¹⁰⁴

That feedback notwithstanding, our draft decision is to approve the miscellaneous services tariffs because they are calculated in accordance with the pricing principles in our guidance.

¹⁰³ Goulburn-Murray Water has increased some of these charges by 10 per cent each year over 2024–2028, and notes that most customers do not undertake these transactions or undertake them only rarely.

¹⁰⁴ Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 14 November 2023; Ian Roy, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Nick Legge, submission to the commission's Goulburn-Murray Water's 2024 water price review, 1 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 3 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 4 December 2023; Paula D Hall, submission to the commission's Goulburn-Murray Water's 2024 water price review, 6 December 2023; Anonymous, submission to the commission's Goulburn-Murray Water's 2024 water price review, 13 December 2023.

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

In making our price determination, we must have regard to whether Goulburn-Murray Water's prices take into account the interests of customers, including low income and vulnerable customers.¹⁰⁵

As noted in Section 3.1, Goulburn-Murray Water's price submission was informed by engagement that was inclusive for customers more likely to experience vulnerability, including customers severely affected by the 2022 floods.

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

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

¹⁰⁵ Water Industry Regulatory Order 2014 clause 11(d)(iii).

14. Adjusting prices

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

Goulburn-Murray Water's proposed price adjustment mechanisms are set out on pages 51 to 52 of its price submission.

Goulburn-Murray Water proposed to maintain its price adjustment mechanism in relation to uncertain and unforeseen events. This is the first time the commission's standard annual adjustment mechanism to reflect movements in the cost of debt will apply to Goulburn-Murray Water.¹⁰⁶ Consistent with the guidance, Goulburn-Murray Water has identified its tariffs which will be affected by cost of debt changes.¹⁰⁷

Our draft decision is to accept Goulburn-Murray Water's proposed price adjustment mechanism for uncertain and unforeseen events because it is consistent with our guidance.¹⁰⁸

¹⁰⁶ Essential Services Commission 2022, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 56.

¹⁰⁷ Goulburn-Murray Water proposed to reflect cost of debt movements in all its fees except for its: water register fee, drainage diversion site fee, infrastructure use fees in the pumped irrigation and water supply districts, excess fee in the water supply districts and application fees set by DEECA.

¹⁰⁸ Essential Services Commission 2022, 2024 Goulburn-Murray Water price review: Guidance paper, 13 September 2022, p. 56-58.

15. Financial position

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

In approving prices, we must have regard to the financial viability of the water industry.¹⁰⁹ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the Water Industry Regulatory Order (2014) to mean that the prices we approve should provide a high level of certainty that each water corporation can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

Goulburn-Murray Water's 2024 price submission and the supporting financial model provided estimates for key indicators of financial performance. These estimates were based on Goulburn-Murray Water's assumptions about its revenue and expenditure. We have reviewed the key indicators of financial performance, and our preliminary view is that we consider Goulburn-Murray Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

¹⁰⁹ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

16. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water corporation's revenue requirement to that corporation's level of ambition expressed in its price submission, and delivery of outcomes it proposed in the previous review.¹¹⁰ Our guidance required Goulburn-Murray Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism (other than Performance), and arrive at an overall self-rating.¹¹¹ Goulburn-Murray Water did not need to self-rate itself on the Performance element of PREMO as this is its first assessment under PREMO. We required Goulburn-Murray Water to self-rate its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic', with 'Leading' being the most ambitious and 'Basic' the least.

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

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

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

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

Goulburn-Murray Water's self-rating for each of the PREMO elements (other than Performance) and its overall self-rating are shown in Table 7.1. This table also includes our proposed ratings following our assessment of Goulburn-Murray Water's price submission.

¹¹⁰ Essential Services Commission 2016, *Water Pricing Framework and Approach: Implementing PREMO from 2018*, October, 2016, p. 5.

¹¹¹ We will not assess the 'P' (Performance) element in the 2024 price review because this is Goulburn-Murray Water's first review under the PREMO framework and it does not have an established set of outcomes proposed in the previous review to assess its performance against.

Table 7.1 PREMO rating

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

Our preliminary view is that we agree with Goulburn-Murray Water's proposed overall PREMO self-rating of 'Standard'. This is reflected in the return on equity we propose to approve for Goulburn-Murray Water (see Section 4.4.2). We have formed this view after reviewing Goulburn-Murray Water's proposed self-rating for each of the relevant PREMO elements, with a summary of our assessment provided below.

16.1.2 Risk

The Risk element of PREMO is assessed against guiding questions focused on the appropriate allocation of risk (so that customers don't pay more than they need to), and the business's proposed guaranteed service level scheme (including that it provides incentives for the business to deliver valued services efficiently).¹¹²

In support of its self-rating of 'Standard' for the Risk element of PREMO, Goulburn-Murray Water's price submission provided an overview of eight material risks and the allocation of these risks, based on its internal risk management framework. A key factor in support of its self-rating is exclusion of capital investment from customer prices due to uncertainty related to associated projects, thereby ensuring customers do not pay for projects that do not ultimately proceed or change in scope.

Goulburn-Murray Water conducted a specific review for its price submission having regard to risks associated with operations, demand and climate change, regulations, customers' ability to pay, IT, and service levels. The risks it identified, and its risk management strategies proposed, are largely similar to the current 2020–24 regulatory period.

Several stakeholders considered Goulburn-Murray Water rated as 'Basic' for the Risk element as they considered Goulburn-Murray Water transferred risk to its customers, specifically domestic and stock users (refer to section 8.1). We have considered their submissions however, our review of

¹¹² Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 44.

the submissions and the material provided by Goulburn-Murray Water in its price submission that identified its key risks and their possible impacts found that Goulburn-Murray Water adopted strategies that have taken on risk on behalf of its customers, such as: P50 estimates for capital projects; revenue cap from of price control with a \pm 10 per cent rebalancing constraint; reasonable unit rates to evaluate projects; and reasonable capital delivery times. On balance, our draft decision is to accept its proposed rating of 'Standard' for the Risk element of PREMO.

16.1.3 Engagement

The Engagement element of PREMO is assessed against guiding questions such as the form, timing, and nature of matters engaged on by the water business, and the influence of engagement on proposals. We also consider the extent to which a business has undertaken inclusive engagement, including with First Nations peoples and those experiencing vulnerability.¹¹³

Our draft decision is to accept Goulburn-Murray Water's self-rating of 'Standard' for the Engagement element of PREMO based on the overall quality of its engagement program and the level of influence it afforded many of its stakeholder groups.

We note that Goulburn-Murray Water commenced its engagement early, undertook a two-year engagement process and tailored methods and materials to the circumstances of its customers, which were diverse and also in remote areas. Its engagement methods supported inclusive and effective participation in its engagement processes.

Goulburn-Murray Water demonstrated commitment to the findings of its engagement processes and its water services committees had influence in informing its decision-making processes and its price submission.

Some domestic and stock users considered Goulburn-Murray Water's PREMO rating for engagement should be 'Basic' as its consultation was reliant on water service committees, which did not include domestic and stock users. As outlined in Chapter 3.1, on balance, we consider Goulburn-Murray Water used several methods to engage with its customers, including domestic and stock users, and did not rely only on its water service committees.

16.1.4 Management

The Management element of PREMO is assessed against guiding questions that cover matters such as the efficiency of proposed expenditure and prices, the quality of the business's submission

¹¹³ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 44

and supporting information to justify proposals, and evidence that there is senior-level ownership and commitment to the proposals contained in the submission.¹¹⁴

In support of its self-rating of 'Standard' for the Management element of PREMO, as noted in Section 4.1.1, Goulburn-Murray Water proposed to absorb any operating cost increases above inflation through operational efficiencies. Based on advice from FTI Consulting on Goulburn-Murray Water's assumptions for forecast operating and capital expenditure, we have also tested those assumptions, our preliminary view is that they reflect efficient expenditure.

We consider Goulburn-Murray Water's price submission provided clear justification for its proposals, and its financial model contained no substantive errors and was consistent with its written submission. Its price submission clearly linked the outcomes of its engagement to planned outcomes and expenditure. The Goulburn-Murray Water Board has also attested to the accuracy of the information contained in its submission, as required by our guidance.

Accordingly, our draft decision is to accept Goulburn-Murray Water's self-rating of 'Standard' for Management.

16.1.5 Outcomes

The Outcomes element of PREMO is assessed against guiding questions focused on:

- the alignment of proposed outcomes with customer priorities and expenditure forecasts
- whether the proposed outcomes are measurable
- the processes established to measure performance and report to customers.¹¹⁵

As noted in Section 3.2, our preliminary view is that Goulburn-Murray Water has provided evidence that demonstrates its outcome measures and targets were developed in consultation with its customers, and that they are supported by customers. Goulburn-Murray Water used a water services committee, various customer workshops and customer surveys to provide validation of its proposed outcomes.

Generally, we consider Goulburn-Murray Water's intentions are clear, and its measures and targets will provide a sound basis to track performance and delivery against each outcome, once the matters we identified in our assessment have been addressed.

¹¹⁴ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 44.

¹¹⁵ Essential Services Commission 2022, *2024 Goulburn-Murray Water price review: Guidance paper*, 13 September 2022, p. 44.

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

Accordingly, our draft decision is to accept Goulburn-Murray Water’s self-rating of ‘Standard’ for the Outcomes element of PREMO.

Appendix A — Submissions received

Name or organisation	Date received
Anonymous	14 November 2023
Anonymous	14 November 2023
Anonymous	30 November 2023
Anonymous	1 December 2023
Ian Roy	1 December 2023
Nick Legge	1 December 2023
Anonymous	3 December 2023
Cameron and Jan Reid	4 December 2023
Anonymous	4 December 2023
Paula D Hall	6 December 2023
Samuel McIntosh	8 December 2023
Unregulated domestic and stock water users	12 December 2023
Christopher Maud	13 December 2023
Unknown	13 December 2023
David Nicholas Moore	13 December 2023
Rod Hall	14 December 2023
Christopher Maud	14 December 2023
Karl Fitzgerald	14 December 2023
Sarah Nicholas	15 December 2023
Anonymous	15 December 2023

Appendix B — Commission’s consideration of legal requirements

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

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

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.¹¹⁶ We have had regard to the matters specified in our guidance in reaching our preliminary view. Our draft decision provides further information on where we have considered our guidance, and Goulburn-Murray Water’s compliance with our guidance, in reaching our preliminary view.

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

Economic efficiency and viability matters

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

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

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

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

¹¹⁶ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

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

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

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

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

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

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

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

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

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

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

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

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

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

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 4.4.1).
- A regulatory rate of return that we consider will enable Goulburn-Murray Water to recover borrowing costs associated with its investment in services and generate a return on assets.¹¹⁷

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

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

We have had regard to this matter in Chapter 15.

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

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

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

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).

¹¹⁷ The regulatory rate of return is comprised of the cost of debt and the return on equity.

- Our assessment of tariffs (chapters 7, 8, 9, 10, and 11).

Industry specific matters

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

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

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

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

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

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

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

- Our consideration of the regulatory asset base (Section 4.3).
- Our consideration of the cost of debt (Section 4.4.1).
- Our consideration of the return on equity (Section 4.4.2).

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

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

- indicative bills paid by customers in other jurisdictions in Australia¹¹⁸
- operating and capital expenditure costs per connection throughout Australia¹¹⁹
- tariff structures applied by water corporations throughout Australia¹²⁰
- the regulatory rate of return set by other regulators.¹²¹

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

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

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

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

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

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

¹¹⁸ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*, February 2022.

¹¹⁹ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*.

¹²⁰ Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

¹²¹ Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW’s rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water’s water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; Queensland Competition Authority, *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater’s prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

Customer matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In considering the above factor, we had regard to:

- Our consideration of customer engagement (Section 3.1)

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

Health, safety, environmental and social obligations

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

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

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

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

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

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

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

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

Other matters

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

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

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

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

We consider that our pricing approach helps to address market power and information asymmetries relating to the water corporations. Our PREMO water pricing approach provides incentives for a water corporation to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.¹²²

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

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

- Implementing a price review process so that water corporations may receive streamlined price reviews if they submit a high-quality price submission. This reduces the costs of regulation for water corporations and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income customers and those experiencing vulnerability), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.¹²³

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

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

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

¹²² Essential Services Commission 2016, Water Pricing Framework and Approach, Implementing PREMO from 2018, October, pp. 11–13.

¹²³ Essential Services Commission, 2023 water price review: Guidance paper, p. 2.

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

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

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

- Implementing a price review process so that water corporations may receive streamlined price reviews if they submit a high-quality price submission. This reduces the costs of regulation for water corporations and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low-income customers and those experiencing vulnerability), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.¹²⁴

¹²⁴ Essential Services Commission, 2023 water price review: *Guidance paper*, p. 2.