

November 2012 | Rural Water Price Review

**SUMMARY OF RURAL BUSINESSES
WATER PLANS**

Pricing period commencing 1 July 2013

Essential Services Commission
Level 2, 35 Spring Street
Melbourne 3000, Australia

INTRODUCTION

Four water businesses servicing Victorian rural water customers—Goulburn-Murray Water, Lower Murray Water, Southern Rural Water and Grampians Wimmera Mallee Water—have submitted final Water Plans to the Essential Services Commission for assessment.

The Water Plans set out the prices that each of the businesses propose to charge for their rural services for the next price period commencing 1 July 2013. The Water Plans also include information about service outcomes and expenditure proposed by the businesses.

This is the third major review of water prices that we have undertaken since we became the economic regulator of the Victorian water industry in 2004. Our role is to assess the prices proposed by the rural water businesses against certain procedural and regulatory requirements.

This paper provides an overview of the key aspects of the Water Plans. It does not cover all aspects of the businesses' proposals nor identify all issues that will need to be considered. Rather, it is intended to assist customers to understand the broad nature of the proposals and to facilitate public comment and debate.

We have also published summary sheets for each business that provide more information about the key components of each business' Water Plan.

Copies of this paper, summary sheets for each business, and the detailed Water Plans submitted by each business are available on our website at www.esc.vic.gov.au.

Customers and representative groups are invited to comment on the proposals put forward by the businesses in their Water Plans, in response to the questions raised in this paper and in relation to any other relevant issues. Details of how to respond are provided on the following pages.

Price regulation framework for Goulburn-Murray Water and Lower Murray Water

We will assess the proposals of Goulburn-Murray Water and Lower Murray Water against the Commonwealth Water Charge (Infrastructure) Rules.

Since our last rural price review in 2008, responsibility for the regulation of rural prices applying in the Murray-Darling Basin has transferred from the States to the Commonwealth Government. In early 2012, we were accredited by the ACCC to regulate the rural prices of Goulburn-Murray Water and Lower Murray Water under the Commonwealth rules.

Under these rules, the first price period for businesses is three years followed by periods of four years. Where a rural business also delivers regulated urban services, the business can apply to have the length of the rural price period altered to match the urban period or part of that period.

The next price period for Goulburn-Murray Water will run for three years from 1 July 2013. Lower Murray Water has applied for a five year price period for its rural services, aligning with the period for its urban services.

Price regulation framework for Southern Rural Water and Grampians Wimmera Mallee Water

Southern Rural Water, Grampians Wimmera Mallee Water (and the urban prices of Lower Murray Water) are not covered by the Commonwealth regime. Therefore, we will assess their proposed prices against principles set out in the Water Industry Regulatory Order (WIRO), as in past reviews.

We will approve the prices proposed by these businesses if they meet the requirements of the WIRO.

HOW TO PROVIDE US WITH VIEWS ON WATER PLANS

Consultation with customers and representative groups is an important part of our decision making process. We encourage customers and representative groups to provide comment on the Water Plans. This feedback will assist us in deciding whether or not to authorise the businesses' price proposals.

Provide feedback via submission

You can send a written submission or comments on the businesses' Water Plans to the Commission by Friday 25 January 2013.

Submissions can be sent by email via water@esc.vic.gov.au or by post to:

Water Division
Essential Services Commission
Level 2, 35 Spring St
Melbourne VIC 3000

We normally publish submissions on our website. We may choose not to publish a submission where it contains confidential or commercially sensitive information. If there is information that you do not want published you should discuss the matter with us prior to making your submission. We can be contacted by phone on 03 9651 0206.

Attend a public forum

Through November and December 2012, we will hold public forums throughout Victoria to provide customers with an opportunity to hear the businesses explain their Water Plans, and ask the businesses questions.

The forums will also provide us with an opportunity to hear the views of customers and representative groups on the businesses' proposals and their impact.

The location and timing of these public forums are provided below. We will also advertise details about the time and location of the forums in newspapers across the State. You can register your attendance at a public forums by email via water@esc.vic.gov.au or by phone on 03 9651 0206.

Public forums on rural Water Plans

Goulburn-Murray Water	7:00 p.m. Tuesday, 20 November 2012 Ballantyne Centre, 9 Hastie Street, Tatura
Lower Murray Water	6:00 p.m. Monday , 26 November 2012 Quest Mildura, 115 - 119 Madden Ave, Mildura
Grampians Wimmera Mallee Water	6:30 p.m. Wednesday, 28 November 2012 Wimmera Business Centre, 62 Darlot Street, Horsham
Southern Rural Water	12:30 p.m. Tuesday, 4 December 2012 Main Function Centre, Maffra Recreation Facility

TIMELINES

We will keep customers and representative groups informed of the progress and opportunities for consultation through regular updates to our website and our newsletter— Essential Water News. You can subscribe to Essential Water News by emailing water@esc.vic.gov.au. Key dates for our price review are summarised below.

Price review timeline

November-December 2012	Public forums on Water Plans
25 January 2013	Closing date for public submissions to the Commission on the businesses' Water Plans
March 2013	Commission releases its draft decision on water prices, invites submissions on draft decision
March-April 2013	Public forums on draft decision
April 2013	Closing date for public submissions to the Commission on our draft decision
June 2013	Final decision

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1 OVERVIEW OF WATER BUSINESS PROPOSALS

This paper provides a high level overview of the regional water businesses' Water Plans, focussing on proposed price changes, service standards, expenditure and major projects to be delivered over the price period commencing 1 July 2013.

Please note that for Lower Murray Water, only their proposals relating to rural services are covered in this paper. Lower Murray Water's proposals for urban services are covered in our separate summary paper for the regional urban water businesses (available at www.esc.vic.gov.au).

Note: All dollar figures in this report are in real 2012-13 terms (that is, they do not account for the effect of inflation in future years), unless otherwise specified.

1.1 Proposed prices

The water businesses have proposed prices that vary depending on service and district. Summary information on the price changes proposed is provided below. More detailed information is provided in the separate summary sheets for each business.

Goulburn-Murray Water

Goulburn-Murray Water proposes to limit increases in its revenue to 1.5 per cent per annum in real terms over the three years from 1 July 2013, with maximum annual increases limited to 15 per cent for typical bills. Goulburn-Murray Water is undertaking a tariff strategy review that is expected to lead to greater consistency in prices and tariff structures across its service districts.

Lower Murray Water

Lower Murray Water proposes an increase in its revenue of around 3 per cent per annum in real terms over the five years from 1 July 2013. Proposed price changes would result in relatively higher price increases for Mildura and Robinvale irrigation customers.

Southern Rural Water

Southern Rural Water proposes that prices for the Macalister Irrigation District rise by an average of nearly 0.5 per cent per year over the five years from 1 July 2013, with an average annual increase of 1.4 per cent proposed for the Werribee Irrigation District. Southern Rural Water proposes that prices for the Bacchus Marsh Irrigation District will decline by an annual average of 1.9 per cent per year.

Grampians Wimmera Mallee Water

Grampians Wimmera Mallee Water proposes average price increases of 1.5-2.5 per cent per year for most rural services over the five years from 1 July 2013. Proposed prices for groundwater diversions generally increase at a higher rate over the first three years of the next price period—including for license fees and volumetric charges for areas outside of Murrayville (which are proposed to increase by up to 19 per cent over the first three years of the next price period for areas outside of Murrayville).

1.2 Proposed changes to tariff structures

Goulburn-Murray Water is undertaking a tariff strategy review in the context of a major infrastructure modernisation program, the Northern Victoria Irrigation Renewal Project (NVIRP) and the Murray-Darling Basin Plan. While the tariff strategy review is ongoing, it is expected to lead to a simplified tariff structure across Goulburn-Murray Water's region.

Other proposed changes to tariff structures include:

- Lower Murray Water – tariffs in the Mildura irrigation district will be restructured to align with the tariffs in other irrigation districts (the Mildura district was previously covered by the First Mildura Irrigation Trust).
- Grampians Wimmera Mallee Water – introduction of a contribution of \$16 per rural and urban water customers to allow for discounts for recreational lakes and eligible sporting clubs.

1.3 Service standards

The rural businesses have proposed service standards for the next price period in the following areas:

- irrigation services
- licensing and administration and
- customer service.

The standards and targets proposed by each business vary due to differences in the services they deliver and business specific factors such as the age and condition of infrastructure.

Goulburn-Murray Water

Goulburn-Murray Water has historically reported against service standards on an individual district basis. For the next price period, Goulburn-Murray Water proposes to move towards standardised service standards across its entire region reflecting the impact of its modernisation and connections program, which is expected to lead to standardised levels of services across its region.

Lower Murray Water

Lower Murray Water has proposed service standard targets that generally reflect their actual level of performance over the current price period. This includes in areas such as delivery reliability, number of bursts and leaks, and customer service and administration.

Southern Rural Water

Southern Rural Water has reviewed its approach for establishing and proposing service standards. Proposed service standards vary by district, but generally include standards covering water volume measurement accuracy, delivery times and reliability of service. Southern Rural Water has proposed improved service targets across all districts.

Grampians Wimmera Mallee Water

Grampians Wimmera Mallee Water has proposed service standard targets that generally reflect actual performance during the current price period. Service standards cover license administration , bulk water management and customer service.

A list of the service standards proposed is provided in separate summary sheets prepared for each business.

1.4 Proposed revenue and expenditure requirements

The businesses' proposed price changes reflect their views about the revenue they need in order to deliver services to customers. Each business has forecast the following revenue requirement for the next price period:

- Goulburn-Murray Water (2013-14 to 2015-16): \$371m (excluding the Northern Victoria Irrigation Renewal Project)

- Lower Murray Water (2013-14 to 2017-18): \$138m
- Southern Rural Water (2013-14 to 2017-18): \$143m

Note: Grampians Wimmera Mallee Water has not provided a separate breakdown of revenue and expenditure requirements for rural and urban services. Aggregate forecasts are summarised in the paper covering regional urban water businesses.

Capital expenditure

Proposed capital expenditure for the next price period is characterised by a focus on renewals and upgrades to existing infrastructure to maintain services, and comply with the requirements of technical regulators such as the Department of Sustainability and Environment (for example, dam safety) and the Department of Health (for example, water quality).

Note that the capital costs for the largest rural project, Goulburn-Murray Water's \$2 billion modernisation program (with an estimated \$730 million of expenditure in the three years from 1 July 2013), is being funded through government contributions (and is therefore not reflected in customer prices).

The modernisation program is expected to deliver a number of benefits to irrigators in Goulburn-Murray Water's area including increased flow rates, more consistent flow rates, improved maintenance response and increased accuracy of outlets.

Some of the other key projects proposed by the rural water businesses include:

- Goulburn-Murray Water – improvements to dam safety at the Tullaroop Reservoir through the construction of a filter buttress across the main embankment section and upgrading existing instrumentation.

- Southern Rural Water – construction of the Southern Cowwarr balancing storage to reduce order lead times for customers and improve the consistency of flow rates.
- Southern Rural Water – outlet rationalisation and increased automation of outlets for the Macalister irrigation district, leading to improved service levels and compliance with measurement standards.
- Grampians Wimmera Mallee Water – improved customer communication, efficiency and operation of the rural water network through investment in back to base metering.

Table 1 provides more detail on the key capital projects proposed by each business.

Table 1 Key capital expenditure projects for each water business

<i>Proposed capital expenditure project/program</i>	<i>Reason</i>	<i>Net cost (\$)</i>
Goulburn-Murray Water		
Tullaroop Reservoir Dam Safety Upgrade	Compliance	8.2
Mildura/Merbein Salinity Interception Scheme	Renewal/Compliance	4.9
Access tracks and fencing	Improved service	13.0
Road culvert and crossing replacement	Renewal	5.8
Lower Murray Water		
Mildura Irrigation System Essential Replacements and Overhauls	Renewal	6.8
Merbein Switchboard Replacement and Pump Overhauls	Renewal	4.6

<i>Proposed capital expenditure project/program</i>	<i>Reason</i>	<i>Net cost (\$)</i>
Automatic Channel Control Red Cliffs and Merbein	Improved Service	3.0
Red Cliffs Switchboard Replacement and Pump Overhauls	Renewal	2.5
Irrigation Meter Replacement Program	Renewal	1.8
Irrigation Pipeline and Minor Replacement	Renewal	1.4
Grampians Wimmera Mallee Water		
Intelligent Rural Water Networks – Back-to-Base metering	Improved Service	6.5
Irrigation Network Decommissioning	Compliance	4.8
Wimmera Mallee Pipeline Augmentation	Growth	4.6
Southern Rural Water		
Macalister Irrigation – Southern Cowwarr Balancing Storage	Improved service	6.5
Macalister Irrigation –Nambrok Denison Regulator Retrofit	Renewal	4.8
Werribee Irrigation – Piping or lining 4/1 Channel	Renewal	4.1
Macalister Irrigation – Outlet Rationalisation	Improved service /Renewal	3.8

Each business has forecast the following expenditure on capital projects for the next price period (net of any government or customer contributions to projects):

- Goulburn-Murray Water (2013-14 to 2015-16): from \$73.9m in the three years from 2010-11 to 2012-13 to \$82.6m in 2013-14 to 2015-

16, an increase of 11.8 per cent (excluding the Northern Victoria Irrigation Renewal Project).

- Lower Murray Water (2013-14 to 2017-18): from \$53.5m in the period from 2007-08 to 2012-13 to \$34.1m in 2013-14 to 2017-18), a decrease of 36.3 per cent.
- Southern Rural Water (2013-14 to 2017-18): from \$45.2m in the period from 2007-08 to 2012-13 to \$45.6m in 2013-14 to 2017-18), a decrease of below 1 per cent.

Note that Southern Rural Water has proposed to transition from a renewal annuity to fund capital works to the standard regulatory approach which involves recovery of a return on assets and depreciation through customer prices. The renewal annuity provided funds in advance of capital works, whereas the standard regulatory approach smooths recovery of capital costs over the life of assets. More details are provided in Southern Rural Water's Water Plan (see page 5).

The Commission has engaged engineering consulting firm Cardno to assist in our review of the prudence and efficiency of the capital expenditure proposals of the water businesses

Operating expenditure

Each business has proposed the following for operating expenditure over the next price period:

- Goulburn-Murray Water (2013-14 to 2015-16): from \$271.3m in the three years from 2010-11 to 2012-13 to \$297.7m in the period from 2013-14 to 2015-16, an increase of 9.7 per cent (with contributions to the Murray Darling Basin Authority and maintenance expenditure contributing to the rise). The 2013-14 to 2015-16 estimate includes an assumed productivity dividend totalling around \$6 million.

- Lower Murray Water (2013-14 to 2017-18): from \$106m in the period from 2007-08 to 2012-13 to \$103.1m in 2013-14 to 2015-16), a decrease of 2.8 per cent (driven mainly by reduced operating expenditure for irrigation services).
- Southern Rural Water (2013-14 to 2017-18): from \$108.7m in the period from 2007-08 to 2012-13 to \$104.6m in 2013-14 to 2015-16), a decrease of 3.8 per cent (based on forecasts of no real increase in the costs of electricity and fuel, and labour cost growth of 1 per cent per annum in real terms).

Each business forecasts operating expenditure to remain relatively stable on an annual basis over the next price period (table 2).

Table 2 Operating expenditure (\$m 2012-13)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Goulburn-Murray Water ⁺	84.2	92.7	97.7	100.9	99.2	98.9*	97.4*
Lower Murray Water	22.8	20.1	20.3	20.5	20.6	20.8	20.8
Southern Rural Water	20.7	20.7	21.4	21.1	20.9	20.7	20.6

Notes:

* Goulburn-Murray Water's price period will run for three years from 1 July 2013. Estimates for 2016-17 and 2017-18 are indicative only.

+ Goulburn-Murray Water's operating cost estimates for 2013-14 to 2017-18 include an adjustment for a "productivity dividend". See page 2 of Goulburn-Murray Water's Water Plan.

The Commission has engaged Cardno to assist in our review of the prudence and efficiency of the operating expenditure proposals of the water businesses.

1.5 Demand forecasts

In order to specify the prices needed to support the delivery of proposed services over the price period, it is necessary for the businesses to prepare forecasts of demand for each key service area. As the rural businesses propose to operate under a revenue cap, demand forecasts are of lower importance than for the urban water sector (where most businesses propose to operate under a price cap).

Some of our observations about the demand forecasts for each of the rural water businesses are summarised below.

Goulburn-Murray Water

Goulburn-Murray Water states that demand will be impacted by three key drivers:

- The Murray – Darling Basin Plan (MDBP)
- The rural modernisation and connections program
- Climate.

The extent to which each of these drivers impacts demand is uncertain. However Goulburn-Murray Water has made a number of assumptions about each driver and incorporated these into the water plan.

The MDBP will reduce the volume of water available for irrigated agriculture. G-MW has assumed that this would result in a reduction in the volume of Goulburn Murray Irrigation District (GMID) high reliability water shares to around 900GL.

Goulburn-Murray Water's modernisation and connections program is expected to reduce the number of delivery shares held and the number of service points. This will increase infrastructure service and service point fees in time.

The volume of water available for delivery each year depends on the previous year's catchment inflows. Goulburn-Murray Water has assumed that the volume of water delivered in 2013-14 will be consistent with the actual volume of water delivered in 2011-12. This is a departure from the underlying Water Plan assumption that 100 per cent of high reliability water shares are delivered.

Lower Murray Water

Lower Murray Water has reported in its Water Plan that it expects a small increase in water usage across the Mildura and Merbein irrigation districts during the third price period. This is because small amounts of land that have been dried off will be replanted. Forecast water volumes for stock and domestic purposes and from diversions are expected to remain at 2012-13 levels for the third price period. Delivery shares for irrigation and drainage are also expected to remain at 2012-13 levels.

Southern Rural Water

Demand projections are generally stable for the next price period—the bulk of Southern Rural Water's irrigation revenue comes from fixed entitlements which are generally stable over time.

2 NEXT STEPS

We encourage customers and representative groups to respond to the issues in their water business' Water Plans and to identify any further issues that they consider should be addressed in assessing the businesses' Water Plans. The responses received through the public consultation process will assist us to assess the businesses' Water Plans. The due date for submissions in response to the Water Plans is 25 January 2013.

We will hold public forums throughout Victoria to provide further opportunities to understand the key features of the businesses' proposals and to identify any issues or views that customers and representative groups may have about the proposals and their impact. Further details of the location and timing of these public forums are provided on our website www.esc.vic.gov.au. If you would like to attend a public forum or have any queries, please advise via email water@esc.vic.gov.au or by phone on 03 9651 0206.

We will release a draft decision on water prices in March 2013. The draft decision will provide our preliminary views on the maximum prices to apply from 1 July 2013.

The draft decision will take into account our assessment of the Water Plans, issues raised in the consultation process, and comments on the Water Plans from customers, their representatives and interest groups. The draft decision will form the basis for further consultation before the Commission makes its final decision in June 2013. The new prices authorised through the final decision will take effect from 1 July 2013.

The indicative timeline for the water price review is outlined below:

Rural businesses – water price review timeline

<i>Indicative dates</i>	<i>Activity</i>
November-December 2012	Public forums on Water Plans
25 January 2013	Closing date for public submissions to the Commission on the businesses' Water Plans
March 2013	Commission releases its draft decision on water prices, invites submissions on draft decision
March-April 2013	Public forums on draft decision
April 2013	Closing date for public submissions to the Commission on our draft decision
June 2013	Final decision
