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2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
GOULBURN-MURRAY WATER

MARCH 2008

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1. Purpose of volume II of the draft decision

The Commission is required to issue a Draft Decision that proposes either to:

- (a) approve all of the prices which a regulated entity may charge for prescribed services, or the manner in which such prices are to be calculated or otherwise determined, as set out in the regulated entity's water plan, until the commencement of the next regulatory period or
- (b) refuse to give the approval referred to above and specifies the reasons for the Commission's proposed refusal (which may include suggested amendments to, or action to be taken in respect of, the Water Plan that, if adopted or taken, may result in the Commission giving that approval) and the date by which a regulated entity must resubmit a revised Water Plan or undertake such action as to ensure compliance.

This Volume of the Draft Decision summarises for each business the suggested amendments or actions that if adopted or taken may result in the Commission giving its approval to the relevant business's proposed prices or the manner in which such prices are to be calculated or otherwise determined. The main reasons for suggested amendments or actions are summarised. More detailed reasons for the Commission's suggested amendments are outlined in Volume I of the Draft Decision.

2. Actions to be taken in response to this draft decision

In response to this Draft Decision, Goulburn-Murray Water should by 9 May 2008 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2008 that reflects:
 - (i) the revised revenue requirement set out in Table 4
 - (ii) any changes to tariff structure suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in Tables 1–2.

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the service standards to apply for the regulatory period 2008-09 to 2012-13 as part of its Final Determination.

3. Service standards

The Commission proposes to approve each of the service standards proposed in Goulburn-Murray Water's Water Plan, except as indicated in table 1.

Table 1 Approved service standards

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Gravity Supply					
Unaccounted for water (per cent)	26.0	24.0	24.0	24.0	23.0
Licensing/administration					
Processing permanent transfer of surface diversion or groundwater licences within [X] days (per cent)					
Processing temporary transfer of water entitlement volumes within 5 days (per cent)	100	100	100	100	100
Processing permanent transfer of water entitlement volumes within 15 days (per cent)	95	95	95	95	95
Number of diversion licences metered or assessed for metering at 30 June (per cent)	100	100	100	100	100
Volume of total surface water and groundwater entitlements metered at 30 June (per cent)	100	100	100	100	100
Customer service					
Complaints to EWOV	7.0	7.0	6.0	6.0	6.0
Telephone calls answered within 30 seconds	95.0	95.0	95.0	95.0	95.0

Note Data rounded to one decimal place. **n.p.** = Not provided.

Table 2 Approved service standards - By Region

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Shepparton					
Gravity Supply					
Irrigation water orders delivered on day requested (per cent)	91.00	91.50	91.50	92.00	92.50
Number of channel burst and leaks (per 100 km of channel)					
Unaccounted for water (per cent)	27.00	26.50	26.00	25.00	25.00
Pumped Supply					
Number of pipeline bursts and leaks (per 100 km of pipeline)	60.00	60.00	50.00	50.00	50.00
Unavailability of stock and domestic supply systems for continuous periods in excess of 96 hours (per cent)	2.00	2.00	2.00	2.00	2.00
Unaccounted for water (per cent)	20.00	20.00	19.00	18.00	17.00
Irrigation drainage (by district/supply system)					
Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Availability of sub-surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Central Goulburn					
Gravity Supply					
Irrigation water orders delivered on day requested (per cent)	92.00	92.50	92.50	93.00	93.50
Number of channel burst and leaks (per 100 km of channel)					
Unaccounted for water (per cent)	27.00	26.50	26.00	25.00	25.00
Irrigation drainage (by district/supply system)					
Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Availability of sub-surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Rochester - Campaspe					
Gravity Supply					
Irrigation water orders delivered on day requested (per cent)	83.00	83.50	83.50	84.00	84.50
Number of channel burst and leaks (per 100 km of channel)					
Unaccounted for water (per cent)	28.00	27.00	27.00	26.00	25.00
Irrigation drainage (by district/supply system)					
Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Availability of sub-surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Pyramid - Boort					
Gravity Supply					
Irrigation water orders delivered on day requested (per cent)	82.00	82.00	82.50	83.00	83.50
Number of channel burst and leaks (per 100 km of channel)					
Unaccounted for water (per cent)	21.00	21.00	21.00	21.00	21.00
Pumped Supply					
Number of pipeline bursts and leaks (per 100 km of pipeline)	75.00	75.00	75.00	75.00	75.00
Unavailability of stock and domestic supply systems for continuous periods in excess of 96 hours (per cent)	1.00	1.00	1.00	1.00	1.00
Unaccounted for water (per cent)	15.00	15.00	15.00	15.00	15.00
Irrigation drainage (by district/supply system)					

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00

Murray Valley

Gravity Supply

Irrigation water orders delivered on day requested (per cent)	88.00	88.50	89.00	89.50	90.00
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Number of channel burst and leaks (per 100 km of channel)

Unaccounted for water (per cent)	27.50	27.00	26.50	26.00	25.00
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Irrigation drainage (by district/supply system)

Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
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Availability of sub-surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
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Torrumbarry

Gravity Supply

Irrigation water orders delivered on day requested (per cent)	83.00	83.50	83.50	84.00	84.50
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Number of channel burst and leaks (per 100 km of channel)

Unaccounted for water (per cent)	28.00	27.00	27.00	26.00	25.00
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Pumped Supply

Irrigation water orders delivered on day requested (per cent)	98.00	98.00	98.00	98.00	98.00
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Number of pipeline bursts and leaks (per 100 km of pipeline)	50.00	50.00	50.00	50.00	50.00
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Unaccounted for water (per cent)	8.00	8.00	8.00	8.00	8.00
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<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Irrigation drainage (by district/supply system)					
Availability of surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00
Availability of sub-surface drainage schemes (per cent)	98.00	98.00	98.00	98.00	98.00

Note Data rounded to one decimal place. **n.p.** = Not provided.

The Commission notes that Goulburn-Murray Water did not propose the full suite of core service standards (as shaded in Table 2). The Commission will work with the business to put forward targets for these standards prior to the Final Decision.

Furthermore, the Commission has sought further information in relation to the targets set for the following indicators:

- (a) Processing permanent transfer of surface diversion or groundwater licences within [X] days
- (b) EWOV Complaints

Table 3 Additional service standards

<i>Service standard</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Bulk water assets availability of storage capacity as a % of design storage capacity	100.0	100.0	100.0	100.0	100.0
Retail Water assets number of unplanned service failures greater than 12 hours	0	0	0	0	0
Retail Water assets reported channel leaks responded to within agreed times	100.0	100.0	100.0	100.0	100.0
Bulk water assets availability to deliver water on demand to customers as a % of time	100.0	100.0	100.0	100.0	100.0
Regulated rivers minimum river flow regimes > or equal to specified minimum flows 100% of the time	100.0	100.0	100.0	100.0	100.0
Unregulated rivers meet agreed targets or natural flow 90% of the time	90.0	90.0	90.0	90.0	90.0

Note Data rounded to one decimal place.

4. Guaranteed service level scheme

The business has not proposed to introduce a GSL scheme in the forthcoming period.

5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

Table 4 **Breakdown of revenue requirement implied by ESC draft decision**
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	91.11	89.70	87.77	83.38	83.15
Return on existing assets	7.40	7.18	6.97	6.77	6.64
Return on new investments	0.66	2.16	3.81	5.42	7.04
Regulatory depreciation	4.12	5.06	5.78	5.65	5.26
Adjustments from previous period	6.22	0.31	0.52	0.69	1.01
Renewals annuity	0.00	0.00	0.00	0.00	0.00
Tax liability	0.00	0.00	0.00	0.00	0.00
Total	109.50	104.42	104.85	101.92	103.10

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 have been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward value is shown in table 5.

Table 5 Updated regulatory asset base
\$ million in January 2007 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	61.40	83.73	95.62
<i>Plus</i> Gross Capital expenditure	58.00	45.35	97.01
<i>Less</i> Government contributions	34.33	20.88	58.00
<i>Less</i> Customer contributions	0.00	10.36	8.65
<i>Less</i> Proceeds from disposals	0.00	0.00	0.00
<i>Less</i> Regulatory depreciation	1.33	2.22	2.91
Closing RAB	83.73	95.62	123.07

The regulatory asset base as at 1 July 2005 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 to 2012-13 period less any approved allowance for regulatory depreciation.

The Commission has adopted the following assumptions in relation to regulatory asset base over the regulatory period:

Table 6 Rolled forward regulatory asset base
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	123.1	141.0	165.2	188.1	211.9
<i>Plus</i> Gross Capital expenditure	45.1	44.4	34.5	36.2	35.7
<i>Less</i> Government contributions	14.0	11.5	4.1	4.8	4.8
<i>Less</i> Customer contributions	9.0	3.6	1.8	1.9	0.9
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	4.1	5.1	5.8	5.6	5.3
Closing RAB	141.0	165.2	188.1	211.9	236.7

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 6.1 per cent for all water businesses. The table below outlines the individual components for the WACC.

Table 7 Real post-tax WACC

<i>Real risk free rate</i>	<i>Equity beta</i>	<i>Market risk premium</i>	<i>Debt margin</i>	<i>Financing structure</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>(per cent)</i>	<i>(β)</i>	<i>(per cent)</i>	<i>(per cent)</i>	<i>(per cent)</i>	<i>(%)</i>	<i>(per cent)</i>
3.41	0.65	6.00	1.95	60	0.5	6.1

8. Operating expenditure

The Commission has made the following assumptions about operating expenditure forecasts over the regulatory period:

Table 8 Proposed and approved operating expenditure assumptions
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	92.19	96.67	83.87	83.12	82.93
Revisions and adjustments	-1.09	-6.96	3.90	0.26	0.22
Draft decision – operating expenditure	91.11	89.70	87.77	83.38	83.15

The Commission's assumptions reflect the following adjustments to Goulburn-Murray Water's proposed operating expenditure forecasts:

Table 9 Adjustments to operating expenditure
\$ million in January 2007 prices

<i>Expenditure item</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Asset rationalisation	-1.48	-3.71	0.00	0.00	0.00
Lake Mokoan deferral	0.00	-3.6	3.6	0.00	0.00
Reduction in ESC audit costs	-0.03	-0.03	-0.03	-0.03	-0.03
Environmental contribution	0.42	0.38	0.33	0.29	0.25
Total	-1.09	-6.96	3.90	0.26	0.22

- (a) No business revisions were proposed after the submission of the Water Plan
- (b) CARDNO recommended reductions to asset rationalisation expenditure in the first two years of the regulatory period to allow further development Food Bowl Modernisation project (CARDNO page 11)
- (c) Given the delays to date and likelihood of further changes to scope and timing for the Mokoan project, CARDNO has recommended that \$3.6 million

of operational expenditure be moved from 2009-10 to 2010-11 (CARDNO page 11)

- (d) Proposed costs associated with ESC audits were considered to be over estimated by G-MW, CARDNO recommended that they be reduced by - \$0.03 million per annum (CARDNO page 10)
- (e) The Commission adjusted the environmental contribution to levels based on Department of Sustainability and Environment advice (Draft Decision section 4.9)

9. Capital expenditure

The Commission has made the following assumptions about capital expenditure forecasts over the regulatory period:

Table 10 Proposed and approved capital expenditure assumptions
\$ million in January 2007 prices

		<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	Gross	56.75	39.11	33.12	38.06	37.45
	Net	27.06	27.26	25.64	29.49	30.02
Draft decision – capital expenditure	Gross	45.12	44.38	34.54	36.24	35.75
	Net	22.06	29.26	28.64	29.49	30.02

The Commission's assumptions reflect the following adjustments to Goulburn-Murray Water's proposed capital expenditure forecasts:

Table 11 Adjustments to capital expenditure
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Drainage (primarily Surface Water management program)	-1.63	-1.73	-1.58	-1.82	-1.7
Dam Safety Upgrade program	-5	2	3		
Lake Mokoan - Return to Wetlands (Water Savings Program)	-5	5			
Total ESC Adjustment	-11.63	5.27	1.42	-1.82	-1.7

- (a) Drainage (Surface management program) – Cardno considers that based on actual historical expenditure, the forecast expenditure in the G-MW Water

Plan is optimistic. They therefore recommended that the forecast for this category of expenditure be reduced by 20% (Cardno, section 3.2).

- (b) Dam Safety Upgrade program – Cardno noted that historically actual expenditure had been lower than that proposed in the forecast. Cardno recommended that the forecast expenditure be more evenly distributed over the five year period (Cardno, section 3.2).
- (c) Lake Mokoan – Return to Wetlands – Given the uncertainty surrounding the final scope of the Lake Mokoan – Return to Wetlands Project, Cardno recommended that the forecast capital expenditure for this project be spread over the first two years of the period (Cardno, section 3.2).
- (d) Goulburn Murray Water has identified the following key capital projects to be undertaken during the regulatory period.

Table 12 Key capital projects

	<i>Expected completion date</i>
Surface Water Management Program	2012-13
Dam Safety Upgrade Program	2012-13
Reconfiguration Program	2012-13
Lake Mokoan – Return to Wetlands (Water Savings Program)	2009-10
Diversions Metering Program	Post 2012-13

10. Demand forecasts

The Commission has accepted the demand forecasts proposed by Goulburn Murray Water.

11. Form of price control

- (a) The Commission proposes to approve Goulburn-Murray Water’s proposed revenue cap form of price control.
- (b) Goulburn-Murray Water should submit a schedule of prices to apply from 1 July 2008.

12. Pass through mechanisms

Businesses may apply to the Commission to adjust their prices either at the end of the regulatory period or during the regulatory period for specified costs where these are materially different from the costs included for the purposes of the Determination. Pass through mechanisms may apply in the following cases:

- (a) Prices will be adjusted at the end of the regulatory period to reflect any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in Table 13

Table 13 Approved licence fee assumptions^a
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-2013</i>
Essential Services Commission	0.10	0.10	0.10	0.10	0.14
Environment Protection Authority	0.00	0.00	0.00	0.00	0.00
Department of Human Services	0.00	0.00	0.00	0.00	0.00

^a Included in forecasts of business as usual operating expenditure.

- (b) Prices will be adjusted at the end of the regulatory period to reflect the additional net operating costs associated with meeting changes in legislative obligations during the regulatory period where:
- (i) the impact on costs is equivalent to at least 5 per cent of the business's revenue over the regulatory period
 - (ii) changes in costs relate to changes in primary Acts and legislative instruments, including regulations; in taxes (or fees or similar charges) excluding income tax, penalties and interest on taxes, stamp duty, financial institutions duty or similar taxes and levies; to EPA licence requirements; and/or to the Statement of Obligations
 - (iii) the change in legislative obligation was unforeseen and not already reflected in expenditure forecasts
 - (iv) additional capital costs will be rolled into the regulatory asset base at the beginning of the next regulatory period where the expenditure is assessed as being prudent and efficient, and prices will be adjusted to reflect any associated financing costs.
- (c) Prices may be adjusted during the regulatory period to reflect costs associated with catastrophic events, such as fire, earthquake or act of terrorism, where:
- (i) the impact on costs is so significant as to prevent the business meeting its service requirements and obligations without compromising its financial viability during the period
 - (ii) the business can demonstrate that it had taken appropriate steps to plan for or manage the potential impact of such an event.
- (d) Prices may be adjusted during the regulatory period to reflect expenditure relating to major capital projects where:

- (i) the business has separately identified any uncertain major capital projects and excluded those projects from its expenditure forecasts
 - (ii) the Commission has identified the project as an uncertain major capital project in the Final Determination
 - (iii) the application process for determining the amount, nature and timing of any adjustment will be set out in the Final Determination.
- (e) Prices may be adjusted during the regulatory period to reflect any significant differences between actual and forecast demand levels where:
- (i) the Commission determines that actual demand levels are significantly different from those forecast for the purposes of the Final Determination
 - (ii) the Commission finds a material impact on the business's revenues.

13. Tariffs

- (a) The Commission proposes to approve Goulburn-Murray Water's proposed tariff structures.
- (b) The Commission provisionally proposes to approve price paths proposed by Goulburn-Murray Water.
- (c) The Commission will seek further detailed information from Goulburn-Murray Water explaining the relatively large price increases for a number of its services and other differences in price changes between districts for similar services.
- (d) The Commission proposes to approve Goulburn-Murray Water's proposed price paths if it is satisfied that they are based on charges in costs.
- (e) The Commission will seek further information from Goulburn-Murray Water regarding its proposed termination fees, and their inconsistency with the ACCC's recommended principles.
- (f) The Commission considers that the principles recommended by the ACCC for calculating termination fees are consistent with the WIRO. Therefore, the Commission is likely to approve a revised proposal from Goulburn-Murray Water that is consistent with the ACCC principles.
- (g) The Commission is seeking further information in regard to the prices it proposes to charge for bulk water services.