

## The Essential Services Commission

We are the independent economic regulator of the Victorian water industry. The Commission periodically assesses prices put forward by Goulburn-Murray Water (G-MW) against Commonwealth and state pricing rules.

### ESC review of G-MW Price Submission

In September 2015, G-MW submitted to the Commission its forecast business costs and proposed prices for the fourth regulatory period which covers 1 July 2016 to 30 June 2020.

The Commission has considered G-MW's price submission including a report by Deloitte Access Economics, customer submissions and public forums, and reports prepared by the Commission's expert consultant, Indec.

We have released a draft decision on G-MW's proposal and are seeking public comment before a final decision is released in June.

### Revenue requirement – draft decision

The Commission proposes to approve a revenue requirement for G-MW of \$467.7 million for the fourth regulatory period which is \$25.6 million (5.2 per cent) lower than proposed by G-MW. This is shown in table 1.

The Commission has adjusted the revenue requirement estimates over the fourth regulatory period to reflect our view of the efficient level of expenditure and the efficient costs of financing assets. The lower revenue requirement approved in this draft decision reflects lower operating and capital expenditures over the regulatory period.

**Table 1. Revenue requirement 2016-2020 (\$m 2015-16)**

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

\* Numbers have been rounded.

## Tariff Structure - draft decision

The Commission proposes not to approve G-MW's transition to single Infrastructure Access and Use Fees for its six gravity irrigation districts. Our analysis shows cost structures do not justify a common fee across all districts, but would justify a common fee for up to five of the six districts.

We propose to approve G-MW's diversion services strategy subject to G-MW extending the transition to four years to reduce the impact of price increases on small diversion customers.

The Commission proposes to approve changes in the tariff structure of service point fees and increases in some bulk water charges. We also propose to approve continuing the existing tariffs for drainage and pumped irrigation.

### Operating expenditure - draft decision

G-MW proposed operating expenditure of \$398.1 million for the fourth regulatory period, an average of \$99.5 million per year (table 2). The average operating expenditure per year for the third regulatory period was \$98.0 million.

The Commission proposes to approve operating expenditure for G-MW of \$374 million, which is 6.4 per cent lower than G-MW's proposal.

The main reasons for the reduction are:

- additional productivity improvements in operating expenditure to meet G-MW's cost saving commitments; and
- a change in the forecast of G-MW's Murray-Darling Basin Authority contribution.

**Table 2. Operating expenditure 2016-2020 (\$m 2015-16)**

	2016-17	2017-18	2018-19	2019-20	Total
G-MW proposed	100.1	99.9	99.8	98.5	<b>398.1</b>
Draft decision	96.2	94.5	92.3	90.7	<b>374.2</b>

\*Numbers have been rounded.

## Capital expenditure - draft decision

For the fourth regulatory period, G-MW proposed capital expenditure of \$136.7 million (table 3), an average of \$34.2 million per year compared to the average expenditure of \$30.0 million per year in the third regulatory period. G-MW proposed higher capital expenditure in 2016-17 than in later years due to several projects carried over from the previous regulatory period.

**Table 3. Capital expenditure 2016 to 2020 (\$m 2015-16)**

	2016-17	2017-18	2018-19	2019-20	Total
G-MW proposed	45.2	32.8	32.5	26.3	<b>136.7</b>
Draft decision	45.0	32.6	32.3	26.1	<b>136.0</b>

\* Numbers have been rounded. Does not include Connections project

The Commission proposes to approve capital expenditure for G-MW of \$136.0 million for the fourth regulatory period including an adjustment (\$674,000 over four years) to G-MW's proposed capital expenditure to reflect a reduction in contingencies on some projects.

## Service standards - draft decision

The Commission proposes to approve G-MW's service standards because they were developed in consultation with customers and meet industry standards.

We consider G-MW should continue to consult with customers about the suitability of the standards and to report annually to Water Service Committees, and on its website, on how it performs against these standards.

## Next Steps

G-MW must recalculate and resubmit all its proposed tariffs and prices to account for our required amendments to its revenue.

Where we propose not to approve new tariff structures, G-MW must decide whether to put forward modified proposals or continue with current arrangements.

On average G-MW prices will be about 5 per cent lower, however exact prices will depend on how G-MW passes on our proposed changes.

## How to get involved

You are invited to participate in the review by attending public meetings, or making written submissions. We will use your submissions to inform our final decision.

Our final decision will approve the maximum prices that G-MW can charge next year and the revenue G-MW can earn over the four year regulatory period.

We will hold public forums in G-MW's area of operation during April 2016 to gather your feedback. The forums will provide an opportunity for interested parties to understand the key features of the draft decision and to provide comment.

Written submissions can be sent by email to [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au) or posted to Water Price Review, Essential Services Commission, Level 37, 2 Lonsdale Street, Melbourne 3000.

More information, including material from past price reviews can be found on the Commission's website [www.esc.vic.gov.au](http://www.esc.vic.gov.au).

## The Commission will hold public forums at the following locations:

Tatura	Monday 11 April	7:00 pm to 10:00 pm	Ballantyne Centre, 9 Hastie Street, Tatura
Kerang	Tuesday 12 April	12:00 pm to 3:00 pm	Kerang Valley Resort, 76 Murray Valley Highway, Kerang