

### The Essential Services Commission

We are the independent economic regulator of the Victorian water industry. The Commission periodically assesses prices put forward by water businesses in a three to five year Water Plan.

### ESC review of Water Plans

Last year the rural water businesses submitted to the Commission their Water Plans for the third regulatory period commencing, 1 July 2013. These Water Plans set out the forecast business costs and the prices that each business proposed to charge their customers to recover those costs. In authorising prices for the water businesses, the Commission assessed whether the proposed operating and capital expenditure forecasts were prudent and efficient, and assessed the required revenue to operate the businesses and to meet obligations from the Minister of Water and other regulatory bodies. The Commission engaged a consultant, Cardno, to assist with the assessment of rural businesses' proposed expenditure. Note that GMMWater's Water Plan did not separate their urban and rural operations, and these are covered together under our draft decision for the regional water businesses.

### Operating expenditure - draft decision

Lower Murray Water (Rural) and Southern Rural Water proposed operating expenditure forecasts which are lower than for the second regulatory period. Table 1 compares the rural businesses' actual and proposed operating expenditure and the Commission's draft decision. Minor adjustments were made to the businesses' proposed operating expenditure for the environmental contribution, the ESC licence fee, and allowing for the recovery of defined benefits superannuation costs.

The key drivers for the proposed operating expenditure identified by the rural businesses are:

- higher labour costs (all three businesses)
- higher energy costs (Goulburn-Murray Water and Lower Murray Water)
- higher costs of operating and maintaining a hybrid gravity irrigation system during the transition from manual to automatic operation (Goulburn-Murray Water)
- higher contribution to the Murray Darling Basin Authority (Goulburn-Murray Water) and
- an increase from 2013-14 in the environmental contribution levy set by the Minister for Water to meet the costs of managing environmental water (all three businesses).

**Table 1 . Rural water operating expenditure 2008 to 2018 (\$m 2012-13)**

Water business	WP2**	WP3 proposed	Draft decision	Change (\$m)
G-MW*	447.7	297.7	297.5	-0.2
LMW-r	106.0	103.1	103.1	0.0
SRW	108.7	104.6	104.5	-0.1

**G-MW** Goulburn-Murray Water, **LMW-r** Lower Murray Water Rural **SRW** Southern Rural Water.

\*G-MW's price period runs for three years from 1 July 2013.

\*\*WP2 is the 2<sup>nd</sup> Water Plan (2008-2013).

### Capital expenditure - draft decision

For the next regulatory period, Goulburn-Murray Water forecast a net capital expenditure of \$82.6 million, which on average is \$27.5 million capital spend per year (Goulburn-Murray Water's average net capital spending for the second regulatory period was \$22.7 million). Southern Rural Water forecast a slightly higher capital expenditure while Lower Murray Water (Rural) proposed a lower net capital expenditure. The key drivers identified by the businesses the proposed expenditure are renewals and upgrades of existing infrastructure to maintain level of services and compliance 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).

The Commission's draft decision is to accept the rural businesses' net capital expenditure as proposed.

**Table 2. Rural water capital expenditure 2008 to 2018 (\$m 2012-13)**

Water business	WP2**	WP3 proposed	Draft decision
G-MW*	<b>113.8</b>	<b>82.6</b>	<b>82.6</b>
	141.5	84.2	84.2
LMW-r	<b>53.6</b>	<b>34.1</b>	<b>34.1</b>
	67.4	34.1	34.1
SRW	<b>45.4</b>	<b>45.6</b>	<b>45.6</b>
	54.6	63.3	63.3

Note: The numbers in **bold** are net capital expenditures. Net capital expenditure excludes projects that will receive funding from government or through customer contributions. The numbers not in bold are gross capital expenditure.

\*G-MW's price period runs for three years from 1 July 2013.

\*\*WP2 is the 2<sup>nd</sup> Water Plan (2008-2013).

**Table 3. Key capital projects**

<b>Project/program</b>	<b>Driver</b>
<b>Goulburn-Murray Water</b>	
Tullaroop reservoir dam safety upgrade	Compliance
Mildura/Merbein salinity interception scheme	Renewal/ compliance
Access tracks and fencing	Improved service
Road culvert and crossing replacement	Renewal
<b>Lower Murray Water (Rural)</b>	
Mildura irrigation system essential replacements and overhauls	Renewals
Merbein switchboard replacement and pump overhauls	Renewals
Automatic channel control at Red Cliffs and Merbein	Improved service
Red Cliffs switchboard replacement and pump overhauls	Renewal
Irrigation meter replacement program	Renewal
Irrigation pipeline and minor replacement	Renewal
<b>Southern Rural Water</b>	
Macalister Irrigation District (MID) — Southern Cowwarr balancing storage	Improved service
MID—Nambrok Denison regulator retrofit	Renewal
Werribee irrigation—piping or lining 4/1 channel	Renewal
MID—outlet rationalization	Improved service/renewal