



2018 PRICE SUBMISSION

Southern Rural Water
2018 Price Submission

Contents

EXECUTIVE SUMMARY	1
Overview	1
Price impacts	2
Financial summary.....	2
BOARD ASSURANCE	3
Attestation.....	3
Board process.....	3
OUTCOMES	4
Customer outcomes and measures.....	4
Performance reporting.....	11
CUSTOMER ENGAGEMENT	12
Our ongoing relationship with customers.....	12
Specific engagement for this submission.....	13
Outcomes of engagement.....	14
MANAGING RISK	19
Our risk management approach.....	19
Risks to service	19
Unforeseen cost impacts.....	20
Risks to prices	21
Water supply risk.....	21
REVENUE REQUIREMENT	22
Overview	22
Operating costs	22
Capital expenditure	24
Our planning approach.....	24
Top 10 projects.....	25
Regulatory asset base.....	28
Overview.....	28
Capital expenditure offsets	28

Regulatory depreciation	29
Tax allowance	29
DEMAND	30
PRICES	31
Form of price control.....	31
Tariff structures	31
Adjusting prices	32
Indicative price changes	33
Irrigation districts.....	33
Unregulated surface and groundwater	34
Storage management	34
PREMO ASSESSMENT.....	35
NON-PRESCRIBED SERVICES	38

EXECUTIVE SUMMARY

Overview

This submission covers the five year period from 1 July 2018 to 30 June 2023. The outcomes in this plan reflect our focus over the last four years on finding cost savings and new revenue, to allow us to deliver service improvements through modernisation of our business, while keeping prices affordable for customers and ensuring our own financial sustainability. Five years ago, we did not know that it would be possible to make the investments in service improvement that we are now making, with no pricing impact for most customers.

Over the current regulatory period, we have achieved cost savings of around 7% in excess of our Water Plan 3 productivity targets. We also achieved some savings in our capital expenditure program. We discussed these outcomes with our customer consultative committees, who decided:

- for the Macalister and Werribee districts, to continue with the existing price path, providing additional funds as a contribution towards modernisation projects and thereby reducing future price increases
- for our groundwater and rivers customers, to freeze prices in nominal terms, representing a lower price path than our Water Plan, but still providing some funds for investment in service improvement
- for our Bacchus Marsh district, to freeze prices rather than reduce them (once we had secured government funding and were proceeding with modernisation), in order to smooth the impact of modernisation investment.

As we implement our modernisation programs, customers in our irrigation districts will receive more consistent irrigation flow rates, shorter order lead times, and additional water availability. Groundwater and rivers customers will have access to real-time usage information from our automated meter reading technology. Across our business, customers will have better access to manage their information and transact with us online.

We are also simplifying and removing some tariffs in response to customer feedback, and proposing a tighter constraint on annual price adjustments.

We are nominating our level of ambition for this submission as 'advanced' under the PREMO framework.

Price impacts

Indicative tariff changes for our major customer groups are shown in the table below (average annual changes relative to 2017-18). While there will be some price increase for Bacchus Marsh, this is against a backdrop of reduced prices over the course of Water Plan 3.

Customer group	Customer numbers (approx.)	Average annual price change (real)
Unregulated surface and groundwater	7,300	(2.30%)
Macalister Irrigation District	1,100	0.00%
Werribee Irrigation District	300	0.00%
Bacchus Marsh Irrigation District	100	1.70%

Financial summary

Despite the most significant capital investment program in our 20 year history, the summary below of our revenue requirement shows a decrease in real terms from our last Water Plan.

	2013-18	2018-23
Operating expenditure	120,314	107,431
Bulk recycled water	2,680	6,629
Return on and of capital expenditure	34,018	43,178
Revenue requirement	157,012	157,239

Revenue requirement summary (\$'000, \$17/18)

As shown below, while our debt will increase over the next five years, we will still generate sufficient funds to maintain a healthy financial position.

	2018/19	2019/20	2020/21	2021/22	2022/23
Debt (\$000, \$17/18)	52,000	55,500	66,000	67,000	68,500
Cash interest cover	2.83	3.28	2.71	2.63	2.65

BOARD ASSURANCE

Attestation

As at 5th September 2017, the directors of Southern Rural Water, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2018 Water Price Review:

- information and documentation provided in the price submission and relied upon to support Southern Rural Water's price submission is reasonably based, complete and accurate in all material respects;
- financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used; and
- the price submission satisfies the requirements of the 2018 Water Price Review Guidance paper issued by the Essential Services Commission in all material respects.

Board process

This submission builds on existing planning processes, and in particular on the strategy adopted by the board in 2014. This strategy is focussed on modernising our infrastructure and processes to provide great service to customers, while keeping prices affordable for customers, in pursuit of our vision of increasing food, fibre and regional productivity for southern Victoria.

This submission also builds on Southern Rural Water's history of close engagement with its customer base. This includes regular interaction between the directors and customer committees, as well as board tours to customer sites and regional board dinners with customer and other stakeholder representatives.

This price submission has featured on all board agendas since November 2016, and all material assumptions and settings impacting our pricing and financial outcomes have been discussed with the board, and are consistent with the decisions agreed by the board. The board has also been kept up to date at each meeting on specific engagement processes and outcomes associated with this submission.

Following approval of this submission, the board will monitor price and service outcomes, as well as delivery of improvement initiatives, via quarterly strategy reporting.

OUTCOMES

Customer outcomes and measures

The outcomes proposed directly reflect the views, concerns and priorities of our customers as heard through our ongoing engagement programs and the additional engagement conducted specifically to inform this submission. We have repeatedly heard that customer service, affordability, water security and water quality are of greatest importance. Given the very different nature of water security and influences on water quality in our different systems, we have refined the customer outcomes to allow for those differences. Also, given the diverse and changing demographics of our customers, we are focussed on offering service in the way that best suits individual customer groups while keeping prices as low as possible.

We are committed to the following customer outcomes:

- SRW provides great customer service
- SRW's water supply system enables good practice irrigation
- SRW manages water resources well, maintaining a good balance between my needs as a water user and the sustainability of the resource
- SRW works with me to manage my water needs and entitlements
- SRW keeps prices as low as possible.

Each outcome is supported by measures and targets, which are a combination of objective business performance data and subjective customer sentiment, as defined in survey questions. Many performance measures have been carried over from Water Plan 3 with renewed performance targets. Others have been refined or are new. All are informed by discussion with customers via consultative committees, focus groups and interviews. We are reviewing our customer survey program, and targets for particular survey questions will be set following the baseline survey in late 2017.

Improvement activities with deliverable dates are shown for each outcome. Depending on the project, business cases and project planning may be already complete, underway or occurring during the pricing submission period. These improvement activities are reflected in our operating and capital expenditure forecasts. Affordability is supported by ongoing expenditure reduction, productivity improvement/cost-saving activities and management of capital expenditure.

Customer outcome	SRW provides great customer service														
Description	SRW is committed to providing professional and prompt service to our diverse customers in their preferred manner.														
Measures & targets	<p><i>Application processing</i></p> <p>SRW processes a wide range of applications for water users in both regulated and unregulated water systems. These include new licences, infrastructure construction or to vary or transfer existing licences. Timely processing allows our customers to progress their business plans.</p> <p>Our targets is 90% applications completed within set timeframes.</p> <p>The set timeframes are:</p> <table border="1"> <tr> <td>3 days</td> </tr> <tr> <td>Bore construction licence</td> </tr> <tr> <td>Information Statement</td> </tr> <tr> <td>Allocation trade</td> </tr> <tr> <td>Divide a water share</td> </tr> <tr> <td>7 days</td> </tr> <tr> <td>Licence transfer</td> </tr> <tr> <td>Water share transfer</td> </tr> <tr> <td>Information statements</td> </tr> <tr> <td>10 days</td> </tr> <tr> <td>Subdivision</td> </tr> <tr> <td>30 days</td> </tr> <tr> <td>Farm dam licence</td> </tr> <tr> <td>Take and use licence</td> </tr> </table> <p>These timeframes are much shorter than standards previously used across the industry, and for transactions via the Victorian Water Register, are shorter than the standards reported nationally.</p> <p><i>Sample customer survey question</i></p> <p>Regarding your past two years of interactions with SRW, how satisfied are you that SRW has given you:</p> <ol style="list-style-type: none"> Service in the way (online, phone, face-to-face etc.) that you prefer? Professional service? Prompt service? 	3 days	Bore construction licence	Information Statement	Allocation trade	Divide a water share	7 days	Licence transfer	Water share transfer	Information statements	10 days	Subdivision	30 days	Farm dam licence	Take and use licence
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Improvement activities	<p>SRW is investing in improved systems to reduce labour costs and increase customer control and convenience.</p> <p><i>Customer Portal and Relationship Management:</i> to be delivered by July 2020. 2018-2023: five additional transaction types per year to be available online.</p> <p><i>Surface water system rosters and restrictions:</i> Automation pilot – 30 June 2018 Full implementation – 30 June 2019</p>														

Customer outcome	SRW's water supply system enables good practice irrigation																																																								
Description	SRW's infrastructure provides adequate service levels, is efficient and reliable.																																																								
Measures & targets	<p><i>Delivery volume accuracy</i></p> <p>WID and BMID customers typically receive water into storage dams from which they pump to irrigate crops. They determine the volume they need, place the order and rely on SRW to deliver that volume. We measure accuracy as the percentage of orders where the actual volume delivered is within a defined range of the ordered volume. Our target is:</p> <p style="padding-left: 40px;">98% of deliveries are >90% of order volume or within 0.1ML.</p> <p><i>Channel pool performance</i></p> <p>MID customers typically take water from channels. By maintaining channel pools at a consistent height, we provide customers with a consistent water flow. This allows them to better control irrigation on farm, improving water efficiency and productivity. We measure channel pool performance as the percentage of time that pool levels are within specified ranges. Our targets are:</p> <table border="1"> <thead> <tr> <th></th> <th>Current</th> <th>2018/19</th> <th>2019/20</th> <th>2020/21</th> <th>2021/22</th> <th>2022/23</th> </tr> </thead> <tbody> <tr> <td>MID</td> <td>75%</td> <td>78%</td> <td>79%</td> <td>81%</td> <td>83%</td> <td>85%</td> </tr> </tbody> </table> <p><i>Delivery efficiency</i></p> <p>To maximise the water available for production, water security and economic value from an irrigation district, we seek to minimise losses caused by outfalls, seepage, leakage, measurement error, theft and evaporation. We measure efficiency as the percentage of water released into the system that is actually delivered to customers. Our targets are:</p> <table border="1"> <thead> <tr> <th></th> <th>Current</th> <th>2018/19</th> <th>2019/20</th> <th>2020/21</th> <th>2021/22</th> <th>2022/23</th> </tr> </thead> <tbody> <tr> <td>MID</td> <td>80%</td> <td>80%</td> <td>82%</td> <td>85%</td> <td>85%</td> <td>85%</td> </tr> <tr> <td>WID</td> <td>60%</td> <td>70%</td> <td>75%</td> <td>80%</td> <td>80%</td> <td>80%</td> </tr> <tr> <td>BMID</td> <td>60%</td> <td>70%</td> <td>75%</td> <td>80%</td> <td>80%</td> <td>80%</td> </tr> </tbody> </table> <p><i>Customer access to Demand Management System</i></p> <p>Customers who have outlets on modernised channel and pipeline systems can also access online, an enhanced ordering and communication system known as the 'Demand Management System (DMS)' that allows shorter order lead times, as well as instant confirmation of start time and date of orders. DMS also allows customers the ability to manipulate water flow rates without contacting planning staff. A quarter of customers currently have access to DMS. Our target is 75% customers using the DMS by 2023, which is around 650 MID customers.</p> <table border="1"> <thead> <tr> <th></th> <th>Current</th> <th>2018/19</th> <th>2019/20</th> <th>2020/21</th> <th>2021/22</th> <th>2022/23</th> </tr> </thead> <tbody> <tr> <td>MID</td> <td>25%</td> <td>40%</td> <td>50%</td> <td>60%</td> <td>70%</td> <td>75%</td> </tr> </tbody> </table> <p><i>Delivery reliability</i></p> <p>SRW seeks to minimise supply interruptions to customers due to problems such as channel breaks or weed growth. This is measured as the percentage of orders unaffected by unplanned interruptions. Our target is 99% for each district.</p> <p><i>Sample customer survey question.</i></p> <p>How satisfied are you that SRW's water supply system enables good irrigation practice on your farm?</p> <p>a) I get the service level I need (in terms of flow rate etc.)</p> <p>b) The system is efficient</p>		Current	2018/19	2019/20	2020/21	2021/22	2022/23	MID	75%	78%	79%	81%	83%	85%		Current	2018/19	2019/20	2020/21	2021/22	2022/23	MID	80%	80%	82%	85%	85%	85%	WID	60%	70%	75%	80%	80%	80%	BMID	60%	70%	75%	80%	80%	80%		Current	2018/19	2019/20	2020/21	2021/22	2022/23	MID	25%	40%	50%	60%	70%	75%
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c) The system is reliable.

Improvement activities SRW is investing in improved asset management and upgrading assets.

Review Asset Management Strategy & System (AMS):

SRW is reviewing our asset management strategy. This will inform review and upgrade/expansion of AMS over 2019-2023.

District modernisation WID, BMID & MID

Major upgrades to improve efficiency and service (see CapEx section).

Customer outcome	SRW manages water resources well, maintaining a good balance between my needs as a water user and the sustainability of the resource.
Description	SRW is committed to resource management that maximises the water available for consumptive use while ensuring sustainability.
Measures & targets	<p><i>Bulk water harvest</i></p> <p>To maximise seasonal allocations for customers, it is important that water harvest is maximised in our off-stream storages at Pykes Creek and Merrimu (other major storages are on-stream so harvest performance does not apply). Our target is: Water is harvested at the maximum possible rate >95% of time available (when dam capacity is available).</p> <p><i>Recycled water salinity</i></p> <p>Management of recycled water salinity delivered to the WID is important to manage compliance and on-farm impacts. Our target is: WID recycled water shall be delivered at less than or equal to 1800EC.</p> <p><i>Headwork release accuracy</i></p> <p>It is important to maximise the accuracy of water release from our storages to minimise water losses. We will measure performance as the percentage of time that the released flow is within defined limits of the ordered flow. Our targets are: Werribee system: 95% of time within 10% or 5ML. Maribyrnong system: 95% of time within 10% or 1ML Latrobe system: 95% of ordered release time when actual flow is within 10% of ordered flow. <i>The different levels of precision in the definition for each system reflect the different equipment for measuring and making releases at the different storages, as well as the differing customers and volumes.</i></p> <p><i>Sample customer survey question:</i> How much do you agree/disagree with the statement: SRW manages water resources well, maintaining a good balance between my needs as a water user and the sustainability of the resource?</p>
Improvement activities	<p>SRW is investing in equipment to improve the accuracy of measured and delivered resources. We are also working on initiatives to improve water security.</p> <p><i>WID & BMID</i></p> <p>Secure ongoing access to 2000-3000ML of low salinity water by June 2023. Work with DELWP and Western Water to review passing flow measurement points.</p> <p><i>Headworks (all major storages)</i></p> <p>SCADA review and upgrade by June 2023.</p>

Customer outcome	SRW works with me to manage my water needs and entitlements																								
Description	SRW is committed to helping customers to meet their business goals in a variable and changing climate.																								
Measures & targets	<p><i>Unregulated systems</i></p> <p>In our groundwater and rivers water systems, allocation is generally capped and no new allocations are available. There is, however, a very high proportion of allocated water that is unused. SRW is working to increase trade and productive water use, while maintaining sustainability. This will help customers find more water to meet their business needs and/or realise the short-term economic value of their water entitlements as a commodity in themselves. Trade and water use are impacted by seasonal conditions so it is important to look at longer term trends and customer behaviour. We will:</p> <p style="padding-left: 40px;">Promote water trade and educate customers on the benefits through increased contacts – 1,000 customer contacts per year.</p> <p><i>Regulated systems</i></p> <p>Through modernising our supply system we improve delivery efficiency and thus generate water savings. These can then be converted into new water shares and provided to assist customers in managing their water needs for security or expansion. We plan to release these water savings to customers as part of the benefit delivery plan for the irrigation districts.</p> <table border="1" data-bbox="400 987 1232 1122"> <thead> <tr> <th>District</th> <th>2018/19</th> <th>2019/20</th> <th>2020/21</th> <th>2021/22</th> <th>2022/23</th> </tr> </thead> <tbody> <tr> <td>WID</td> <td></td> <td>1,300</td> <td>533</td> <td></td> <td></td> </tr> <tr> <td>BMID</td> <td></td> <td>200</td> <td>167</td> <td></td> <td></td> </tr> <tr> <td>MID</td> <td>800</td> <td>800</td> <td>800</td> <td>7,300</td> <td>800</td> </tr> </tbody> </table> <p><i>Sample customer survey question:</i> How much do you agree/disagree with the statement: SRW works with me to manage my water needs and entitlements.</p>	District	2018/19	2019/20	2020/21	2021/22	2022/23	WID		1,300	533			BMID		200	167			MID	800	800	800	7,300	800
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WID		1,300	533																						
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Improvement activities	<p>SRW is undertaking activities including policy development, tariff reform and automation to facilitate trade and improve customer control and convenience of their water entitlements</p> <p><i>Unregulated systems</i></p> <p>Develop policy pilot programs and associated rules to assist water trading. Automate meter reading (to be complete by June 2021).</p> <p><i>All systems</i></p> <p>Tariff review & reform by 30 June 2022. Assess options & implement more proactive water trading by 30 June 2023.</p>																								

Customer outcome	SRW keeps prices as low as possible
Description	SRW is committed to modernising our business with minimal price increases.
Measures & targets	<i>Irrigation districts</i> Price increases to be no more than 10% (after adjusting for CPI) between 2013-14 and 2033-34. <i>Sample customer survey question:</i> How much would you agree/disagree with the statement: 'SRW provides good value for the price I pay'
Improvement activities	In addition to ongoing productivity improvements, SRW will complete business process mapping and improvement to reduce data entry duplication. This will support automation projects to reduce costs and improve customer control and convenience.

Performance reporting

Performance against outcomes, measures and targets is reviewed monthly by management and the board, and will be reported to all customers annually via standard communication channels including our website and regular newsletters targeted to each customer group and region. Performance is discussed more regularly and in more detail with Customer Consultative Committees.

Our ongoing customer engagement program will continue and will be subject to ongoing review and improvement. In addition, targeted engagement will be conducted for all significant improvement projects to ensure that they are supporting customers' desired outcomes appropriately.

CUSTOMER ENGAGEMENT

Our ongoing relationship with customers

Customer engagement has been part of the DNA of SRW since our creation. We are a product of customer rate protests in 1991, which precipitated the disestablishment of the Rural Water Corporation and creation of regionally based rural water businesses with close customer engagement. This is the legacy of our history, and in this context we have an inherent incentive to maintain close relationships with our customers and to provide the services they need at the lowest viable cost. If we fail in this, then we have failed in the purpose for which we were established.

This submission builds on two decades of ongoing engagement with our customers. The following identifies some of the mechanisms by which we maintain our close connection to customers.

Customer Consultative Committees

We meet regularly with our four customer consultative committees. Members of these committees are selected to ensure that a broad range of customer views are heard. Each member brings a wide range of experience which helps us respond better to changing needs and concerns from our customers.

These committees are responsible for:

- helping to shape and approve future plans, prices, investments, budgets and performance indicators
- providing input into system and service improvements
- helping to shape tariff structures, pricing and billing arrangements
- monitoring customer communication strategies and activities
- providing a customer's perspective on business issues
- assisting SRW in improving relationships with customers
- helping shape positive external stakeholder views.

Bulk entitlement engagement

We have regular scheduled meetings with urban water businesses, power companies and government departments who hold entitlements in the storages we manage. These meetings provide an opportunity to discuss service expectations, pricing and planned works.

Field staff

In contrast to other utilities, rural water management involves significant direct customer interaction. Our field staff spend a great deal of time on farm talking with customers, and some of the most positive feedback we receive from customers is about the value of our field staff.

These staff are also our most valuable source of insight into customer preferences, issues and concerns.

Customer service team	Our Customer Service team has regular contact with our customers via phone or face to face. We don't use an IVR system for our phones meaning a customer is always speaking to a person. We are able to identify trends in enquiries and develop strategies to improve the customer experience and develop consistent messaging for our customers.
Board engagement	<p>Our board meetings are held at locations across our region, and regularly include tours to customer sites, and stakeholder dinners with local customer representatives. This provides our board with direct insight into the issues and concerns of customers at a local level.</p> <p>We have a director attend each customer committee meeting to hear customer interests and concerns first hand, and our board also meets periodically with customer committees to discuss the issues that are most important for them.</p>
Field days	We attend a number of field days and similar events to provide a forum for customers to speak directly with our staff and ask questions or raise concerns.
Customer First Team	Our Customer First Team provides a regular forum for staff from across the business to share their perspectives and promote opportunities to improve customer service. This includes field staff, customer service staff, billing and revenue staff, as well as management and executive representatives. This team also visits customer sites to get a better appreciation of the issues that are of most interest for customers.
Project engagement	Irrigation district modernisation and other specific projects have significant and ongoing customer engagement programs of their own, including price impacts and project works.

This face-to-face engagement is supported by other channels including:

- detailed biennial customer surveys
- short transactional customer surveys and feedback
- regular newsletters, website and social media.

All of this engagement has shaped our strategic direction and planning through to 2030, including many elements of this pricing submission.

Specific engagement for this submission

Additional engagement specific to this submission commenced in the last quarter of 2016 and concluded in mid-2017. This engagement allowed us to invite broader participation from across our customer base, and included information gathering, detailed exploration and validation phases.

We leveraged the learnings from our ongoing and project engagement programs to design and run engagement to inform the pricing submission. We started with an invitation to all customers to be

involved in our pricing submission, and to tell us how they would like to be involved. Invitations were distributed with bills and supported by a social media and website campaign, as well as through customer committees. Those who accepted were invited to participate in the survey either by mail or on-line, depending on their preference. We followed up with focus groups or phone interviews. Focus groups were held across our region to maximise the opportunity for customers to participate.

Invitations and information provided ahead of the focus groups and interviews clearly outlined the scope and objectives of the sessions and material to be explored (service improvement proposals and customer outcomes).

We also sought views and questions in an unstructured way to ensure all customers had the opportunity to express their thoughts on SRW's service delivery and resource management.

We successfully engaged with customers who are not members our customer committees, and who we don't otherwise hear from regularly. We also continued to consult with our customer committees and our bulk water customers (including urban water corporations, power generators and the Victorian Environmental Water Holder) at regular meeting to consider capital programs, pricing, customer outcomes, measures and targets.

Feedback from our customer committees, focus group participants and interviewees indicated a very high level of satisfaction with the pricing submission engagement program. Feedback from customer committees and survey respondents also indicated a high level of satisfaction with our ongoing engagement and communications.

We have also received a positive response to the subject of tariff reform, which has enabled us to proceed with a tariff review.

Outcomes of engagement

While infrastructure and other modernisation projects are already underway and will dominate expenditure and price paths from 2018-2023, the engagement conducted has influenced the selection, scoping, timing and budget of other service improvement proposals. A strong focus of customers on affordability has validated our existing strategic commitment to minimise price rises while delivering service modernisation across the business.

Some of the feedback on pricing has been consistent with messages we have heard through our ongoing engagement, particularly from small entitlement holders on unregulated systems, some of whom believe that there should be no charges at all. We have proposed some immediate tariff changes in this submission, and launched a tariff review and reform program, which will continue over the 2018-23 period. This review program will include further consultation with interested customers.

During focus groups and interviews, customers were briefed on six service improvement proposals and asked to indicate their level of support and willingness to pay (based on estimated costs). These proposals were developed in response to customer priorities identified through the earlier survey and through our ongoing engagement.

The following table summarises the six proposals, including the customer support and our decisions for this submission.

Concept	Taking a more active role in water trading
Description	<p>New water allocations are limited in most systems, however there is opportunity to access water through trade within sustainable extraction limits. Through our ongoing engagement, we regularly hear customers looking for us to take a more proactive role in promoting water trading, and this was reinforced in feedback from our customer forum.</p> <p>We sought feedback from customers on the role they would like us to play.</p>
Support	Customers were overwhelmingly in support of SRW taking the more proactive role in water trading. Customers felt that current measures, including education, personal contact and improvements to existing systems (like our WaterMatch website) were the bare minimum. There was a high level of support for a more interventionist approach.
Willingness to pay	Willingness to pay for additional resources to set up new approaches appropriate to the different customer groups was subsequently re-tested with customer committees and was found to be high in the MID, but low in other areas. However, all customer groups were keen to invest any available savings in this area, to achieve an outcome without increasing prices.
Our decision	We have included increased water trading within our outcome measures, and we will deliver this by refocussing priorities within existing resources.

Concept	MID high-use outlet modernisation
Description	We are modernising our channels across the MID, but old-fashioned Dethridge wheels continue to contribute to losses. Replacing just the highest use wheels could save significant water.
Support	Medium
Willingness to pay	Medium
Our decision	Our capital plan includes \$1m to upgrade the 25 highest use outlets. This will help to achieve the system efficiency targets for the MID. Any proceeds from water sales can be used to fund future modernisation and/or future price reductions.

Concept	MID Lifeblood earthmoving program
Description	Well-maintained channels are essential to system efficiency and to providing better service to our customers. Recently we have invested some operating cost savings in increased maintenance to improve the operation of our channels
Support	High
Willingness to pay	High
Our decision	Our operating expenditure proposal provides for \$140k of additional maintenance per year. This will help us to achieve our targets for channel pool performance.
Concept	Maintenance management
Description	To improve our maintenance of assets, we considered an 'app' (or something similar) to enable: <ul style="list-style-type: none"> • customers to tell us about maintenance work that needs to be done • staff to record maintenance work done and needing to be done from the field • everyone to track the maintenance requests they have made.
Support	High among irrigation district customers and low among groundwater and rivers customers, reflecting the extent to which they rely on SRW-owned infrastructure.
Willingness to pay	As above
Our decision	We will implement this capability through our planned customer portal and asset management system, and therefore we do not require a specific provision for this.
Concept	WID & BMID water security Project Manager
Description	Additional low salinity water will improve long-term water security in the Werribee and Bacchus Marsh Irrigation Districts. We have been working on this for some time on securing alternative water supplies, with limited success. Having someone dedicated to this task will allow greater focus and should bring better and quicker results.
Support	High
Willingness to pay	Low-Medium

Our decision	<p>We have included \$150k within our operating expenditure to cover a project manager for one year to:</p> <ul style="list-style-type: none"> • examine options for the use of drinking water in a recycled shandy product for WID for the next five to 10 years • develop longer term options for improving water salinity in the Werribee Irrigation District • examine other options for drought proofing the Bacchus Marsh Irrigation District, for instance by allocating more groundwater and or recycled water from Western Water’s infrastructure.
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Concept	Customer portal
Description	<p>Customers increasingly expect to be able to access services and perform transactions on line, at a time and in a manner that suits them. We want to provide our customers with access to our services that is convenient and puts them in control. A Customer Portal would provide a secure extension to our existing website allow customers to access and manage their own rural water entitlements, allocation data and financial information.</p>
Support	High
Willingness to pay	Medium-High
Our decision	<p>We have completed a preliminary business case for a Customer Experience Program comprising three components:</p> <ul style="list-style-type: none"> • customer portal • automated transaction • customer relationship management. <p>We have included \$1m within our capital expenditure program to implement this program.</p>

Concept	MID2030 Phase 2
Description	<p>As we worked through development of our Price Submission, we found that the savings and investments we have achieved on behalf of Macalister irrigators could provide around \$10m towards the final stage of modernisation under the MID2030 strategy, without any real price increase over the regulatory period.</p> <p>We presented this opportunity to the Customer Consultative Committee, with the alternative being a small price reduction over the regulatory period – but no contribution towards the final stage of modernisation. The Committee voted unanimously in support of maintaining the current price to provide funding to continue modernising the district.</p>
Support	High (unanimous)

Willingness to pay High (unanimous)

Our decision

We have included \$10.6m within our capital expenditure program as a contribution towards this project.

As with previous modernisation stages, we will seek co-contribution from federal and state governments towards this project.

If we are unsuccessful in securing additional funding to complete this project, we will consult with customers on options for completing a reduced scope of works, or reducing prices.

MANAGING RISK

Our risk management approach

Our approach to risk management is consistent with the International Standard ISO31000:2009. We identify risks and scenarios, and assess consequences across seven themes:

- Reputation
- Third party losses
- Customers
- Environment
- Prices
- People
- Losses.

We establish appropriate controls and treatments to manage each risk, and review these on an ongoing basis. Potential new risks and occurrences are considered at both the Executive Risk Committee and within each business unit.

A monthly attestation by the Managing Director to the board includes risk occurrence for the month, changes to individual risk ratings, changes to risk mitigation strategies and any emerging risks which may have been identified. In addition, an annual risk review is presented to the board each June.

Risks to service

The table below describes the most significant risks to customer service and prices, and the primary controls we have in place to avoid, reduce or mitigate these risks. These controls include ongoing policies and processes which are included within our 'business as usual' operating expenditure, as well as specific initiatives – such as irrigation modernisation.

Risk	Primary Controls
Impact of climate change	<ul style="list-style-type: none"> ▪ Ongoing monitoring of groundwater systems to detect over-use or salinity intrusion ▪ Modernising irrigation districts to reduce water losses ▪ Irrigation Districts being resilient by having multiple water sources ▪ Active trading market ▪ Supporting on-farm water use efficiency
Headworks supply failure	<ul style="list-style-type: none"> ▪ Undertake operation, maintenance, safety and security inspections using Visual Inspection Regimes ▪ Undertake annual emergency and security training exercises ▪ Five yearly external comprehensive inspections
Loss of scale	<ul style="list-style-type: none"> ▪ Strong government / stakeholder relations ▪ Alternative water supplies ▪ New Revenue Strategy ▪ Exit fees payable on termination of delivery shares to offset future revenue losses
Unrealised economic output / long-term customer viability	<ul style="list-style-type: none"> ▪ Irrigation Modernisation Strategy will improve service and provide more water for production ▪ More Water in Production Strategy will provide additional resources to expand production ▪ Exploring the potential to expand irrigated agriculture in Southern Victoria
Allocation system	<ul style="list-style-type: none"> ▪ Stream monitoring network

failure	<ul style="list-style-type: none"> ▪ Water allocation models and procedure ▪ Regular review of restriction rules and trigger points
Failure to manage water quality issues	<ul style="list-style-type: none"> ▪ Some closed storages and fencing of marginal areas ▪ Storage Sustainability (Safe Drinking Water Risk Management) Plans ▪ Chemical control training and procedure ▪ Planning controls on development in water supply catchments
Irrigation supply failure	<ul style="list-style-type: none"> ▪ Asset Inspection Program ▪ Corporate Incident Management Plan ▪ Dam Safety Program ▪ Irrigation modernisation
Loss of critical IT systems	<ul style="list-style-type: none"> ▪ Uninterruptable power supply ▪ Offsite backup and disaster recovery ▪ Internal audit
Loss of major office	<ul style="list-style-type: none"> ▪ Business Continuity Plan ▪ Office security
Third party property damage	<ul style="list-style-type: none"> ▪ Asset Inspection Program ▪ Water level alarm on automated regulators ▪ Dam safety surveillance and flood routing training for reservoir operators

Unforeseen cost impacts

Our financial forecasts in this submission have assumed 'normal' conditions, and we are targeting reductions within our capital program for business as usual asset replacement and renewal to support to modernisation of our irrigation assets.

We have the following options available to us to manage unforeseen operating or capital cost impacts. Only in exceptional circumstances would we seek an adjustment to our regulatory determination.

Mechanism	Description
Insurance	We have comprehensive insurance, which covers catastrophic loss of assets or third party claims.
Resilience funds	<p>In Water Plan 3 we used some operating cost savings within our revenue requirement to build a modest business 'resilience' fund. This fund balance is then available to each customer group to absorb unforeseen cost and revenue changes, without the need to change a pre-determined price path – providing greater pricing certainty for customers.</p> <p>During the current regulatory period, we called on these funds to cover unbudgeted legal costs, and to undertake additional maintenance on channels to realise the benefits of modernisation. We found further savings to rebuild these funds. Our resilience fund balances are:</p> <ul style="list-style-type: none"> • MID - \$800k • WID - \$300k • BMID - \$200k • Groundwater & rivers - \$500k <p>For 2018 onwards, we have no provision in pricing to build or replenish resilience funds. Should we need to draw on these funds, in the first instance we would look to find operating cost savings to replenish the fund during the regulatory period. Beyond this, we would seek to recover our funds in the next regulatory period.</p>

Capital program reassessment

As priorities evolve, we will continually review the timing and composition of our forward capital expenditure program. We may take risk based decisions to defer projects, where appropriate, to manage unforeseen cost impacts.

Risks to prices

Pricing risk is managed by the regulatory model, and in particular by the 5% constraint we are proposing on annual tariff adjustment – which provides greater certainty for customers than the 10% constraint in the current regulatory determination. By not forecasting any increase in entitlements, there is no risk that we'll need to set higher prices to offset unmet forecasts. Moreover, prices may actually be lower if we create additional entitlements.

Our charges to bulk entitlement customers are not tariff based. We charge a share of storage costs in accordance with the provisions in the Bulk Entitlement Orders. We will continue to charge these customers on the basis of actual costs, and will not commit to any significant cost changes without explicit consultation with the entitlement holders.

Water supply risk

To understand the allocation of risk in relation to water supply, it is useful to contrast rural water management with urban water supply. Put simply, urban water is a product, while rural water is a system of entitlements. Urban water is a product manufactured in treatment plants, and the role of an urban water business is to create and supply that product. Without urban water businesses, treated water would not exist. By contrast, without rural water businesses, rural water would still exist, and would still be taken for productive use, but users downstream would be at the mercy of those upstream, and producers could only take water when and where it flowed (or invest in private infrastructure).

Our customers own legal entitlements, and our role is to maximise the value of those rights. We do this by:

- providing equitable access for entitlement owners to exercise their entitlements
- deterring those without entitlements from taking water
- harvesting and storing water so that it can be available *when* it's most valued
- providing infrastructure to make water available *where* it's most valued.

Water supply risk is borne entirely by the entitlement holder, not by the rural water manager, and we consider that this is appropriate. Our ability to effectively manage water supply risk is materially limited by the fact that we do not hold the legal entitlements.

Our customers have a far broader range of options than we do for managing water supply risk. For example, they will make decisions about where and how they apply water on farm, on the types and size of the crops they plant, and on substitutes such as purchasing stock feed rather than growing pasture. Notwithstanding this, at times we partner with our customer base to support them in improving their water security to manage times of shortfall.

REVENUE REQUIREMENT

Overview

The table below summarises our average annual revenue requirement for this price submission, compared with Water Plan 3. This demonstrates the significant operating cost savings that we have achieved to offset the capital costs of our modernisation programs.

	2013-18	2018-23
Controllable operating costs	21,991	20,602
Non-controllable operating costs	1,371	2,210
Renewal annuity	684	0
Resilience	553	0
Capital costs	6,804	8,635
Total	31,402	31,447

Average annual revenue requirement (\$'000, \$17/18)

Two elements have been removed from our revenue requirement:

- We traditionally priced for replacement and refurbishment of irrigation district assets using a renewal annuity. We agreed with customers to transition away from renewals over Water Plan 3, and so this provision is now removed from our revenue requirement.
- As described in the risk section, we used some operating cost savings in Water Plan 3 to build a modest business 'resilience' fund. For 2018 onwards, we have no provision in pricing to build or replenish these funds.

Operating costs

In 2014, faced with the prospect of significant costs to upgrade our ageing delivery infrastructure leading to increasing debt and potentially unaffordable prices, we put in place an ambitious strategy to achieve cost savings and new revenue to make modernisation affordable. We set a goal of reducing operating costs by 10%. Over the last four years we successfully reduced our costs by around 11.5% below our 2013/14 baseline. We have invested some of this saving in strengthening aspects of our business that we saw as under-resourced to support our strategic goals, such as information technology. As shown below, our net decrease in operating costs was still over 8% from our Water Plan 3 forecast.

2013-18 average annual cost base (before productivity improvement)	22,645	
2017-18 budget expenditure	20,780	
Operating cost reduction achieved from 2012-13 to 2017-18	1,865	8.3%

Water Plan 3 Operating cost outcome (\$'000, \$17/18)

These savings have been reflected in our modernisation funds, and returned to customers by offsetting modernisation costs.

The table below summarises our operating costs for this submission.

	2013-18	2018-23
Baseline controllable expenditure	21,982	21,275
Adjustment for growth	232	0
Productivity improvement	(663)	(673)
New initiatives / obligations / baseline adjustments	441	0
Total	21,991	20,602

Average annual operating cost summary (\$'000, \$17/18)

Capital expenditure

Our planning approach

Our capital expenditure for the next few years is dominated by modernisation projects across our three irrigations districts. These projects are jointly funded by state and federal government, as well as by SRW on behalf of our customers.

The board has approved the business cases and we have entered into funding agreements with the state government. The federal contribution is managed through a state-federal funding agreement.

In order to keep prices affordable while delivering modernisation projects, we have sought savings in our “business as usual” capital expenditure for asset renewal and replacement (as well as other cost saving and revenue initiatives). The starting point for our 2018-23 capital expenditure estimates was our average expenditure over the last 10 years for projects or programs less than \$250,000. We then reduced this average by 25% to create a new baseline capital expenditure provision for routine renewal and replacement of our assets. The objective of applying a 25% reduction is to drive efficiency in our capital planning by creating a scarcity of funding for projects.

At the same time, we prepared a 25 year capital plan for the more significant elements of our future capital spend, particularly in relation to our dams and weirs. The 25 year plan provided a point of reference for assessing the adequacy of our baseline provisions for projects. For some parts of the business, we increased our baseline provision based on the forecast expenditure to manage asset risks and to avoid higher longer-term costs.

For projects over \$250,000, each proposal was reviewed by our Capital Investment Review Team. All significant capital projects were scored and ranked according to our Capital Prioritisation tool to assess their relative benefits. The documentation and review process for these projects was consistent with the approach described in our 2013-18 Water Plan.

The table below summarises our capital expenditure for this submission, as compared with the current regulatory period. Further information on our capital expenditure forecast beyond the current regulatory period is included in the financial template accompanying this submission.

	2013-18	2018-23
Excluding irrigation modernisation		
Macalister Irrigation	12,508	12,491
Werribee Irrigation	4,984	291
Bacchus Marsh Irrigation	2,924	561
Groundwater & Rivers	2,060	2,973
Maribyrnong & Werribee Bulk Entitlements	7,232	6,754
Latrobe Bulk Entitlements	1,336	3,144
Corporate and shared	11,925	11,974
Irrigation modernisation		
Macalister Irrigation District	22,931	48,618
Werribee Irrigation District	5,337	12,035
Bacchus Marsh Irrigation District	0	4,543
Total	71,235	103,386

Total capital expenditure (\$'000, \$17/18)

Top 10 projects

Expenditure on our 10 largest projects, as described below, accounts for over 70% of our total capital expenditure over the next five years.

	2018/19	2019/20	2020/21	2021/22	2022/23	Total 2018-23
MID2030 1B	20,031	11,776	6,182	0	0	37,989
WID modernisation	8,164	3,871	0	0	0	12,035
MID2030 2	254	2,095	4,284	3,259	732	10,624
BMID modernisation	2,895	1,647	0	0	0	4,543
Maffra weir operating gear	1,258	1,133	0	0	0	2,391
MID channel bank renewal	403	403	403	403	403	2,015
Glenmaggie re-paint spillway gates	154	610	0	151	604	1,519
Asset management system upgrade	1,016	102	0	0	0	1,118
G&R meter replacement	203	203	203	203	203	1,016
Werribee office redevelopment	1,016	0	0	0	0	1,016
Total	35,395	21,840	11,071	4,016	1,942	74,265

Top 10 projects – annual capital expenditure (\$'000, \$17/18)

MID2030 Phase 1B

This \$60m project is the next phase of modernisation for the MID, and is jointly funded by SRW customers and the state and federal governments. This project covers the Southern-Tinamba supply zone, which includes some of the poorest channels and highest water losses in the district.

We will replace or upgrade approximately 80km of channels in the Tinamba, Mewburn Park and Riverslea areas with a combination of piping and channel automation.

The project will increase the system efficiency and the level of service to customers in this area. The estimated water savings from the project are approximately 9,700ML per year, and will be made available to the district to increase production.

WID modernisation

We have started the major upgrade of the Werribee Irrigation District. The project replaces the old leaky channels with pipes. Co-funding from the state government and customers will allow us to complete two-thirds of the project, as included within. We are actively seeing funding for the last third, to allow us to complete the project without any further impact on customer prices.

The full project will save 5,000 ML with two thirds going back to customers to use for production and to improve the resilience of the district to dry times. The other third of the water savings will go to improve the health of the Werribee River.

MID2030 Phase 2

The final stage of modernisation under the MID2030 strategy is a nominal \$40m program of works to deliver modernisation for the remaining areas of the district, further outlet upgrades and rationalisation and other associated works.

As with previous modernisation stages, we will seek co-contribution from federal and state governments towards this project.

With the savings and investments we have achieved on behalf of Macalister irrigators, we have been able to provide for \$10m towards this final stage of modernisation, without any real price increase. While there are a number of approvals and funding arrangements required for this project to proceed, we have agreed with the Customer Consultative Committee to provide for this contribution within the current price submission. This is to provide price stability, by avoiding the likelihood of a otherwise reducing prices in this regulatory period, only to have a steeper increase in the future when plans for the final stage of modernisation are finalised.

If we are unsuccessful in securing additional funding to complete this project, we will consult with customers on options for completing a reduced scope of works, or reducing prices.

BMID Modernisation

We have started the upgrade of Bacchus Marsh. We have completed a new pump station and rising main at Maddingley weir.

Works underway or planned involve:

- new tank at Maddingley basin and upgrade of 2/2 pipeline
- new pipeline from Spur 5 across the Lerderderg River to supply the district north of the Western Freeway

- piping of the '12' Channel
- new gravity pipeline from Bacchus Marsh Diversion weir to service customers along Werribee Vale Road, and
- removing the channel through the town from service

Co-funding from the state government and customers will allow us to complete all but the decommissioning works.

Maffra Weir operating gear

A review of the operating gear for the spillway gates at Maffra Weir found that they were sub-standard for a critical asset and non-compliant with some modern design standards. There were also a number of electrical and safety non-compliance defects.

The board approved a business case to replace the operating gear, and associated operating deck. The project budget is \$2.8m, of which about \$450,000 is expected to be spent before the start of the regulatory period.

MID channel bank renewal

Over Water Plan 3 we developed a works program to progressively refurbish eroded earthen channels is currently under way in the MID. We aim to complete around 1.2 km per annum in the next regulatory period. The program will focus on major channels where potential impact of non-supply to customers is highest.

Glenmaggie re-paint spillway gates

Glenmaggie includes 14 radial gates which regulate floods through the dam. The gates are fabricated from 10mm thick mild steel and are protected from corrosion by various coatings. The typical life of the coatings is around 10-15 years, though with targeted periodic patching we have extended this to 15-20 years.

Based on our inspection of the coatings, we will repaint 6 of the 14 gates during the regulatory period.

Asset management system upgrade

SRW has a \$1.4 billion asset portfolio with assets ranges from major dams to diversion meters. The current asset management system has inadequate functionality and user features to support the complexity of asset management activities required for our diverse portfolio.

G&R meter replacement

We have a current fleet of more than 5,000 meters on groundwater bores and pumps from unregulated rivers. Maintenance and replacement is an ongoing requirement to ensure that we meet our obligations under the National Framework for Non-Urban Meters and associated State Implementation Plan.

By upgrading or replacing these meters, customers are able to rely on the accurate usage information and we can rely on the information to assist and make decisions around resource management.

Werribee office redevelopment

The Werribee office and depot do not provide a contemporary work environment for our staff.

In order to improve these facilities, in 2016/17 we purchased the land at 1 Tower Road from the state government. We are now reviewing the optimal use of the site with a view to commence works in 2017/18 to establish new office and depot facilities that will meet the current and future needs of the business.

This redevelopment will be funded from our non-prescribed asset sales revenue.

Regulatory asset base

Overview

Over the regulatory period, our regulatory asset base will increase from \$50m to \$86m. This is still only a small fraction of our total asset base, which is valued at over \$1.2b. The table below describes the movement in our regulatory asset base.

Opening balance	61,703
Capital expenditure	103,387
less Offsets	
<i>Government contribution</i>	<i>(30,306)</i>
<i>Modernisation fund</i>	<i>(11,229)</i>
<i>WID termination fee</i>	<i>(2,291)</i>
<i>Proceeds from disposals</i>	<i>(3,504)</i>
Net additions to RAB	57,425
Regulatory depreciation	(25,686)
Closing balance	92,077

Regulatory asset base movement (\$'000, \$17/18)

Capital expenditure offsets

The following describes the capital expenditure offsets that we have applied against the regulatory asset base to reduce pricing impacts.

Government contribution	The modernisation projects for our irrigation districts are jointly funded by state and federal government (as well as by SRW on behalf of our customers).
Modernisation fund	As part of our strategy for keeping prices affordable as we modernise our business, we have made cost savings and generated additional revenue over recent years. Additional revenue includes proceeds from sale of water entitlements as well as surplus return on investment beyond our cost of debt. In consultation with our customer committees, we agreed to accumulate surpluses to offset future modernisation costs, rather than reduce prices in the short term.
WID termination fee	Termination fees are used to ensure that the surrender by one customer of all or part of his/her delivery shares does not increase the costs for remaining customers. The fee is set at 15 times the annual delivery share infrastructure fee. We charged a termination fee in the WID during Water Plan 3. Offsetting this revenue against our regulatory asset base will ensure that the benefits are recognised in reduced prices.
Renewal fund	We traditionally priced for replacement and refurbishment of irrigation district assets using a renewal annuity. We agreed with customers to transition away from renewals by applying accumulated renewal fund balances against modernisation costs.

Regulatory depreciation

We have used the following asset lives for regulatory depreciation purposes:

60 years	Headworks new component (dam safety works) <i>Note: A 60 year maximum reflects the uncertainty of future demand and technological change within the irrigation industry</i>
30 years	Pipeline and channel repair Channel automation Headworks earthworks & concrete repair Headworks structural component
20 years	Road repair Headworks mechanical, electrical or short life structural component repair
15 years	Meters (groundwater & rivers)
10 years	General tools and equipment
7 years	Software
5 years	Computer equipment

Tax allowance

We have a deferred tax liability with a carrying value in excess of \$200m, relating to past losses and depreciation allowances under the National Tax Equivalence Regime. As such, we do not expect to make any tax payments within the coming regulatory period, and do not propose any tax allowance.

DEMAND

The bulk of our revenue comes from fixed entitlements, which means that our quantities are static and our exposure to revenue variability is low. We have not forecast any growth in entitlements within this submission. This means that, within the context of a revenue cap, actual tariffs may be lower if we issue new entitlements.

Our estimated revenue and expenditure associated with processing applications is consistent with recent activity, and with our previous Water Plan.

Recycled water volumes are based on the most recent contracts, and we propose that this revenue will again be regulated by pricing principles.

PRICES

Form of price control

Our form of price control for most services will remain consistent with the current regulatory period. Specifically:

- tariff caps for application fees (other than transfers and renewals)
- pricing principles for recycled water charges
- cost recovery for capital works at Yallourn and Narracan
- revenue cap for remainder of annual fees and charges.

We propose to make a minor adjustment to our form of price control to provide more flexibility for undertaking tariff reform over the regulatory period. We propose to manage our transfer application fees and licence renewal fees within our revenue cap. This will allow us to consolidate these transactional charges into annual fees without breaching our revenue cap.

Tariff structures

We regularly receive feedback from customers, particularly from small entitlement holders on unregulated systems, about pricing. We undertook an initial review of our tariffs in preparing this price submission, and while we don't believe that our tariffs are unfair or unjustified, we identified some opportunities to make relatively simple changes to our tariffs to address some customer concerns. At the same time, we used this opportunity to make our tariff schedule shorter, simpler and more transparent for customers, staff and regulators.

The immediate changes we are proposing to our tariffs are described below.

Removing renewal fees for surface and groundwater licences	The requirement to pay a periodic licence renewal fee as well as annual fees has long been a pain point with customers – particularly smaller licence holders. This work will now be funded from annual licences fees, and offset by other savings.
Reducing the cost of repeat transfers	Customers who undertake the same transaction each season will pay a lower rate, recognising that we don't require the same level of assessment.
Reducing or eliminating intensive management fees	Intensive management fees were introduced as an additional tariff per ML in some unregulated systems where costs were materially higher than average. These costs have changed in some areas, and so the additional charges are no longer justified.
Revising the tiered structure for groundwater application fees across all surface and groundwater applications	Our tiered approach to setting tariffs for applications based on licence size and risk will be extended to other application types, and the tiers redefined to reflect varying levels of effort in assessing applications.
Combining tariffs into single transactions	In some instances, tariffs will always be incurred together – for example, licence applications require certain assessments. Where a

	transaction currently requires more than one tariff, we will combine these.
Rationalisation of similar tariffs	We will align similar tariffs to simplify our tariff schedule.
Renaming tariffs	Some of our tariff descriptions are wordy and/or unclear, and so we will rename these. We will also rename our remaining 'intensive management fees', as this terminology has been contentious with customers, and the intent of the charges misconstrued.
Removing redundant tariffs and notes	Some tariffs are no longer applied, and so can be removed.

We will also complete a more substantial review of our annual tariffs over 2018-23. Implementation will be in accordance with regulatory requirements. Depending on the nature and extent of changes, implementation may not occur until 2023-28. Any changes made during the regulatory period would be subject to the tariff adjustment process and constraints described in the following section.

Adjusting prices

Southern Rural Water has a long history of close and effective engagement with customer consultative committees – particularly through our annual planning and pricing processes. We work with customers annually in setting tariffs within our revenue cap.

In setting our annual prices, we have regard for our annual budgets, as well as our longer term financial plans. Customers provide input on, for example, whether tariff changes should be smoothed, adjusted in a single year, or deferred to later years. These decisions often reflect regional economic circumstances which may change from year to year.

The effectiveness of our annual pricing and our close customer engagement is demonstrated by our pricing outcomes across Water Plan 3. As we achieved cost savings in excess of our Water Plan 3 productivity targets, we discussed these outcomes with our customer consultative committees, who elected:

- for the Macalister and Werribee districts, to continue with the existing price path, providing additional funds as a contribution towards modernisation projects and thereby reducing future price increases
- for our groundwater and rivers customers, to freeze prices in nominal terms, representing a lower price path than our Water Plan, but still providing some funds for investment in service improvement
- for our Bacchus Marsh district, once our modernisation project had secured government funding, to freeze rather than reduce prices, in order to smooth the price impact of modernisation investment.

Under our current regulatory determination, our ability to adjust prices each year is restricted such that in any year, no single price can increase by more than 10% above the average of all price increases in that year.

With this form of constraint, it is difficult to predict what the implication may be for any customer or group of customers. We propose a constraint expressed more overtly in terms of the customer impact, by limiting the impact of any tariff restructure by reference to the customer's bill – rather than individual prices. Moreover, we are proposing a narrower constraint, to afford greater certainty for customers over the coming the regulatory period.

For our annual entitlement fees, we propose that the annual charges for any customer, based on their existing set of entitlements, must not increase by more than 5% in any one year. This constraint would exist within the broader context that the forecast revenue must remain within our approved revenue cap. We will be able to provide the ESC with modelling of the maximum customer impact along with our annual tariff submission.

In the case of application fees, we propose that the fee or fees to undertake any single transaction must not increase by more than 5% in any one year. The reason for defining the constraint in this way is to recognise that, from a customer's perspective, a transaction may not equate to a single description on our tariff schedule. In practice, this mechanism would typically operate the same as the existing constraint. However, in the event that we seek to make changes to our existing set of tariffs and descriptions, this would require that we do so from the customer's perspective.

Alongside these constraints, we also commit to consultation with customer on price changes, commensurate with the potential impacts. Typically this will be via customer consultative committees for annual price setting in line with our indicative price changes from this plan, but may be broader if we consider more fundamental tariff reform through the regulatory period.

Indicative price changes

Indicative price changes for this submission are shown in the table below. These changes are average annual changes relative to 2017-18, and do not include CPI.

<i>Irrigation</i>	
Macalister Irrigation District	0.00%
Werribee Irrigation District	0.00%
Bacchus Marsh Irrigation District	1.70%
Werribee Recycled Water	0.00%
Unregulated surface water	-2.30%
Unregulated groundwater	-2.30%
Applications	0.00%
<i>Storage management</i>	
Western Water	3.88%
Gippsland Water	0.50%
Power companies (incl DTF)	1.41%
VEWH (Blue Rock)	3.03%
DELWP (Merrimu unallocated)	1.87%

Irrigation districts

Our significant investment in modernisation for the three irrigation districts is co-funded with government. For the MID and WID, the customer impact is fully offset by savings achieved over Water Plan 3 and

forecast for the next regulatory period, as well as some revenue from water sales. The MID price path will also provide funding towards the final stage of modernisation.

For the BMID, where funding for modernisation was previously less certain, we returned savings to customers through lower prices during Water Plan 3, meaning that prices will now need to increase to fund the customer contribution to modernisation.

Unregulated surface and groundwater

The significant savings we've achieved over Water Plan 3 have allowed us to reduce prices significantly over the next regulatory period. This is in addition to funding our automated meter reading project, absorbing the impact of removing our licence renewal fees, and completing other initiatives to improve customer outcomes.

Storage management

Our charges for storage management are heavily influenced by the cost of capital works at our dams. While for our irrigation businesses we have been able to offset capital expenditure through operating cost savings, this has not been possible with our storages where the proportion of operating costs in our revenue requirement is much lower.

The larger increases for Western Water and government entitlements reflect our lower charges during Water Plan 3. These charges are not tariff based, and we bill on the basis of actual expenditure, not forecasts. Some of the capital works we had forecast for Water Plan 3 were delayed, and so we didn't recover these costs over the previous period.

PREMO ASSESSMENT

We are nominating our level of ambition for this submission as 'advanced' under the PREMO framework, in recognition of the significant step change in value that we are delivering for our customers. Through a combination of past and future savings, along with government investment and contribution from our own accumulated funds, we have created the ability to spend around \$70m in modernising our business, delivering significant service improvement for customers, with little or no pricing impact.

In the Macalister Irrigation District we will complete the \$60m Phase1B modernisation project, and accumulate funding towards the final stage of modernisation for the district. With no real price increase, customers will benefit from improved irrigation flows and shorter lead times for water orders, as well as having access to additional water saved through the project.

Modernisation in Werribee and Bacchus Marsh will provide greater water security for customers, improved reliability and avoid escalating maintenance costs from ageing infrastructure. While there will be a modest price increase for Bacchus Marsh, this is in the context of recent price reductions as we returned funds to customers while we negotiated an affordable funding arrangement for modernisation. Prices are returning to where they were at the beginning of Water Plan 3 in real terms. Werribee customers will have no real price increase.

Licence holders on unregulated surface and groundwater systems will see price reductions in their annual fees, as well as the removal of licence renewal fees. At the same time, they will gain access to real time usage information from our automated meter reading technology and, right across our business, customers will get better access to manage their information and transact with us on-line through our investment in a customer portal and associated technology.

The table below describes our assessment against each of the elements, using the 13-point scoring system from the guidance paper.

Element	Considerations	Assessment
Outcomes	<p>In Water Plan 2 we outlined a methodology for describing service / cost outcomes, and exploring the trade-off between service and price for customers. This approach became the centrepiece of Water Plan 3, which established new service measures and targets across our customer groups. Our new service measures were developed from a customer perspective, and described in those terms. We also proposed step change improvements in our targets for many of the measures, and these improvements were linked to specific proposals and activities within the Water Plan.</p> <p>We believe that our approach in Water Plan 3 would have been characterised as 'leading' under the PREMO framework.</p> <p>We have taken the opportunity through this price review to re-test outcomes with customers, and to refine and simplify our approach. At the same time, we expect that the expectations set by the ESC in its guidance will drive a significant shift across the industry. As such, we may no longer be 'leading' – but we would certainly be confident that this plan represents a step change in value for our customers. Most compelling, with the savings that we've been able to achieve during Water Plan 3 and carry forward into this next regulatory period, we are able to invest around \$70m to modernise our business with little or no pricing impact.</p> <p>The outcomes proposed directly reflect the views, concerns and priorities of our customers as heard through our ongoing engagement programs</p>	3.5

	<p>and the additional engagement conducted specifically to inform this submission. We have repeatedly heard that personal and professional service, affordability and water security (comprising a reliable water supply system, well-managed water resources and a pro-active approach to water trading by SRW) are of greatest importance.</p> <p>Forecast expenditure is made up of BAU and improvement activities (both major infrastructure and service review/upgrade projects) that are clearly aligned to service and water security outcomes for all customers, in both our regulated and unregulated systems. Affordability (keeping prices as low as possible) is supported by ongoing expenditure reduction and cost-saving activities.</p> <p>Each outcome is supported by measurable and deliverable outputs with SMART targets. Outputs are a combination of objective business performance data and subjective customer assessments. Outputs were developed from critical review and refinement of our WP3 outcomes, measures and targets with increased performance targets. Business improvement activities with deliverable dates are shown for each outcome. Depending on the project, business cases and project planning may be already complete, underway or occurring during the pricing submission period.</p> <p>Performance against outcomes, measures and targets will be reported to all customers annually via existing engagement channels including our website and regular newsletters targeted to each customer group and region. Performance is discussed more regularly and in more detail with Customer Consultative Committees (CCCs).</p>	
Management	<p>Our operating expenditure incorporates a 1% efficiency improvement, however our baseline incorporates efficiency improvements of around 8% beyond our 2013-18 Water Plan forecast. Some of this improvement has already been returned to customers through lower prices, while some has been quarantined to offset modernisation costs – effectively being returned over the next pricing period. Importantly, these pricing decisions were made in consultation with our customer committees.</p> <p>The majority of our capital expenditure is represented by our irrigation modernisation projects, which have been subject to detailed planning and business case development. For our 'business as usual' capital expenditure, we are targeting a reduction of 20% compared with our 2013-18 expenditure.</p> <p>The board has been engaged continuously in developing this pricing submission, and feels significant ownership of and pride in the customer outcomes. The board has sought management commitment to the improvement activities, as well as to the service and price outcomes.</p>	3.5
Engagement	<p>SRW has significant ongoing engagement with our customers, including four CCCs, detailed biennial surveys, short transactional surveys, participation at Field Days and similar events, and through our Customer First Team. This engagement has shaped our strategic direction and planning through to 2030, including many elements of this pricing submission. We leveraged this with additional engagement, including a survey, focus groups, one-on-one interviews, additional consultation with CCCs and at customer meetings to design and test additional proposals. Further, the views we heard around pricing structure have prompted a tariff review and reform program which will continue over the 2018-23 period.</p> <p>Irrigation district modernisation projects have significant and ongoing customer engagement programs of their own, including working with</p>	3.75

	<p>customers on how modernisation can be best delivered to create the most value on their farm, as well as considering price impacts.</p> <p>While infrastructure modernisation is already underway and will dominate expenditure and price paths 2018-2023, the engagement conducted has influenced the selection, scoping, timing and budgets of other service improvement proposals. A strong focus from customers on affordability has validated our existing strategic commitment, driven the progress of improvement projects and launched a tariff review and reform program.</p> <p>Feedback from CCCs, focus group participants, bulk water customers and interviewees indicated a very high level of satisfaction with the targeted engagement program. Feedback from CCCs and survey respondents indicated a high level of satisfaction with SRW's ongoing engagement program. Response so far to our decision to proceed with tariff review and reform has been very favourable.</p> <p>While our specific engagement program for this price submission may be different to some of the large urban water businesses, it represents a step change from our Water Plan 3 process. More importantly, we still believe that the depth and breadth of our ongoing engagement with customers is leading for the industry. In particular, we note:</p> <ul style="list-style-type: none"> • the role that our customer committees have played in shaping our business over more than two decades • regular meetings between the board and customer committees • customer representatives at board dinners, and regular board tours to customer sites • positive feedback from customers about the value of personal interaction with our field staff • our 'Customer First Team', which provides a forum for staff who deal with customers every day to share their perspectives and promote opportunities to improve customer service. 	
Risk	<p>This price submission does not propose fundamental changes to our approach to managing or allocating risk. Most of our revenue comes from entitlement based charges, which means we have a relatively low exposure to seasonal revenue variation.</p> <p>Our 2013-18 Water Plan established 'resilience funds' – effectively self-insurance, the funds allow us to absorb unforeseen cost or revenue changes without amending our indicative price path, thus strengthening price certainty for customers within our revenue cap. We will continue with this model – however we will be relying on the funds already established, and not making any provision in our revenue requirement to replenish these funds.</p>	2.5

NON-PRESCRIBED SERVICES

In addition to the activities and costs described by this submission, we also incur costs and recover revenue associated with a range of non-prescribed activities, including:

- leased properties
- providing secretarial support and services on behalf of the Victorian Drillers' Licensing Board
- consulting services in dam safety management
- specific funded projects on behalf of government.

The financial transactions associated with these activities are recorded within separate segments within our finance system. Costs for these activities are not included in our baseline operating expenditure or regulatory asset base, or otherwise included in our calculated revenue requirement.

In previous Water Plans, we have treated our salinity management activities as non-prescribed. We have included these costs and revenue as prescribed activities in this plan. We have added these costs to our previous revenue requirement for comparative purposes in this submission.

We have not included any revenue from future asset sales (land and water sales) within this submission, as this is not a prescribed activity. However, we have used proceeds from previous sales to offset modernisation costs in this submission, and we would expect future price submissions will benefit from the proceeds of any asset sales achieved over this period.

We are also investigating opportunities for renewal energy generation, which is outside the scope of this submission.