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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
GOULBURN-MURRAY WATER

MARCH 2013

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GOULBURN-MURRAY WATER

1. Purpose of volume II of the draft decision

The Commission is required under section 28 of the Water Charge (Infrastructure) Rules, after considering submissions put to it on a water business's application:

- (a) to prepare a draft approval or determination of the business's regulated charges for the first and subsequent years of the relevant regulatory period and
- (b) to publish it on its internet site including:
 - (i) the draft approval or determination
 - (ii) the reasons for its decisions
 - (iii) an invitation to interested parties to make submissions to the Commission in relation to the draft approval or determination.

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

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

In response to this draft decision, Goulburn-Murray Water should by 2 May 2013 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2013 that reflects:
 - (i) the revised revenue requirement set out in table 2
 - (ii) any changes to tariff structure suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in tables 1.
- (c) a rebalancing constraint that applies to tariffs.

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted

the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the service standards to apply for the regulatory period 2013-14 to 2017-18 as part of its Final Determination.

3. Service standards

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

Table 1 Approved service standards

<i>Service standard</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Licensing/administration			
Processing allocation trade applications within 5 business days	90%	90%	90%
Processing water share applications within 10 business days	95%	95%	95%
Processing of Licence transfers within 10 business days	95%	95%	95%
Customer service			
Complaints to EWOV (per 1 000 customers)	0.17	0.17	0.17
Customer complaints to G-MW (per 1,000 customers)	2	1.9	1.8
Telephone calls answered within 30 seconds	95%	95%	95%
Bulk Water			
Availability of Storage Capacity as a % of design storage capacity	100%	100%	100%
Availability of storages to deliver water on demand to customers as a % of time.	100%	100%	100%
Regulated Rivers minimum river flow regimes > or equal to specified minimum flows as a % of time.	98%	98%	98%
Unregulated rivers meet agreed targets or natural flow 90% of the time.	90%	90%	90%
Gravity Irrigation			
<i>Water Delivery</i>			
Efficiency achieved as a % of delivered	78%	78.5%	79%
% of orders delivered on day requested	91%	92%	93%
% of orders within +/- 10% of flow rate for 90% of time	80%	80%	80%

<i>Service standard</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
% of orders within +/- 40mm of supply level 90% of time	80%	80%	80%
Gravity Irrigation			
<i>Maintenance</i>			
Maintenance requests responded within target (% Priority 1-2)	90%	90%	90%
Unplanned service interruptions (> 12 hours)	5	5	5
<i>Irrigation drainage</i>			
Availability of surface drainage	98%	98%	98%
Availability of sub-surface drainage	98%	98%	98%
Pumped irrigation			
Irrigation water orders delivered on day requested	98%	98%	98%
Number of pipeline bursts and leaks (per 100km of pipeline)	17.5	17	16.5
Efficiency achieved as a % of delivered	92%	92%	92%
Water Districts			
Number of pipeline bursts and leaks (per 100km of pipeline)	5	5	5
Unavailability of stock and domestic supply systems for continuous periods in excess of 96 hours	1.5%	1.5%	1.5%
Efficiency achieved as a % of delivered	85%	85%	85%
Diversions			
Groundwater levels managed to agreed minimum targets in management plan.	90%	90%	90%
Groundwater seasonal allocation announcements to be announced in accordance with relevant management plan.	100%	100%	100%
Response to access or supply queries within one business day.	90%	90%	90%

Note Data rounded to one decimal place.

4. Guaranteed service level scheme

Goulburn-Murray Water has not proposed to introduce a GSL scheme in the forthcoming period.

5. Revenue requirement

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

Table 2 **Breakdown of revenue requirement implied by ESC draft decision**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Operating expenditure	97.6	100.9	99.0
Return on existing assets	9.7	9.4	9.1
Return on new investments	0.5	1.7	3.0
Regulatory depreciation	7.7	9.5	11.2
Adjustments from previous period	0.0	0.0	0.0
Total	115.6	121.5	122.3

The Commission proposes to approve Goulburn-Murray Water's revenue proposal subject to the required amendments set out in the chapters on operating and capital expenditure, and financing capital investments.

The Commission proposes not to approve Goulburn-Murray Water's proposal for forgone revenue.

The Commission proposes to approve Goulburn-Murray Water's incorporation of its remaining deficit annuities into its RAB, subject to Goulburn-Murray Water providing updated values for the annuities.

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved actual capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 to 2011-12 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 5.

Table 3 **Updated regulatory asset base**
\$m 2012-13

	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	113.0	125.3	138.8	155.4	177.3
<i>Plus</i> Gross Capital expenditure	25.1	27.9	28.3	34.9	22.0
<i>Less</i> Government contributions	1.9	4.9	3.0	0.7	0.0
<i>Less</i> Customer contributions	7.4	5.3	3.2	5.9	2.9
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	3.4	4.3	5.5	6.4	6.4
Closing RAB	125.3	138.8	155.4	177.3	190.0

The regulatory asset base as at 1 July 2012 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2012-13 to 2017-18 period less any approved allowance for regulatory depreciation.

The Commission has adopted GMW's proposed actual 2012-13 net capital expenditure to be rolled into the RAB.

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

Table 4 **Rolled forward regulatory asset base**
\$m 2012-13

	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Opening RAB	190.0	210.2	224.6	248.9
<i>Plus</i> Gross Capital expenditure	28.4	22.4	34.3	27.4
<i>Less</i> Government contributions	0.0	0.2	0.3	0.4
<i>Less</i> Customer contributions	2.0	0.2	0.3	0.4
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	6.2	7.7	9.5	11.2
Closing RAB	210.2	224.6	248.9	264.3

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all water businesses. The table below outlines the individual components for the WACC.

Table 5 **Real post-tax WACC**

<i>Real risk free rate</i>	<i>Equity beta</i>	<i>Market risk premium</i>	<i>Debt margin</i>	<i>Financing structure (gearing)</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>per cent</i>	β	<i>per cent</i>	<i>per cent</i>	<i>per cent</i>	γ	<i>per cent</i>
0.679 – 1.023	0.70	6.0	3.03 – 3.25	60	0.5	4.7

8. Operating expenditure

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

Table 6 **Proposed and approved operating expenditure assumptions**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Proposed operating expenditure	97.68	100.86	99.18
Revisions and adjustments	-0.05	-0.01	-0.14
Draft decision – operating expenditure	97.63	100.85	99.04

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

Table 7 **Adjustments to operating expenditure**
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Defined benefits superannuation costs	0.06	0.06	0.06
Environmental contribution	-0.05	-0.09	-0.14
License fees	-0.06	0.02	-0.06
Total	-0.05	-0.01	-0.14

- (a) Defined benefits were adjusted to account for the requirement to make a payment of \$0.6 million to Vision Super in 2012 (chapter 6 of volume I of this draft decision).
- (b) Adjustments reflect recent advice from the Department of Sustainability and Environment on environmental contribution for the next regulatory period (chapter 6 of volume I of this draft decision).
- (c) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority on their respective licence fees for the next regulatory period (chapter 6 of volume I of this draft decision).

9. Capital expenditure

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

Table 8 Proposed and approved capital expenditure assumptions
\$m 2012-13

		<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Proposed capital expenditure	Gross	22.4	34.3	27.4
	Net	22.1	33.8	26.7
Draft decision – capital expenditure	Gross	22.4	34.3	27.4
	Net	22.1	33.8	26.7

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

Table 9 Adjustments to capital expenditure
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Total ESC Adjustment	0	0	0	0	0

Goulburn-Murray Water has identified the following key capital projects to be undertaken during the regulatory period.

Table 10 Key capital projects

	<i>Expected completion date</i>
Tullaroop reservoir	2013-14 to 2015-16
Mildura Merbein salinity interception scheme	2013-14 to 2015-16
Access tracks & fencing	2013-14 to 2015-16
Road culvert and crossing replacement	2013-14 to 2015-16
Backbone remodelling	2013-14 to 2015-16
Storage management program	2013-14 to 2015-16
Rock armouring	2013-14 to 2015-16

10. Demand forecasts

Generally, the Commission has accepted the demand forecasts proposed by Goulburn-Murray Water. However, Goulburn-Murray Water indicated it submitted incorrect forecasts of delivered volumes for 2014-15 and 2015-16. In its final Water Plan, it forecast delivery volumes at 110 per cent of irrigator high reliability water shares (HRWS) for 2013-14 to 2015-16. Goulburn-Murray Water's identified that this assumption was correct for 2013-14, however, revised this assumption to delivery volumes at 100 per cent of irrigator HRWS for 2014-15 and 2015-16. On this basis, the Commission proposes to adopt the revised delivery volumes.

Table 11 **Infrastructure use fee**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Shepparton	143 026	139 152	135 278
Shepparton	143 026	124 054	121 536
Central Goulburn	292 832	285 083	277 335
Central Goulburn	292 838	252 223	245 303
Rochester	138 668	134 955	131 242
Rochester	138 668	120 925	119 135
Loddon Valley	149 645	145 609	141 573
Loddon Valley	149 645	129 452	126 475
Murray Valley	217 929	212 118	206 306
Murray Valley	217 929	188 090	183 323
Torrumbarry	263 129	256 188	249 246
Torrumbarry	263 129	227 067	221 273

Table 12 **Water use fee**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
Shepparton	47 951	46 653	45 353
Shepparton	47 951	41 590	40 746
Central Goulburn	180 309	176 780	173 250
Central Goulburn	180 309	155 304	151 043
Rochester	74 020	72 822	71 624
Rochester	74 020	72 822	71 624
Loddon Valley	7 268	7 072	6 877
Loddon Valley	7 268	6 287	6 143
Murray Valley	99 465	97 439	95 413
Murray Valley	99 465	85 846	83 670
Torrumbarry	133 096	129 586	126 075
Torrumbarry	133 096	114 855	111 926

11. Form of price control

- (a) The Commission proposes to approve Goulburn-Murray Water's proposal to maintain a revenue cap.
- (b) The Commission proposes to require all rural water businesses to consult with customers before proposing a material tariff change to the Commission at the annual tariff approval process. The determinations will require water businesses to provide evidence of customer consultation (including customer consultative committees) and a statement about customer impacts and how the business will address those impacts.
- (c) The Commission proposes not to approve Goulburn-Murray Water's proposed rebalancing constraint. It requires the business to propose a rebalancing constraint that applies to tariffs rather than average bills. The Commission also requires Goulburn-Murray Water to submit a lower figure for its rebalancing constraint, or justify its proposal of 15 per cent if it intends to apply it to tariffs rather than bills.

12. Tariffs

- (a) The Commission proposes to approve Goulburn-Murray Water's proposed rural tariff structures and prices.
- (b) The Commission proposes to approve the groundwater tariffs proposed by Goulburn-Murray Water.

13. Miscellaneous services

- (a) Goulburn-Murray Water is required to provide the Commission with a core set of miscellaneous service charges, clearly define the services provided for the charges, and identify the pricing principles it used to determine the charges.

14. Reopening prices

Goulburn-Murray Water may apply for a mid-period price adjustment consistent with the Water Charge (Infrastructure) Rules 2010 (WCIR). Under rule 40, the operator can apply for a variation of the approval or determination of its regulated charges for a regulatory period if an event (which the operator could not have reasonably foreseen) occurs during the regulatory period that:

- (a) materially and adversely affects the operator's water service infrastructure, or
- (b) otherwise materially and adversely affects the operator's business and
- (c) the operator could not reasonably have foreseen the event.