

# East Gippsland Water Determination

1 July 2023 – 30 June 2028

23 June 2023

## **Acknowledgement**

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

### **An appropriate citation for this paper is:**

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# 1. General

## 1.1 Introduction

- (a) Clause 14 of the **WIRO** requires the commission to either:
  - (i) approve the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated, as proposed by the **regulated entity** in its price submission (as defined in the **WIRO**); or
  - (ii) specify the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated.
- (b) On 21 June 2023, the commission made its decision in respect of the prices which **East Gippsland Water** may charge for **prescribed services** during the regulatory period.
- (c) This Determination is made by the commission under section 33 of the **ESC Act**, pursuant to clauses 10 and 14 of the **WIRO**.
- (d) The purposes for the making of this Determination are to:
  - (i) give effect to the decision of the commission referred to in clause 1.1(b);
  - (ii) specify the maximum prices which **East Gippsland Water** may charge for **prescribed services** during the **regulatory period** or the manner in which such prices are to be calculated, determined or otherwise regulated;
  - (iii) facilitate the achievement of the commission's objectives in the **ESC Act** and the **WI Act**; and
  - (iv) reflect the requirements of the **WIRO**.
- (e) The reasons for the making of this Determination are as set out in the decision of the commission made on 21 June 2023.

## 1.2 Application

This Determination applies to **East Gippsland Water** and its successors and assigns in respect of the business carried on by **East Gippsland Water** at the date of this Determination.

## 1.3 Effective period

### (a) Term

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette or 1 July 2023, and subject to clause 1.3(b), has effect until the date on which it is amended or revoked by a later determination or 30 June 2028.

### (b) Next regulatory period

Subject to clause 2.3(b)(ii), if the commission has not made a determination in respect of the prices to apply in the ***next regulatory period*** on or before 30 June 2028, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of ***prescribed services*** provided by ***East Gippsland Water*** from 1 July 2028 to the day before the date on which the determination for the ***next regulatory period*** comes into effect.

## 1.4 Modification of time periods

The commission may, by notice to ***East Gippsland Water***, extend or reduce the time by which, or the period within which, ***East Gippsland Water*** or the commission must comply with an obligation under this Determination.

## 1.5 Summary and structure

Clause 2 of this Determination specifies the prices which will apply to ***prescribed services*** during the ***regulatory period*** and sets out the procedure and formula according to which prices may be adjusted during the ***regulatory period*** on an annual basis.

Clauses 3 to 5 provide for the circumstances in which prices may be adjusted or amended during the ***regulatory period*** other than in accordance with clause 2.

## 1.6 Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1 (or, where only used within a clause, the meaning given upon their first use); and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

## 1.7 Annexure A

- (a) For convenience, Annexure A to this Determination summarises the assumptions underpinning the prices to apply to ***East Gippsland Water*** during the ***regulatory period*** or the manner in which such prices are to be calculated, determined or otherwise regulated.
- (b) Full details of these assumptions are contained in the commission's decision in which it has set out its reasons for this Determination.
- (c) For the avoidance of doubt, Annexure A does not form part of this Determination.

## 2. Price control

### 2.1 General principles

Subject to this Determination:

#### (a) Scheduled prices

**East Gippsland Water** must not charge more than:

- (i) the scheduled prices in Schedule 2, during the first **regulatory year**; and
- (ii) the amounts determined in accordance with clause 2.3, during each subsequent **regulatory year**,

in respect of those **prescribed services** to which the scheduled prices in Schedule 2 relate.

#### (b) Application principles

The application principles in Schedule 3 will apply to the prices charged by **East Gippsland Water** in respect of **prescribed services** specified or deemed to be included in Schedule 2 during the **regulatory period**.

#### (c) Pricing principles

During the **regulatory period**, **East Gippsland Water** must apply the pricing principles in Schedule 4 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 4 relate.

### 2.2 Ancillary matters

#### (a) Contracts

Where **East Gippsland Water** has entered into a contract which relates to the provision of **prescribed services** prior to 1 July 2023 (a **relevant contract**), **East Gippsland Water** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 4 will apply for the remainder of the **regulatory period**.

**(b) Dispute Resolution**

Any dispute as to whether a price has been set in accordance with this Determination will be determined by the commission on the basis of the commission's interpretation of this Determination.

**(c) Publication**

**East Gippsland Water** must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that it has relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. The list must clearly indicate in respect of each price, the amount determined in accordance with this Determination, the amount of **GST** payable and the total price.

**(d) GST**

**East Gippsland Water** will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

## **2.3 Annual adjustment of prices**

**(a) Adjustment**

- (i) Subject to Schedule 2 and Schedule 5, the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formulas in clause 2.3(b)(i) and Schedule 5, and the procedure in clause 2.3(c), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

**(b) Formula**

- (i) Subject to Schedule 2 and Schedule 5, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$p_t = p_{t-1} \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t)$$

where:

$p_t$  is the price component for **regulatory year** 't'

$p_{t-1}$  is the price component for **regulatory year** 't-1'

$\frac{CPI_t}{CPI_{t-1}}$  for the particular **regulatory year** is:  
the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

$PPM_t$  is the prescribed price movement for the price component for **regulatory year** t determined in accordance with Schedule 2.

- (ii) If the commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2028,  $PPM_t$  will be set to zero for the purpose of adjusting prices in accordance with the formula in clause 2.3(b)(i) and formulas in Schedule 5 for **regulatory years** commencing on or after 1 July 2028 until the date on which this Determination is amended or is revoked by a later determination.

**(c) Adjustment procedure**

- (i) At least 30 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period**, **East Gippsland Water** must submit its proposed prices for the **prescribed services** referred to in clause 2.3(a) to apply in that subsequent **regulatory year** (the **revised scheduled prices**) to the commission for approval, together with sufficient information to enable the commission to assess whether the proposed prices comply with this Determination.
- (ii) The commission will approve the **revised scheduled prices** if it considers that they have been calculated in accordance with the formula set out in clause 2.3(b)(i).
- (iii) The commission will be deemed to have approved the **revised scheduled prices** if it has not provided notice under clause 2.3(c)(iv) to **East Gippsland Water** within 20 **business days** from the date of its receipt of the **revised scheduled prices**.

- (iv) If the commission does not approve the **revised scheduled prices**, the commission:
  - (A) will provide notice to **East Gippsland Water** (including a statement of its reasons);
  - (B) may request **East Gippsland Water** to provide any additional information specified by the commission;
  - (C) will take any additional information provided by **East Gippsland Water** into account; and
  - (D) will determine the **revised scheduled prices**.

## 2.4 Price changes during a billing period

### (a) Application of this clause

This clause 2.4 applies where **East Gippsland Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

### (b) Method of charging

**East Gippsland Water** must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

## 2.5 Reporting requirements

- (a) **East Gippsland Water** must make available to the commission all information reasonably requested by the commission from time to time for the purpose of enabling it to confirm that **East Gippsland Water** is complying with this Determination.
- (b) Without limiting clause 2.5(a), if, during the **regulatory period**, **East Gippsland Water** enters into a contract for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period (new contract)** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 4 relate, **East Gippsland Water** must, on request by the commission, provide the commission with a notice specifying:
  - (i) details of the **new contract**; and
  - (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

- (c) Without limiting clause 2.5(a), if **East Gippsland Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:
- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **East Gippsland Water** proposes to stop providing the **prescribed service**; and
  - (ii) in the case of a refusal to provide a **prescribed service** to a customer, or potential customer, **East Gippsland Water** must provide a notice to the commission within 5 **business days** of the refusal, stating the nature of the **prescribed service** and the reason for the refusal.

### 3. Amendment of Schedule 2 – change to tariff basket form of price control

#### (a) Amendment

- (i) **East Gippsland Water** may apply to the commission in accordance with this clause 3 and Schedule 5 for the amendment of the prescribed price movements and/or price components included in Schedule 2 for the following **regulatory year** (the **next regulatory year**) and all subsequent **regulatory years** remaining in the **regulatory period** (the **revised tariff schedule**).
- (ii) The average price movement for the **next regulatory year** and for each subsequent **regulatory year** in the **regulatory period** determined in accordance with the **revised tariff schedule** must not exceed the weighted average price movement that would otherwise have applied under this Determination as calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_{t,ij} * q_{t-2,ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1,ij} * q_{t-2,ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m \hat{p}_{t,ij} * q_{t-2,ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1,ij} * q_{t-2,ij}}, i = 1, 2, \dots, n \text{ and } j = 1, 2, \dots, m$$

where **East Gippsland Water** has  $n$  tariff categories, which each have up to  $m$  tariff components, and where, for each **regulatory year**  $t$  for which the calculation is undertaken:

$p_{t-1}^{ij}$  is the tariff charged in **regulatory year**  $t-1$  for component  $j$  of tariff  $i$

$p_t^{ij}$  is the proposed tariff for component  $j$  of tariff  $i$  determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied

$\hat{p}_{t,ij}$  is the proposed tariff for component  $j$  or tariff  $i$  determined in accordance with Schedule 2 Part A where the **revised tariff schedule is applied** and excludes commission approved pass-throughs

$q_{t-2}^{ij}$  is the quantity of component j of tariff i that was sold in **regulatory year** t-2, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** t-2 or a forecast of the quantity of component j of tariff i that is expected to be sold in **regulatory year** t-2.

**(b) Amendment procedure**

- (i) An application by **East Gippsland Water** under this clause 3 must be received by the commission at least 80 **business days** prior to the commencement of the **next regulatory year** and must be accompanied by the following information:
- (A)
- (1) a clearly articulated new tariff strategy in relation to the **revised tariff schedule** that is consistent with clause 11 of the **WIRO** (the **revised tariff strategy**); or
  - (2) an explanation of how the **revised tariff schedule** is consistent with the current tariff strategy for **East Gippsland Water** approved by the commission in connection with this Determination (the **current tariff strategy**);
- (B) a **revised tariff schedule** that specifies proposed prices for the **next regulatory year** and prescribed price movements for each subsequent **regulatory year** in the **regulatory period** that is consistent with the **revised tariff strategy** or the **current tariff strategy**, as the case may be, and complies with clause 3(a)(ii);
- (C) a statement setting out evidence demonstrating that **East Gippsland Water** has provided information to its customers explaining the **revised tariff schedule** and how it relates to the **revised tariff strategy** or the **current tariff strategy**, as the case may be, and has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
- (D) a statement setting out the customer impacts resulting from the **revised tariff schedule** and actions proposed by **East Gippsland Water** to address these customer impacts; and
- (E) an explanation of the calculation of the relevant quantities " $q_{t-2}^{ij}$ ", including whether and why it is reasonable.
- (ii) The commission may approve the **revised tariff schedule** submitted by **East Gippsland Water** under this clause 3 if it is satisfied that:
- (A) the **revised tariff strategy** (if applicable) is consistent with clause 11 of the **WIRO**;

- (B) the **revised tariff schedule** is consistent with the **revised tariff strategy** or the **current tariff strategy** for **East Gippsland Water**, as the case may be;
  - (C) the price movements calculated in accordance with the **revised tariff schedule** comply with clause 3(a)(ii);
  - (D) **East Gippsland Water** has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
  - (E) **East Gippsland Water** has effectively addressed customer impacts resulting from the **revised tariff schedule**;
  - (F) the basis for calculating the relevant quantities " $q_{t-2}^{ij}$ " is reasonable; and
  - (G) **East Gippsland Water** has provided all of the information required under clause 3(b)(i)(A)-(E).
- (iii) In determining whether it will approve the **revised tariff schedule**, the commission may request **East Gippsland Water** to provide any additional information specified by the commission and/or to resubmit any of the matters in clause 3(b)(i)(A)-(E).
  - (iv) The commission will be deemed to have not approved a **revised tariff schedule** if it has not provided notice to **East Gippsland Water** within 40 **business days** from the date of its receipt of **East Gippsland Water's** application under this clause 3.
  - (v) An approved **revised tariff schedule** will be taken to amend Schedule 2 to the extent of any inconsistency.

## 4. Uncertain or unforeseen events

### 4.1 General principles

- (a) **East Gippsland Water** may apply to the commission for the amendment of this Determination and/or the adjustment of the scheduled prices in Schedule 2 to reflect increased or decreased costs incurred by **East Gippsland Water** and/or increased or decreased revenue received by **East Gippsland Water** as a result of events which were uncertain or unforeseen at the time this Determination was made (an **uncertain events application**).
- (b) Whether or not **East Gippsland Water** makes an application under clause 4.1(a), **East Gippsland Water** must promptly notify the commission upon becoming aware of an event which could form part or all of the basis of an application.
- (c) The commission may on its own initiative, and in its sole discretion, initiate its own process to amend this Determination and/or adjust the schedule of prices in Schedule 2 to reflect increased or decreased costs incurred by **East Gippsland Water** and/or increased or decreased revenue received by **East Gippsland Water** as a result of events which were uncertain or unforeseen at the time this Determination was made. Such a process may only be initiated if the commission identifies an event or events which it, in its sole discretion, considers has had or may have a material impact on **East Gippsland Water's** operating and/or capital expenditure and/or revenue.
- (d) The commission may only adjust prices in response to an **uncertain events application**, or a process initiated by the commission under clause 4.1(c), where the commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this Determination and that such action takes into account the interests of customers. The commission may limit an adjustment to only some events or a single event.

### 4.2 Considerations by the commission

#### (a) Examples of uncertain or unforeseen events

Examples of potential uncertain or unforeseen events include, but are not limited to:

- (i) actual licence fees or contributions payable by **East Gippsland Water** during a **regulatory year** in the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 55 of the *Environment Protection Act 2017* (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in Annexure A for that **regulatory year**;

- (ii) changes in the timing or scope of expenditure by **East Gippsland Water** on major capital projects;
- (iii) instances where the commission is satisfied that there is a material difference between the forecast demand levels set out in Annexure A and actual demand levels for **East Gippsland Water** in one or more **regulatory years** during the **regulatory period**; or
- (iv) a change in or to any of the following:
  - (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 2017* (Vic) or relevant regulations or orders or other statutory instruments made under any of them;
  - (B) any licence issued pursuant to any of the Acts referred to in clause 4.2(a)(iv)(A);
  - (C) any tax imposed by or payable directly or indirectly to any government or public authority in the Commonwealth of Australia (including **GST**) but excluding:
    - (1) penalties and interest for late payment of any tax; and/or
    - (2) any tax that replaces any of the taxes referred to in (C), where tax includes any rate, duty, charge or other like or analogous impost.
  - (D) the **Statement of Obligations**; or
  - (E) the introduction or cessation of a statutory carbon price or tax or a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

**(b) Exclusions**

In considering an **uncertain events application** or a process initiated by the commission under clause 4.1(c), the commission will not take into account matters that:

- (i) are or should be within East Gippsland Water's control;
- (ii) were or should have been known by **East Gippsland Water** at the time the Determination was made;
- (iii) could reasonably have been foreseen by **East Gippsland Water**;
- (iv) should be or should have been planned for or managed by **East Gippsland Water**; and/or
- (v) reflect inefficient expenditure by **East Gippsland Water**.

**(c) Dispute resolution**

Any dispute as to whether a matter should be taken into account by the commission under this clause 4 will be determined by the commission in its absolute discretion.

## 4.3 Procedure

### (a) Application information for *East Gippsland Water*

- (i) An ***uncertain events application*** must be accompanied by a statement setting out:
  - (A) the details of each relevant uncertain or unforeseen event;
  - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the ***regulatory period*** and/or the amount and timing of any increase or decrease in revenue associated with the relevant event during the ***regulatory period***;
  - (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 4.3(a)(i)(B); and
  - (D) details of the proposed action to be taken by the commission under clause 4.3(b).
- (ii) The commission may request ***East Gippsland Water*** to provide any additional information specified by the commission in connection with an ***uncertain events application***. ***East Gippsland Water*** is obliged to provide the requested information.

### (b) Commission processes

- (i) The commission may in its sole discretion decide the steps, timing of and processes to be followed in relation to an ***uncertain events application*** or a process initiated by it under clause 4.1(c).
- (ii) The commission may in its sole discretion decide the nature and extent of stakeholder consultation it will undertake in relation to such an ***uncertain events application*** or process.
- (iii) The commission will advise ***East Gippsland Water*** of the matters in clause 4.3(b)(i) and clause 4.3(b)(ii) in writing and publish details of this on its website.
- (iv) In most cases, an amendment of this Determination and/or adjustment of the scheduled prices in Schedule 2, will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the ***WIRO***.

- (v) In some limited circumstances, the commission may amend this Determination and/or adjust the scheduled prices in Schedule 2 without or with only limited consultation. This will be the case where there is urgency that justifies the commission moving quickly, as set out in clause 16(c) of the **WIRO**. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).
- (vi) The commission may request **East Gippsland Water** to provide information to the commission required for any purposes of an **uncertain events application** or the process initiated by the commission under clause 4.1(c). **East Gippsland Water** is obliged to provide the requested information to the commission.

**(c) Action by the commission**

If the commission is satisfied of the matters set out in clause 4.1(d) in respect of an **uncertain events application** or a process initiated by the commission under clause 4.1(c), the commission may, in its absolute discretion:

- (i) amend this Determination or adjust the scheduled prices in Schedule 2 (and make any consequential adjustments to Annexure A) with effect from a date and in a manner decided by the commission (in respect of one or more events) at a time decided by the commission; or
- (ii) take the **uncertain events application** or any process initiated by the commission under clause 4.1(c) into account in making its determination in respect of the prices which **East Gippsland Water** may charge for **prescribed services** in the **next regulatory period**.

**(d) Effective date of amendment or adjustment**

A determination made by the commission under this clause 4 to amend this Determination takes effect from the date on which notice of its making is published in the Government Gazette or any later date of commencement as may be specified in the determination.

## 5. Material error or unintended consequences

(a) Where the commission is satisfied that in any material respect:

- (i) this Determination or any information relied upon in the making of this Determination contains an error, deficiency or miscalculation;
- (ii) any information on which this Determination was based was false or misleading in a material respect; or
- (iii) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

the commission may decide to amend this Determination and/or adjust the scheduled prices in Schedule 2, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

(b) In most cases, an amendment will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the *WIRO*.

(c) In some limited circumstances, the commission may amend this Determination without further consultation, or with only limited consultation. This will be the case where an amendment is not sufficiently material to warrant a full consultation process, or where there is urgency that justifies the commission moving quickly, as set out in clause 16(c) of the *WIRO*. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).

(d) A determination made by the commission under this clause 5 to amend this Determination takes effect from the date on which notice of its making is published in the Government Gazette or any later date of commencement as may be specified in the determination.

# Schedule 1 – Definitions and interpretation

## A Definitions

**business day** means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

**East Gippsland Water** means East Gippsland Region Water Corporation (trading as East Gippsland Water (ABN 40 096 764 586).

**ESC Act** means the *Essential Services Commission Act 2001* (Vic).

**GST** has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

**miscellaneous services** means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 4.

**NCC** means a new customer contribution levied by **East Gippsland Water** under section 268 of the *Water Act 1989* (Vic).

**next regulatory period** means the period commencing on 1 July 2028 and ending on a date specified by the commission.

**prescribed services** has the meaning given in the **WIRO** and includes **miscellaneous services**.

**RAB** means regulatory asset base.

**regulated entity** has the meaning given in the **WIRO**.

**regulatory period** means the period commencing on 1 July 2023 and ending on 30 June 2028.

**regulatory year** means each period of twelve months commencing on 1 July and ending on 30 June.

**Statement of Obligations** means an applicable statement of obligations made under section 4I(2) of the *Water Industry Act 1994* (Vic).

**Water Act** means the *Water Act 1989* (Vic).

**WI Act** means the *Water Industry Act 1994* (Vic).

**WIRO** means the Water Industry Regulatory Order 2014 in force as at the date of this Determination.

## B Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any “notice” to be given or matter to be “notified” must be in writing.
- (i) The symbol ‘ $\Sigma$ ’ requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.
- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
  - (i) **regulatory year** ‘t’ is the **regulatory year** in respect of which the calculation is being made;
  - (ii) **regulatory year** ‘t-1’ is the **regulatory year** immediately preceding **regulatory year** ‘t’;
  - (iii) **regulatory year** ‘t-2’ is the **regulatory year** immediately preceding **regulatory year** ‘t-1’.

## Schedule 2 – Prices

This schedule should be read in conjunction with Schedule 3, Schedule 4 and Schedule 5. Variable water, wastewater, and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

Tariff and Price Component	Price	PPM	PPM	PPM	PPM
	(1 July 2023)	Year 2	Year 3	Year 4	Year 5
<b>1.1 Water Tariff Residential &amp; Non-Residential</b>					
Service Availability Charge – 20 mm (per annum)	242.49	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 25 mm (per annum)	378.28	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 32 mm (per annum)	620.82	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 40 mm (per annum)	970.07	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 50 mm (per annum)	1515.76	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 75 mm (per annum)	3409.88	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 80 mm (per annum)	3880.38	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 100 mm (per annum)	6063.12	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – 150 mm (per annum)	13681.34	0.5%	0.5%	0.5%	0.5%
Service Availability Charge – No Connection	135.37	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 20 mm (per annum)	36.34	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 25 mm (per annum)	56.71	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 32 mm (per annum)	93.11	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 40 mm (per annum)	145.52	0.5%	0.5%	0.5%	0.5%

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Tariff and Price Component	Price	PPM	PPM	PPM	PPM
	(1 July 2023)	Year 2	Year 3	Year 4	Year 5
<b>1.1 Water Tariff Residential &amp; Non-Residential (continued)</b>					
Unmetered Fire Service – 50 mm (per annum)	227.38	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 75 mm (per annum)	511.36	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 80 mm (per annum)	582.15	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 100 mm (per annum)	909.65	0.5%	0.5%	0.5%	0.5%
Unmetered Fire Service – 150 mm (per annum)	909.65	0.5%	0.5%	0.5%	0.5%
Usage Charge (per kL)	2.5435	0.5%	0.5%	0.5%	0.5%
<b>1.2 Wastewater Tariff Residential &amp; Non-Residential service charges (per annum)</b>	729.46	0.5%	0.5%	0.5%	0.5%
<b>1.3 Wastewater Tariff vacant block (per annum)</b>	364.72	0.5%	0.5%	0.5%	0.5%
<b>1.4 Standard New customer contribution (per lot)</b>					
Water (per lot)	0.00	0.00	0.00	0.00	0.00
Sewer (per lot)	0.00	0.00	0.00	0.00	0.00
<b>1.5 Trade Waste</b>					
Service Charge (per annum)	350.48	0.5%	0.5%	0.5%	0.5%
Chemical Oxygen Charge (per kL)	0.2409	0.5%	0.5%	0.5%	0.5%
Suspended Solids Charge (per kL)	0.0721	0.5%	0.5%	0.5%	0.5%
Monitoring Charge (per annum)	1641.22	0.5%	0.5%	0.5%	0.5%
<b>1.6 Recycled Water</b>					
Usage Charge (per ML)	37.45	Subject to supply agreements			

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Tariff and Price Component	Price	PPM	PPM	PPM	PPM
	(1 July 2023)	Year 2	Year 3	Year 4	Year 5
<b>1.7 Miscellaneous Fees and Charges</b>					
Information Statement (each)	66.66	0.5%	0.5%	0.5%	0.5%
Special Meter Reading (including Tenant Readings) (each)	79.61	0.0%	0.0%	0.0%	0.0%
Information Statement with Meter Reading (per application)	99.47	0.0%	0.0%	0.0%	0.0%
Private Fire Service Resealing fire hose taps	179.10	0.0%	0.0%	0.0%	0.0%
Sewerage Connection Application	206.63	0.5%	0.5%	0.5%	0.5%
Connection Fee Meter – 20mm (each)	205.63	0.0%	0.0%	0.0%	0.0%
Connection Fee Meter – 25mm (each)	205.63	0.0%	0.0%	0.0%	0.0%
Standpipe Tokens (each)	4.79	0.0%	0.0%	0.0%	0.0%
Septic Waste Disposal (per kL)	26.6656	0.0%	0.0%	0.0%	0.0%
De-Sludging Fees (per kL)	26.6656	0.5%	0.5%	0.5%	0.5%
<b>Development Planning Charges</b>					
Project Cost <= \$5000	\$450.00	0.0%	0.0%	0.0%	0.0%
Project Cost \$5000 - \$50000	4% or minimum of \$900				
Project Cost \$50001 - \$100000	5% or minimum of \$3,500				
Project Cost => \$100000	6% or minimum of \$5,500				
<b>Non-core miscellaneous services</b>	Actual Cost + 25%				

As set out in clause 1.1(d) of this Determination, the role of the Commission in making this Determination is limited to determining the maximum prices that **East Gippsland Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the role of **East Gippsland Water** to set a tariff for **prescribed services** in accordance with the **Water Act** and to ensure the tariff complies with this Determination. The commission does not have a role in hearing disputes about individual billing issues that users may have.

## Schedule 3 – Application of prices

### 3.1 Water service and usage charges

It is the role of *East Gippsland Water* to apply a water service charge and a water usage charge in accordance with the *Water Act*.

### 3.2 Unmetered fire service charge

A charge equivalent to 15 per cent of the service availability charge based on meter service size is applicable to customers that have an unmetered fire service.

### 3.3 Wastewater service availability charges

Wastewater tariffs are based on a system of Equivalent Tenement Unit ratings (EQT) with one EQT as a minimum charge per separate property/occupancy. In the case of non-residential customers, the amount of EQTs charged is based on a 3-year average water use and applying the appropriate industry discharge factor e.g. motels, units or restaurants.

### 3.4 Wastewater charge

It is the role of *East Gippsland Water* to apply a wastewater charge in accordance with the *Water Act*.

### 3.5 Trade waste charges

Trade waste charges are separated into either minor or major trade waste customers depending on the requirement to collect and treat their wastewater.

Minor trade waste customers are generally smaller customers with requirements for a grease trap. They are charged a trade waste facility charge. This is a management fee to cover site inspections, compliance audit monitoring, administration and reviewing trade waste agreements.

Trade waste is any liquid waste generated by any industry, business, trade or manufacturing process, other than domestic waste, acceptable for discharge to sewer. It is the liquid generated from commercial and industrial activities and can contain a number of substances used or generated in manufacturing, processing or food preparation. Trade waste requires more treatment effort, has a greater propensity to cause blockages and disruption to normal sewerage treatment processes. Trade waste is also more difficult to collect and dispose of than domestic waste.

For trade waste customers, the trade waste charge is the above domestic sewage strength charge passed on to the customer to recover the cost incurred for collection, transportation, treatment and disposal of constituents of trade waste.

### 3.6 Major trade waste charges

Major trade waste is concerned with businesses that generate waste streams that are not typical of domestic sewage from a volume and strength perspective.

Major trade waste charges consist of an annual monitoring/sampling fee, a volumetric fee and, where applicable, a fee based on the strength components of the business's waste. The strength components are comprised of a chemical oxygen demand component (COD) and a total suspended solids (TSS) component.

Based on the results of the business's trade waste monitoring, the business is charged on a kL basis for the strength of its trade waste (both chemical oxygen demand and total suspended solids) which is above that of recorded domestic waste strength for the region.

### 3.7 Reuse water

East Gippsland Water has a small number of agreements for the use of re-use water. The strategy to maintain 100% re-use requires the business to consider many options for wastewater discharge. Agreements are in place with businesses and organizations that are able to use the re-use water for farming and recreational purposes.

Prices for re-use water are determined by the individual circumstances of each customer taking into account:

- the cost benefits to the business
- customer's willingness and ability to pay
- customer's long term commitment in this type of arrangement
- other means available to use the waste.

### 3.9 Miscellaneous fees and charges

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
<b>Farm operations</b>	Leasing charges applied to farm operations are determined through an open tender process.
<b>Water connection fee 20mm – connection cost including materials</b>	This includes full tapping and water meter installation at the property boundary.

Continued next page

Miscellaneous service	Definition
<b>Water connection fee 20mm – complete connection cost and meter</b>	The tapping into the water main and water meter have been combined into one single charge called water connection. The fee is based on the effort and material to connect to the water main and the cost of the meter.
<b>Materials for connection only – 20mm</b>	Price for materials necessary for connection only (includes meter, stop tap, nuts and tails, ferrule bend).
<b>Meter only – 20mm</b>	Price of meter only.
<b>Meter with remote reader – 20mm</b>	Property owners in designated areas will be required to install a meter with a device that enables remote reading capability.
<b>Road under bore</b>	Where an under road/street bore is required for complete water connection, only the actual cost will be charged to the customer.
<b>Water meter connection rebooking fee</b>	A water meter connection rebooking fee of \$60 will be charged where a customer or their plumber has not honoured an agreed meeting time which requires a revisit.
<b>Sewerage connection/cut &amp; seal/alteration/disconnection application</b>	This fee is charged for checking sewer availability and issuing a Plumbing Industry Commission consent number.
<b>Information certificate</b>	This fee is charged to provide details regarding outstanding charges and tariffs and any other conditions/encumbrances that may apply to a property title. Information statements are requested for transfer of property transactions. Details are provided as an information certificate/statement defined by the Water Act 1989. Customers will be offered a choice for this service: (a) Standard Information Certificate based on providing information statements within five days; (b) Premium Information Certificate provides customers with a quicker one to two day turnaround time for information statements at 1.5 times the standard price.
<b>Rental/Lease charges</b>	Rental charges for use of business owned land are largely determined by market demand. Charges for leasing telecommunication sites are market driven and reviewed on expiry of leases.
<b>Legal fees recovered</b>	Actual legal costs incurred for debt recovery or dishonoured payments are directly charged back to customers for full cost recovery as approved by the commission. No overheads or other business costs are included in these charges.
<b>Metered hydrant</b>	A fee is applied when issuing a metered hydrant which covers backflow and calibration requirements, billing administration and hydrant depreciation.

Continued next page

Miscellaneous service	Definition
<b>Standpipe water token (per kL)</b>	Tokens are sold to customers for access to any of the Corporation's four standpipes. One token is equivalent to one kilolitre of fully treated water.
<b>Meter reading fee</b>	A fee is charged to read meters outside of the normal meter reading cycle, normally in conjunction with an Information Statement or where there is a change of tenant/owner. This fee is for a meter reading and does include an information statement.
<b>Meter access fee</b>	This fee is charged when a property owner does not provide appropriate access for water meter reading and following third official written warning notification and where a revisit is required, plus \$10 extra for each further written request.
<b>DFFS fee for administration of water charge concessions</b>	Fee for the business to process concession claims determined by Department of Families, Fairness and Housing (DFFS).
<b>Scrap asset sales</b>	Revenue from disposal of damaged or obsolete fittings as required.
<b>Septic tank disposal fee (per kL)</b>	This fee is charged to dispose of domestic (residential household) septic tank waste at the Corporation's Sewerage Treatment Plants. Fee based on cost recovery for administration, treatment and provision of access to dispose waste.
<b>Fire services application fee (per kL)</b>	Where a customer has, or requests, a fire service to be provided to their property the appropriate fees indicated for water connection apply. The fire services application fee is additional and includes sealing and recording of fire service details on the customer information system.
<b>Resealing fire hose</b>	A fee is charged to reseal a fire service fitting. Broken seal suggests unauthorised water use and customers are charged a resealing fee to replace the seal, use of water and as a penalty and deterrent to ensure that fire services remain available for emergency fire fighting only.
<b>Water flow test</b>	A test that checks the water flow (litres per minute) at the customer meter. Customers can request this test if they believe they have low water flow that does not meet East Gippsland Water flow rate standards of 20 litres per minute (20mm water connection). Water flow testing comprises travel to property, carrying out a water measure test and written report back to customer.
<b>AS2419 Compliance flow and pressure test for fire hydrant installation</b>	A more comprehensive pressure and flow test per section 3.3 of AS2419 2005 Fire Hydrant installations.

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Miscellaneous service	Definition
<b>Water quality test</b>	<p>This test checks the water quality from the customer meter. Customers can request this test if they believe that water quality does not meet approved service standards. The test consists of collecting a water sample, sending sample to an independent testing laboratory and associated administration. The Customer Charter allows the Corporation to charge for the test if the water quality is found to meet approved water quality standards.</p>
<b>Water trailer &amp; Meet Pat Units</b>	<p>East Gippsland Water will charge the following:</p> <ul style="list-style-type: none"> <li>• \$100 refundable deposit for the drinking water trailer</li> <li>• \$50 refundable deposit per meet pat unit.</li> </ul> <p>In addition, there will be the following charges in relation to commercial events (events that make a profit and the profit does not go back into the community)</p> <ul style="list-style-type: none"> <li>• \$500 fee for the drinking water trailer</li> <li>• \$500 fee for the meet pat units, if we are assisting with setting them up.</li> </ul>
<b>Testing water meters</b>	<p>This test is carried out on the customer water meter to check its accuracy. East Gippsland Water's Customer Charter provides ability for customers to request a water meter test to ascertain its accuracy within +/- five per cent of acceptable industry standards.</p> <p>If the test demonstrates that a meter is reading higher than accepted industry tolerance levels, East Gippsland Water will:</p> <ol style="list-style-type: none"> <li>(a) repair or replace the inaccurate meter;</li> <li>(b) pay the cost of the test; and</li> <li>(c) adjust the usage account accordingly.</li> </ol>
<b>Account/Billing history information (per hour)</b>	<p>At the customer's request, East Gippsland Water will provide the customer with their account and usage history for the preceding three years within 10 business days without charge. The business will charge \$45 per hour (labour plus 25% oncost) to provide billing information in excess of three years.</p>
<b>Tender printing</b>	<p>Printing tender documents, staff labour, printing and photocopying shall be charged at \$45 per hour plus 20 cents per page. No charge to be applied for emailing of tender documents.</p>
<b>Freedom of information (FOI)</b>	<p>This fee is for provision of FOI as provided by the FOI Act 1982. A fee for investigation, collating, photocopying and postage if applicable will be charged for providing this service. Fee for information shall be charges as determined by the FOI Act 1982 and monetary units gazetted from time to time.</p>
<b>Build over easement agreements</b>	<p>A charge based on the average time to check the plan to determine whether the building is suitable for build over and does not interfere with water or sewerage infrastructure.</p>

Continued next page

Miscellaneous service	Definition
<b>Recoverable sundry works costs</b>	These costs are charged for damage(s) caused by external parties to Corporation owned infrastructure or for sundry works requested by third parties. Costs are charged to cover construction, alteration or repair of assets due to damage caused by third parties.
<b>Plug Off/Tapping relocation fee</b>	This fee is charged when an existing water service is disconnected or when a meter is relocated together with a new tapping (new water connection less the cost of the meter).
<b>Backflow prevention device application fee</b>	Customers are required under Plumbing Regulations to install testable backflow protection device(s) at the property boundary in circumstances where there are risks of cross contamination in the Corporation's water supply system. Backflow devices are required to undergo annual testing to ensure operability. An application fee is applicable where the backflow prevention device is fitted to a new service.
<b>Backflow prevention device inspection fee</b>	Backflow prevention devices are to be regularly inspected to ensure that they meet compliance to prevent any backflow of water into the Corporation's water system.
<b>Account/Billing history information (per hour)</b>	At the customer's request, East Gippsland Water will provide the customer with account and usage history for the preceding three years within 10 business days without charge. The Corporation will charge \$40 per hour (labour plus 25% oncost) to provide billing information in excess of 3 years.
<b>Low pressure sewer pump fees</b>	Customers connecting low pressure sewer pumps to the Corporation's system will be charged a supervision and administration fee for arranging pump installation. Cost of the pump units or full installation costs will be actual cost plus 25% for indirect costs and oncosts.

## Schedule 4 – Pricing principles

### 4.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where **East Gippsland Water** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to **East Gippsland Water** or pursuant to other government policies that apply to **East Gippsland Water** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

### 4.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner;
- the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the commission;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer);

- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the commission;
- where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

### 4.3 Pricing principles for NCC

#### Core pricing principles

**NCC**, including standard or negotiated **NCC**, will be calculated by applying the following core **NCC** pricing principles.

Standard and negotiated **NCC** will:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- have regard to the incremental future revenues that will be earned from customers at that connection;
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

Notes:

1. Given that **NCC** are to be based on the net incremental cost of connection (ie incremental costs net of incremental benefits), in this context, the costs referred to in the efficient pricing bound are the net costs, specifically the avoidable net cost of connection and standalone net cost of connection.
2. Where the connection arrangement requires assets to be gifted, the value of gifted assets will be excluded for the purpose of calculating net costs.
3. Incremental costs may include financing costs associated with constructing an asset sooner than planned.

## NCC application

**NCC** are applied on a per lot basis and may be levied on any connection of a new customer that is separately titled or is, or can be, individually metered.

## Incremental financing costs

Incremental financing costs (IFC) should be calculated using this formula:

$$\text{IFC} = \left(1 - \left[\frac{1}{(1+r)^n}\right]\right) \times \text{cost of capital being provided sooner than planned}$$

where:

r estimated pre-tax regulatory rate of return

n the number of years the asset is required sooner than planned.

## Gifted Assets

**East Gippsland Water** can require developers to provide and gift to **East Gippsland Water** specified assets as a condition of connection, provided that **East Gippsland Water**:

- makes clear to potential developers which assets a developer will be responsible for providing and gifting, and which will be provided by **East Gippsland Water**;
- confirms that negotiation of any non-standard connection and associated charges will be undertaken in accordance with **East Gippsland Water's** published negotiating framework; and
- the value of gifted assets will be excluded for the purposes of calculating net costs.

## 4.4 Pricing principles for *miscellaneous services* not included in Schedule 2

Prices for ***miscellaneous services*** must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

## 4.5 Guidelines

**East Gippsland Water** must comply with any guidelines issued by the commission from time to time which relate to the setting of prices for ***prescribed services*** to which Schedule 4 relates.

Schedule 4 – Pricing principles

## Schedule 5 – Adjustment to Schedule 2 – changes in costs associated with annual updates to the trailing average cost of debt

If in any **regulatory year** Condition A applies (per Schedule 5B below), the formula set out in clause 2.3(b) is not applicable to the extent it relates to the prices listed in Schedule 5A. The prices in Schedule 5A are specified under items 1.2 and 1.3 of Schedule 2.

Instead, the prices in Schedule 5A will be adjusted in accordance with the formulas (as applicable) provided in Schedule 5B, with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**.

**East Gippsland Water** must comply with any guidance issued by the commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 2 and 4 relates.

### Schedule 5A – Adjustment to prices

Tariffs	Condition A (Annual cost of debt update)
1.2 Wastewater tariff residential & non-residential service charges	X
1.3 Wastewater tariff vacant block	X

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

## Schedule 5B – Prices

### Condition A – Annual cost of debt update

Condition A will apply when the trailing average cost of debt in any **regulatory year** 't' changes in that year. The adjustment is calculated as per formula 4 below.

The difference in the forecast and actual regulatory rate of return in any **regulatory year** 't' is multiplied by the average of the **RAB** to determine the change in **East Gippsland Water's** total expected return. The **RAB** is set out in Table 5 of Annexure A.

The trailing average cost of debt adjustment will be apportioned across the tariffs listed in Schedule 5A.

### Formula 1: Determining the nominal cost of debt

$$CoD_t^{nominal} = \sum_{i=t-10}^{t-1} \frac{CoD_i^{nominal}}{10}$$

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$CoD_t^{nominal}$	Is equal to the simple average of the 10 years up to (but not inclusive of) <b>regulatory year</b> 't' of: <ul style="list-style-type: none"><li>- The historical nominal cost of debt series outlined in Table 1 of Annexure A</li></ul> and <ul style="list-style-type: none"><li>- RBA Table F3 – Non-financial corporate BBB-rated bonds – Yield – 10-year target tenor [Series ID FNFYBBB10M]</li></ul> from 1 April to 31 March before the start of <b>regulatory year</b> 't' (e.g. 1 April 2022 to 31 March 2023 in relation to 2023-24)
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### Formula 2: Determining the real cost of debt

$$CoD_t^{real} = \frac{(1 + CoD_t^{nominal})}{(1 + \pi^{det})} - 1$$

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$\pi^{det}$	Is the inflation factor which is equal to 3.5% for all regulatory years (unless updated in accordance with Note 1 below, in which case it is equal to the updated amount set by the commission)
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Formula 2 outlines the process for converting the trailing average cost of debt from nominal to real using the Fisher equation.

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

Note 1: If inflation (measured by the Australian Bureau of Statistics Consumer Price Index – all groups) falls below 2.5 per cent in 2026-27, we will update the inflation factor ( $\pi^{det}$ ) using a five year averaging period; the updated inflation factor will be used for any necessary adjustment of the scheduled prices in Schedule 2.

### Formula 3: Determining the real regulatory rate of return

$$RRR_t^{real} = 0.4 \times CoE_t^{real} + 0.6 \times CoD_t^{real}$$

$RRR_t^{real}$	Is the post-tax ‘vanilla’ regulatory rate of return in real terms for <b>regulatory year ‘t’</b> rounded to two decimal places, i.e. 4.347% is rounded to 4.35%
$CoE_t^{real}$	Is the real cost of equity which is equal to 4.1% for 2023-24 to 2027-28

### Formula 4: Trailing average cost of debt adjustment

$$CDA_t^j = (RRR_t^{act} - RRR_t^{det}) \times \left( \frac{RAB_{opening,t}^{det} + RAB_{closing,t}^{det}}{2} \right) \times \frac{CPI_t}{CPI_{base}} \times \frac{\alpha_t^j \times q_{j,t}^{det}}{\sum_{j=1,n}^{t=t} (\alpha_t^j \times q_{j,t}^{det})} \times \frac{1}{q_{j,t}^{det}}$$

$CDA_t^j$	Is the trailing average cost of debt adjustment applied proportionally to tariff j, based on tariff j’s relative share of total revenues. Total revenues refer to the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply.
$RRR_t^{act}$	Is the actual calculated real post-tax ‘vanilla’ regulatory rate of return in <b>regulatory year ‘t’</b>
$RRR_t^{det}$	Is the determination real post-tax ‘vanilla’ regulatory rate of return in <b>regulatory year ‘t’</b>
$RAB_{opening,t}^{det}$	Is the determination opening <b>RAB</b> in <b>regulatory year ‘t’</b>
$RAB_{closing,t}^{det}$	Is the determination closing <b>RAB</b> in <b>regulatory year ‘t’</b>
$CPI_t$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant <b>regulatory year</b>
$CPI_{base}$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter in year 2023 equal to 132.6.

Continued next page

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

#### Formula 4: Trailing average cost of debt adjustment (continued)

$\alpha_t^j$	Is the price for tariff j at <b>regulatory year</b> 't' before the cost of debt adjustment where:
$\alpha_t^j = p_{t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j)$	
$p_{t-1}^j$	Is the price for tariff j in <b>regulatory year</b> 't-1'
$q_{j,t}^{det}$	Is the determination quantity for tariff j in <b>regulatory year</b> 't'
$\sum_{j=1,n}^{t=t} (\alpha_t^j \times q_{j,t}^{det})$	Is the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply

Formula 4 outlines the process for calculating the adjustment to prices outlined in Schedule 5A to reflect the new cost of debt. This is done in two steps. The first step is to calculate the change in the revenue requirement by multiplying the adjustment to the rate of return, to reflect the updated cost of debt, by the average regulatory asset base.

The second step is to apply the change in the revenue requirement proportionally to tariff j, based on tariff j's relative share of total revenues. Total revenues are defined as the sum of all revenues received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply.

## Formula 5: Schedule 5A tariffs

$$p_t^{j,COD} = p_{t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j) + CDA_t^j$$

$p_t^{j,COD}$	Is the price for tariff j at <b>regulatory year</b> 't' that accounts for the cost of debt adjustment. The cost of debt adjustment will apply to the tariffs listed in Schedule 5A.
$p_{t-1}^j$	Is the price for tariff j in <b>regulatory year</b> 't-1'
$CPI_t$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant <b>regulatory year</b>
$PPM_t^j$	Is the prescribed price movement for the price component of tariff j in <b>regulatory year</b> 't' as per the determination
$CDA_t^j$	Is the trailing average cost of debt adjustment applied proportionally to tariff j, based on tariff j's relative share of total revenues as outlined in formula 4. Total revenues refer to the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply.

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

**The Common Seal of the  
Essential Services  
Commission** was affixed to  
this Determination with the  
authority of the commission.

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Date: 26 June, 2023

A handwritten signature in blue ink, appearing to read "Kate Symons".

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**Kate Symons**  
**Chairperson**

## Annexure A

**Table 1 Historical cost of debt (nominal)**

Per cent

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cost of debt	7.05%	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%

**Table 2 Forecast real regulatory rate of return**

Per cent

	2023-24	2024-25	2025-26	2026-27	2027-28
Regulatory rate of return	2.43%	2.41%	2.49%	2.58%	2.69%

**Table 3 Benchmark revenue requirement**

\$m 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28
Operating expenditure	25.1	25.1	25.2	25.2	25.1
Return on assets	4.6	5.0	5.6	6.2	6.9
Regulatory depreciation	5.9	6.6	7.4	8.1	8.9
Adjustments from last period	-	-	-	-	-
Non-prescribed revenue offset of revenue requirement	-0.1	-0.1	-0.1	-0.1	-0.1
Tax allowance	-	-	0.1	0.1	0.2
<b>Total</b>	<b>35.6</b>	<b>36.6</b>	<b>38.1</b>	<b>39.5</b>	<b>41.0</b>

**Table 4 Closing regulatory asset base**  
\$m 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB at 1 July	163.1	163.1	165.0	166.6	181.6
<i>Plus</i> Gross capital expenditure	9.8	10.1	11.1	24.3	6.0
<i>Less</i> Government contributions	-	-	0.8	-0.1	-
<i>Less</i> Customer contributions	0.1	0.0	0.0	0.0	-
<i>Less</i> Proceeds from disposals	0.6	0.4	0.1	0.2	0.2
<i>Less</i> Regulatory depreciation	9.3	7.8	8.5	9.2	9.8
<b>Closing RAB at 30 June</b>	<b>163.1</b>	<b>165.0</b>	<b>166.6</b>	<b>181.6</b>	<b>177.6</b>

**Table 5 Forecast regulatory asset base**  
\$m 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB at 1 July	177.6	183.2	196.5	215.6	230.4	248.4
<i>Plus</i> Gross capital expenditure	15.8	19.6	26.0	22.4	26.6	25.6
<i>Less</i> Government contributions	-	-	-	-	-	-
<i>Less</i> Customer contributions	-	-	-	-	-	-
<i>Less</i> Proceeds from disposals	0.3	0.4	0.3	0.2	0.4	0.3
<i>Less</i> Regulatory depreciation	9.9	5.9	6.6	7.4	8.1	8.9
<b>Closing RAB at 30 June</b>	<b>183.2</b>	<b>196.5</b>	<b>215.6</b>	<b>230.4</b>	<b>248.4</b>	<b>264.8</b>

**Table 6 Approved licence fee and environmental contribution assumptions**  
\$m 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28
Essential Services Commission licence fee	0.0	0.0	0.0	0.0	0.0
Department of Health licence fee	0.0	0.0	0.0	0.0	0.0
Environment Protection Authority licence fee	0.0	0.0	0.0	0.0	0.0
Environmental contribution	1.6	1.5	1.5	1.4	1.4

**Table 7 Demand forecast**

	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Water assessments (no.)</b>					
Residential	23,083	23,471	23,866	24,217	24,574
Non-residential	2,953	2,955	2,957	2,960	2,962
Total	26,036	26,426	26,823	27,177	27,536
<b>Sewerage assessments (no.)</b>					
Residential	19,313	19,633	19,958	20,248	20,542
Non-residential	2,179	2,181	2,183	2,185	2,187
Total	21,492	21,814	22,141	22,433	22,729
<b>Billable water consumption (ML)</b>					
Residential	3,251	3,300	3,350	3,394	3,439
Non-residential	1,530	1,534	1,537	1,541	1,544
Total	4,781	4,834	4,887	4,935	4,983

**Table 8 Major capital projects**

Project	Expected start date	Expected completion date
Woodglen Water Treatment Plant Third Raw Water Storage	2021-22	2027-28
Paynesville Wastewater Treatment Plant – Additional Recycled Water Storage and Pump Station	2021-22	2025-26
Bairnsdale Wastewater Treatment Plant Stage 1 Major Upgrades	2023-24	2027-28
Woodglen to Wy Yung main supply pipeline upgrade	2021-22	2024-25
Replace Liner and Cover of Wy Yung No. 1 Clear Water Storage	2021-22	2024-25
Bairnsdale Wastewater Treatment Plant Stage 2 Major Upgrades	2023-24	2030-31
Replace Buchan Clear Water Storage Tanks	2024-25	2026-27
New 1ML Clear Water Storage Tank and Pump Station at Marlo	2024-25	2026-27
Lakes Entrance North Arm Bridge Water Main replacement	2022-23	2024-25
Bairnsdale Sewer Network – Day Street Upgrades	2025-26	2027-28