

Lower Murray Water final decision

2023 Water Price Review

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.

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Summary

We have made our final decision on Lower Murray Water's prices for the next 5 years

In March 2023, we released our draft decision on the price submission Lower Murray Water submitted to us in September 2022.¹ The draft decision set out our preliminary views on Lower Murray Water's proposals and invited interested parties to make further submissions. We also held a public forum in April 2023. In addition to a response by Lower Murray Water, we received two written submissions on our draft decision, which are available on our website (see Appendix A of this final decision for details).

After considering that feedback and Lower Murray Water's response, we have made a price determination for Lower Murray Water.² The price determination sets out the maximum prices Lower Murray Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the 5-year period from 1 July 2023 (2023-28). This final decision sets out our supporting reasons and analysis for the price determination.



Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision confirms the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

¹ Our draft decision for Lower Murray Water is available at www.esc.vic.gov.au/waterpricereview.

² Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water business may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission, *Lower Murray Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

Our final decision adopts a revenue requirement that will enable Lower Murray Water to deliver on its proposed outcomes

Our draft decision presents key benchmarks for each of Lower Murray Water's urban and rural services. This is consistent with how these parts of the business have been treated in our past price reviews, allowing for differentiated pricing based on the nature of the service provided.

For Lower Murray Water's urban services, our final decision approves a revenue requirement of \$221.5 million over the 5-year period starting 1 July 2023 (see Chapter 4).³ This is \$4.8 million or 2.2 per cent higher than our draft decision, and mainly reflects our updates to the cost of debt.

For Lower Murray Water's rural services, our final decision approves a revenue requirement of \$138.1 million over the 5-year period starting 1 July 2023 (Chapter 7). While our final decision has made some minor adjustments compared to our draft decision, the amount we have approved in our final decision is the same as the amount we adopted in our draft decision.

This revenue requirement we have approved for urban and rural services will allow Lower Murray Water to deliver on its customer service commitments, government policy, statements of obligations, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

Typical water and sewerage bills for urban services will rise in 2023-24 and rural prices will also increase

For urban services, typical water and sewerage bills (including inflation) will rise from 1 July 2023. For rural services, generally prices will rise below inflation for most districts from 1 July 2023.

A summary of approved maximum prices for major services delivered by Lower Murray Water is set out in Section 5.3.2 (urban services) and Section 8.3.2 (rural services). Table A shows the estimated typical bills for different customer groups under our final decision for the current year 2022-23 and 2023-24. For a typical residential owner occupier, bills (including inflation) will rise from around \$1,018 in 2022-23 to around \$1,096 in 2023-24, an increase of around 7.7 per cent. For a typical residential tenant, bills (including inflation) will rise from around \$294 to \$316.

After 2023-24, water and sewerage prices for residential and non-residential customers will generally increase by around 0.6 per cent per year, excluding inflation.

³ The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health. Along with forecast demand, it is an input to calculating the prices to be charged by a water business.

The bill paid by each customer will vary depending on water use, prices for fixed and variable tariffs, and other charges.

Table A Estimated typical annual water and sewerage bills – urban services

Customer group	Average consumption (kL p.a.)	2022-23 (current)	2023-24
		\$2022-23	\$2023-24
Residential – owner occupier	480	\$1,018	\$1,096
Residential – tenant	480	\$294	\$316
Non-residential (small)	400	\$1,065	\$1,147
Non-residential (medium)	3,000	\$3,279	\$3,531
Non-residential (large)	30,000	\$26,269	\$28,293

Note: The table shows the average bills for 2023-24 expressed in \$2023-24 terms (which means 7 per cent inflation has been included). Our draft decision included bill estimates based on our draft decision revenue requirement, expressed in \$2022-23 terms as the inflation figure was not available at this time. Our determination for Lower Murray Water sets prices in \$2023-24 terms, with provision for inflation to be added in each of the remaining years of the regulatory period based on the latest inflation data. Dollar amounts have been rounded.

For rural services, prices in real terms (before inflation) will generally decline over the 2023–28 regulatory period (see Section 8.3.2).

Lower Murray Water has committed to delivering outcomes that reflect customer priorities across its urban and rural services

As a business that provides urban and rural water services, Lower Murray Water engaged on a set of proposed outcomes for each of these major service areas. The outcomes it proposes are similar (with a focus on providing customers value for money and safe, reliable services), but refined to reflect the different nature of services and the customer base.

For its urban services, Lower Murray Water has committed to deliver the following outcomes for customers:

- Services provide customers value for money
- Provide customers reliable and safe drinking water
- Provide customers with reliable sewerage services
- Provide customer service avenues that are responsive to resolve requests or enquiries within agreed key performance indicators

- Service its communities in a socially responsible and environmentally sustainable manner.⁴

For its rural services, Lower Murray Water has committed to the following outcomes for customers:

- Services provide customers value for money
- Provide customers with water when they need it
- Provide customer service avenues that are responsive to resolve requests and enquiries
- Service our communities in a socially responsible and environmentally sustainable manner.⁵

Among the key initiatives to deliver on its commitments, it will look to become a more customer-engaged business and focus on securing water reliability which is a key issue for both Lower Murray Water's urban and rural customers. It will invest in systems and infrastructure to ensure the availability of water when required, including by taking into account population growth.

Lower Murray Water has considered the impacts of relatively high inflation for 2023-24

Our draft decision sought further information from Lower Murray Water on how it intends to address impacts of relatively high inflation in 2023-24 on prices, customer bills, and expenditure. In its response to our draft decision, Lower Murray Water noted a number of its costs are expected to increase by more than inflation, which gives it some concern that operating expenditure increases will be difficult to contain within inflation. It therefore proposed to retain its forecasts for operating expenditure.

More information is available in Lower Murray Water's response to our draft decision.⁶

Tariff structures will remain the same

Consistent with our draft decision, our final decision approves Lower Murray Water's proposed tariff structures for urban services, on the basis that they reflect a continuation of its current approach. For urban water services, we have approved Lower Murray Water's proposal for a two-part tariff with a fixed service charge and a variable component that depends on water use (including a three-tier inclining block structure for residential services). For residential and non-residential sewerage services, we have approved Lower Murray Water's proposal for a fixed service charge only.

⁴ Lower Murray Water, 2023 water price submission, September 2022, p. 64.

⁵ Lower Murray Water, 2023 water price submission, September 2022, p. 107.

⁶ Lower Murray Water, Response to draft decision, May 2023, pp. 3-4.

Consistent with our draft decision, our final decision also approves Lower Murray Water's proposed tariff basket form of price control for its urban services, because this is a continuation of its current approach and means Lower Murray Water is managing demand risk on behalf of its customers, which we consider more efficient than its customers managing that risk.

For more detail on tariffs and the form of price control for Lower Murray Water's urban services, see Chapter 5.

Lower Murray Water proposed to maintain its existing tariff structures for pumped irrigation, waterworks, stock, domestic and private diversions across all rural districts. Lower Murray Water proposed to continue recovering the cost incurred by individual districts through the use of location-based pricing.

Consistent with our draft decision, our final decision approves Lower Murray Water's proposed tariff structures for its urban services because, for all districts, they reflect a continuation of its current approach.

Consistent with our draft decision, our final decision also approves Lower Murray Water's proposed revenue cap form of price control for its rural services because, among other things, it is a continuation of its existing approach. This means the revenue Lower Murray Water can earn is fixed at the start of its regulatory period, but customer prices may vary annually – within pre-defined limits – so the business can meet its revenue requirement. For more detail on tariffs and the form of price control for Lower Murray Water's rural services, see Chapter 8.

We have rated Lower Murray Water's price submission as 'Standard' under the PREMO framework

Consistent with our draft decision, our final decision is to rate Lower Murray Water's price submission as 'Standard' under the PREMO framework (Table B). This is the same as Lower Murray Water's self-rating. Factors in support of Lower Murray Water's PREMO rating include that Lower Murray Water has overall met its outcome commitments for the period to date for its urban services, it generally provided sound justification for its proposed expenditure, and Lower Murray Water's engagement was inclusive, including with local services that work with First Nations people and with customers experiencing payment difficulty.

Our final decision maintains a rating of 'Basic' for the Performance element of PREMO, consistent with our draft decision. This assessment partly reflects relatively high controllable operating expenditure in 2021-22 for its urban services, compared to 2018 water price review benchmarks (see Chapter 9).

While we consider Lower Murray Water met the expectations of a 'Standard' PREMO price submission, we consider there were a number of issues of concern raised by members of its rural

customer committee at the public forum we held on our draft decision (20 April 2023), that the business should continue to explore with the committee and customers. This includes responding on rates of efficiency improvement, its approach to engagement, and on the approach taken by the business to allocating corporate costs between urban and rural services.

We encourage Lower Murray Water to continue to engage with its rural committee and customers on these matters, potentially including reporting back during the regulatory period on efficiencies achieved.

We note that this is the first regulatory period for which Lower Murray Water’s rural services are covered by PREMO. As part of this, at its next price review in 5 years’ time we will assess its performance under the Performance element of PREMO, including how it has achieved against operating expenditure targets, including the efficiency commitment of around 1.1 per cent per year, which has been reflected in both its urban and rural services prices.

See Section 1.4 for an explanation of the PREMO framework and Chapter 9 for more detail on our PREMO assessment of Lower Murray Water’s price submission.



Our PREMO rating is an assessment of the water business’s price submission and its ambition to deliver outcomes valued by its customers. It is not an assessment of the water business itself.

Table B **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Lower Murray Water’s self-rating	Standard	Standard	Standard	Standard	Standard	Standard
Commission’s rating	Standard	Basic	Standard	Standard	Standard	Standard

PART A

1. Our role and approach to water pricing

1.1 We are Victoria's independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO), which is made under the *Water Industry Act 1994* (WI Act) and sits within the broader context of the *Essential Services Commission Act 2001* (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 18 water businesses operating in Victoria.

1.2 We are reviewing the proposed prices of 14 water businesses

Our review is of the prices that the 14 water businesses propose to charge customers for prescribed services from 1 July 2023.⁷ The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water businesses.⁸

Lower Murray Water provided a submission to us proposing prices for a 5-year period starting 1 July 2023. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2023. We make a price determination after issuing a draft decision and considering feedback from interested parties, including any response to the draft decision from the water business.

The price determination specifies the maximum prices a water business may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that sets out our supporting reasons for our price determination.

1.3 We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory matters we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act, and clause 8 of the WIRO requires that we place particular emphasis on the promotion of efficiency related matters. In making a price determination, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental

⁷ The review excludes Melbourne Water, Goulburn-Murray Water, North East Water and Greater Western Water. In 2021 we approved prices for Melbourne Water to 30 June 2026 and in 2020 we approved prices for Goulburn-Murray Water to 30 June 2024. In 2018, we approved prices for North East Water to 30 June 2026. We have approved an extension to the regulatory period for Greater Western Water to 30 June 2024.

⁸ The prescribed services are listed at clause 7(b) of the WIRO.

and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance⁹
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so for our final decision for Lower Murray Water. Table 1.1 summarises the matters we must have regard to and groups them into themes.

In October 2021, we issued guidance to water businesses, including Lower Murray Water to inform their price submissions. The guidance set out how we would assess Lower Murray Water's submission against the matters we must consider under clause 11 of the WIRO. It also outlined our expectation that Lower Murray Water would comply with certain requirements and specified information that Lower Murray Water must provide to us when submitting its price submission.¹⁰

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Lower Murray Water's maximum proposed prices it can charge for the prescribed services it provides.¹¹

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.¹²

We issued a variation to our guidance for Lower Murray Water in July 2022. This additional guidance is available on our website and clarifies that the Performance element of PREMO does not apply to Lower Murray Water's rural infrastructure services.¹³

This is the first time that Lower Murray Water's rural infrastructure services have been assessed under the PREMO framework. Lower Murray Water's rural business was not assessed under our

⁹ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

¹⁰ Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

¹¹ This is a requirement of the WIRO, clause 14(a).

¹² This is provided for under the WIRO, clause 14(b)(i).

¹³ Essential Services Commission, *Variation to guidance paper issued by the Essential Services Commission in respect of Lower Murray Water's rural infrastructure services*, 29 July 2022.

PREMO framework in 2018, because at that time it fell under the Commonwealth Government's Water Charge (Infrastructure) Rules 2010 assessment framework.

Our approach with all water businesses that have been assessed for the first time under the PREMO framework has been to limit the overall rating of that business to the four "REMO" elements, but not Performance. Accordingly, in establishing its rating for the Performance element, Lower Murray Water was only required to consider the performance of its urban business.



The power for water businesses to charge fees for services they provide is set out in the *Water Act 1989*.¹⁴ These provisions in the Water Act also govern the processes for and manner in which water businesses may set and impose fees. Each water business must ensure that it complies with these legislative requirements.

¹⁴ See Part 13, Division 5 and 6 of the Water Act 1989.

Table 1.1 Matters businesses and the commission must have regard to

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> • promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO] • promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO] • provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO] • efficiency in the industry and incentives for long term investment [s. 8A(1)(a), ESC Act] • efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act] • financial viability of the industry [s. 8A(b)(1), ESC Act] 	<ul style="list-style-type: none"> • particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act] • return on assets in the regulated industry [s. 33(3)(c), ESC Act] • ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act] 	<ul style="list-style-type: none"> • in performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The Commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act] • enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO] • provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO] • take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]

Continued next page

Table 1.1 (continued)

Benchmarking	Health, safety, environmental and social obligations	Other
<ul style="list-style-type: none"> any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act] 	<ul style="list-style-type: none"> the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act] to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s. 4C(c), WI Act] 	<ul style="list-style-type: none"> the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s. 8A(1)(c), ESC Act] consistency in regulation between States and on a national basis [s. 8A(1)(f), ESC Act] the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities [s. 8A(1)(e), ESC Act] wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]

Note: References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the Essential Services Commission Act 2001 (ESC Act), and the Water Industry Act 1994 (WI Act).

1.4 PREMO

PREMO stands for Performance, Risk, Engagement, Management, and Outcomes. Each element of PREMO is summarised in Box 1.1.

Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- Performance — have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- Risk — has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- Engagement — how effective was the business’s customer engagement to inform its price submission?
- Management — is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes — do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

First introduced at our 2018 water price review, the purpose of PREMO is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives, via the rating of price submissions as Leading (the highest available rating), Advanced, Standard or Basic, depending on the level of ambition expressed by a water business in its price submission. Financial incentives are provided by linking the return on equity to the PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and to take these into account in forming the proposals outlined in its price submission. This should be evidenced in price submissions by linking the outcomes proposed with findings from a business’s engagement.

Our guidance specifies the way in which we expect water businesses to assess themselves by reference to the PREMO elements.

Our PREMO framework rewards stronger customer value propositions in price submissions, and an early draft decision is available for price submissions we can assess in a short timeframe.¹⁵

¹⁵ In December 2022, we issued early draft decisions for Yarra Valley Water and Westernport Water.

For the 2023 water price review, a water business’s ambition in terms of delivering customer value is being assessed against all five elements of PREMO — Performance, Risk, Engagement, Management and Outcomes. This is the first water price review where we are assessing the Performance element of the PREMO framework. The Performance element assesses businesses against their Outcomes and proposals from the previous price review (for our 2023 review, this means proposals at the 2018 water price review). We did not assess the Performance element in 2018 because it was the first time that we had applied the PREMO framework and so we did not have a set of approved Outcomes to inform our assessment.

Taking into account all five elements of PREMO, a water business must self-assess and propose a rating for its price submission as ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. Its proposed return on equity will then reflect its proposed PREMO rating. A ‘Leading’ submission has the highest return on equity, and a ‘Basic’ submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the water business’s justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.¹⁶

¹⁶ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 41–46.

2. Our assessment of Lower Murray Water's price submission

We have made our final decision on Lower Murray Water's price submission after considering:

- Lower Murray Water's price submission
- Lower Murray Water's presentation made directly to commissioners
- Lower Murray Water's responses to our queries and our draft decision
- our consultants' reports
- the views of participants in our public forum held on 20 April 2023¹⁷
- written submissions from interested parties (a list of submissions responding to our draft decision is provided in Appendix A).

Any reports, submissions or correspondence provided to us that are material to our consideration of Lower Murray Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included matters water businesses must address in their price submissions. Lower Murray Water's price submission addressed each of these matters, and our initial assessment set out in our draft decision.

We consulted on our draft decision, receiving submissions between 30 March and 9 May 2023 and holding a hybrid (online and in-person) public forum on 20 April 2023. Themes raised by participants and addressed by Lower Murray Water during the forum included the allocation of costs between urban and rural services, the alignment of cost increases with inflation, and its approach to asset management.

Lower Murray Water provided a response to our draft decision, including a revised financial model that reflected the updated cost of debt and inflation figures we provided to businesses in May 2023.¹⁸ In arriving at our final decision, we have considered Lower Murray Water's responses to our draft decision.

This paper sets out our final decision.

¹⁷ A recording of this forum is available on our website.

¹⁸ All references to Lower Murray Water's price submission in this document refer to Lower Murray Water's original price submission that it provided to us in September 2022 rather than its response to our draft decision.

2.1 Final decision paper outline

This final decision paper is structured around the steps we have taken to arrive at our price determination. In summary, these steps were:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Lower Murray Water has committed to over the regulatory period (Chapter 3 for urban services and Chapter 6 for rural services).
- Establish Lower Murray Water's revenue requirement using a building block methodology (Chapter 4 for urban services and Chapter 7 for rural services).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (Chapter 5 for urban services and Chapter 8 for rural services).

Chapter 9 outlines our assessment of Lower Murray Water's price submission under the PREMO framework.

Below, in this chapter 2, we address elements of our final decision that are common to Lower Murray Water's urban and rural services; namely its regulatory period, engagement, rate of return and financial position.

Unless otherwise noted, all financial values referred to in this final decision paper are in \$2022-23, which means inflation is excluded.

2.2 Regulatory period

Our final decision is to approve a regulatory period of 5 years from 1 July 2023.

We are required to set the term of the regulatory period over which a water business's price determination will apply.¹⁹ Our guidance proposed that we set a 5-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.²⁰

Lower Murray Water proposed, and our draft decision approved, a regulatory period of 5 years.

In a submission on our draft decisions, the Consumer Action Law Centre supported our proposed 5-year regulatory period. It noted that a 5-year period provided customers with predictability around billing and services and that having a uniform period across all businesses included in our current review meant it would be easier to generate public awareness and engagement.²¹

¹⁹ This is a requirement of the WIRO, clause 9.

²⁰ For detail on the reasons for using 5 years as the default regulatory period, see: Essential Services Commission, *2023 water price review: Guidance paper*, p. 18.

²¹ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 4.

Accordingly, consistent with the reasons outlined in our guidance, and as proposed in our draft decision, our final decision is to set a regulatory period of 5 years.

2.3 Customer and community engagement

Our guidance required Lower Murray Water to engage with customers to inform its price submission. Our guidance also identified principles to guide Lower Murray Water's engagement.²²

As outlined in our draft decision, we consider Lower Murray Water's engagement with customers and community aligned with these principles in a number of ways. Lower Murray Water's engagement:

- used a range of methods and reached 19,000 urban and rural customers and community
- was tailored to suit customer circumstances, was inclusive of the experience of First Nations people and Traditional Owners, and included approaches to understand the needs of people experiencing vulnerability
- used information and presentation materials that supported effective participation, including through its deliberative forum
- covered matters that influence services and prices, such as its performance measures and targets, investment priorities, its approach to volumetric pricing for urban customers, allocation of corporate costs between the urban and rural sides of the business, and proposed price paths for rural and urban customers.

Our draft decision outlined several ways in which Lower Murray Water demonstrated that its engagement influenced its proposals. These included:

- proposed outcomes that reflected the key findings from its engagement
- prioritising local initiatives when addressing carbon offset requirements
- changes in the corporate cost allocation split between its rural and urban services
- continued investment in digital services
- an extended period for review and evaluation of potential impacts of changes in its three-tiered volumetric charges.

Our draft decision was to accept Lower Murray Water's 'Standard' self-rating for the Engagement element of PREMO on the basis it had designed and delivered an engagement program that was responsive to its operating environment and the context of its community and service mix, which includes both rural and urban water services. Examples outlined in our draft decision included:

²² Essential Services Commission, *2023 water price review: Guidance paper*, p. 20. This guidance includes a focus on engagement by businesses with First Nations people and people experiencing vulnerability which are actions identified in our 'Getting to fair' strategy. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

- engagement methods and materials that support customer participation on issues that had a meaningful influence on its investment decisions and service levels
- engagement that was sufficiently inclusive and well suited to the circumstances of its customers
- building on existing engagement activities with rural customers and by involving its advisory committees at key stages in its program.

Participants at the public forum shared general comments and reflections about the quality of Lower Murray Water’s consultation and communication with its rural customers.

We encourage Lower Murray Water to engage with its customers and rural committees during the regulatory period on key matters of interest to them, including efficiency improvements and cost allocations between rural and urban services.

In consideration of the overall standard of its engagement, our final decision is to accept Lower Murray Water’s self-rating of ‘Standard’ for its price submission engagement.

See Chapter 9 for more detail on our PREMO assessment of Lower Murray Water’s price submission.

2.4 Rate of return

In establishing the return on assets component of Lower Murray Water’s revenue requirement, we have applied a rate of return to Lower Murray Water’s regulatory asset base calculated for each of its urban and rural services. The rate of return is calculated using a benchmark cost of debt (discussed in Section 2.4.1) and a benchmark return on equity value (discussed in Section 2.4.2).

2.4.1 Cost of debt

Our final decision is to accept the updated cost of debt figures used by Lower Murray Water to calculate its revenue requirement.

In our draft decision we proposed to approve the cost of debt proposed by Lower Murray Water as it used the cost of debt values we specified in our guidance to calculate its revenue requirement. We also noted that our estimate of 3.75 per cent for the cost of debt in 2022-23 would be updated to reflect the latest available data.

In May 2023, we provided Lower Murray Water with an updated cost of debt value from 3.75 per cent to 6.76 per cent for 2022-23.²³ This reflects the rise in borrowing costs over the past 12 months. Lower Murray Water used this updated value to recalculate its revenue requirement.

²³ These updated figures were based on data from Treasury Corporation Victoria on the actual trailing average cost of debt for 2022-23.

For the above reasons, our final decision adopts the updated figures for the benchmark cost of debt as set out in Table 2.1.

Table 2.1 Final decision – 10-year cost of debt

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

Note: Numbers have been rounded.

2.4.2 Return on equity

Our final decision is to adopt a return on equity of 4.1 per cent in real terms, which reflects Lower Murray Water’s PREMO rating.

Under our PREMO incentive mechanism, which we have applied since 2018, the return on equity we adopt to calculate the revenue requirement is linked to a business’s PREMO rating. See Chapter 9 for an explanation of PREMO and our assessment of Lower Murray Water’s PREMO rating. As outlined in our guidance, the return on equity we adopt depends on a water business’s self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business’s self-rating and our rating.²⁴

Lower Murray Water rated its price submission as ‘Standard’. Based on this PREMO self-rating, Lower Murray Water proposed a real return on equity of 4.1 per cent per year. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Standard’.²⁵

Our draft decision adopted Lower Murray Water’s proposed return on equity, which reflected our preliminary overall PREMO rating of its price submission.

After considering all submissions received in response to our draft decision, our final decision on Lower Murray Water’s overall PREMO rating remains the same as our draft decision.

Therefore, our final decision is to adopt Lower Murray Water’s proposed return on equity of 4.1 per cent per year, reflecting our final decision on the overall PREMO rating of its price submission (see Chapter 9).

²⁴ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 42-43.

²⁵ Essential Services Commission, *2023 water price review: Guidance paper*, p. 42.

2.4.3 Long-term inflation forecast

A long-term inflation forecast is needed to convert the nominal cost of debt (outlined in Section 4.4.2 above) to real terms. A higher rate of inflation means a lower cost of debt in real terms, which would flow through to a lower revenue requirement and lower prices, all other things being equal. Conversely, a lower long-term inflation rate will flow through to increased prices, all other things being equal.

In addition to updating our estimate for the cost of debt, in May 2023 we also updated businesses on our long-term inflation forecast. We advised businesses that the long-term inflation rate we calculated was 3.5 per cent.²⁶ All businesses adopted this amount to calculate prices in their responses to our draft decision. We checked this estimate again for our final decision, based on the method below.

While we have estimated inflation based on the outcome of the two methods specified in our guidance – the ‘RBA geometric mean’ and the ‘bond breakeven’ methods – we have varied our approach given the relatively high near-term inflation environment. While our guidance indicated that our calculation of long-term inflation would cover a 10-year forecast period, we consider in the current high inflation environment, that this would lead to outcomes that underestimate inflation in the 2023–28 regulatory period, which would not be in the interests of customers. Accordingly, we have adopted an averaging period of 5 years. This is consistent with the time period adopted by other economic regulators, including the Australian Energy Regulator.

Estimates we have adopted for each year of the 2023–28 regulatory period under the ‘RBA geometric mean’ approach are set out in Appendix E. Using the ‘RBA geometric mean’ approach we estimate an inflation rate of 3.8 per cent.²⁷

For the ‘bond breakeven’ approach, we estimate a 5-year average rate of 3.3 per cent, with the estimates adopted for each year of the 2023–28 regulatory period also set out in Appendix E.²⁸

The average outcome under the two approaches is 3.5 per cent, which we have adopted for our final decision.

However, to manage the risk that inflation falls well below our forecast, our price determinations include a provision that allows for a reconsideration of the inflation forecast adopted, if inflation falls

²⁶ The inflation rate adopted in our draft decision was 3 per cent.

²⁷ We have decided to use a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

²⁸ Similar to the ‘RBA geometric mean’ approach, we have adopted a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

below 2.5 per cent by 2026-27.²⁹ The updated inflation estimate, if needed, would be based on a 5-year averaging period.

2.5 Financial position

We have reviewed key indicators of Lower Murray Water's financial performance and consider that Lower Murray Water will generate sufficient cash flow to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.³⁰ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the *Water Industry Regulatory Order (2014)* to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

Our guidance set out key indicators of forecast financial performance. We have reviewed forecasts for these key indicators based on our final decision on Lower Murray Water's prices. We have assessed that under our final decision, Lower Murray Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

²⁹ With inflation measured by the Australian Bureau of Statistics Consumer Price Index – all groups.

³⁰ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

PART B – Urban water and sewerage services

3. Customer outcomes

The customer outcomes Lower Murray Water plans to deliver over the regulatory period is a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding in to its PREMO assessment.

This chapter outlines our views on:

- whether Lower Murray Water has delivered on the urban services outcomes it committed to for the current regulatory period (2018–23) and the customer outcomes Lower Murray Water is committing to for the next regulatory period (Section 3.1)
- Lower Murray Water’s urban service standards for the regulatory period (Section 3.2)
- Lower Murray Water’s proposed urban guaranteed service level scheme for the regulatory period (Section 3.3).

3.1 Outcomes

Lower Murray Water’s proposed set of urban services outcomes indicates the value its urban customers can expect to receive during the next regulatory period. Actual performance against output measures and targets is monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It also informs the rating for the ‘Performance’ element of PREMO at the next price review.

Lower Murray Water proposed to deliver the following outcomes for its urban services over the regulatory period starting 1 July 2023:

- Provide customers value for money
- Provide customers with reliable and safe drinking water
- Provide customers with reliable sewerage services
- Provide customer service avenues that are responsive to resolve requests and enquiries
- Service its communities in a socially responsible and environmentally sustainable manner.

Lower Murray Water’s proposed measures and targets that it will use to report on its performance for each urban services outcome are detailed on page 64 of its price submission.

In our draft decision, we agreed with Lower Murray Water’s self-assessment that it has, overall, met its outcome commitments in relation to its urban services for the 2018–23 period to date, and that its reporting to customers during this period met our requirements.

We considered its proposed set of urban services outcomes for 2023–28 demonstrated an overall improvement in customer value and was consistent with the requirements of a ‘Standard’ rating for the Outcomes element of PREMO. After considering all submissions received following our draft

decision, we have not changed our views expressed in our draft decision on Lower Murray Water's outcomes for its urban services.³¹

In our draft decision, we noted that some of the proposed urban services outcome measures and targets were not presented in a manner consistent with our guidance requirements.

We have worked with Lower Murray Water to ensure its final set of measures and targets meets the requirements set out in our guidance. In response to our draft decision, Lower Murray Water amended its urban services outcome measures and targets.

Following the release of this final decision, we will publish the 2023–28 outcomes reporting template for all water businesses participating in this price review, and we expect water businesses to publish them prominently on their own websites.

Our assessment of Lower Murray Water's urban services outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 9.

3.2 Service standards related to service reliability and faults

Lower Murray Water provided a list of urban service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers as required by clause 18.2 of the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Each water business must specify its own targets against each of these service standards. These service standards and corresponding target service levels are the minimum level of service customers can expect to receive.

Our draft decision summarised Lower Murray Water's proposed urban service standards and the reasons that we considered they comply with the requirements of the Urban Water Industry Standard.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Lower Murray Water's urban service standards. On the basis of the above, our assessment is that the urban service standards relating to reliability and faults proposed by Lower Murray Water comply with the requirements of the Urban Water Industry Standard.

These service standards and Lower Murray Water's targets until 2028 are set out in Appendix C.

³¹ A submission from the Consumer Action Law Centre commended all businesses for working closely with customers to develop their proposed outcomes set. Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2023.

Urban service standards are set out in our Urban Water Industry Standard. Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect targets set by the water business.

3.3 Guaranteed service levels

Our final decision is to adopt the updated urban guaranteed service levels as set out in Appendix D.

Guaranteed service levels define a water business's commitment to deliver a specified level of service. For each guaranteed service level, typically a water business commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.

Lower Murray Water's proposed urban guaranteed service levels are set out on pages 65 and 66 of its price submission. As summarised in our draft decision, Lower Murray Water proposed no changes to its guaranteed service levels in its scheme from July 2023.

Our draft decision was to accept Lower Murray Water's proposed guaranteed service levels on the basis that they have been agreed with customers during its engagement.

After releasing our draft decision, we identified an issue with Lower Murray Water's proposed guaranteed service levels. This issue related to a discrepancy between the language of Lower Murray Water's proposal and the requirements of the Urban Water Industry Standard. We have made a change to Lower Murray Water's wording of the mandatory guaranteed service level relating to restriction and legal action, to align with the requirements and intention of the Urban Water Industry Standard, replacing the words 'to contact the customer to test for hardship' with 'to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying'. This change will align Lower Murray Water with the requirements of the Urban Water Industry Standard for the mandatory guaranteed service level.³²

On the basis of the above, our final decision is to adopt the updated urban guaranteed service levels outlined in Appendix D.

Guaranteed service levels are approved in our water industry standards. Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect the urban guaranteed service levels set out in Appendix D.

³² Clause 20 (c) of the Urban Water Industry Standards sets out the requirements of the mandatory guaranteed service level relating to restriction and legal action.

4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.³³ Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Lower Murray Water's revenue requirement for its urban services based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 4.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 4.2 and Section 7.2)
- roll-forward the regulatory asset base (Section 4.3)
- apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 2.4.1)
 - a benchmark return on equity value determined by Lower Murray Water's PREMO rating (Section 2.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 4.4)
- establish a benchmark tax allowance (Section 4.5).

For Lower Murray Water's urban services, our final decision is to approve a revenue requirement of \$221.5 million.

Lower Murray Water proposed a revenue requirement for its urban services of \$219.3 million over a 5-year period starting 1 July 2023. Our draft decision approved a lower revenue requirement of \$216.7 million, which mainly reflected adjustments to align with Lower Murray Water's approved regulatory accounts for 2021-22.

³³ We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Lower Murray Water in the regulatory period from 1 July 2023. We had regard to their views in arriving at our final decision.

Our final decision approves a revenue requirement of \$221.5 million (Table 4.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure.

Table 4.1 Final decision on Lower Murray Water’s urban services revenue requirement
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	29.5	29.6	29.7	30.1	29.5	148.4
Return on assets	5.0	5.2	5.6	5.9	6.3	28.0
Regulatory depreciation	10.5	11.1	9.7	9.7	9.5	50.6
Tax allowance	-	-	-	-	-	-
Non-prescribed revenue offset of revenue requirement ^a	-1.1	-1.1	-1.1	-1.1	-1.1	-5.5
Final decision – urban services revenue requirement	43.9	44.8	43.9	44.7	44.2	221.5

Note: Numbers have been rounded. ^a The offsets relate to revenue earned from non-prescribed water purchases.

Since our draft decision, we have updated our estimates for the cost of debt, licence fees, environmental contribution and inflation to reflect the latest available information. We required Lower Murray Water to update its revenue requirement and prices to reflect updates to inflation and the cost of debt and we updated the licence fee and environmental contribution estimates.

Lower Murray Water provided an updated model that reflected our updates to inflation and the cost of debt and also updated its bulk water charges to reflect the latest information. In response to our draft decision, Lower Murray Water also proposed updates to its capital expenditure, regulatory asset base, regulatory depreciation and customer contributions forecasts. These updates are discussed in Section 4.1.

Lower Murray Water also updated its forecast operating expenditure to reflect changes announced in the 2023-24 Victorian State Budget (see Section 4.1).

The main reason for the increase in our final decision revenue requirement for Lower Murray Water’s urban services compared to our draft decision, is the updated estimate for the cost of debt, which reflects the rise in borrowing costs since Lower Murray Water prepared its price submission.

The adjustments to Lower Murray Water’s urban services revenue requirement that we have made in our draft and final decisions are set out in Table 4.2, with the reasons outlined in the following sections.

Table 4.2 Adjustments to urban services revenue requirement – our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Lower Murray Water’s proposed urban services revenue requirement	44.1	44.7	43.5	43.9	43.1	219.3
B. Total adjustments proposed in our draft decision	-0.4	-0.5	-0.5	-0.6	-0.6	-2.5
Operating expenditure	-0.3	-0.3	-0.4	-0.4	-0.4	-1.7
Return on assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Regulatory depreciation	0.0	-0.1	-0.1	-0.1	-0.1	-0.4
C. Draft decision – urban services revenue requirement (C = A+B)	43.7	44.2	42.9	43.3	42.5	216.7
D. Total adjustments in our final decision	0.2	0.6	0.9	1.3	1.7	4.8
Operating expenditure	0.2	0.2	0.2	0.2	0.2	0.9
Return on assets	-0.2	0.2	0.6	1.0	1.4	3.1
Regulatory depreciation	0.1	0.2	0.2	0.2	0.1	0.7
E. Final decision – urban services revenue requirement (E = C + D)	43.9	44.8	43.9	44.7	44.2	221.5

Note: Row A shows the total urban services revenue requirement proposed by Lower Murray Water in its price submission. Row B shows the total difference between our draft decision and what Lower Murray Water proposed in its price submission. Row C shows the total urban services revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision.

4.1 Operating expenditure

For Lower Murray Water’s urban services, our final decision is to adopt a forecast operating expenditure of \$148.4 million for the 2023–28 regulatory period.

Operating expenditure – comprising both controllable and non-controllable expenditure – is a component of the revenue requirement. Our draft decision proposed to adopt a forecast urban services operating expenditure of \$147.5 million for the 5-year period, which was \$1.7 million lower than proposed by Lower Murray Water. This figure reflected adjustments we proposed to Lower

Murray Water’s operating expenditure baseline and environmental contribution in relation to its urban services.

Table 4.3 sets out our final decision on Lower Murray Water’s forecast urban services operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

Table 4.3 Final decision – urban services operating expenditure
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	27.01	27.16	27.27	27.73	27.17	136.34
Non-controllable operating expenditure	2.51	2.46	2.40	2.35	2.30	12.03
Bulk services ^a	0.69	0.70	0.70	0.70	0.71	3.50
Environmental contribution ^b	1.72	1.67	1.61	1.56	1.50	8.06
Licence fees – Essential Services Commission ^c	0.04	0.04	0.04	0.03	0.03	0.18
Licence fees – Department of Health ^c	0.02	0.02	0.02	0.02	0.02	0.09
Licence fees – Environment Protection Authority ^c	0.04	0.04	0.04	0.04	0.04	0.21
Final decision – urban services operating expenditure	29.52	29.61	29.67	30.09	29.47	148.37

Notes: Numbers have been rounded. ^a Bulk services covers the supply of bulk water and sewerage services.

^b Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. ^c Licence fees are paid to cover costs incurred by the Department of Health, the Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water business.

Table 4.4 sets out the adjustments we have made to Lower Murray Water’s urban services controllable and non-controllable operating expenditure for our draft decision and since our draft decision. Details of our assessment and the reasons for our final decision adjustments are included in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Lower Murray Water does not represent the amount that Lower Murray Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

Table 4.4 Our adjustments to Lower Murray Water’s urban services operating expenditure for our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Lower Murray Water’s proposed total operating expenditure	29.55	29.71	29.84	30.33	29.77	149.21
A1 – Our draft decision adjustments to controllable operating costs	-0.20	-0.20	-0.20	-0.20	-0.20	-1.00
A2 – Our draft decision adjustments to non-controllable operating costs	-0.05	-0.10	-0.15	-0.20	-0.25	-0.75
B. Draft decision – total operating expenditure	29.30	29.41	29.49	29.93	29.32	147.46
C. Final adjustments to controllable operating costs (C1 + C2)	0.25	0.25	0.25	0.25	0.25	1.23
C1 – Water reticulation and distribution costs	0.20	0.20	0.20	0.20	0.20	1.00
C2 – 2023-24 State Budget updates	0.05	0.05	0.05	0.05	0.05	0.23
D. Final adjustments to non-controllable operating costs (D1 + D2 + D3 + D4 + D5)	-0.02	-0.04	-0.06	-0.09	-0.10	-0.32
D1 – Environmental contribution	-0.01	-0.02	-0.02	-0.03	-0.04	-0.12
D2 – Licence fees – Essential Services Commission	0.01	0.01	0.01	-0.00	-0.00	0.03
D3 – Licence fees – Department of Health	0.00	0.00	0.00	0.00	0.00	0.00
D4 – Licence fees – Environment Protection Authority	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
D5 – External bulk water charges – Goulburn-Murray Water	-0.03	-0.04	-0.05	-0.06	-0.05	-0.23

Continued next page

Table 4.4 (continued)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
E. Final decision – total operating expenditure (E = B + C + D)	29.52	29.61	29.67	30.09	29.47	148.37

Note: See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in rows C and D (and disaggregated in rows C1, C2 and D1 to D5) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded.

4.1.1 Controllable operating expenditure

In relation to Lower Murray Water’s urban services controllable operating expenditure, our preliminary findings (outlined in Section 4.1.1 of our draft decision) were that:

- We considered Lower Murray Water’s proposal reflects an efficient baseline cost to forecast annual operating expenditure for its urban services, after removing \$0.20 million from its proposed 2021-22 baseline controllable operating expenditure (\$1.0 million across the regulatory period) consistent with Lower Murray Water’s advised water reticulation and distribution costs.
- Lower Murray Water had proposed an efficiency improvement rate on its controllable urban services operating costs of 1.08 per cent per year, which is around the median when compared to other businesses in the current price review and is almost the same as its proposed average cost growth rate of 1.1 per cent per year.
- As the efficiency improvement rate is almost the same as Lower Murray Water’s proposed average cost growth rate, this effectively delivers minimal net annual changes to its controllable annual baseline operating costs in each year of the next regulatory period.

In response to our draft decision, Lower Murray Water requested the re-inclusion of the \$0.20 million for revised water reticulation and distribution costs that we removed from its proposed 2021-22 baseline, on the grounds it was removed due to a misunderstanding of information it had provided.³⁴ Lower Murray Water confirmed it had already removed this amount from its forecast in the financial model, but had grouped it with other minor forecast changes within a step-change adjustment called ‘balancing variations’, rather than as a non-recurring reduction to the 2021-22 baseline. We are satisfied with Lower Murray Water’s explanation and our final decision reverses the \$0.20 million baseline adjustment in our draft decision, with a corresponding increase of

³⁴ Lower Murray Water, *submission in response to the Essential Services Commission ‘Lower Murray Water draft decision: 2023 water price review’*, 9 May 2023, p. 9.

\$1.0 million in the forecast controllable operating expenditure across the 2023–28 regulatory period.

Following release of the 2023-24 Victorian State Budget on 23 May, we wrote to water businesses to provide them with an opportunity to update their cost forecasts, should they seek to claim any additional costs and reflect these in customer prices.³⁵

Lower Murray Water responded with updated cost forecasts to reflect higher payments relating to payroll tax and Workcover premiums. We have accepted these additional amounts as they are unavoidable costs that the business faces in delivering prescribed services to its customers.

After considering all submissions received in response to our draft decision, and on the basis that Lower Murray Water’s proposed controllable operating expenditure is consistent with our guidance, our final decision is to accept Lower Murray Water’s a forecast controllable operating expenditure for its urban services of \$136.34 million (Table 4.3).

4.1.2 Non-controllable operating expenditure

In relation to Lower Murray Water’s urban services non-controllable operating expenditure, our preliminary findings (outlined in Section 4.1.2 of our draft decision) were that:

- Lower Murray Water had partially followed the approach set out in our guidance to forecast its non-controllable operating costs in its price submission but had kept the environmental contribution flat in real terms rather than nominal terms for the 2023–28 regulatory period.
- We requested Lower Murray Water to update its forecast Goulburn-Murray Water bulk charges.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision, and also adjust for the latest inflation and external bulk charges data.³⁶

Following our draft decision, Lower Murray Water provided updated forecasts for its external bulk water charges that reflected Goulburn-Murray Water’s approved prices for 2023-24. Lower Murray Water also advised that Goulburn-Murray Water’s updated draft forecasts for bulk water charges indicated there would be a real increase in costs after 2023-24 following its 2024 price review. This reflects Goulburn-Murray Water’s possible transition (raised in the 2020 price review) of its bulk charges from a basin pricing approach to a system price during its next regulatory period, following further consultation with bulk entitlement holders.³⁷ As such, we are satisfied with Lower Murray

³⁵ Victorian Government, *Budget papers ‘2023/24 State Budget papers’*, 23 May 2023.

³⁶ Non-controllable costs are those that cannot be directly or indirectly influenced by a water business’s decisions.

³⁷ Essential Services Commission, *Goulburn-Murray Water final decision: 2020 Water Price Review*, 3 June 2020, p. 34.

Water not forecasting its bulk water charges at a flat rate in real terms for the next regulatory period.

For the environmental contribution, we have used the 2022-23 value provided by the Department of Energy, Environment and Climate Action and assumed that this will remain flat in nominal terms (decline in real terms) across the 2023–28 regulatory period.

We have assumed the licence fees for the Department of Health and the Environment Protection Authority Victoria remain flat in real terms across the period.³⁸

For our Essential Services Commission licence fee, we have taken our forecast fee estimate schedule, which is based on the expected work program across the 2023–28 regulatory period (which is in nominal dollars) and deflated it into 2022-23 dollars to express the fee in real terms.³⁹

We have reduced Lower Murray Water’s forecast non-controllable operating expenditure for urban services by \$0.32 million across the 2023–28 period, resulting from the following adjustments:

- \$0.03 million increase for licence fees after considering the latest information received from the relevant regulatory authorities and allocating fees between its urban and rural businesses in accordance with Lower Murray Water’s revised methodology for the allocation of shared corporate costs
- \$0.12 million decrease for the environmental contribution to account for the latest data on inflation⁴⁰
- \$0.23 million decrease for external bulk water charges as revised by Lower Murray Water to reflect the Goulburn-Murray Water bulk charges for 2023-24.

Accordingly, consistent with the reasoning in our guidance, our final decision is to adopt a revised urban services non-controllable operating expenditure of \$12.03 million over the next regulatory period.

³⁸ For the Safe Drinking Water Administration levy, we have used the 2021-22 value provided by the Department of Health and indexed it by the annual rate for fees in 2022-23 (1.75 per cent), as set out by the Department of Treasury and Finance’s cost recovery guidelines (<https://www.dtf.vic.gov.au/financial-management-government/indexation-fees-and-penalties>). We have applied the same approach to the 2021-22 licence fee provided by the Environment Protection Authority Victoria.

³⁹ These fees are yet to be determined by the Minister for Water.

⁴⁰ Lower Murray Water, *submission in response to the Essential Services Commission ‘Lower Murray Water draft decision: 2023 water price review’*, 9 May 2023, pp. 8-9.

4.2 Capital expenditure

For Lower Murray Water's urban services, our final decision is to adopt a forecast capital expenditure of \$94.8 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast urban services capital expenditure of \$94.8 million for the 5-year period, which was \$3.8 million lower than the \$98.6 million proposed by Lower Murray Water.

The reasons for our draft decision were that:

- Lower Murray Water demonstrated it has adopted a reasonable approach to developing its capital program, and that its capital expenditure forecasts are prudent and efficient.
- We removed \$3.8 million from Lower Murray Water's forecast for 2023-24, given its price submission identified this was carried-over expenditure related to works it performed in 2022-23 on its Stage 3 UV Treatment Works project. We noted our expenditure consultant had verified the increased costs for this project, and that we would accept the increase, but the carry-forward of capital expenditure to the next year's forecast was not appropriate or consistent with our guidance.
- We considered the planned capital expenditure program is achievable, given Lower Murray Water's track record delivering its capital expenditure program.
- Lower Murray Water has an appropriate approach for managing expenditure associated with uncertain projects, excluding costs related to four uncertain projects from prices in the regulatory period, and only including costs for design and approval works for a further three projects given uncertainty around future levels of population and demand growth.
- After making our adjustment for the Stage 3 UV Works project described above, we considered Lower Murray Water's approach to forecasting its capital expenditure is consistent with the requirements of our guidance.

In response to our draft decision, Lower Murray Water accepted our removal of the \$3.8 million related to its Stage 3 UV works project from its capital expenditure forecast and instead proposed to include the increased costs of this project in an updated capital expenditure forecast for 2022-23, to ensure the expenditure was included in its forecast regulatory asset base (see Section 4.3.2).

We have considered all submissions in response to our draft decision. Our final decision is to adopt a forecast capital expenditure of \$94.8 million for the regulatory period (Table 4.6) in relation to gross capital expenditure for urban services, as proposed in our draft decision and for the same reasons proposed in our draft decision. We consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on

Lower Murray Water's forecast regulatory asset base for urban services (Table 4.6) and revenue requirement for urban services (Table 4.1) reflect this benchmark.

The benchmark that we propose to adopt for Lower Murray Water does not represent the amount that Lower Murray Water is required to spend or allocate to particular projects. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Where we have made an adjustment to exclude a project's capital expenditure from Lower Murray Water's revenue requirement, we are not requiring the business to remove that project. Lower Murray Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

4.3 Regulatory asset base

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.⁴¹ The regulatory asset base is used to estimate the return on assets (discussed in Section 2.4) and regulatory depreciation (discussed in Section 4.4). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Lower Murray Water to propose:

- the closing value of its regulatory asset base at 30 June 2022 (using actual data)
- the opening value of its regulatory asset base at 1 July 2023 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2023-24 to 2027-28), in accordance with the prudency criteria outlined in the guidance.

⁴¹ These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

4.3.1 Closing regulatory asset base

For Lower Murray Water’s urban services, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$196.6 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2021-22.⁴² This helps to ensure prices reflect the actual net expenditure of a water business.⁴³

Our draft decision adopted a lower closing regulatory asset base than proposed by Lower Murray Water due to adjustments we made to reflect its approved regulatory accounts for 2021-22. In its response to our draft decision, Lower Murray Water accepted these adjustments and updated its closing regulatory asset base to align with its approved regulatory accounts and our draft decision.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, for Lower Murray Water’s urban services, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$196.6 million (Table 4.5).

Table 4.5 Final decision – closing regulatory asset base (RAB) for urban services
\$ million 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB 1 July	173.8	179.2	184.4	186.2	184.3
Plus gross capital expenditure	17.9	17.7	13.8	11.9	24.4
Less government contributions	0.0	0.0	0.0	0.0	0.0
Less customer contributions	3.6	3.2	2.4	4.1	2.0
Less proceeds from disposals	0.5	0.2	0.2	0.1	0.2
Less regulatory depreciation	8.4	9.1	9.5	9.6	9.8
Closing RAB 30 June	179.2	184.4	186.2	184.3	196.6

Note: Numbers have been rounded.

⁴² See Section 4.2 for a discussion of Lower Murray Water’s capital expenditure for urban services.

⁴³ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business’s water, sewerage or recycled water networks.

4.3.2 Forecast regulatory asset base

Our final decision is to accept a forecast regulatory asset base as set out in Table 4.6

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Our draft decision did not accept Lower Murray Water's urban services forecast regulatory asset base for the period from 1 July 2023 due to adjustments we proposed to its closing regulatory asset base. Our draft decision outlined a forecast regulatory asset base that reflected our adjustments to its closing regulatory asset base as well as adjustments we proposed to its capital expenditure (specifically, the removal of \$3.8 million of capital expenditure from its forecast for 2023-24).

In response to our draft decision, Lower Murray Water updated its forecast regulatory asset base to reflect our adjustments to its closing regulatory asset base and 2023-24 capital expenditure, as well as a \$3.9 million increase in its 2022-23 capital expenditure to capture expenditure related to the Stage 3 UV Treatment Works (see Section 4.2).

Following our draft decision, Lower Murray Water has also provided revised forecasts for customer contributions and regulatory depreciation that reflect our final decision on its new customer contributions.

Table 4.6 sets out our final decision on Lower Murray Water's urban services forecast regulatory asset base from 1 July 2023.⁴⁴

Our final decision on Lower Murray Water's forecast regulatory asset base for urban services reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 4.2 (capital expenditure)
- Section 4.3.2.1 (customer contributions)
- Section 4.5 (regulatory depreciation).

⁴⁴ Our guidance required water businesses to provide an estimate of the components of their regulatory asset base for 2022-23. This was so we could assess the opening asset base for 1 July 2023. Our guidance noted that where the 2022-23 forecasts for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2018 price determination, the lower amount must be used. The estimates for 2022-23 will be confirmed at the price review following the 2023 water price review. Essential Services Commission, *2023 water price review: Guidance paper*, p. 38.

Table 4.6 Final decision – forecast regulatory asset base (RAB) for urban services
\$ million 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB 1 July	196.6	202.1	210.2	221.0	227.0	232.8
Plus gross capital expenditure	17.5	20.7	23.8	17.6	17.2	15.4
Less government contributions	-	-	-	-	-	-
Less customer contributions	1.7	1.5	1.5	1.5	1.5	1.5
Less proceeds from disposals	0.3	0.5	0.4	0.4	0.2	0.3
Less regulatory depreciation	10.1	10.5	11.1	9.7	9.7	9.5
Closing RAB 30 June	202.1	210.2	221.0	227.0	232.8	236.9

Note: Numbers have been rounded.

4.3.2.1 Customer contributions

For Lower Murray Water’s urban services, our final decision is to adopt the benchmarks for customer contributions as set out in Table 4.6.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.⁴⁵

Our draft decision did not accept Lower Murray Water’s forecasts for revenue from proposed customer contributions on the basis that we did not accept Lower Murray Water’s proposed new customer contributions. Our draft decision required Lower Murray Water to provide updated forecasts for revenue from customer contributions that reflected its response to our draft decision on its proposed new customer contributions.

As discussed in Section 5.4, our final decision is to set Lower Murray Water’s current new customer contributions from 2022-23 at its current charges adjusted for inflation, for the 2023–28 regulatory period, rather than adopt the approach proposed by Lower Murray Water. Our final decision on Lower Murray Water’s revenue from customer contributions reflects our final decision on its new customer contributions (with adjusted figures provided by Lower Murray Water).

⁴⁵ Revenue from new customer contributions reflects revenue earned from new connections made to the water business’s water, sewerage or recycled water networks.

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision is to accept the benchmark revenue from customer contributions set out in Table 4.6.

4.4 Regulatory depreciation

For Lower Murray Water's urban services, our final decision is to accept the benchmarks for regulatory depreciation as set out in Table 4.6.

Regulatory depreciation is a component of Lower Murray Water's revenue requirement and is also an input to calculating the regulatory asset base.

As indicated in our draft decision, Lower Murray Water's forecast regulatory depreciation for urban services was calculated using a straight-line depreciation profile, which is our preferred approach.⁴⁶ However, due to adjustments we proposed to its closing regulatory asset base, and our preliminary views on its assumed asset life, our draft decision did not accept Lower Murray Water's forecast regulatory depreciation for urban services.

We required Lower Murray Water, in its response to our draft decision, to provide further justification for its assumed asset lives because we considered they were lower than the average across this price review, and to update its forecast for regulatory depreciation for urban services.

In response to our draft decision, Lower Murray Water provided further justification for its asset life. It explained that it had adopted a longer asset life for existing assets than indicated in our draft decision – rather than 30 years, its assumed asset life for its urban business is closer to 34 years.

The business also explained that in recent years, it has improved its information technology systems (such as by making Supervisory Control and Data Acquisition upgrades) which have shorter asset lives compared to the previously established pipeline network. Moreover, we have considered that Lower Murray Water's proposed depreciation is similar to the amounts adopted in 2018 (once updated for inflation).

On that basis, we are satisfied that the asset lives proposed by Lower Murray Water are consistent with the requirements of our guidance.

Lower Murray Water also provided a revised calculation of depreciation arising from the changes to the forecast regulatory asset base that reflect its updates to capital expenditure and our final decision on its customer contributions. We consider that the revised forecast regulatory

⁴⁶ Essential Services Commission, *2023 water price review: Guidance paper*, p. 39.

depreciation provided by Lower Murray Water was calculated consistently with the requirements of our guidance.

For the reasons set out above, for Lower Murray Water's urban services, our final decision accepts the benchmarks for regulatory depreciation, as set out in Table 4.6 in Section 4.3.2.

4.5 Tax allowance

For Lower Murray Water's urban services, our final decision is to accept Lower Murray Water's forecast of no tax allowance for the 2023–28 regulatory period.

The tax allowance is a component of the revenue requirement. Lower Murray Water proposed no tax allowance in its revenue requirement for the 2023–28 regulatory period. Our draft decision accepted the forecast as it was calculated consistently with the method required by our guidance.⁴⁷

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision is to accept Lower Murray Water's forecast of no tax allowance for the 5-year regulatory period, as set out in Table 4.1.

⁴⁷ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 47–48.

5. Demand, tariffs and prices

Once Lower Murray Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

5.1 Demand

For Lower Murray Water's urban services, our final decision is to accept Lower Murray Water's demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

In our draft decision, we accepted Lower Murray Water's proposed demand forecasts but required Lower Murray Water in its response to our draft decision to demonstrate how it has considered the updated Victorian Government population and dwelling growth estimates that had been made available to water businesses.

In response to our draft decision, Lower Murray Water did not adjust its demand forecasts as it considered its forecasts remained closely aligned with the updated Victorian Government growth estimates for its service area. We consider this an appropriate approach given Lower Murray Water's forecasts is closely aligned with the Victorian Government estimates.

Our final decision approves Lower Murray Water's demand forecasts because they were estimated consistently with the requirements of our guidance.

5.2 Form of price control

For Lower Murray Water's urban services, our final decision is to accept Lower Murray Water's proposed tariff basket form of price control.

Our draft decision accepted Lower Murray Water's proposal to retain a tariff basket form of price control for its urban services. Among other things, we considered that a tariff basket provides customers with price certainty and means Lower Murray Water is managing demand risk on behalf of its customers, which we consider more efficient than its customers managing that risk.

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision approves Lower Murray Water's proposed tariff basket form of price control for its urban services.

5.3 Tariff structures and prices

Our draft decision accepted Lower Murray Water's proposed tariff structures for its urban services but, like all our draft decisions in this review, did not approve prices for each tariff, because Lower Murray Water needed to update its proposed prices to reflect our updates to inflation and cost of debt estimates.

Our final decision on Lower Murray Water's urban services tariff structures and prices is set out below.

5.3.1 Tariff structures

For Lower Murray Water's urban services, our final decision is to accept Lower Murray Water's proposed tariff structures.

As outlined in our guidance, we have provided the water businesses with a large degree of discretion to decide on individual tariff structures.⁴⁸ This recognises water businesses are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Our draft decision was to accept Lower Murray Water's proposal to retain its existing tariff structures for its urban services, including:

- for residential and non-residential water services – a two-part tariff structure with a fixed service charge and a variable component that depends on water use (including a three-tier inclining block structure for residential services)
- for residential and non-residential sewerage services – a fixed service charge only.

In our draft decision, proposed to accept Lower Murray Water's proposed tariff structures for urban services on the basis that they are a continuation of its existing approach, are generally supported by its customers and meet the requirements of our guidance. Further, we considered the two-part structure for water services will promote the efficient use of services, send customers a signal about the costs of their water use and is an approach that is commonly applied in other states and territories.⁴⁹ We also considered two-part tariff structures were easy to understand.

In our draft decision, in relation to sewerage services, we considered the proposed fixed charge for residential customers and non-residential customers was easy to understand and consistent with Lower Murray Water's engagement findings.

⁴⁸ Essential Services Commission, *2023 water price review: Guidance paper*, p. 51.

⁴⁹ Includes the tariffs of Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

A submission from the Consumer Action Law Centre expressed support towards water businesses generally retaining the balance between fixed and variable charges, particularly given the disproportionate impact on tenants when more weight is assigned to variable charges.⁵⁰ We consider that Lower Murray Water’s proposal for its urban services retains such a balance.

A submission from the Registered Accommodation Association of Victoria asked us to consider multiple room rooming houses being charged based on the number of rooms.⁵¹ This reflects the current inclining block pricing structure whereby a typical rooming house would generally always be paying at a higher inclining block rate, with little ability to respond to pricing signals. As noted above, businesses are often best placed to consider the interests of their customers in designing tariffs and that existing tariff structures have been developed over time to deal with a variety of local circumstances. We consider a different approach to charging rooming houses might be considered by the business in future periods. However, we note that any such approach may be administratively complex, given the variation in the number of rooms in rooming houses.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Lower Murray Water’s tariff structures for its urban services. On the basis of the above, our final decision is to approve Lower Murray Water’s proposed tariff structures.

5.3.2 Prices

Our final decision accepts Lower Murray Water’s revised prices for its urban services.

In our draft decision, we noted that Lower Murray Water would need to propose updated prices to reflect our draft decision on its revenue requirement and our updates to inflation and cost of debt estimates. We also noted Lower Murray Water may need to update its prices in response to our draft decision on its regulatory asset base and our further review of its new customer contributions and depreciation.

Following our draft decision, Lower Murray Water proposed revised prices that reflect the updates to our inflation and cost of debt estimates, and to bulk water charges (see Section 4.1). Lower Murray Water’s revised prices also reflect changes to its revenue requirement as a result of its response to our draft decision and to changes announced in the Victorian State Budget (see Section 4.1).

⁵⁰ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2013, p. 2.

⁵¹ Registered Accommodation Association of Victoria submission on water pricing for rooming houses in Victoria, 25 May 2023.

Under Lower Murray Water’s revised prices, generally prices (excluding inflation) will be slightly higher, with prices for its urban services generally increasing by 0.6 per cent per year excluding inflation over the period 2023-24 to 2027-28.

In a submission in response to our draft decision, the Consumer Action Law Centre noted that Lower Murray Water was proposing a modestly increasing price path but had not indicated any investment in hardship assistance or in water efficiency programs.⁵² In its price submission, Lower Murray Water indicated it will maintain and enhance hardship programs for vulnerable customers. We note however there is not much detail on the investments being made in enhanced hardship support. A clearer focus on improving hardship assistance for customers, particularly in an environment of rising prices, is one way the business may demonstrate greater ambition within the PREMO framework and deliver better outcomes for its customers.

After considering all submissions received in response to our draft decision, our final decision is to approve the revised prices proposed by Lower Murray Water for its urban services because they have been calculated in a manner consistent with our guidance.

Our price determination for Lower Murray Water sets out the maximum prices it may charge for the 5-year period from 1 July 2023 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). Approved maximum prices for urban water and sewerage services applying to most residential and non-residential customers are set out in Tables 5.1 and 5.2.

Table 5.1 Final decision – water prices
\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential					
Variable (\$/kL) tier 1	0.5038	0.5071	0.5103	0.5136	0.5169
Variable (\$/kL) tier 2	0.9171	0.9230	0.9290	0.9349	0.9410
Variable (\$/kL) tier 3	1.1790	1.1865	1.1942	1.2019	1.2096
Fixed (\$/year)	232.07	233.56	235.07	236.58	238.10
Non-residential					
Variable (\$/kL)	0.9171	0.9230	0.9290	0.9349	0.9410
Fixed (\$/year)	232.07	233.56	235.07	236.58	238.10

Notes: These prices have been expressed in \$202324 terms, which means 7 per cent inflation has been factored into the prices for 202324. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$202223, which means inflation has not been accounted for in 202324 or the remaining years of the 2023–28 regulatory period.

⁵² Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2013, p. 3.

Table 5.2 Final decision – sewerage prices

\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential and non-residential					
Fixed (\$/year)	547.86	551.38	554.93	558.51	562.10

Notes: These prices have been expressed in \$2023-24 terms, which means 7 per cent inflation has been factored into the prices for 2023-24. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2022-23, which means inflation has not been accounted for in 2023-24 or the remaining years of the 2023–28 regulatory period.

5.3.3 Addressing the interests of low income and vulnerable customers

In making our price determination, we must have regard to whether Lower Murray Water’s prices take into account the interests of customers, including low income and vulnerable customers.⁵³

As outlined in our draft decision we considered that Lower Murray Water has done so by:

- retaining the mix of its fixed and variable charges, noting it aims for a ratio of 40 per cent fixed to 60 per cent variable to provide households with control over water bills.
- proposing a price path that was smoothed, to ensure consistent changes in prices over the regulatory period.
- maintaining and enhancing its hardship programs for customer’s experiencing vulnerability.

As noted above, We received feedback from the Consumer Action Law Centre who were concerned that Lower Murray Water did not appear to be proposing increased investment in its hardship program. As we also considered above, a clearer focus on improving hardship assistance for customers, particularly in an environment of rising prices, is one way the business may demonstrate greater ambition within the PREMO framework and deliver better outcomes for its customers.

We acknowledge the feedback from the Consumer Action Law Centre and consider that Lower Murray Water has taken into account the interests of low income and vulnerable customers through the initiatives listed above and in Section 5.3.2.

5.3.4 Other services

As indicated in our draft decision, Lower Murray Water has confirmed that its proposed tariffs for trade waste and miscellaneous services are calculated in accordance with the pricing principles referenced in our guidance.

⁵³ Water Industry Regulatory Order 2014 clause 11(d)(iii).

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision accepts Lower Murray Water's proposed tariffs for trade waste and miscellaneous services.

5.4 New customer contributions

Our final decision is to not accept Lower Murray Water's proposed new customer contributions and instead to maintain Lower Murray Water's current new customer contribution from 2022-23 (adjusted for inflation) for the 2023–28 regulatory period.

Our final decision is to accept Lower Murray Water's proposed negotiating framework for new customer contributions.

New customer contributions (or developer charges) are levied by water businesses when a new connection is made to its water, sewerage or recycled water networks in a given part of its service area. New customer contributions can be either standard or negotiated. Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. The purpose of standard new customer contributions is to reduce the administrative burden as well as improve the timeliness and predictability of costs faced by developers.⁵⁴ Negotiated charges allow water businesses and developers to negotiate a site-specific arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.⁵⁵

In its price submission, Lower Murray Water proposed to:

- increase its new customer contributions for water services by 19.5 per cent and for sewer services by 0.6 per cent from 2022-23 to 2023-24
- maintain the nominal value of its customer contributions from 2024-25 to 2027-28.

Our draft decision proposed to not accept Lower Murray Water's proposal as we needed to verify the reasonableness of Lower Murray Water's forecast costs and that they were appropriately attributed to developers. We also needed to verify that costs were not paid for twice (that is, once through water and sewerage charges and then again through developer charges) and that customers who were receiving the benefits of the services were being charged the costs.

Following our draft decision, our consultants, FTI Consulting, assessed the reasonableness of Lower Murray Water's new customer contribution-related capital expenditure including its proposal to include sunk costs, and concluded they had high confidence in \$90.3 million of its growth

⁵⁴ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

⁵⁵ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

expenditure forecasts and low confidence in the remaining \$80.8 million.⁵⁶ The capital expenditure they had low confidence in related primarily to FTI Consulting's assessment of how Lower Murray Water has had regard to the pricing principles on incremental costs outlined in our guidance because Lower Murray Water has not sufficiently justified that the capital expenditure rated 'low confidence' should be allocated to new customers.⁵⁷

Accordingly, on the information initially provided by Lower Murray Water, we were not able to approve its proposed new customer contributions because we were not satisfied that it had sufficiently justified its expenditure allocation. For that reason, after reviewing FTI Consulting's findings, we asked Lower Murray Water to provide further justification on its expenditure allocation and advised that, if it failed to provide additional information, we would be unable to accept its proposed new customer contributions and would therefore adopt its current new customer contributions adjusted for inflation. Lower Murray Water responded that it would prefer us to adopt its current new customer contributions adjusted for inflation. It explained that those new customer contributions are not materially different to the new customer contribution proposed by Lower Murray Water in its price submission. It revised its response to our draft decision on its new customer contributions to reflect current new customer contributions.

Accordingly, because we are unable to accept the new customer contributions proposed in Lower Murray Water's price submission on the basis that expenditure has not been appropriately allocated, our final decision is to adopt Lower Murray Water's current new customer contributions (adjusted for inflation) for the 2023—28 regulatory period.

We wish to highlight that, to the extent necessary, developers may wish to consider using a negotiated new customer contribution in lieu of using the standard new customer contributions.

Regarding Lower Murray Water's proposed negotiated new customer contribution framework, our draft decision proposed to accept the framework because it complied with the requirements of our new customer contribution pricing principles. No new considerations were presented by Lower Murray Water or in submissions received following the draft decision which caused us to change our views on Lower Murray Water's negotiated new customer contributions framework.

For the reasons set out above, our final decision is to accept Lower Murray Water's proposed negotiated new customer contribution framework.

If there is a dispute between a developer and a water business (whether in relation to a standard or negotiated new customer contributions), developers may use the dispute resolution offered by a

⁵⁶ FTI Consulting, Review of new customer contribution-related capital expenditure for Lower Murray Water, May 2023, pp. 11-12.

⁵⁷ FTI Consulting, Review of new customer contribution-related capital expenditure for Lower Murray Water, May 2023, pp. 11-12.

water business as part of its new customer contribution negotiating framework. In addition, developers may follow the Water Act 1989 process to object and seek internal review by the water business, and to pursue unresolved matters through the Victorian Civil Administrative Tribunal.⁵⁸

5.4.1 Review of the framework for new customer contributions

Our guideline for new customer contributions establishes our expectations for standard new customer contributions and bespoke negotiated new customer contributions. However, in light of issues we identified during our 2023 water price review, we believe that a review of the regulatory framework for new customer contributions is necessary. Our review will aim to identify and address key implementation issues for water businesses, establish consistency in setting new customer contributions across the sector, and define the purpose and content of the negotiating framework.

5.4.1.1 Current issues

Our experience reviewing the new customer contributions proposals of water businesses in the current price review has identified varied practices across businesses in terms of their approach and substantiation of proposed charges to meet our guidance and the objectives of the framework. This includes varied approaches to the inclusion of costs in new customer contributions, differentiated pricing, and use of negotiated new customer contributions.

A number of businesses in the current price review also based their new customer contributions on an average incremental cost methodology, rather than the net incremental cost approach adopted in the past. We want to explore the issues associated with having different underlying approaches and how this affects confidence and transparency in the way new customer contributions are arrived at.

Other issues we have identified in the current review – such as varied approaches to locational and incremental cost reflectivity – and the transparency of new customer contributions and the nature of engagement, may also be covered in the review.

5.4.1.2 Next steps

In 2023-24, we intend to initiate a review of the framework for new customer contributions by issuing a consultation paper. This paper will outline the proposed scope of the review and seek feedback from stakeholders. We encourage stakeholders to suggest any other important matters that they believe should be included in the review.

Throughout the review process, we will actively engage with industry and stakeholders to gather their input.

⁵⁸ *Water Act 1989*, section 271.

5.5 Adjusting prices

For its urban services, our final decision is to accept Lower Murray Water's proposed price adjustment mechanisms.

Our draft decision accepted Lower Murray Water's proposal to continue using the same price adjustment mechanisms, on the basis that they are a continuation of its existing approach, which we have approved in the past.

After considering all submissions received in response to our draft decision, on the basis of the above, our final decision accepts Lower Murray Water's proposed price adjustment mechanisms.

PART C – Rural services

6. Customer outcomes

The customer outcomes Lower Murray Water plans to deliver over the regulatory period is a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding in to its PREMO assessment.

This chapter outlines our views on:

- whether Lower Murray Water has delivered on the rural services outcomes it committed to for the current regulatory period (2018–23) and the customer outcomes Lower Murray Water is committing to for the next regulatory period (Section 6.1)
- Lower Murray Water’s rural service standards for the regulatory period (Section 6.2)
- Lower Murray Water’s proposed rural guaranteed service level scheme for the regulatory period (Section 6.3).

6.1 Outcomes

Lower Murray Water’s proposed set of rural services outcomes indicates the value its rural customers can expect to receive during the next regulatory period. Actual performance against output measures and targets is monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It also informs the rating for the ‘Performance’ element of PREMO at the next price review.

Lower Murray Water proposed to deliver the following outcomes for its rural services over the regulatory period starting 1 July 2023:

- Provide customers with value for money
- Provide customers with water when they need it
- Provide customer service channels that are responsive to resolve requests and enquiries
- Service its communities in a socially responsible and environmentally sustainable manner.

Lower Murray Water’s proposed measures and targets that it will use to report on its performance for each outcome are detailed on page 107 of its price submission.

In our draft decision, we explained that Lower Murray Water’s rural business was not assessed under our PREMO framework in 2018, but it had nevertheless elected to establish a set of rural customer outcomes for the 2018–23 regulatory period, and to report on these consistent with and alongside its urban business. We agreed with Lower Murray Water’s self-assessment that it has, overall, met its rural services outcome commitments for the 2018–23 period to date, and that its reporting to customers during this period met our requirements.

We considered its proposed set of rural services outcomes for 2023–28 demonstrated an overall improvement in customer value and was consistent with the requirements of a ‘Standard’ rating for the Outcomes element of PREMO. After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Lower Murray Water’s outcomes for its rural services.

In our draft decision, we noted that some of the proposed rural services outcome measures and targets were not presented in a manner consistent with our guidance requirements.

We have worked with Lower Murray Water to ensure its final set of measures and targets meets the requirements set out in our guidance. In response to our draft decision, Lower Murray Water amended its rural services outcome measures and targets.

Following the release of this final decision, we will publish the 2023–28 outcomes reporting template for all water businesses participating in this price review, and we expect water businesses to publish them prominently on their own websites.

Our assessment of Lower Murray Water’s rural services outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 9.

6.2 Service standards related to service reliability and faults

Lower Murray Water provided a list of rural service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers as required by clause 1.5 of the Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). Each water business must specify its own targets against each of these service standards. These service standards and corresponding target service levels are the minimum level of service customers can expect to receive.

Our draft decision summarised Lower Murray Water’s proposed rural service standards and the reasons that we considered they comply with the requirements of the Rural Water Industry Standard.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Lower Murray Water’s rural service standards. On the basis of the above, our assessment is that the rural service standards relating to reliability and faults proposed by Lower Murray Water comply with the requirements of the Rural Water Industry Standard.

These service standards and Lower Murray Water’s targets until 2028 are set out in Appendix C.

Rural service standards are set out in our Rural Water Industry Standard. Accordingly, in early 2023-24, we will update the Rural Water Industry Standard to reflect targets set by the water business.

6.3 Guaranteed service levels

Our final decision is to accept Lower Murray Water's proposal to not implement a guaranteed service level scheme for its rural services.

A guaranteed service level scheme is optional for rural services under clause 2 of the Water Industry Standard – Rural Customer Service (Rural Water Industry Standard).

Lower Murray Water did not propose any guaranteed service levels for its rural services. As set out on page 108 of its price submission, Lower Murray Water said that it engaged with its customers in relation to rural guaranteed service levels and found that customers did not support a scheme that effectively adds additional costs to the rural customer base. Customers indicated that they preferred Lower Murray Water to be responsive to and quickly communicate service delivery issues and focus available resources on improving the performance of the asset base.

In our draft decision, we identified that Lower Murray Water had not proposed any guaranteed service scheme for rural services on the basis that this had been agreed with customers during its engagement. No new considerations were presented by Lower Murray Water or in submissions received following the draft decision.

Our final decision is to accept Lower Murray Water's proposal to not implement a guaranteed service level scheme for its rural services.

7. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.⁵⁹ Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Lower Murray Water's revenue requirement for its rural services based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 7.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 7.2)
- roll-forward the regulatory asset base (Section 7.3)
- apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 2.4.1)
 - a benchmark return on equity value determined by Lower Murray Water's PREMO rating (Section 2.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 7.4)
- establish a benchmark tax allowance (Section 7.5).

For Lower Murray Water's rural services, our final decision is to approve a revenue requirement of \$138.1 million.

Lower Murray Water proposed a revenue requirement for its rural services of \$139.2 million over a 5-year period starting 1 July 2023. Our draft decision approved a lower revenue requirement of \$138.1 million, which mainly reflected adjustments to align with Lower Murray Water's approved regulatory accounts for 2021-22.

⁵⁹ We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Lower Murray Water in the regulatory period from 1 July 2023. We had regard to their views in arriving at our final decision.

Our final decision approves a revenue requirement of \$138.1 million (Table 7.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure.

Table 7.1 Final decision on Lower Murray Water’s rural services revenue requirement
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	20.4	20.4	20.9	21.2	20.8	103.7
Return on assets	2.8	2.9	3.1	3.3	3.6	15.6
Regulatory depreciation	3.3	3.6	3.8	3.9	4.1	18.7
Tax allowance	-	-	-	-	-	-
Final decision – rural services revenue requirement	26.6	26.9	27.8	28.4	28.4	138.1

Note: Numbers have been rounded.

Since our draft decision, we have updated our estimates for the cost of debt, inflation, licence fees and environmental contribution to reflect the latest available information. We required Lower Murray Water to update its revenue requirement and prices to reflect updates to inflation and the cost of debt and we updated the licence fee and environmental contribution estimates.

Following our draft decision, Lower Murray Water provided an updated model for its rural services that reflected our updates to inflation and the cost of debt and proposed updates to its customer contributions. Lower Murray Water also updated its bulk water charges to reflect the latest information. These updates are discussed in the relevant sections below.

Lower Murray Water also updated its forecast operating expenditure to reflect changes announced in the 2023-24 Victorian State Budget (see Section 4.1).

The adjustments to Lower Murray Water’s rural services revenue requirement that we have made in our draft and final decisions are set out in Table 7.2, with the reasons outlined in the following sections.

Table 7.2 Adjustments to rural services revenue requirement – our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Lower Murray Water's proposed rural services revenue requirement	27.0	27.3	28.1	28.6	28.3	139.2
B. Total adjustments proposed in our draft decision	-0.1	-0.2	-0.2	-0.2	-0.2	-1.1
Operating expenditure	0.0	0.0	0.0	-0.1	-0.1	-0.2
Return on assets	-0.1	-0.2	-0.1	-0.1	-0.1	-0.7
Regulatory depreciation	0.0	0.0	0.0	0.0	0.0	-0.2
C. Draft decision – rural services revenue requirement (C = A+B)	26.8	27.0	27.8	28.3	28.0	138.1
D. Total adjustments in our final decision	-0.3	-0.1	-0.0	0.1	0.4	-0.0
Operating expenditure	-0.3	-0.4	-0.5	-0.6	-0.6	-2.3
Return on assets	-0.0	0.2	0.4	0.6	0.9	2.1
Regulatory depreciation	0.0	0.0	0.0	0.0	0.0	0.2
E. Final decision – rural services revenue requirement (E = C + D)	26.6	26.9	27.8	28.4	28.4	138.1

Note: Row A shows the total rural services revenue requirement proposed by Lower Murray Water in its price submission. Row B shows the total difference between our draft decision and what Lower Murray Water proposed in its price submission. Row C shows the total rural services revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision.

7.1 Operating expenditure

For Lower Murray Water's rural services, our final decision is to adopt a forecast operating expenditure of \$103.7 million for the 2023–28 regulatory period.

Operating expenditure – comprising both controllable and non-controllable expenditure – is a component of the revenue requirement. Our draft decision proposed to adopt a forecast rural services operating expenditure of \$106.0 million for the 5-year period, which was \$0.2 million lower

than proposed by Lower Murray Water due to adjustments we proposed to Lower Murray Water's environmental contribution in relation to its rural services.

Table 7.3 sets out our final decision on Lower Murray Water's forecast rural services operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 7.1.

Table 7.3 Final decision – rural services operating expenditure
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	16.93	16.88	17.37	17.56	17.14	85.89
Non-controllable operating expenditure	3.51	3.54	3.57	3.60	3.63	17.85
Bulk services ^a	3.04	3.08	3.13	3.17	3.22	15.64
Environmental contribution ^b	0.45	0.44	0.42	0.41	0.39	2.10
Licence fees – Essential Services Commission ^c	0.02	0.02	0.02	0.02	0.02	0.11
Final decision – rural services operating expenditure	20.44	20.42	20.94	21.16	20.78	103.74

Notes: Numbers have been rounded. ^a Bulk services covers the supply of bulk water and sewerage services.

^b Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. ^c Licence fees are paid to cover costs incurred by the Essential Services Commission in its regulatory activities related to the water business.

Table 7.4 sets out the adjustments we have made to Lower Murray Water's rural services controllable and non-controllable operating expenditure for our draft decision and since our draft decision. Details of our assessment and the reasons for our final decision adjustments are included in Section 7.1.1 (controllable operating expenditure) and Section 7.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Lower Murray Water does not represent the amount that Lower Murray Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

Table 7.4 Our adjustments to Lower Murray Water’s rural services operating expenditure for our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Lower Murray Water’s proposed total operating expenditure	20.72	20.82	21.46	21.81	21.39	106.20
A1 – Our draft decision adjustments to controllable operating costs	-	-	-	-	-	-
A2 – Our draft decision adjustments to non-controllable operating costs	-0.01	-0.03	-0.04	-0.05	-0.06	-0.20
B. Draft decision – total operating expenditure	20.71	20.79	21.42	21.76	21.33	106.01
C. Final adjustments to controllable operating costs (C1)	0.03	0.03	0.03	0.03	0.03	0.13
C1 – 2023-24 State Budget updates	0.03	0.03	0.03	0.03	0.03	0.13
D. Final adjustments to non-controllable operating costs (D1 + D2 + D3)	-0.29	-0.40	-0.51	-0.62	-0.58	-2.40
D1 – Environmental contribution	-0.00	-0.00	-0.01	-0.01	-0.01	-0.03
D2 – Licence fees – Essential Services Commission	0.01	0.01	0.01	-0.00	-0.00	0.02
D3 – External bulk water charges – Goulburn-Murray Water	-0.30	-0.40	-0.51	-0.61	-0.57	-2.39
E. Final decision – total operating expenditure (E = B + C + D)	20.44	20.42	20.94	21.16	20.78	103.74

Note: See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in rows C and D (and disaggregated in rows C1 and D1 to D3) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded.

7.1.1 Controllable operating expenditure

In relation to Lower Murray Water's rural services controllable operating expenditure, our preliminary findings (outlined in Section 7.1.1 of our draft decision) were that:

- We considered Lower Murray Water's proposal reflected an efficient baseline cost to forecast annual operating expenditure for its rural services.
- We accepted the proposed forecast without adjustment.

Following release of the 2023-24 Victorian State Budget on 23 May, we wrote to water businesses to provide them with an opportunity to update their cost forecasts, should they seek to claim any additional costs and reflect these in customer prices.⁶⁰

Lower Murray Water responded with updated cost forecasts to reflect higher payments relating to payroll tax and Workcover premiums. We have accepted these additional amounts as they are unavoidable costs that the business faces in delivering prescribed services to its customers.

Several participants in our public forum on our draft decision for Lower Murray Water (held on 20 April) raised concerns regarding Lower Murray Water's approach to allocating corporate costs between the rural and urban components of the business and the potential subsidisation of urban customers by rural customers.

We stated in the public forum that we expected Lower Murray Water would engage with its customers following our draft decision to explain its approach to allocating these costs across its customers, and provide further information on its methodology to relevant customers. Following our public forum, Lower Murray Water advised us that it undertook a consultation session with its Joint Strategic Advisory and Customer Service Advisory committees, in which the business explained its methodology, distribution percentages and the process used to calculate rural costs using the methodology. Committee members were also provided with a copy of the methodology.

After considering all submissions received in response to our draft decision, and on the basis that Lower Murray Water's proposed controllable operating expenditure is consistent with our guidance, our final decision is to accept Lower Murray Water's revised controllable operating expenditure for its rural services of \$85.89 million (Table 7.3).

⁶⁰ Victorian Government, *Budget papers '2023/24 State Budget papers'*, 23 May 2023.

7.1.2 Non-controllable operating expenditure

In relation to Lower Murray Water's rural services non-controllable operating expenditure, our preliminary findings (outlined in Section 7.1.2 of our draft decision) were that:

- Lower Murray Water had partially followed the approach set out in our guidance to forecast its non-controllable operating costs in its price submission but had kept the environmental contribution flat in real terms rather than nominal terms for the 2023–28 regulatory period.
- We requested Lower Murray Water to update its forecast Goulburn-Murray Water bulk charges.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision, and also adjust for the latest inflation and external bulk charges data.⁶¹

Following our draft decision, Lower Murray Water provided updated forecasts for its external bulk water charges that reflected Goulburn-Murray Water's approved prices for 2023-24. Lower Murray Water also advised that Goulburn-Murray Water's updated draft forecasts for bulk water charges indicated there would be a real increase in costs after 2023-24 following its 2024 price review. This reflects Goulburn-Murray Water's possible transition (raised in the 2020 price review) of its bulk charges from a basin pricing approach to a system price during its next regulatory period, following further consultation with bulk entitlement holders.⁶² As such, we are satisfied with Lower Murray Water not forecasting its bulk water charges at a flat rate in real terms for the next regulatory period.

For the environmental contribution, we have used the 2022-23 value provided by the Department of Energy, Environment and Climate Action and assumed that this will remain flat in nominal terms (decline in real terms) across the 2023–28 regulatory period.

For our Essential Services Commission licence fee, we have taken our forecast fee estimate schedule, which is based on the expected work program across the 2023–28 regulatory period (which is in nominal dollars) and deflated it into 2022-23 dollars to express the fee in real terms.⁶³

We have reduced Lower Murray Water's forecast non-controllable operating expenditure for rural services by \$2.40 million across the 2023–28 period, resulting from the following adjustments:

- \$0.02 million increase for the Essential Services Commission licence fee after considering the latest information available and allocating the fee between its urban and rural businesses in

⁶¹ Non-controllable costs are those that cannot be directly or indirectly influenced by a water business's decisions.

⁶² Essential Services Commission, *Goulburn-Murray Water final decision: 2020 Water Price Review*, 3 June 2020, p. 34.

⁶³ These fees are yet to be determined by the Minister for Water.

accordance with Lower Murray Water’s revised methodology for the allocation of shared corporate costs.

- \$0.03 million decrease for the environmental contribution to account for the latest data on inflation.⁶⁴
- \$2.39 million decrease for external bulk water charges as revised by Lower Murray Water to reflect the Goulburn-Murray Water bulk charges for 2023-24.

Accordingly, consistent with the reasoning in our guidance, our final decision is to adopt a revised rural services non-controllable operating expenditure of \$17.85 million over the next regulatory period.

7.2 Capital expenditure

For Lower Murray Water’s rural services, our final decision is to adopt a forecast capital expenditure of \$43.4 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast rural services capital expenditure of \$43.4 million for the 5-year period, which was \$7.0 million lower than the \$50.4 million proposed by Lower Murray Water.

The reasons for our draft decision were that:

- Lower Murray Water demonstrated it has adopted a reasonable approach to developing its capital program, and that its capital expenditure forecasts are prudent and efficient. However, we removed \$7.0 million from Lower Murray Water’s forecast for 2023-24, given its price submission identified this was carried-over additional expenditure related to works it performed in 2022-23 on its Millewa river pump station replacement project. While we considered Lower Murray Water had provided sound reasoning for the increased costs for this project, the carry-forward of capital expenditure to the next year’s forecast was not appropriate or consistent with our guidance.
- We considered the planned capital expenditure program is achievable, given Lower Murray Water’s track record delivering its capital expenditure program, and the forecast capital program’s comparable size to the capital program in the current regulatory period.
- Lower Murray Water has an appropriate approach for managing expenditure associated with uncertain projects.

⁶⁴ Lower Murray Water, *submission in response to the Essential Services Commission ‘Lower Murray Water draft decision: 2023 water price review’*, 9 May 2023, pp. 18–19.

- After making our adjustment for the Millewa River Pump Station project described above, we considered Lower Murray Water’s approach to forecasting its capital expenditure is consistent with the requirements of our guidance.

In response to our draft decision, Lower Murray Water accepted our removal of the \$7.0 million of additional costs related to its Millewa river pump station replacement project from its capital expenditure forecast and instead proposed to include a revised additional cost forecast for this project (\$5.5 million) in an updated capital expenditure forecast for 2022-23, and updated its forecast regulatory asset base accordingly (see Section 7.3.2).

We have considered all submissions in response to our draft decision. Our final decision is to adopt a forecast capital expenditure of \$43.4 million for the 5-year period (Table 7.6) in relation to gross capital expenditure for rural services, as proposed in our draft decision and for the same reasons proposed in our draft decision. We consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on Lower Murray Water’s forecast regulatory asset base for rural services (Table 7.6) and revenue requirement for rural services (Table 7.1) reflect this benchmark.

The benchmark that we propose to adopt for Lower Murray Water does not represent the amount that Lower Murray Water is required to spend or allocate to particular projects. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Where we have made an adjustment to exclude a project’s capital expenditure from Lower Murray Water’s revenue requirement, we are not requiring the business to remove that project. Lower Murray Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

7.3 Regulatory asset base

A water business’s regulatory asset base is the value of the business’s assets for regulatory purposes.⁶⁵ The regulatory asset base is used to estimate the return on assets (discussed in Section 2.4) and regulatory depreciation (discussed in Section 7.4). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Lower Murray Water to propose:

- the closing value of its regulatory asset base at 30 June 2022 (using actual data)

⁶⁵ These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

- the opening value of its regulatory asset base at 1 July 2023 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2023-24 to 2027-28), in accordance with the prudency criteria outlined in the guidance.

7.3.1 Closing regulatory asset base

For Lower Murray Water's rural services, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$108.7 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2021-22.⁶⁶ This helps to ensure prices reflect the actual net expenditure of a water business.⁶⁷

Our draft decision adopted a lower closing regulatory asset base than proposed by Lower Murray Water due to adjustments we made to reflect its approved regulatory accounts for 2021-22. In its response to our draft decision, Lower Murray Water accepted these adjustments and updated its closing regulatory asset base to align with its approved regulatory accounts and our draft decision.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, for Lower Murray Water's rural services, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$108.7 million (Table 7.5).

⁶⁶ See Section 7.2 for a discussion of Lower Murray Water's capital expenditure for rural services.

⁶⁷ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

Table 7.5 Final decision – closing regulatory asset base (RAB) for rural services
\$ million 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB 1 July	94.8	96.4	101.9	103.1	105.2
Plus gross capital expenditure	7.9	13.8	12.9	5.5	8.3
Less government contributions	2.4	0.9	3.4	0.0	0.0
Less customer contributions	0.3	0.3	5.1	0.5	1.8
Less proceeds from disposals	0.4	4.6	0.5	0.1	0.2
Less regulatory depreciation	3.2	2.5	2.7	2.8	2.9
Closing RAB 30 June	96.4	101.9	103.1	105.2	108.7

Note: Numbers have been rounded.

7.3.2 Forecast regulatory asset base

Our final decision is to accept a forecast regulatory asset base as set out in Table 7.6

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Our draft decision did not accept Lower Murray Water’s rural services forecast regulatory asset base for the period from 1 July 2023 due to adjustments we proposed to its closing regulatory asset base and instead adopted a forecast regulatory asset base figure that reflected our adjustments to its closing regulatory asset base.

In response to our draft decision, Lower Murray Water adjusted its capital expenditure and capital contribution for 2022-23 to include additional costs for the Millewa project and capital contribution received for this project, as described above in Section 7.2.

Table 7.6 sets out our final decision on Lower Murray Water’s rural services forecast regulatory asset base from 1 July 2023.⁶⁸

⁶⁸ Our guidance required water businesses to provide an estimate of the components of their regulatory asset base for 2022-23. This was so we could assess the opening asset base for 1 July 2023. Our guidance noted that where the

Our final decision on Lower Murray Water’s forecast regulatory asset base for rural services reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 7.2 (capital expenditure)
- Section 7.3.2.1 (customer contributions)
- Section 7.5 (regulatory depreciation).

Table 7.6 Final decision – forecast regulatory asset base (RAB) for rural services
\$ million 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB 1 July	108.7	114.2	117.4	121.8	125.6	130.6
Plus gross capital expenditure	11.1	9.1	8.5	8.1	9.3	8.4
Less government contributions	-	-	-	-	-	-
Less customer contributions	2.1	0.2	0.2	0.2	0.2	0.2
Less proceeds from disposals	0.4	2.4	0.4	0.3	0.2	0.2
Less regulatory depreciation	3.1	3.3	3.6	3.8	3.9	4.1
Closing RAB 30 June	114.2	117.4	121.8	125.6	130.6	134.5

Note: Numbers have been rounded.

7.3.2.1 Customer contributions

For Lower Murray Water’s rural services, our final decision is to adopt the benchmarks for customer contributions as set out in Table 7.6.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.⁶⁹

2022-23 forecasts for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2018 price determination, the lower amount must be used. The estimates for 2022-23 will be confirmed at the price review following the 2023 water price review. Essential Services Commission, *2023 water price review: Guidance paper*, p. 38.

⁶⁹ Revenue from new customer contributions reflects revenue earned from new connections made to the water business’s water, sewerage or recycled water networks.

Our draft decision considered Lower Murray Water's rural services forecast revenue from customer contributions was reasonable, having regard to past trends and its growth forecasts. We proposed to accept Lower Murray Water's forecast in our draft decision.

In response to our draft decision, Lower Murray Water proposed updated forecasts for customer contributions to account for a correction to the timing of the customer contribution for the Millewa Pump Station upgrade.

We compared Lower Murray Water's updated forecasts for customer contributions with past outcomes. We consider Lower Murray Water's forecast contributions for rural services are reasonable, having regard to past trends and its growth forecasts.

For the reasons set out above, our final decision is to accept the revenue from customer contributions for rural services set out in Table 7.6.

7.4 Regulatory depreciation

For Lower Murray Water's rural services, our final decision is to accept the benchmarks for regulatory depreciation as set out in Table 7.6.

Regulatory depreciation is a component of Lower Murray Water's revenue requirement and is also an input to calculating the regulatory asset base.

As indicated in our draft decision, Lower Murray Water's forecast regulatory depreciation for rural services was calculated using a straight-line depreciation profile, which is our preferred approach.⁷⁰ However, due to adjustments we proposed to its closing regulatory asset base, and our preliminary views on its assumed asset life, our draft decision did not accept Lower Murray Water's forecast regulatory depreciation for rural services.

We required Lower Murray Water, in its response to our draft decision, to provide further justification for its assumed asset lives and to update its forecast for regulatory depreciation for rural services.

In response to our draft decision, Lower Murray Water provided further justification for its assumed asset lives for its rural business. It explained that it had adopted an average asset life for existing assets of 45 years on average, rather than the 30 years we indicated in our draft decision (we acknowledge the business's use of the 'depreciation override' function in the price submission template it lodged actually results in a longer assumed life than 30 years). On that basis, we are satisfied that the asset lives proposed by Lower Murray Water are appropriate.

⁷⁰ Essential Services Commission, *2023 water price review: Guidance paper*, p. 39.

Lower Murray Water also recalculated its regulatory depreciation for rural services to reflect our proposed adjustments to its regulatory asset base. We consider that the revised forecast regulatory depreciation proposed by Lower Murray Water was calculated in a manner consistent with the requirements of our guidance.

For the reasons set out above, for Lower Murray Water's urban services, our final decision accepts the benchmarks for regulatory depreciation as set out in Table 7.6 in Section 7.3.2.

7.5 Tax allowance

For Lower Murray Water's rural services, our final decision is to adopt Lower Murray Water's forecast of no tax allowance for the 2023–28 regulatory period.

The tax allowance is a component of the revenue requirement.

Our draft decision accepted Lower Murray Water's rural services forecast of no tax allowance as it was calculated consistently with the method required by our guidance.⁷¹

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision is to accept a forecast of no tax allowance for the 5-year regulatory period, as set out in Table 7.1.

⁷¹ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 47–48.

8. Demand, tariffs and prices

Once Lower Murray Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

8.1 Demand

For Lower Murray Water's rural services, our final decision is to accept Lower Murray Water's demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

Our draft decision accepted Lower Murray Water's proposed demand forecasts for the purpose of approving maximum prices for its rural services, because they were developed consistently with the requirements of our guidance.⁷²

We received no submissions on this issue from Lower Murray Water or stakeholders in response to our draft decision.

For the reasons above, our final decision approves Lower Murray Water's demand forecasts for rural services.

8.2 Form of price control

For Lower Murray Water's rural services, our final decision is to accept Lower Murray Water's proposed revenue cap form of price control.

Our draft decision accepted Lower Murray Water's proposal to retain a revenue cap form of price control because:

- it is the same as its current approach, which we have previously approved
- it provides sufficient revenue to cover the forecast efficient costs of providing services and for Lower Murray Water to deliver on any health, safety and environmental obligations
- the annual limit on price increases helps to minimise the impact of price changes on customers that can arise from deviations from forecast demand under a revenue cap.
- it is otherwise consistent with the requirements of our guidance.

⁷² Essential Services Commission, 2023 water price review: Guidance paper, p. 49.

We received no submissions from stakeholders regarding the form of price control for rural services.

For the reasons set out above, our final decision approves Lower Murray Water's proposed revenue cap form of price control for its rural services.

8.3 Tariff structures and prices

Our draft decision accepted Lower Murray Water's proposed tariff structures for its rural services but, like all our draft decisions in this review, did not approve prices for each tariff, because Lower Murray Water needed to update its proposed prices to reflect our updates to inflation and cost of debt estimates.

Our final decision on Lower Murray Water's rural services tariff structures and prices is set out below.

8.3.1 Tariff structures

For Lower Murray Water's rural services, our final decision is to accept Lower Murray Water's proposed tariff structures.

As outlined in our guidance, we have provided the water businesses with a large degree of discretion to decide on individual tariff structures.⁷³ This recognises water businesses are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Our draft decision was to accept Lower Murray Water's proposal to retain its existing tariff structures for pumped irrigation, waterworks, stock, domestic and private diversions across all rural districts. Lower Murray Water proposed to continue recovering the cost incurred by individual districts by using location-based pricing.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Lower Murray Water's tariff structures for its rural services.

Given the above and that Lower Murray Water's proposed tariff structures for its rural services are a continuation of its current approach and otherwise meet the criteria in our guidance, our final decision is to accept Lower Murray Water's proposed tariff structures for its rural services.

⁷³ Essential Services Commission, *2023 water price review: Guidance paper*, p. 51.

8.3.2 Prices

Our final decision accepts Lower Murray Water's revised prices for its rural services.

In our draft decision, we noted that Lower Murray Water would need to propose updated prices for its rural services to reflect our draft decision on its expenditure forecasts and our updates to inflation and cost of debt estimates.

Following our draft decision, Lower Murray Water proposed revised prices that reflect the updates to our inflation and cost of debt estimates, and to bulk water charges (see Section 7.1). Lower Murray Water's revised prices also reflect changes to its revenue requirement as a result of its response to our draft decision and to changes announced in the Victorian State Budget (See Section 7.1).

Under Lower Murray Water's revised prices, generally prices will rise by less than inflation for most districts.

For irrigation and drainage customers (based on 100 ML of annual usage) Lower Murray Water outlined the following average annual customer bill impacts for the period (excluding inflation):

- Mildura – 0.51 per cent annual decrease
- Red Cliffs – 0.28 per cent decrease
- Robinvale – 5.22 per cent decrease
- Mildura HP – 5.85 per cent decrease
- Merbein – 1.83 per cent increase.

For domestic and stock customers, Lower Murray Water proposed an average annual decrease of 2.25 per cent (excluding inflation).

For diversion customers, Lower Murray Water proposed an average annual decrease of 0.34 per cent (excluding inflation, based on 1000ML of annual usage).

At our public forum on our draft decision, a participant stated that irrigators were not satisfied that Lower Murray Water had previously passed through the full costs of inflation without explaining the actual costs Lower Murray Water had incurred. They sought further clarification on the starting point for Lower Murray Water's price submission.⁷⁴

We note that the pass through of inflation is allowed for in our pricing framework, and a similar approach is adopted by the commission in other sectors and by other regulators. Our draft decision sought further information from Lower Murray Water on how it intended to address the impacts of

⁷⁴ Milner Grapes, participant comment, Lower Murray Water price review 2023 public forum, 20 April 2023.

relatively high inflation for 2023-24; a summary of its response is provided in the summary section, with more detail available in its response to our draft decision.

The forum participant was also not satisfied with how efficiencies are accounted for in Lower Murray Water's price submission and were concerned that customers would ultimately bear the cost of any inefficiencies. We have confirmed that Lower Murray Water's forecast expenditure for rural services and its prices, embed the expectation of a 1.1 per cent annual efficiency improvement rate. We note that this rate is around the average among water businesses in the current price review.

The upcoming 2023–28 regulatory period will be the first time Lower Murray Water's rural services will be covered by the PREMO framework. As part of this, at its next price review in 5 years' time we will assess its performance under the Performance element of PREMO, including how it has achieved against operating expenditure targets, including the efficiency commitment of around 1.1 per cent per year, which has been reflected in both its urban and rural services prices.

After considering all submissions received in response to our draft decision, our final decision is to approve the revised prices proposed by Lower Murray Water for its rural services because they have been calculated in a manner consistent with our guidance.

Our price determination for Lower Murray Water sets out the maximum prices it may charge for the 5-year period from 1 July 2023 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

8.3.3 Addressing the interests of low income and vulnerable customers

In making our price determination, we must have regard to whether Lower Murray Water's prices take into account the interests of their customers, including low income and vulnerable customers.⁷⁵

Our consideration of Lower Murray Water's rural pricing is informed by the nature of its services and customer mix that includes high volume commercial water users. We note that Lower Murray Water proposed:

- a price path that was falling in most districts
- smooth price paths where price increases were well justified, to meet customer preferences for consistency in their costs
- maintaining and enhancing its hardship programs for small business customers experiencing payment difficulty.

⁷⁵ Water Industry Regulatory Order 2014 clause 11(d)(iii).

Section 2.3 reviews how Lower Murray Water's price submission was informed by engagement that was inclusive of Lower Murray Water's diverse rural customer base.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on how Lower Murray Water has addressed the interests of low income and vulnerable customers.

8.3.4 Other services

As set out in our draft decision, Lower Murray Water has confirmed that its trade waste and miscellaneous tariffs were calculated in accordance with our guidance.

In our draft decision, we indicated that Lower Murray Water's pricing model did not list its top 10 miscellaneous tariffs and required Lower Murray Water to include these top 10 miscellaneous tariffs in its pricing model in response to our draft decision. Lower Murray Water has provided the list of miscellaneous tariffs and has confirmed they are calculated in accordance with our pricing principles.

Given this, our final decision is to approve Lower Murray Water's proposed tariffs for trade waste and miscellaneous services.

8.4 Adjusting prices

For its rural services, our final decision is to accept Lower Murray Water's proposed price adjustment mechanisms.

Our draft decision accepted Lower Murray Water's proposal to continue using the same price adjustment mechanisms, on the basis that they are a continuation of its existing approach, which we have approved in the past.

Our draft decision also proposed to accept Lower Murray Water's proposal to not apply an electricity cost adjustment as it had during the current regulatory period, because its stakeholders had agreed with this proposal on the basis that there was less uncertainty in energy prices for the forecast years compared to the current regulatory period.

After considering all submissions received following our draft decision, for the above reasons, our final decision is to accept Lower Murray Water's proposed price adjustment mechanisms.

PART D – PREMO assessment of Lower Murray Water’s price submission (urban and rural)

9. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water business's revenue requirement to that business's level of ambition expressed in its price submission. Our guidance required Lower Murray Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism and arrive at an overall self-rating.⁷⁶ We required Lower Murray Water to self-rate its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic', with 'Leading' being the most ambitious and 'Basic' the least.

The assessment tool included in our guidance directed Lower Murray Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We assessed and rated Lower Murray Water's price submission. As outlined in our guidance, the combination of Lower Murray Water's self-rating and our rating has determined the return on equity we have adopted to calculate Lower Murray Water's revenue requirement in our final decision.

While Lower Murray Water's urban services were covered by PREMO at its 2018 water price review, its rural services were not. Accordingly, at the 2023 review the Performance element of PREMO does not apply in relation to Lower Murray Water's rural services. This is consistent with the variation to our guidance that we published on our website in July 2022.⁷⁷

9.1 Our PREMO assessment of Lower Murray Water's price submission

Our final decision is to rate Lower Murray Water's price submission as 'Standard' under PREMO, which is the same as Lower Murray Water's self-rating.

Lower Murray Water's self-rating for each of the PREMO elements and its overall self-rating are shown in Table 9.1. This table also includes our draft and final ratings of Lower Murray Water's price submission. This rating is reflected in the return on equity we have approved for Lower Murray Water (see Section 4.4.2).

Our preliminary PREMO assessment is set out in our draft decision and is summarised below.

No new considerations were presented by Lower Murray Water or in submissions received following our draft decision that caused us to change our assessment.

⁷⁶ This is the first price review we have done where the rating has been based on all five elements of PREMO. In our 2018 price review, our PREMO assessment was against only four of the elements — Risk, Engagement, Management and Outcomes.

⁷⁷ Essential Services Commission, Variation to guidance paper in respect of Lower Murray Water's rural infrastructure services, July 2022.

For that reason and for the reasons set out in our draft decision, our final decision is to agree with Lower Murray Water’s proposed overall PREMO self-rating of ‘Standard’.

Table 9.1 **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Lower Murray Water’s self-rating	Standard	Standard	Standard	Standard	Standard	Standard
Commission’s draft decision rating	Standard	Basic	Standard	Standard	Standard	Standard
Commission’s final decision rating	Standard	Basic	Standard	Standard	Standard	Standard

In summary, the following matters support Lower Murray Water’s self-rating of its price submission as ‘Standard’:

- Lower Murray Water has overall met its outcome commitments for the period to date for its urban services.
- Lower Murray Water has tested its guaranteed service level scheme with customers.
- Lower Murray Water has provided sound justification for its proposed expenditure.
- Lower Murray Water’s proposal to exclude uncertain project costs from its capital expenditure forecasts will help to ensure customers do not pay more than they need to.
- Lower Murray Water’s engagement was inclusive, including of local services that work with First Nations people and of customers experiencing payment difficulty.
- Lower Murray Water has provided evidence that demonstrates its outcome measures and targets were developed in consultation with its customers, and that they are supported by them.
- Our preliminary view was that Lower Murray Water’s proposed targets indicate an overall improvement in service levels for its customers.

Consistent with our draft decision, our final decision does not accept Lower Murray Water’s proposed self-rating of its price submission as ‘Standard’ for the Performance element of PREMO in relation to its urban services.⁷⁸ This is because in 2021-22 (the last available year of audited results), its controllable operating expenditure was around 20 per cent higher than the benchmark adopted in 2018. After accounting for changes in corporate cost allocation from its rural business to

⁷⁸ While Lower Murray Water’s urban services were covered by PREMO at its 2018 water price review, its rural services were not. Accordingly, at the 2023 review the Performance element of PREMO does not apply in relation to Lower Murray Water’s rural infrastructure services.

its urban business, this reduces to around 15.6 per cent. This is higher than the average among businesses in the current price review (around 9 per cent).

While we accept that some costs have increased in the current regulatory period, we consider that businesses should still seek to manage and reprioritise costs closely having regard to the price review benchmarks. The PREMO framework (and the Water Industry Regulatory Order 2014 itself) is built on a sharp focus on efficiency, and base year costs for 2021-22 are critical to assessing the efficient operating costs to be reflected in benchmarks adopted for pricing in the 2023–28 period.

Appendix A – Submissions received on draft decision

Name or organisation	Date received
Consumer Action Law Centre	5 May 2023
Lower Murray Water	9 May 2023
Registered Accommodation Association of Victoria	26 May 2023

Appendix B – Commission’s consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Lower Murray Water.

The WIRO requires the Commission to place particular emphasis on the promotion of efficient use of prescribed services by customers, the promotion of efficiency in water businesses as well as efficiency in, and the financial viability of, the regulated water industry and the provision to regulated entities of incentives to pursue efficiency improvements.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.⁷⁹ Our draft and final decisions provide further information on where we have considered our guidance, and Lower Murray Water’s compliance with our guidance, in making our price determination.⁸⁰

Note: all chapter and section numbers referenced below refer to our final decision for Lower Murray Water.

Economic efficiency and viability matters

WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).

⁷⁹ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

⁸⁰ Essential Services Commission, *Lower Murray Water draft decision: 2023 water price review*, 30 March 2023; Essential Services Commission, *Lower Murray Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our final decision has therefore had regard to the extent that Lower Murray Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).
- Our assessment of financial viability (Section 2.5).

WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

Additionally, our pricing approach allows a water business to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water business has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water businesses to pursue efficiency improvements.

ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long term investment’.

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water business promotes efficiency in the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

We have had regard to incentives for long term investment by adopting:

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 2.4.1).
- A regulatory rate of return that we consider will enable Lower Murray Water to recover borrowing costs associated with its investment in services, and generate a return on assets.⁸¹

ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in Chapter 6.

ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.

In preparing our final decision, we have had regard to the extent Lower Murray Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

⁸¹ The regulatory rate of return is comprised of the cost of debt and the return on equity.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

Industry specific matters

ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.

Our pricing approach allows each water business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

We have had regard to the prescribed services listed in the WIRO in making our final decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Lower Murray Water to deliver services that are covered by the prescribed services listed in the WIRO.

ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.

Our final decision provides for Lower Murray Water to generate a return on assets through:

- Our consideration of the regulatory asset base (Section 4.3 and Section 7.3).
- Our consideration of the cost of debt (Section 2.4.1).
- Our consideration of the return on equity (Section 2.4.2).

ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia⁸²
- operating and capital expenditure costs per connection throughout Australia⁸³
- tariff structures applied by water businesses throughout Australia⁸⁴
- the regulatory rate of return set by other regulators.⁸⁵

We are not aware of any international benchmarks that are relevant to our final decision.

WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.

Our pricing approach allows each water business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

Our price review also considers the views of stakeholders affected by Lower Murray Water’s proposals, including through submissions and public meetings.

⁸² Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*, February 2022.

⁸³ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*.

⁸⁴ Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁸⁵ Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW's rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; Queensland Competition Authority, *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

Customer matters

ESC Act section 8(1) requires us to have regard to the fact that the ‘objective of the Commission is to promote the long term interests of Victorian consumers’.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long-term interests of Victorian consumers.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).
- Our assessment of financial viability (Section 2.5).

ESC Act Section 8(2) requires us to ‘have regard to the price, quality and reliability of essential services’ in seeking to achieve the objective in section 8(1) of the ESC Act.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our consideration of demand (Section 5.1).
- Our consideration of tariffs (Section 5.3 and Section 8.3).

In terms of the quality and reliability of services, the following sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our consideration of outcomes (Chapter 3 and Chapter 6).

WIRO Clause 11(d)(i) requires us to have regard to whether Lower Murray Water’s prices ‘enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated’.

We consider that the following matters are relevant when considering whether Lower Murray Water’s prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water business’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

The following sections of our final decision involved consideration of this factor:

- Our consideration of tariffs and the form of price control (Sections 5.2 and 5.3 and Sections 8.2 and 8.3).

WIRO Clause 11(d)(ii) requires us to have regard to whether Lower Murray Water’s prices ‘provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible’.

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3).
- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

WIRO Clause 11(d)(iii) requires us to have regard to whether Lower Murray Water’s prices ‘take into account the interests of customers of the regulated entity, including low income and vulnerable customers’.

We consider that customer value established through prices and customer outcomes, as well as tariff structures, and assistance available to customers having difficulty paying bills is relevant to this objective.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 2.3)
- Our consideration of outcomes (Chapter 3 and Chapter 6)
- Our consideration of guaranteed service levels (Section 3.3)
- Our consideration of tariff structures and prices (Chapter 5 and Chapter 8)

Health, safety, environmental and social obligations

ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.

Our final decision proposes to approve a revenue requirement that will enable Lower Murray Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of the form of price control (Section 5.2 and Section 8.2).

WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.

Our final decision proposes to approve a revenue requirement that will enable Lower Murray Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4 and Chapter 7).
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).
- Our assessment of tariffs (Section 5.3 and Section 8.3).

Other matters

ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.

In relation to the above, Lower Murray Water does not face any competition in the delivery of its prescribed services within its region. Our final decision takes this into account through our

consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business's customer engagement.

The following sections of our final decision involved consideration of this factor:

- Our assessment of engagement (Section 2.3)
- Our assessment of outcomes (Chapter 3 and Chapter 6)
- Our assessment of efficient operating expenditure (Section 4.1 and Section 7.1) and capital expenditure (Section 4.2 and Section 7.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.⁸⁶

ESC Act section 8A(1)(e) requires us to have regard to the ‘benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities’.

We have had regard to benefits and costs of regulation by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁸⁷

⁸⁶ Essential Services Commission 2016, *Water Pricing Framework and Approach, Implementing PREMO from 2018*, October, pp. 11–13.

⁸⁷ Essential Services Commission, *2023 water price review: Guidance paper*, p. 2.

ESC Act section 8A(1)(f) requires us to have regard to ‘consistency in regulation between States and on a national basis’.

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses to implement various forms of price control, including price caps and revenue caps
- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

WI Act section 4C(a) requires us to ‘ensure that the costs of regulation do not exceed the benefits’.

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁸⁸

⁸⁸ Essential Services Commission, 2023 water price review: *Guidance paper*, p. 2.

Appendix C – Service standards

We have accepted the following standards, and conditions of service and supply, and associated targets for Lower Murray Water. Service standards are approved in our Water Industry Standard – Urban Customer Service (Urban Water Industry Standard) and Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard and the Rural Water Industry Standard to adopt these service standards and targets.

Urban water service standards – excluding flow rates

Service standard	2023-24	2024-25	2025-26	2026-27	2027-28
Maximum number of unplanned water supply interruptions in any 12-month period	5	5	5	5	5
Average time taken to attend bursts and leaks (priority 1-3) (minutes)	20	20	20	20	20
Average time taken to attend bursts and leaks (priority 2) (minutes)	20	20	20	20	20
Average time taken to attend bursts and leaks (priority 3) (minutes)	20	20	20	20	20
Average duration of unplanned water supply interruptions (minutes)	60	60	60	60	60
Average duration of planned water supply interruptions (minutes)	85	85	85	85	85

Urban water service standards – flow rates

	Diameter of the property service pipe (mm)				
	20	25	32	40	50
Minimum flow rate (litres per minute)	20	35	60	90	160

Urban sewerage service standards

Service standard	2023-24	2024-25	2025-26	2026-27	2027-28
Maximum number of sewer blockages in any 12-month period	3	3	3	3	3
Average time to attend sewer spills and blockages (minutes)	20	20	20	20	20
Average time to rectify a sewer blockage (minutes)	70	70	70	70	70
Maximum time to contain spills (minutes)	300	300	300	300	300

Urban service standards – Customer service and complaints

	2023-24	2024-25	2025-26	2026-27	2027-28
Customer service					
Average time for calls to be answered	30 seconds	30 seconds	30 seconds	30 seconds	30 seconds
Maximum time to process a property Information Statement (upon receipt of fully completed application and payment)	10 business days	10 business days	10 business days	10 business days	10 business days
Complaints					
Maximum time to respond to a complaint	10 business days	10 business days	10 business days	10 business days	10 business days

Rural water supply service standards

	2023-24	2024-25	2025-26	2026-27	2027-28
Maximum number channel bursts and leaks (per 100km) - Merbein	151	151	151	151	151
Maximum number channel bursts and leaks (per 100km) – Red Cliffs	61	61	61	61	61
Maximum number channel bursts and leaks (per 100km) - Robinvale	10	10	10	10	10
Maximum number channel bursts and leaks (per 100km) - Millewa	7	7	7	7	7
Maximum number channel bursts and leaks (per 100km) - Mildura	142	142	142	142	142

Rural service standards – Customer service and complaints

	2023-24	2024-25	2025-26	2026-27	2027-28
Customer service					
Average time for calls to be answered in operations / contact room	60 seconds	60 seconds	60 seconds	60 seconds	60 seconds
Maximum time to process a property Information Statement (upon receipt of fully completed application and payment) (10 days)	10 business days	10 business days	10 business days	10 business days	10 business days
Average time to make Water Use licences determination (30 days)	90%	90%	90%	90%	90%
Average processing time to transfer of water use licences between LMW Customers (10 days)	90%	90%	90%	90%	90%
Average processing time for permanent transfer of water shares between LMW Customers (10 days)	85%	85%	85%	85%	85%
Average processing time for amendment to works licence (30 days)	90%	90%	90%	90%	90%
Complaints					
Maximum time for initial respond to a complaint or enquiry	10 business days	10 business days	10 business days	10 business days	10 business days

Appendix D – Guaranteed service level scheme

We have adopted the following service level obligations and corresponding payment amounts for failure to attain the stated obligation as the guaranteed service level scheme for Lower Murray Water. Guaranteed service levels are approved in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect the guaranteed service levels set out below.

In accordance with clause 20(b) of the Urban Water Industry Standard, Lower Murray Water must ensure that any payment is made to a customer as soon as practicable after a customer becomes entitled to the guaranteed service level payment.

Lower Murray Water is not required to make a payment where the failure to meet the service level is due to the action or inaction of the customer or a third party. For the avoidance of doubt, a third party does not include any person or firm acting on behalf of Lower Murray Water.

Lower Murray Water’s guaranteed service level scheme (for urban customers)

Service level obligation	Payment (\$)
More than 5 unplanned water supply interruptions in a year.	\$75
More than 3 sewer blockages in a year	\$75
Sewage spill within house caused by Lower Murray Water assets where customer’s internal plumbing is functioning correctly.	\$1,500
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours (as defined by the Essential Services Commission) to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying	\$300

Note: These are nominal amounts, that is, the amount of payment will not be impacted by inflation.

Appendix E – Inputs to calculation of long-term inflation

Inflation – annual estimates (per cent)

	2023-24	2024-25	2025-26	2026-27	2027-28	Average
RBA geometric mean	7.0	4.1	3.1	2.5	2.5	3.8
Bond breakeven	7.0	2.3	2.3	2.3	2.3	3.3