

# South Gippsland Water final decision

2020 Water Price Review

10 June 2020

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# Summary

## **We have made a final decision on the maximum prices South Gippsland Water may charge for the three-year period starting 1 July 2020**

In February 2020, we released our draft decision on South Gippsland Water's price submission.<sup>1</sup> The draft decision set out our preliminary views on South Gippsland Water's proposals and invited interested parties to make further submissions.

We received a response from South Gippsland Water, and a submission from a customer of the corporation. Both are available on our website. In its response, South Gippsland Water acknowledged the coronavirus pandemic would likely continue to affect the business and its customers.

After considering feedback, we have made a price determination for South Gippsland Water.<sup>2</sup> The price determination sets out the maximum prices South Gippsland Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the three-year period from 1 July 2020 (2020–23). This final decision paper 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 accepts 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.

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<sup>1</sup> Clause 16 of the Water Industry Regulatory Order 2014 requires us to issue a draft decision. South Gippsland Water's price submission and our draft decision are available at [www.esc.vic.gov.au/waterpricereview](http://www.esc.vic.gov.au/waterpricereview).

<sup>2</sup> 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 corporation 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 2020, South Gippsland Water Determination: 1 July 2020 – 30 June 2023, June.

## Our final decision accepts South Gippsland Water’s proposed prices

Our final decision approves South Gippsland Water’s proposed maximum prices. Over 2020-21, maximum prices will remain steady in real terms for the period 1 July 2020 to 31 October 2020, then increase by five per cent. South Gippsland Water’s proposal to hold prices steady early in 2020-21 is a response to the customer impacts of the coronavirus pandemic. It will forego the revenue (estimated at \$0.45 million) from keeping prices steady for this four-month period (that is, it will not increase customer prices later to recover the shortfall). In 2021-22 and 2022-23, maximum prices will increase by two per cent in real terms, each year.

A summary of approved maximum prices for major services is set out page 27.

The estimated typical bills for residential customer groups under South Gippsland Water’s proposals and our final decision are provided in Table A (in real \$2020-21 terms).

**Table A**      **Estimated typical water and sewerage bills**  
\$ 2020-21

Customer group	Average consumption (kL p.a.)	2019-20 annual bill	2020-21 annual bill*	2021-22 annual bill	2022-23 annual bill
Residential (Owner occupier)	121	\$1,026	\$1,060	\$1,099	\$1,121
Residential (Tenant)	121	\$229	\$236	\$245	\$250

\*Note: 2020-21 annual bill is calculated based on a weighted average of prices maintained at a flat rate for the period 1 July 2020 to 31 October 2020 and a five per cent increase for the period 1 November 2020 to 30 June 2020

Numbers have been rounded

The price increase is driven by new sewer services provided within the region and increased costs following connection to the Melbourne water supply system which has improved security of supply for South Gippsland Water’s customers.

## South Gippsland Water will forgo revenue to help address customer impacts of coronavirus

South Gippsland Water’s approved prices are forecast to generate revenue of \$94.9 million over the three-year period starting 1 July 2020. This is \$3.7 million below the \$98.6 million revenue requirement we established for our final decision (and includes \$0.45 million due to deferring the price rise by four months). We have accepted South Gippsland Water’s proposal to forego this shortfall, which it acknowledged would help address customer affordability.

South Gippsland Water's forecast revenue collection is around 3.8 per cent lower than its revenue requirement, which is calculated having regard to our assessment of forecast prudent and efficient expenditure.<sup>3</sup> It will not recover this revenue shortfall by increasing future customer prices.

### **South Gippsland Water has also extended its customer support**

In its responses to our draft decision, South Gippsland Water acknowledged price rises may be difficult for customers in financial hardship to manage, particularly those affected by the coronavirus pandemic. We confirmed with the corporation that it has reinforced assistance to customers experiencing payment difficulty including through more generous payment extensions and longer instalment plans. It has also stopped charging customers interest on overdue amounts and halted debt collection. This support has been extended to also include non-residential customers, as well as residential customers.

When making this decision, we have considered the interests of consumers, including low income and vulnerable customers. We consider that these commitments by South Gippsland Water – including its decision to forgo revenue to mitigate price increases – is in the interests of consumers, particularly low income and vulnerable customers.<sup>4</sup>

### **Approved prices will allow South Gippsland Water to deliver on key service obligations**

Our final decision approves prices that will allow South Gippsland Water to continue to deliver on its customer service commitments, government policy, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health and Human Services.

South Gippsland Water has reflected customer priorities in its commitments to:

- renew aging infrastructure to maintain service levels
- progress programs that ensure water security for the region
- continue its carbon emission reduction program
- work to minimise unplanned water interruptions
- strengthen support for vulnerable and disadvantaged customers through its hardship program.

### **Tariff structures will remain the same**

We have approved South Gippsland Water's proposed tariff structures which remain unchanged from those currently in place. For water services, we have approved South Gippsland Water's

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<sup>3</sup> We have assessed indicators of South Gippsland Water's viability and note our view that approved prices will generate sufficient cash flow for the business to deliver on service commitments, including financing costs arising from investments to meet service expectations.

<sup>4</sup> Noting this is a principle we must have regard to under the WIRO clause 11(d)(iii), WIRO.

proposal for a fixed component and a variable component that depends on water use. For residential sewerage services, we have approved its proposal for a fixed service charge only.

Our assessment of tariffs and the form of price control is set out on pages 22 to 27.

### **South Gippsland Water's price submission met our requirements under PREMO**

Our final decision accepts that South Gippsland Water's price submission met the minimum information requirements for a 'Standard' rated corporation under PREMO. South Gippsland Water's price submission provided clear and comprehensive information supporting its proposals. It also provided evidence that its engagement captured the main priorities and concerns of customers and that it has taken this feedback into account. Our final decision sets South Gippsland Water's return on equity at 4.5 per cent per annum, which reflects the rate of return for a 'Standard' rated corporation under PREMO. More detail is provided in Chapter 3.

Our PREMO assessment and rating is an assessment of the water corporation's price submission. It is not an assessment of the water corporation itself.



# 1. Our role and approach to water pricing

## **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 19 water corporations operating in Victoria.

## **We are reviewing the prices three water corporations propose to charge customers from 1 July 2020**

We are reviewing prices for two urban water corporations (South Gippsland Water and Western Water) and one rural water corporation (Goulburn-Murray Water).<sup>5</sup>

Our review of the prices proposed by the two urban water corporations covers prescribed services listed in the WIRO. We consider that the prescribed services provided by South Gippsland Water which comprise a retail water service, a retail sewerage service, a trade waste service, services to which developer charges apply, and a retail recycled water service as defined in the WIRO, are each a single service encompassing different price components to which different tariffs apply.

In November 2019, South Gippsland Water provided a submission to us proposing prices for a three-year period starting 1 July 2020. Our task is to assess the price submission against the legal framework and make a price determination that takes effect from 1 July 2020.

Our price determination outlines the maximum prices South Gippsland Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. This final decision paper explains the reasons for our price determination.

## **We assess prices against the WIRO and other legal requirements**

Clause 11 of the WIRO specifies the mandatory factors we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act. In making our 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 and social matters, and other matters which are specified in section 8 of the ESC Act and

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<sup>5</sup> Goulburn-Murray Water's price submission is assessed against the commonwealth government's Water Charge (Infrastructure) Rules (WCIR) as well as against the WIRO.

section 4C of the WI Act. We are also required to place emphasis on matters relating to efficiency set out in section 8A of the ESC Act.

- the matters specified in our guidance<sup>6</sup>
- 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 in this final decision.

In December 2018, we issued guidance to South Gippsland Water to inform its price submission. The guidance set out how we will assess South Gippsland Water's submission against the matters we must consider under clause 11 of the WIRO.

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 South Gippsland Water's proposed prices.<sup>7</sup>

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.<sup>8</sup>

The power for water corporations to impose fees is set out in the Water Act 1989 (Water Act). Provisions in the Water Act also govern the manner in which water corporations may impose fees, and it is for each water corporation to ensure that it complies with them.<sup>9</sup>

## **PREMO and South Gippsland Water's 2020 water price review**

In 2018 we conducted our first price review under a new pricing approach called PREMO. The PREMO pricing approach ties businesses' performance on each of the PREMO elements (Performance, Risk, Engagement, Management and Outcomes) to their return on equity. This

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<sup>6</sup> Essential Services Commission 2018, South Gippsland Water's 2020 water price review: final guidance paper, December.

<sup>7</sup> This is a requirement of the WIRO, clause 14(b).

<sup>8</sup> This is provided for under the WIRO, clause 14(b)(i).

<sup>9</sup> See Part 13, Division 5 of the Water Act 1989 (Vic).

incentive mechanism places customers at the centre by encouraging greater focus on customer engagement and value.<sup>10</sup>

At the 2018 price review, South Gippsland Water received a decision setting prices for a two-year period and was required to submit a new price submission for a new three-year period from 1 July 2020 to 30 June 2023.

In December 2018 we issued new guidance to South Gippsland Water for its 2020 price review. While still following PREMO, this guidance specified that South Gippsland Water is not required to self-assess and give itself a PREMO rating. Rather we said we would set South Gippsland Water's return on equity at 4.5 per cent, which reflects the rate of return a 'Standard' corporation would receive under the PREMO incentive mechanism, if its price submission met the requirements of our guidance.<sup>11</sup>

Our consultation on the pricing approach informed the guidance we issued South Gippsland Water in December 2018, which informs South Gippsland Water's price submission for the 2020 water price review.

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<sup>10</sup> For more detail on the PREMO water pricing approach see: Essential Services Commission 2016, Water Pricing Framework and Approach: Implementing PREMO from 2018, October.

<sup>11</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 2.



## 2. Our assessment of South Gippsland Water's price submission

We have made our price determination for South Gippsland Water after considering South Gippsland Water's price submission, its responses to our queries and our draft decision, and written submissions from interested parties. We received one customer submission in response to our draft decision, listed in Appendix A.

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

In-person consultation on our draft decision was cancelled due to social distancing regulations imposed by the Federal and Victorian Governments in response to the COVID-19 pandemic. Instead of holding an in-person public forum, the commission held a virtual forum on Engage Victoria's website. The virtual forum was an avenue for stakeholders to ask the commission questions and for the commission to provide feedback in a timely manner. The commission also invited written submissions to its draft decision.

Our guidance included a number of matters South Gippsland Water must address in its price submission. South Gippsland Water's price submission addressed each of these matters, with our preliminary assessment set out in our draft decision. Our final decision is set out below.

All financial values referred to in this chapter are in \$2019-20, unless indicated otherwise.

### **Regulatory period**

Our guidance set a regulatory period of three years, from 2020-21 to 2022-23. South Gippsland Water's price submission is consistent with this requirement. Accordingly, our final decision sets the term for South Gippsland Water's regulatory period as 1 July 2020 to 30 June 2023.

#### **Final decision on regulatory period**

We have set the term for South Gippsland Water's regulatory period as 1 July 2020 to 30 June 2023.

## Customer engagement

Our guidance required South Gippsland Water to engage with customers to inform its price submission. The engagement by South Gippsland Water:

- took place between February 2019 and October 2019, building on the engagement undertaken between December 2014 and August 2017 for the 2018 price review
- used a range of methods including online and phone surveys, face-to-face interviews and Mini Public deliberative sessions (South Gippsland Water’s Mini Public sessions were cross-representative groups comprising 36 customers in total, that met to deliberate on a range of matters put forward by South Gippsland Water)
- sought views from a representative sample of customers, community representatives, traditional owners, vulnerable and disadvantaged customers and their advocates
- covered matters such as water security, prices, customer service and satisfaction, guaranteed service levels and focus areas for future service improvement.

More detail on South Gippsland Water’s engagement is available in its price submission.<sup>12</sup>

South Gippsland Water provided evidence that its engagement influenced the proposals in its price submission in relation to water security, service levels and standards and price movements. We discussed these matters in our draft decision.<sup>13</sup>

We consider South Gippsland Water’s response to our draft decision was informed by its understanding of customer priorities and concerns, including through addressing customer affordability issues as a result of COVID-19. Reflecting COVID-19, South Gippsland Water has reinforced its assistance to customers experiencing payment difficulty, including through more generous payment extensions and longer instalment plans. It also has stopped charging customers interest on overdue amounts and halted debt collection. This support has been extended to also include non-residential customers, as well as residential customers.

We consider the influence of South Gippsland Water’s engagement on its proposals supports the objectives in our pricing framework relating to efficiency and the interests of consumers, including low income and vulnerable customers.<sup>14</sup>

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<sup>12</sup> South Gippsland Water 2020, South Gippsland Water – Price Submission 2020–2023, 15 November, pp. 5-11.

<sup>13</sup> Essential Services Commission 2020, South Gippsland Water draft decision: 2020 Water Price Review, February, pp. 6–7.

<sup>14</sup> See for example, WIRO clauses 8(b)(i), 8(b)(ii), 8(b)(iii), 11(d)(iii), and ESC Act Sections 8(1), 8A(1)(a).

## Outcomes

The revised set of outcomes South Gippsland Water proposes to deliver for the next regulatory period starting 1 July 2020 are to:

- plan for the future, be reliable and minimise unplanned interruptions to services
- provide safe, clean drinking water
- provide a safe wastewater service that contributes to the liveability of its communities
- be environmentally sustainable and adapt to a future impacted by climate variability
- act with honesty, respect and strive to balance affordability, value for money and fairness.

More details on South Gippsland Water's proposed outcomes, measures and targets are set out on pages 13 to 15 of its price submission.

Our draft decision considered that South Gippsland Water's proposed set of outcomes is consistent with the guidance. We received no submissions in response to our draft decision to make us change our view on South Gippsland Water's proposed outcomes.

We will engage with South Gippsland Water to ensure it captures its proposed changes to its outcomes commitments when it prepares its summary outcomes report for the 2019-20 reporting year. Its performance will inform our assessment during future price reviews as part of the Performance element of PREMO assessments.<sup>15</sup>

## Service standards

Schedule 2 of the commission's customer service code includes ten service standards on quality and reliability of services approved by the commission for each water business. We note South Gippsland Water initially proposed 18 service standards in its price submission, however it reduced this to ten during the review process, to align with the service standards specified in our code for urban water businesses.

South Gippsland Water proposed to increase the target time for the service standard 'average duration to restore unplanned water interruptions' from less than 100 minutes to less than 110 minutes. During our review, it advised us that this increase was discussed in depth at the deliberative forums where customers did not wish South Gippsland Water to rush the process of restoring unplanned water interruptions at the expense of completing the task properly or safely. As such, we accept South Gippsland Water's proposal to increase the target time.

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<sup>15</sup> Note that we do not approve proposed outcomes and their targets. These are regulated and monitored as part of the Performance assessments undertaken under PREMO.

These service standards and South Gippsland Water's targets until 2023 will be included in its customer charter and are set out in Appendix C of our final decision.

### **Final decision on service standards**

Approved service standards relating to reliability and attending faults are set out in Appendix C and form part of the manner in which South Gippsland Water's services are regulated.

We will revise the customer service code for urban water businesses to reflect this final decision on the service standards and targets.<sup>16</sup>

### **Guaranteed service levels**

Guaranteed service levels define a water corporation's commitment to deliver a specified level of service. For each guaranteed service level, a water corporation commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level. We expect water corporations to include a guaranteed service level schedule in their customer charter.

South Gippsland Water's proposed guaranteed service levels are set out on page 18 of its price submission. We note that it reviewed its current guaranteed service level scheme with customers at the Mini Public deliberative session, and the proposed guaranteed service levels are objectively defined and easily understandable, as required by our guidance.<sup>17</sup>

In our draft decision we provided an overview of South Gippsland Water's proposed GSLs, which were developed in consultation with its customers. We consider the proposed GSLs reflect the most important aspects of service delivery identified by customers. No other new considerations on the GSLs were raised in response to our draft decision.

For these reasons, our final decision approves South Gippsland Water's proposed GSLs.

### **Final decision on guaranteed service levels**

South Gippsland Water's guaranteed service levels are set out in Appendix D.

South Gippsland Water's commitment to guaranteed service level payments should these service levels not be met, forms part of the manner in which South Gippsland Water's services are regulated. We will revise the customer service code for urban water businesses to reflect this final decision on guaranteed service levels.

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<sup>16</sup> Essential Services Commission 2018, Customer service code: urban water businesses, August.

<sup>17</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 19.



## Revenue requirement

The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services. Along with forecast demand, it is an input to calculating prices.<sup>18</sup>

Our draft decision proposed a revenue requirement for South Gippsland Water of \$97.0 million over a three-year period starting 1 July 2020. This was \$0.1 million or 0.1 per cent lower than submitted by South Gippsland Water in its price submission, for the same period. We also noted that South Gippsland Water's proposed prices would recover less revenue than its forecast revenue requirement – the business proposed that it would not set prices to match its revenue requirement, and it would therefore forgo revenue to reduce price impacts for customers.

Our final decision approves a revenue requirement of \$98.6 million. This reflects our final decision on each element that comprises the revenue requirement, as set out in Table 2.1. The increase on our draft decision is mainly due to adjustments to forecast return on assets and environmental contributions, both of which were impacted by updated inflation forecasts.<sup>19</sup> Adjustments since our draft decision are summarised at Table 2.2, with the reasons set out in the following sections.

### Final decision on revenue requirement

South Gippsland Water's approved revenue requirement is \$98.6 million, as set out at Table 2.1.

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<sup>18</sup> We received input from officers of the Department of Environment, Land, Water and Planning, Department of Health and Human Services, and Environment Protection Authority Victoria, to discuss their expectations of South Gippsland Water in the regulatory period from 1 July 2020. We had regard to their views in our draft and final decisions. It is the water corporation's responsibility to ensure it has priced accordingly to meet all its legislative and regulatory obligations and requirements during the pricing period.

<sup>19</sup> We have estimated a forecast inflation of 1.7 per cent based on the midpoint of 'Reserve Bank of Australia (RBA) geometric' and 'bond breakeven' inflation rates to reflect the latest economic outlook. The 'RBA geometric' inflation rate is the RBA forecast consumer price index inflation rate one and two years ahead and the midpoint of the RBA target inflation band of two to three per cent from three to 10 years ahead. The 'bond breakeven' inflation rate is implied by the difference between the yields on 10-year nominal and indexed (inflation-linked) Commonwealth Government Securities.

**Table 2.1** Final decision revenue requirement  
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Operating expenditure	20.7	20.7	20.6	62.0
Return on assets	6.9	7.1	7.4	21.4
Regulatory depreciation	4.8	5.2	5.7	15.7
Non-prescribed revenue offset of revenue requirement	-0.2	-0.2	-0.2	-0.5
Tax allowance	0.0	0.0	0.0	0.0
<b>Final decision revenue requirement</b>	<b>32.3</b>	<b>32.9</b>	<b>33.4</b>	<b>98.6</b>

Note: numbers have been rounded.

**Table 2.2** Adjustments to draft decision revenue requirement  
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
<b>Draft decision 'notional' revenue requirement</b>	<b>31.8</b>	<b>32.4</b>	<b>32.9</b>	<b>97.0</b>
– Operating expenditure	0.01	0.01	0.02	0.04
– Return on assets	0.49	0.51	0.52	1.52
<b>Total adjustments</b>	<b>0.50</b>	<b>0.52</b>	<b>0.54</b>	<b>1.56</b>
<b>Final decision revenue requirement</b>	<b>32.3</b>	<b>32.9</b>	<b>33.4</b>	<b>98.6</b>

Note: numbers have been rounded.

However, the price path and prices proposed by South Gippsland Water will produce a total forecast revenue collection of \$94.9 million, which is lower than the final decision revenue requirement as calculated by the building block methodology set out in our guidance (see Table 2.3). This means South Gippsland Water will forego this revenue difference and has challenged itself to deliver its stated customer outcomes within the lower revenue allowance. South Gippsland Water will not be able to recover this foregone revenue (\$3.7 million) via customer prices in future periods.

South Gippsland Water has advised to further assist customers with the impacts of COVID-19, it will hold its prices flat for the first billing cycle of 2020-21, with the first-year price increase to apply

Our assessment of South Gippsland Water's price submission

from 1 November 2020, rather than from 1 July 2020. This four-month deferral of the price rise means South Gippsland Water will forego a further \$0.45 million in revenue (this amount is included within the foregone revenue of \$3.7 million).

In forgoing this revenue, South Gippsland Water's revenue collection is around 3.8 per cent lower than its revenue requirement, which is calculated having regard to our assessment of forecast prudent and efficient expenditure.<sup>20</sup> It will not recover this shortfall through higher customer prices in future periods.

**Table 2.3 Revenue foregone**  
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Final decision revenue requirement	32.3	32.9	33.4	98.6
Forecast revenue collection	30.3	31.8	32.8	94.9
<b>Revenue foregone</b>	<b>1.9</b>	<b>1.1</b>	<b>0.6</b>	<b>3.7</b>

Note: numbers have been rounded.

Our final decision approves South Gippsland Water's proposed revenue allowance of \$94.9 million. As discussed at pages 24 to 25, we consider our determination approves prices that will enable South Gippsland Water to deliver on customer outcomes, government policy, and obligations.<sup>21</sup>

## Operating expenditure

Operating expenditure is an input to the revenue requirement. Operating expenditure reflects recurrent costs that can be fully allocated to a single year (such as labour or maintenance). This contrasts with capital expenditure which is up-front costs for assets that are used over many years (such as water meters or treatment plants).

### Our draft decision

Our draft decision proposed to adopt a \$56.3 million benchmark for South Gippsland Water's forecast controllable operating costs for the 2020–23 period, the same forecast proposed by South Gippsland Water, and we set out our reasoning for this adjustment in our draft decision (pages 11 to 18). In summary, we found:

<sup>20</sup> We have assessed indicators of South Gippsland Water's viability and note our view that approved prices will generate sufficient cash flow for the business to deliver on service commitments, including financing costs arising from investments to meet service expectations.

<sup>21</sup> WIRO, Clause 8(b)(ii).

- Evidence indicating its baseline controllable operating expenditure reflects an efficient benchmark.<sup>22</sup>
- South Gippsland Water proposed an efficiency improvement rate of 1.0 per cent per year, which is the minimum required for a ‘Standard’ PREMO rating, but acceptable given its challenge to meet cost pressures and its proposed revenue shortfall.
- Some opportunities to revise down the proposed forecasts by a total of \$0.34 million, but given South Gippsland Water’s proposed revenue shortfall of \$1.7 million, we opted not to adjust the operating expenditure benchmark because it would not lower prices.<sup>23</sup>
- South Gippsland Water assumed considerable expenditure risk rather than passing it on through higher prices.

We forecasted \$5.7 million for South Gippsland Water’s non-controllable operating costs for the 2020–23 period, a minor reduction of \$0.02 million from South Gippsland Water’s proposed forecast.<sup>24</sup> We noted in our draft decision that we would update this forecast for our final decision, and also adjust for the latest inflation and external bulk charges data.

### South Gippsland Water’s response to our draft decision

South Gippsland Water’s response to our draft decision maintained its forecast of \$56.3 million for controllable operating expenditure and said it will consider our recommended opportunities when considering operating efficiencies. It also accepted our small change to the non-controllable operating expenditure forecast. We received no other submissions pertaining to operating expenditure.

### Final decision

For non-controllable operating expenditure, we have revised our draft decision forecasts where required based on the latest March 2020 inflation and external bulk charges information. We have revised our forecast environmental contribution from our draft decision, and made no changes to forecast licence fees or external bulk charges.<sup>25</sup>

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<sup>22</sup> Controllable costs are those that can be directly or indirectly influenced by a water corporation’s decisions.

<sup>23</sup> The revenue shortfall has increased to \$3.7 million for the final decision, due to increases in the return on assets used to calculate the revenue requirement, and South Gippsland Water’s deferral of the 2020-21 price increase until 1 November 2020.

<sup>24</sup> Non-controllable costs are those that cannot be directly or indirectly influenced by a water corporation’s decisions.

<sup>25</sup> For the environmental contribution, we have used the 2018-19 value provided by the Department of Environment, Land, Water and Planning and assumed that this will remain flat in nominal terms (decline in real terms) across the 2020–23 regulatory period.

Based on the latest inflation data, we have revised the forecast environmental contribution which results in a total increase to non-controllable operating expenditure of \$0.043 million across the 2020–23 period.

### **Final decision benchmarks**

Table 2.4 sets out the benchmark values for environmental contribution, bulk charges and licence fees we have adopted for our final decision. Table 2.5 sets out our final decision adjustments for operating expenditure.

We have adopted the benchmark for operating expenditure set out in Table 2.4 for the purpose of making our final decision on South Gippsland Water’s revenue requirement (Table 2.1). We consider our final decision for South Gippsland Water’s forecast operating expenditure is consistent with the requirements of the Water Industry Regulatory Order 2014 (WIRO) and the criteria for prudent and efficient expenditure outlined in our guidance.<sup>26</sup>

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

#### **Final decision on operating expenditure**

Our final decision adopts the operating expenditure set out at Table 2.4.

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<sup>26</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 21.

**Table 2.4 Final decision – operating expenditure**  
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
<b>Controllable costs</b>	<b>18.6</b>	<b>18.9</b>	<b>18.8</b>	<b>56.3</b>
<b>Non-controllable costs</b>	<b>2.1</b>	<b>1.8</b>	<b>1.8</b>	<b>5.7</b>
– Bulk services <sup>a</sup>	0.8	0.6	0.6	1.9
– Environmental contribution <sup>b</sup>	1.2	1.2	1.2	3.6
– Licence fees – ESC <sup>c</sup>	0.013	0.013	0.020	0.047
– Licence fees – DHHS <sup>c</sup>	0.010	0.010	0.010	0.030
– Licence fees – EPA <sup>c</sup>	0.050	0.050	0.049	0.149
<b>Final decision – total operating expenditure</b>	<b>20.7</b>	<b>20.7</b>	<b>20.6</b>	<b>62.0</b>

<sup>a</sup> Bulk services covers the supply of bulk water and sewerage services

<sup>b</sup> The Environmental Contribution collects funds from water corporations under the *Water Industry Act 1994 (Vic)*

<sup>c</sup> Licence fees are paid to cover costs incurred by Department of Health and Human Services, Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water corporation

Note: numbers have been rounded.

**Table 2.5 Adjustments to operating expenditure**  
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
<b>Draft decision – total operating expenditure</b>	<b>20.7</b>	<b>20.7</b>	<b>20.6</b>	<b>61.9</b>
Environment contribution	0.007	0.014	0.021	0.043
<b>Updates to non-controllable costs</b>	<b>0.007</b>	<b>0.014</b>	<b>0.021</b>	<b>0.043</b>
<b>Final decision – total operating expenditure</b>	<b>20.7</b>	<b>20.7</b>	<b>20.6</b>	<b>62.0</b>

Note: numbers have been rounded.

## Regulatory asset base

The regulatory asset base is used to estimate the return on assets and regulatory depreciation in the revenue requirement. Our guidance required South Gippsland Water to propose its:

- closing regulatory asset base at 30 June 2019
- forecast regulatory asset base for each year of the regulatory period from 1 July 2020.

### Closing regulatory asset base

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period to 30 June 2019. This helps to ensure prices reflect the actual net expenditure of a water corporation.<sup>27</sup>

Our draft decision proposed to approve a closing regulatory asset base for 30 June 2019 of \$161.9 million. We proposed to approve this amount as South Gippsland Water's actual net capital expenditure was 22.4 per cent lower than the forecast used to approve maximum prices for the two-year period from 1 July 2018.<sup>28</sup> South Gippsland Water also calculated its closing regulatory asset base in accordance with the requirements of our guidance.

No other new considerations were raised in submissions on our draft decision that affected our assessment of the closing regulatory asset base. Our final decision approves a closing regulatory asset base at 30 June 2019 of \$161.9 million. Table 2.6 sets out our final decision on South Gippsland Water's regulatory asset base at 30 June 2019.

### Final decision on closing regulatory asset base

Our final decision approves a closing regulatory asset base for 30 June 2019 of \$161.9 million.

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<sup>27</sup> Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflects revenue earned from new connections made to the water corporation's water, sewerage or recycled water networks.

<sup>28</sup> We compared South Gippsland Water's actual net capital expenditure for 2017-18 to 2018-19 with the forecast used to approve maximum prices for the period from 1 July 2018. We undertake a prudency and efficiency review where a water corporation's net capital expenditure is more than 10 per cent above the forecast used to approve maximum prices for the period from 1 July 2018. We believe this approach is reasonable given capital expenditure can be 'lumpy' in nature.

**Table 2.6 Final decision - Closing regulatory asset base**

\$ million 2019-20

	2017-18	2018-19
Opening RAB 1 July	149.4	159.7
Plus gross capital expenditure	33.4	15.1
Less government contributions	18.0	7.2
Less customer contributions	0.6	1.5
Less proceeds from disposals	0.1	0.01
Less regulatory depreciation	4.4	4.1
<b>Closing RAB 30 June</b>	<b>159.7</b>	<b>161.9</b>

Some of the numbers differ from the price submission due to a correction in 2017-18 gross capital expenditure

Note: numbers have been rounded.

### Forecast regulatory asset base

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

Our draft decision accepted South Gippsland Water's forecast regulatory asset base for the period from 1 July 2020, because we were satisfied it met the requirements of our guidance.

Table 2.7 sets out our final decision on South Gippsland Water's proposed forecast regulatory asset base from 1 July 2020.<sup>29</sup> We are satisfied that South Gippsland Water's proposed forecast regulatory asset base meets the requirements of our guidance. Later sections provide an overview of our assessment of the components of the forecast regulatory asset base.

#### Final decision on forecast regulatory asset base

Our final decision approves a forecast regulatory asset base as set out at Table 2.7.

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<sup>29</sup> Our guidance required South Gippsland Water to provide an estimate of the components of its regulatory asset base for 2019-20. This is so we can assess the opening asset base for 1 July 2020. Our guidance noted that where the 2019-20 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 (otherwise the 2018 determination forecast applies). The estimates for 2019-20 will be confirmed at the price review following the 2020 water price review.



**Table 2.7 Forecast regulatory asset base**  
\$ million 2019-20

	2019-20	2020-21	2021-22	2022-23
Opening RAB 1 July	161.9	172.2	178.0	182.8
Plus gross capital expenditure	17.2	13.5	13.0	14.5
Less government contributions	0.0	0.0	0.0	0.0
Less customer contributions	2.1	2.5	2.7	2.6
Less proceeds from disposals	0.4	0.4	0.3	0.3
Less regulatory depreciation	4.5	4.8	5.2	5.7
<b>Closing RAB 30 June</b>	<b>172.2</b>	<b>178.0</b>	<b>182.8</b>	<b>188.7</b>

Some of the numbers differ from the price submission due to a correction in 2017-18 gross capital expenditure

Note: numbers have been rounded.

### Capital expenditure

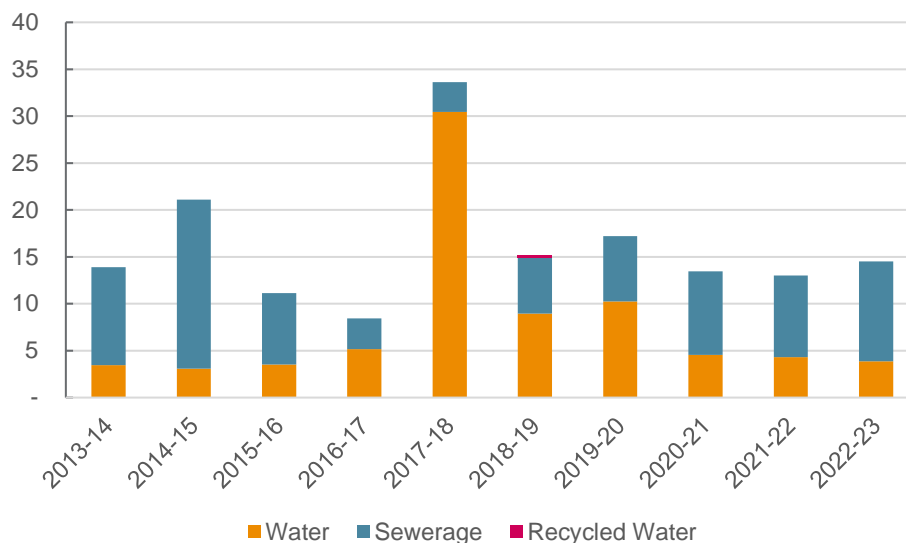
Capital expenditure is an input to estimating the regulatory asset base. South Gippsland Water proposed total gross capital expenditure of \$41 million over the three-year regulatory period. This is summarised in Figure 2.1.

We engaged Deloitte Access Economics (Deloitte) to provide expert advice to inform our assessment of capital expenditure. Deloitte's report on its assessment of South Gippsland Water's expenditure forecast is available on our website.<sup>30</sup>

<sup>30</sup> Deloitte Access Economics 2020, Expenditure review – South Gippsland Water, February.

**Figure 2.1 Gross capital expenditure by service category**

(\$ million 2019-20)



Note: actuals for 2013-14 and 2018-19 and forecasts for 2019-20 to 2022-23.

Considering South Gippsland Water’s proposal, Deloitte’s report, our guidance and the WIRO principles, in our draft decision (pages 20 to 23) we adopted South Gippsland Water’s proposed capital expenditure forecast to establish our benchmark gross capital expenditure (\$41.0 million). The reasons for this were:

- South Gippsland Water’s price submission and business cases provided evidence that its forecasts for capital expenditure are efficient.
- We considered the planned capital expenditure program is achievable, given South Gippsland Water’s past track record delivering its capital expenditure program.
- South Gippsland Water has an appropriate approach for managing expenditure associated with uncertain projects.
- We considered South Gippsland Water’s approach to forecasting its capital expenditure is consistent with the requirements of our guidance.

Following our draft decision, we received no submissions on South Gippsland Water’s proposed capital expenditure, and no further issues about South Gippsland Water’s proposed capital expenditure have come to light. Accordingly, our final decision benchmark for gross capital expenditure remains at \$41.0 million. We consider this benchmark is consistent with our guidance and WIRO principles, and is used to calculate the forecast regulatory asset base (Table 2.7) and the revenue requirement (Table 2.1).

### **Final decision on capital expenditure**

Our final decision adopts the gross capital expenditure forecasts set out at Table 2.7.

The benchmark that we adopt for South Gippsland Water does not represent the amount that the water corporation is required to spend or allocate to particular capital projects. Rather, it represents our assessment, based on the information provided to us of the overall level of capital expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services. South Gippsland Water determines how to best manage the allocation of its revenue and priority of its capital expenditure within a regulatory period.

In our draft decision, we accepted South Gippsland Water's approach for addressing uncertain capital expenditure. We reiterate that South Gippsland Water will need to demonstrate the prudence and efficiency of additional costs incurred during the 2020–23 period if seeking to include them in the regulatory asset base.

### **Revenue from customer contributions**

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.<sup>31</sup>

Our draft decision considered South Gippsland Water's forecast revenue from customer contributions was reasonable, having regard to its growth forecasts. We proposed to accept South Gippsland Water's forecasts. No new considerations were presented in submissions received following the draft decision which caused us to change our views on revenue from customer contributions.

For the reasons set out above, our final decision on revenue from customer contributions is the same as our draft decision. Our final decision adopts the benchmark revenue from customer contributions proposed by South Gippsland Water as set out in Table 2.7.

### **Final decision on revenue from customer contributions**

Our final decision adopts the forecast customer contributions revenue as set out in Table 2.7.

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<sup>31</sup> Revenue from new customer contributions reflects revenue raised from new connections made to a water corporation's water, sewerage or recycled water networks.

## Cost of debt

Our draft decision proposed to approve the cost of debt proposed by South Gippsland Water as it used the cost of debt values that we specified in our guidance to calculate its revenue requirement. We also noted that we will update the value of the estimated cost of debt for 2019-20 with our calculation of the actual cost, applying the method outlined in our guidance.<sup>32</sup>

No submissions responding to our draft decision raised matters that caused us to change our view on the cost of debt. For these reasons, our final decision adopts the benchmark cost of debt as set out in Table 2.8.

**Table 2.8** Final decision – Trailing average cost of debt

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Cost of debt (nominal)	7.0%	6.3%	5.3%	7.1%	5.4%	5.3%	4.9%	4.5%	4.6%	3.3%

Note: numbers have been rounded.

## Return on equity

Consistent with our guidance, South Gippsland Water was not required to self-assess and give itself a PREMO rating in its price submission. South Gippsland Water was satisfied that it had met the requirements of our guidance and our assessment reflected the same (see our discussion in Chapter 3). Accordingly, our draft decision set South Gippsland Water's return on equity at 4.5 per cent per annum (in real terms, after tax), reflecting the rate of return a 'Standard' corporation would receive under the PREMO incentive mechanism.<sup>33</sup>

We consider our approach to the return on equity is consistent with our requirements under the WIRO, and in particular, that our estimate provides South Gippsland Water with an incentive to invest efficiently, and that our approach has regard to the financial viability of the water industry.

Our final decision approves South Gippsland Water's return on equity of 4.5 per cent per annum, reflecting our views above.

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<sup>32</sup> We received data on the actual trailing average cost of debt for 2019-20 from Treasury Corporation Victoria in April 2020 and we updated the 2019-20 estimates for our final decision.

<sup>33</sup> Under the PREMO incentive mechanism, return on equity is linked to a water corporation's level of ambition – 'Leading', 'Advanced', 'Standard' or 'Basic'. However, this mechanism does not apply to South Gippsland Water in this instance. More information on the PREMO mechanism is available in Essential Services Commission 2016, Guidance paper, November.

### **Final decision on return on equity**

Our final decision adopts a benchmark return on equity of 4.5 per cent.

## **Regulatory depreciation**

Regulatory depreciation is an input to calculating the regulatory asset base. Regulatory depreciation allows a water corporation to recover the cost of investing in assets.

Our draft decision proposed to accept South Gippsland Water's forecast regulatory depreciation, as it was calculated using a straight line depreciation profile and in a manner consistent with our guidance.<sup>34</sup> No new considerations were presented in submissions received following the draft decision which caused us to change our views on regulatory depreciation.

For the reasons set out above, our final decision accepts South Gippsland Water's forecast for regulatory depreciation, as set out in Table 2.1 with our calculation of the revenue requirement.

### **Final decision on regulatory depreciation**

Our final decision adopts South Gippsland Water's forecast regulatory depreciation as set out in Table 2.1.

## **Tax allowance**

The tax allowance is an input into the revenue requirement. Our draft decision accepted South Gippsland Water's forecasts for zero tax in its revenue requirement, as it was calculated consistently with the method required by our guidance.<sup>35</sup> No other new considerations were presented in submissions received following the draft decision which caused us to change our views on the tax allowance.

For the reasons set out above, our final decision accepts South Gippsland Water's forecast for zero tax allowance, as set out in Table 2.1 with our calculation of the revenue requirement.

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<sup>34</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 30.

<sup>35</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 32.

## **Final decision on tax allowance**

Our final decision adopts South Gippsland Water's forecast tax allowance as set out in Table 2.1.

## **Demand**

Our draft decision proposed to accept South Gippsland Water's demand forecasts, as we considered they were estimated in a manner consistent with the requirements of our guidance.

South Gippsland Water's response to our draft decision acknowledged the challenge and uncertainty the corporation will face in the next regulatory period due to the impacts of the COVID-19 pandemic. However, due to current uncertainty around the magnitude and duration of the impacts on demand, South Gippsland Water does not consider it appropriate to change its demand forecasts at this time. We agree with this approach to retain the demand forecasts proposed in the price submission, noting a revised forecast would be based largely on speculation and as-yet unsupported assumptions.

No new considerations were presented in submissions received following the draft decision which caused us to change our views on South Gippsland Water's demand forecasts.

For the reasons set out above, we consider it is appropriate to maintain the views we expressed in our draft decision. Our final decision confirms our draft decision and approves South Gippsland Water's demand forecasts.

Our price determination for South Gippsland Water includes the benchmark demand forecasts adopted for our final decision.

## **Final decision on demand**

Our final decision adopts South Gippsland Water's demand forecasts. South Gippsland Water's price determination includes the benchmark demand forecasts adopted for our final decision.

## **Form of price control**

Our draft decision accepted South Gippsland Water's proposal to retain a price cap form of price control. We considered that a price cap provides customers with price certainty, and means a

water corporation is managing demand risk on behalf of its customers. We also considered demand risk is more efficiently managed by a water corporation, rather than its customers.

No other new considerations on the form of price control were raised in response to our draft decision.

For the reasons set out above, our final decision approves South Gippsland Water's proposed price cap form of price control.

However, we note that since our draft decision the impact of COVID-19 has extended further across communities and the economy. As noted by South Gippsland Water in its response to our draft decision, the current environment makes it difficult to forecast the impacts on customers and on the corporation.

We consider it appropriate that South Gippsland Water has some flexibility to adjust its tariffs from the path set out in its determination, particularly given the current environment. Accordingly, our determination for South Gippsland Water allows it to apply to us to change to a tariff basket form of price control within its regulatory period.<sup>36</sup> A tariff basket provides flexibility for a water corporation to adjust tariffs annually from their previously determined path (within certain constraints). An application by South Gippsland Water to change to a tariff basket would require consultation with its customers.

### **Final decision on form of price control**

Our final decision approves a price cap form of price control.

## **Tariff structures and prices**

Our draft decision accepted South Gippsland Water's proposal to maintain its existing tariff structures, which are:

- For residential and non-residential water customers, a price for the retail water service comprising a fixed component and a variable usage component.
- For residential and non-residential sewerage service customers (who are not required to pay cistern or trade waste charges), a price for the retail sewerage service comprising a fixed component only.

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<sup>36</sup> We note our current determinations for other water businesses with a price cap form of price control allow them to apply to change from a price cap to a weighted average price cap or tariff basket within a regulatory period.

- For non-residential sewerage service customers who are required to pay cistern or trade waste charges, a price for the retail sewerage service made up of a fixed component (a fixed cistern access fee) and variable component (a volumetric cistern fees).

We consider that prices comprising a fixed component and a variable component for the retail water service will promote efficient use. It also provides customers a signal about their water use costs and is an approach that is commonly applied in other states and territories.<sup>37</sup> We also consider that structuring prices in this way is well understood by South Gippsland Water's customers, having been used for many years.<sup>38</sup>

No new considerations were presented in submissions in response to the draft decision, and therefore we have not changed our views on South Gippsland Water's tariff structures.

### Prices and bill levels

Our draft decision accepted in principle South Gippsland Water's proposal to increase prices by five per cent in 2020-21, two per cent in 2021-22 and two per cent again in 2022-23. South Gippsland Water proposed to apply this increase uniformly across residential and non-residential tariffs. South Gippsland Water considered this was the price path preferred by customers. It was also considered the best price path option to minimise the impact of a price increase for low income and vulnerable customers.

In its response to our draft decision, South Gippsland Water noted that it considers the price path we accepted in principle in our draft decision is appropriate and necessary to meet its customers' expectations, and start to provide for a more financially sustainable business.<sup>39</sup>

However, following a request for information later in our review, South Gippsland Water clarified its price path given the evolving impacts of COVID-19.<sup>40</sup> To help address the customer impacts of its proposed price path as a result of COVID-19, South Gippsland Water proposed to:

- Defer the five per cent price increase from 1 July 2020 to now apply from 1 November 2020 (this equates to foregoing about \$0.45 million in revenue).

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<sup>37</sup> 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.

<sup>38</sup> WIRO, Clause 11(d)(i) requires the ESC to have regard to whether South Gippsland Water's prices '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'.

<sup>39</sup> South Gippsland Water 2020, submission to the Essential Services Commission on 'South Gippsland Water draft decision', April, p. 1.

<sup>40</sup> The response to our request for information is available on our website [www.esc.vic.gov.au](http://www.esc.vic.gov.au)



- Expand its existing vulnerable customer support programs, for both residential and non-residential customers. It claimed this will result in additional costs to South Gippsland Water above those identified in its price submission.<sup>41</sup> These extended measures to support customers will apply as long as they are needed and will be reviewed by 30 June 2021.

South Gippsland Water considered alternative pricing options in light of COVID-19.<sup>42</sup> It considered uniformly lower prices than proposed would smear smaller benefits across all customers, and as a result limit its ability to provide more significant assistance to customers who need it most. South Gippsland Water also noted that a smoothed price path would still result in a moderate increase of 3.5 per cent in real terms each year from 1 July 2020 and higher prices (compared with its preferred price path proposal) at the end of the regulatory period. A more ‘back ended’ price path would result in a significant increase in prices from 1 July 2021 and 1 July 2022, and higher prices at the end of the regulatory period.

We received an anonymous customer submission which raised concerns about the impact of South Gippsland Water’s proposed price increases for low income families.<sup>43</sup>

We consider South Gippsland Water’s responses to our draft decision were informed by its understanding of customer priorities and concerns, including affordability issues. Reflecting COVID-19 customer impact, in addition to forgoing revenue and mitigating price increases (see pages v to vi), South Gippsland Water has reinforced its assistance to customers experiencing payment difficulty, including through more generous payment extensions and longer instalment plans. It also has stopped charging customers interest on overdue amounts and halted debt collection. This support has been extended to also include non-residential customers, as well as residential customers.

When making this decision, we have considered the interests of consumers, including low income and vulnerable customers. We consider that these commitments by South Gippsland Water – including its decision to forgo revenue to mitigate price increases – is in the interests of consumers, particularly low income and vulnerable customers.<sup>44</sup>

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<sup>41</sup> South Gippsland Water 2020, submission to the Essential Services Commission on ‘South Gippsland Water draft decision’, June.

<sup>42</sup> *ibid.*

<sup>43</sup> Anonymous 2020, submission to the Essential Services Commission on ‘South Gippsland Water draft decision’, February.

<sup>44</sup> Noting this is a principle we must have regard to under the WIRO clause 11(d)(iii), WIRO.

## Final decision on tariffs

For the reasons set out above, our final decision approves South Gippsland Water's proposed prices and the different price components and tariffs that make up these prices.

For its retail water service, South Gippsland Water proposed, and we approve, a price for residential and non-residential customers made up of a fixed component which comprises price components applying in different circumstances, and to which a large relevant fixed charge or tariff is applied, and a variable component (varies according to the volume of water used) which comprises price components applying in different circumstances, and to which a much smaller relevant fixed charge or tariff is applied per unit of water used.

For its retail sewerage service, South Gippsland Water proposed, and we approve, a price for residential and non-residential customers (who are not required to pay cistern or trade waste charges), which is made up of a fixed component only and comprises price components applying in different circumstances to which a relevant fixed charge or tariff is applied.

Given increased financial hardship experienced by many customers due to COVID-19, we expect South Gippsland Water to carefully manage the impacts of its price rise on its customers and provide the necessary support for vulnerable and low income customers.

Our price determination for South Gippsland Water sets out the maximum prices it may charge and the manner in which its prices are to be calculated, determined or otherwise regulated for each tariff for the three-year period from 1 July 2020. Approved maximum prices for water and sewerage services applying to most residential and non-residential customers are set out in Tables 2.9 and 2.10 (in \$2020-21, which takes into account the latest inflation and cost of debt data).

### Final decision on tariffs

Our final decision approves the tariffs as set out at Tables 2.9 and 2.10. A full list of approved prices is set out in South Gippsland Water's price determination.

**Table 2.9 Final decision – water prices**  
\$ 2020-21

	1-Jul-20	1-Nov-20	2020-21*	2021-22	2022-23
<b>Residential</b>					
Variable (\$/kL)	1.8886	1.9831	1.9516	2.0227	2.0632
Fixed (\$/year)	312.47	328.10	322.89	334.66	341.35
<b>Non-residential</b>					
Variable (\$/kL)	1.8886	1.9831	1.9516	2.0227	2.0632
Fixed (\$/year)	312.47	328.10	322.89	334.66	341.35

\*2020-21 prices are calculated based on a weighted average of prices maintained at a flat rate for the period 1 July 2020 to 31 October 2020 and a five per cent increase for the period 1 November 2020 to 30 June 2020.

Note: numbers have been rounded down.

**Table 2.10 Final decision – sewerage charges**  
\$ 2020-21

	1-Jul-20	1-Nov-20	2020-21*	2021-22	2022-23
<b>Residential</b>					
Fixed (\$/year)	484.95	509.20	501.12	519.38	529.77
<b>Non-residential</b>					
Fixed (\$/year)	484.95	509.20	501.12	519.38	529.77

\*2020-21 prices are calculated based on a weighted average of prices maintained at a flat rate for the period 1 July 2020 to 31 October 2020 and a five per cent increase for the period 1 November 2020 to 30 June 2020.

Note: numbers have been rounded down.

## Adjusting prices

Our draft decision accepted South Gippsland Water’s proposal to:

- continue with its existing uncertain unforeseen events mechanism
- a ‘pass through’ of changes in costs such as taxes or environmental contribution during the regulatory period
- continue with its annual cost of debt adjustment mechanism.

We approved these mechanisms because they reflect a continuation of current arrangements, and they are consistent with the efficiency objectives in the WIRO.<sup>45</sup> No submissions responding to our draft decision raised matters that caused us to change our view on these adjustment mechanisms. For the reasons set out above, we consider it appropriate to maintain the views we expressed in our draft decision. Our final decision accepts South Gippsland Water’s proposed adjustment mechanisms noted above.

Our draft decision also accepted South Gippsland Water’s proposal to take into account differences between forecast and actual non-controllable costs associated with Melbourne Water. We worked with South Gippsland Water to propose a price adjustment formula that allows for the pass-through of any changes in non-controllable costs associated with Melbourne Water. Our final decision approves South Gippsland Water’s adjustment mechanism as it meets the requirements of our guidance.

## **New customer contribution charges**

New customer contributions (NCCs, also known as developer charges) are levied by water corporations when a new connection is made to its water, sewerage or recycled water networks. 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, while negotiated charges allow water corporations and developers to negotiate a site-specific arrangement.

Our draft decision proposed to accept South Gippsland Water’s proposed new customer contribution charges. South Gippsland Water proposed to maintain the continuation of its existing standard water and sewerage new customer contribution charges (plus inflation) for the 2020–23 regulatory period. For negotiated new customer contributions, South Gippsland Water proposed to continue to calculate a charge in accordance with the requirements of our new customer contribution pricing principles.<sup>46</sup>

No other new considerations were presented in submissions received following the draft decision which caused us to change our views on new customer contributions charges.

Our final decision approves South Gippsland Water’s proposed new customer contribution charges, including its method of calculating negotiated contribution charges, as they are consistent with the requirements of our guidance

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<sup>45</sup> WIRO clauses 8(b)(i)(ii) and (iii); Essential Services Commission 2018, final guidance paper, op. cit., pp. 38-39.

<sup>46</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 40.

Our price determination for South Gippsland Water sets out the approved new customer contribution charges for the three-year period from 1 July 2020 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

South Gippsland Water should update and publish any development servicing plans and negotiation protocols to assist developers understand the underlying assumptions of its new customer contribution charges.<sup>47</sup>

## Financial position

In approving prices, we must have regard to the financial viability of the water industry.<sup>48</sup> 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 corporation can generate sufficient cash flow to deliver on service commitments, including financing costs arising from investments to meet service expectations.

South Gippsland Water's price submission and the supporting financial model provided estimates for key indicators of financial performance. These estimates were based on South Gippsland Water's assumptions about revenue and expenditure, including its proposed under-recovery of revenue compared with the forecast revenue requirement (see page 11).

We have reviewed these financial indicators across the three-year regulatory period and assessed that our final decision on South Gippsland Water's prices will generate sufficient cash flow to deliver on service commitments, including financing costs arising from investments to meet service expectations.

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<sup>47</sup> Essential Services Commission 2013, *New Customer Contributions: Explanatory Note*, December, pp. 9-11.

<sup>48</sup> WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).



### 3. PREMO rating

PREMO is an incentive mechanism that links the return on equity to a water corporation's level of ambition in delivering value to its customers.

South Gippsland Water was not required to give its price submission a PREMO rating for this regulatory period. Our guidance outlined minimum requirements for meeting a 'Standard' PREMO rating.<sup>49</sup> If we assessed that South Gippsland Water's price submission met the requirements for a 'Standard' rating, we would set the return on equity at 4.5 per cent (which reflects the rate of return a 'Standard' price submission would receive under PREMO). But if we assessed the price submission did not meet the minimum requirements, then we may specify a lower return on equity

In our draft decision, we considered that South Gippsland Water had met the requirements of our guidance, and our draft decision proposed to set its return of equity at 4.5 per cent per annum in line with a 'Standard' rated corporation.

Our final decision accepts this same position, and in Chapter 2 we confirmed our final decision approves South Gippsland Water's return on equity of 4.5 per cent per annum.

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<sup>49</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 2.





## Appendix A: Submissions received on draft decision

Name or organisation	Date received
Anonymous	25 February 2020



## Appendix B: Our 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 South Gippsland Water.

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.<sup>50</sup> We have had regard to the matters specified in our guidance in making our price determination. Our draft and final decision provides further information on where we have considered our guidance, and South Gippsland Water's compliance with our guidance, in making our price determination.

Note: all page numbers referenced below refer to our final decision for South Gippsland Water.

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<sup>50</sup> Essential Services Commission 2018, final guidance paper, op. cit.

## **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 sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).

**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 South Gippsland Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

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

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).
- Our assessment of financial viability (page 29).

**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 sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).

- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).

Additionally, our pricing approach allows a water corporation to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water corporation 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 corporations 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 corporation promotes efficiency in the water industry.

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

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 24 to 27).

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

- A ten-year trailing average approach to estimating the benchmark cost of debt (see page 20).
- A regulatory rate of return that we consider will enable South Gippsland Water to recover costs associated with its investment in services.<sup>51</sup>

**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 corporation can maintain an investment grade credit rating. Further, prices should enable each corporation to generate cash flow to service financing costs arising from investments to meet service expectations.

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<sup>51</sup> The regulatory rate of return is comprised of the cost of debt and the return on equity.

We have had regard to this matter on pages 9 to 11 and page 29.

**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 South Gippsland 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.

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

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 24 to 27).

## **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 corporation to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water corporation is consistent with taking into account the particular circumstances of the water industry.

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

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 24 to 27).

We have had regard to the prescribed services listed in the WIRO in making our decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow South Gippsland 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 South Gippsland Water to generate a return on assets through:

- Our consideration of the regulatory asset base (pages 15 to 19).
- Our consideration of the cost of debt (page 20).
- Our consideration of the return on equity (pages 20 to 21).

**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 Australia<sup>52</sup>
- operating and capital expenditure costs per connection throughout Australia<sup>53</sup>
- tariff structures applied by water corporations throughout Australia<sup>54</sup>
- the regulatory rate of return set by other regulators.<sup>55</sup>

We are not aware of any international benchmarks that are relevant to our 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 corporation to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

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

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).

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<sup>52</sup> Bureau of Meteorology 2020, National performance report 2018-19; urban water utilities, part A, February, pp. 31 – 36.

<sup>53</sup> *ibid*, pp. 24 – 25.

<sup>54</sup> Includes Icon Water, Sydney Water, Hunter Water, Gosford City Council, Wyong Shire Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

<sup>55</sup> Essential Services Commission of South Australia 2018, SA Water Our Plan 2020–24, December; Independent Pricing and Regulatory Tribunal 2019, WACC biannual update, August.

- Our assessment of tariffs (pages 23 to 27).

Our price review also considers the views of stakeholders affected by South Gippsland Water's proposals, including through submissions and public meetings.

## **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 sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).

**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 sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our consideration of demand (page 22).
- Our consideration of tariffs (pages 23 to 27).

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 (page 6).
- Our consideration of outcomes (page 7).



**WIRO Clause 11(d)(i) requires us to have regard to whether South Gippsland 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 South Gippsland 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 corporation’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water corporations explain them to customers.

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

- Our consideration of the form of price control and tariffs (pages 22 to 27).

**WIRO Clause 11(d)(ii) requires us to have regard to whether South Gippsland 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 sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).

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

In considering the above factor, we had regard to:

- South Gippsland Water demonstrated through its engagement program that customers supported the price increases in order to maintain service standards and ensure water security for the region (page 6).

- South Gippsland Water proposed to maintain its customer support programs, offers a range of payment options, debt elimination schemes and employs a dedicated support officer to assist customers experiencing difficulty paying bills. We consider these options and advice provide avenues for low income and vulnerable customers to seek assistance.
- In response to the impacts of the COVID 19 pandemic, South Gippsland Water has expanded its customer support program. This includes extending access to non-residential customers, reinforcing standard support processes and additional support – longer payment extensions, longer instalment plans, no interest on arrears and no debt collection.
- South Gippsland Water will defer its price rise until 1 November 2020, thereby freezing prices for the first billing cycle of 2020-21 to further assist customers impacted by COVID-19.

## **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 approves a revenue requirement that will enable South Gippsland Water to deliver on its legal and regulatory obligations.

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

- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of the form of price control (pages 22 to 23).

**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 approves a revenue requirement that will enable South Gippsland Water to deliver on its health, safety, environmental sustainability and social obligations.

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

- Our assessment of the revenue requirement (pages 9 to 11).
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).
- Our assessment of tariffs (pages 23 to 27).

## 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, South Gippsland 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 South Gippsland Water’s customer engagement.

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

- Our assessment of engagement (page 6)
- Our assessment of outcomes (page 7)
- Our assessment of efficient operating expenditure (pages 11 to 14) and capital expenditure (pages 17 to 19).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water corporations. Our PREMO water pricing approach provides incentives for a water corporation to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.<sup>56</sup>

**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:

- 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 corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>57</sup>

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<sup>56</sup> Essential Services Commission 2016, Water Pricing Framework and Approach, Implementing PREMO from 2018, October, pp. 11–13.

<sup>57</sup> Essential Services Commission 2018, final guidance paper, op. cit., p. 3.

A benchmarking study found that the cost of the commission's price reviews in the past has been lower than those of regulators in other Australian jurisdictions (after being normalised for revenue covered by price decisions).<sup>58</sup>

**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 corporation's revenue requirement
- allows water corporations 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 corporations may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water corporations 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 corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>59</sup>

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<sup>58</sup> Essential Services Commission 2014, Information paper for the Independent Review of the Economic Regulatory Framework, April.

<sup>59</sup> Essential Services Commission 2018, final guidance paper, op. cit., p.3.

## Appendix C: Approved service standards

We have approved the following standards and conditions of service and supply and associated targets for South Gippsland Water.

### South Gippsland Water's approved service standards

Service Standard	2020-21	2021-22	2022-23
<b>Water</b>			
Number of customers experiencing more than 5 unplanned water supply interruptions in the year (number)	0	0	0
Average time taken to attend bursts and leaks (priority 1) (minutes)	30	30	30
Average time taken to attend bursts and leaks (priority 2) (minutes)	35	35	35
Average time taken to attend bursts and leaks (priority 3) (minutes)	500	500	500
Average duration of unplanned water supply interruptions (minutes)	110	110	110
Average duration of planned water supply interruptions (minutes)	240	240	240
<b>Sewerage</b>			
Customers receiving more than 3 sewer blockages in the year (number)	0	0	0
Average time to attend sewer spills and blockages (minutes)	30	30	30
Average time to rectify a sewer blockage (minutes)	120	120	120
Spills contained within 5 hours (per cent)	95	95	95

Note: Numbers have been rounded



## Appendix D: Approved GSL scheme

We have approved the following service level obligations and corresponding amounts of payment for failure to attain the stated obligation as the guaranteed service level (GSL) scheme for South Gippsland Water.

In accordance with clause 13 of our Customer Service Code: Urban Water Businesses, South Gippsland Water must ensure that any payment is made to a customer as soon as practical after a customer becomes entitled to the GSL payment.

South Gippsland 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, third party does not include any person or firm acting on behalf of South Gippsland Water.

### South Gippsland Water's approved GSL scheme

Approved service level obligation	Approved payment (\$)
South Gippsland Water will rebate the customer an amount when it fails to restore sewer supply (within five hours of notification) to a customer's property.	\$100
South Gippsland Water will pay the customer an amount if it causes a sewage spill within a customer's property. It will also clean up the property and provide alternative accommodation as required.	\$1000
South Gippsland Water will rebate the customer an amount where it restricts the water supply of, or takes legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	\$300