Our Ref: A3756523

Marcus Crudden
Director, Price Monitoring and Regulation
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Vic. 3000

24 April 2020

Dear Marcus,

Goulburn-Murray Water Draft Decision – 2020 Water Price Review

Goulburn-Murray Water (GMW) welcomes the ESC's Draft Decision. In particular, GMW is pleased that ESC has supported the significant majority of GMW's Submission, including the:

- $439.4M revenue requirement (see below)
- demand forecasts
- continuation of a revenue cap form of price control
- proposals to reform tariffs including for customer service, irrigation delivery, water supply districts and entitlement storage.

GMW agrees with the ESC's proposed adjustments, which together reduce the revenue requirement by $0.27M compared to GMW's Submission. This is a result of adjustments to the:

- ESC licence fee;
- Environmental Contribution Levee; and
- Regulatory Asset Base.

We appreciate the opportunity, afforded in the Draft Decision, to provide additional information specific to the Unmetered and Metered service point fees for Diversion services. The Draft Decision found GMW's submission on this subject:

- did not achieve greater cost reflectivity, hence it did not align with the ACCC's pricing principle of 'user pays'.
- does not reflect WIRO pricing principles as prices may be derived from inefficient costs, which may not promote the efficient use of service points.

The additional information provided as part of this submission seeks to address these matters to enable the ESC to further consider GMW's pricing proposal.

Diversions Service Point Fees – Cost Transparency

Attachment A provides further detail about the cost of service point provision for the Unmetered and Metered Diversions service points. The additional information shows the individual cost attributes that form the basis of the proposed fees. The outcome of the reformulated data, summarised in the tables below, shows the calculated costs and proposed Service Point Fees (in 2023/24 real and nominal dollars) for the Unmetered and Metered Diversions Service Points.

Domestic and stock/Diversion Unmetered Irrigation

	Annual Equivalent Cost ($ Real)		Annual Equivalent Cost ($ Nominal)		Comment
	Gravity	Diversion	Gravity	Diversion	
Annual inspection	$59	$74	$65	$81	Higher travel costs due to higher labour rate and larger travel distances
Deeming	$36	$36	$39	$39	
Metering support	$3	$3	$3	$3	
Battery maintenance	$2		$2		
Meter validation	$3	$3	$3	$3	
Solar panel maintenance	$4		$4		
Opex subtotal	$107	$116	$116	$126	
Corporate O/H	$22	$24	$24	$26	21% Corporate Overhead applied to Opex subtotal
Subtotal	$129	$140	$140	$152	
Reg. Depr. + ROA	$0	$0	$0	$0	
Total	$129	$140	$140	$152	
GMW Proposed Fee	$132		$145		

Gravity Local operate/Diversion Metered Irrigation

	Annual Equivalent Cost ($ Real)		Annual Equivalent Cost ($ Nominal)		Comment
	Gravity	Diversion	Gravity	Diversion	
Annual inspection	$71	$103	$78	$113	
Meter reading	$161	$73	$176	$80	Gravity unit cost lower but conducted more frequently; Diversion read once with higher unit cost.
Metering support	$22	$22	$24	$24	
Battery maintenance	$18	$7	$20	$8	Reflects transition from mechanical to electronic over 20 years for Diversion
Solar panel maintenance	$37	$7	$41	$8	Reflects transition from mechanical to electronic over 20 years for Diversion
Meter validation	$36	$36	$39	$39	
Opex subtotal	$345	$248	$378	$272	21% Corporate Overhead applied to Opex subtotal
Corporate O/H	$72	$52	$79	$57	
Subtotal	$417	$300	$457	$329	
Reg. Depr. + ROA	$0	$151	$0	$165	Gravity service points externally-funded
Total	$417	$451	$457	$494	
GMW Proposed Fee	$415		$455		

GMW believes this additional data transparency provides the information necessary to allay the concerns, identified by the ESC in its Draft Decision, about user-pays and efficient costs. GMW has significantly refined its breakdown of the costs associated with diversion service points.

This additional detail:

- demonstrates GMW's proposed Diversions Service Point Fees reflect efficient costs by providing greater transparency into the attributes that form the basis of the proposed fee; and
- shows that GMW's efficient costs for Diversions Unmetered and Metered service points are greater than the Service Point Fees proposed in GMW's Submission. This is because the cost information provided to the ESC's auditors in February 2020 omitted recovery of and on the RAB for metered irrigation service points, equal to $151 per service point.

In developing its 2016 Submission for aligned service point fees across gravity and diversions, GMW had regard for simplicity, consistency and equity as well as efficient costs. This approach was accepted by the ESC. GMW's 2020 Submission continues this approach and extends it to Pumped and Water Districts.

Diversions Service Point Fee – Efficient Costs
In addition to the information above and in support of demonstrating that the proposed fees have been derived from efficient costs the following is provided:

- GMW specifically sought to ensure the proposals presented through the Pricing Submission were rigorous, prudent and efficient. To provide Board assurance of this, GMW requested KPMG to independently assess the prudency and efficiency of forecasts. An independent statement from KPMG was provided as Attachment 8 to the Pricing Submission.
- To support the ESC in making its determination, Aither conducted an assessment of GMW's operating and capital expenditure forecasts. This assessment found that the assumptions underpinning the forecast controllable operating and capital expenditure to be reasonable; and
- The ESC, in the Draft Decision, proposes to approve the revenue requirement for each of the three diversion services.

These points all demonstrate independent acknowledgement that GMW's expenditure forecasts, and subsequent revenue requirements, are founded on prudent and efficient costs.

Diversions – Recovery of Revenue Requirement
As noted above, the ESC has approved the revenue requirement for each of the three Diversion services – regulated, unregulated and groundwater – for which Service Point Fees form part of the total revenue recovery. In the event the additional supporting information provided within this document is not sufficient to alter this component of ESC Draft Decision, GMW would seek alteration to the Access Fee to recover the $1.1M variation from the proposed revenue to be collected via the Service Point Fees in GMW's pricing submission.

GMW has conducted modelling to identify the adjusted Access Fee if required by the ESC.

Customer Impact
GMW has completed customer impact analysis for potential scenarios including a final decision:

- as per ESC Draft Decision; or
- approval of GMW's proposed fees.

This modelling (available to the ESC as required) shows that a higher number of customers are better off from a total bill perspective under GMW's proposed fees when compared to changes in the proposed service point and access fees.

Conclusion
GMW appreciates the opportunity to provide additional information for the consideration of the ESC in support of our Pricing Submission.

Based on the additional information provided, GMW believes there continues to be a strong basis for retaining convergent Service Point Fees between all four retail customer groups, being Gravity, Pumped, Water Districts and Diversions. This approach is supported by the commonality of costs of service points and results in a simple, consistent and equitable outcome for customers, without undermining the objectives sought by the user-pays principle and prices based on efficient costs.

GMW would like to submit to the ESC that the Diversions Service Point Fees (Unmetered and Metered) as outlined in GMW's Pricing Submission be re-presented, with this additional information, for consideration in their final decision.

If you have any further queries in relation to the data presented or require access to additional modelling, please contact Michael Gomez (General Manager Business & Finance).

Yours sincerely

Charmaine Quick
MANAGING DIRECTOR

Attachment A – Additional Diversions Service Point Fee Cost Information

The following table provides a comparative summary of the Unmetered and Metered Diversions Service Point characteristics compared to the equivalent Gravity Irrigation Service Points.

	Domestic and Stock service points		**Irrigation local operate unmetered service points**		**Irrigation local operate metered**	
	Gravity	**Diversions**	**Gravity**	**Diversions**	**Gravity**	**Diversions**
Number	9,628	3,872	369	2,600	2,061	4,138
Infrastructure owned by	Customers - except representative meter fleet to support deeming	Customers - except representative meter fleet to support deeming	GMW - except customer if pumping from channels and waterways in district	Customers	GMW - unless customer if pumping from channels and waterways in district, then only meter owned by GMW	Customers - except meter owned by GMW
Operated by	Customers	Customers	Customers	Customers	Customers	Customers
Service points visited by GMW	Once per year	Once per year	Three times per year	Once per year	Four times per year	Once per year, generally
Measurement	Deeming - except for representative meter fleet to support deeming	Deeming - except for representative meter fleet to support deeming	Deeming - except for representative meter fleet to support deeming	Deeming - except for representative meter fleet to support deeming	Meter	Meter
Metering technology	Electronic, for representative fleet	Mechanical, for representative fleet	Electronic, for representative fleet	Mechanical, for representative fleet	Electronic, except some legacy mechanical meters on low use sites and some pumps on channels and waterways	Mechanical, but all replacements will be electronic
Meter funding – initial capex	100% government grant as part of water savings programs	Customer	100% government grant as part of water savings programs	Minor government grant as part of backlog metering program	100% government grant as part of water savings programs	Minor government grant as part of backlog metering program
Meter funding – opex and replacement capex	Service Point Fees	Service Point Fees	Service Point Fees	Service Point Fees	Service Point Fees	Service Point Fees

The following points provide a narrative in relation to elements of the table above:

- **Domestic and Stock service points**
  - The ownership, infrastructure configuration, and funding of domestic and stock service points is similar for gravity and diversion, except the remoteness of diversions service points means that unit travel costs (labour and vehicles) are higher for diversion service points.

- **Irrigation local operate unmetered service points**
  - There is an important difference between Gravity and Diversions for irrigation local operate unmetered service points. Gravity service point infrastructure is owned by GMW in nearly all cases, whereas the diversions service point infrastructure is owned by the customer. This means that the infrastructure costs must be funded through Service Point Fees for gravity.
  - The cost structure for gravity irrigation local operate unmetered service points is similar to that of gravity irrigation local operate metered service points. This is because in both cases the service points have been fully funded by government grant as part of water savings projects, meaning that the recovery of initial capex is not part of the cost base. GMW operational activities and costs are similar for both unmetered and metered local operate service points.
  - By contrast, the meter is the only infrastructure component of a diversions service point that needs to be recovered from Service Point Fees. Since these irrigation service points do not have meters, their costs are similar to those of diversions domestic and stock service points, which are in turn similar to gravity domestic and stock service points.
  - Accordingly, irrigation local operate unmetered service points are bracketed with irrigation local operate metered service points for Gravity when calculating and applying Service Point Fees. They are bracketed with domestic and stock service points for diversions.

- **Irrigation local operate metered**
  - There are some key differences between gravity and diversion local operate metered service points:
    - more GMW-owned infrastructure with gravity service points
    - unit travel costs higher for diversions service points because of the lower density of service points and greater difficulty in accessing them
    - the gravity electronic meter fleet has opex cost items (battery and solar panel maintenance) that are not present for the diversion mechanical meter fleet, As Diversion transitions to electronic meters over the next 15-20 years these costs will become common to both
    - Gravity service points have effectively zero RAB. All service points either pre-date the commencement of the RAB or have been 100% funded by government grant as part of water savings programs. By contrast, the majority of Diversions RAB is derived from service point capex, as minimal grant funding has been received from governments.
  - Though these result in a different mix of costs, it does not materially change the total cost to be recovered by irrigation local operate service point fees (see detail below).

DIVERSION SERVICE POINT COSTS

GMW has reviewed service point costs in response to the ESC's Draft Decision. It has calculated prices using the same method used for Gravity, Pumped and Water Districts. Because Gravity has more experience with electronic meters, these have been used as the basis for cost estimation for transition to electronic meters for Diversions. Adjustments for differences for Diversions have been incorporated and these are detailed below.

This analysis indicates that the efficient costs of service points is higher for Diversions because:

- the larger geographic distribution increases travel costs
- there is no RAB for Gravity irrigation service points.

Domestic and stock/Diversion Unmetered

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