

Welcome to the Essential Services Commission's public forum on our draft decision





Essential Services Commission public forum

Lower Murray Water
draft decision 2023

20 April 2023



Acknowledgement of country

I would like to acknowledge the traditional owners of all of the lands and waters wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of Lower Murray Water.

I would also like to pay my respects to their Elders, past and present, and extend that respect to all Aboriginal people here today.

Barring Djinang artwork by Jade Kennedy.
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Agenda

- Summary of our role in water price regulation

Rebecca Billings
Commissioner, Essential Services Commission

- How we assessed the price submission and our draft decision

Marcus Crudden
Executive Director, Price Monitoring and Regulation, Essential Services Commission

- Lower Murray Water's response to our draft decision

Paul O'Donohue, Managing Director, Lower Murray Water

Questions from attendees

About the Essential Services Commission

Our purpose is to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate Victoria's energy, water and transport sectors, and oversee the Fair Go Rates system. We also administer the Victorian Energy Upgrades program.

We have been regulating water prices more than 20 years.

For the water sector we:

- approve prices and service standards
- monitor and report on performance
- administer customer service codes.

Lower Murray Water price review process

We assess Lower Murray Water's price submission to ensure it:

- complies with the requirements of the Water Industry Regulatory Order
- meets the requirements in our guidance, including:
 - our expectations on the overall approach
 - application of our incentive (PREMO) framework, where the returns earned are linked to the level of ambition in the price submission
- complies with relevant criteria in the *Water Industry Act 1994* and the *Essential Services Commission Act 2001*.

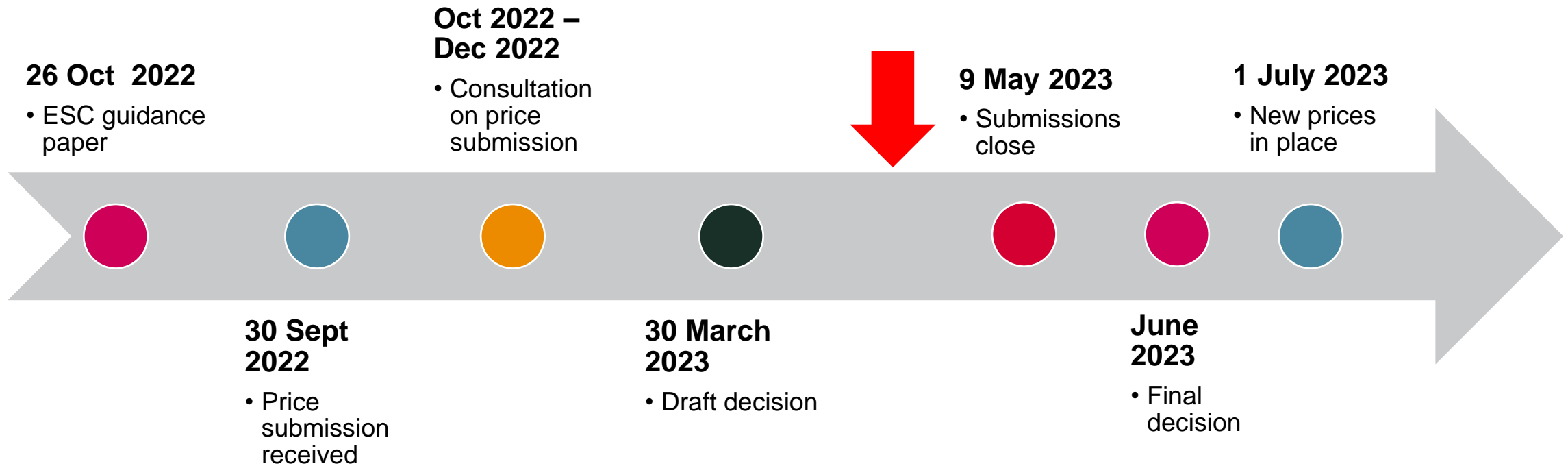
Lower Murray Water price review process

It is up to Lower Murray Water to propose prices and services consistent with the order, guidance and relevant legislation.

Essential Services Commission's draft decision

Our draft decision indicates what we propose to approve (or not approve), and allows Lower Murray Water – and other stakeholders – to respond before we make our final decision and price determination.

Lower Murray Water price review process



We assessed Lower Murray Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Lower Murray Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Lower Murray Water managed risk and its performance
- reviewing opex and capex costing and timing assumptions to ensure they were reasonable.

We also obtained advice from expert consultants where appropriate.

Summary of our draft decision

- Proposes to accept elements of the price submission including:
 - 5-year pricing period from 1 July 2023 to 30 June 2028
 - Tariff structures and form of price control (tariff basket for urban and revenue cap for rural)
- Adopts a revenue requirement of \$216.7 million for urban services and \$138.1 million for rural services, over a five-year period.
- We asked Lower Murray Water to:
 - Propose individual tariffs that reflect our initial views of the revenue requirement
 - Consider the impacts of relatively high inflation on proposed prices and customer bills
- We are reviewing whether the capital expenditure, including sunk costs, allocated to NCCs are reasonable and appropriately attributed to developers.

Estimated annual water and sewerage bills (proposed)

Urban services

Customer Group	Average consumption (kL p.a.)	2022-23 annual bill	2023-24 annual bill	2027-28 annual bill
Residential (Owner occupier)	480	\$1,018	\$1,021	\$1,033
Residential (Tenant)	480	\$294	\$295	\$298
Non-residential (Small)	400	\$1,065	\$1,068	\$1,081
Non-residential (Medium)	3,000	\$3,279	\$3,289	\$3,329
Non-residential (Large)	30,000	\$26,269	\$26,349	\$26,671

<https://engage.vic.gov.au/water-price-review-2023>

Changes to rural prices (proposed)

- Mildura irrigation and drainage: 1.3 per cent average annual decrease
- Mildura high pressure system: 6.4 per cent average annual decrease
- Merbein irrigation and drainage: 1.3 per cent average annual increase
- Red Cliffs irrigation and drainage: 0.6 per cent average annual decrease
- Robinvale irrigation and drainage: 5.5 per cent average annual decrease
- Domestic and stock: 1.9 per cent average annual decrease.
- Diversion : 0.75 per cent per cent average annual decrease (based on ML of annual usage).

Lower Murray Water expenditure forecasts

Urban services

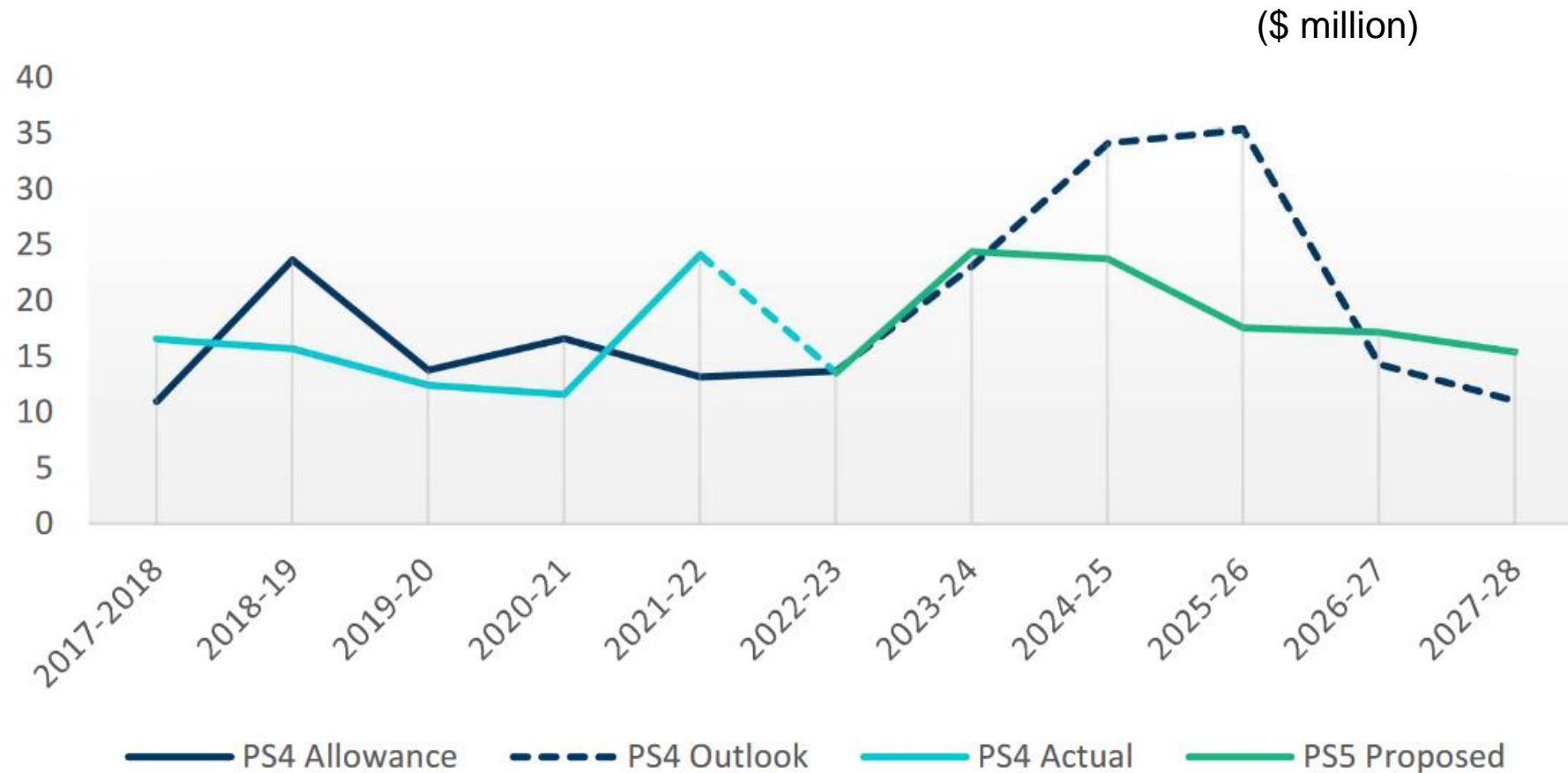
5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	149.2	-1.8	147.5
Capital expenditure	98.6	-3.8	94.8

Rural services

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	106.2	-0.2	106.0
Capital expenditure	50.4	-7.0	43.4

Lower Murray Water forecast capital expenditure

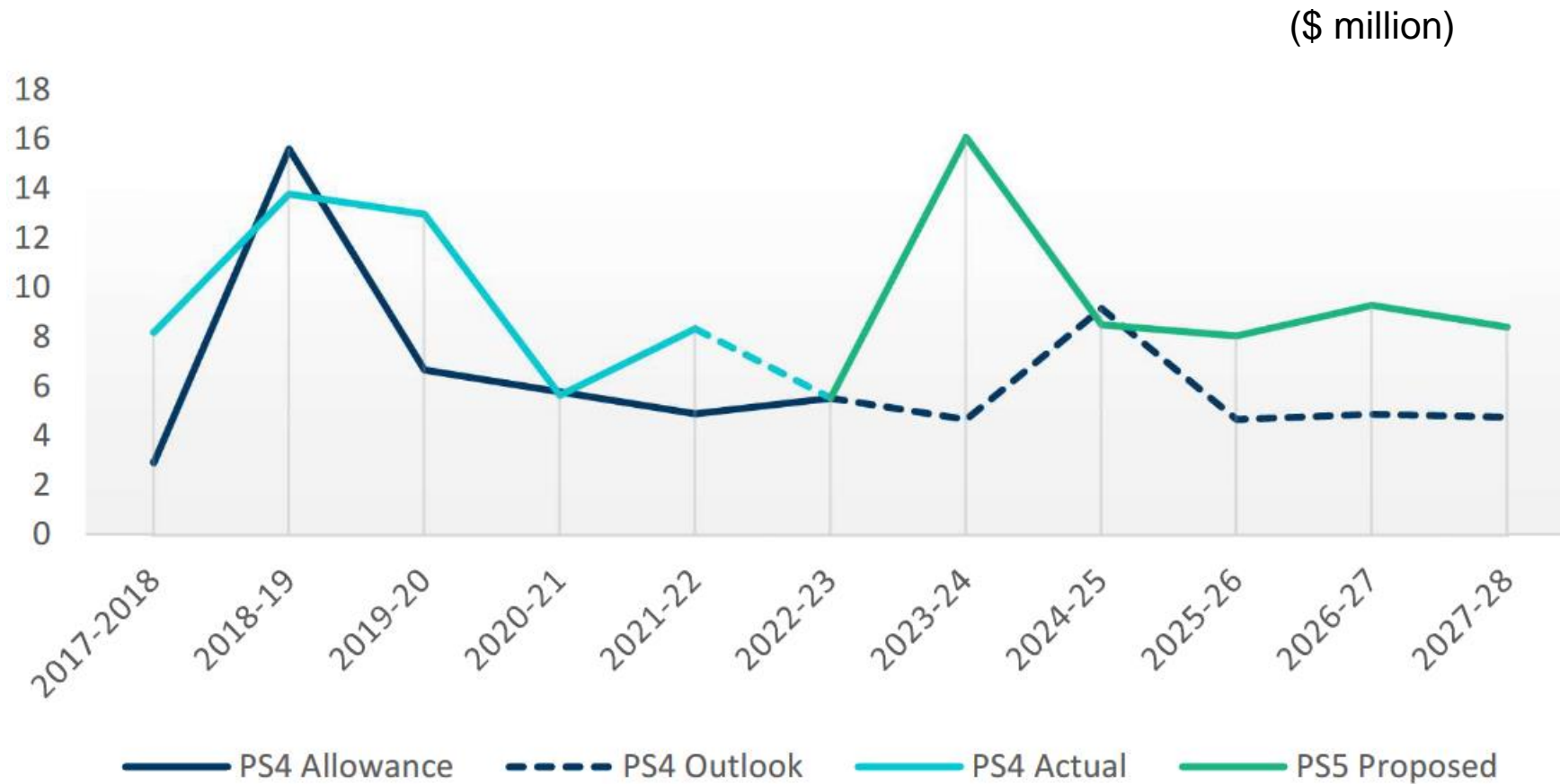
Urban services



Source: FTI Consulting, Lower Murray Water 2023 Price Review Model

Lower Murray Water forecast capital expenditure

Rural services

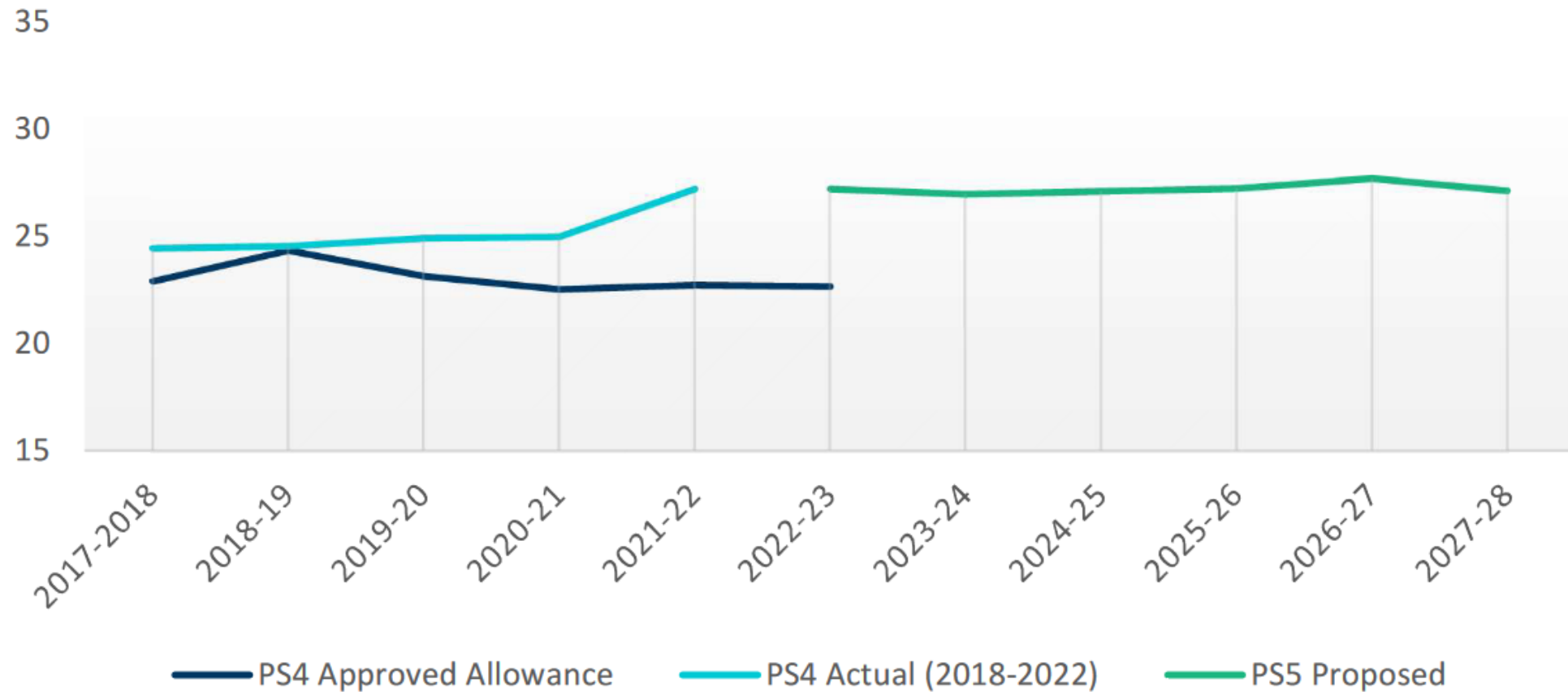


Source: FTI Consulting, Lower Murray Water 2023 Price Review Model

Lower Murray Water forecast operating expenditure

Urban Services

(\$ million)

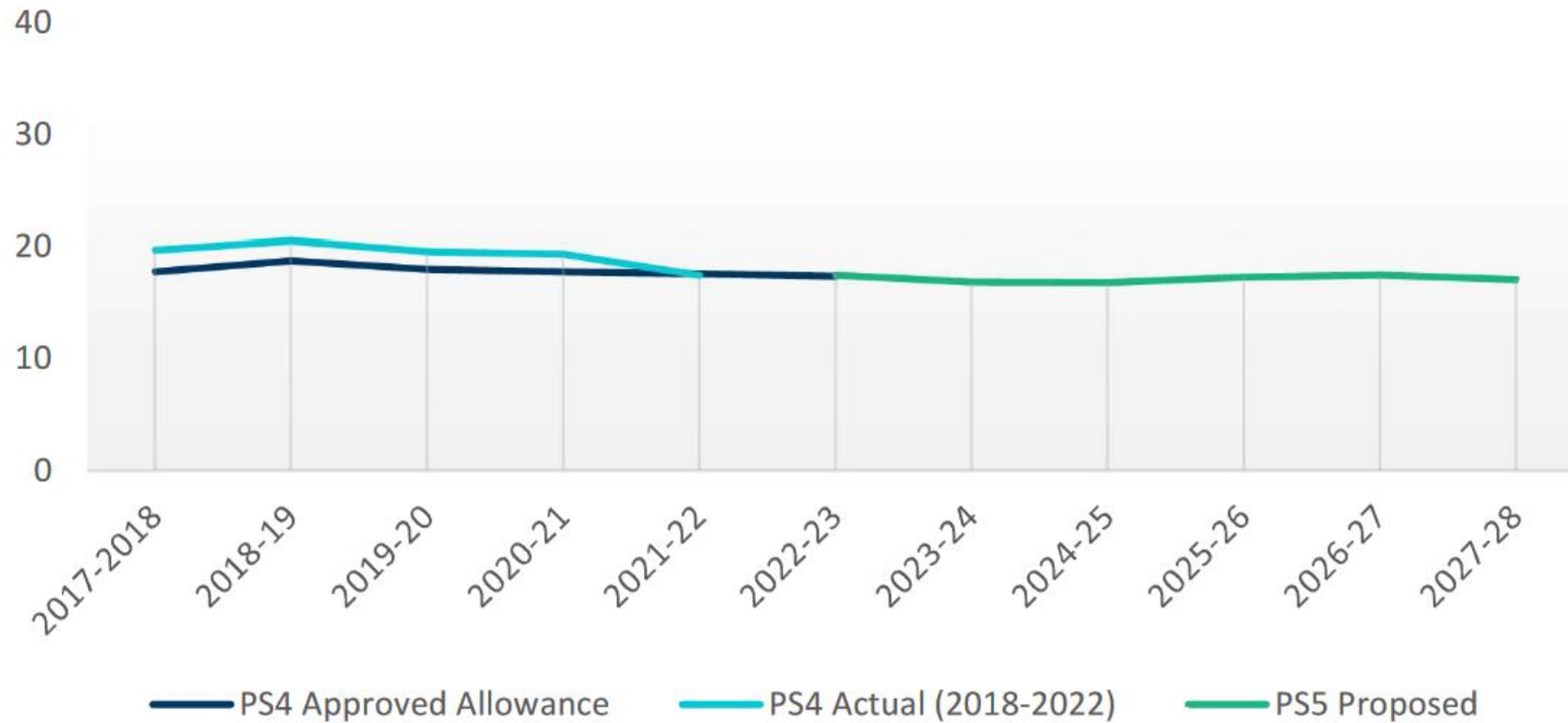


Source: FTI Consulting, Lower Murray Water 2023 Price Review Model

Lower Murray Water forecast operating expenditure

Rural Services

(\$ million)



Source: FTI Consulting, Lower Murray Water 2023 Price Review Model

We propose to accept a 'Standard' PREMO price submission rating

- We consider that Lower Murray Water overall met expectations for delivery against its outcome commitments for its urban services for the current regulatory period.
- However, its operating expenditure for 2021-22 was 16% higher than the benchmark used for our 2018 price determination.
- Its engagement program was inclusive and gave customers an opportunity to participate and to provide feedback on the prices and services that affect them.
- Its proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.
- It has chosen to accept risk on behalf of customers in some areas. This includes price caps for urban services and excluding uncertain projects from expenditure forecasts.

2023-28 Price Submission ESC Draft Decision

Public Forum - 20 April 2023

Mr Paul O'Donohue - Interim Managing Director

  lowermurraywater

1800 808 830

www.lmw.vic.gov.au



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Key Messages

- One integrated business
- Managing climate change impacts
- Providing increased and ongoing support for customers in hardship
- Digital transformation & cyber security to manage risk & improve customer service
- Long term financial sustainability, especially the rural business
- Capital program management and delivery under volatile market conditions
- Managing resources and costs to delivery efficiency improvements



LMW Strategy

OUR PURPOSE

To support our region to prosper by successfully delivering vital water services

OUR VISION

A healthy, sustainable water future underpinned by an LMW culture of performance excellence, built in partnership with our staff, customers and communities

Building a healthy & sustainable future through our strategic priorities

- Service Delivery
- Engagement
- Environment

Building a dynamic culture of performance excellence through our strategic foundations

- People & Safety
- Infrastructure
- Finance & Governance



Customer - Urban

- No change to current price structure
 - Tariff basket form of price control
 - Postage stamp pricing across all urban district
 - Tiered 3-level volumetric residential tariffs (non-residential at Tier 2)
- Annual bill impact is CPI + 0.3% which maintains one of the lowest urban water prices across the State



Customer - Rural

- Proposed price structures consistent with current Water Plan, but with removal of WP4 price adjustment mechanisms for electricity costs
 - Revenue cap form of price control
 - Locational pricing by district & service
- Passthrough costs for GMW bulk water charges
- Annual bill impacts range from CPI -6.42% to CPI +1.27%



ESC Draft Decision - Main areas of clarification

- New customer contributions payable by developers
- Bulk water entitlements
- Treatment of CPI on customer bills for 2023-24
- PREMO rating



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New customer contributions (NCC) payable by developers

What we proposed	What the ESC said	Our response
<p>An increase of 19.5% over 5 years for water services and 0.6% for sewerage services.</p>	<p>New customer contributions are a key input to support the growth of the business.</p> <p>Lower Murray Water must update its customer contribution forecasts in response to our draft decision.</p>	<p>The proposed NCC is still being reviewed by ESC. LMW will provide update once revision is completed and NCCs are updated accordingly.</p> <p>LMW has continued to consult with developers since the submission.</p>



Bulk water charges

What we proposed

Incremental bulk water charges from GMW over 5 years

What the ESC said

We have reviewed Lower Murray Water's forecast bulk charges with Goulburn-Murray Water's 2022-23 approved tariffs and **request that Lower Murray Water respond to our draft decision by:**

- updating its forecast bulk charges.
- submitting an updated financial model which takes into account these changes.

Our response

These are passthrough charges.



Treatment of CPI on customer bills for 2023-24

What we proposed

Acknowledged the rising rate of CPI with these rates passed on to the customer

What the ESC said

Lower Murray Water must provide us with further information illustrating how it intends to address the impacts of relatively high inflation on its proposed prices and customer bills for 2023-24

Our response

We understand the impact of CPI to our customers. Since the submission, significant risks have emerged and higher operating costs identified.

- Energy prices (assumptions currently under review)
- Chemical costs
- Contracted maintenance services increases
- Insurance premium increases
- Attraction and retention of staff
- Escalating construction costs
- Fuel & fleet costs



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PREMO rating as "Standard"

What we proposed

Lower Murray Water proposed a Standard rating for all of the 5 elements of PREMO.

P – Performance

R - Risk

E - Engagement

M - Management

O - Outcomes

What the ESC said

Our draft decision is to rate Lower Murray Water's price submission as 'Standard' under the PREMO framework, however we propose to not accept Lower Murray Water's proposed self-rating of its price submission as 'Standard' for the Performance element of PREMO. This element has been proposed as "Basic".

Our response

The principal reason for Lower Murray Water's increase in operating expenditure between PS4 and PS5 is due to an increase in 2021-22 baseline expenditure above the benchmark allowance approved by the ESC. However, Lower Murray Water's adjusted operating expenditure in 2021-22 has been deemed prudent and efficient. Lower Murray Water intends to seek further clarification from the ESC.



THANK YOU!

Any Questions?



LOWER MURRAY
WATER

Q & A

Housekeeping

- A reminder this public forum is being recorded. This means:
 - any statement or comment you make or question you ask will be **included in the recording**
 - any question you ask using the **'chat'** function, will be **read out along with your name** and will be included in the recording.
- If you are online: For verbal comments, please use the **'raise your hand'** function and you will be invited to unmute your microphone, turn on your camera, say your name and organisation.
- If you are calling in via phone, please say your name and location prior to speaking.

Thank you for joining us today

Submissions on our draft decision are due by 9 May 2023

- You can provide written submissions or feedback via the Engage Victoria website:
<https://engage.vic.gov.au/water-price-review-2023>
- You can also contact us by email: water@esc.vic.gov.au

