

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





# Essential Services Commission online public forum

Southern Rural Water  
draft decision 2023

1 May 2023

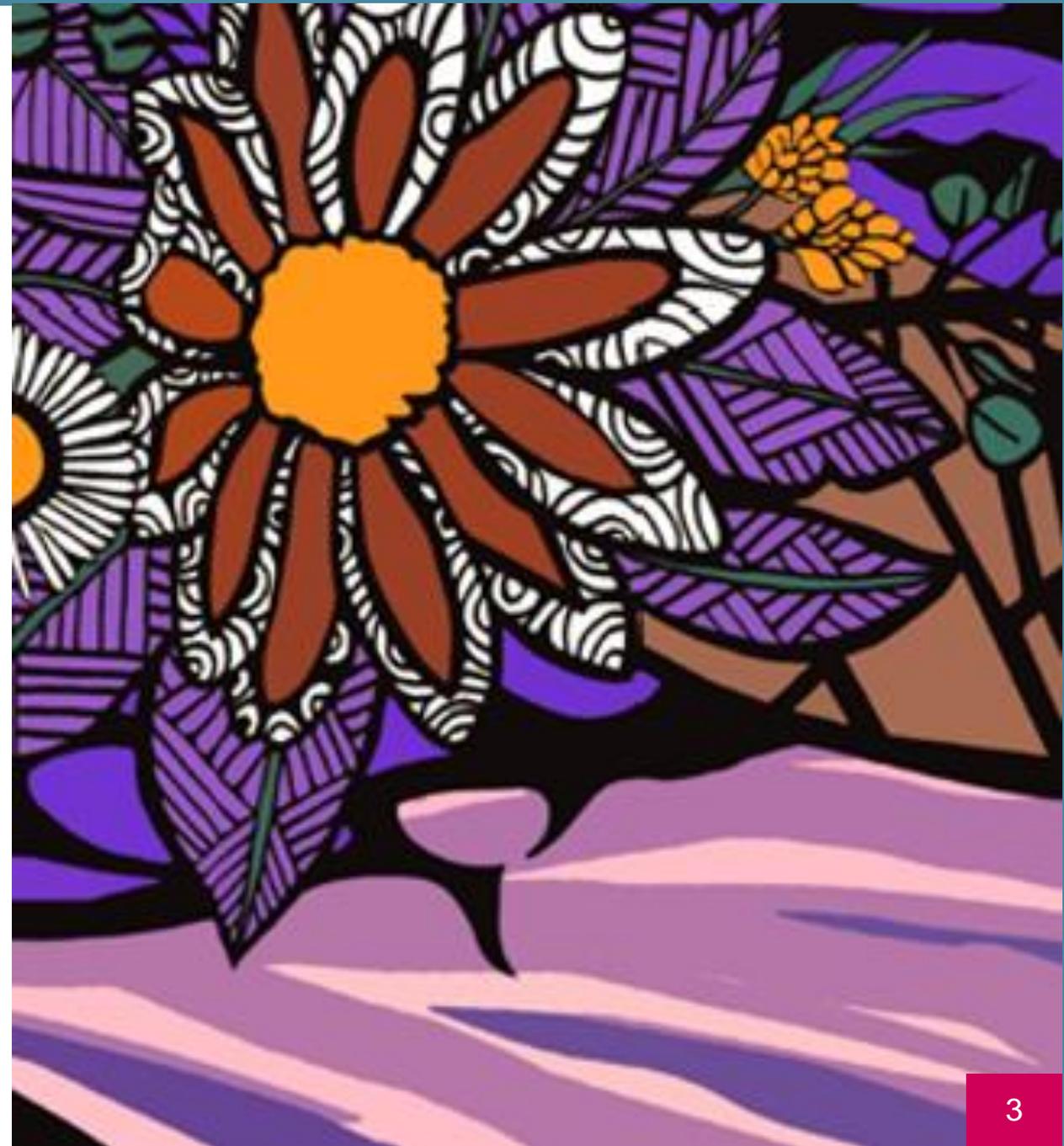


# Acknowledgement of country

**I would like to acknowledge the Traditional Owners of all of the lands wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of Southern Rural 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

Simon Corden

**Commissioner, Essential Services Commission**

- How we assessed the price submission and our draft decision

Dean Wickenton

**Senior Regulatory Manager, Essential Services Commission**

- Southern Rural Water's response to our draft decision

Cameron FitzGerald – **Managing Director**

Joanne Butterworth-Gray – **Board Chair**

- 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.

# Southern Rural Water price review process

We assess Southern Rural 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*.

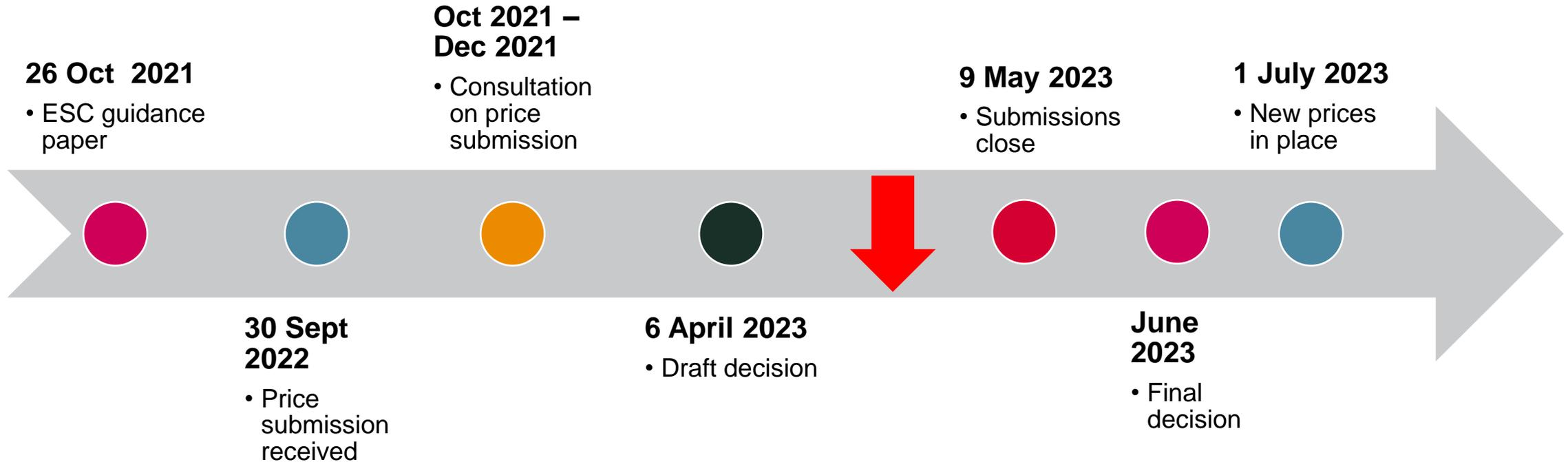
# Southern Rural Water price review process

It is up to Southern Rural 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 Southern Rural Water– and other stakeholders – to respond before we make our final decision and price determination.

# Southern Rural Water price review process



# We assessed Southern Rural Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Southern Rural Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Southern Rural 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.

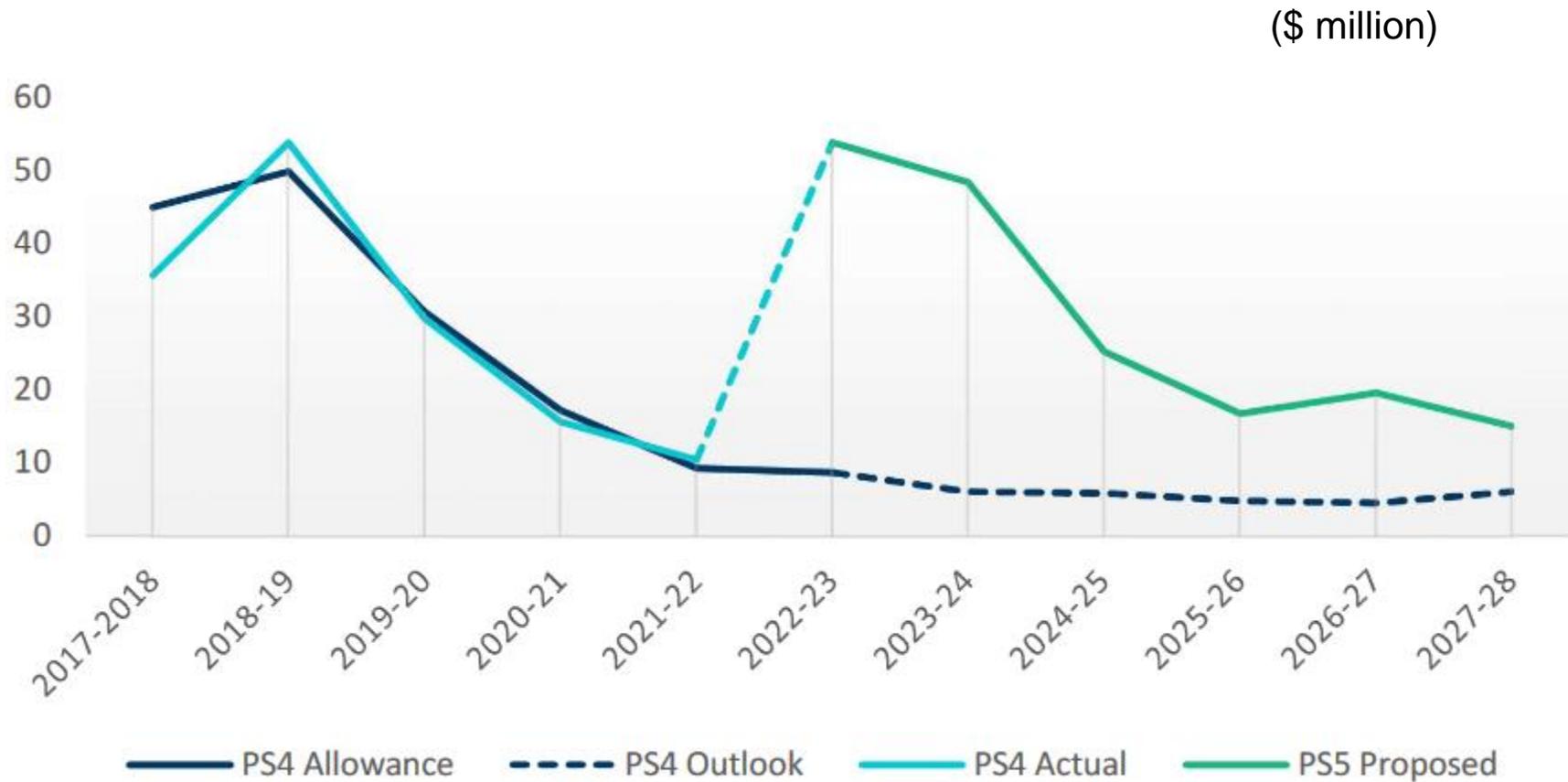
# Summary of our draft decision

- Accepts 5-year pricing period (price increases capped at inflation for 86% of customers over the 5-year period).
- Proposes to accept many elements of the price submission including:
  - tariff structures (with new and modified charges)
  - form of price control (price caps, pricing principles, revenue cap).
- Adopts a revenue requirement of \$169.1 million over a five-year period.
- We asked Southern Rural Water to:
  - propose individual tariffs that reflect our initial views on the revenue requirement
  - demonstrate how it has considered the impacts of inflation on forecast expenditure.

# Southern Rural Water expenditure forecasts

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	138.0	-6.6	131.4
Capital expenditure	125.1	0	125.1

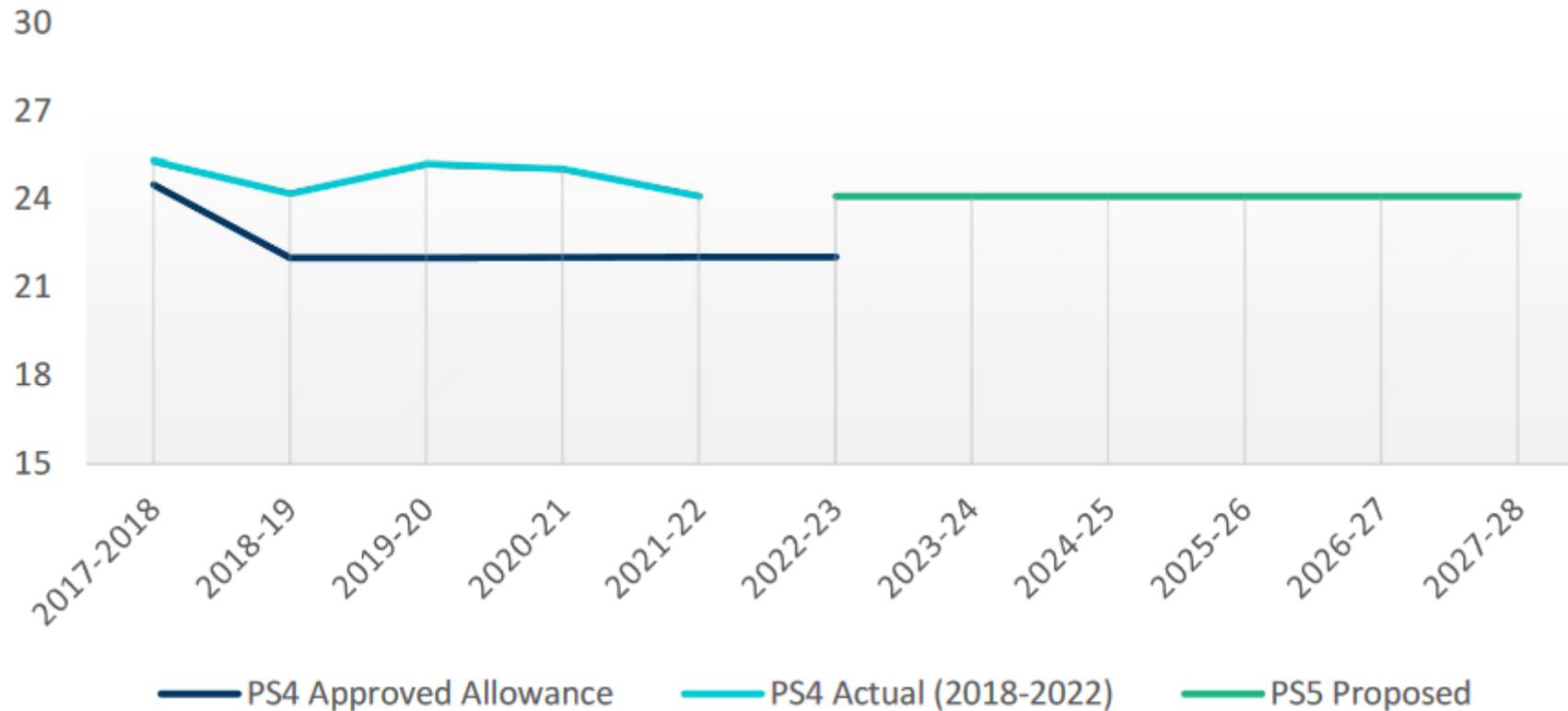
# Southern Rural Water forecast capital expenditure



Source: FTI Consulting, Southern Rural Water 2023 Price Review Model

# Southern Rural Water forecast operating expenditure

(\$ million)



Source: FTI Consulting, Southern Rural Water 2023 Price Review Model

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

- We consider that Southern Rural Water met expectations for delivery against its outcome commitments for the current regulatory period.
- Its engagement program gave customers an opportunity to participate and to provide feedback on the prices and services that affect them. Its engagement was inclusive and diverse.
- 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 capping price increases at CPI for the majority of customers for 2023-24 to 2027-28.



# Price Submission 2023-28

*Public Forum 1 May 2023*

# SRW

## Services

- Harvest water and manage 7 major storages
- Supply water to and manage 3 irrigation districts
- Licence groundwater, surface water and dams



## Customers

- Irrigators, power companies, urban water corps (GW and GWW) the environment
- Raw water supplier – don't provide/licence treated water



## Vision

*Great value for customers and community through excellence in rural water management*



## Our customers said water is important

Water supports their livelihood. They see access to water, climate change and profitability as key challenges.

### Customer outcomes

#### **Sustainable water**

Allocations are managed in a sustainable way for customers, community, and the environment to ensure a secure future.

#### **Valued community member**

We deliver value to regional communities through direct actions and relationships with Traditional Owners, stakeholders, customers and the general community.

#### **Fair and reasonable prices**

Prices reflect customer value.

#### **Great service**

Customers have access to great service.

#### **Reliable water supply**

Customers have access to reliable water to support their business needs.

# Headline summary

## 1. Engagement

Strong ongoing connection with our customers has underpinned our submission

## 2. Customer need

Profitability rather than affordability matters most to customers: they want a reliable supply and fair & reasonable prices

## 3. Investors

We are investors in customer profitability:  
\$125m CAPEX

## 4. Partnership funding

Decisions on government grant funding were predicated on customer co-contribution via annual charges

## 5. Operating efficiency

We operate efficiently and tightly control our costs

## 6. Capped prices

86% of customers price's capped at CPI  
remainder increase of 1% to 1.5% plus CPI

# Groundwater and rivers

## Pricing outcomes 2023–2028

During this pricing period, we will continue our meter replacement and automated metering programs, improving operational efficiency to provide real time data to customers and the organisation.

We are continuing our compliance activities, which provides sustainable outcomes protecting access to water. We will also continue to manage stream flows. We will complete 90% of applications within agreed timeframes and meet our greater than 75% customer satisfaction from our customers.



**Average price increases of CPI**



# Bacchus Marsh

## Pricing outcomes 2023–2028

During this pricing period we will optimise our automation, further enhancing our supply to our customers while paying for past modernisation and efficiency projects.



Average prices increases of CPI

## Investment outcomes 2013-2028:



Investment



5.6 GL water savings



System efficiency has increased from <55% to <85%.

# Werribee

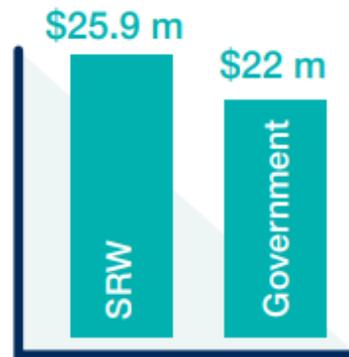
## Pricing outcomes 2023–2028

During this pricing period, we will complete Stage 4 and 5 of modernisation and optimise existing automation enabling a more reliable water supply. We will also increase our drainage and maintenance works while paying for past modernisation and efficiency projects delivered during the past two pricing periods. Water sales will support maintaining fair and reasonable pricing.



**Average price increases of 1% pa + CPI**

## Investment outcomes 2013-2028:



Investment



**5.6 GL water savings**



**System efficiency has increased from <55% to <85%.**

# Macalister

## Pricing outcomes 2023–2028

During this pricing period, we will complete the MID2030 Phase 2 project, further enhancing reliable water supply while paying for past modernisation and efficiency projects. We will also increase our drainage and maintenance works. Water sales will support fair and reasonable pricing.



**Average price increases  
of 1.5% pa + CPI**

## Investment outcomes 2013-2028:



Investment



**30 GL  
water savings**



**System efficiency  
has increased from  
<65% to >85%.**

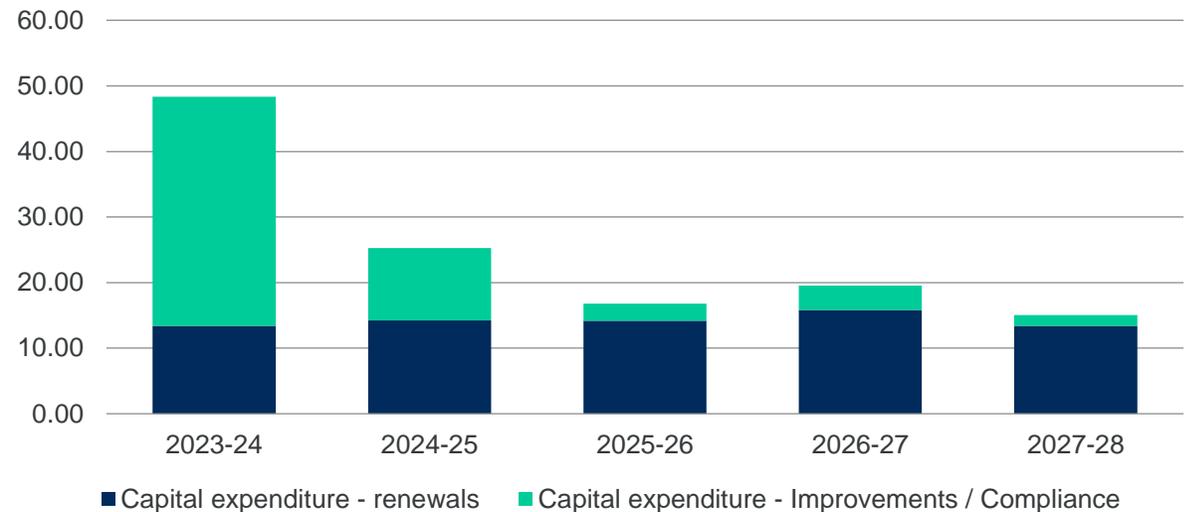


**335 automated outlets  
(17% of outlets), which  
delivers 37% of water.**

# CAPEX: \$125m investment

- Capital expenditure is based on our 25-year CAPEX plan, focussed on delivering on our obligations.
- 45% invested in our top 10 projects.
- Only \$93m sought through pricing.
  - \$19m funded through gov't grants
  - \$13m from water sales.
- Expenditure in 2023-24 is considerably higher than the following four years, largely due to two major modernisation projects:
  - MID modernisation (\$20.3m)
  - WID modernisation (\$9.8m)

**Capital expenditure forecast (\$m)**



# Response to draft determination

## OVERALL

Welcome the ESC's draft determination and rating of 'Standard'.

## PRICES AND TARIFFS

Welcome the ESC's support for our prices and revised tariff structure.

## OPEX

Welcome the ESC's recognition of our prudent and efficient operating expenditure.

## CPI

Included capped CPI in pricing. CPI pass through approach is determined by the board each year in June.

## CAPEX

Welcome the ESC's support of our \$125m capital investment program.

## WHERE TO FROM HERE?

Clarify some technical (e.g. non-prescribed costs) and regulatory aspects.



***Great value for customers and community  
through excellence in rural water management.***

# 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.
- 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](mailto:water@esc.vic.gov.au)

