

# South Gippsland Water Determination

1 July 2020 – 30 June 2023

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# 1. General

## 1.1. Introduction

- (a) Clause 14 of the **WIRO** requires the commission to either:
- (i) approve the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated, as proposed by the **regulated entity** in its **price submission**; or
  - (ii) specify the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated.
- (b) On 10 June 2020, the commission made its decision under the **WIRO** in respect of:
- (i) the prices which South Gippsland Region Water Corporation (trading as South Gippsland Water) (ABN 40 349 066 713) (**South Gippsland Water**) may charge for **prescribed services** during the **regulatory period**; and
  - (ii) the standards and conditions of service and supply which **South Gippsland Water** has included in its **price submission**.
- (c) This determination is made by the commission under section 33 of the **ESC Act**, pursuant to clauses 10 and 14 of the **WIRO**.
- (d) The purpose and reasons for the making of this determination are to:
- (i) give effect to the decision of the commission referred to in clause 1.1(b)(i);
  - (ii) specify the maximum prices which **South Gippsland Water** may charge for **prescribed services** during the **regulatory period** or the manner in which such prices are to be calculated, determined or otherwise regulated;
  - (iii) facilitate the achievement of the commission's objectives in the **ESC Act** and the **WI Act**; and
  - (iv) reflect the requirements in the **WIRO**.
- (e) The reasons for the making of this determination are as set out in the decision published by the commission on 16 June 2020.
- (f) For all purposes of this determination, the **prescribed services** provided by **South Gippsland Water** comprising a retail water service, a retail sewerage service, a trade waste service, a retail recycled water service, and services to which developer charges apply, as defined in the **WIRO**, are each considered to be a single service encompassing different price components to which different tariffs apply. Price components and tariffs for these services are specified in Schedule 2. Principles to

be used for calculating price components and tariffs for a retail recycled water service are specified in Schedule 4.

## 1.2. Application

This determination applies to **South Gippsland Water** and its successors and assigns in respect of the business carried on by **South Gippsland Water** at the date of this determination.

## 1.3. Effective period

### (a) Term

This determination takes effect on the later of the date on which notice of its making is published in the Government Gazette or 1 July 2020, and subject to clause 1.3(b), has effect until the earlier of the date on which it is amended or revoked by a later determination or 30 June 2023.

### (b) Next regulatory period

Subject to clause 2.3(b)(ii), if the commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2023, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this determination will continue to apply in respect of **prescribed services** provided by **South Gippsland Water** between 1 July 2023 and the date on which the determination for the **next regulatory period** comes into effect.

## 1.4. Modification of time periods

The commission may, by notice to **South Gippsland Water**, extend or reduce the time by which, or the period within which, **South Gippsland Water** or the commission must comply with an obligation under this determination.

## 1.5. Summary and structure

Clause 2 of this determination specifies the prices which will apply to **prescribed services** during the **regulatory period** and sets out the procedure and formula according to which prices may be adjusted during the **regulatory period** on an annual basis. Clauses 3, 4 and 5 provide for the circumstances in which prices may be adjusted during the **regulatory period** otherwise than in accordance with clause 2.

## 1.6. Definitions and interpretation

In this determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1; and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

## **1.7. Annexure A**

- (a) For convenience, Annexure A to this determination summarises:
  - (i) the assumptions underpinning the prices to apply to ***South Gippsland Water*** during the ***regulatory period*** or the manner in which such prices are to be calculated, determined or otherwise regulated; and
  - (ii) the standards and conditions of services and supply additional to those specified in the ***Code*** which will be provided by ***South Gippsland Water*** pursuant to the decision referred to in clause 1.1(b)(ii).
- (b) For the avoidance of doubt, Annexure A does not form part of this determination.

## 2. Price control

### 2.1. General principles

Subject to this determination:

(a) **Scheduled prices**

**South Gippsland Water** must not charge more than:

- (i) the scheduled prices in Schedule 2, during the first **regulatory year**; and
- (ii) the amounts determined in accordance with clause 2.3, during each subsequent **regulatory year**,

in respect of those prescribed services to which the scheduled prices in Schedule 2 relate.

(b) **Application principles**

The application principles in Schedule 3 will apply to the prices charged by **South Gippsland Water** in respect of **prescribed services** during the **regulatory period**.

(c) **Pricing principles**

During the **regulatory period**, **South Gippsland Water** must apply the pricing principles in Schedule 4 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 4 relate.

### 2.2. Ancillary matters

(a) **Contracts**

Where **South Gippsland Water** has entered into a contract (a **relevant contract**) which relates to the provision of **prescribed services** prior to 1 July 2020, **South Gippsland Water** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 (as adjusted in accordance with this determination) or the prices determined in accordance with the pricing principles in Schedule 4 will apply for the remainder of the **regulatory period**.

(b) **Dispute Resolution**

Any question as to whether a price has been set in accordance with this determination will be determined by the commission on the basis of the commission's interpretation of this determination.

(c) **Publication**

**South Gippsland Water** must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that is relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. The list must clearly indicate in respect of each price, the amount determined in accordance with this determination, the amount of GST payable and the total price (in a manner consistent with the requirements of the *Competition and Consumer Act 2010* (Cth)).

(d) **GST**

**South Gippsland Water** will not be considered to be in contravention of this determination if a price charged by it for a **prescribed service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

## 2.3. Annual adjustment of prices

(a) **Adjustment**

(i) Subject to Schedule 2 and Schedule 5, the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formula in clause 2.3(b)(i) and the procedure in clause 2.3(c), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) **Formula**

(i) Subject to Schedule 2 and Schedule 5, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$p_t = p_{t-1} \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t)$$

where:

$p_t$  is the price component for **regulatory year** 't'

$p_{t-1}$  is the price component for **regulatory year** 't-1'

$\frac{CPI_t}{CPI_{t-1}}$  for the particular **regulatory year** is:  
the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

$PPM_t$  is the prescribed price movement for the price component for **regulatory year** t determined in accordance with Schedule 2.

- (ii) If the **commission** has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2023,  $PPM_t$  will be set equal to zero for the purpose of adjusting prices in accordance with the formula in clause 2.3(b)(i) for **regulatory years** commencing on or after 1 July 2023 until the date on which this Determination is amended or revoked by a later determination.

**(c) Adjustment procedure**

- (i) At least 30 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period**, **South Gippsland Water** must submit its proposed prices for the **prescribed services** referred to in clause 2.3(a) to apply in that subsequent **regulatory year** (the **revised scheduled prices**) to the commission for approval, together with sufficient information to enable the commission to assess whether the proposed prices comply with this determination.
- (ii) The **commission** will approve the **revised scheduled prices** if it considers that they have been calculated in accordance with the formula set out in clause 2.3(b)(i).
- (iii) The **commission** will be deemed to have approved the **revised scheduled prices** if it has not provided notice under clause 2.3(c)(iv) to **South Gippsland Water** within 20 **business days** after the date of its receipt of the **revised scheduled prices**.
- (iv) If the **commission** does not approve the **revised scheduled prices**, the **commission**:

- (A) will provide notice to **South Gippsland Water** (including a statement of its reasons);
- (B) may request **South Gippsland Water** to provide any additional information specified by the commission;
- (C) will take any additional information provided by **South Gippsland Water** into account; and
- (D) will determine the **revised scheduled prices**.

## 2.4. Price changes during a billing period

### (a) Application of this clause

This clause 2.4 applies where **South Gippsland Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this determination.

### (b) Method of charging

**South Gippsland Water** must not charge the prices determined in accordance with this determination in respect of any part of a billing period prior to the effective date of the change, but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

## 2.5. Reporting requirements

- (a) **South Gippsland Water** must make available to the commission all information reasonably requested by the commission from time to time for the purpose of enabling it to confirm that **South Gippsland Water** is complying with this determination.
- (b) Without limiting clause 2.5(a), if, during the **regulatory period**, **South Gippsland Water** enters into a **new contract** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 4 relate, **South Gippsland Water** must, within 30 **business days** of the date of the **new contract**, on request provide the commission with a notice specifying:
  - (i) details of the **new contract**; and
  - (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

- (c) Without limiting clause 2.5(a), if **South Gippsland Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:
- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **South Gippsland Water** proposes to stop providing the **prescribed service**; and
  - (ii) in the case of a refusal to provide a **prescribed service** to a customer, or potential customer, **South Gippsland Water** must provide a notice to the commission within 5 **business days** of the refusal, stating the nature of the **prescribed service** and the reason for the refusal.

## 3. Amendment of Schedule 2

### (a) Amendment

- (i) **South Gippsland Water** may apply in a **regulatory year** to the **commission** in accordance with this clause 3 and Schedule 5 for the amendment of the prescribed price movements and/or price components included in Schedule 2 for the following **regulatory year** (the **relevant regulatory year**) and all subsequent **regulatory years** remaining in the **regulatory period** (the **revised tariff schedule**).
- (ii) The average price movement for the **relevant regulatory year** and for each subsequent **regulatory year** in the **regulatory period** determined in accordance with the **revised tariff schedule** must not exceed the weighted average price movement that would otherwise have applied under this determination as calculated in accordance with the following formula.

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m ap_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}, i = 1, \dots, n; j = 1 \dots m$$

where **South Gippsland Water** has  $n$  tariff categories, which each have up to  $m$  tariff components, and where, for each **regulatory year**  $t$  for which the calculation is undertaken:

$p_{t-1}^{ij}$  is the tariff charged in **regulatory year**  $t-1$  for component  $j$  of tariff  $i$

$p_t^{ij}$  is the proposed tariff for component  $j$  of tariff  $i$  determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied

$ap_t^{ij}$  is the proposed tariff for component  $j$  of tariff  $i$  determined in accordance with Schedule 2 where the **revised tariff schedule** is applied, excluding annual adjustments to desalination costs, bulk charges, and desalination water order costs.

$q_{t-2}^{ij}$  is the quantity of component j of tariff i that was sold in **regulatory year** t-2, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** t-2 or a forecast of the quantity of component j of tariff i that is expected to be sold in **regulatory year** t-2

- (iii) An increase in any scheduled price in Schedule 2, in any regulatory year must not exceed the weighted average of all scheduled price increases in that regulatory year by more than 10% in real terms.

**(b) Amendment procedure**

- (i) An application by **South Gippsland Water** under this clause 3 must be received by the commission at least 80 **business days** prior to the commencement of the **relevant regulatory year** and must be accompanied by the following information:
- (A) (1) a clearly articulated new tariff strategy that is consistent with clause 11 of the **WIRO** (the **revised tariff strategy**); or
- (2) an explanation of how the **revised tariff schedule** is consistent with the tariff strategy for **South Gippsland Water** proposed in its price submission and approved by the commission in connection with this determination, (**the relevant tariff strategy**);
- (B) a **revised tariff schedule** that specifies proposed prices for the **relevant regulatory year** and prescribed price movements for each subsequent **regulatory year** in the **regulatory period** that is consistent with the **relevant tariff strategy**;
- (C) a statement setting out evidence demonstrating that **South Gippsland Water** has provided information to its customers explaining the **revised tariff schedule** and how it relates to the **relevant tariff strategy** and has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
- (D) a statement setting out the customer impacts resulting from the **revised tariff schedule** and actions proposed by **South Gippsland Water** to address these customer impacts; and
- (E) an explanation of the calculation of the relevant quantities ' $q_{t-2}^{ij}$ '.

- (ii) The commission may approve the **revised tariff schedule** submitted by **South Gippsland Water** under this clause 3 if it is satisfied that:
    - (A) **South Gippsland Water** has complied with clause 3(b)(i)(A);
    - (B) the price movements calculated in accordance with the **revised tariff schedule** comply with clause 3(a)(ii);
    - (C) the **revised tariff schedule** is consistent with the **revised tariff strategy**;
    - (D) **South Gippsland Water** has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
    - (E) **South Gippsland Water** has effectively addressed customer impacts resulting from the **revised tariff schedule**; and
    - (F) the basis for calculating the relevant quantities ' $q_{t-2}^{ij}$ ' is reasonable.
  - (iii) In determining whether it will approve the **revised tariff schedule**, the commission may request **South Gippsland Water** to provide any additional information specified by the commission and/or to resubmit any of the matters in clause 3(b)(i)(A)-(E).
  - (iv) The commission will be deemed to have not approved a **revised tariff schedule** if officers of the commission have not provided notice to **South Gippsland Water** within 40 **business days** from the date of its receipt of **South Gippsland Water's** application under this clause 3 specifying that the application is supported in principle subject to any reasonable revisions to be proposed by **South Gippsland Water** to enable the commission to finally approve the **revised tariff schedule** to apply for **relevant regulatory year** and for all subsequent **regulatory years** remaining in the **regulatory period**
  - (v) An approved **revised tariff schedule** will be taken to amend Schedule 2 to the extent of any inconsistency.
- (c) Guidelines
- South Gippsland Water** must comply with any guidelines issued by the commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 2 relates.

## 4. Uncertain or unforeseen events

### 4.1. General principle

- (a) **South Gippsland Water** may apply to the commission for the amendment of this determination and/or the adjustment of the scheduled prices in Schedule 2 to reflect increased or decreased costs incurred by **South Gippsland Water** and/or increased or decreased revenue received by **South Gippsland Water** as a result of events which were uncertain or unforeseen at the time this determination was made (an **uncertain events application**).
- (b) Whether or not **South Gippsland Water** makes an application under clause 4.1(a), **South Gippsland Water** must promptly notify the commission upon becoming aware of an event which could form part or all of the basis of an application.
- (c) The commission may take action under clause 4.3(b) in respect of an **uncertain events application** where the commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this determination provided that the commission is satisfied that such action takes into account the interests of customers. Generally, the matters taken into account will include positive and negative influences on revenue and expenditure. The Commission may limit an adjustment to only some events or a single event.

### 4.2. Consideration by the commission

#### (a) Examples of uncertain and unforeseen events

The matters that may, at the discretion of the commission, be taken into account by the commission under this clause 4 include:

- (i) actual licence fees or contributions payable by **South Gippsland Water** during a particular **regulatory year** during the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 24 of the *Environment Protection Act 1970* (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in Annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **South Gippsland Water** on major capital projects;
- (iii) instances where the commission is satisfied that there is a material difference between the forecast demand levels set out in Annexure A and actual demand levels for **South Gippsland Water** in one or more **regulatory years** during the **regulatory period**; and

- (iv) a change in or to any of the following:
  - (A) the **WI Act**, the *Water Act 1989 (Vic)*, the *Safe Drinking Water Act 2003 (Vic)*, the *State Owned Enterprises Act 1992 (Vic)* and the *Environment Protection Act 1970 (Vic)*;
  - (B) any licence issued pursuant to any of the Acts referred to in clause 4.2(a)(iv)(A);
  - (C) a **relevant tax**; or
  - (D) the Statement of Obligations; or
  - (E) the introduction or cessation of a statutory carbon price or tax or a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

**(b) Exclusions**

In considering an **uncertain events application**, the commission will not take into account matters that:

- (i) are or should be within **South Gippsland Water's** control;
- (ii) were or should have been known by **South Gippsland Water** at the time the determination was made;
- (iii) could reasonably have been foreseen by **South Gippsland Water**;
- (iv) should be or should have been planned for or managed by **South Gippsland Water**, and/or
- (v) reflect inefficient expenditure by **South Gippsland Water**.

**(c) Dispute resolution**

Any question as to whether a matter should be taken into account by the commission under this clause 4 will be determined by the commission in its absolute discretion.

### 4.3. Procedure

**(a) Application process**

- (i) An **uncertain events application** must be accompanied by a statement setting out:
  - (A) the details of each relevant uncertain or unforeseen event;
  - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the **regulatory period** and/or the amount and timing of any increase

or decrease in revenue associated with the relevant event during the **regulatory period**;

- (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 4.3(a)(i)(B); and
- (D) details of the proposed action to be taken by the commission under clause 4.3(b).

- (ii) The commission may identify an event or events which it considers has had or may have a material impact on **South Gippsland Water's** operating and/or capital expenditure and/or revenue and may decide to take action under clause 4.3(b) in the absence of an **uncertain events application** by **South Gippsland Water**.
- (iii) The commission may request **South Gippsland Water** to provide any additional information specified by the commission in connection with an **uncertain events application**.

**(b) Action by the commission**

If the commission is satisfied of the matters set out in clause 4.1(c) in respect of an **uncertain events application** or an event identified by the commission under clause 4.3(a)(ii), the commission may, in its absolute discretion:

- (i) amend this determination or adjust the scheduled prices in Schedule 2 and/or the revenue requirements in Annexure A with effect from a date and in a manner decided by the commission (in respect of one or more events) at a time decided by the commission; or
- (ii) take the **uncertain events application** into account in making its determination in respect of the prices which **South Gippsland Water** may charge for **prescribed services** in the **next regulatory period**.

**(c) Processes for considering an uncertain events application**

The commission will specify the processes to be followed by **South Gippsland Water** to enable the commission to consider an uncertain events application. **South Gippsland Water** is obliged to follow these processes.

## 5. Material error and unintended consequences

Where the commission is satisfied that in any material respect:

- (a) this determination or any information relied upon in the making of this determination contains an error, deficiency or miscalculation;
- (b) any information on which this determination was based was false or misleading in a material respect; or
- (c) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this determination,

the commission may decide to amend this determination and/or specify a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

In most cases, such an amendment will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the WIRO.

In some limited circumstances, the commission may amend this determination without further consultation, or with only limited consultation. This will be the case where an amendment is not sufficiently material to warrant a full consultation process, or where there is urgency that justifies the commission moving quickly, as set out in the clause 16(c) of the WIRO. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).

# Schedule 1 – Definitions and interpretation

## A Definitions

**business day** means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

**Code** means the applicable *Customer Service Code* made under section 4F of the **WI Act**.

**ESC Act** means the *Essential Services Commission Act 2001* (Vic).

**GST** has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

**miscellaneous services** means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 4.

**new contract** means any contract for **prescribed services** which is renewed, renegotiated, or entered into during the **regulatory period**.

**next regulatory period** means the period commencing on 1 July 2023 and ending on a date specified by the commission.

**prescribed services** has the meaning given in the **WIRO** and includes **miscellaneous services**.

**price submission** has the meaning given in the **WIRO**.

**regulated entity** has the meaning given in the **WIRO**.

**regulatory period** means the period commencing on 1 July 2020 and ending on 30 June 2023.

**regulatory year** means each period of twelve months commencing on 1 July and ending on 30 June.

**relevant contract** means a contract which relates to the provision of **prescribed services**.

**relevant tax** means any tax imposed by or payable directly or indirectly to any government or public authority in the Commonwealth of Australia (including **GST**) but excluding:

- (a) the licence fees referred to in clause 4.2 of this determination;
- (b) penalties and interest for late payment of any tax; or
- (c) any tax that replaces any of the taxes referred to in (a) and (b), where tax includes any rate, duty, charge or other like or analogous impost.

**WI Act** means the *Water Industry Act 1994* (Vic).

**WIRO** means the Water Industry Regulatory Order 2014 as at the date of this determination.

## B Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.
- (i) The symbol ' $\Sigma$ ' requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.
- (j) All data which is utilised in calculations made under this determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
  - (i) **regulatory year** 't' is the **regulatory year** in respect of which the calculation is being made;
  - (ii) **regulatory year** 't-1' is the **regulatory year** immediately preceding **regulatory year** 't';
  - (iii) **regulatory year** 't-2' is the **regulatory year** immediately preceding **regulatory year** 't-1'.

## Schedule 2 – Prices

This schedule should be read in conjunction with Schedule 3, Schedule 4 and Schedule 5. Variable water, wastewater, and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

Tariffs and Price Components	Price (1 July 2020)	Price (1 Nov 2020)	PPM Year 2*	PPM Year 3
<b>1.1 Water access fees (per annum)</b>				
Access fee – Developed	312.47	328.10	2.00%	2.00%
Access fee – Undeveloped	312.47	328.10	2.00%	2.00%
Access fee – Agreements	281.26	295.32	2.00%	2.00%
Access fee – Concessional	250.66	263.19	2.00%	2.00%
<b>1.2 Water usage charges (per kL)</b>				
Volumetric fee – Saputo	2.2896	2.4041	2.00%	2.00%
Volumetric fee – All Others	1.8886	1.9831	2.00%	2.00%
<b>Unmetered Fee</b>				
Based on 15kL per bill at the new volume fee	84.93	84.93	0.00%	0.00%
<b>1.3 Sewerage access fees (per annum)</b>				
<b>Residential and non-residential (cistern and trade waste not applicable)</b>				
Access fee – Developed	484.95	509.20	2.00%	2.00%
Access fee – Undeveloped	274.39	288.11	2.00%	2.00%
<b>1.4 Cistern access and disposal fees (per annum)</b>				
<b>Non-residential with multiple cisterns</b>				
1 – 2 Cisterns	165.13	173.38	2.00%	2.00%
3 – 5 Cisterns	434.38	456.10	2.00%	2.00%
6 – 10 Cisterns	841.15	883.21	2.00%	2.00%
11 – 15 Cisterns	1,346.86	1,414.21	2.00%	2.00%
16 – 20 Cisterns	2,245.78	2,358.07	2.00%	2.00%
21 – 26 Cisterns	3,214.31	3,375.03	2.00%	2.00%

Tariffs and Price Components	Price (1 July 2020)	Price (1 Nov 2020)	PPM Year 2*	PPM Year 3
27 – 35 Cisterns	3,939.81	4,136.80	2.00%	2.00%
36 – Greater Cisterns	4,501.88	4,726.97	2.00%	2.00%
<b>Cistern volume disposal charge</b>				
Volume Charge (per kL)	1.8886	1.9831	2.00%	2.00%
<b>1.5 Minor trade waste fees</b>				
<b>Non-residential with trade waste parameters (standard terms and conditions)</b>				
<b>Application fees (per application)</b>				
Category 1	132.08	132.08	0.00%	0.00%
Category 2	210.71	210.71	0.00%	0.00%
Category 3	385.73	385.72	0.00%	0.00%
<b>Minor trade waste access fees (per annum)</b>				
Access fee – Category 1	670.24	703.75	2.00%	2.00%
Access fee – Category 2	890.31	934.83	2.00%	2.00%
Access fee – Category 3	1,104.47	1,159.69	2.00%	2.00%
<b>Minor trade waste disposal charge (per kL)</b>				
Volumetric fee – All Others	0.9026	0.9477	2.00%	2.00%
<b>Quality fees (per kg)</b>				
BOD	0.7285	0.7285	0.00%	0.00%
SS	0.6874	0.6874	0.00%	0.00%
Nitrogen	3.0773	3.0773	0.00%	0.00%
Phosphorous	17.5326	17.5326	0.00%	0.00%
<b>Other fees</b>				
Treatment violation fee	316.02	316.02	0.00%	0.00%
Asset protection fee	1,541.60	1,541.60	0.00%	0.00%
Additional sampling (per sample) at cost recovery	At cost	At cost		

Tariffs and Price Components	Price (1 July 2020)	Price (1 Nov 2020)	PPM Year 2*	PPM Year 3
<b>Exceedance fees (per kg)</b>				
Oil & Grease	0.1097	0.1097	0.00%	0.00%
Sodium	0.1097	0.1097	0.00%	0.00%
TOS	0.7855	0.7855	0.00%	0.00%
<b>1.6 Backflow (SGW Supplied)</b>				
20mm	319.71	335.70	2.00%	2.00%
25mm	352.17	369.77	2.00%	2.00%
32mm	421.33	442.40	2.00%	2.00%
40mm	440.16	462.17	2.00%	2.00%
50mm	543.20	570.36	2.00%	2.00%
80mm	895.85	940.65	2.00%	2.00%
100mm	1,144.51	1,201.74	2.00%	2.00%
150mm	1,184.29	1,243.50	2.00%	2.00%
Backflow Application Fee	284.49	284.49	0.00%	0.00%
<b>1.7 Fire Service Fees</b>				
Inspection Fee	79.24	79.24	0.00%	0.00%
20mm	79.24	79.24	0.00%	0.00%
25mm	79.24	79.24	0.00%	0.00%
32mm	79.24	79.24	0.00%	0.00%
40mm	79.24	79.24	0.00%	0.00%
50mm	79.24	79.24	0.00%	0.00%
80mm	79.24	79.24	0.00%	0.00%
100mm	79.24	79.24	0.00%	0.00%
150mm	79.24	79.24	0.00%	0.00%
Reseal Fee	256.72	256.72	0.00%	0.00%
Additional Meter	22.10	22.10	0.00%	0.00%
<b>1.8 New customer contributions</b>				
<b>Water (all customers)</b>				
All lot sizes	2,369.26	2,369.26	0.0%	0.0%
<b>Sewer (all customers)</b>				

Tariffs and Price Components	Price (1 July 2020)	Price (1 Nov 2020)	PPM Year 2*	PPM Year 3
All lot sizes	2,369.26	2,369.26	0.0%	0.0%
<b>Pressure sewer systems (negotiated fee in addition to standard fee) e.g. Poowong Loch, Nyora and Alberton</b>				
Infrastructure charge - cost recovery per connection	At cost	At cost		
<b>1.9 Miscellaneous fees and charges</b>				
Property information statements	59.01	59.01	0.00%	0.00%
Special meter readings	45.36	45.36	0.00%	0.00%
As constructed charge	74.03	74.03	0.00%	0.00%
Tapping fee (20mm)	407.82	407.82	0.00%	0.00%
Plumbing Industry Commission (PIC) Fee (standard)	228.96	228.96	0.00%	0.00%
Sewer cut-in	713.30	713.30	0.00%	0.00%
Standpipe water sales				
– registered users	6.1008	6.4058	2.00%	2.00%
– non-registered users	8.1344	8.5411	2.00%	2.00%
Septic tank waste receipt (kL)	27.89	27.89	0.00%	0.00%
Non Core Miscellaneous Services	At cost	At cost		

\*PPM increase is on 1 November 2020 maximum price. In calculating prices for year 2, the year t-1 will reference the maximum price for 1 November 2020. Our final decision on South Gippsland Water's prices is set out on pp 26 of our 2020 final decision.

As set out in clause 1.1(d) of this determination, the role of the commission in making this determination is limited to specifying the maximum prices that **South Gippsland Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the responsibility of **South Gippsland Water** to ensure its tariffs are authorised by the **Water Act 1989 (Vic)** and are applied to customers in accordance with this Act and this determination. The commission does not have a role in hearing or resolving disputes regarding the lawfulness of **South Gippsland Water's** charges.

## Schedule 3 – Application principles to apply to prices

### 3.1 Water access fee and water usage charges

It is the role of **South Gippsland Water** to ensure that its fixed water service charges (water access fees) and water usage charges are authorised under the **Water Act** and applied in accordance with this **Act** and this determination.

### 3.2 Sewerage access fees (residential and non-residential customers)

It is the role of **South Gippsland Water** to ensure that its fixed sewerage service charges (sewerage access fees) are authorised under the **Water Act** and applied in accordance with this **Act** and this determination.

Residential sewerage customers are not subject to any cistern/trade waste charges. Non-residential customers may instead pay a cistern access and volume fee and/or a trade waste access fee as described.

### 3.3 Cistern access fees (non-residential customers)

Cistern access fees are applied to relevant non-residential customers considered to dispose large volumes of waste (as identified by multiple cisterns). Some of these customers may also discharge trade waste in which case they can be charged both a cistern access fee and trade waste access fee (where their waste impacts on both volume and trade waste parameters). In these rare circumstances, only the volumetric cistern waste charges would be applied.

Cistern customers are not also subject to the sewerage access fee.

### 3.4 Cistern volumetric charge (non-residential customers)

Cistern volumetric charges are applied to relevant non-residential customers considered to dispose large volumes of waste (as identified by multiple cisterns). The volumetric charge is levied as a percentage of metered water use. The percentage varies based on the activity of the non-residential customer as follows:

Percentage	Activity
80 per cent	Business, Community Services, Education, Religious, Dwelling
55 per cent	Tourism, Hospitals
30 per cent	Sporting

### 3.5 Minor trade waste fees

Minor trade waste fees are distinguished from major trade waste customers by application of standard terms and conditions contained within the minor trade waste agreement. Trade waste access fees, volumetric, quality, and other trade waste charges are applied to non-residential customers based on trade waste parameters contained within the disposed waste. Some customers can be charged both a cistern access fee and a trade waste access fee (where their waste impacts on both cistern and trade waste loadings), however, in these rare circumstances, only the volumetric cistern waste charges would be applied.

Trade waste customers are not also subject to the sewerage access fee.

### 3.6 Miscellaneous fees and charges

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
<b>Property information statements (per application)</b>	Fee imposed for providing a certificate issued in accordance with Section 158 of the <i>Water Act 1989</i> .
<b>Special meter readings (per application)</b>	Fee imposed for providing a certificate which indicates water usage charges up to a specified date. Generally provided, on application, for property sales.
<b>As constructed charge</b>	Fee charged to cover administration costs for time spent on processing new developer funded applications.
<b>Water tapping fee</b>	Fee imposed for meter and labour associated in providing a tapping to the water main.
<b>Plumbing Industry Commission (PIC) fee (per application)</b>	Fee imposed for providing sewer plans and processing applications to connect or modify plumbing.
<b>Sewer cut in fee</b>	Fee imposed for meter and labour associated in providing a tapping to the sewer main.
<b>Standpipe water sales</b>	Fee imposed for the sale of water via a metered standpipe.
<b>Septic tank waste receival (per kL)</b>	Fee imposed on septic tank waste carters, for the disposing of sewage and/or other acceptable waste.

## Schedule 4 – Pricing principles

### 4.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where **South Gippsland Water** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to **South Gippsland Water** or pursuant to other government policies that apply to **South Gippsland Water** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

### 4.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner;
- the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the commission;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer);

- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the commission for the purposes of making this determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any determination made by the commission;
- where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

### 4.3 Pricing principles for New Customer Contributions (NCC)

#### Core pricing principles

NCC, including standard or negotiated NCC, will be calculated by applying the following core NCC pricing principles.

Standard and negotiated NCC will:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- have regard to the incremental future revenues that will be earned from customers at that connection;
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

Notes:

1. Given that NCC are to be based on the net incremental cost of connection (i.e. incremental costs net of incremental benefits), in this context, the costs referred to in the efficient pricing bound are the net costs, specifically the avoidable net cost of connection and standalone net cost of connection.
2. Where the connection arrangement requires assets to be gifted, the value of gifted assets will be excluded for the purpose of calculating net costs.
3. Incremental costs may include financing costs associated with constructing an asset sooner than planned.

#### Incremental financing costs

Incremental financing costs (IFC) should be calculated using this formula:

$$IFC = \left(1 - \left[\frac{1}{(1+r)^n}\right]\right) \times \text{cost of capital being provided sooner than planned}$$

where:

- r** estimated pre-tax regulatory rate of return
- n** the number of years the asset is required sooner than planned.

### Gifted Assets

**South Gippsland Water** can require developers to provide and gift to **South Gippsland Water** specified assets as a condition of connection, provided that **South Gippsland Water**:

- makes clear to potential developers which assets a developer will be responsible for providing and gifting, and which will be provided by **South Gippsland Water**;
- confirms that negotiation of any non-standard connection and associated charges will be undertaken in accordance with **South Gippsland Water's** published negotiating framework; and
- the value of gifted assets will be excluded for the purposes of calculating net costs.

### New customer contributions

A region wide standard charge for NCC for water and sewer will apply to all new connections. In addition, a negotiated infrastructure charge will apply to areas served by pressure sewerage systems. The infrastructure charge will directly cover the cost incurred by the Corporation for installation of on property equipment (individual pump stations, control boxes and connections). The Corporation will install the pressure sewer system infrastructure, with costs to be borne by the developer or property owner as part of construction.

## 4.4 Pricing principles for miscellaneous services not included in Schedule 2

Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials, and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

## 4.5 Guidelines

**South Gippsland Water** must comply with any guidelines issued by the commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 4 relates.

## Schedule 5 – Adjustment for changes in costs associated with Melbourne Water Corporation bulk water charges and with annual updates to the trailing average cost of debt

If in any **regulatory year** Condition A and/or Condition B and/or Condition C as specified in Schedule 5B applies, the formula set out in clause 2.3(b) is not applicable to the extent it relates to the prices outlined in Schedule 5A (being the prices set out in 1.1 to 1.5 of Schedule 2 of this determination).

Instead the prices above will be adjusted in accordance with the formulas (as applicable) specified in Schedule 5B, with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**.

**South Gippsland Water** must comply with any guidance issued by the commission from time to time which relate to the adjustment of costs associated with Melbourne Water Corporation bulk water charges, and any annual updates to the trailing average cost of debt, and the consequential adjustments to the setting of prices for **prescribed services** referred to in Schedule 5A .

### Schedule 5A – Adjustments to prices

	Condition A (Annual cost of debt update)	Condition B (Melbourne Water bulk water headworks cost change)	Condition C (Melbourne Water bulk water transfer cost change)
1.1 Water access fees	X		
1.2 Water usage charges (per kL)		X	X
1.3 Sewerage access fees	X		
1.4 Cistern access fees	X		
1.5 Trade waste access fees	X		

Schedule 5 – Adjustment for changes in costs associated with Melbourne Water Corporation bulk water charges and with annual updates to the trailing average cost of debt

## Schedule 5B – Prices

### Condition A – Annual cost of debt update

Condition A will apply when the trailing average cost of debt in any **regulatory year** 't' changes in that year. The adjustment is calculated as per formula 4.

The difference in the forecast and actual regulatory rate of return in any **regulatory year** 't' is multiplied by the average of the regulatory asset base (RAB) to determine the change in **South Gippsland Water's** total expected return. The RAB is set out in Table 5 of Annexure A.

The trailing average cost of debt adjustment will be apportioned across the tariffs listed in Schedule 5A.

### Formula 1: Determining the nominal cost of debt

$$CoD_t^{nominal} = \sum_{i=t-10}^{t-1} \frac{CoD_i^{nominal}}{10}$$

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$CoD_t^{nominal}$  Is equal to the simple average of the 10 years up to (but not inclusive of) **regulatory year** 't' of:

- The data series outlined in Table 1 of Annexure A
- and
- RBA Table F3 – Non-financial corporate BBB-rated bonds – Yield – 10 year target tenor [Series ID FNFYBBB10M]
- from 1 April to 31 March before the start of **regulatory year** 't' (e.g. 1 April 2019 to 31 March 2020 in relation to 2020-21)
- 

### Formula 2: Determining the real cost of debt

$$CoD_t^{real} = \frac{(1 + CoD_t^{nominal})}{(1 + \pi^{det})} - 1$$

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$\pi^{det}$  Is the inflation factor which is equal to 1.7% for all regulatory years

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Formula 2 outlines the process for converting the trailing average cost of debt from nominal to real using the Fisher equation.

### Formula 3: Determining the real regulatory rate of return

$$RRR_t^{real} = 0.4 \times CoE_t^{real} + 0.6 \times CoD_t^{real}$$

$RRR_t^{real}$	Is the post-tax ‘vanilla’ regulatory rate of return in real terms for <b>regulatory year ‘t’</b> rounded to two decimal places, i.e. 3.963% is rounded to 3.96%
$CoE_t^{real}$	Is the real cost of equity determined through <b>South Gippsland Water’s</b> PREMO rating, which is equal to 4.5% for 2020-21 to 2022-23

### Formula 4: Trailing average cost of debt adjustment

$$CDA_t^j = (RRR_t^{act} - RRR_t^{det}) \times \left( \frac{RAB_{opening,t}^{det} + RAB_{closing,t}^{det}}{2} \right) \times \frac{CPI_t}{CPI_{base}} \times \frac{\alpha_t^j \times q_{j,t}^{det}}{\sum_{j=1,n} (\alpha_t^j \times q_{j,t}^{det})} \times \frac{1}{q_{j,t}^{det}}$$

$CDA_t^j$	Is the trailing average cost of debt adjustment applied proportionally to tariff j, based on tariff j’s relative share of total revenues. Total revenues refer to the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply
$RRR_t^{act}$	Is the actual calculated real post tax ‘vanilla’ regulatory rate of return in <b>regulatory year ‘t’</b>
$RRR_t^{det}$	Is the determination real post tax ‘vanilla’ regulatory rate of return in <b>regulatory year ‘t’</b>
$RAB_{opening,t}^{det}$	Is the determination opening regulatory asset base in <b>regulatory year ‘t’</b>
$RAB_{closing,t}^{det}$	Is the determination closing regulatory asset base in <b>regulatory year ‘t’</b>
$CPI_t$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant <b>regulatory year</b>

$CPI_{base}$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter in year 2019 equal to 114.1
$\alpha_t^j$	Is the price for tariff j at <b>regulatory year</b> 't' before the cost of debt adjustment where:  $\alpha_t^j = p_{t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j)$
$p_{t-1}^j$	Is the price for tariff j in <b>regulatory year</b> 't-1'
$q_{j,t}^{det}$	Is the determination quantity for tariff j in <b>regulatory year</b> 't'
$\sum_{j=1,n}^{t=t} (\alpha_t^j \times q_{j,t}^{det})$	Is the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply

Formula 4 outlines the process for calculating the adjustment to prices outlined in Schedule 5A to reflect the new cost of debt. This is done in two steps. The first step is to calculate the change in the revenue requirement by multiplying the adjustment to the rate of return, to reflect the updated cost of debt, by the average regulatory asset base.

The second step is to apply the change in the revenue requirement proportionally to tariff j, based on tariff j's relative share of total revenues. Total revenues are defined as the sum of all revenues received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply.

### Formula 5: Schedule 5A tariffs

$$p_t^{j,COD} = p_{t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j) + CDA_t^j$$

$p_t^{j,COD}$	Is the price for tariff j at <b>regulatory year</b> 't' that accounts for the cost of debt adjustment. The cost of debt adjustment will apply to the tariffs listed in Schedule 5A
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$p_{t-1}^j$	Is the price for tariff j in <b>regulatory year</b> 't-1'
$CPI_t$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant <b>regulatory year</b>
$PPM_t^j$	The prescribed price movement for the price component for tariff j in <b>regulatory year</b> 't' as per the Determination
$CDA_t^j$	Is the trailing average cost of debt adjustment applied proportionally to tariff j, based on tariff j's relative share of total revenues as outlined in formula 4. Total revenues refer to the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply.

#### Condition B – Bulk water headworks costs adjustment

Condition B will apply when **Melbourne Water's** bulk water headworks costs in any **regulatory year** 't' differ from forecast in that year. The changes in costs will be calculated in accordance with formula 6 and formula 7 and apply to the tariffs listed in Schedule 5A.

#### Condition C – Bulk water transfer cost adjustment

Condition C will apply when the **Melbourne Water's** bulk water transfer costs in any **regulatory year** 't' differ from forecast in that year. The changes in costs will be calculated in accordance with formula 8 and apply to the tariffs listed in Schedule 5A.

#### Formula 6: Water usage charge

$$p_{WU,t}^j = p_{WU,t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j) + BWHA_{WU,t}^j + BWTA_{WU,t}^j$$

Schedule 5 – Adjustment for changes in costs associated with Melbourne Water Corporation bulk water charges and with annual updates to the trailing average cost of debt

$p_{WU,t}^j$	Is the water usage charge for tariff j in <b>regulatory year</b> 't' that accounts for changes in <b>Melbourne Water</b> bulk water headworks and transfer costs (for example, from changes in <b>Melbourne Water's</b> cost of debt)
$p_{WU,t-1}^j$	Is the water usage charge for tariff j in <b>regulatory year</b> 't-1'
$CPI_t$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant <b>regulatory year</b>
$PPM_t^j$	The prescribed price movement the price component tariff j in <b>regulatory year</b> 't' as per the Determination
$BWHA_{WU,t}^j$	Is the bulk water headworks price adjustment applied to <b>South Gippsland Water's</b> water usage tariff j in <b>regulatory year</b> 't' to account for changes in <b>Melbourne Water's</b> bulk water headwork costs trailing average cost of debt and desalination contract cost changes as outlined in formula 7.
$BWTA_{WU,t}^j$	Is the bulk water transfer price adjustment applied to <b>South Gippsland Water's</b> water usage tariff j in <b>regulatory year</b> 't' to account for changes in <b>Melbourne Water's</b> bulk water transfer costs outlined in formula 8.

### Formula 7: Bulk water headworks price adjustment

$$BWHA_{WU,t}^j = PT_{WU,t}^{BWH} \times \frac{\alpha_{WU,t}^j \times q_{WU,t}^{j,det}}{\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})} \times \frac{1}{q_{WU,t}^{j,det}}$$

$BWHA_{WU,t}^j$	Is the price adjustment to the water usage charge for tariff j ( $p_{WU,t}^j$ ) from changes to <b>Melbourne Water's</b> bulk water headworks costs ( $PT_{WU,t}^{BWH}$ ) as a proportion of the total water service revenue $\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})$ .
$PT_{WU,t}^{BWH}$	Is the total amount of expenditure to be passed through (either positive or negative) in <b>regulatory year</b> 't' on the water usage service charges to account for changes in <b>Melbourne Water's</b> bulk headworks costs.
$\alpha_{WU,t}^j$	The water usage charge for tariff j in <b>regulatory year</b> 't' before the bulk headworks cost and cost of debt adjustments where:

$$\alpha_{WU,t}^j = p_{WU,t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j)$$

$q_{WU,t}^{j,det}$

Is the determination quantity for tariff j in **regulatory year** 't'

$$\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})$$

Is the sum of all revenue received across water usage charges in **regulatory year** 't'

### Formula 8: Bulk water transfer price adjustment

$$BWT A_{WU,t}^j = PT_{WU,t}^{BWT} \times \frac{\alpha_{WU,t}^j \times q_{WU,t}^{j,det}}{\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})} \times \frac{1}{q_{WU,t}^{j,det}}$$

$BWT A_{WU,t}^j$

Is the price adjustment to the water usage charge for tariff j ( $p_{WU,t}^j$ ) from changes to **Melbourne Water's** bulk water transfer costs ( $PT_{WU,t}^{BWT}$ ) as a proportion of the total water service revenue  $\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})$ .

$PT_{WU,t}^{BWT}$

Is the total amount of expenditure to be passed through (either positive or negative) in **regulatory year** 't' on the water usage charge as a result of changes in **Melbourne Water's** bulk water transfer costs (due to a transfer of water from **Melbourne Water's** system)

$\alpha_{WU,t}^j$

The water usage charge for tariff j in **regulatory year** 't' before the bulk water cost and cost of debt adjustments where

$$\alpha_{WU,t}^j = p_{WU,t-1}^j \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t^j)$$

$q_{WU,t}^{j,det}$

Is the determination quantity for tariff j in **regulatory year** 't'

$$\sum_j^n (\alpha_{WU,t}^j \times q_{WU,t}^{j,det})$$

Is the sum of all revenue received across water usage charges in **regulatory year** 't'

**The Common Seal of the  
Essential Services  
Commission** was affixed to  
this Determination with the  
authority of the commission.

Date: 15 June 2020



A handwritten signature in blue ink, appearing to read "Kate Symons", written over a horizontal line.

**Kate Symons**

**Chairperson**

## Annexure A

**Table 1** Historical cost of debt (nominal)

Per cent

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Cost of debt	7.05%	6.31%	5.27%	7.05%	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%

**Table 2** Forecast real regulatory rate of return

Per cent

	2020-21	2021-22	2022-23
Regulatory rate of return	3.96%	3.96%	3.96%

**Table 3** Benchmark revenue requirement

\$m 2019-20

	2020-21	2021-22	2022-23
Operating expenditure	20.7	20.7	20.6
Return on assets	6.9	7.1	7.4
Regulatory depreciation	4.8	5.2	5.7
Adjustments from last period	0.0	0.0	0.0
Non-prescribed revenue offset of revenue requirement	-0.2	-0.2	-0.2
Tax allowance	0.0	0.0	0.0
<b>Final decision revenue requirement</b>	<b>32.3</b>	<b>32.9</b>	<b>33.4</b>
Forgone revenue	-1.9	-1.1	-0.6
<b>Forecast revenue collection</b>	<b>30.3</b>	<b>31.8</b>	<b>32.8</b>

**Table 4 Updated regulatory asset base**

\$m 2019-20

	2017-18	2018-19
Opening RAB at 1 July	149.4	159.7
<i>Plus</i> Gross capital expenditure	33.4	15.1
<i>Less</i> Government contributions	18.0	7.2
<i>Less</i> Customer contributions	0.6	1.5
<i>Less</i> Proceeds from disposals	0.1	0.0
<i>Less</i> Regulatory depreciation	4.4	4.1
<b>Closing RAB at 30 June</b>	<b>159.7</b>	<b>161.9</b>

**Table 5 Rolled forward regulatory asset base**

\$m 2019-20

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

**Table 6 Approved licence fee and environmental contribution assumptions**

\$m 2019-20

	2020-21	2021-22	2022-23
Essential Services Commission licence fee	0.01	0.01	0.02
Department of Health and Human Services licence fee	0.01	0.01	0.01
Environment Protection Authority licence fee	0.05	0.05	0.05
Environmental contribution	1.21	1.19	1.17

**Table 7 Bulk water purchases**

\$m 2019-20

	2020-21	2021-22	2022-23
Bulk water purchases	0.79	0.56	0.56

**Table 8 Demand forecast**

	2020-21	2021-22	2022-23
<b>Water assessments (no.)</b>			
Total	22,373	22,743	23,124
<b>Sewerage assessments (no.)</b>			
Total	19,643	19,978	20,323
<b>Billable water consumption (kL)</b>			
Residential	3,363,519	3,414,462	3,466,760
Non-residential	1,521,000	1,551,000	1,551,000
Total	4,884,519	4,965,462	5,017,760

**Table 9 Major capital projects**

Projects	Expected start date	Expected completion date
Wonthaggi Low Level Basin Pump Station Renewal	2019-20	2020-21
Leongatha Water Supply Augmentation	2020-21	2020-21
Leongatha Wastewater Treatment Plant Inlet Works	2020-21	2021-22
Leongatha Raw Water Transfer Main	2020-21	2022-23
Sewerage System Expansion (Inverloch)	2020-21	2022-23

Port Albert Vacuum Sewer Renewal	2021-22	2023-24
Service Basin Cover and Liner Replacements	2020-21	2024-25
Wonthaggi Wastewater Treatment Plant Augmentation	2021-22	2024-25
Facilities Strategy	2022-23	2024-25
Sewer System Augmentation – Wonthaggi Mains	2018-19	2026-27