

# 2024 WATER PRICE REVIEW – ASSESSMENT OF GOULBURN MURRAY WATER'S TARIFF REFORMS

**FINAL REPORT**

*Version 2*

2



## Document information

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# 1 BACKGROUND

## 1.1 Introduction

The Essential Services Commission (the Commission) engaged Egis to undertake an assessment of Goulburn Murray Water's (GMW) tariff reforms which GMW is proposing as part of its Price Submission 2024.

The key outcomes from the assessment was to evaluate whether GMW's proposed tariffs:

- associated with tariff reforms are consistent with the requirements of the economic regulatory framework and the Commission's guidance; and
- address any complex tariff related issues raised by customers which have been referred to Egis by the Commission.

## 1.2 Role of the Commission

The Commission is the independent economic regulator in Victoria with a range of functions including regulating prices, access and other matters pertaining to regulated industries in the state of Victoria. With specific regard to water, the Commission regulates prices and monitors service standards and market conduct of Victoria's water corporations.

The objective of the Commission is to promote the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services. The Commission achieves these objectives by seeking:

- efficiency in the industry and incentives for long-term investment;
- financial viability of the industry;
- degree of, and scope for, competition within the industry;
- relevant health, safety, environmental and social legislation applying to the industry;
- benefits and costs of regulation for consumers and users of products or services and for regulated entities; and
- consistency in regulation between states and on a national basis.

The Commission's role entails assessing each water corporation's price submission in a manner consistent with the requirements of the regulatory framework that guides its role. The regulatory framework places an emphasis on the Commission approving prices that promote the efficient delivery of services by water corporations.

The Commission issued its Guidance Paper in September 2022 relating to the 2024 GMW price review. The Commission received in late September 2023 a price submission from GMW, which outlined the proposed tariffs and tariff reforms relating to the 2024-28 regulatory period.

Customers and other stakeholders are provided the opportunity to provide input and feedback on GMW's 2024 Price Submission. This is an important part of the price review process and the Commission considers any input and feedback it receives ahead of its draft and final decisions.

## 1.3 Description of services

The key deliverables for the assessment include the following:

1. Review of GMW's proposed tariffs and reforms in relation to:
  - a. drainage (surface and subsurface);
  - b. bulk water;
  - c. Woorinen Service Point Fees; and
  - d. Cosgrove entitlement.

- Advise the Commission on complex tariff related issues raised by customers during the consultation process. The Diverters customer group made formal submissions to the Commission relating to GMW's 2024 Price Submission. The Commission expanded the scope of our assessment to include the customer issues outlined in Figure 1 below.

**FIGURE 1 TARIFF ISSUES - DIVERTERS**

| Tariff            | Stakeholder Issue                |  |
|-------------------|----------------------------------|--|
| Service Point Fee | Deeming cost                     | Not reasonable to apply deeming costs to all unmetered users. If to be charged, domestic and stock unregulated streams should not bear the brunt of the costs, it should be apportioned across all GMW customers.<br><br>Deeming costs promote cross-subsidisation.  |
|                   | Inspection and surveillance cost | Not reasonable for these costs to be unrelated to entitlements.  |
|                   | Who fee applies to               | Should be removed from the fees unregulated domestic and stock pays given no services received.  |
| Customer Fee      | Treatment of gifted assets       | The exclusion of gifted assets from the Regulatory Asset Base has the effect of reducing GMW's depreciation expense which means unregulated and groundwater domestic and stock bear a higher share of corporate overheads than would otherwise be the case.  |
| Access Fee        | Tariff basis                     | Levying this cost on a service point basis is unreasonable. If charging is on the basis of underlying activities relating to diverters on unregulated streams which is presumed to be monitoring and responding to catchment rainfall and streamflow data, the charge should be based on water entitlement volume not a service point basis. |
|                   | Who fee applies to               | Should be removed from the fees unregulated domestic and stock pays given no services received.  |

Source: Commission

In providing advice on the above, Egis considered the following:

- the guidance paper issued by the Commission on how it will assess GMW's tariff reforms; and
- the information in GMW's price submission (and accompanying information templates) and any explanations GMW provided on how it derived the tariffs.

#### 1.4 Reliance on GMW data and information

Egis has relied on the data and information provided by GMW in completing this report. As part of its analysis, Egis has not undertaken detailed checking and verification of the data provided by GMW.

#### 1.5 Report structure

An outline of the methodology applied by Egis in its assessment is provided in Section 2.

Section 3 considers the proposed tariff reforms which are within the scope of the assessment.

The review of the tariff related issues raised by the Diverters customer group and referred to Egis by the Commission are outlined in Section 4.

## 2 METHODOLOGY

### 2.1 Overall methodology

The overall methodology applied by Egis included a two-stage assessment to meet the requirements of the Commission's project specification. Figure 2 below provides a diagrammatic summary of the methodology applied in the assessment.

**FIGURE 2 OVERALL METHODOLOGY**



Source: Egis

For each stage of our assessment, we followed the key steps outlined in Figure 3 below:

**FIGURE 3 ASSESSMENT METHODOLOGY**

|                                    |                       |   |
|------------------------------------|-----------------------|---|
| STEP 1<br>INFORMATION<br>DISCOVERY | Documents             | <ul style="list-style-type: none"> <li>Reviewed Goulburn Murray Water’s Price Submission</li> <li>Reviewed relevant information available on Goulburn Murray Water’s website</li> </ul>                                       |
|                                    | Goulburn Murray Water | <ul style="list-style-type: none"> <li>Meet with Goulburn Murray Water</li> <li>Requested additional information</li> <li>Followed up information requests and held additional meetings with Goulburn Murray Water</li> </ul> |
| STEP 2<br>ANALYSIS                 | High level assessment | <ul style="list-style-type: none"> <li>Checked quality of Goulburn Murray Water’s Price Submission against Commission’s Guidance Paper</li> <li>Prepared preliminary findings and next steps</li> </ul>                       |
| STEP 3<br>REPORTING                | Weekly Updates        | <ul style="list-style-type: none"> <li>Provided weekly updates to Commission on progress, discussed next steps and any issues</li> </ul>  |
|                                    | Preliminary findings  | <ul style="list-style-type: none"> <li>Provided a summary of preliminary findings to the Commission</li> <li>Discussed and agreed on next steps</li> </ul>  |
|                                    | Draft & Final Report  | <ul style="list-style-type: none"> <li>Prepared draft report</li> <li>Sought feedback from Goulburn Murray Water and Commission</li> <li>Prepared final report for Commission’s draft decision</li> </ul>                     |

Source: Egis

## 2.2 Stage 1 – Assessment of Tariff reforms

Stage 1 focused on the tariff reforms included in the assessment’s scope and completing a high-level review against the key requirements of the regulatory requirements and the Commission’s guidance.

The Stage 1 assessment considered the following key matters:

- justification for changes to tariff strategy;
- pricing principles that apply to the tariff reforms;
- consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies;
- engagement with customers on the proposed changes; and
- indicative bill impacts for key customer groups, including the attributes applying to each customer size.

Egis’ methodology involved gaining an understanding of GMW’s tariff reforms and the drivers behind the proposed changes. Our initial understanding was based on GMW’s Price Submission 2024 and accompanying information templates.

As agreed with the Commission, the tariff review was based on a high-level assessment of the proposed tariff reforms against the Commission’s regulatory obligations and guidance.

The approach included two workshops with GMW to gain a deeper understanding of the proposed tariff reforms and to discuss the additional data and information required to complete our assessment.

We requested further information from GMW relating to the tariff changes, including revenue and tariff models, to assess compliance against the Commission’s guidance relating to tariff reforms.



The key question was to determine if the new tariff structures are consistent with the Commission’s guidance and economic regulatory framework.

### 2.3 Stage 2 – Assessment of customer tariff issues

The Stage 2 assessment related to the tariff issues raised by customers and referred to Egis by the Commission. The Diversifiers customer group raised a number of issues during the Commission’s price review consultation process associated with three tariffs related to their services.

The focus of the Stage 2 assessment is twofold:

- a high-level assessment against the key requirements of the regulatory requirements and the Commission’s guidance; and
- consideration of the stakeholder issues referred to Egis by the Commission.

### 2.4 Information provided by GMW

GMW provided written responses to the questions in our information requests which were supported by high level financial information for each of the tariffs included in the scope of our assessment. The financial information was based on a profit and loss format which showed the revenue requirement for the relevant pricing entity. For some pricing entities, GMW provided tariff calculations, customer impact analysis and scenario modelling.

GMW provided a tariff calculation model for the Service Point tariff, which was a more complex calculation as it includes all customers and various combinations of customer attributes.



### 3 STAGE 1 ASSESSMENT OF TARIFF REFORMS

#### 3.1 Surface drainage

##### 3.1.1 Overview of proposed reforms

The tariff reforms associated with surface drainage have been justified by GMW based on the three main factors outlined in Figure 4 below:

**FIGURE 4 PROPOSED TARIFF REFORMS - SURFACE DRAINAGE**

| Issue                              | Description   |
|------------------------------------|---|
| <b>Change in service and costs</b> | Change in service and GMW’s costs due to reduced drainage runoff as a result of reduced rainfall associated with climate change as well as a reduction in the irrigation footprint combined with more efficient irrigation water use. These changes have consequently reduced GMW’s operating costs.  |
| <b>Amalgamation of services</b>    | Amalgamation of services for Primary Surface Drainage (PSD) (5,800 properties) and Community Surface Drainage (CSD) (160 properties). PSD and CSD have similar cost structures despite some drains built prior to 1990s having slightly higher service levels. GMW claims to have accounted for the difference in how capital costs have been funded with CSD being 50% customer funded compared to PSD being 100% government funded. GMW states that during Regulatory Period 6, CSD customers will be no worse off.   |
| <b>Tariff simplification</b>       | <p>Simplifying the surface drainage tariff structure to reduce administrative effort and increase customer understandability. The tariff structure changes include:</p> <ul style="list-style-type: none"> <li>■ reducing the number of pricing entities from 7 entities to 4 entities by creating East, West and Central tariff groups (Tyntynder would remain stand-alone pending further review during Regulatory Period 6 given its different nature (pumped outfall) and associated costs)</li> <li>■ reducing the number of tariffs from 4 tariff to 3 under the proposed reforms</li> <li>■ removing the High Flow Site Fee as this is a notional fee with no revenue collected</li> <li>■ Water Use Fee to be phased out and transitioned to an Area Fee</li> <li>■ implementation of a standard Drain Diversion Site Fee (\$55) and removal of the Agreement Volume Fee</li> </ul> |

Source: Egis



### 3.1.2 High level assessment against Commission guidance

Our high-level assessment against the Commission’s guidance associated with tariff reform is outlined in Figure 5 below:

**FIGURE 5 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE - SURFACE DRAINAGE**

| Supporting Information Requirement   | Assessment  |
|--|---|
| <b>Justification of change including how new tariffs apply</b>   | GMW has justified the changes which are outlined in Figure 4 above  |
| <b>Pricing principles that apply</b>   | <ul style="list-style-type: none"> <li>■ tariff adjustments to reflect a change in service</li> <li>■ tariff simplification</li> </ul>  |
| <b>Consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies</b> | <p>The proposed tariff changes better align the revenues with the services being delivered.</p> <p>The creation of new pricing entities following the amalgamation of services and renaming tariffs has created pricing which is more closely aligned to GMW cost structures. This will assist with providing signals about the efficient cost of delivering services and minimising cross-subsidies.</p> <p>It is recommended that GMW collect actual cost data over Regulatory Period 6 to provide empirical evidence that cost reflectivity is maintained.</p> |
| <b>Customer consultation</b>   | GMW claims customers support the tariff changes associated with the surface drainage services   |
| <b>Customer impact</b>   | Outlined in more detail in section 3.1.3 below.   |

Source: Egis

### 3.1.3 Customer impacts

The key customer impacts based on GMW’s modelling include:

- about 50 per cent of Goulburn Murray Irrigation District (GMID) properties have surface drainage with drainage typically representing 10 per cent of their total bill;
- for those customers with drainage, about 90 per cent will experience a reduction in the drainage component of their bill or an increase of less than \$200 per annum;
- about 3 per cent of customers with increases greater than \$500 will be supported with an 8-year tariff transition period. These customers typically have larger properties and relatively low water use. The proposed tariff change seeks to better reflect the costs incurred in providing service to unirrigated and dryland properties. The phasing out the Water Use Fee result in increased Area Fees for these customers; and
- in many cases, the absolute dollar increase in the drainage bill is large for some of these customers however the relative percentage change is relatively smaller.

### 3.1.4 Summary of findings

Our high-level review did not identify any issues with the proposed tariff changes to surface drainage services. GMW’s justified the proposed tariff adjustments to reflect a change in service and costs and to simplify the tariffs by reducing the number of pricing entities and tariffs. The proposed tariff changes should reduce administrative effort and increase customer understandability.

It is recommended that GMW collect actual cost data over Regulatory Period 6 to provide empirical evidence that cost reflectivity is maintained.

## 3.2 Subsurface drainage

### 3.2.1 Overview of proposed reforms

The justification provided by GMW for the tariff reforms associated with subsurface drainage are outlined in Figure 6 below:

**FIGURE 6 PROPOSED TARIFF REFORMS - SUBSURFACE DRAINAGE**

| Issue                       | Description  |
|-----------------------------|--|
| Change in service and costs | Climate change with less rainfall combined with better irrigation management and surface drainage systems has reduced the accessions to the water table reducing salinity risks and the need for pumping. In some locations, the reduced risk has enabled pumps to be de-activated. At this stage, no pumps are decommissioned and can be switched on if required.   |
| Tariff simplification       | Simplifying the subsurface drainage tariff structure to reduce administrative effort and increase customer understandability. The tariff structure changes include: <ul style="list-style-type: none"> <li>■ reducing the number of pricing entities from 4 entities to 2 entities by creating East and Central tariff groups</li> <li>■ Area Fee to apply in East and Central</li> <li>■ Water Use Fee to be phased out in Central</li> </ul> |

Source: Egis

### 3.2.2 High level assessment against Commission guidance

Figure 7 below outlines our high-level assessment against the Commission's guidance associated with the tariff reforms to subsurface drainage services:

**FIGURE 7 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE - SUBSURFACE DRAINAGE**

| Supporting Information Requirement  | Assessment  |
|---|---|
| Justification of change including how new tariffs apply   | GMW has justified the changes which are outlined in Figure 6 above  |
| Pricing principles that apply   | <ul style="list-style-type: none"> <li>■ tariff adjustments to reflect a change in service</li> <li>■ tariff simplification</li> </ul>  |
| Consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies | <p>The proposed tariff changes better align the revenues with the services being delivered.</p> <p>The creation of new pricing entities following the amalgamation of services and renaming tariffs has created pricing which is more closely aligned to GMW cost structures. This will assist with providing signals about the efficient cost of delivering services and minimising cross-subsidies.</p> <p>It is recommended that GMW collect actual cost data over Regulatory Period 6 to provide empirical evidence that cost reflectivity is maintained.</p> |
| Customer consultation   | GMW claims customers have not raised any issues with the proposed tariff changes associated with the subsurface drainage services   |
| Customer impact   | Outlined in more detail in section 3.2.3 below.   |

Source: Egis

### 3.2.3 Customer impacts

GMW's modelling has identified the following key customer impacts associated with the proposed tariff reforms to subsurface drainage charges:

- subsurface drainage is provided to approximately 1,050 properties and makes up a small component of those customers' total bills;
- no impact for Murray Valley and Shepparton customers whose properties have subsurface drainage;
- drainage component of bills will decrease for Rochester customers; and
- reduction or an increase of less than \$100 for 99 per cent of Central Goulburn customers.

### 3.2.4 Summary of findings

Our high-level review did not identify any issues with the proposed tariff changes to subsurface drainage services. GMW's justified the proposed tariff adjustments to reflect a change in service and costs and to simplify the tariffs by reducing the number of pricing entities and tariffs. The proposed tariff changes should reduce administrative effort and increase customer understandability.

In order to provide empirical evidence that cost reflectivity is maintained, it is recommended that GMW collect actual cost data over Regulatory Period 6.

## 3.3 Bulk water

### 3.3.1 Overview of proposed reforms

The proposed tariff reforms to bulk water services is driven by a change in pricing methodology to move away from basin to system-based pricing. This would be consistent with the pricing methodology applied to Entitlement Storage Fees.

GMW proposes to combine the current seven basins into two system based pricing entities:

- Murray System pricing will consist of the Murray and Ovens basins; and
- Goulburn System pricing will consist of the Broken, Bullarook, Campaspe, Goulburn and Loddon basins.

The proposed change to the bulk water tariffs will require amendments to all of the 46 bulk and environmental entitlements held by GMW and its bulk and environmental water customers in Northern Victoria. GMW highlighted that the changes to be made to the bulk and environmental entitlements permit future tariff structure changes without need for further entitlement amendments. This would open the possibility in the future of moving to a single system-based pricing structure for bulk water charges.

### 3.3.2 Change in pricing methodology

GMW has explained that the key changes are:

- proposed pricing methodology involves a change from using the Murray Darling Basin Caps to the Murray Darling Basin Plan Sustainable Diversion Limits (SDL) in the calculations;
- for pricing purposes, the calculations determine the high reliability (HR) water proportion of the SDL and the remaining volume is low reliability (LR) water;
- remaining SDL volume is divided by the LR entitlement to determine the pricing factor;
- applies to environmental water entitlements; and
- the revenue requirement is divided by all HR and LR entitlements (converted to HR volumes using the pricing factor) to develop a \$ per ML price for the system.

These calculations were not provided by GMW and did not form a part of the assessment.

### 3.3.3 High level assessment against Commission guidance

Our high-level assessment against the Commission’s guidance associated with bulk water tariff reform is outlined in Figure 8 below:

**FIGURE 8 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – BULK WATER**

| Supporting Information Requirement   | Assessment  |
|--|---|
| <b>Justification of change including how new tariffs apply</b>   | The change to bulk water tariffs has been justified by GMW as outlined in section 3.3.1 above   |
| <b>Pricing principles that apply</b>   | <ul style="list-style-type: none"> <li>■ cost sharing model where costs are pooled across several basins and across a wider number of water entitlement holders</li> <li>■ consistency with GMW retail customers</li> <li>■ consistency with Entitlement Storage Fees</li> <li>■ tariff simplification</li> </ul>   |
| <b>Consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies</b> | <p>The proposed tariff changes involves moving to a system based pricing structure which will provide little change or lower charges for most bulk water customers.</p> <p>The system based pricing approach involves cost sharing where costs are pooled across several basins and across a wider number of water entitlement holders.</p> <p>GMW and its bulk water customers believe this tariff structure leads to a more equitable and administratively simple tariff arrangement. No bulk water customer has raised any concerns relating to cross-subsidies.</p> |
| <b>Customer consultation</b>   | <p>GMW communicated with all bulk water customers, held a workshop and provided indicative prices based on the proposed changes.</p> <p>Each bulk water customer was provided the proposed system based bulk water price to understand how it would impact their situation.</p> <p>GMW has provided the Commission copies of letters of support from seven retailers including from the Victorian Environmental Water Holder.</p>   |
| <b>Customer impact</b>   | <p>In most cases customers hold water entitlements in multiple basins and the pooling arrangements lead to little change or lower overall charges.</p> <p>GMW have stated that its customers support the proposed change and believe they will be able to manage the change for their retail customers.</p> <p>The tariff changes will start in 2025-26 to allow for changes to the bulk/environmental entitlements. The bulk water charges for 2024-25 will be maintained at 2023-24 levels in real terms.</p>   |

Source: Egis

### 3.3.4 Summary of findings

Our high-level review of the proposed bulk water tariff changes did not identify any issues. GMW’s justified the proposed tariff adjustments to simplify the tariffs by reducing the number of pricing entities and to establish consistency with the Entitlement Storage Fees. GMW is adopting ‘postage stamp pricing’ on the basis that this is more equitable and there are no material differences in costs of distribution systems by time or location. The proposed tariff changes will reduce administrative effort and increase customer understandability.

## 3.4 Woorinen Service Point Fee

### 3.4.1 Overview of proposed reforms

The Woorinen delivery service was modernised in the early 2000s with a new pumped and piped system replacing the gravity channels. Electronic meters were installed as part of the modernisation which have now reached or are reaching the end of their useful lives.

GMW has commenced the replacement of the meters with a forecast capital expenditure of \$5.0 million over the period 2020/21 to 2031/32. Recovery of this capital expenditure will be funded from customer revenues. This expenditure is required so that GMW can meet its national metering obligations.

GMW proposal involves increasing the Service Point Fee applicable to the Local Operate meters to fund the costs associated with the meter replacement program. The other option considered by GMW was recovering the meter replacement capital expenditure via the Infrastructure Access Fee.

It should be noted that recovering the meter replacement costs via the Service Point Fee is consistent with how GMW recovers metering costs from other customers.

### 3.4.2 High level assessment against Commission guidance

Our high-level assessment against the Commission's guidance associated with the Woorinen Service Point Fee tariff reform is outlined in Figure 9 below:

**FIGURE 9 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – WOORINEN SERVICE POINT FEE**

| Supporting Information Requirement  | Assessment  |
|---|---|
| Justification of change including how new tariffs apply   | GMW has justified the changes which are outlined in section 3.4.1 above   |
| Pricing principles that apply   | <ul style="list-style-type: none"> <li>■ compliance with national metering standards</li> <li>■ cost reflectivity</li> </ul>  |
| Consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies | <p>Recovering meter replacement costs via the Service Point Fee will assist with providing signals about the efficient cost of delivering services and minimising cross-subsidies.</p> <p>GMW have high confidence in the capex forecast for Regulatory Period 6 as they are based on meters that are known to have reached the end of their useful life and require replacement.</p> <p>It is recommended that GMW report on the actual meter replacement program spend and how it compared to the forecast program and spend.</p> |
| Customer consultation   | GMW claims customers have not raised any issues with the proposed tariff changes associated with the Woorinen Service Point fee for Local Operate meters  |
| Customer impact   | Outlined in more detail in section 3.4.3 below.   |

Source: Egis

### 3.4.3 Customer impacts

The customer impacts, based on GMW's modelling completed for each Woorinen customer, include the following:

- proposed 8-year transition period for impacted Woorinen customers;
- annual price increase to recover the costs associated with the regulatory asset base for the Woorinen service points; and
- typical annual price increase not being greater than those contained in the Regulatory Period 6 price submission of between -1% to 5% in real terms per annum. The annual Service Point Fee is increasing 26% each year over Regulatory Period 6.

### 3.4.4 Summary of findings

The high-level review of the proposed tariff changes to the Woorinen Service Point did not identify any issues. GMW's justified the proposed tariff adjustments to meet national metering standards due to ageing meters reaching the end of their useful lives. The proposed tariff changes will maintain cost reflectivity and minimise cross subsidies across the customer base.

It is recommended that GMW report on the actual meter replacement program spend and how it compared to the forecast program and spend.

## 3.5 Cosgrove entitlement

### 3.5.1 Overview of proposed reforms

The Tungamah Water Supply District was extended in 2014 by about 11,000 hectares to service the Cosgrove customers who were formerly supplied from the Broken River by the East Shepparton Community Water Supply dam fill scheme. The pipeline has provided Cosgrove customers with year-round access to more reliable and higher quality water from the Goulburn River.

GMW identified that the capacity share issued to customers on the Cosgrove section of the Tungamah Water Supply District did not reflect the level of service their property is entitled to and actually receives. Tungamah and Cosgrove customers receive the same level of service.

The current capacity share arrangements with the Cosgrove entitlement results in the Infrastructure Access Fee element of the tariff being applied on a different basis for the Cosgrove customers compared to the other customers in the Tungamah Water Supply District. The result is that the Cosgrove customers are paying less for the same service and the other customers in the district are paying more in order to generate the district's revenue requirement.

To address this, GMW is proposing to update the capacity shares for properties in the Cosgrove section of the Tungamah Water Supply District to reflect the level of service their property receives. This will result in the requirement to implement changes to tariffs to all customers.

### 3.5.2 High level assessment against Commission guidance

Our high-level assessment against the Commission's guidance associated with the Cosgrove Entitlement tariff reform is outlined in Figure 10 below:



**FIGURE 10 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – COSGROVE ENTITLEMENT**

| Supporting Information Requirement   | Assessment   |
|--|--|
| <b>Justification of change including how new tariffs apply</b>   | GMW has justified the changes which are outlined in section 3.5.1 above  |
| <b>Pricing principles that apply</b>   | <ul style="list-style-type: none"> <li>■ equity</li> <li>■ cost reflectivity</li> </ul>  |
| <b>Consistency with providing signals about the efficient cost of delivering services and minimising cross-subsidies</b> | The proposed tariff changes will better align the revenues with the services being delivered which will lead to providing stronger signals to deliver those services more efficiently.   |
| <b>Customer consultation</b>   | Cosgrove customers have been contacted directly in relation to their individual price impacts. GMW stated that relatively few customers made contact about the proposed changes. The customer contact with Cosgrove customers revolved around seeking clarification of the contents of GMW’s letter. GMW stated that the Cosgrove customers were satisfied with the rationale for the change and the proposed implementation approach. |
| <b>Customer impact</b>   | Outlined in more detail in section 3.5.3 below.  |

Source: Egis

### 3.5.3 Customer impacts

In order to avoid price shocks, GMW is proposing to offer Cosgrove customers a rebate on a portion of the Infrastructure Access Fee. The proposed rebate will be progressively reduced by 2027/28 with all customers at that point in time paying the same standard Infrastructure Access Fee.

The proposal involves the Tungamah customers benefiting from an expected maximum 9% average bill decrease in 2024/25 with “price stability” expected for the remaining 3 years of the price path. The initial reduction for Tungamah customers is required to achieve pricing alignment with Cosgrove customers by 2027/28.

### 3.5.4 Summary of findings

Our high-level review of the proposed tariff changes to the Cosgrove entitlement did not identify any issues. GMW’s justified the proposed tariff adjustments to promote equity and costs reflectivity in its tariff setting for services in the Tungamah Water Supply District.



## 4 STAGE 2 ASSESSMENT OF CUSTOMER ISSUES RELATED TO TARIFFS

### 4.1 Diverters Tariffs

The second stage of the tariff assessment involved providing advice on tariff related issues raised by customers. The Commission advised Egis that the Diverters customer group raised particular issues in relation to the following tariffs:

- Service Point Fees;
- Customer Fees; and
- Access Fee.

The particular issues raised for each tariff group are further outlined below.

As part of our assessment, we have considered the guidance issued by the Commission and in particular the following requirements outlined in Section 3.19.2 of the Commission's Guidance Paper.

- Provide the following information in relation to diversion tariffs that are payable by domestic and stock users:
  - details about how the relevant tariff classes have been established (including whether and how all customers within the relevant tariff class receive the same services); and
  - information that demonstrates that prices charged to all types of users in each relevant tariff class reflect an efficient cost of providing the relevant services to customers in that tariff class.

### 4.2 Service Point Fee

#### 4.2.1 Tariff overview

The Service Point Fee levied by GMW recovers the cost of compliance, monitoring, measuring use and, where installed, maintaining meters at each diversion site.

The Service Point Fee is levied on a service point basis for the following three categories:

- Domestic and stock;
- Local operate; and
- Remote operate.

The Service Point Fee is applicable to surface water and groundwater diverters.

An estimated \$3.0 million per year in revenue is recovered by GMW via the Service Point Fee from the Diverters customer group.



## 4.2.2 Customer issues

Customer input into the development of GMW's Price Submission 2024 raised some issues associated with the Service Point Fee. The Diversifiers customer group raised the issues outlined in Figure 11 below.

**FIGURE 11 DIVERTERS TARIFF ISSUES – SERVICE POINT FEE**

| Issue                            | Description  |
|----------------------------------|--|
| Deeming cost                     | Not reasonable to apply deeming costs to all unmetered users. If it's to be charged, domestic and stock unregulated streams should not bear the brunt of the costs, it should be apportioned across all GMW customers.<br>Deeming costs promote cross-subsidisation. |
| Inspection and surveillance cost | Not reasonable for these costs to be unrelated to entitlements.  |
| Who fee applies to               | Should be removed from the fees unregulated domestic and stock customers pay given no services are received.   |

Source: Commission

## 4.2.3 High level assessment against Commission guidance

Figure 12 below outlines our high-level assessment against the Commission's guidance associated with the Diverter's Service Point Fee.

**FIGURE 12 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – SERVICE POINT FEE**

| Supporting Information Requirement                                 | Assessment  |
|--|---|
| Details on establishment of tariff class and similarity of service | <p>In response to an Egis information request to better understand how the Service Point Fee is determined, GMW provided a copy of the Service Point Calculation Model.</p> <p>This model calculated the estimated cost to serve for the following customer groups:</p> <ul style="list-style-type: none"> <li>■ Diversions unmetered</li> <li>■ Diversions metered</li> <li>■ Water districts domestic and stock</li> <li>■ Gravity domestic and stock</li> <li>■ Pumped irrigation domestic and stock</li> <li>■ Gravity local operate</li> <li>■ Pumped irrigation local operate</li> <li>■ Woorinen local operate</li> <li>■ Gravity remote operate</li> <li>■ Woorinen remote operate</li> </ul> <p>For pricing purposes, GMW groups the following customers together on the basis of similar costs:</p> <ul style="list-style-type: none"> <li>■ <b>Domestic and stock</b> - Diversions unmetered, Water Districts domestic and stock, Gravity domestic and stock &amp; Pumped Irrigation domestic and stock</li> <li>■ <b>Local Operate</b> - Diversions metered, Gravity local operate, Pumped Irrigation local operate &amp; Woorinen local operate</li> <li>■ <b>Remote Operate</b> - Gravity remote operate &amp; Woorinen remote operate</li> </ul> <p>The calculations were based on many assumptions with justification not always provided showing:</p> <ul style="list-style-type: none"> <li>■ the basis of the assumptions and why they are efficient; and</li> </ul> |

| Supporting Information Requirement   | Assessment  |
|--|---|
|  | <ul style="list-style-type: none"> <li>if the assumptions are based on cost and activity information collected from time sheet data and/or observing actual activity.</li> </ul>  |
| <p><b>Information that demonstrates that prices charged to all users reflect an efficient cost</b></p> | <p>As the Service Point Fee calculation model is based on assumptions that are not always clearly justified and/or directly sourced from observable activity, GMW has not demonstrated that the prices charged to all users reflect an efficient cost.</p> <p>Some of the assumptions reflect efficient operating practices such as undertaking maintenance work associated with battery replacement during routine inspections to save labour costs by reducing the number of trips required to each service point.</p> <p>It was unclear if the assumptions relating to the site inspections are based on an actual activity or a simplifying assumption. We would have expected to see more variability in the frequency of site inspections to reflect a risk-based approach so that higher risk sites are subject to more visits than the lower risk sites. GMW has assumed an annual inspection for each site, which may be overly simplistic as it may not reflect the actual activity that occurs nor adopt a risk-based approach to inspect some sites more frequently than others.</p> <p>Insufficient evidence was provided by GMW that the deeming costs for each customer group are based on assumptions that promote efficiency. We would expect that the deeming activities and costs would vary depending on the deeming method applied which is influenced by the type of service, customer group, purpose, order requirements and meter status. The allocation of an average deeming cost per service point across all customer groups which are deemed does not adequately capture the expected variability in activities and costs associated with each of the six methods used by GMW (area and depth, flow rate and duration, property area and service level, representative sampling, entitlement volume and representative use).</p> <p>Our expectation is that deeming based on entitlement volume for domestic and stock use would not have the same level of activity and cost as most of the other methods.</p> <p>For unmetered divertors, inspection and surveillance costs along with deeming costs comprise a significant share of the total costs estimated for the Service Point Fee. Inspection and surveillance costs make up the most significant cost component for the Service Point Fee for metered Divertors.</p> |

Source: Egis

It should be noted that the assessment completed by Egis was not a comprehensive review of GMW's Service Point Fee Calculation Model. Our assessment focused on addressing the issues raised by customers and if GMW met the Commission's guidance associated with diversion tariffs.

#### 4.2.4 Summary of findings

The summary of our findings relating to the customer issues raised for the Service Point Fee are outlined in Figure 13 below.

**FIGURE 13 SUMMARY OF FINDINGS – SERVICE POINT FEE**

| Issue  | Summary of Findings  |
|--|--|
| <p><b>Deeming cost</b> - not reasonable to apply deeming costs to all unmetered users as it promotes cross-subsidisation</p> | <ul style="list-style-type: none"> <li>It is recommended that GMW review the assumptions relating to how deeming costs are allocated to the various customer groups. A cost for each deeming method should be estimated (area and depth, flow rate and duration, property area and service level, representative sampling, entitlement volume and representative use) and the cost for the method which applies to the customer group should be used in the tariff calculation for that customer group.</li> </ul> |

| Issue  | Summary of Findings   |
|--|---|
| <b>Inspection and surveillance cost</b> - it is not reasonable for these costs to be unrelated to entitlements             | <ul style="list-style-type: none"> <li>■ Inspection and surveillance costs are unlikely to vary based on the volume of an entitlement. These costs are directly attributable to a service point and account for travel time to attend the service point, the activity completed at the service point site and the frequency of inspection visits.</li> <li>■ GMW needs to improve the veracity of its data/assumptions underlying the calculations associated with inspection and surveillance activities.</li> <li>■ Many assumptions are based on estimates which are not all clearly justified</li> <li>■ Opportunity exists to collect actual activity and costs involved to improve robustness of the calculations. To minimise costs, GMW could collect this information every 4 years ahead of a pricing submission which would enable any cost changes to be reflected in the next pricing period.</li> <li>■ Where possible, efficient costs should be based on a risk-based approach so that inspections are tailored to the relative risks for that customer group.</li> </ul> |
| <b>Service point fees</b> – should be removed from the fees unregulated domestic and stock pays given no services received | <ul style="list-style-type: none"> <li>■ Cost recovered by the Service Point Fee relate to services and activities associated with diversion customers i.e. activities such as inspections associated with compliance, monitoring, measuring use and, where installed, maintaining meters at each diversion site.</li> </ul>  |

Source: Egis

## 4.3 Customer Fee

### 4.3.1 Tariff overview

The Customer Fee levied by GMW recovers the administrative costs of maintaining land and water records, billing, debt management and central customer service.

The Customer Fee is payable by all customers and is levied on a per customer basis.

An estimated \$3.2 million per year in revenue is recovered by GMW via the Customer Fee.

### 4.3.2 Customer issues

Figure 14 below shows the customer issues raised by Diverters customer group in relation to the Customer Fee.

**FIGURE 14 DIVERTERS TARIFF ISSUES – CUSTOMER FEE**

| Issue                             | Description   |
|-----------------------------------|---|
| <b>Treatment of gifted assets</b> | The exclusion of gifted assets from the Regulatory Asset Base has the effect of reducing GMW's depreciation expense which means unregulated and groundwater domestic and stock bear a higher share of corporate overheads than would otherwise be the case. |

Source: Commission

### 4.3.3 High level assessment against Commission guidance

The summary of our findings relating to the customer issues raised for the Customer Fee are outlined in Figure 15 below.

**FIGURE 15 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – CUSTOMER FEE**

| Supporting Information Requirement   | Assessment   |
|--|--|
| <p><b>Details on establishment of tariff class and similarity of service</b></p>                       | <p>The setting of a Customer Fee based on an average cost to serve for all customers is determined on the basis that the services provided would be generic to all customers i.e. maintaining land and water records, billing, debt management and central customer service.</p> <p>There would be additional costs to GMW and its customers if GMW was required to record detailed costs to capture the costs to serve for each customer group.</p> <p>GMW has demonstrated that an average fee is administratively efficient and simple to explain to customers.</p>   |
| <p><b>Information that demonstrates that prices charged to all users reflect an efficient cost</b></p> | <p>Customers raised a concern regarding the efficiency of the corporate overhead allocation methodology in relation to the treatment of gifted assets (funded by Government) not being included in the RAB and reducing the depreciation expense.</p> <p>The exclusion of gifted assets from the RAB does not impact on how corporate overheads are allocated as depreciation is not considered when corporate overheads are being allocated.</p> <p>GMW allocates corporate overhead costs to both operating and capital expenditure with capital expenditure capped at \$1m to avoid disproportionately allocating corporate overheads to large capital projects.</p> <p>GMW advises that under this approach, all capital expenditure up to the \$1 million cap attract corporate overhead. Capital projects which are a gifted asset and also involve GMW incurring capital expenditure are allocated corporate overhead. In the case of a capital project delivered by GMW, the allocation of corporate overhead is the same whether the project is a gifted asset or a traditionally funded asset.</p> |

Source: Egis

### 4.3.4 Summary of findings

Figure 16 below shows the summary of our findings relating to the customer issues raised for the Customer Fee.

**FIGURE 16 SUMMARY OF FINDINGS – CUSTOMER FEE**

| Issue   | Summary of Findings   |
|---|---|
| <p><b>Exclusion of gifted assets from the RAB</b> has the effect of reducing GMW's depreciation expense which means unregulated and groundwater D&amp;S bear a higher share of corporate overheads than would otherwise be the case</p> | <p>GMW demonstrated that depreciation is not included in the calculation of the corporate overhead allocation. Therefore, the exclusion of gifted assets from the RAB does not impact how corporate overheads are allocated. In the case of a capital project delivered by GMW, the allocation of corporate overhead is the same whether the project is a gifted asset or a traditionally funded asset.</p> |

Source: Egis

## 4.4 Access Fee

### 4.4.1 Tariff overview

The Access Fee levied by GMW recovers the costs of ensuring water is accessed in line with management rules and plans. This includes the management of allocations, rosters, restrictions and water ordering.

The Access Fee is levied on a service point basis for the following three categories:

- Regulated;
- Unregulated; and
- Groundwater.

Customers with a surface water licence are required to pay the Access Fee.

The Access Fee recovers an estimated \$1.7 million per year in revenue for GMW with Shepparton Groundwater diverters included.

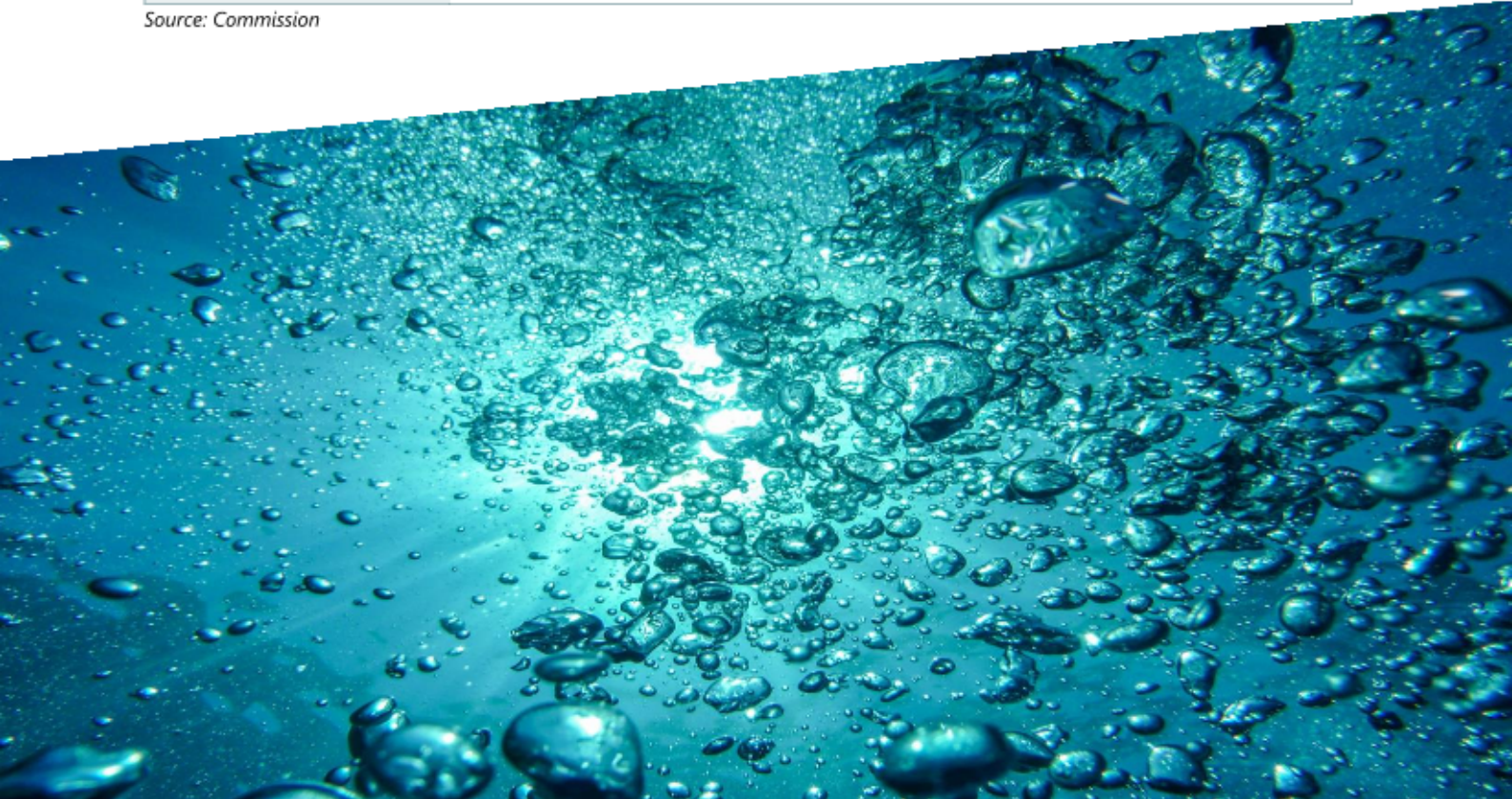
### 4.4.2 Customer issues

The customer issues raised by the Diverters customer group in relation to the Access Fee are shown in Figure 17 below.

**FIGURE 17 DIVERTERS TARIFF ISSUES – ACCESS FEE**

| Issue                     | Description  |
|---------------------------|--|
| <b>Tariff basis</b>       | Levying this cost on a service point basis is unreasonable. If charging is on the basis of underlying activities relating to diverters on unregulated streams which is presumed to be monitoring and responding to catchment rainfall and streamflow data, the charge should be based on water entitlement volume not a service point basis. |
| <b>Who fee applies to</b> | Should be removed from the fees unregulated domestic and stock customers pay given no services are received.   |

Source: Commission



### 4.4.3 High level assessment against Commission guidance

The summary of our findings relating to the customer issues raised for the Access Fee are outlined in Figure 18 below.

**FIGURE 18 HIGH LEVEL ASSESSMENT AGAINST GUIDANCE – ACCESS FEE**

| Supporting Information Requirement  | Assessment   |
|---|--|
| <b>Details on establishment of tariff class and similarity of service</b>                       | <p>GMW has demonstrated that Service Points rather than water entitlements drive the costs as the greater the number of service points, the more involved the management, planning and water ordering systems and processes.</p> <p>The basis of charging distinguishes between regulated, unregulated and groundwater to better reflect the services provided to each customer group.</p> <p>GMW has demonstrated that the costs vary with the number of service points rather than volume of entitlements and therefore it is reasonable that the basis of charging is on a service point basis.</p> |
| <b>Information that demonstrates that prices charged to all users reflect an efficient cost</b> | <p>GMW has demonstrated that the costs recovered relate to services and activities associated with diversion customers. GMW incurs expenditure related to diversion service points for the management of water use against the management rules and plans including management of allocations, rosters, water restrictions and water ordering.</p>   |

Source: Egis

### 4.4.4 Summary of findings

Figure 19 below shows our findings relating to the customer issues raised for the Access Fee.

**FIGURE 19 SUMMARY OF FINDINGS – ACCESS FEE**

| Issue   | Summary of Findings  |
|---|--|
| <b>Basis of charge</b> - Levying on a service point basis is unreasonable, should be based on water entitlements. | GMW demonstrated that Service Points rather than water entitlements drive the costs associated with the access fee service as the greater the number of service points, the more involved the management, planning and water ordering systems and processes.   |
| <b>Access fee</b> – should be removed from the fees unregulated D&S pays given no services received               | GMW demonstrated that the costs associated with Diverters Access Fee relate to services and activities associated with diversion customers. GMW incurs expenditure related to diversion service points for the management of water use against the management rules and plans including management of allocations, rosters, water restrictions and water ordering. |

Source: Egis



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