



**Goulburn–Murray Water Corporation**  
**Application for Annual Price Review of Fees and Charges**

**1 May 2019**

# Table of Contents

- Executive Summary ..... 3
- 1.1. Purpose of this application ..... 4
- 1.2. Structure of the Application ..... 4
- 2. Introduction ..... 5
- 2.1. GMW’s 2016 Price Review ..... 5
- 2.2. Final Decision and Determination 2016 ..... 5
  - 2.2.1. Service Standards ..... 5
  - 2.2.2. Revenue Requirement ..... 6
  - 2.2.3. Operating Expenditure ..... 6
  - 2.2.4. Capital Expenditure ..... 6
  - 2.2.5. Tariff Structure ..... 7
  - 2.2.6. Actions taken since 2016 Price Review ..... 8
- 2.3. Water Price Review GMW Determination 1 July 2016 – 30 June 2020 ..... 9
- 3. Annual Price Review Process ..... 9
- 3.1. Water Charge (Infrastructure) Rules 2010 ..... 9
- 4. Financial Sustainability ..... 11
- 5. Governance Process ..... 11
- 6. Approach to Determining Prices 2019/20 ..... 12
- 6.1. Price Adjustments ..... 12
- 6.2. Demand ..... **Error! Bookmark not defined.**
- 6.3. Customer Impact Analysis ..... 17
- 7. Tariff Strategies ..... 20
- 8. Customer Communication and Engagement ..... 21
- Appendix 1: Annual Price Review - Indicative Timeline ..... 23

## **Executive Summary**

This document and supporting attachments set out Goulburn-Murray Water's (GMW's) annual price review application for 2019/20.

GMW is required to submit its pricing application to the Essential Services Commission (ESC) for approval.

The Application is based on price adjustments which:

- continue to drive operational efficiencies while maintaining and/or improving service levels to our customers
- long-term tariff strategy implementation for gravity irrigation and diversions tariffs
- ensure sustainable and predictable prices this year and into the future, maintaining price increases within 10 per cent real per annum
- are geared towards giving customers price relief, while ensuring GMW's financial sustainability
- maintain forecast revenue within the revenue cap approved by the ESC for the 2016 price review period
- consider the risks presented by uncertain and unforeseen events on GMW's financial sustainability and potential impact on sustainable and predictable price
- are informed by customers' views.

GMW's proposed revenue for 2019/20 is \$123 million, which is below the ESC's Final Decision and Determination of \$129 million (in 2019/20 values).

## **1.1. Purpose of this application**

In June 2016, the ESC issued its Final Decision on GMW's 2016 Water Price Review. In its Final Decision, the ESC's main focus was to ensure that prices were fair and reasonable, that is as low as possible but still sufficient to allow the business to recover the efficient costs of providing services. It further noted that the ESC's Final Decision approved GMW's proposal for common Infrastructure Access and Use Fees in five of the six GMID irrigation areas, excluding the Shepparton area. The decision to exclude Shepparton reflected the cost differential that the ESC identified in serving Shepparton area customers compared to other areas.

In preparing its Application for the 2018/19 Annual Price Review of Fees and Charges (the Application), GMW has reviewed all of the forecasts and assumptions made for the 2016 Water Price Review to determine whether any adjustments are necessary. Thus the Application proposes adjustments to the fees and charges that are justified by circumstances arising since the 2016 price review, including those relating to GMW's modernisation program.

This document and the supporting attachments set out GMW's annual Price Submission for the 2019/20 financial year.

## **1.2. Structure of the Application**

The remainder of the Application is structured as follows:

Section 2: summarises the requirements and outcomes of GMW's 2016 Price Submission and actions taken since the price review in relation to GMW's Tariff Strategies.

Section 3: describes the annual price review process under the Water Charge (Infrastructure) Rules 2010 and provides an indicative timeline for this review and approval process.

Section 4: provides an assessment of GMW's financial viability.

Section 5: sets out GMW's internal governance process, which has been applied to this annual price review.

Section 6: details the consultative approach and methodology undertaken by GMW in determining prices for 2019/20 and provides an assessment of typical customer impacts.

Section 7: sets out GMW's proposed changes to gravity irrigation, diversion and environment prices in line with the ESC's 2016 Price Review Final Decision and Determination.

Section 8: describes the customer consultation and engagement processes and activities undertaken prior to and during this annual price review.

Attachments and information provided to support the Application will be sent via email to [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au) as requested by the ESC along with an electronic version of this document.

## **2. Introduction**

### **2.1. GMW's 2016 Price Review**

GMW's Statement of Obligations issued by the Minister for Water requires the delivery of a price submission to the Essential Services Commission, the economic regulator of the Victorian water sector.

The ESC's review of GMW's pricing proposal for 2016/17 to 2019/20 was assessed by the ESC in accordance with the Water Charge (Infrastructure) Rules 2010. This followed the ESC's accreditation by the ACCC to regulate the prices of GMW's irrigation and bulk water services.

Under the price review process, GMW submitted its 2016 Price Submission for the fourth regulatory period in September 2015, setting out its expected costs of delivering services, its planned capital works program, the forecast volume of water to be delivered and the proposed level of service to be provided to its customers. The Price Submission identified and articulated key business requirements that were introduced as a result of a number of projects and initiatives due for implementation over the regulatory period. The Price Submission covered each year of the four-year regulatory period.

The Price Submission outlined the rationale for long-term tariff reform, which focused on reducing the complexity of tariffs and aligning tariffs with GMW's business objectives and future operating environment. The Price Submission stated that the tariff reforms required to achieve these objectives would largely be implemented over the 2016-2020 regulatory period.

The ESC's Final Decision for the fourth regulatory period 2016/17 to 2019/20:

- completed the ESC's review of GMW's pricing and tariff reset in accordance with the Water Charges (Infrastructure) Rules
- completed the ESC's review of GMW's groundwater and non-infrastructure related miscellaneous services in accordance with the Water Industry Regulatory Order
- set charges and service standards for irrigation services over the next four years.

Since the ESC Final Determination, the Commonwealth and State governments agreed to extend the period during which the Connections Project would deliver water savings efficiencies in the gravity irrigation system through modernisation and rationalisation. That project includes treating and in many cases replacing manually-operated outlets to modern 'remote-read and operate' meters. The Project period was extended from June 2018 to September 2020.

### **2.2. Final Decision and Determination 2016**

#### **2.2.1. Service Standards**

GMW proposed a number of changes to its service standards to better align them with customers' preferences and to better specify the services.

The ESC’s Final Decision approved GMW’s proposed service standards and targets, with one exception. Otherwise, the ESC noted that:

- GMW’s service standards and targets were developed in consultation with its Water Service Committees
- GMW’s proposed service targets were equal to or higher than previous years’ targets, or consistent with industry averages
- the ESC received positive customer feedback on GMW’s service standards.

GMW has revised its Customer Charter to reflect the ESC’s Final Decision on the new service standards and targets in accordance with the Rural Water Customer Service Code.

GMW continues to report its performance against these targets annually on its website and directly to its Water Service Committees.

**2.2.2. Revenue Requirement**

The ESC’s Final Decision approved a revenue requirement of \$472.3 million for the fourth regulatory period, summarised as follows:

2015/16 values	2016/17	2017/18	2018/19	2019/20	Total
Final Decision	\$115.9	\$117.4	\$119.4	\$119.6	\$472.3

**2.2.3. Operating Expenditure**

The ESC’s Final Decision approved operating expenditure for GMW over the four year regulatory period of \$378.8 million, summarised as follows:

2015/16 values	2016/17	2017/18	2018/19	2019/20	Total
Final Decision	\$96.3	\$94.9	\$94.6	\$93.0	\$378.8

In making this decision, the ESC noted that GMW had made a public commitment to reduce controllable costs by \$20m from its 2013/14 strategic ‘Blueprint’, and noted that the trend of cost reductions had been occurring. While GMW’s submission proposed that savings would be passed through to customers of the remaining target once achieved (in subsequent periods), the ESC Final Decision effectively passed the planned savings through customer prices from the first year of the regulatory period.

**2.2.4. Capital Expenditure**

In its Final Decision the ESC approved a capital expenditure of \$136 million. In addition, the ESC approved \$278.7 million for the Regulatory Asset Base opening balance at 1 July 2016.

For regulatory depreciation (return of capital), the ESC confirmed the depreciation forecasts submitted by GMW including its straight line approach to depreciation.

The ESC approved GMW’s proposed real post tax weighted average cost of capital (WACC) of 4.2 per cent.

For demand forecast, the ESC adopted GMW’s revised demand forecasts in its Final Decision.

### 2.2.5. Tariff Structure

GMW proposed to make its Infrastructure Access Fee (IAF) and Infrastructure Use Fee (IUF) uniform over the four years across its six irrigation areas: Shepparton, Central Goulburn, Rochester, Torrumbarry, Loddon Valley and Murray Valley.

In its Draft Decision the ESC considered differences between the costs to serve customers of the Shepparton area and the other five areas were too large to achieve the ACCC’s pricing principle of ‘user pays’ in respect of uniform tariff. However, it noted that the cost evidence would be sufficient to justify common pricing for gravity irrigation Infrastructure Access and Infrastructure Use Fees for five of GMW’s areas (meaning a uniform price across five areas plus Shepparton, being a two-tariff structure).

The ESC’s Final Decision approved GMW’s revised proposal for a common Infrastructure Access and Use Fees in five of the six irrigation areas (Central Goulburn, Rochester, Loddon Valley, Murray Valley and Torrumbarry) with a separate Infrastructure Access and Use Fee in the Shepparton area.

The decision not to include Shepparton reflected the cost differential that the ESC identified between Shepparton area and the other areas:

(2015/16 values)	Infrastructure Access Fee \$/ML/Day of delivery share held	Infrastructure Use Fee \$/ML
Shepparton	4,332	8.10
Central Goulburn, Rochester, Loddon Valley, Murray Valley, Torrumbarry	2,859	5.85

In relation to GMW’s other fees and tariffs the ESC approved:

- GMW’s prices in Nyah and Tresco Pumped Irrigation Districts. Prices in these districts will increase across the regulatory period to pay for additional capital works
- GMW’s irrigation drainage prices, retaining the current tariff structure for the regulatory period and undertake further consultation on pricing reform to irrigation drainage prior to the next price review
- GMW’s proposed cost reflective tariffs for modern service points (Remote Read and Operate, and Remote Read). Service Point fees for modernised meters will increase during the regulatory period. Service Point Fees for gravity irrigation Domestic and Stock will increase aligning with the Diversions Small Service Point Fee, which has similar running costs
- GMW’s bulk water (storage) prices. GMW’s tariffs for the basins remain largely unchanged with the exception of the Broken, Bullarook and Ovens basin, where GMW intends to increase prices over the course of the regulatory period. Bulk water prices are levied on a basin price however water user water shares pay a system charge which remains flat across the period
- GMW’s diversion tariff structure with a transition period over four years

- over the course of the regulatory period water register fees will be separated from service fees and be levied based on the number of water entitlements recorded in the water register
- GMW's tariff structures for services such as customer service and billing, and miscellaneous services.

Further, the ESC approved GMW's proposed prices for the first year of the regulatory period.

For larger and medium customers, average prices will be flat or fall over the regulatory period. Smaller customers will generally see small price rises due to changes from variable to fixed fees. Changes occurring through activity of the Connections Project in modernising the gravity irrigation districts across the period may impact the mix of service points, tariffs, and thus total annual billable values for affected customers.

Form of Price Control – the ESC approved GMW's form of price control, continuing to apply a revenue cap to our regulated tariffs (other than miscellaneous service charges which are set according to the pricing principles), with a rebalancing constraint of + 10 per cent to limit changes to tariffs in each year of the regulatory period.

## **2.2.6. Actions taken since 2016 Price Review**

### Gravity Irrigation

As approved by the ESC in its Final Decision (as described above), GMW's proposal for a common Infrastructure Access and Use Fees in five of the six irrigation areas (Central Goulburn, Rochester, Loddon Valley, Murray Valley and Torrumbarry) with a separate Infrastructure Access and Use Fee in the Shepparton area was applied in the first year of the regulatory period.

### Diversions

The ESC's Final Decision in June 2016 transitions the diversion tariff structure over a transition period of four years. The new tariffs are designed to:

- better reflect the costs incurred by GMW in providing diversion services
- result in a more equitable recovery of costs from diverters of different type and size.

### Service Point Fees

GMW's proposed cost reflective tariffs for service points in its 2016 Price Submission. The ESC's assessment of GMW's costs to serve via the different devices was confirmed through its Final Decision on a price path across the four years of the regulatory period. Service Point fees for Remote Read and Remote Read and Operate meters increase significantly during the regulatory period. Service Point Fees for gravity irrigation Domestic and Stock increase to align with the Diversions Unmetered Service Point Fee, which has a similar cost.

### Bulk water

During the first two years of the regulatory period GMW has reduced prices in the Murray and Goulburn Basins. In the final 2 years of the regulatory period GMW is holding prices in these basins with CPI. Other Basins remained largely unchanged with the exception of the Broken and Ovens Basin, where GMW is increasing prices over the course of the regulatory period. Bullarook has received price increases for the regulatory period to date but is being



held for the last year of the regulatory period. Bulk water prices are levied on a Basin price however irrigators pay a system charge.

#### Drainage

GMW's irrigation drainage prices retained the current tariff structure for the regulatory period. Further consultation on pricing reform to irrigation drainage is continuing prior to the next price review in 2020.

#### Single Customer Fee and Water Register Fee

In order to begin the transition to a single customer fee, GMW has changed the accounting treatment of Customer Service & Billing for the 2016/17 financial year. The planned reform to amalgamate and consolidate multiple services on a single account was proposed in GMW's 2016 Price Submission, however further consultation with customers is required.

As noted by the ESC in its Final Decision, over the course of the regulatory period Water Register fees will be separated from service fees and be levied based on the number of water entitlements recorded in the water register. This will be consulted on as part of 2020 pricing submission.

### **2.3. Water Price Review GMW Determination 1 July 2016 – 30 June 2020**

In accordance with Clause 2.3 of the ESC's Goulburn-Murray Water Determination June 2016, the Application and the accompanying spreadsheets include:

- forecast quantities for 2019/20[spreadsheet]
- actual quantities for 2016/17,2017/18 and 2018/19<sup>1</sup> [spreadsheet]
- information explaining how these quantities are derived [section 6.2 below]
- information on any new prices GMW proposes to introduce in 2019/20 [section 6.2 miscellaneous fees]
- evidence demonstrating the extent to which GMW has consulted with customers regarding price changes [section 8 and Appendix 1 below]
- information regarding anticipated customer impacts resulting from revised prices and actions, if any, to address these impacts [section 6.3 below]
- evidence that GMW has provided information to its customers explaining its pricing strategy and consulted effectively to deliver sustainable and predictable pricing outcomes [sections 7 and 8, and Appendix 1 below]
- other information as required by the ESC.

## **3. Annual Price Review Process**

### **3.1. Water Charge (Infrastructure) Rules 2010**

GMW acknowledges the key regulations by which annual prices are reviewed and set. After setting prices for the first year of a regulatory period, GMW may request that the ESC adjust charges for the second and subsequent years of the regulatory period through an annual

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<sup>1</sup> Actual quantities have been included for fixed charges only; the variable charge quantities included have been forecast using the best available information.

review process. As part of this process, GMW is required to submit an application each year prior to the start of the regulatory year.

In its application, GMW may propose a change to the indicative charges approved by the ESC prior to the start of the regulatory period.

Under Division 3 of Part 6, the ESC's function is to adjust charges approved or determined under Division 2 of Part 6 (or as amended under Division 4) for changes in demand or consumption forecasts subject to the condition that changes must maintain price stability. The ESC has 30 business days from receiving GMW's application to approve or determine GMW's charges for the relevant year.

The following outlines the process for the annual review of prices.

The first step in the annual review process is for GMW to submit an application for an annual review of charges. The application for the annual review of charges must include:

- GMW's forecast of demand for or consumption of infrastructure services for the year to which the application relates
- GMW's estimate of demand or consumption during the current year
- information about how the forecast and estimate was calculated
- proposed regulated charges for the year to which the application relates.

During this step, the ESC may seek further information from GMW, halting the assessment process. 'Stop the clock' provisions can be applied if further information is required. The assessment will only restart once the additional information is provided to the ESC. The ESC will then publish a copy of the application and additional information on its website (subject to any confidentiality requirements).

The second step involves the ESC considering the application and publishing its Draft Decision on the regulated charges for the year. Submissions will be invited on its Draft Decision.

The third step entails consideration of submissions by the ESC on its Draft Decision, followed by the issue of a Final Decision. As part of the Final Decision, final charges will be approved or determined for each year of the regulatory period.

Assuming all information is provided and the ESC does not require an extension of the deliberation period, the Final Decision on the annual review of charges will be made within 30 business days of GMW submitting its application.

In the event that the ESC is unable to make a decision or determination within the 30 business day period, the ESC is able to extend the period by one month at a time. When this occurs, GMW can continue to levy fees and charges' not exceeding its current fees and charges until the extension expires.

In a pricing application GMW is required to provide an overview of how it consulted with its customers. In seeking input from customers GMW is required to consult, at a minimum, on

issues of significance to its customers, such as service, tariffs, pricing and investment decisions.<sup>2</sup>

The structure of consultation may take a number of forms depending on the opportunity presented. Options for customer consultation include, but are not limited to, surveys, customer committees, public forums and customer focus groups, project specific consultation, inviting submissions, workshops, newsletters and media releases.

Appendix 1 sets out the key activities and dates for GMW's annual price review for 2019/20.

## **4. Financial Sustainability**

Financial sustainability is a key component of GMW's corporate strategy. GMW has developed a series of metrics that it uses to assess financial viability.

Revenue from GMW's proposed prices for 2019/20 generates metrics within their target ranges, indicating that the revenue proposed by these prices does not cause detriment to GMW's financial sustainability.

## **5. Governance Process**

In developing its proposed 2019/20 prices, GMW has applied stringent internal governance arrangements relating to its annual pricing submission. GMW's Regulatory and Pricing team within the Finance Group manages and coordinates annual pricing reviews and regulatory compliance obligations. The pricing approach, annual price adjustments and broader pricing application developed by the Regulatory and Pricing team are subject to internal review by GMW before submission to the ESC. GMW obtained an independent review of the model used to develop the proposed prices in preparing the 2019/20 submission. The GMW Board has been informed through the review period, endorsed the approach and is expected to subsequently approve 2019/20 prices after it has received the ESC's decision.

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<sup>2</sup> Customers must be informed 10 business days prior to the new charges taking effect.

## 6. Approach to Determining Prices 2019/20

In determining the prices for 2019/20 we have considered the following factors:

1. GMW's 2016 Price Submission - Final Decision and Determination issued by the ESC in June 2016
2. continue to drive operational efficiencies to achieve reduced controllable costs, while maintaining and/or improving service levels to our customers
3. long-term tariff strategy implementation for gravity irrigation and diversions tariffs
4. maintaining prices that are sustainable and predictable. We aim to maintain price increases within 10 per cent
5. ensuring prices are as low as possible, while ensuring GMW's financial sustainability
6. ensuring forecast revenue is within the revenue cap approved by the ESC for the 2016 - 2020 regulatory period
7. consideration of the risks presented by uncertain and unforeseen events on GMW's financial sustainability and potential impact on prices
8. cost reflective pricing for service point fees, diversion services etc.
9. customers' views.

Regarding the item 4 and 5 above, in some cases, significant price changes have been expressed in tariff strategy, meaning it's been necessary to introduce price changes greater than 10 per cent. Increases in excess of 10 per cent only affect prices already determined by the June 2016 ESC Final Decision. GMW has chosen a constant price path over several years to smooth the transition of prices. During the development of GMW's 2016 Pricing Submission GMW informed customers of the long-term transition path, thereby providing predictability, so that customers are able to prepare for price changes subsequently approved by the ESC.

### 6.1. Price Adjustments

With the above considerations in mind, the following provides details on our proposed prices for 2019/20. An inflation rate of 1.3 per cent has been used based on the release of the "all groups" March quarter 2019 CPI by the ABS as recommended by the ESC. Prices have been updated accordingly, excluding those prices where GMW is targeting a rounded nominal figure (such as the Service Fee and Service Point Fee).

#### Service Fee

The Service Fee, which applies to all customers, will hold at \$120 (equating to a 1.3% decrease in real terms). We anticipate that this fee will increase in the future, with the move to consolidate customer bills reducing the number of service fees that will be levied.

### Bulk Water and Non Water User Entitlement Storage Fees

As required by the bulk entitlements GMW divides its bulk water service into seven Basins, with the price in each reflecting the costs of harvesting and storing water in that basin. Of the seven Basins, there are two larger basins – Goulburn and Murray – that hold the majority of water stored for customers. The other five Basins – Broken, Campaspe, Loddon, Bullarook and Ovens – store relatively small amounts of water.

As a result of historic pricing decisions, the costs of operating and maintaining several of the smaller Basins currently exceeds the revenue collected. GMW's aim is for each Basin to recover its costs.

With the exception of the Campaspe Basin, GMW proposed to increase the prices in small basins in its 2016 Price Submission period, towards the goal of cost reflectivity, capped at CPI + 10 per cent per year.

For 2019/20 GMW proposes:

- Goulburn, Murray, Loddon and Campaspe Basins will increase by CPI
- Broken and Ovens prices will increase by 10% in real terms.
- Bullarook price will decrease by 1.3% in real terms

### Water User Entitlement Storage Fee

The Entitlement Storage Fee for the Goulburn and Murray systems will increase on average 2% in nominal terms. These system prices are for water-user water shares and are the weighted average of their component basin prices.

### Gravity Irrigation Districts

GMW's proposed cost reflective tariffs for modern service points (Remote Read and Operate, and Remote Read) in its 2016 Price Submission.

Service Point fees for modernised Remote Read and Remote Read and Operate service points will increase significantly during the regulatory period. Service Point Fees for Domestic and Stock and Local Read service points will increase incrementally.

Price increases are designed so that there is a steady transition between now and 2019/20. For some customers there are significant price changes, however, most charges are within the 10 per cent rebalancing constraint as approved by the ESC during our 2016 Price Submission. Further details are provided below.

#### *(a) Service Point Fees (as approved by the ESC in GMW's 2016 Price Review)*

Consistent with the 2016 Price Submission, prices for Remote Read and Remote Read and Operate service points will be priced above Local Read Meters, reflecting the higher costs of these meters. The change will also continue to send economic signals to customers considering reconfiguring the number and type of service points and help inform this decision.

For 2019/20 the proposed service point fees are:

- Domestic & Stock – increased \$10 to \$120
- Local Read - increased \$10 to \$350
- Remote Read - increased \$120 to \$850.
- Remote Read and Operate - increased \$160 to \$1,060.

*(b) Infrastructure Access and Use Fee*

The ESC's Final Decision approved GMW's revised proposal for a common Infrastructure Access and Use Fees in five of the six irrigation areas (Central Goulburn, Rochester, Loddon Valley, Murray Valley and Torrumbarry) with a separate Infrastructure Access and Use Fee in the Shepparton area.

The decision not to include Shepparton reflected the cost differential that the ESC identified between Shepparton areas and the other areas.

In 2019/20 all areas will see a real decrease of 1.3% in the Infrastructure Access and Use Fees (held at nominal).

*(c) Drainage Tariff Charges*

GMW's drainage prices retain the current tariff structure for the regulatory period. Review and customer consultation of the drainage tariffs is continuing prior to the next price review in 2020.

An average price increase of 1.3 per cent for all drainage charges is proposed.

*(d) Diversion Tariff Charges*

In 2016/17 GMW's diversion tariff structure with a transition period over four years commenced as approved by the ESC in its Final Decision. The new tariffs are designed to better reflect the costs incurred by GMW in providing diversion services and result in a more equitable recovery of costs from diverters of different type and size.

The transition is designed to manage price impacts, particularly on small customers, to achieve price increases consistent with the ESC's decision. Medium and large customers receive moderate decreases.

Small customers make up the majority of diversions customers and, as such, a large number of diversions customers will see increases in their bills over the regulatory period. These increases are large in proportional terms, but small in absolute terms.

The existing Service Point Fee comprises two charges: Unmetered Service Point Fee and Metered Service Point Fee, reflecting the cost of operating the two different measurement types. The Unmetered Service Point Fee will increase to \$120 aligned with the gravity district Stock and Domestic Service Point Fee. The Metered Service Point Fee is aligned with the Local Read Meter Fee in gravity districts and will increase from \$340 to \$350 in 2019-20.

(e) *Access Fees*

The most significant price change for diverters was the transition from an Access Fee based on customer's volume of water entitlement to one based on the number of service points, which better reflects the way costs are incurred. The effect of the change is to shift costs from large to small customers.

The new service point-based Access Fee was introduced in 2015/16. The (existing) volume-based Access Fee has been steadily phased out. For 2018/19, the service point-based Access Fee for:

- Groundwater – increased by \$55 to \$240
- Regulated surface water – increased by \$45 to \$220
- Unregulated surface water – increased by \$25 to \$160

For some prices, significant changes will result from implementation of the approved strategy, meaning that the ESC has approved price changes greater than 10 per cent, specifically for small diversion customers. During the development of GMW's 2016 Pricing Submission, we informed our customers of the long-term transition path, thereby providing predictability, so that customers are able to prepare for price changes approved by the ESC.

Pumped Districts

Adjustments to prices for pumped irrigation, as with other customer groups, are made with regard to the ACCC pricing principles including that fixed costs should be recovered from fixed charges and variable costs from variable charges.

- Nyah and Tresco will see price increases as consulted in the 2016 Pricing submission to cover increased capital costs.
- Woorinen will see price increases of CPI

### Miscellaneous Charges

A review of the miscellaneous charges has been undertaken to ensure GMW is in line with the pricing principles of user pays. The time and motion of the costs relating to each application fee has been reviewed and updated. Fees have been adjusted accordingly to ensure cost recovery by the end of the Water Plan. Based on this, some fees will increase higher than CPI to recover the costs pertaining to these charges.

## **6.2. Demand**

This section provides information regarding GMW's actual quantities for 2017/18, its actual fixed and forecast variable quantities for 2018/19 and its forecast quantities for 2019/20. Actual and forecast quantities have been provided for both fixed and variable tariffs.

### **Tariff structure**

Approximately 90 per cent of GMW's prescribed revenue derives from its fixed tariffs. These fixed tariffs principally include:

- Storage charges that are charged to customers based on the volume and reliability of entitlements held
- Gravity and Pumped Irrigation District charges, including:
  - a Service Fee, which is charged to each customer account
  - an Infrastructure Access Fee, which is charged based on the number of delivery shares held, regardless of the volume used
  - a Service Point Fee, which is charged based on the number and type of service points (this fee is not levied on the first service point in pumped districts)
- The Surface Drainage Area Fee, charged based on the number of hectares drained
- Diverter charges, including:
  - a Service Fee, which is charged to each customer account
  - a Service Point Fee
  - an Access Fee based on the number of service points
  - a Resource Management Fee, based on entitlement volume.

The remaining 10 per cent of prescribed revenue derived from variable charges is collected largely from Gravity Irrigation through the:

- Infrastructure Use Fee that is charged based on the volume of water delivered
- Casual Infrastructure Use Fee that is charged based on the volume of water delivered in excess of customers' Annual Delivery Allowance
- Surface Drainage Water Use Fee that is charged based on water use on drained properties.

### **Fixed quantities**

Invoices for most fixed charges for 2018/19 were raised with customers in July 2018, with the exception of bulk charges which were raised in October 2018. This allowed for actual fixed



charge quantities to be extracted from GMW's billing system, such as entitlement volumes, number of services, service points and delivery shares.

A forecast of fixed charge quantities for 2019/20 was developed based on the 2018/19 actual billed quantities and taking account of any changes since accounts were billed in July, with the following material exceptions:

- service points were reduced to reflect the ongoing rationalisation of service points as part of the Connections Project
- delivery shares were reduced to reflect the ongoing cancellation of delivery shares as part of the Connections Project.

### **Variable quantities**

The irrigation season is generally from mid-August to mid-May. Invoices for water deliveries and other variable charges for 2018/19 are raised with customers in two stages; an invoice for year-to-date usage in March 2019, and a final invoice for the balance in June 2019. Accordingly, final information on 2018/19 usage is not available at the time of this submission.

The forecast provided for 2018/19 of 1100 GL is instead based on the best available information regarding year-to-date usage (as at 1 May 2019) and water availability (equal to allocations to water shares plus carryover from the previous year) and estimates for the final two weeks of the irrigation season.

The forecast GMID usage for 2019/20 is 900 GL. This is lower than the 2018/19 forecast due to the current low storage volumes.

## **6.3. Customer Impact Analysis**

This section sets out the impact of our proposed 2019/20 prices on typical customers. Customer impacts are expressed as the change in total bill for a set of 'typical customers'. The characteristics of the customer types have been determined using actual customer data. Nominal percentage changes in bills include the "all groups" March quarter 2019 inflation rate of 1.3 per cent.

### Gravity Irrigation

GMW uses its customer data to prepare the following analysis of customer impacts, using an average population for each 'size' of customer. Customers may experience actual movements in bills higher or lower than the following indicative effects due to the use of a mean average. Likewise, customers for whom the Connections Project has made changes to meters and connections in the prior period may experience a change in tariff mix (particularly service point fees).

Small customers will receive a 1% + CPI price increase due to increasing Service Point Fees, which make up a large proportion of their bill. Percentage bill increases are not substantial and are indicated in the table below. Medium and large customers will receive bill increases around 1% or less (plus CPI).



### Bill increases in real \$s, gravity customers

Gravity	Small			Medium			Large		
	\$ change	% change	Total Bill	\$ change	% change	Total Bill	\$ change	% change	Total Bill
Shepparton	\$5	1.2%	\$423	\$55	0.5%	\$10,558	-\$16	0.0%	\$33,900
Central Goulburn	\$5	1.5%	\$376	\$83	1.1%	\$7,979	\$76	0.3%	\$25,193
Rochester	\$5	1.5%	\$376	\$86	1.1%	\$7,962	\$82	0.3%	\$25,128
Loddon Valley	\$5	1.5%	\$376	\$79	1.0%	\$7,892	\$56	0.2%	\$24,810
Murray Valley	\$7	1.8%	\$385	\$132	1.6%	\$8,308	\$272	1.0%	\$26,561
Torrumbarry	\$7	1.8%	\$385	\$134	1.7%	\$8,072	\$263	1.1%	\$25,548

### Diversions

As shown in the table below, small surface water diversion customers' bills increase significantly in proportional terms as a result of the Access Fee transition outlined above.

Large customers receive bill changes in line with 2016 Pricing Submission.

### Bill increases in real \$s, diversion customers

Diversions & Groundwater	Small			Medium			Large		
	\$ change	% change	Total Bill	\$ change	% change	Total Bill	\$ change	% change	Total Bill
Regulated surface (Murray)	\$49	11%	\$488	\$15	1%	\$1,660	-\$1	0%	\$5,141
Regulated surface (Goulburn)	\$48	11%	\$482	-\$16	-1%	\$1,467	-\$125	-3%	\$4,368
Unregulated surface	\$26	7%	\$407	-\$56	-7%	\$766	-\$326	-21%	\$1,206
Shepparton groundwater	-\$17	-7%	\$216	-\$49	-13%	\$336	-\$119	-17%	\$600
Intensive groundwater	\$47	9%	\$576	-\$47	-3%	\$1,523	-\$249	-7%	\$3,100
Other groundwater	\$58	11%	\$576	\$46	3%	\$1,523	\$25	1%	\$3,100

### Pumped Irrigation

GMW's proposed prices result in real:

- Increases of 3 per cent for all typical customers in Nyah and Tresco to cover increased capital costs. Customers were consulted as part of the 2016 Price Review
- Woorinen typical customers will receive CPI

### **Bill increases in real \$s, pumped irrigation customers**

Pumped Irrigation	Small			Medium			Large		
	\$ change	% change	Total Bill	\$ change	% change	Total Bill	\$ change	% change	Total Bill
Woorinen	-\$1	0%	\$1,269	\$29	0%	\$7,345	\$82	0%	\$18,676
Nyah	\$40	3%	\$1,235	\$308	3%	\$9,216	\$608	3%	\$18,312
Tresco	\$35	3%	\$1,372	\$266	3%	\$9,064	\$523	3%	\$18,007

### Water Districts

GMW's proposed prices result in real decreases for most customers, mainly due to changes in the Infrastructure Access Fee (IAF) that forms the majority of a typical customer's bill.

### **Bill increases in real \$s, water district customers**

Water Districts	D&S		
	\$ change	% change	Total Bill
Normanville	\$18	1%	\$2,350
Tungamah	-\$5	0%	\$1,931
East Loddon (South)	-\$38	-3%	\$1,477
East Loddon (North)	-\$45	-4%	\$958
West Loddon	-\$2	0%	\$837

## **7. Tariff Strategies**

GMW is committed to the development and implementation of an appropriate tariff structure and has continued to consult with customers as part of a dedicated tariff review process.

### Drainage Tariff Strategy

GMW's drainage tariff structure has been a matter of interest to customers, although no submissions were received by the ESC as part of its consultation for GMW's pricing for the years 2016 to 2020. Through consultation with our WSCs, the need for review has been acknowledged.

GMW is in the process of conducting a comprehensive Tariff and Pricing review using a number of customer working groups to workshop key tariff issues. It is envisaged that this review will form the cornerstone of customer consultation and will feed into GMW's 2020 Pricing Submission.

### Infrastructure Access Fee Review

During the development of GMW's 2016 Price Submission and our proposal for the introduction of uniform delivery charge, a number of stakeholders (in submissions to the ESC) suggested an alternative approach to a uniform delivery charge, i.e. splitting the IAF into capex and opex for each area. Stakeholders were of the view that this would result in a uniform "IAF for each of the areas" with a different fee reflecting the different costs to serve for each of the areas within the GMID.

The ESC in its Final Decision noted VFF's submission proposing a common fee incorporating the Regulatory Asset Base (RAB meaning the total asset values used for the purpose of regulating fees), capital expenditure and repayment of past debt, and a separate district fee for all other charges and concluded that "this may be worth GMW's consideration and discussion with its customers."

GMW is in the process of conducting a comprehensive Tariff and Pricing review using a number of customer working groups to workshop key tariff issues. It is envisaged that this review will form the cornerstone of customer consultation and will feed into GMW's 2020 Pricing Submission.

### Single Customer Fee and Water Register Fee

In order to begin the transition to a single customer fee, GMW has changed the accounting treatment of Customer Service & Billing for the 2016/17 financial year. The planned reform to amalgamate and consolidate multiple services on a single account was proposed in GMW's 2016 Price Submission.

As noted by the ESC in its Final Decision, over the course of the regulatory period Water Register fees will be separated from service fees and be levied based on the number of water entitlements recorded in the water register.

It is envisaged that this review will form part of the consultation for GMW's 2020 Pricing Submission.

## **8. Customer Communication and Engagement**

Customers' views are an important input into GMW's pricing considerations. To facilitate informed and ongoing consultation GMW has a set of customer advisory committees, representing the various services that GMW provides. In every case the committees are created by the Board of GMW to provide advice to the Board, with members elected by customers. The committees do not have authority to make decisions but their advice on pricing matters informs GMW's decision making process.

GMW operates thirteen Water Services Committees (WSCs), with six based around our major gravity irrigation districts, four regional WSCs covering diverters, two representing our Water Districts and the last representing customers serviced by the Loch Gary Flood protection scheme.

During the development of GMW's 2016 Price Submission, we consulted extensively with WSCs, customers and stakeholders of our proposed long term price paths for gravity and diversion specific pricing outcomes.

All WSCs were updated with the Final Decision by the ESC in meetings following June 2016. GMW has used various forms of communication to inform other customers and stakeholders on the ESC Final Decision and Price Determination made in June 2016. In relation to preparation towards GMW's 2019/20 Annual Price Review, the WSCs were briefed during April 2019 on the proposed process and principles.

GMW's 2019/20 proposed price adjustments align with the ESC's Final Decision and Price Determination. As GMW has consulted extensively during the 2016 price review, and given the revenue cap and related price limit regulations, extensive consultation was not considered necessary for this annual price review.

GMW is developing ongoing engagement strategy with WSCs, stakeholders and customers given the implementation and transitioning of tariff strategies as part of GMW's tariff review. Going forward this strategy will provide a more consistent ongoing engagement framework.

## Appendix 1: Annual Price Review - Indicative Timeline

The following table sets out the key dates for GMW's annual price review for 2019/20

<b>Responsible</b>	<b>Activity</b>	<b>Date</b>
GMW	Inform Board of GMW's approach to the APR	February 2019
GMW	Submit draft Annual Price Review proposal to the Board	April 2019
Board	Approve draft Annual Price Review proposal	April 2019
GMW	Consult WSCs on APR, based on draft proposal	April – May 2019
GMW	Submit Annual Price Review application to ESC	May 2019
ESC	ESC approval of Annual Price Review	May 2019
Board	Pricing Schedule Approval by the Board	May 2019
GMW	Publishing tariffs in newspaper, customer newsletter, on GMW website and press release (10 Business Days prior to 30 June)	by 17 June 2019
GMW	New charges come into effect	1 July 2019