

Our ref: R2023-17815  
Contact: Sally Marshall  
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7 May 2023

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ISO 9001 / 14001 and AS/NZS 4801*

Dear Marcus

### **Essential Services Commission 2023, GWMWater draft decision: 2023 Water Price Review, 2 March**

Thank you for the opportunity to provide a response on the draft decision that was released by the Commission on 2 March 2023.

I am pleased to see the draft decision proposes to accept our proposed expenditure program for the 2023-2028 regulatory period. The GWMWater 2023 Water Price Submission was developed in the context of a model of strong customer and community engagement and robust management oversight. As a vertically integrated water business with significant diversity in the rural and urban services we provide, there is a level of complexity to our submission and these have been reflected in the outcome measures and service standards.

Despite accepting the expenditure program of GWMWater, you specifically sought further information as to how we will deal with changed population projections released by the Victorian government since submitting the 2023 Water Price Submission and updated forecasts for material projects identified in the submission.

In relation to the updated population projections, the service area of GWMWater is not materially affected by these changed population projections. The material changes relate to Melbourne and the larger regional centres that are within a 150 km radius of Melbourne. As such we do not propose to change the forecasts and/or the basis of the New Customer Contribution Charges. The more material issues specific to demand relate to the probability in the later years of the submission mineral sands mining developments commence operation.

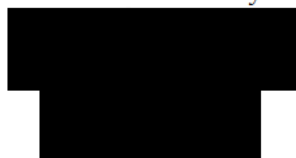
In relation to material projects you specifically identified the East Grampians Rural Pipeline Project (East Gippsland Project in your draft decision) and the pipeline projects that will deliver water quality improvements to the towns of Kaniva and Moyston. The funding partners for the East Grampians project have acknowledged the cost shift since the business case was approved and agree that the existing customers of GWMWater should not meet the additional cost of the project. The East Grampians project

maintains a positive cost benefit ratio with the cost shift and it has been agreed that we will deliver a project within the funding provided and have agreed with the funding partners a revised set of milestones for the project. The costs associated with the Kaniva and Moyston projects have been considered and we are satisfied with the current cost estimates and will assume any cost risk associated with these projects.

The submission is based on GWMWater assuming a greater level of risk that we consider we are well placed to manage. The price outcomes are consistent with the affordability concerns of customers in the region that were raised by the Community Panel. The price outcomes are supported by an enhanced hardship policy framework to protect the interests of the most vulnerable customers.

Further to the updated model and outcomes submitted on 21 April 2023, please refer additional information enclosed as requested in the draft decision.

Yours sincerely



**Mark Williams**  
Managing Director

## Attachment A – Additional supporting information in response to draft decision

A.1 GWMWater must update its proposed prices to reflect a small correction to its revenue requirement. This adjustment should not have a material impact on the bill estimates provided by GWMWater in its price submission. In response to our draft decision, GWMWater will also need to update its prices for our updates for inflation and the cost of debt.

### 1.1. Financial model adjustments

#### Reconciliation to prior year regulatory accounts

- a) Correction to 2018-2021 regulatory asset base movements (RollForward\_FO) to reconcile capital contributions (2018-2021) and capital expenditure (2018-19). Overall, \$7.7 million net reduction in closing asset base as at 30 June 2023 to \$473.1 million.
- b) Update 2021/22 Prescribed Opex to align with final approved regulatory accounts \$380k reduction.

#### Impact of model adjustments

- c) Reduction in 'depreciation of asset base as at 1/7/23' reflecting decrease in closing asset base in a) above.
- d) Reduction in Prescribed Opex reflecting adjustment in b) above applied to all future years 2023-2033.

### 1.2. Revised prices

The reduction in revenue requirement has been applied across all tariffs consistent with the original submission. The following tables represent the original submission with the adjustments above, prior to inflation and cost of debt updates.

Table 1 Estimated typical annual water and sewerage bills, urban services (\$2022-23)

	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	240	\$1,404	\$1,278	\$1,293
Residential – tenant	240	\$422	\$384	\$386
Non-residential (Medium)	390	\$1,649	\$1,499	\$1,516

Table 1 Real price paths 2023-28

	Real % increase/(decrease)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Urban water	(9.0%)	0	0.9%	0	1.0%
Sewerage	(9.0%)	0	0	0	0
Rural pipeline	(9.0%)	0	0	0	0.7%
Commercial off-season usage	(11%)	(5%)	0	0	0
Groundwater	(9.0%)	0	0	0	0

	Real % increase/(decrease)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unregulated licences – surface water	(9.0%)	0	0	0	0
Environment	(9.0%)	0	0	0	0
Bulk water	(11%)	(10%)	0	0	0
Recreation lake water	(9.0%)	0	0	0	0
Minor trade waste	(9.0%)	0	0	0	0

A.2 *GWMWater must demonstrate how it has considered these updated [Victorian Government population and dwelling growth] estimates and, if required, identify and justify any changes to its demand forecasts (any updates must also be included in its pricing model submitted in response to our draft decision)*

GWMWater’s price submission was based on the available information from the Victorian Government’s ‘Victoria In Future’ projections, Census data, our historical records including average customer demands and level of development applications and proposals across the region.

Compared to the latest available Victorian Government estimates, our original submission estimates remain higher consistent with our expectations. Latest available estimates assumes 0.3-0.5% per annum growth in Horsham and Ararat town areas. All other towns are forecast to decline between 0.1% to 1.3% per annum. Our submission assumes 1.0% per annum growth in Horsham, Stawell and Ararat and all other remaining towns to remain constant at 0% per annum.

We have not proposed to include any changes in response to the draft decision and will continue to carry this demand risk.

A.3 *GWMWater must provide updated forecasts for [East Grampians Water Supply and drinking water upgrade] projects to inform our final decision and price determination*

Our assumptions for East Grampians Water Supply and drinking water upgrade projects remain as submitted in our original submission noting that these projects have no pricing impacts to other customers. Projects have associated funding, contributions, and rates and charges assumptions included in the financial model. Hence a change in timing would be offset by other corresponding assumptions. The projects are linked to commitments and discussions with stakeholders and affected customers.

In the 2018 Water Price Review regulatory period, we reduced potable water tariffs to reflect the delay in delivery of drinking water upgrade projects to make sure customers were not paying for a service that was not being provided. The same approach for drinking water upgrade projects will be taken over the 2023 Water Price Review period.