

SUMMARY

BACKGROUND — THE PRICE REVIEW PROCESS

In October 2012 the Essential Services Commission commenced its review of the rural water businesses' proposals for the regulatory period commencing on 1 July 2013. Under the price review process, the rural water businesses submitted Water Plans setting out the expected costs of delivering rural services, their planned capital works programs, the forecast volumes of water to be delivered and the levels of service promised to customers.

The Commission released its draft decision in March 2013 in response to the Water Plans. The decision reflected detailed analysis by the Commission and expert consultants engaged by the Commission to assess and to advise on the demand and expenditure proposals put forward by the businesses. This decision also considered submissions from customers, water businesses and interested parties on businesses' Water Plans.

The Commission consulted publicly during this price review including:

- consulting on and releasing a guidance paper in October 2011.
- holding public forums on water plans during November and December 2012 around the state. At these forums water businesses presented their proposals and customers and community groups then responded and questioned the businesses and the Commission. The Commission repeated this process in March and April 2013 when it held public forums around Victoria on its draft decision and attended a public meeting in Mildura.
- meeting with its Customer Reference Panel, which includes consumer and business groups and individual customers to hear members' views on issues of importance for this price review.
- inviting submissions at each stage of the price review.



CONTEXT AND KEY ISSUES

Southern Rural Water's Water Plan was assessed against the requirements of the Water Industry Regulatory Order (WIRO), consistent with previous price decisions. Lower Murray Water (Rural)'s and Goulburn-Murray Water's infrastructure assets are now covered by the Water Charge (Infrastructure) Rules (WCIR) and the associated pricing principles developed by the Australian Competition and Consumer Commission (ACCC). The ACCC has accredited the Commission to make decisions on Lower Murray Water's (Rural)'s and Goulburn-Murray Water's infrastructure assets using the WCIR framework and the pricing principles.

This regulatory period will involve more uncertainty about the pricing consequences of rural modernisation programs for the rural water businesses. Ongoing consultation about the Murray-Darling Basin Plan will also cause uncertainty for Lower Murray Water (Rural) and Goulburn-Murray Water.

THE COMMISSION'S APPROACH

The Commission is required to assess the tariffs and revenues proposed in the businesses' Water Plans against the principles set out in the WIRO and the WCIR.

The WIRO principles require prices to be set to:

- generate the business's revenue requirement and allow it to meet the costs of delivering services to customers
- ensure the business's financial viability, including a reasonable return on capital
- reflect costs and provide incentives for sustainable water use
- take into account the interests of customers.

The ACCC requires the Commission to regulate according to the pricing principles made under the WCIR which require tariffs to be set:

- to promote the economically efficient use of water infrastructure assets
- to ensure sufficient revenue for the efficient delivery of the required services
- to give effect to the principles of user pays in for water storage and delivery in irrigation systems
- to achieve pricing transparency
- to facilitate efficient water use and trade in water entitlements.



In applying these principles, the Commission focused on ensuring prices were as low as possible but sufficient to recover businesses' efficient costs of providing services.

KEY OUTCOMES AND SERVICE LEVELS

In their Water Plans, the businesses set out the levels of service that they proposed to achieve over the third regulatory period. Lower Murray Water (Rural) proposed to retain its existing service standards and to set them at a level consistent with historical performance. Southern Rural Water proposed to revise its standards to better describe service and cost outcomes expected by its customers. Goulburn-Murray Water proposed a new set of standards.

In the draft decision, the Commission proposed to approve the businesses' proposed service standards. In this final decision, the Commission has confirmed its draft decision to approve all rural businesses' service standards.

REVENUE REQUIREMENTS

The Commission used independent expert consultants to review the operating and capital expenditure programs of rural water businesses. Generally, the consultants found the rural businesses were operating in an efficient manner and the proposed expenditure forecasts were reasonable. In its draft decision, the Commission adjusted the rural water businesses' revenues, and required Lower Murray Water (Rural) and Southern Rural Water to adjust their proposed prices to reflect the draft decision revenues.

In this final decision, the Commission has made minor adjustments to some businesses' revenues including an adjustment to the weighted average cost of capital (WACC) which estimates the businesses' costs of financing investments.

Table 1 compares the businesses' proposed revenue requirement, and the Commission's final decision on revenues. Appendix C provides a reconciliation between this final decision and our earlier draft decision.



TABLE 1 REVENUE REQUIREMENTS — FINAL DECISION

\$m 2012-13

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Goulburn-Murray Water						
Proposed revenue in the Water Plan	119.2	125.1	126.8	na	na	371.1
Final decision	116.0	122.7	123.5	na	na	362.2
Revenue from proposed prices ^a	118.8	118.5	118.8	na	na	356.2
Lower Murray Water (Rural)						
Proposed revenue in the Water Plan	26.4	27.4	27.8	27.9	27.9	137.4
Final decision	26.8	27.5	27.8	27.9	27.9	137.8 ^b
Southern Rural Water						
Proposed revenue in the Water Plan	28.2	28.5	28.9	28.9	28.7	143.2
Final decision	27.7	27.5	27.8	28.1	28.0	139.1

Note: Goulburn-Murray Water has a three year price period for the third regulatory period. Rounding means the numbers in this table may differ slightly from actual final determination numbers.

^a Goulburn-Murray Water's proposed prices recovered less than its proposed revenue and the revenue approved by the Commission in this decision. **na** Not applicable. ^b The allowed revenue in the final decision is higher because of revised volume estimates which have increased allowed pumping costs.

FORM OF PRICE CONTROL

In this final decision, the Commission has confirmed its draft decision to approve the key elements of rural water businesses' proposals for price controls. That is, it has approved Goulburn-Murray Water's and Lower Murray Water (Rural)'s proposals to maintain revenue caps, and Southern Rural Water's proposal to continue to apply a hybrid revenue cap.

The Commission has approved annual rebalancing constraints of 10 per cent on individual tariffs for rural businesses so customers do not face unreasonably high year-on-year price increases. Price volatility was a concern of customers in some districts during the second regulatory period.

The Commission's final decision also requires all rural businesses seeking to make material price adjustments within the next regulatory period to consult with



customer committees and customers before they apply to the Commission as part of their annual price approval process.

FINANCING OF CAPITAL INVESTMENTS

The Commission will apply a real WACC for the three rural businesses of 4.5 per cent. This is notably lower than the WACC applying in the second regulatory period of 5.8 per cent. The lower WACC is the main reason for the Commission reducing water businesses' revenue requirements.

RURAL TARIFF STRUCTURES

The Commission has confirmed its draft decision to approve the tariff structures proposed by the rural water businesses. Both Goulburn-Murray Water and Southern Rural Water proposed to maintain their existing tariff structures, although Goulburn-Murray Water committed to consulting with customers during the period to develop a simplified tariff structure.

The Commission has approved Lower Murray Water (Rural)'s proposal to restructure its tariffs for the Mildura irrigation district to align them with tariffs for its other districts. Generally, it proposed to retain its tariff structures for other rural services.

GROUNDWATER AND MISCELLANEOUS SERVICES

Groundwater and miscellaneous service charges make up a small proportion of rural businesses' revenue. The Commission has confirmed its draft decision approval of the groundwater charges for the rural water businesses. It has also approved the miscellaneous service charges proposed by the rural water businesses.



ADJUSTMENT OF PRICES DURING THE PERIOD

In this final decision, the Commission has approved a price adjustment mechanism to account for events that are uncertain or unforeseen at the time of the final decision. In applying this mechanism, the Commission would take into account only factors that do not fall within the businesses' control. The Commission encourages the water businesses to manage such circumstances within their existing budgets, to ensure customers do not face unnecessary price changes and avoid price volatility.

The Commission will consider a reopening during the third regulatory period for Lower Murray Water (Rural), when the impact of the Sunraysia Modernisation Project is known.

