

Goulburn Valley Water final decision

2023 Water Price Review

23 June 2023

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Summary

We have made our final decision on Goulburn Valley Water's prices for the next 5 years

In April 2023, we released our draft decision on the price submission Goulburn Valley Water submitted to us in September 2022.¹ The draft decision set out our preliminary views on Goulburn Valley Water's proposals and invited interested parties to make further submissions. We also held a public forum in May 2023. In addition to a response by Goulburn Valley Water, we received four written submissions on our draft decision, which are available on our website (see Appendix A of this final decision for details).

After considering that feedback and Goulburn Valley Water's response, we have made a price determination for Goulburn Valley Water.² The price determination sets out the maximum prices Goulburn Valley Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the 5-year period from 1 July 2023 (2023-28). This final decision sets out our supporting reasons and analysis for the price determination.



Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision confirms the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

¹ Our draft decision for Goulburn Valley Water is available at www.esc.vic.gov.au/waterpricereview.

² Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water business may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission, *Goulburn Valley Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

We have approved a revenue requirement of \$431.5 million over 5 years

Our final decision approves a revenue requirement of \$431.5 million over the 5-year period starting 1 July 2023 (see Chapter 4).³ This is \$11.6 million or 2.8 per cent higher than our draft decision, and mainly reflects our updates to the cost of debt (reflecting higher borrowing costs over the past year) and an increase in operating expenditure (reflecting the re-inclusion of maintenance programs proposed by Goulburn Valley Water, based on our consideration of additional information provided by the business substantiating the costs in its response to our draft decision).

This revenue requirement will allow Goulburn Valley Water to deliver on its customer service commitments, government policy, statements of obligations, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

As part of our review, we have considered whether the revenue requirement proposed by Goulburn Valley Water reflect forecasts for prudent and efficient expenditure. While we have approved many elements of Goulburn Valley Water's proposals, our final decision approves a lower revenue requirement than proposed by the water business reflecting our review of efficient costs.

Accordingly, the maximum prices we have determined are also lower than proposed by Goulburn Valley Water. This mainly reflects our decision to retain an overall PREMO rating of 'Standard' for Goulburn Valley Water's price submission, resulting in a lower return on equity than proposed by the business (see below).

Typical water and sewerage bills will rise from 1 July 2023

A summary of approved maximum prices for major services delivered by Goulburn Valley Water is set out in Section 5.3.2. Our final decision is to approve slightly lower prices than proposed by Goulburn Valley Water, reflecting our views on the revenue requirement.

Table A shows the estimated typical bills for different customer groups under our final decision, for 2022-23 (the current year) and 2023-24. For a typical residential owner occupier, estimated annual water and sewerage bills (including inflation) will rise from around \$890 currently to \$958 in 2023-24, an increase of around 8 per cent. For a typical residential tenant, bills (including inflation) will rise from around \$296 currently to \$318 in 2023-24, an increase of around 7 per cent. The bill paid by each customer will vary depending on water use, prices for fixed and variable tariffs, and other charges.

³ The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health. Along with forecast demand, it is an input to calculating the prices to be charged by a water business.

In 2024-25, most water and sewerage prices for residential and non-residential customers will increase by around 0.6 per cent, excluding inflation, before rising by around 1 per cent per year from 2025-26, excluding inflation.

Table A Estimated typical annual water and sewerage bills

Customer group	Average consumption (kL p.a.)	2022-23 (current)	2023-24
		\$2022-23	\$2023-24
Residential – owner occupier	260	\$890	\$958
Residential – tenant	260	\$296	\$318
Non-residential (small)	108	\$876	\$943
Non-residential (medium)	603	\$2,041	\$2,198
Non-residential (large)	3,875	\$8,943	\$9,630

Note: The table shows the average bills for 2023-24 expressed in \$2023-24 terms (which means 7 per cent inflation has been included). Our draft decision included bill estimates based on our draft decision revenue requirement, expressed in \$2022-23 terms as the inflation figure was not available at this time. Our determination for Goulburn Valley Water sets prices in \$2023-24 terms, with provision for inflation to be added in each of the remaining years of the regulatory period based on the latest inflation data. Dollar amounts have been rounded.

Goulburn Valley Water has committed to delivering outcomes that reflect customer priorities

Goulburn Valley Water plans to deliver the following outcomes for customers:

- provide reliable water and wastewater services customers can trust
- lead action and partner with its communities to grow the region
- care for the environment and adapt to a future impacted by climate variability
- deliver respectful and responsive customer service, balancing affordability, value for money and fairness.⁴

Delivery of its promises to customers will be stewarded by its Annual Performance Forum, with members made up of customer representatives across its region.

Key initiatives include continued investments in solar sites to help it meet its renewable energy targets, and renewals of existing water and sewerage infrastructure to underpin reliable and safe supply to towns. Goulburn Valley Water has also committed to increasing funding for hardship

⁴ Goulburn Valley Water, 2023 water price submission, September 2022, p. 10.

support programs. It will partner with First Nations peoples to incorporate indigenous knowledge into its practices and re-establish cultural connections with the land and waters.

Goulburn Valley Water has considered the impacts of relatively high inflation for 2023-24

Our draft decision sought further information from Goulburn Valley Water on how it intends to address impacts of relatively high inflation in 2023-24 on prices, customer bills, and expenditure. In its response to our draft decision, Goulburn Valley Water noted it will apply inflation to its tariffs consistent with its current approach.⁵ It explained its capital and operating cost have increased in line with inflation and it has invested in customer support, as discussed in Section 4.1. More information is available in Goulburn Valley Water's response to our draft decision.⁶

Tariff structures remain generally the same with a new digital meter tariff

Consistent with our draft decision, our final decision approves Goulburn Valley Water's proposed tariff structures, which reflect a continuation of its current approach. For water services, our final decision approves Goulburn Valley Water's proposal for a fixed service charge and a variable component that depends on water use. For residential sewerage services, our final decision approves Goulburn Valley Water's proposal for a fixed charge only. For non-residential sewerage services, our final decision approves a fixed service charge and a variable usage component.

Our final decision also approves a new digital meter tariff for in growth towns because Goulburn Valley Water has demonstrated the benefits of digital meters outweigh the initial cost for new connections.

Consistent with our draft decision, our final decision also approves Goulburn Valley Water's proposed price cap form of price control, which is a continuation of its current approach. This means its maximum prices are fixed subject to updates for inflation, and any other price adjustments we approve in our price determination. For more detail on tariffs and the form of price control, see Chapter 5.

⁵ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, p. 33.

⁶ Goulburn Valley Water, *Response to draft decision*, May 2023, p. 33.

We have rated Goulburn Valley Water’s price submission as ‘Standard’ under the PREMO framework

Consistent with our draft decision, our final decision is to rate Goulburn Valley Water’s price submission as ‘Standard’ under the PREMO framework (Table B). This is lower than Goulburn Valley Water’s self-rating of ‘Advanced’.

In its response to our draft decision, Goulburn Valley Water requested that we reconsider our assessment of a ‘Standard’ PREMO rating for the pricing submission.

In support of this, Goulburn Valley Water said that it considered it was a leader in the sector for efficiency and affordable customer bills and that it made several proposals in its response to the draft decision in favour of its customers.

We commend Goulburn Valley Water for its track record in delivering customer value. In the current period, it set ambitious efficiency targets which underpinned price reductions for its customers. Further, we consider it has proactively sought to address the matters raised in our draft decision, including proposing an approach to its customer willingness to pay projects (Section 4.1).

In our draft decision, we considered the efficiency improvement rate of 0.4 per cent per year initially proposed by Goulburn Valley Water was well below the expectations for an ‘Advanced’ rated price submission (approximately 1.9 per cent per year) and that it also did not meet the expectations for a ‘Standard’ rated price submission specified in our guidance (approximately 1.4 per cent per year).

While in its response to our draft decision Goulburn Valley Water adopted the 1 per cent per year efficiency improvement rate that we proposed in our draft decision, this rate remains below the expectations for an ‘Advanced’ or ‘Standard’ submission in our guidance. It is also low compared to the rates adopted by other businesses proposing an ‘Advanced’ rating in the current review.

Further, we consider Goulburn Valley Water’s response to our draft decision represents a different proposal to its original price submission, in order to demonstrate a stronger case for its PREMO rating to be reinstated to ‘Advanced’. Our framework and guidance does not provide for a water business to improve its “best offer” to match its claimed PREMO rating.

While we have not agreed that an ‘Advanced’ PREMO rating and the corresponding return on equity is justified at this time, we would accept an application from Goulburn Valley Water for us to consider a further review of its PREMO rating and return on equity during the 2023–28 regulatory period. Our intention is to issue additional guidance closer to the time of any application by Goulburn Valley Water. As a preliminary point, we envisage any application would be based on it demonstrating sustained achievement of a higher efficiency improvement consistent with the rate for an ‘Advanced’ business as specified in our guidance.

Notwithstanding the above, other aspects of Goulburn Valley Water’s proposals support an overall PREMO rating of ‘Standard’, as outlined in our draft decision:

- Goulburn Valley Water was able to achieve high levels of participation across its engagement processes, including by incorporating the views of customers experiencing payment difficulty at key points. Goulburn Valley Water’s engagement provided customers with influence on its proposals.
- We agreed with Goulburn Valley Water’s self-assessment that it has, overall, met its outcome commitments for the period to date. In its 2021-22 outcomes report, Goulburn Valley Water reported it had achieved or exceeded its targets for 85 of its 103 targets (82 per cent) over the first 4 years of the current regulatory period. Its performance was assessed by customers through its Annual Performance Forum, supporting accountability.
- Goulburn Valley Water’s proposed targets suggest customer value is mostly maintained, with some targets either improving on past performance or during the 2023–28 regulatory period. It provided evidence that demonstrates its outcome measures and targets were developed in consultation with its customers, and that they are supported by customers.
- Goulburn Valley Water proposed to continue with a price cap form of price control, accepting demand risk on behalf of its customers, and testing its guaranteed service level scheme to ensure it remains aligned with customer expectations about service priorities.

See Section 1.4 for an explanation of the PREMO framework and Chapter 7 for more detail on our assessment of Goulburn Valley Water’s price submission.



Our PREMO rating is an assessment of the water business’s price submission and its ambition to deliver outcomes valued by its customers. It is not an assessment of the water business itself.

Table B PREMO rating

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Goulburn Valley Water’s self-rating	Advanced	Advanced	Advanced	Advanced	Advanced	Advanced
Commission’s rating	Standard	Advanced	Standard	Advanced	Basic	Advanced

1. Our role and approach to water pricing

1.1 We are Victoria's independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO), which is made under the *Water Industry Act 1994* (WI Act) and sits within the broader context of the *Essential Services Commission Act 2001* (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 18 water businesses operating in Victoria.

1.2 We are reviewing the proposed prices of 14 water businesses

Our review is of the prices that the 14 water businesses propose to charge customers for prescribed services from 1 July 2023.⁷ The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water businesses.⁸

Goulburn Valley Water provided a submission to us proposing prices for a 5-year period starting 1 July 2023. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2023. We make a price determination after issuing a draft decision and considering feedback from interested parties, including any response to the draft decision from the water business.

The price determination specifies the maximum prices a water business may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that sets out our supporting reasons for our price determination.

1.3 We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory matters we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act, and clause 8 of the WIRO requires that we place particular emphasis on the promotion of efficiency related matters. In making a price determination, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental

⁷ The review excludes Melbourne Water, Goulburn-Murray Water, North East Water and Greater Western Water. In 2021 we approved prices for Melbourne Water to 30 June 2026 and in 2020 we approved prices for Goulburn-Murray Water to 30 June 2024. In 2018, we approved prices for North East Water to 30 June 2026. We have approved an extension to the regulatory period for Greater Western Water to 30 June 2024.

⁸ The prescribed services are listed at clause 7(b) of the WIRO.

and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance⁹
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so for our final decision for Goulburn Valley Water. Table 1.1 summarises the matters we must have regard to and groups them into themes.

In October 2021, we issued guidance to water businesses, including Goulburn Valley Water, to inform their price submissions. The guidance set out how we would assess Goulburn Valley Water's submission against the matters we must consider under clause 11 of the WIRO. It also outlined our expectation that Goulburn Valley Water would comply with certain requirements and specified information that Goulburn Valley Water must provide to us when submitting its price submission.¹⁰

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Goulburn Valley Water's maximum proposed prices it can charge for the prescribed services it provides.¹¹

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.¹²



The power for water businesses to charge fees for services they provide is set out in the *Water Act 1989*.¹³ These provisions in the Water Act also govern the processes and manner in which water businesses may set and impose fees. Each water business must ensure that it complies with these legislative requirements.

⁹ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

¹⁰ Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

¹¹ This is a requirement of the WIRO, clause 14(a).

¹² This is provided for under the WIRO, clause 14(b)(i).

¹³ See Part 13, Division 5 and 6 of the Water Act 1989.

Table 1.1 Matters businesses and the commission must have regard to

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> • promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO] • promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO] • provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO] • efficiency in the industry and incentives for long-term investment [s. 8A(1)(a), ESC Act] • efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act] • financial viability of the industry [s. 8A(b)(1), ESC Act] 	<ul style="list-style-type: none"> • particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act] • return on assets in the regulated industry [s. 33(3)(c), ESC Act] • ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act] 	<ul style="list-style-type: none"> • in performing its functions and exercising its powers, the objective of the Commission is to promote the long-term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The Commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act] • enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO] • provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO] • take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]

Continued next page

Table 1.1 (continued)

Benchmarking	Health, safety, environmental and social obligations	Other
<ul style="list-style-type: none"> any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act] 	<ul style="list-style-type: none"> the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act] to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s. 4C(c), WI Act] 	<ul style="list-style-type: none"> the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s. 8A(1)(c), ESC Act] consistency in regulation between States and on a national basis [s. 8A(1)(f), ESC Act] the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities [s. 8A(1)(e), ESC Act] wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]

Note: References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the Essential Services Commission Act 2001 (ESC Act), and the Water Industry Act 1994 (WI Act).

1.4 PREMO

PREMO stands for Performance, Risk, Engagement, Management, and Outcomes. Each element of PREMO is summarised in Box 1.1.

Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- Performance — have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- Risk — has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- Engagement — how effective was the business’s customer engagement to inform its price submission?
- Management — is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes — do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

First introduced at our 2018 water price review, the purpose of PREMO is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives, via the rating of price submissions as Leading (the highest available rating), Advanced, Standard or Basic, depending on the level of ambition expressed by a water business in its price submission. Financial incentives are provided by linking the return on equity to the PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and to take these into account in forming the proposals outlined in its price submission. This should be evidenced in price submissions by linking the outcomes proposed with findings from a business’s engagement.

Our guidance specifies the way in which we expect water businesses to assess themselves by reference to the PREMO elements.

Our PREMO framework rewards stronger customer value propositions in price submissions, and an early draft decision is available for price submissions we can assess in a short timeframe.¹⁴

¹⁴ In December 2022, we issued early draft decisions for Yarra Valley Water and Westernport Water.

For the 2023 water price review, a water business’s ambition in terms of delivering customer value is being assessed against all five elements of PREMO — Performance, Risk, Engagement, Management and Outcomes. This is the first water price review where we are assessing the Performance element of the PREMO framework. The Performance element assesses businesses against their Outcomes and proposals from the previous price review (for our 2023 review, this means proposals at the 2018 water price review). We did not assess the Performance element in 2018 because it was the first time that we had applied the PREMO framework and so we did not have a set of approved Outcomes to inform our assessment.

Taking into account all five elements of PREMO, a water business must self-assess and propose a rating for its price submission as ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. Its proposed return on equity will then reflect its proposed PREMO rating. A ‘Leading’ submission has the highest return on equity, and a ‘Basic’ submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the water business’s justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.¹⁵

¹⁵ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 41–46.

2. Our assessment of Goulburn Valley Water's price submission

We have made our final decision on Goulburn Valley Water's price submission after considering:

- Goulburn Valley Water's price submission
- Goulburn Valley Water's presentation made directly to commissioners
- Goulburn Valley Water's responses to our queries and our draft decision
- our consultants' reports
- the views of participants in our public forum held on 2 May 2023¹⁶
- written submissions from interested parties (a list of submissions responding to our draft decision is provided in Appendix A).

Any reports, submissions or correspondence provided to us that are material to our consideration of Goulburn Valley Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included matters water businesses must address in their price submissions. Goulburn Valley Water's price submission addressed each of these matters, and our initial assessment of those matters is set out in our draft decision.

We consulted on our draft decision, receiving submissions between 12 April 2023 and 12 May 2023 and holding a hybrid (online and in-person) public forum on 2 May 2023. During the forum, participants in Goulburn Valley Water's deliberative forum spoke positively of their experiences with Goulburn Valley Water, its engagement program and investment priorities.

Goulburn Valley Water provided a response to our draft decision, including a revised financial model that reflected the updated cost of debt and inflation figures we provided to businesses in May 2023.¹⁷ In arriving at our final decision, we have considered Goulburn Valley Water's responses to our draft decision.

This paper sets out our final decision.

¹⁶ A recording of this forum is available on our website.

¹⁷ All references to Goulburn Valley Water's price submission in this document refer to Goulburn Valley Water's original price submission that it provided to us in September 2022 rather than its response to our draft decision.

2.1 Final decision paper outline

This final decision paper is structured around the steps we have taken to arrive at our price determination. In summary, these steps were:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Goulburn Valley Water has committed to over the regulatory period (Chapter 3).
- Establish Goulburn Valley Water's revenue requirement using a building block methodology (Chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (Chapter 5).

Chapter 6 outlines our consideration of Goulburn Valley Water's financial position, which we have also had regard to.

Chapter 7 outlines our assessment of Goulburn Valley Water's price submission under the PREMO framework.

Unless otherwise noted, all financial values referred to in this final decision paper are in \$2022-23, which means inflation is excluded.

2.2 Regulatory period

Our final decision is to approve a regulatory period of 5 years from 1 July 2023.

We are required to set the term of the regulatory period over which a water business's price determination will apply.¹⁸ Our guidance proposed that we set a 5-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.¹⁹

Goulburn Valley Water proposed, and our draft decision approved, a regulatory period of 5 years.

In a submission on our draft decisions, the Consumer Action Law Centre supported our proposed 5-year regulatory period. It noted that a 5-year period provided customers with predictability around billing and services and that having a uniform period across all businesses included in our current review meant it would be easier to generate public awareness and engagement.²⁰

Accordingly, consistent the reasons outlined in our guidance, and as proposed in our draft decision, our final decision is to set a regulatory period of 5 years.

¹⁸ This is a requirement of the WIRO, clause 9.

¹⁹ For detail on the reasons for using 5 years as the default regulatory period, see: Essential Services Commission, *2023 water price review: Guidance paper*, p. 18.

²⁰ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 4.

3. Customer outcomes

The customer outcomes Goulburn Valley Water plans to deliver over the regulatory period is a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding in to its PREMO assessment.

This chapter outlines our views on:

- Goulburn Valley Water’s engagement with its customers in preparing its price submission (Section 3.1)
- whether Goulburn Valley Water has delivered on the outcomes it committed to for the current regulatory period (2018–23) and the customer outcomes Goulburn Valley Water is committing to for the next regulatory period (Section 3.2)
- Goulburn Valley Water’s service standards for the regulatory period (Section 3.3)
- Goulburn Valley Water’s proposed guaranteed service level scheme for the regulatory period (Section 3.4).

3.1 Customer and community engagement

Our guidance required Goulburn Valley Water to engage with customers to inform its price submission. Our guidance also identified principles to guide Goulburn Valley Water’s engagement.²¹

As outlined in our draft decision, we consider Goulburn Valley Water’s engagement with customer and community aligned with these principles in a number of ways. Goulburn Valley Water’s engagement:

- included over 3,000 customers and community and was informed by ongoing engagement activities since 2018
- was deep and well suited to the complexity of the issues it engaged on, which included matters that influence services and prices, such as regional leadership, water pressure, digital technology, carbon abatement, and support for customers experiencing vulnerability
- used methods that were inclusive for people experiencing vulnerability and for Traditional Owners and First Nations people.

²¹ Essential Services Commission, *2023 water price review: Guidance paper*, p. 20. This guidance includes a focus on engagement by businesses with First Nations people and people experiencing vulnerability which are actions identified in our ‘Getting to fair’ strategy. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

Our draft decision outlined several ways in which Goulburn Valley Water demonstrated that its engagement influenced its proposals. These included:

- increased funding of its hardship support program
- improving the water pressure in five towns
- streamlining its guaranteed services levels from 12 to 5.

Our draft decision was to accept Goulburn Valley Water's 'Advanced' self-rating for the engagement element of PREMO on the basis it has designed and delivered an engagement program that afforded customers an overall high level of influence over its price submission, particularly in relation to shaping the engagement agenda, and its acceptance of recommendations towards the final set of pricing and expenditure proposals. Examples outlined in our draft decision included:

- the high level of participation it achieved across its diverse customer and community base, including the perspectives of customers who have difficulty paying bills and business customers
- the partnership approach it took to engagement with Traditional Owners and First Nations people
- the depth of deliberation Goulburn Valley Water afforded customers to support their decision making on complex issues – specifically the suitability of the information sources that informed the deliberative panel (which included willingness to pay study) along with the overall quality information it provided participants.

In our draft decision, our preliminary view was that Goulburn Valley Water's engagement with its deliberative forum on willingness to pay projects, as well as the materials provided to developer stakeholders on new customer contributions, could have been more detailed and transparent.

We received feedback on Goulburn Valley Water's engagement from customers in written submissions and at the public forum. Two customers who had participated in Goulburn Valley Water's deliberative process, and who also attended our public forum commented favourably on the quality of their engagement experience with Goulburn Valley Water, and that participants had opportunities to consider price impacts during their consideration of changes due to inflation.²² One submission was critical of Goulburn Valley Water's engagement, suggesting it had managed its customer engagement to build support for a price increase that was not otherwise justified.²³

We have considered all feedback in the context of the overall engagement program which included a deliberative forum designed specifically to seek customer views on new projects that would have direct impact on prices. Our review of that deliberative forum had already considered the depth of

²² Shirley Cooney, participant comment, Goulburn Valley Water price review 2023 public forum, 2 May 2023; Bill Robbins participant comment, Goulburn Valley Water price review 2023 public forum, 2 May 2023.

²³ Anonymous, *submission to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 1 May 2023.

deliberation, the range of information sources available to participants, including a willingness to pay study. We have considered all perspectives presented in response to our draft decision and remain of the view that Goulburn Valley Water's engagement program, and its deliberative process in particular, were well tailored to the matters it was engaging on, consistent with our guidance and consistent with a self-rating of 'Advanced' under the PREMO framework.

Our final decisions it to accept Goulburn Valley Water's self-rating of 'Advanced' for its price submission engagement.

See Chapter 7 for more detail on our PREMO assessment of Goulburn Valley Water's price submission.

3.2 Outcomes

Goulburn Valley Water's proposed set of outcomes indicates the value its customers can expect to receive during the next regulatory period. Actual performance against output measures and targets is monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It also informs the rating for the 'Performance' element of PREMO at the next price review.

Goulburn Valley Water proposed to deliver the following outcomes over the regulatory period starting 1 July 2023:

- Provide reliable water and wastewater services customers can trust
- Lead action and partner with its communities to grow the region
- Care for the environment and adapt to a future impacted by climate variability
- Deliver respectful and responsive customer service, balancing affordability, value for money and fairness.

Goulburn Valley Water's proposed measures and targets that it will use to report on its performance for each outcome are detailed on pages 35 to 39 of its price submission.

In our draft decision, we agreed with Goulburn Valley Water's self-assessment that it has, overall, met its outcome commitments for the 2018–23 period to date, and that its reporting to customers during this period met our requirements.

We considered its proposed set of outcomes for 2023–28 demonstrated an overall improvement in customer value and was consistent with the requirements of an 'Advanced' rating for the Outcomes element of PREMO. After considering all submissions received following our draft decision, we

have not changed our views expressed in our draft decision on Goulburn Valley Water's outcomes.²⁴

In our draft decision, we noted that some of the proposed outcome measures and targets were not presented in a manner consistent with our guidance requirements.

In response to our draft decision, Goulburn Valley Water amended its outcome measures and targets. We have worked with Goulburn Valley Water to ensure its final set of measures and targets meets the requirements set out in our guidance.

Following the release of this final decision, we will publish the 2023–28 outcomes reporting template for all water businesses participating in this price review, and we expect water businesses to publish them prominently on their own websites.

Our assessment of Goulburn Valley Water's outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 7.

3.3 Service standards related to service reliability and faults

Goulburn Valley Water provided a list of service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers as required by clause 18.2 of the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Each water business must specify its own targets against each of these service standards. These service standards and corresponding target service levels are the minimum level of service customers can expect to receive.

Our draft decision summarised Goulburn Valley Water's proposed changes in its service standards from July 2023 and the reasons we considered that they comply with the Urban Water Industry Standard.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Goulburn Valley Water's service standards. On that basis, our assessment is that the service standards relating to reliability and faults proposed by Goulburn Valley Water comply with the requirements of the Urban Water Industry Standard.

These service standards and Goulburn Valley Water's targets until 2028 are set out in Appendix C.

Service standards are set out in our Water Industry Standard. Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect targets set by the water business.

²⁴ A submission from the Consumer Action Law Centre (CALC) commended all businesses for working closely with customers to develop their proposed outcomes set. Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2023.

3.4 Guaranteed service levels

Our final decision is to adopt the guaranteed service levels outlined in Appendix D.

Guaranteed service levels define a water business's commitment to deliver a specified level of service. For each guaranteed service level, typically a water business commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.

Goulburn Valley Water's proposed guaranteed service levels are set out on pages 27 and 28 of its price submission. Our draft decision summarised Goulburn Valley Water's proposed changes in its scheme from July 2023.

Our draft decision proposed to accept Goulburn Valley Water's proposed guaranteed service levels except for the rebate amount for the mandatory guaranteed service level relating to restriction and legal action, on the basis that they had been agreed with customers during its engagement.

In relation to the rebate amount for the mandatory guaranteed service level relating to restriction and legal action, clause 20(c) of the Urban Water Industry Standard specifies that the amount of the mandatory rebate must be a minimum of \$300. Goulburn Valley Water proposed an amount of \$100. In our draft decision we proposed to set the rebate at \$300 unless Goulburn Valley Water proposed a higher amount in response to our draft decision. The Consumer Action Law Centre, in a submission on our draft decisions, was strongly supportive of our draft decision in this regard.²⁵

In its response to our draft decision, Goulburn Valley Water stated that it would increase its proposed mandatory service level rebate from \$100 to \$300.²⁶

After releasing our draft decision, we identified a further issue with Goulburn Valley Water's proposed mandatory guaranteed service level (relating to restriction and legal action); Goulburn Valley Water's proposed wording did not include references to legal action and to using reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, as required by clause 20(c) of the Urban Water Industry Standard.²⁷ Accordingly, we have made amendments to Goulburn Valley Water's wording of the mandatory guaranteed service level by including these references.²⁸

²⁵ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 4.

²⁶ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, p. 5.

²⁷ Clause 20 (c) of the Urban Water Industry Standards sets out the requirements of the mandatory guaranteed service level relating to restriction and legal action.

²⁸ Clause 15.4 of the Urban Water Industry Standard specifies the requirements for reasonable endeavours.

Customer outcomes

After considering all submissions received in response to our draft decision, and on the basis of the above, our final decision is to adopt the guaranteed service levels outlined in Appendix D.

Guaranteed service levels are approved in our water industry standards. Accordingly, in early 2023-24, we will update the standards to reflect the guaranteed service levels set out in Appendix D.

4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.²⁹ Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Goulburn Valley Water's revenue requirement based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 4.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 4.2)
- roll-forward the regulatory asset base (Section 4.3)
- apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 4.4.1)
 - a benchmark return on equity value determined by Goulburn Valley Water's PREMO rating (Section 4.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 4.5)
- establish a benchmark tax allowance (Section 4.6).

Our final decision is to approve a revenue requirement of \$431.5 million.

Goulburn Valley Water proposed a revenue requirement of \$445.8 million over a 5-year period starting 1 July 2023. Our draft decision adopted a lower revenue requirement of \$419.9 million, mainly due to adjustments we proposed to its operating expenditure.

Our final decision approves a revenue requirement of \$431.5 million (Table 4.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure.

²⁹ We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Gippsland Water in the regulatory period from 1 July 2023. We had regard to their views in arriving at our final decision.

Table 4.1 Final decision on Goulburn Valley Water’s revenue requirement

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	56.8	57.4	58.0	60.0	58.7	290.8
Return on assets	11.7	12.4	13.6	14.8	15.9	68.5
Regulatory depreciation	10.8	11.8	13.8	15.7	16.7	68.8
Tax allowance	0.6	0.5	0.6	0.8	0.9	3.4
Final decision – revenue requirement	79.9	82.2	86.0	91.3	92.1	431.5

Note: Numbers have been rounded.

Since our draft decision, we have updated our estimates for the cost of debt, licence fees, environmental contribution, and inflation to reflect the latest available information. We updated the licence fee and environmental contribution estimates, while we required Goulburn Valley Water to update its revenue requirement and prices to reflect the updated cost of debt and inflation estimates.

In response to our draft decision, Goulburn Valley Water updated its revenue requirement to reflect the updated cost of debt and inflation estimates. It also provided updated forecasts for capital expenditure, the regulatory asset base and regulatory depreciation that reflected our draft decision on these aspects of its revenue requirement. However, Goulburn Valley Water did not update its revenue requirement to reflect the return on equity that we adopted in our draft decision, which was lower than the return on equity proposed by Goulburn Valley Water (see Section 4.4.2).

Goulburn Valley Water also provided updated cost estimates following the release of the 2023-24 Victorian State Budget, and updated its bulk water costs to reflect the latest information.

The adjustments to Goulburn Valley Water’s revenue requirement that we have made in our draft and final decisions are set out in Table 4.2, with the reasons outlined in the following sections.

Table 4.2 Adjustments to revenue requirement – our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn Valley Water's proposed revenue requirement	83.4	85.4	89.1	93.8	94.1	445.8
B. Total adjustments proposed in our draft decision	-3.5	-4.3	-5.3	-6.0	-6.7	-25.9
Operating expenditure	-2.2	-2.6	-3.2	-3.9	-4.5	-16.4
Return on assets	-1.2	-1.5	-1.7	-1.7	-1.8	-7.8
Regulatory depreciation	0.1	-0.1	-0.2	-0.2	-0.2	-0.6
Tax allowance	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1
C. Draft decision – revenue requirement (C = A+B)	79.9	81.1	83.8	87.8	87.4	419.9
D. Total adjustments in our final decision	0.1	1.1	2.2	3.5	4.7	11.6
Operating expenditure	0.9	1.1	1.0	1.0	1.0	5.1
Return on assets	-0.6	0.3	1.3	2.5	3.7	7.2
Regulatory depreciation	-	-	0.1	0.2	0.3	0.7
Tax allowance	-0.3	-0.3	-0.3	-0.3	-0.3	-1.3
E. Final decision – revenue requirement (E = C + D)	79.9	82.2	86.0	91.3	92.1	431.5

Note: Row A shows the total revenue requirement proposed by Goulburn Valley Water in its price submission. Row B shows the total difference between our draft decision and what Goulburn Valley Water proposed in its price submission. Row C shows the total revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision.

4.1 Operating expenditure

Our final decision is to adopt a forecast operating expenditure of \$290.8 million for Goulburn Valley Water for the 2023–28 regulatory period.

Operating expenditure – comprising both controllable and non-controllable expenditure – is a component of the revenue requirement. Our draft decision proposed to adopt a forecast operating expenditure of \$285.73 million for the 5-year period, which was \$16.4 million lower than proposed by Goulburn Valley Water mainly due to adjustments that we made to increase the efficiency improvement rate, and remove some expenditure associated with increased maintenance costs and some customer-driven projects that were not yet sufficiently defined.

Table 4.3 sets out our final decision on Goulburn Valley Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

Table 4.3 Final decision – operating expenditure

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	52.01	52.69	53.38	55.49	54.31	267.88
Non-controllable operating expenditure	4.82	4.70	4.58	4.47	4.35	22.93
Bulk services ^a	1.00	1.00	1.00	1.00	1.00	5.02
Environmental contribution ^b	3.62	3.50	3.38	3.27	3.16	16.93
Licence fees – Essential Services Commission ^c	0.07	0.07	0.07	0.07	0.06	0.33
Licence fees – Department of Health ^c	0.03	0.03	0.03	0.03	0.03	0.16
Licence fees – Environment Protection Authority ^c	0.10	0.10	0.10	0.10	0.10	0.49
Final decision – operating expenditure	56.83	57.39	57.96	59.96	58.66	290.80

Notes: Numbers have been rounded. ^a Bulk services covers the supply of bulk water and sewerage services.

^b Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. ^c Licence fees are paid to cover costs incurred by the Department of Health, the Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water business.

Table 4.4 sets out the adjustments we have made to controllable and non-controllable operating expenditure for our draft decision, and since our draft decision. Details of our assessment and the reasons for our final decision adjustments are included in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Goulburn Valley Water does not represent the amount that Goulburn Valley Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

Table 4.4 Our adjustments to Goulburn Valley Water’s operating expenditure for our draft and final decisions
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn Valley Water’s proposed total operating expenditure	58.11	58.92	60.16	62.81	62.18	302.18
A1 – Our draft decision adjustments to controllable operating costs	-2.10	-2.39	-2.92	-3.46	-4.00	-14.87
A2 – Our draft decision adjustments to non-controllable operating costs	-0.11	-0.22	-0.32	-0.42	-0.52	-1.58
B. Draft decision – total operating expenditure	55.90	56.32	56.91	58.93	57.66	285.73
C. Final adjustments to controllable operating costs (C1 + C2)	0.99	1.16	1.17	1.18	1.18	5.68
C1 – Reversal of maintenance costs adjustment	0.99	0.99	1.00	1.00	1.01	4.99
C2 – 2023-24 State Budget updates	-	0.16	0.17	0.17	0.18	0.68

Continued next page

Table 4.4 (continued)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
D. Final adjustments to non-controllable operating costs (D1 + D2 + D3 + D4 +D5)	-0.06	-0.09	-0.12	-0.15	-0.18	-0.60
D1 – Environmental contribution	-0.02	-0.03	-0.05	-0.06	-0.08	-0.24
D2 – Licence fees – Essential Services Commission	-0.00	-0.00	-0.00	-0.00	-0.01	-0.02
D3 – Licence fees – Department of Health	0.01	0.01	0.01	0.01	0.01	0.03
D4 – Licence fees – Environment Protection Authority	0.01	0.01	0.01	0.01	0.01	0.03
D5 – External bulk water charges – Goulburn-Murray Water	-0.05	-0.06	-0.08	-0.10	-0.11	-0.40
E. Final decision – total operating expenditure (E = B + C + D)	56.83	57.39	57.96	59.96	58.66	290.80

Notes: See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in rows C and D (and disaggregated in rows C1 to C2 and rows D1 to D5) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded.

4.1.1 Controllable operating expenditure

In relation to controllable operating expenditure, our preliminary findings (outlined in Section 4.1.1 of our draft decision) were that:

- We did not accept Goulburn Valley Water’s proposed baseline forecast and instead adopted a controllable operating expenditure baseline of \$51.13 million, after removing \$1.0 million for non-recurring increased maintenance in 2021-22.
- Goulburn Valley Water’s proposed baseline forecast was approximately 11 per cent above the benchmark set at the 2018 price review. Goulburn Valley Water explained its additional expenditure above the 2021-22 benchmark was mainly related to the approximately 27 additional full time equivalent employee positions created since the 2018 price review, however this explanation did not align with the information in the financial models. We requested Goulburn Valley Water provide information, in response to our draft decision, that helped to

better understand the relationship between increasing employee numbers and the assumptions in the operating expenditure benchmark established at the 2018 price review.

- Goulburn Valley Water had proposed an average efficiency improvement rate of 0.4 per cent per year across the 2023–28 regulatory period, which was the lowest rate when compared to all other businesses in the current price review. With a proposed average cost growth rate of 1.5 per cent per year, this effectively delivered a net average annual increase of 1.1 per cent to its controllable annual baseline operating costs in each year of the regulatory period. This net annual increase was the second highest when compared to other businesses in the current price review. Our draft decision did not accept Goulburn Valley Water’s proposed efficiency improvement rate and instead adopted an efficiency improvement rate of 1.0 per cent per year for all 5 years, given that most other water businesses in the current review had identified an efficiency rate of at least this amount.
- We considered Goulburn Valley Water’s forecast cost adjustment additions were mostly prudent and efficient, except for the \$9.0 million step change that related to the customer willingness to pay projects, which lacked sufficient detail. Of that \$9.0 million, we allowed \$2.0 million allocated to supporting customers struggling to pay their bills, given this was clearly identified as a customer priority and was consistent with similar proposals from other businesses, but we required Goulburn Valley Water to provide more details on this program. We removed the remaining \$7.0 million and required Goulburn Valley Water to provide additional justification for the prudence and efficiency of these programs if it sought to have these costs reincluded.
- In response to our draft decision, we required Goulburn Valley Water to:
 - resubmit its forecasts for controllable operating expenditure, reflecting an efficiency improvement rate of at least the 1.0 per cent we adopted in our draft decision
 - provide further information on its customer willingness to pay programs
 - provide details on the expected cost savings from its solar electricity generation investments and quantify the impact on its financial model and customer bills.

4.1.1.1 Efficiency improvement rate

As identified above, Goulburn Valley Water proposed a very low average efficiency improvement rate of 0.4 per cent per year.

In response to our draft decision, Goulburn Valley Water agreed to raise its efficiency improvement rate from its proposed average of 0.4 per cent to 1.0 per cent per year as per our draft decision.³⁰ Goulburn Valley Water also reviewed its demand forecasts against the latest Victorian Government population and dwelling growth estimates, and stated the forecast growth in dwellings and average

³⁰ Goulburn Valley Water, *submission in response to the Essential Services Commission ‘Goulburn Valley Water draft decision: 2023 water price review’*, 11 May 2023, p. 13.

household size had not changed substantially across its region, and it did not propose an update to its operating expenditure growth rate.³¹ As outlined in Section 5.1, we consider this approach to be an appropriate approach.

We received a submission from the Consumer Action Law Centre on our draft decisions, which agreed with our draft decision to adopt a higher efficiency improvement rate for Goulburn Valley Water and stated that it considers that meeting a rate of 1.0 per cent per year is a reasonable expectation for Goulburn Valley Water.³²

Our final decision adopts a controllable operating expenditure efficiency improvement rate of 1.0 per cent, consistent with our draft decision.

4.1.1.2 Baseline controllable operating expenditure

As identified in our draft decision, Goulburn Valley Water's controllable operating expenditure was approximately 11 per cent above the benchmark in 2021-22. In response to our draft decision and to explain why it exceeded the benchmark, Goulburn Valley Water acknowledged that it had set itself a very challenging benchmark at the 2018 price review, namely that it had:

- Artificially lowered the forecast operating expenditure to align with a reduced revenue recovery in order to return to customers \$2.3 million in savings accumulated over the previous 2013–18 regulatory period.
- Set a very ambitious efficiency improvement rate of 3.1 per cent (or about \$1.5 million) per year. Goulburn Valley Water stated its actual efficiency gains achieved during the current regulatory period were minimal.

Goulburn Valley Water also identified other factors that contributed to the higher operating expenditure baseline for 2021-22, such as the impacts of the coronavirus pandemic, extreme weather events, and updated legislative compliance obligations.³³

As indicated above, our draft decision removed \$1.0 million from Goulburn Valley Water's proposed baseline forecast for non-recurring increased maintenance in 2021-22. In response to our draft decision, Goulburn Valley Water provided information to support the re-inclusion of the \$1.0 million for increased maintenance in 2021-22. Goulburn Valley Water argued these costs were not a one-off increase associated with delayed works, but reflected ongoing actual

³¹ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp. 31-32.

³² Consumer Action Law Centre, *submission in response to the Essential Services Commission 'East Gippsland Water draft decision: 2023 water price review'*, 5 May 2023, p. 2.

³³ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp. 7-8.

expenditure across recent years, and that removing it from the baseline would adversely impact its ability for service delivery operations to be able to operate and undertake maintenance.³⁴ Our expenditure consultant reviewed Goulburn Valley Water's response, and considered Goulburn Valley Water's argument still did not explain why this specific expenditure item had been identified as an explanation for the increase in the baseline year expenditure. Our consultant did not change its recommendation to exclude this amount.

Goulburn Valley Water also responded to our request for more information on the 26.6 additional full time equivalent employee positions since the 2018 price review. It explained that 21 of these new roles were formed through several restructures in response to the retirement of its Managing Director and a reset of its operating model and corporate strategy under the new Managing Director and the remaining 5.6 roles were created to meet its regulatory compliance obligations. Goulburn Valley Water stated that only 18 of those roles were filled in 2021-22, which meant that it only had 9 additional employees above the planned benchmark for that period.³⁵

We do not consider this new information provided in its response (nor the information provided in its original explanation) justifies why actual operating expenditure was above the benchmark allowance.

Our approach to operating expenditure requires us to establish an efficient baseline for the next pricing period, with reference to the benchmark set at the last price review and actual expenditure variations explained and justified by the business. Given Goulburn Valley Water's acknowledgment that the 2021-22 baseline set at the 2018 price review had been 'artificially adjusted' downwards and included a very ambitious efficiency gain that it did not achieve, we have formed the view that it does not represent a meaningful benchmark for comparison with actual 2021-22 expenditure. It is therefore difficult for Goulburn Valley Water to reconcile the variations that gave rise to the apparent 11 per cent increase in controllable operating expenditure. Without a meaningful reference point, we cannot reasonably make adjustments to the baseline expenditure proposed by Goulburn Valley Water. This situation has informed our final decision on Goulburn Valley Water's PREMO rating in Chapter 7.

Given this, for our final decision, we will re-instate the \$1.0 million we removed from the 2021-22 baseline in our draft decision and adopt a baseline of \$53.12 million as originally proposed by Goulburn Valley Water in its price submission. For its next price review, Goulburn Valley Water's

³⁴ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp. 9-10.

³⁵ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp. 11-12.

price submission must include a comprehensive argument to substantiate its actual expenditure against the benchmarks we set for each year across the regulatory period.

4.1.1.3 Customer willingness to pay programs

As indicated above, in our draft decision we sought further information from Goulburn Valley Water regarding the \$9.0 million step change that relates to the customer willingness to pay projects. The \$9.0 million comprises \$2.0 million for one of the customer willingness to pay programs which relates to supporting customers in need and the remaining \$7.0 million is for the Regional Leadership and Carbon Abatement with Local Benefits Programs.

Regarding the \$2.0 million expenditure, in response to our draft decision, Goulburn Valley Water explained that its customers and stakeholders recommended increasing the level of service to support customers who need help and accept Goulburn Valley Water's explanation that it will be divided into five initiatives comprising of Water Efficiency Partnerships; Customer Leak Repairs; Customer Monthly Billing; Supporting Capacity Building in Our Youth; and the New Arrivals Support Program which will be presented to the Annual Performance Forum (customer stewardship group for current price review) on 25 June 2023 for endorsement.³⁶

In our draft decision, we had allowed the \$2.0 million subject to the provision of further details from Goulburn Valley Water about the program; we are satisfied by the further information provided by Goulburn Valley Water because it shows the structure, delivery timeline, costings and reporting processes for this program have been advanced since the original price submission. Accordingly, we will allow the \$2.0 million expenditure to remain in the forecast.

Regarding the \$7.0 million expenditure, in response to our draft decision, Goulburn Valley Water explained that it had not provided specific initiative detail in its price submission because the proposal was to co-design these initiatives with its customers. Goulburn Valley Water explained that it was still not in a position to demonstrate the prudence and efficiency of these programs, and has instead proposed to utilise a pass-through mechanism for costs associated with these customer willingness-to-pay investments on Regional Leadership and Carbon Abatement with Local Benefits Programs.³⁷

We expect Goulburn Valley Water to further test the prudence and efficiency of these programs as they are developed before seeking to adjust prices. We expect Goulburn Valley Water to verify the prudence and efficiency of the programs with us when they are ready, before applying to adjust

³⁶ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, p. 15-16.

³⁷ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, p. 17-18.

prices ahead of its annual tariff adjustment and assessment. These impacts to tariffs are further discussed in Section 5.5.

4.1.1.4 Solar electricity generation investments

As indicated above, in our draft decision we required Goulburn Valley Water to provide details on the expected cost savings from its solar electricity generation investments and quantify the impact on its financial model and customer bills.

Goulburn Valley Water explained that electricity generated from the new solar arrays during the next regulatory period was accounted for in the financial model as ‘Other revenue’ rather than a reduction in operational expenditure. This was because the solar arrays were not ‘behind the meter’ but rather in a different location with the electricity generated being sold into the grid and the renewable energy certificates being used instead to offset Goulburn Valley Water’s electricity emissions at usage sites to meet the regulated renewable energy target.³⁸

We accept Goulburn Valley Water’s explanation on the expected cost savings from its solar generation investments because it clearly sets out that the solar arrays will not be ‘behind the meter’ and will instead generate revenue and renewable energy certificates to offset electricity usage.

4.1.1.5 Shepparton Corporate Office Upgrades project

In response to our draft decision, Goulburn Valley Water reiterated the final approach it will adopt to deliver its Shepparton Corporate Office Upgrades project is still uncertain, and that it will not select a final option until 2023-24. We have allowed some capital expenditure for this project which will cover either the refurbishment or the lease options, discussed further in Section 4.2.1 below. If the lease option is chosen, Goulburn Valley Water will incur leasing costs on its new office building before the end of the 2023–28 regulatory period. However, Goulburn Valley Water has not included these costs in its operating expenditure forecast, and hence they will not be included in our approved benchmark for the 2026-27 baseline year for the 2028 price review.

Goulburn Valley Water has indicated the leasing costs will be about \$1.0 million per year, and will appear as new costs above the benchmark at the next price review if this option is implemented. Goulburn Valley Water advised it will seek to have these new costs added to the baseline for the 2028–33 regulatory period, and also to recover the unfunded operating expenditure associated with this project that it incurs during the 2023–28 period.

³⁸ Goulburn Valley Water, *submission in response to the Essential Services Commission ‘Goulburn Valley Water draft decision: 2023 water price review’*, 11 May 2023, p. 19.

We accept Goulburn Valley Water’s approach to this potential lease expenditure, because it means the business, not customers, will carry the uncertainty until the end of the regulatory period. We will consider the prudence and efficiency of this expenditure, along with any proposal to recover unfunded costs, when it is presented in Goulburn Valley Water’s next price submission.

4.1.1.6 Our final decision on controllable operating costs

Following release of the 2023-24 Victorian State Budget on 23 May 2023, we wrote to water businesses to provide them with an opportunity to update their cost forecasts, should they seek to claim any additional costs and reflect these in customer prices.³⁹

Goulburn Valley Water responded with updated cost forecasts to reflect higher payments relating to payroll tax. We have accepted these additional amounts as they are unavoidable costs that the business faces in delivering prescribed services to its customers.

After considering all submissions received in response to our draft decision, and on the basis that Goulburn Valley Water’s updated controllable operating expenditure is consistent with our guidance, our final decision is to adopt a forecast controllable operating expenditure of \$267.88 million (Table 4.3).

4.1.2 Non-controllable operating expenditure

In relation to non-controllable operating expenditure, our preliminary findings (outlined in Section 4.1.2 of our draft decision) were that:

- Goulburn Valley Water had partially followed the approach set out in our guidance paper to forecast its non-controllable operating costs in its price submission but had forecasted the environmental contribution remaining flat in real terms rather than in nominal terms.
- We had requested Goulburn Valley Water respond to our draft decision by providing the list of bulk water tariffs charged by Goulburn-Murray Water for the period 2021-22 and updating its forecast bulk charges for the period 2022-23 to 2027-28 by using our approved prices for Goulburn-Murray Water in 2022-23.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision, and also adjust for the latest inflation and external bulk charges data.⁴⁰

³⁹ Victorian Government, *Budget papers ‘2023/24 State Budget papers’*, 23 May 2023.

⁴⁰ Non-controllable costs are those that cannot be directly or indirectly influenced by a water business’s decisions.

For the environmental contribution, we have used the 2022-23 value provided by the Department of Energy, Environment and Climate Action and assumed that this will remain flat in nominal terms (decline in real terms) across the 2023–28 regulatory period.

We have assumed the licence fees for the Department of Health and the Environment Protection Authority Victoria remain flat in real terms across the period.⁴¹

For our Essential Services Commission licence fee, we have taken our forecast fee estimate schedule, which is based on the expected work program across the 2023–28 regulatory period (which is in nominal dollars) and deflated it into 2022-23 dollars to express the fee in real terms.⁴²

Goulburn Valley Water updated its financial model to reflect the Goulburn-Murray Water Bulk Charges for 2023-24 and followed our request to maintain the forecast bulk charges at a flat rate in real terms for the next regulatory period. We have also verified Goulburn Valley Water's bulk charges were consistent with our annual tariff approval for 2022-23 and Goulburn-Murray Water's 2020 price determination and have adopted Goulburn Valley Water's latest forecast external bulk charges of \$5.02 million over the next regulatory period.

We have reduced Goulburn Valley Water's forecast non-controllable operating expenditure by \$0.60 million across the 2023–28 period, resulting from the following adjustments:

- \$0.04 million increase for licence fees after considering the latest information received from the relevant regulatory authorities
- \$0.24 million decrease for the environmental contribution to account for the latest data on inflation.
- \$0.40 million decrease for external bulk water charges as revised by Goulburn Valley Water to reflect the Goulburn-Murray Water Bulk Charges for 2023-24 and maintaining that charge at a flat rate in real terms for the next regulatory period.

Accordingly, consistent with the reasoning in our guidance paper, our final decision is to adopt a revised non-controllable operating expenditure of \$22.93 million over the next regulatory period.

⁴¹ For the Safe Drinking Water Administration levy, we have used the 2021-22 value provided by the Department of Health and indexed it by the annual rate for fees in 2022-23 (1.75 per cent), as set out by the Department of Treasury and Finance's cost recovery guidelines (<https://www.dtf.vic.gov.au/financial-management-government/indexation-fees-and-penalties>). We have applied the same approach to the 2021-22 licence fee provided by the Environment Protection Authority Victoria.

⁴² These fees are yet to be determined by the Minister for Water.

4.2 Capital expenditure

Our final decision is to adopt a forecast capital expenditure of \$233.96 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast capital expenditure of \$227.5 million for the 5-year period, which was \$17.6 million lower than the \$245 million proposed by Goulburn Valley Water.

As explained in our draft decision:

- Goulburn Valley Water demonstrated it has adopted a reasonable approach to developing its capital program, and that its capital expenditure forecasts are largely prudent and efficient.
- We reallocated the forecast expenditure for the Shepparton Corporate Office Upgrades project (\$13.8 million) to be recovered in the 2028–33 regulatory period, given the business is yet to confirm whether it will refurbish its existing office or lease new offices currently under development, and the forecast capital outlay is not reflective of the business’s preferred approach to lease new offices.
- We adjusted the forecast expenditure for the Water Mains Replacement program downwards by \$3.75 million across the 2023–28 regulatory period, to align with Goulburn Valley Water’s low-cost forecast that would deliver failure rates below target across the period.
- We considered the planned capital expenditure program is achievable, given Goulburn Valley Water’s past track record delivering its capital expenditure program.
- We considered Goulburn Valley Water’s approach to forecasting its capital expenditure, other than the adjustments described above, is consistent with the requirements of our guidance.

Table 4.5 Adjustments to forecast capital expenditure – our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Goulburn Valley Water's proposed forecast capital expenditure	57.80	60.23	48.07	40.59	38.32	245.01
A1 – Shepparton – Corporate Office Upgrades	-6.30	-7.50	0.00	0.00	0.00	-13.80
A3 – Water Mains Replacement program	-0.75	-0.75	-0.75	-0.75	-0.75	-3.75
B. Draft decision – total capital expenditure	50.75	51.98	47.32	39.84	37.57	227.46
C. Total adjustments in our final decision	0.00	0.00	3.25	3.25	0.00	0.00
C1 – Shepparton – Corporate Office Upgrades	0.00	0.00	3.25	3.25	0.00	6.50
D. Final decision – total forecast capital expenditure (D = B + C)	50.75	51.98	50.57	43.09	37.57	233.96

Note: Row A shows the total forecast capital expenditure proposed by Goulburn Valley Water in its price submission. Row B shows the total forecast capital expenditure we adopted in our draft decision. Row C shows the total difference between our final decision (row D) and our draft decision, with the adjustment shown in row C1. Numbers have been rounded.

In response to our draft decision Goulburn Valley Water sought a revised forecast amount of \$6.5 million to perform works related to its Shepparton Corporate Office Upgrades project and sought the re-establishment of its proposed forecast for its Water Mains Replacement program.⁴³

⁴³ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp 22-25.

4.2.1 Shepparton Corporate Office Upgrades project

In response to our draft decision, Goulburn Valley Water reiterated the final approach it will adopt to deliver its Shepparton Corporate Office Upgrades project is still uncertain, and that it will not select a final option until 2023-24. However, Goulburn Valley Water stated it could not defer this work beyond the next regulatory period given building compliance issues and sought a revised total amount of \$6.5 million over 2025-26 and 2026-27 to undertake office-fit out works and services that are common to either refurbishing its existing office or leasing new office space. In the event Goulburn Valley Water selects the refurbishment of its existing office, it will seek any additional capital expenditure it incurs to be captured in the regulatory asset base at the end of the period. On the other hand, if it selects the leasing option, it will seek to add the lease costs to its operating expenditure baseline, and it will seek a 'true-up' of any unfunded operating expenditure at the end of the period if that is not offset by a potential sale of its current office building.

We received one anonymous submission that did not support Goulburn Valley Water's price submission proposal of \$13.8 million to undertake its Corporate Office Upgrades project, given it currently operates two office sites across Shepparton.⁴⁴

Our expenditure consultant reviewed the revised forecast and approach provided by Goulburn Valley Water and considered both the revised forecast amount and approach were reasonable given the project justification put forward by Goulburn Valley Water, the revised timing of the works and the level of certainty in the fit-out and services costs to be included in its revised forecast of \$6.5 million.

We agree with our consultant's view and our final decision is to accept Goulburn Valley Water's revised forecast of \$6.5 million for this work for the same reasons, and because we consider that this revised approach better balances the cost risks between the business and its customers than did its original proposal. Any capital expenditure incurred on this project above the benchmarks we approve for our final decision may be reviewed at the end of the regulatory period and included in its regulatory asset base, subject to its prudence and efficiency being established.

4.2.2 Water Mains Replacement program

In our draft decision, we removed \$3.75 million across the regulatory period, or \$0.75 million per year, of expenditure related to the Water Mains Replacement program.

In response to our draft decision, Goulburn Valley Water stated that its price submission forecast of \$2.75 million per year to conduct its Water Mains Replacement program should be restored and considered that our draft decision adjustment to this program would risk the business's

⁴⁴ Anonymous, *submission to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 1 May 2022.

achievement of its target failure rate of 18 per 100 kilometres of water main. Goulburn Valley Water presented additional information in support of its price submission forecast, including the expected impact on this program of increasing contract rates beginning in 2023-24 and a complex schedule of works to deliver water main replacement projects under railway lines.⁴⁵

Our expenditure consultant reviewed the additional information provided by Goulburn Valley Water and, while acknowledging the increasing contract rates and the complexity associated with managing renewal works at rail crossings and the replacement of asbestos cement water mains, it did not change its view that Goulburn Valley Water would be able to deliver its target failure rates within an annual allowance of \$2 million.

We agree with our consultant's view and our final decision is to retain an allowance of \$2 million per year for Goulburn Valley Water's Water Main's Replacement program. We wish to highlight our final decision sets a benchmark for capital expenditure and does not preclude Goulburn Valley Water from conducting any required renewal or replacement works it deems necessary to meet its obligations during the period. Goulburn Valley Water's actual capital expenditure above the benchmark may be reviewed at the end of the regulatory period and included in its regulatory asset base, subject to its prudence and efficiency being established.

After considering all submissions received in response to our draft decision, our final decision is to adopt a forecast capital expenditure of \$233.96 million for the 5-year period (Table 4.5), \$6.5 million higher than our draft decision and \$11.05 million lower than that proposed by Goulburn Valley Water, for the reasons outlined above.

We consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on Goulburn Valley Water's forecast regulatory asset base (Table 4.7) and revenue requirement (Table 4.1) reflect this benchmark.

The benchmark that we propose to adopt for Goulburn Valley Water does not represent the amount that Goulburn Valley Water is required to spend or allocate to particular projects. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Where we have made an adjustment to exclude a project's capital expenditure from Goulburn Valley Water's revenue requirement, we are not requiring the business to remove that project. Goulburn Valley Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

⁴⁵ Goulburn Valley Water, *submission in response to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 11 May 2023, pp. 24–25, Appendix E.

4.3 Regulatory asset base

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.⁴⁶ The regulatory asset base is used to estimate the return on assets (discussed in Section 4.4) and regulatory depreciation (discussed in Section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Goulburn Valley Water to propose:

- the closing value of its regulatory asset base at 30 June 2022 (using actual data)
- the opening value of its regulatory asset base at 1 July 2023 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2023-24 to 2027-28), in accordance with the prudence criteria outlined in the guidance.

4.3.1 Closing regulatory asset base

Our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$470.4 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2021-22.⁴⁷ This helps to ensure prices reflect the actual net expenditure of a water business.⁴⁸

Our draft decision adopted a closing regulatory asset base of \$470.4 million at 30 June 2022. This was higher than the \$467.1 million proposed by Goulburn Valley Water in its price submission due to adjustments we made to align with Goulburn Valley Water's approved regulatory accounts for 2021-22. In response to our draft decision, Goulburn Valley Water updated the closing regulatory asset base in its financial model to align with our draft decision.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$470.4 million (Table 4.6).

⁴⁶ These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

⁴⁷ See Section 4.2 for a discussion of Goulburn Valley Water's capital expenditure.

⁴⁸ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

Table 4.6 Final decision – closing regulatory asset base (RAB)

\$ million 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB 1 July	378.9	391.7	411.2	436.2	458.5
Plus gross capital expenditure	31.4	35.6	41.1	40.0	32.7
Less government contributions	0.6	-	-	-	-
Less customer contributions	2.6	2.8	2.4	2.9	4.4
Less proceeds from disposals	1.0	0.9	0.4	0.3	0.6
Less regulatory depreciation	14.4	12.4	13.3	14.5	15.7
Closing RAB 30 June	391.7	411.2	436.2	458.5	470.4

Note: Numbers have been rounded.

4.3.2 Forecast regulatory asset base

Our final decision is to adopt a forecast regulatory asset base as set out in Table 4.7.

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Our draft decision did not accept Goulburn Valley Water's forecast regulatory asset base for the period from 1 July 2023 because we did not accept its proposed closing regulatory asset base or proposed new customer contributions.

In response to our draft decision, Goulburn Valley Water updated its forecast regulatory asset base to reflect our adjustment to the closing regulatory asset base and also to reflect updated estimates for capital expenditure that it proposed in response to our draft decision. However, our final decision is to not accept Goulburn Valley Water's updated forecast regulatory asset base because we have not accepted its updated forecast capital expenditure.

Our final decision on Goulburn Valley Water's forecast regulatory asset base reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 4.2 (capital expenditure)
- Section 4.3.2.1 (customer contributions)

Revenue requirement

- Section 4.5 (regulatory depreciation).

Table 4.7 sets out our final decision on Goulburn Valley Water's forecast regulatory asset base from 1 July 2023.

Table 4.7 Final decision – forecast regulatory asset base (RAB)

\$ million 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB 1 July	470.4	482.8	516.7	550.8	581.4	602.5
Plus gross capital expenditure	31.1	50.8	52.0	50.6	43.1	37.6
Less government contributions	-	-	-	-	-	-
Less customer contributions	3.0	5.0	5.1	5.2	5.3	5.4
Less proceeds from disposals	0.5	1.0	1.0	1.0	1.0	1.0
Less regulatory depreciation	15.3	10.8	11.8	13.8	15.7	16.7
Closing RAB 30 June	482.8	516.7	550.8	581.4	602.5	617.0

Note: Numbers have been rounded.

4.3.2.1 Customer contributions

Our final decision is to accept the benchmarks for customer contributions as set out in Table 4.7.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.⁴⁹

Our draft decision proposed to not accept Goulburn Valley Water's forecast revenue from customer contributions because we did not accept its proposed new customer contributions. For the purposes of calculating the regulatory asset base and revenue requirement in our draft decision, we adopted Goulburn Valley Water's proposed customer contributions forecast under the financial model however we asked Goulburn Valley Water to update its customer contributions forecast in response to our draft decision.

⁴⁹ Revenue from new customer contributions reflects revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

Goulburn Valley Water's proposed customer contributions in its financial model also did not match the forecast revenue to be generated by its proposed new customer contributions (based on the parameters in its new customer contributions model). In response to our draft decision, Goulburn Valley Water provided a reconciliation of the customer contributions revenue in the financial model and its revised forecast customer contributions revenue that are consistent with the forecast revenue to be generated by its proposed new customer contributions. Goulburn Valley Water's reconciliation shows that the difference is not material, and as a result, it did not revise its forecast revenue from customer contributions in the financial model. As discussed in Section 5.4, our final decision is to accept Goulburn Valley Water's proposed new customer contributions.

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision accepts Goulburn Valley Water's benchmark revenue from customer contributions as set out in Table 4.7.

4.4 Rate of return

In establishing the return on assets component of Goulburn Valley Water's revenue requirement, we have applied a rate of return to Goulburn Valley Water's regulatory asset base. The rate of return is calculated using a benchmark cost of debt (discussed in Section 4.4.1) and a benchmark return on equity value (discussed in Section 4.4.2).

4.4.1 Cost of debt

Our final decision is to accept the updated cost of debt figures used by Goulburn Valley Water to calculate its revenue requirement.

Our draft decision approved the cost of debt proposed by Goulburn Valley Water as it used the cost of debt values we specified in our guidance to calculate its revenue requirement. We also noted that our estimate of 3.75 per cent for the cost of debt in 2022-23 would be updated to reflect the latest available data.

In May 2023, we provided Goulburn Valley Water with an updated cost of debt value from 3.75 per cent to 6.76 per cent for 2022-23.⁵⁰ This reflects the rise in borrowing costs over the past 12 months. Goulburn Valley Water used this updated value to recalculate its revenue requirement.

For the above reasons, our final decision adopts the updated figures for the benchmark cost of debt as set out in Table 4.8.

⁵⁰ These updated figures were based on data from Treasury Corporation Victoria on the actual trailing average cost of debt for 2022-23.

This increase in the cost of debt is a key contributor to the increase in our final decision revenue requirement compared to our draft decision.

Table 4.8 Final decision – 10-year cost of debt

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cost of debt (nominal)	7.05%	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%

Note: Numbers have been rounded.

4.4.2 Return on equity

Our final decision is to not accept Goulburn Valley Water’s proposed return on equity of 4.5 per cent (in real terms), and instead adopt a return on equity of 3.9 per cent (in real terms), which reflects Goulburn Valley Water’s PREMO rating.

Under our PREMO incentive mechanism, which we have applied since 2018, the return on equity we adopt to calculate the revenue requirement is linked to a business’s PREMO rating. See Chapter 7 for an explanation of PREMO and our assessment of Goulburn Valley Water’s PREMO rating. As outlined in our guidance, the return on equity we adopt depends on a water business’s self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business’s self-rating and our rating.⁵¹ Goulburn Valley Water rated its price submission as ‘Advanced’. Based on this PREMO self-rating, Goulburn Valley Water proposed a real return on equity of 4.5 per cent per year. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Advanced’.⁵²

Our draft decision proposed to not accept Goulburn Valley Water’s proposed real return on equity of 4.5 per cent, and instead adopted a real return on equity of 3.9 per cent which reflected our draft decision that Goulburn Valley Water’s price submission PREMO rating.

After considering all submissions received in response to our draft decision, our final decision on Goulburn Valley Water’s overall PREMO rating remains the same as our draft decision. Therefore, our final decision is to adopt a return on equity of 3.9 per cent, reflecting our final decision on the overall PREMO rating of Goulburn Valley Water’s price submission.

⁵¹ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 42-43.

⁵² Essential Services Commission, *2023 water price review: Guidance paper*, p. 42.

While we have not agreed that an ‘Advanced’ PREMO rating and the corresponding return on equity is justified at this time, we would accept an application from Goulburn Valley Water for us to consider a further review of its PREMO rating and return on equity during the 2023–28 regulatory period. Our intention is to issue additional guidance closer to the time of any application by Goulburn Valley Water. As a preliminary point, we envisage any application would be based on it demonstrating sustained achievement of a higher efficiency improvement consistent with the rate for an ‘Advanced’ business, as specified in our guidance.

Goulburn Valley Water must notify us of any intention to apply for a reassessment at least 12 months before it lodges an application. This will enable us to provide it with guidance on our information requirements for such a review. However, we expect that any application would include details of customer outcomes over at least the first two years of the regulatory period, and information demonstrating its efficiency improvement rate.

In making our decision, we would take into account the interests of customers and other considerations listed in the Water Industry Regulatory Order.

Any application by Goulburn Valley Water would need to provide sufficient information to allow the commission to verify that any proposed adjustment would comply with the Water Industry Regulatory Order, and provide other information required by any guidance issued by the commission related to the review.

We consider that allowing Goulburn Valley Water to apply for a reinstatement of the full return on equity for an ‘Advanced’ submission is in the interests of customers, as if it was able to achieve a sustained higher efficiency rate, this would have ongoing benefits in the form of lower operating expenditure reflected in customer prices in future regulatory periods.

4.4.3 Long-term inflation forecast

A long-term inflation forecast is needed to convert the nominal cost of debt (outlined in Section 4.4.2 above) to real terms. A higher rate of inflation means a lower cost of debt in real terms, which would flow through to a lower revenue requirement and lower prices, all other things being equal. Conversely, a lower long-term inflation rate will flow through to increased prices, all other things being equal.

In addition to updating our estimate for the cost of debt, in May 2023 we also updated businesses on our long-term inflation forecast. We advised businesses that the long-term inflation rate we calculated was 3.5 per cent.⁵³ All businesses adopted this amount to calculate prices in their

⁵³ The inflation rate adopted in our draft decision was 3 per cent.

responses to our draft decision. We checked this estimate again for our final decision, based on the method below.

While we have estimated inflation based on the outcome of the two methods specified in our guidance – the ‘RBA geometric mean’ and the ‘bond breakeven’ methods – we have varied our approach given the relatively high near-term inflation environment. While our guidance indicated that our calculation of long-term inflation would cover a 10-year forecast period, we consider in the current high inflation environment, that this would lead to outcomes that underestimate inflation in the 2023–28 regulatory period, which would not be in the interests of customers. Accordingly, we have adopted an averaging period of 5 years. This is consistent with the time period adopted by other economic regulators, including the Australian Energy Regulator.

Estimates we have adopted for each year of the 2023–28 regulatory period under the ‘RBA geometric mean’ approach are set out in Appendix E. Using the ‘RBA geometric mean’ approach we estimate an inflation rate of 3.8 per cent.⁵⁴

For the ‘bond breakeven’ approach, we estimate a 5-year average rate of 3.3 per cent, with the estimates adopted for each year of the 2023–28 regulatory period also set out in Appendix E.⁵⁵

The average outcome under the two approaches is 3.5 per cent, which we have adopted for our final decision.

However, to manage the risk that inflation falls well below our forecast, our price determinations include a provision that allows for a reconsideration of the inflation forecast adopted, if inflation falls below 2.5 per cent by 2026-27.⁵⁶ The updated inflation estimate, if needed, would be based on a 5-year averaging period.

⁵⁴ We have decided to use a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

⁵⁵ Similar to the ‘RBA geometric mean’ approach, we have adopted a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

⁵⁶ With inflation measured by the Australian Bureau of Statistics Consumer Price Index – all groups.

4.5 Regulatory depreciation

Our final decision is to adopt the benchmarks for regulatory depreciation as set out in Table 4.7.

Regulatory depreciation is a component of Goulburn Valley Water's revenue requirement and is also an input to calculating the regulatory asset base.

As indicated in our draft decision, Goulburn Valley Water's forecast regulatory depreciation was calculated using a straight-line depreciation profile, which is our preferred approach.⁵⁷ However, due to adjustments we proposed to its regulatory asset base, our draft decision was to not accept Goulburn Valley Water's forecast regulatory depreciation. Our draft decision adopted a forecast regulatory depreciation that was based on our proposed adjustments to the regulatory asset base, using Goulburn Valley Water's assumed asset lives and required Goulburn Valley Water to update its forecast regulatory depreciation.

In response to our draft decision, Goulburn Valley Water provided updated forecasts for regulatory depreciation that reflected our adjustment to the closing regulatory asset base and also reflected updated estimates for capital expenditure that it proposed in response to our draft decision.

We received no submissions from other stakeholders on this issue.

Our final decision is to not accept Goulburn Valley Water's updated forecasts for regulatory depreciation as we have not accepted its updated capital expenditure forecast. Instead, our final decision is to adopt the benchmarks for regulatory depreciation as set out in Table 4.7, which reflect our final decisions on its capital expenditure forecasts (Section 4.2), regulatory asset base (Section 4.3), and customer contributions (Section 4.3.2.1) because they have been calculated consistently with the requirements of our guidance.

4.6 Tax allowance

Our final decision is to adopt a forecast tax allowance for the 2023–28 regulatory period as set out in Table 4.1.

The tax allowance is a component of the revenue requirement. Our draft decision did not accept Goulburn Valley Water's proposed forecast tax allowance of \$5.8 million for the 2023–28 regulatory period because our draft decision did not accept Goulburn Valley Water's forecast revenue requirement.

⁵⁷ Essential Services Commission, *2023 water price review: Guidance paper*, p. 39.

Our draft decision adopted a tax allowance of \$4.7 million for the 2023–28 regulatory period based on the revenue requirement we adopted for our draft decision.

Notwithstanding that we consider that Goulburn Valley Water's updated forecasts were calculated consistently with the requirements of our guidance, our final decision is to not accept its updated forecast tax allowance because Goulburn Valley Water's tax allowance is based on its revenue requirement, and our final decision is to not accept the revenue requirement proposed by Goulburn Valley Water, as described above.

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision adopts a forecast tax allowance of \$3.4 million for the 5-year regulatory period, as set out in Table 4.1, which reflects our final decision on Goulburn Valley Water's revenue requirement.

5. Demand, tariffs and prices

Once Goulburn Valley Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

5.1 Demand

Our final decision is to accept Goulburn Valley Water's demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

In our draft decision, we accepted Goulburn Valley Water's demand forecasts but required Goulburn Valley Water in its response to our draft decision to demonstrate how it has considered the updated Victorian Government population and dwelling growth estimates that had been made available to water businesses.

In response to our draft decision, Goulburn Valley Water advised that it did not adjust its demand forecasts, because there was no substantial change in the forecast growth in dwellings and average household size between the updated forecasts and the forecast it used to inform its price submission. We consider that this approach is appropriate, given the closeness between the two sets of estimates.

Accordingly, our final decision approves Goulburn Valley Water's demand forecasts because they were estimated consistently with the requirements of our guidance.

5.2 Form of price control

Our final decision is to accept Goulburn Valley Water's proposed price cap form of price control.

Our draft decision accepted Goulburn Valley Water's proposal to retain a price cap form of price control because among other things, we considered that a price cap provides customers with price certainty and allows Goulburn Valley Water to manage demand risk on behalf of its customers, which we consider is more efficient than customers managing that risk. Further, its proposal is mostly a continuation of Goulburn Valley Water's current approach.

After considering all submissions received in response to our draft decision, for the reasons set out above, our final decision approves Goulburn Valley Water's proposed price cap form of price control. We adjusted Goulburn Valley Water's price path as outlined in Section 5.3.2. Goulburn Valley Water can apply to the commission to shift from a price cap form of price control to a tariff

basket if it wishes to rebalance its prices. A change in the form of price control can be submitted to the commission during the annual tariff approval process.

5.3 Tariff structures and prices

Our draft decision accepted Goulburn Valley Water's proposed tariff structures but, like all our draft decisions in this review, did not approve prices for each tariff, because Goulburn Valley Water needed to update its proposed prices to reflect our updates to inflation and cost of debt estimates.

Our final decision on tariff structures and prices is set out below.

5.3.1 Tariff structures

Our final decision is to accept Goulburn Valley Water's proposed tariff structures.

As outlined in our guidance, we have provided the water businesses with a large degree of discretion to decide on individual tariff structures.⁵⁸ This recognises water businesses are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Our draft decision was to accept Goulburn Valley Water's proposal to retain its existing tariff structures, including:

- for residential and non-residential water services – a two-part tariff with a fixed service charge and a variable usage component that depends on water use
- for residential sewerage services – a fixed charge only
- for non-residential sewerage services – a two-part tariff with a fixed service charge and a variable usage component.⁵⁹

Our draft decision accepted Goulburn Valley Water's proposed tariff structures, on the basis that they are generally a continuation of its current approach and otherwise meet the criteria in our guidance. In our draft decision, we considered the two-part structure for water services will promote the efficient use of services. It also sends customers a signal about the costs of their

⁵⁸ Essential Services Commission, *2023 water price review: Guidance paper*, p. 51.

⁵⁹ From 2019 to 2022 Goulburn Valley Water performed a tariff structure trial for residential customers in Cobram and Kilmore. The trial included an option for a lower fixed water service charge and a higher water volume charge. The aim was to give customers more control over their bills, incentivise lower water usage with greater bill impact resulting from changes in usage. Goulburn Valley Water concluded the trial in June 2022 with no recommendation to adjust its current tariff structures.

water use and is an approach that is commonly applied in other states and territories.⁶⁰ We also considered two-part tariff structures were easy to understand.

In our draft decision, in relation to sewerage services, we considered the proposed fixed charge for residential customers was easy to understand and that the two-part tariff for non-residential customers sent these customers signals about efficient costs.

In response to our draft decision, we received two submissions that commented on how tariff structures impact renters.⁶¹ The Consumer Action Law Centre supported water businesses' tariffs generally retaining the balance between fixed and variable charges given the disproportionate impact on tenants when more weight is assigned to variable charges.⁶² Goulburn Valley Water is maintaining the ratio between fixed and variable charges for water and sewerage services. Goulburn Valley Water's tariff structure ensures the impact on tenants is not disproportionate, while maintaining simplicity and signalling efficient costs to customers.

For the reasons set out above and given Goulburn Valley Water's proposed tariff structures are a continuation of its current approach, our final decision is to approve Goulburn Valley Water's proposed tariff structures.

5.3.2 Prices

Our final decision is to not accept Goulburn Valley Water's proposed prices, and instead adopt the prices set out in our determination.

In our draft decision, we noted that Goulburn Valley Water would need to propose updated prices to reflect our draft decision on its revenue requirement and our updates to inflation and cost of debt estimates.

Following our draft decision, Goulburn Valley Water proposed revised prices that reflect updates to our inflation and cost of debt estimates, and to bulk water charges (see Section 4.1). Goulburn Valley Water's revised prices also reflect changes to its revenue requirement it proposed in response to our draft decision (including proposals related to expenditure and the return on equity) and to changes announced in the Victorian State Budget (See Section 4.1).

⁶⁰ Includes the tariffs of Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁶¹ John Paulet, *submission to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 24 April 2023. Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 2.

⁶² Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 2.

As noted in Chapter 4 however, our final decision approves a lower revenue requirement than the updated revenue requirement proposed by Goulburn Valley Water.

Accordingly, and to ensure maximum prices reflect forecast efficient costs, our final decision is to not accept the revised prices proposed by Goulburn Valley Water, and instead adopt the prices set out in our determination. Maximum prices for major tariffs approved in our determination are set out in Tables 5.1 and 5.2. In 2024-25, most water and sewerage prices will increase by around 0.6 per cent, excluding inflation, before rising by around 1 per cent per year from 2025-26, excluding inflation.

Table 5.1 Final decision – water prices

\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential and non-residential					
Variable (\$/kL)	1.2241	1.2314	1.2437	1.2561	1.2686
Fixed (\$/year)	177.84	178.90	180.68	182.48	184.30

Notes: These prices have been expressed in \$2023-24 terms, which means 7 per cent inflation has been factored into the prices for 2023-24. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2022-23, which means inflation has not been accounted for in 2023-24 or the remaining years of the 2023–28 regulatory period.

Table 5.2 Final decision – sewerage prices

\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential					
Fixed (\$/year)	461.92	464.69	469.33	474.02	478.76
Non-residential					
Variable (\$/kL)	1.6686	1.6786	1.6953	1.7122	1.7293
Fixed (\$/year)	461.92	464.69	469.33	474.02	478.76

Notes: These prices have been expressed in \$2023-24 terms, which means 7 per cent inflation has been factored into the prices for 2023-24. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2022-23, which means inflation has not been accounted for in 2023-24 or the remaining years of the 2023–28 regulatory period.

In response to our draft decision, we received submissions about Goulburn Valley Water’s proposed price increases. One submission stated the price increases need to reflect benefits for customers and that Goulburn Valley Water having some of the lowest bills in Victoria is not valid

justification for increasing prices.⁶³ We consider our final decision ensures prices reflect forecast efficient costs.

Our price determination for Goulburn Valley Water sets out the maximum prices it may charge for the 5-year period from 1 July 2023 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

5.3.3 Addressing the interests of low income and vulnerable customers

In making our price determination, we must have regard to whether Goulburn Valley Water's prices take into account the interests of customers, including low income and vulnerable customers.⁶⁴

As outlined in our draft decision we considered that Goulburn Valley Water has done so by:

- proposing an additional \$2 million over the 5-year regulatory period to support customers experiencing payment difficulties
- developing tools to help residential and business customers save water
- delivering a water conservation education program.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on how Goulburn Valley Water has addressed the interests of low income and vulnerable customers.

5.3.4 Other services

Goulburn Valley Water confirmed its proposed tariffs for trade waste and miscellaneous services are calculated in accordance with the pricing principles referenced in our guidance. Considering this, and that there has been no change to Goulburn Valley Water's approach to these services, our final decision is to accept these tariffs.

Our draft decision accepted Goulburn Valley Water's proposed change to the charge to developers for processing requests for new connections, from an 'at cost' approach to a three-tiered charge based on the number of lots the developer is requesting, after correcting some minor errors.

On the basis that this proposal was supported by developers, our final decision is to accept the corrected charges.

⁶³ John Paulet, *submission to the Essential Services Commission 'Goulburn Valley Water draft decision: 2023 water price review'*, 24 April 2023.

⁶⁴ Water Industry Regulatory Order 2014 clause 11(d)(iii).

5.3.4.1 Proposed digital meter charge for new customers in growth towns

Goulburn Valley Water proposed a new digital meter charge for new connections in growth towns at a cost of \$326 per connection.

Our draft decision was to not accept Goulburn Valley Water's proposed new charge for digital meters in growth towns because it was unclear how the digital meter tariff reduces peak demand or benefitted customers. In our draft decision, we requested Goulburn Valley Water provide more information on the benefits of digital meters to new customers.

In response to our draft decision, Goulburn Valley Water provided data, analysis, and case studies to explain the benefits of digital meters in helping to detect, respond and reduce the severity of water leaks. We have reviewed Goulburn Valley Water's additional information and consider it has demonstrated that the benefit of digital meters outweighs the initial cost to new customers.

We received a submission from the Consumer Action Law Centre in response to our draft decision that strongly supported our decision to not accept this proposed new charge and emphasised the need for clear benefits for new customers.⁶⁵ Having reviewed the information that Goulburn Valley Water provided in response to our draft decision, we are satisfied that there are clear benefits for new customers and, accordingly, consider it appropriate to accept the proposed charge.

On the basis of the above, our final decision is to accept Goulburn Valley Water's proposed new charge for digital meters.

5.4 New customer contributions

Our final decision is to accept Goulburn Valley Water's proposed new customer contributions and its negotiated customer contribution framework.

New customer contributions (or developer charges) are levied by water businesses when a new connection is made to its water, sewerage or recycled water networks. New customer contributions can be either standard or negotiated. Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. The purpose of standard new customer contributions is to reduce the administrative burden as well as improve the timeliness and predictability of costs faced by developers.⁶⁶ Negotiated charges allow water businesses and developers to negotiate a site-specific

⁶⁵ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 2.

⁶⁶ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.⁶⁷

As outlined in our draft decision, Goulburn Valley Water proposed using a model based on average incremental cost to estimate its new customer contributions rather than the net cash flow approach it has used in the past.

Our draft decision did not approve Goulburn Valley Water's proposed new customer contributions as Goulburn Valley Water had not provided us with adequate information or justification to enable us to be satisfied that its proposal complied with our guidance requirements. We requested Goulburn Valley Water to provide further information on how it allocated its capital expenditure to new customer contributions. We also gave Goulburn Valley Water the option to recalculate its new customer contributions using the current net incremental cost methodology.

In response to our draft decision, Goulburn Valley Water maintained its proposed new customer contributions. It provided additional information about its cost allocation method for growth-related capital expenditure to us and to our consultant, FTI Consulting.⁶⁸ Goulburn Valley Water also updated its financial model to reflect the forecast revenue generated by its proposed new customer contributions.

We have reviewed Goulburn Valley Water's proposed new customer contributions proposals against our guidance paper requirements.⁶⁹

In coming to our final decision, we have had regard to if and how Goulburn Valley Water's proposal is consistent with the aims of the new customer contributions framework, which are to:

- send signals to developers about the costs of developing in different locations
- share the costs and benefits of growth between new and existing customers
- administer new customer contributions in a transparent way.⁷⁰

We have carefully considered the impact of the cost allocation issues and our consultant's 'low confidence' rating for some assets regarding allocation of growth capital expenditure to new customer contributions. We also have carefully considered the reasonableness and transparency of the proposal and whether it is supported by customers and whether the proposal as a whole advances the aims of our new customer contributions framework.

⁶⁷ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

⁶⁸ Goulburn Valley Water, Goulburn Valley Water's response to Essential Services Commission's Draft decision – April 2023, Appendix G, 11 May 2023.

⁶⁹ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021, pp. 59-60.

⁷⁰ Essential Services Commission, *New Customer Contributions Explanatory Note Final*, December 2013, p.2.

On balance, we consider that we can approve Goulburn Valley Water’s proposal because it has sufficiently addressed the pricing principles in our guidance and its proposal meets the aims of the new customer contributions framework.

Our final decision approves Goulburn Valley Water’s proposed new customer contributions.

The Consumer Action Law Centre stated that water businesses not using the commission’s net incremental cost approach should provide justification on why their methodology is preferable.⁷¹ Goulburn Valley Water’s response to our draft decision has provided some public justification for adopting an average incremental cost calculation approach.⁷²

We wish to highlight that, to the extent necessary, the new customer contribution framework allows water businesses and developers to negotiate new customer contribution in lieu of using the standard new customer contributions.

Regarding Goulburn Valley Water’s proposed negotiated new customer contributions framework our draft decision did not approve Goulburn Valley Water’s negotiating framework because we were still assessing the proposed average incremental cost approach used by Goulburn Valley Water. No other new considerations were presented in submissions received following our draft decision on this matter. Our final decision also approves Goulburn Valley Water’s proposed negotiated new customer contributions framework as we consider it is consistent with the guidance requirements.

If there is a dispute between a developer and a water business (whether in relation to a standard or negotiated new customer contributions), developers may use the dispute resolution offered by a water business as part of its new customer contribution negotiating framework. In addition, developers may follow the *Water Act 1989* process to object and seek internal review by the water business, and to pursue unresolved matters through the Victorian Civil and Administrative Tribunal.⁷³

5.4.1 Review of the framework for new customer contributions

Our guideline for new customer contributions establishes our expectations for standard new customer contributions and bespoke negotiated new customer contributions. However, in light of issues we identified during our 2023 water price review, we believe that a review of the regulatory framework for new customer contributions is necessary. Our review will aim to identify and address

⁷¹ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 3.

⁷² Goulburn Valley Water, *Goulburn Valley Water’s response to Essential Services Commission’s Draft decision – April 2023, Appendix G*, 11 May 2023.

⁷³ *Water Act 1989*, section 271.

key implementation issues for water businesses, establish consistency in setting new customer contributions across the sector, and define the purpose and content of the negotiating framework.

5.4.1.1 Current issues

Our experience reviewing the new customer contributions proposals of water businesses in the current price review has identified varied practices across businesses in terms of their approach and substantiation of proposed charges to meet our guidance and the objectives of the framework. This includes varied approaches to the inclusion of costs in new customer contributions, differentiated pricing, and use of negotiated new customer contributions.

A number of businesses in the current price review also based their new customer contributions on an average incremental cost methodology, rather than the net incremental cost approach adopted in the past. We want to explore the issues associated with having different underlying approaches and how this affects confidence and transparency in the way new customer contributions are arrived at.

Other issues we have identified in the current review – such as varied approaches to locational and incremental cost reflectivity – and the transparency of new customer contributions and the nature of engagement, may also be covered in the review.

5.4.1.2 Next steps

In 2023-24, we intend to initiate a review of the framework for new customer contributions by issuing a consultation paper. This paper will outline the proposed scope of the review and seek feedback from stakeholders. We encourage stakeholders to suggest any other important matters that they believe should be included in the review.

Throughout the review process, we will actively engage with industry and stakeholders to gather their input.

5.5 Adjusting prices

Our final decision is to accept Goulburn Valley Water's proposed continuation of its current price adjustment mechanisms.

Our final decision is to not accept Goulburn Valley Water's proposed willingness to pay price adjustment mechanism. However, its determination includes a provision that enables us to consider the pass through of costs associated with its willingness to pay projects in the 2023–28 regulatory period.

Our draft decision was to not accept Goulburn Valley Water's proposed price adjustment mechanisms as the approach was not clearly set out in its price submission. The business indicated it did not plan to change its approach to price adjustment mechanisms, which include annual cost of debt adjustments, however we requested it confirm its approach to adjusting prices in response to our draft decision. Our draft decision also indicated that in the absence of this information, we intended to adopt the price adjustment mechanisms specified in Goulburn Valley Water's current price determination on the basis that we have approved them previously.

In response to our draft decision, Goulburn Valley Water confirmed it will adjust its prices by applying inflation, cost of debt and uncertain and unforeseen circumstances as set out in the current price determination.

In addition to those adjustments, Goulburn Valley Water proposed a willingness to pay price adjustment mechanism. This would act as a pass-through of operating expenditure in the later years of the regulatory period once the prudence and efficiency of certain projects have been determined by the commission. Our final decision is to not accept this proposed willingness to pay price adjustment mechanism. However, its determination includes a provision that enables us to consider the pass through of costs associated with its willingness to pay projects in the 2023–28 regulatory period. The business is required to provide more evidence of the prudence and efficiency of the two projects ahead of an annual tariff adjustment and assessment. This is discussed in more detail in Section 4.1.1.3.

6. Financial position

We have reviewed key indicators of Goulburn Valley Water's financial performance and consider that Goulburn Valley Water will generate sufficient cash flow to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.⁷⁴ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the *Water Industry Regulatory Order (2014)* to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

Our guidance set out key indicators of forecast financial performance. We have reviewed forecasts for these key indicators based on our final decision on Goulburn Valley Water's prices. We have assessed that under our final decision, Goulburn Valley Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

⁷⁴ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

7. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water business's revenue requirement to that business's level of ambition expressed in its price submission. Our guidance required Goulburn Valley Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism and arrive at an overall self-rating.⁷⁵ We required Goulburn Valley Water to self-rate its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic', with 'Leading' being the most ambitious and 'Basic' the least.

The assessment tool included in our guidance directed Goulburn Valley Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We assessed and rated Goulburn Valley Water's price submission. As outlined in our guidance, the combination of Goulburn Valley Water's self-rating and our rating has determined the return on equity we have adopted to calculate Goulburn Valley Water's revenue requirement in our final decision.

7.1 Our PREMO assessment of Goulburn Valley Water's price submission

Our final decision is to rate Goulburn Valley Water's price submission as 'Standard' under PREMO, which is lower than Goulburn Valley Water's self-rating of 'Advanced'.

Goulburn Valley Water's self-rating for each of the PREMO elements and its overall self-rating are shown in Table 7.1. This table also includes our draft and final ratings of Goulburn Valley Water's price submission.

⁷⁵ This is the first price review we have done where the rating has been based on all five elements of PREMO. In our 2018 price review, our PREMO assessment was against only four of the elements — Risk, Engagement, Management and Outcomes.

Table 7.1 **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Goulburn Valley Water's self-rating	Advanced	Advanced	Advanced	Advanced	Advanced	Advanced
Commission's draft decision rating	Standard	Advanced	Standard	Advanced	Basic	Advanced
Commission's final decision rating	Standard	Advanced	Standard	Advanced	Basic	Advanced

Our preliminary PREMO assessment is set out in our draft decision.

After considering submissions in response to our draft decision, our final decision is to retain our draft decision rating of 'Standard' for Goulburn Valley Water's price submission. This rating is reflected in the return on equity we have approved for Goulburn Valley Water (see Section 4.4.2).

In its response to our draft decision, Goulburn Valley Water requested we reconsider our assessment of a 'Standard' PREMO rating for the pricing submission. In support of this, Goulburn Valley Water said that it was a leader in the sector for efficiency and affordable customer bills. Further, it also considered it made several proposals in its response to the draft decision in favour of its customers.

Our draft decision rated the Management element of Goulburn Valley Water's price submission as 'Basic', compared to the business's self-rating of 'Advanced'. This informed our draft decision on Goulburn Valley Water's overall price submission rating.

A strong focus on efficiency is an important aspect of the 'Management' element of PREMO. In our draft decision, we said that in comparison to all businesses in the current water price review, Goulburn Valley Water proposed (in its price submission) the lowest efficiency improvement rate (an average of around 0.4 per cent per year) for controllable operating expenditure over the 2023-28 regulatory period. To inform our draft decision, we considered the information that Goulburn Valley Water presented on its 'cost to serve' (on a per megalitre basis) which it noted compared favourably to other businesses and the fact that Goulburn Valley Water indicated its current bills are among the lowest in Australia.

However, its proposed efficiency improvement rate was well below the average of water businesses in the current review (around 1.3 per cent). Goulburn Valley Water's proposed efficiency improvement rate was also well below the rates specified in our guidance as examples of

a 'Standard' PREMO rating (approximately 1.4 per cent per year) and an 'Advanced' PREMO rating (approximately 1.9 per cent per year).⁷⁶

In its response to our draft decision, Goulburn Valley Water stated that its price submission demonstrated a high level of efficiency compared to other water businesses, and that its efficiency has been further enhanced by the proposals outlined in its response.

Goulburn Valley Water also provided information supporting its view that it was at or very close to the efficiency frontier, and included comparisons of its controllable operating expenditure against other businesses in the 2023 review (on a volume of water and per connection basis), and its customer bills. Goulburn Valley Water also considered that its response to our draft decision had provided the information requested in our draft decision to support its expenditure proposals.

Goulburn Valley Water's response to our draft decision also considered its price submission already met the 'Advanced' criteria for the Risk element of PREMO. However, it also stated that proposals in response to our draft decision (such as accepting a 1 per cent per year efficiency improvement rate, its approach to corporate building capital costs, and its approach to customer willingness to pay projects) increased the risk the business was taking on behalf of its customers.

We consider that the PREMO framework is in place to incentivise businesses to provide additional value to their customers. Higher returns are available to businesses for demonstrating the delivery of additional value.

We commend Goulburn Valley Water for its past track record in delivering value to its customers. In the current period, it set ambitious efficiency targets which underpinned price reductions for its customers. We note though, that the business has also already earned a 'reward' under PREMO for delivering these benefits, through a higher rate of equity return.

Further, our PREMO assessment is focused on a business's initial offer in its price submission, not its response to our draft decision. While we consider all submissions and information, including responses to our draft decision, this is consistent with our guidance which explains that we expect each business's price submission to reflect its 'best offer' to customers.

Consistent with this approach, Goulburn Valley Water's adoption of our draft decision adjustments to its expenditure forecasts, while certainly shifting the balance of price risk back toward the business, is not in itself grounds for us to change our Risk element rating of 'Standard' we adopted in our draft decision.

In terms of the 1 per cent annual efficiency rate we adopted in our draft decision and subsequently proposed by Goulburn Valley Water in its response to our draft decision, this rate also remains well below the expectations for an 'Advanced' submission in our guidance. It is also low compared to

⁷⁶ Essential Services Commission, *2023 water price review: Guidance paper*, p. 82.

the rates adopted by other businesses proposing an 'Advanced' or 'Standard' rating in the current review.

This remains a key reason for us maintaining our overall rating of 'Standard' as proposed in our draft decision, for our final decision. On balance, we do not consider that Goulburn Valley Water has sufficiently justified a step change in customer value for the business to earn the higher returns that are available under an 'Advanced' PREMO rating.

Notwithstanding the above, we acknowledge Goulburn Valley Water's commitment to its customers, and further demonstration of this in its response to our draft decision.

We consider it has proactively sought to address the matters raised in our draft decision, including proposing an approach to its customer willingness to pay projects that we have approved (Section 4.1.1).

While we have not agreed with Goulburn Valley Water's reasons at this time, as noted earlier we would accept an application from Goulburn Valley Water for us to consider reassessment of its PREMO rating and return on equity during the 2023–28 regulatory period.

Other aspects of Goulburn Valley Water's proposals support an overall PREMO rating of 'Standard', as outlined in our draft decision:

- Goulburn Valley Water was able to achieve high levels of participation across its engagement processes, including by incorporating the views of customers experiencing payment difficulty at key points. Goulburn Valley Water's customer engagement had a high level of influence for customers in its price submission, particularly in relation to the role of customers in helping shape the engagement agenda, and its acceptance of recommendations.
- We agreed with Goulburn Valley Water's self-assessment that it has, overall, met its outcome commitments for the period to date. In its 2021-22 outcomes report, Goulburn Valley Water reported it had achieved or exceeded its targets for 85 of its 103 targets (82 per cent) over the first 4 years of the current regulatory period. Its performance was assessed by customers through its Annual Performance Forum, supporting accountability.
- Goulburn Valley Water's proposed targets suggest customer value is mostly maintained, with some targets either improving on past performance or during the 2023–28 regulatory period. It provided evidence that demonstrates its outcome measures and targets were developed in consultation with its customers, and that they are supported by customers.
- Goulburn Valley Water proposed to continue with a price cap form of price control, accepting demand risk on behalf of its customers, and testing its guaranteed service level scheme to ensure it remains aligned with customer expectations about service priorities.

Appendix A – Submissions received on draft decision

Name or organisation	Date received
John Paulet	24 April 2023
Anonymous	1 May 2023
Consumer Action Law Centre	5 May 2023
Goulburn Valley Water	11 May 2023
Registered Accommodation Association of Victoria	26 May 2023

Appendix B – Commission’s consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Goulburn Valley Water.

The WIRO requires the Commission to place particular emphasis on the promotion of efficient use of prescribed services by customers, the promotion of efficiency in water businesses as well as efficiency in, and the financial viability of, the regulated water industry and the provision to regulated entities of incentives to pursue efficiency improvements.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.⁷⁷ Our draft and final decisions provide further information on where we have considered our guidance, and Goulburn Valley Water’s compliance with our guidance, in making our price determination.⁷⁸

Note: all chapter and section numbers referenced below refer to our final decision for Goulburn Valley Water.

Economic efficiency and viability matters

WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).

⁷⁷ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

⁷⁸ Essential Services Commission, *Goulburn Valley Water draft decision: 2023 water price review*, 12 April 2023; Essential Services Commission, *Goulburn Valley Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our final decision has therefore had regard to the extent that Goulburn Valley Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6).

WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Additionally, our pricing approach allows a water business to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water business has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water businesses to pursue efficiency improvements.

ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long-term investment’.

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water business promotes efficiency in the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to incentives for long-term investment by adopting:

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 4.4.1).
- A regulatory rate of return that we consider will enable Goulburn Valley Water to recover borrowing costs associated with its investment in services, and generate a return on assets.⁷⁹

ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in Chapter 6.

ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.

In preparing our final decision, we have had regard to the extent Goulburn Valley Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

⁷⁹ The regulatory rate of return is comprised of the cost of debt and the return on equity.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Industry specific matters

ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.

Our pricing approach allows each water business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to the prescribed services listed in the WIRO in making our final decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Goulburn Valley Water to deliver services that are covered by the prescribed services listed in the WIRO.

ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.

Our final decision provides for Goulburn Valley Water to generate a return on assets through:

- Our consideration of the regulatory asset base (Section 4.3).
- Our consideration of the cost of debt (Section 4.4.1).
- Our consideration of the return on equity (Section 4.4.2).

ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia⁸⁰
- operating and capital expenditure costs per connection throughout Australia⁸¹
- tariff structures applied by water businesses throughout Australia⁸²
- the regulatory rate of return set by other regulators.⁸³

We are not aware of any international benchmarks that are relevant to our final decision.

WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.

Our pricing approach allows each water business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Our price review also considers the views of stakeholders affected by Goulburn Valley Water’s proposals, including through submissions and public meetings.

⁸⁰ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*, February 2022.

⁸¹ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*.

⁸² Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁸³ Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW's rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; Queensland Competition Authority, *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

Customer matters

ESC Act section 8(1) requires us to have regard to the fact that the ‘objective of the Commission is to promote the long-term interests of Victorian consumers’.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long-term interests of Victorian consumers.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6).

ESC Act Section 8(2) requires us to ‘have regard to the price, quality and reliability of essential services’ in seeking to achieve the objective in section 8(1) of the ESC Act.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our consideration of demand (Section 5.1).
- Our consideration of tariffs (Section 5.3).

In terms of the quality and reliability of services, the following sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).

WIRO Clause 11(d)(i) requires us to have regard to whether Goulburn Valley Water’s prices ‘enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated’.

We consider that the following matters are relevant when considering whether Goulburn Valley Water’s prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water business’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

The following sections of our final decision involved consideration of this factor:

- Our consideration of tariffs and the form of price control (Section 5.2 and Section 5.3).

WIRO Clause 11(d)(ii) requires us to have regard to whether Goulburn Valley Water’s prices ‘provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible’.

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

WIRO Clause 11(d)(iii) requires us to have regard to whether Goulburn Valley Water’s prices ‘take into account the interests of customers of the regulated entity, including low income and vulnerable customers’.

We consider that customer value established through prices and customer outcomes, as well as tariff structures, and assistance available to customers having difficulty paying bills is relevant to this objective.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1)
- Our consideration of outcomes (Section 3.2)

Appendix B – Commission’s consideration of legal requirements

- Our consideration of guaranteed service levels (Section 3.4)
- Our consideration of tariff structures and prices (Chapter 5)

Health, safety, environmental and social obligations

ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.

Our final decision proposes to approve a revenue requirement that will enable Goulburn Valley Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of the form of price control (Section 5.2).

WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.

Our final decision proposes to approve a revenue requirement that will enable Goulburn Valley Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Other matters

ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.

In relation to the above, Goulburn Valley Water does not face any competition in the delivery of its prescribed services within its region. Our final decision takes this into account through our consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business’s customer engagement.

The following sections of our final decision involved consideration of this factor:

- Our assessment of engagement (Section 3.1)
- Our assessment of outcomes (Section 3.2)
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.⁸⁴

ESC Act section 8A(1)(e) requires us to have regard to the ‘benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities’.

We have had regard to benefits and costs of regulation by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁸⁵

ESC Act section 8A(1)(f) requires us to have regard to ‘consistency in regulation between States and on a national basis’.

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses to implement various forms of price control, including price caps and revenue caps

⁸⁴ Essential Services Commission 2016, *Water Pricing Framework and Approach, Implementing PREMO from 2018*, October, pp. 11–13.

⁸⁵ Essential Services Commission, *2023 water price review: Guidance paper*, p. 2.

- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

WI Act section 4C(a) requires us to ‘ensure that the costs of regulation do not exceed the benefits’.

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁸⁶

⁸⁶ Essential Services Commission, 2023 water price review: *Guidance paper*, p. 2.

Appendix C – Service standards

We have accepted the following standards, and conditions of service and supply, and associated targets for Goulburn Valley Water. Service standards are set out in our Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect these service standards and targets.

Water service standards

	2023-24	2024-25	2025-26	2026-27	2027-28
Minimum water pressure or flow rate a customer should receive (L/minute)	20	20	20	20	20
Maximum number of unplanned water supply interruptions a customer may experience in any 12-month period	4	4	4	4	4
Average time taken to attend bursts and leaks (priority 1) (minutes)	60	60	60	60	60
Average time taken to attend bursts and leaks (priority 2) (minutes)	60	60	60	60	60
Average time taken to attend bursts and leaks (priority 3) (minutes)	160	160	160	160	160
Average duration of unplanned water supply interruptions (minutes)	120	120	120	120	120
Average duration of planned water supply interruptions (minutes)	120	120	120	120	120

Sewerage service standards

	2023-24	2024-25	2025-26	2026-27	2027-28
Maximum number of sewer blockages a customer may experience in any 12-month period	4	4	4	4	4
Average time to attend sewer spills and blockages (minutes)	60	60	60	60	60
Average time to rectify a sewer blockage (minutes)	120	120	120	120	120
Maximum time taken to contain a sewer spill (minutes)	300	300	300	300	300

Appendix D – Guaranteed service level scheme

We have adopted the following service level obligations and corresponding payment amounts for failure to attain the stated obligation as the guaranteed service level scheme for Goulburn Valley Water. Guaranteed service levels are approved in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to reflect the guaranteed service levels set out below.

In accordance with clause 20(b) of the Urban Water Industry Standard, Goulburn Valley Water must ensure that any payment is made to a customer as soon as practicable after a customer becomes entitled to the guaranteed service level payment.

Goulburn Valley Water is not required to make a payment where the failure to meet the service level is due to the action or inaction of the customer or a third party. For the avoidance of doubt, a third party does not include any person or firm acting on behalf of Goulburn Valley Water.

Goulburn Valley Water’s guaranteed service level scheme

Service level obligation	Payment (\$)
If we don’t respond to a sewer blockage within an hour from when we’re notified, we’ll provide a \$25 rebate to affected customers	\$25
If a customer’s water supply isn’t restored within five hours, we’ll provide a rebate of \$20 to that customer	\$20
If we restrict the water supply of, or take legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying we’ll pay that customer \$300	\$300
If we don’t contain a sewer spill within five hours, we’ll make a donation of \$2,000 to the community affected by the spill	\$2,000
If a boil water notice is issued, we’ll contribute \$15,000 to the affected community ^a	\$15,000

Notes: These are nominal amounts, that is, the amount of payment will not be impacted by inflation. ^a When caused by a fault in our system.

Appendix E – Inputs to calculation of long-term inflation

Inflation – annual estimates (per cent)

	2023-24	2024-25	2025-26	2026-27	2027-28	Average
RBA geometric mean	7.0	4.1	3.1	2.5	2.5	3.8
Bond breakeven	7.0	2.3	2.3	2.3	2.3	3.3