

Southern Rural Water Determination

1 July 2023 – 30 June 2028

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.

An appropriate citation for this paper is:

Essential Services Commission 2023, Southern Rural Water Determination: 1 July 2023 – 30 June 2028, 23 June

© Essential Services Commission, 2023



This work, Southern Rural Water Determination, is licensed under a Creative Commons Attribution 4.0 licence [creativecommons.org/licenses/by/4.0/]. You are free to re-use the work under that licence, on the condition that you credit the Essential Services Commission as author, indicate if changes were made and comply with the other licence terms.

The licence does not apply to any brand logo, images or photographs within the publication.

Contents

1. General	1
1.1 Introduction	1
1.2 Application	1
1.3 Effective period	2
1.4 Modification of time periods	2
1.5 Summary and structure	2
1.6 Definitions and interpretation	2
1.7 Annexure A	3
2. Price control	4
2.1 General principles	4
2.2 Ancillary matters	4
2.3 Annual adjustment of prices	5
(A) the <i>revised prices</i> in respect of clause 2.3(a) have been calculated in accordance with the formula set out in clause 2.3(c)(i) with any necessary adjustments to comply with clause 2.3(c)(iii);	10
2.4 Price changes during a billing period	11
2.5 Reporting requirements	11
3. Uncertain or unforeseen events	13
3.1 General principles	13
3.2 Considerations by the commission	13
3.3 Procedure	15
4. Material error or unintended consequences	18
5. Adjustment to Schedule 2 – pass through of changed prices for storage operator and bulk water services (Melbourne Water Corporation or Goulburn-Murray Water Corporation)	19
Schedule 1 – Definitions and interpretation	20
A Definitions	20
B Interpretation	21
Schedule 2 – Application fees	22
Schedule 3 – Rural prices	26
Schedule 4 – Calculation of revenue cap revenue requirements for each regulatory year	29
Schedule 5 – Application of prices	30
Schedule 6 – Pricing principles	31
Schedule 7 – Adjustment to Schedule 2 – changes in costs associated with annual updates to the trailing average cost of debt	33
Annexure A	38

1. General

1.1 Introduction

- (a) Clause 14 of the **WIRO** requires the commission to either:
 - (i) approve the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated, as proposed by the **regulated entity** in its **price submission** (as defined in the **WIRO**); or
 - (ii) specify the maximum prices the **regulated entity** may charge for **prescribed services** or the manner in which the **regulated entity's** prices are to be calculated, determined or otherwise regulated.
- (b) On 21 June 2023, the commission made its decision in respect of the prices which **Southern Rural Water** may charge for **prescribed services** during the regulatory period.
- (c) This Determination is made by the commission under section 33 of the **ESC Act**, pursuant to clauses 10 and 14 of the **WIRO**.
- (d) The purposes for the making of this Determination are to:
 - (i) give effect to the decision of the commission referred to in clause 1.1(b);
 - (ii) specify the maximum prices which **Southern Rural Water** may charge for **prescribed services** during the **regulatory period** or the manner in which such prices are to be calculated, determined or otherwise regulated;
 - (iii) facilitate the achievement of the commission's objectives in the **ESC Act** and the **WI Act**; and
 - (iv) reflect the requirements of the **WIRO**.
- (e) The reasons for the making of this Determination are as set out in the decision of the commission made on 21 June 2023.

1.2 Application

This Determination applies to **Southern Rural Water** and its successors and assigns in respect of the business carried on by **Southern Rural Water** at the date of this Determination.

1.3 Effective period

(a) Term

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette or 1 July 2023, and subject to clause 1.3(b), has effect until the date on which it is amended or revoked by a later determination or 30 June 2028.

(b) Next regulatory period

Subject to clause 2.3(c)(ii) and 2.3(d)(ii), if the commission has not made a determination in respect of the prices to apply in the ***next regulatory period*** on or before 30 June 2028, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of ***prescribed services*** provided by ***Southern Rural Water*** from 1 July 2028 to the day before the date on which the determination for the ***next regulatory period*** comes into effect.

1.4 Modification of time periods

The commission may, by notice to ***Southern Rural Water***, extend or reduce the time by which, or the period within which, ***Southern Rural Water*** or the commission must comply with an obligation under this Determination.

1.5 Summary and structure

Clause 2 of this Determination specifies the prices which will apply to ***prescribed services*** during the ***regulatory period*** and sets out the procedure and formula according to which prices may be adjusted during the ***regulatory period*** on an annual basis. Clauses 3 to 6 provide for the circumstances in which prices may be adjusted or amended during the ***regulatory period*** other than in accordance with clause 2.

1.6 Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1 (or, where only used within a clause, the meaning given upon their first use); and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

1.7 Annexure A

- (a) For convenience, Annexure A to this Determination summarises the assumptions underpinning the prices to apply to ***Southern Rural Water*** during the ***regulatory period*** or the manner in which such prices are to be calculated, determined or otherwise regulated.
- (b) Full details of these assumptions are contained in the commission's decision in which it has set out its reasons for this Determination.
- (c) For the avoidance of doubt, Annexure A does not form part of this Determination.

2. Price control

2.1 General principles

Subject to this Determination:

(a) Scheduled prices

Southern Rural Water must not charge more than:

- (i) the scheduled prices in Schedule 2 and Schedule 3, during the first **regulatory year**, and
- (ii) the amounts determined in accordance with clause 2.3, during each subsequent **regulatory year**,

in respect of those **prescribed services** to which the scheduled prices in Schedule 2 and Schedule 3 relate.

(b) Application principles

The application principles in Schedule 5 will apply to the prices charged by **Southern Rural Water** in respect of **prescribed services** specified or deemed to be included in Schedule 2 and Schedule 3 during the **regulatory period**.

(c) Pricing principles

During the **regulatory period**, **Southern Rural Water** must apply the pricing principles in Schedule 6 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 6 relate.

2.2 Ancillary matters

(a) Contracts

Where **Southern Rural Water** has entered into a contract which relates to the provision of **prescribed services** prior to 1 July 2023 (a **relevant contract**), **Southern Rural Water** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 and Schedule 3 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 6 will apply for the remainder of the **regulatory period**.

(b) Dispute Resolution

Any dispute as to whether a price has been set in accordance with this Determination will be determined by the commission on the basis of the commission's interpretation of this Determination.

(c) Publication

Southern Rural Water must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that it has relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. The list must clearly indicate in respect of each price, the amount determined in accordance with this Determination, the amount of **GST** payable and the total price.

(d) GST

Southern Rural Water will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

2.3 Annual adjustment of prices

(a) Schedule 2: Adjustment

Subject to Schedule 2 and clause 2.3(c)(iii), the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formula in clause 2.3(c)(i) and the procedure in clause 2.3(e), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) Schedule 3: Adjustment

Subject to Schedule 3, clause 2.3(d)(iii) and Schedule 7 the scheduled prices in Schedule 3 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formulas in clause 2.3(d)(i) and the procedure in clause 2.3(e), and will apply to the **prescribed services** to which the scheduled prices in Schedule 3 relate in that **regulatory year**.

(c) **Schedule 2: Formula**

- (i) Subject to Schedule 2, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**. *The average price movement for the relevant regulatory year and for each subsequent regulatory year in the regulatory period determined in accordance with the revised tariff schedule must not exceed the weighted average price movement that would otherwise have applied under this Determination as calculated in accordance with the following formula:*

$$\frac{\sum_{ii=1}^{nn} \sum_{jj=1}^{mm} pp_{tt-1,iii} * qq_{tt-2,iii}}{\sum_{ii=1}^{nn} \sum_{jj=1}^{mm} pp_{tt,iii} * qq_{tt-2,iii}} \geq \frac{\sum_{ii=1}^{nn} \sum_{jj=1}^{mm} pp_{tt,iii} * qq_{tt-2,iii}}{\sum_{ii=1}^{nn} \sum_{jj=1}^{mm} pp_{tt-1,iii} * qq_{tt-2,iii}}, ii = 1,2, \dots, nn \text{ and } jj = 1,2, \dots, mm$$

where **Southern Rural Water** has n tariff categories, which each have up to m tariff components, and where, for each **regulatory year** t for which the calculation is undertaken:

pp_{tt-1}^{iii} is the tariff charged in **regulatory year** $t-1$ for component j of tariff i

pp_{tt}^{iii} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied

$pp_{tt,iii}^{\hat{}}$ is the proposed tariff for component j or tariff i determined in accordance with Schedule 2 Part A where the revised tariff schedule is applied and excludes commission approved pass-throughs

qq_{tt-2}^{iii} is the quantity of component j of tariff i that was sold in **regulatory year** $t-2$, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** $t-2$ or a forecast of the quantity of component j of tariff i that is expected to be sold in **regulatory year** $t-2$

- (ii) If the commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2028, PPM_t will be set equal to zero for the purpose of adjusting prices and Schedule 2 tariffs will be adjusted in accordance with the following formula for **regulatory years** commencing on or after 1 July 2028 until the date on which this determination is amended or revoked by a later determination:

$$pp_{tt} = pp_{tt-1} \times \frac{CCCCC_t}{CCCCC_{t-1}} \times (1 + CCCCPP_{tt})$$

where:

pp_{tt} is the price component for **regulatory year** 't'

pp_{tt-1} is the price component for **regulatory year** 't-1'

$\frac{CCCCC_t}{CCCCC_{t-1}}$ for the particular **regulatory year** is:
the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

$CCCCPP_{tt}$ is the prescribed price movement for the price component for regulatory year t determined in accordance with Schedule 2.

- (iii) (An increase in tariffs in Schedule 2 in a **regulatory year** must not exceed the weighted average of all Schedule 2 price increases in that **regulatory year** by more than 5% in real terms.

(d) Schedule 3: Formulae

- (i) Subject to Schedule 3 and Schedule 7, each price for the **prescribed services** referred to in clause 2.3(b) will be adjusted in accordance with the following formulae with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \leq cap_t$$

$$ccaapp_{tt} = mmmr_{tt} \times \frac{CCCCC_t}{CCCCC_{t-1}} + RRRRRR_{tt} + \frac{ccaapp_{tt-1}}{qq^{iii}} \times \frac{pp^{iii}}{pp^{iii}} * \frac{CCCCC_t}{CCCCC_{t-1}} \times (1 + RRRRRR_{tt})$$

where **Southern Rural Water** has n tariff categories, which have up to m tariff components, and where:

- p_t^{ij} is the proposed tariff component j of tariff i for **regulatory year** t
- q_t^{ij} is the forecast quantity of tariff component j of tariff i for **regulatory year** t
- cap_t is the revenue cap for **regulatory year** t calculated in accordance with the formula set out above
- cap_{t-1} is the revenue cap for **regulatory year** $t-1$: for the second year of the **regulatory period**, cap_{t-1} is equal to rev_t for the first **regulatory year** as set out in Schedule 4. For subsequent **regulatory years**, cap_{t-1} is the amount calculated for **regulatory year** $t-1$ in accordance with the formula set out above
- rev_t is the total revenue requirement for **regulatory year** t as set out in Schedule 4
- $RRRRRR_{tt}^{rrbbrr\ cbbcc\ bbaaii}$ Is the trailing average cost of debt adjustment to revenue requirement that applies to revenue cap tariffs:

$$RRRRRR_{tt}^{rrbbrr\ cbbcc\ bbaaii} = \left(RRRRRR_{tt} - RRRRRR_{tt}^{aabbtt} \right) \times \left(\frac{RRRRRR_{oocbbnmiinnoo,tt}^{aabbtt} + RRRRRR_{cccoobbiinnoo,tt}^{aabbtt}}{2} \right) \times \frac{CCCCCC_{t-1}}{CCCCCC_{bbbbbb}}$$

Where,

- $RRRRRR_{tt}$ Is the post-tax ‘vanilla’ regulatory rate of return in real terms for **regulatory year** ‘ t ’ rounded to 2 decimal place, i.e. 4.347% is rounded to 4.35% (refer to formula in Schedule 7)
- $RRRRRR_{tt}^{aabbtt}$ Is the determination real post tax ‘vanilla’ regulatory rate of return in **regulatory year** ‘ t ’
- $RRRRRR_{oocbbnmiinnoo,tt}^{aabbtt}$ Is the determination opening regulatory asset base in **regulatory year** ‘ t ’
- $RRRRRR_{cccoobbiinnoo,tt}^{aabbtt}$ Is the determination closing regulatory asset base in **regulatory year** ‘ t ’
- $CCCCCC_{bbbbbb}$ Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter in year 2023 equal to 132.6

2.

p_{t-1}^{ij} is the actual tariff component j of tariff i for **regulatory year** t-1

q_{t-1}^{ij} is the estimate of the actual quantities of tariff component j of tariff i for **regulatory year** t-1

$\frac{CCCCC_{tt}}{CCCCC_{tt-1}}$ for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2028, the regulatory requirement for **regulatory year** t “ rev_t ” will be set equal to “($rev_{t-1} * \frac{CCCCC_{tt}}{CCCCC_{tt-1}}$)” for the purpose of adjusting prices in accordance with the formulae in clause 2.3(d)(i) for regulatory years commencing on or after 1 July 2028 until the date on which this determination is amended or revoked by a later determination.
- (iii) An increase in any scheduled price in Schedule 3 in a **regulatory year** must not exceed the weighted average of all scheduled price increases in that **regulatory year** by more than 10%.

(e) Adjustment procedure

- (i) At least 40 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period, Southern Rural Water** must submit its proposed prices for the **prescribed services** referred to in clause 2.3(a) and 2.3(b) to apply in that subsequent **regulatory year** (the **revised schedule prices**) to the commission for approval, together with sufficient information to enable the commission to assess whether the proposed prices comply with this Determination including in relation to the proposed prices for the **prescribed services** referred to in clause 2.3(b):

- (A) the forecast quantities for **regulatory year** t “ q_t^{ij} ” (referred to in the relevant formula in clause 2.3(d)(i));
 - (B) the estimate of actual quantities for **regulatory year** $t-1$ “ q_{t-1}^{ij} ” (referred to in the relevant formula in clause 2.3(d)(i));
 - (C) information which explains the calculation of the items referred to in subparagraphs (A) and (B) above;
 - (D) information relating to any **revised schedule price** which **Southern Rural Water** proposes to introduce in **regulatory year** t ; and
 - (E) any other information required by the commission.
- (ii) The Commission will approve the **revised schedule prices** if it considers that:
- (A) the **revised prices** in respect of clause 2.3(a) have been calculated in accordance with the formula set out in clause 2.3(c)(i) with any necessary adjustments to comply with clause 2.3(c)(iii);
 - (B) the **revised prices** in respect of clause 2.3(b) have been calculated in accordance with the formulae set out in clause 2.3(d)(i) with any necessary adjustments to comply with clause 2.3(d)(iii); and
 - (C) the items referred to in clause 2.3(e)(i)(A) and (B) are reasonable.
- (iii) The commission will be deemed to have approved the **revised schedule prices** if it has not provided notice under clause 2.3(e)(iv) to **Southern Rural Water** within 30 **business days** from the date of its receipt of the **revised schedule prices**.
- (iv) If the commission does not approve the **revised schedule prices**, the commission:
- (A) will provide notice to **Southern Rural Water** (including a statement of its reasons);
 - (B) may request **Southern Rural Water** to provide any additional information specified by the commission;
 - (C) will take any additional information provided by **Southern Rural Water** into account; and
 - (D) will determine the **revised schedule prices**.

2.4 Price changes during a billing period

(a) Application of this clause

This clause 2.4 applies where **Southern Rural Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

(b) Method of charging

Southern Rural Water must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

2.5 Reporting requirements

(a) **Southern Rural Water** must make available to the commission all information reasonably requested by the commission from time to time for the purpose of enabling it to confirm that **Southern Rural Water** is complying with this Determination.

(b) Without limiting clause 2.5(a), if, during the **regulatory period**, **Southern Rural Water** enters into a **new contract** for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period (new contract)** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 4 relate, **Southern Rural Water** must, on request by the commission, provide the commission with a notice specifying:

- (i) details of the **new contract**; and
- (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

(c) Without limiting clause 2.5(a), if **Southern Rural Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:

- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **Southern Rural Water** proposes to stop providing the **prescribed service**; and

- (ii) in the case of a refusal to provide a ***prescribed service*** to a customer, or potential customer, ***Southern Rural Water*** must provide a notice to the commission within 5 ***business days*** of the refusal, stating the nature of the ***prescribed service*** and the reason for the refusal.

3. Uncertain or unforeseen events

3.1 General principles

- (a) With effect from the commencement of the second **regulatory year** in the **regulatory period**, **Southern Rural Water** may apply to the Commission for the amendment of this Determination and/or the adjustment of the scheduled prices in Schedule 2 and/or the adjustment of the **revenue requirements** in Schedule 4 to reflect increased or decreased costs incurred by **Southern Rural Water** and/or increased (or, in the case of **prescribed services**, decreased) revenue received by **Southern Rural Water** as a result of an event which could not reasonably have been foreseen (or, in the case of **prescribed services**, was uncertain) at the time this Determination was made (an **uncertain events application**).
- (b) Whether or not **Southern Rural Water** makes an application under clause 3.1(a), **Southern Rural Water** must promptly notify the commission upon becoming aware of an event which could form part or all of the basis of an application.
- (c) The commission may on its own initiative, and in its sole discretion, initiate its own process to amend this Determination and/or adjust the schedule of prices in Schedule 2 to reflect increased or decreased costs incurred by **Southern Rural Water** and/or increased or decreased revenue received by **Southern Rural Water** as a result of events which were uncertain or unforeseen at the time this Determination was made. Such a process may only be initiated if the commission identifies an event or events which it, in its sole discretion, considers has had or may have a material impact on **Southern Rural Water's** operating and/or capital expenditure and/or revenue.
- (d) The commission may only adjust prices in response to an **uncertain events application**, or a process initiated by the commission under clause 3.1(c), where the commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this Determination and that such action takes into account the interests of customers. The commission may limit an adjustment to only some events or a single event.

3.2 Considerations by the commission

(a) Examples of uncertain or unforeseen events

Examples of potential uncertain or unforeseen events include, but are not limited to:

- (i) actual licence fees or contributions payable by **Southern Rural Water** during a **regulatory year** in the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003 (Vic)*, section 24 of the *Environment Protection Act*

4. Uncertain or unforeseen events

- 1970 (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in Annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **Southern Rural Water** on major capital projects;
 - (iii) instances where the commission is satisfied that there is a material difference between the forecast demand levels set out in Annexure A and actual demand levels for **Southern Rural Water** in one or more **regulatory years** during the **regulatory period**; or
 - (iv) a change in or to any of the following:
 - (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 2017* (Vic) or relevant regulations or orders or other statutory instruments made under any of them;
 - (B) any licence issued pursuant to any of the Acts referred to in clause 3.2(a)(iv)(A);
 - (C) any tax imposed by or payable directly or indirectly to any government or public authority in the Commonwealth of Australia (including **GST**) but excluding:
 - (1) penalties and interest for late payment of any tax; and/or
 - (2) any tax that replaces any of the taxes referred to in (C), where tax includes any rate, duty, charge or other like or analogous impost.
 - (D) the **Statement of Obligations**; or
 - (E) the introduction or cessation of a statutory carbon price or tax or a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

(b) Exclusions

In considering an **uncertain events application** or a process initiated by the commission under clause 3.1(c), the commission will not take into account matters that:

- (i) are or should be within **Southern Rural Water's** control;
- (ii) were or should have been known by **Southern Rural Water** at the time the Determination was made;
- (iii) could reasonably have been foreseen by **Southern Rural Water**;
- (iv) should be or should have been planned for or managed by **Southern Rural Water**; and/or
- (v) reflect inefficient expenditure by **Southern Rural Water**.

(c) Dispute resolution

Any dispute as to whether a matter should be taken into account by the commission under this clause 3 will be determined by the commission in its absolute discretion.

3.3 Procedure

(a) Application information for *Southern Rural Water*

- (i) An ***uncertain events application*** must be accompanied by a statement setting out:
 - (A) the details of each relevant uncertain or unforeseen event;
 - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the ***regulatory period*** and/or the amount and timing of any increase or decrease in revenue associated with the relevant event during the ***regulatory period***;
 - (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 3.3(a)(i)(B); and
 - (D) details of the proposed action to be taken by the commission under clause 3.3(b).
- (ii) The commission may identify an event or events which it considers has had or may have a material impact on ***Southern Rural Water's*** operating and/or capital expenditure and/or revenue and may decide to take action under clause 3.3(b) in the absence of an ***uncertain events application*** by ***Southern Rural Water***.
- (iii) The commission may request ***Southern Rural Water*** to provide any additional information specified by the commission in connection with an ***uncertain events application***. ***Southern Rural Water*** is obliged to provide the requested information.

(b) Commission processes

- (i) The commission may in its sole discretion decide the steps, timing of and processes to be followed in relation to an ***uncertain events application*** or a process initiated by it under clause 3.1(c).
- (ii) The commission may in its sole discretion decide the nature and extent of stakeholder consultation it will undertake in relation to such an ***uncertain events application*** or process.

- (iii) The commission will advise **Southern Rural Water** of the matters in clause 3.3(b)(i) and clause 3.3(b)(ii) in writing and publish details of this on its website.
- (iv) In most cases, an amendment of this Determination and/or adjustment of the scheduled prices in Schedule 2 and/or the revenue requirements in Schedule 4 will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the **WIRO**.
- (v) In some limited circumstances, the commission may amend this Determination and/or adjust the scheduled prices in Schedule 2 and/or the revenue requirements in Schedule 4 without or with only limited consultation. This will be the case where there is urgency that justifies the commission moving quickly, as set out in clause 16(c) of the **WIRO**. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).
- (vi) The commission may request **Southern Rural Water** to provide information to the commission required for any purposes of an uncertain events application or the process initiated by the commission under clause 3.1(c). **Southern Rural Water** is obliged to provide the requested information to the commission.

(c) Action by the commission

If the commission is satisfied of the matters set out in clause 3.1(c) in respect of an **uncertain events application** or a process initiated by the commission under clause 3.3(a)(ii), the commission may, in its absolute discretion:

- (i) amend this Determination or adjust the scheduled prices in Schedule 2 and/or the revenue requirements in Schedule 4 with effect from a date and in a manner decided by the commission (in respect of one or more events) at a time decided by the commission; or
- (ii) take the **uncertain events application** or any process initiated by the commission under clause 3.1(c) into account in making its determination in respect of the prices which **Southern Rural Water** may charge for **prescribed services** in the **next regulatory period**.

(d) Effective date of amendment or adjustment

A determination made by the commission under this clause 3 to amend this Determination takes effect from the date on which notice of its making is published in the Government Gazette or any later date of commencement as may be specified in the determination.

4. Material error or unintended consequences

(a) Where the commission is satisfied that in any material respect:

- (i) this Determination or any information relied upon in the making of this Determination contains an error, deficiency or miscalculation;
- (ii) any information on which this Determination was based was false or misleading in a material respect; or
- (iii) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

the commission may decide to amend this Determination and/or adjust the scheduled prices in Schedule 2, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

(b) In most cases, an amendment will be undertaken in accordance with the commission's standard consultation process for price determinations, including the issue of a draft decision and an invitation for interested parties to make submissions to the commission in relation to the draft decision, as set out in clause 16(a) and (b) of the WIRO.

(c) In some limited circumstances, the commission may amend this Determination without further consultation, or with only limited consultation. This will be the case where an amendment is not sufficiently material to warrant a full consultation process, or where there is urgency that justifies the commission moving quickly, as set out in clause 16(c) of the WIRO. In these circumstances, the commission will provide its reasons for proceeding with the amendment without consultation (or with a modified consultation process).

(d) A determination made by the commission under this clause 4 to amend this Determination takes effect from the date on which notice of its making is published in the Government Gazette or any later date of commencement as may be specified in the determination.

5. Adjustment to Schedule 2 – pass through of changed prices for storage operator and bulk water services (Melbourne Water Corporation or Goulburn-Murray Water Corporation)

(a) Where the commission:

- (i) makes a price determination for storage operator and bulk water services (as defined in the *WIRO*) provided to **Southern Rural Water** by Melbourne Water Corporation or Goulburn-Murray Water Corporation for some or all of the **regulatory period**; and
- (ii) declares that such price determination provides for different prices to be charged to **Southern Rural Water** from those assumed by the commission in the making of this Determination,

the commission may decide to specify a price adjustment and/or a mechanism for making a price adjustment to scheduled prices in Schedule 2 to take into account the impact this has for the commission's assumptions made for storage operator and bulk water service prices in making this Determination, provided that it is satisfied that such amendment and/or price adjustment takes or will take into account the interests of customers.

- (b) If the commission exercises its discretion under clause (a), the commission will also specify the relevant regulatory year/s for which the price adjustment and/or a mechanism for making a price adjustment to storage operator and bulk water service prices specified in Schedule 2, is to be applied.
- (c) **Southern Rural Water** is obliged, in any proposal for an annual adjustment to prices made to the commission under clause 2.3, to propose an adjustment to storage operator and bulk water service prices specified in Schedule 2, that is consistent with the price adjustment and/or price adjustment mechanism specified by the commission under clause (a).
- (d) The adjustment procedure and outcomes of that procedure specified in clause 2.3(c) will apply to the proposals made by **Southern Rural Water** under clause 5(c).

Schedule 1 – Definitions and interpretation

A Definitions

business day means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

ESC Act means the *Essential Services Commission Act 2001* (Vic).

GST has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

miscellaneous services means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 4.

NCC means a new customer contribution levied by **Southern Rural Water** under section 268 of the *Water Act 1989* (Vic).

next regulatory period means the period commencing on 1 July 2028 and ending on a date specified by the commission.

prescribed services has the meaning given in the **WIRO** and includes **miscellaneous services**.

RAB means regulatory asset base.

regulated entity has the meaning given in the **WIRO**.

regulatory period means the period commencing on 1 July 2023 and ending on 30 June 2028.

regulatory year means each period of twelve months commencing on 1 July and ending on 30 June.

Southern Rural Water means Gippsland and Southern Rural Water Corporation (trading as Southern Rural Water (ABN 86 348 316 514)

Statement of Obligations means an applicable statement of obligations made under section 4I(2) of the *Water Industry Act 1994* (Vic).

Water Act means the *Water Act 1989* (Vic).

WI Act means the *Water Industry Act 1994* (Vic).

WIRO means the Water Industry Regulatory Order 2014 in force as at the date of this Determination.

B Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any “notice” to be given or matter to be “notified” must be in writing.
- (i) The symbol ‘ Σ ’ requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.
- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
 - (i) **regulatory year** ‘t’ is the **regulatory year** in respect of which the calculation is being made;
 - (ii) **regulatory year** ‘t-1’ is the **regulatory year** immediately preceding **regulatory year** ‘t’;
 - (iii) **regulatory year** ‘t-2’ is the **regulatory year** immediately preceding **regulatory year** ‘t-1’.

Schedule 2 – Application fees

This schedule should be read in conjunction with Schedule 5 and Schedule 6. Variable water, sewerage, recycled water and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

Tariff and Price Component	Price (1 July 2023)	PPM Year 2	PPM Year 3	PPM Year 4	PPM Year 5
2.1 Irrigation District					
Application to amend district boundary	1383.70	0.00%	0.00%	0.00%	0.00%
2.2 Irrigation District: Delivery Shares					
Applications relating to Delivery Shares, Water Use Licences and Registrations, and Drainage Diversion Agreements	279.68	0.00%	0.00%	0.00%	0.00%
2.3 Issue of Take and Use or Underground Disposal Licence					
Fixed Component – Domestic and Stock	886.15	0.00%	0.00%	0.00%	0.00%
Fixed Component – Volume up to 20ML	1937.18	0.00%	0.00%	0.00%	0.00%
Fixed Component – Medium Impact	2437.67	0.00%	0.00%	0.00%	0.00%
Fixed Component – High Impact	3927.36	0.00%	0.00%	0.00%	0.00%
Volumetric Component	23.90	0.00%	0.00%	0.00%	0.00%
Water Availability Assessment	131.89	0.00%	0.00%	0.00%	0.00%
2.4 Amendment / Amalgamation of Licence					
Licence Amendment – Significant	653.57	0.00%	0.00%	0.00%	0.00%
Licence Amendment – Minor	143.66	0.00%	0.00%	0.00%	0.00%

Continued next page

Tariff and Price Component	Price	PPM	PPM	PPM	PPM
	(1 July 2023)	Year 2	Year 3	Year 4	Year 5
2.5 Transfer of Licence					
Low Impact Transfer (Up to 20ML or Amalgamation)	441.60	0.00%	0.00%	0.00%	0.00%
Medium Impact Transfer	947.98	0.00%	0.00%	0.00%	0.00%
High Impact Transfer	2431.78	0.00%	0.00%	0.00%	0.00%
2.6 Construction Licences – New					
Construct Farm Dam – Not Potentially Hazardous and No Engineering	1136.40	0.00%	0.00%	0.00%	0.00%
Construct Farm Dam – Potentially Hazardous and No Peer Review	3097.14	0.00%	0.00%	0.00%	0.00%
Construct Farm Dam – Potentially Hazardous, Peer Review or On-Stream Dam Requiring a s.51 Licence	6412.14	0.00%	0.00%	0.00%	0.00%
Construct or Alter Class A or B Bore	527.57	0.00%	0.00%	0.00%	0.00%
Construct, Alter or Decommission Class C Bore	1507.35	0.00%	0.00%	0.00%	0.00%
Construct, Alter or Decommission Class D Bore	1990.17	0.00%	0.00%	0.00%	0.00%
Construct Additional Investigation Bore	119.52	0.00%	0.00%	0.00%	0.00%
2.7 Construction Licences – Existing					
Hazardous Dam – Operating Licence	1554.45	0.00%	0.00%	0.00%	0.00%
Farm Dam – Alter or Decommission	877.32	0.00%	0.00%	0.00%	0.00%

Continued next page

Tariff and Price Component	Price	PPM	PPM	PPM	PPM
	(1 July 2023)	Year 2	Year 3	Year 4	Year 5
2.7 Construction Licences – Existing (continued)					
Amend, Renew or Transfer Works Licence	143.66	0.00%	0.00%	0.00%	0.00%
Bore Construction Licence Renewal	143.66	0.00%	0.00%	0.00%	0.00%
2.8 Private Works					
Private Works – Domestic & Stock Pipe Permit	376.83	0.00%	0.00%	0.00%	0.00%
Private Works - Other	730.12	0.00%	0.00%	0.00%	0.00%
Transfer Licence to Use Works	279.68	0.00%	0.00%	0.00%	0.00%
2.9 General					
Applications – Additional Assessment (per hour)	155.44	0.00%	0.00%	0.00%	0.00%
Information Statement	131.89	0.00%	0.00%	0.00%	0.00%
Information Report – Mail Out or Standard	465.15	0.00%	0.00%	0.00%	0.00%
Information Report – Short	131.89	0.00%	0.00%	0.00%	0.00%
Information Report - Complex	1448.47	0.00%	0.00%	0.00%	0.00%
Special Meter Reading	131.89	0.00%	0.00%	0.00%	0.00%
Diversion Works on Crown Lands	388.61	0.00%	0.00%	0.00%	0.00%
Miscellaneous Fees and Charges					
Pre-application fee (per hour)	160.53	0.0%	0.0%	0.0%	0.0%
Site visits (per hour)	160.53	0.0%	0.0%	0.0%	0.0%
Peer review fee	At cost	At cost	At cost	At cost	At cost
Public advertising fee	At cost	At cost	At cost	At cost	At cost

As set out in clause 1.1(d) of this Determination, the role of the Commission in making this Determination is limited to determining the maximum prices that **Southern Rural Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the role of **Southern Rural Water** to set a tariff for **prescribed services** in accordance with the **Water Act** and to ensure the tariff complies with this Determination. The commission does not have a role in hearing disputes about individual billing issues that users may have

Schedule 3 – Rural prices

This schedule should be read in conjunction with Schedule 4, Schedule 6 and Schedule 7. Variable water, sewerage, recycled water and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

Tariff and Price Component	Unit	Price 1 July 2023
Irrigation / Regulated systems		
3.1 Macalister Irrigation / Macalister and Thomson Regulated Systems		
Macalister/Thomson Water Share – High Reliability		15.77
Macalister/Thomson Water Share – Low Reliability		7.98
MID Delivery Share		6262.35
Delivery Share — Termination Fee*		93935.30
MID Service Point – Metered Outlet		246.58
Macalister/Thomson/MID Service Point – Metered Pump		128.72
Macalister/Thomson/MID Service Point – Unmetered		57.57
Macalister/Thomson/MID Usage		10.8083
MID Casual Use		63.6554
MID Drainage Diversion Entitlement and Sales		22.81
3.2 Werribee and Bacchus Marsh Irrigation / Werribee Regulated System		
Werribee System Water Share – High Reliability		147.18
Werribee System Water Share – Low Reliability		73.59
WID Delivery Share		18008.12
Delivery Share — Termination Fee (WID)*		270121.93
BMID Delivery Share		13912.83
Delivery Share — Termination Fee (BMID)*		208692.49

Continued next page

Tariff and Price Component	Unit	Price 1 July 2023
Irrigation / Regulated systems (continued)		
3.2 Werribee and Bacchus Marsh Irrigation / Werribee Regulated System (continued)		
WID Service Point – Metered Outlet		274.55
Werribee System/WID Service Point – Metered Pump		137.54
Werribee System/WID Service Point – Unmetered		68.63
BMID Service Point – Metered Outlet		251.50
BMID Service Point – Metered Pump		125.75
BMID Service Point – Unmetered		64.21
WID Casual Use		279.9583
BMID Casual Use		315.7142
WID Drainage Diversion Entitlement and Sales		131.33
Unregulated surface and groundwater		
3.3 Licence Charges		
Take and Use Licence		404.27
Operating Licence – Decontamination Bore & Hazardous Dam		261.66
3.4 Licenced Volume Charges		
Surface Water Licenced Volume & Sales – Standard		13.00
Surface Water Licenced Volume – Offstream Winterfill		9.10
Aquaculture Diversion Rate		85.88
Groundwater Licenced Volume		4.44

Continued next page

Tariff and Price Component	Unit	Price 1 July 2023
3.5 System Management Charges		
Surface Water – Thorpdale		10.38
Surface Water – Latrobe System		12.52
Surface Water – Maribyrnong		55.91
Groundwater – Deutgam		29.75
Salinity Mitigation		0.70
Groundwater Control Pump Usage		29.69

*Delivery share termination fees are excluded from the revenue cap

As set out in clause 1.1(d) of this Determination, the role of the Commission in making this Determination is limited to determining the maximum prices that **Southern Rural Water** may charge for **prescribed services** during the **regulatory period**, or the manner in which such prices are to be calculated, determined or otherwise regulated.

It is the role of **Southern Rural Water** to set a tariff for **prescribed services** in accordance with the **Water Act** and to ensure the tariff complies with this Determination. The commission does not have a role in hearing disputes about individual billing issues that users may have

Schedule 4 – Calculation of revenue cap revenue requirements for each regulatory year

This schedule should be read in conjunction with clause 2.3(d), Schedule 3 and Schedule 7

Revenue requirement for regulatory years

\$m 2022-23

	2023-24	2024-24	2025-26	2026-27	2027-28
Revenue cap revenue requirement	26.41	26.66	26.91	27.17	27.42

Schedule 5 – Application of prices

5.1 Miscellaneous fees and charges

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
Pre-application fee (per hour)	Provide advice to potential customers on the application process or information to inform their application (including but not limited to water availability, trading advice, technical assessment requirements)
Site visits (per hour)	Attend customer sites on request (not related to general operations such as meter maintenance, or pre-application advice)
Peer review fee	Cost recovery of consultant fees incurred to carry out external peer reviews of technical reports that are included in complex applications
Public advertising fee	Cost recovery of advertising and costs associated with convening public meetings related to take and use licence applications

Schedule 6 – Pricing principles

6.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where ***Southern RuralWater*** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to ***Southern RuralWater*** or pursuant to other government policies that apply to ***Southern RuralWater*** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

6.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner;
- the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the commission;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer);

- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the commission;
- where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

6.3 Pricing principles for recoverable capital expenditure

The recovery of capital works costs (including for remedial and upgrade work) for Lake Narracan and Yallourn Weir must be at actual cost and following consultation between Southern Rural Water and the relevant entitlement holder.

6.4 Pricing principles for *miscellaneous services* not included in Schedule 2

Prices for *miscellaneous services* must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

6.5 Guidelines

Southern RuralWater must comply with any guidelines issued by the commission from time to time which relate to the setting of prices for *prescribed services* to which Schedule 4 relates.

Schedule 7 - Changes in costs associated with annual updates to the trailing average cost of debt

If in any **regulatory year** Condition A and/or Condition B apply (per Schedule 7B below), the formula set out in clause 2.3(b) is not applicable to the extent it relates to the prices listed in Schedule 7A. The prices in Schedule 7A are specified under items 3.1 to 3.7 of Schedule 3.

Instead, the prices in Schedule 7A will be adjusted in accordance with the formulas (as applicable) provided in Schedule 7B, with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**.

Southern Rural Water must comply with any guidance issued by the commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 2 and 4 relates.

Schedule 7A – Adjustment to prices

Tariffs	Condition A (Annual cost of debt update)
All tariffs and price components under 3.1 Macalister Irrigation / Macalister and Thomson Regulated Systems	X
All tariffs and price components under 3.2 Werribee and Bacchus Marsh Irrigation / Werribee Regulated System	X

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

Schedule 7B – Prices

Condition A – Annual cost of debt update

Condition A will apply when the trailing average cost of debt in any **regulatory year** 't' changes in that year. The adjustment is calculated as per formula 4 below.

The difference in the forecast and actual regulatory rate of return in any **regulatory year** 't' is multiplied by the average of the **RAB** to determine the change in **Southern Rural Water's** total expected return. The **RAB** is set out in Table 5 of Annexure A.

The trailing average cost of debt adjustment will be apportioned across the tariffs listed in Schedule 5A.

Formula 1: Determining the nominal cost of debt

$$CCCCC_{tt}^{nnoommiinbbcc} = \frac{CCCCC_{i=tt-10}^{nnoommiinbbcc}}{10}$$

$CCCCC_{tt}^{nnoommiinbbcc}$

Is equal to the simple average of the 10 years up to (but not inclusive of) **regulatory year** 't' of:

- The historical nominal cost of debt series outlined in Table 1 of Annexure A
- and
- RBA Table F3 – Non-financial corporate BBB-rated bonds – Yield – 10-year target tenor [Series ID FNFYBBB10M]

from 1 April to 31 March before the start of **regulatory year** 't' (e.g. 1 April 2022 to 31 March 2023 in relation to 2023-24)

Formula 2: Determining the real cost of debt

$$CCCCC_{tt}^{rrbbcc} = \frac{(1 + CCCC_{t}^{nnoommiinbbcc})}{(1 + \pi\pi^{aabbtt})} - 1$$

$\pi\pi^{aabbtt}$

Is the inflation factor which is equal to 3.5% for all regulatory years (unless updated in accordance with Note 1 below, in which case it is equal to the updated amount set by the commission)

Formula 2 outlines the process for converting the trailing average cost of debt from nominal to real using the Fisher equation.

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

Note 1: If inflation (measured by the Australian Bureau of Statistics Consumer Price Index – all groups) below 2.5 per cent in 2026-27, we will update the inflation factor (π^{aabbtt}) using a five year averaging period; the updated inflation factor will be used for any necessary adjustment of the Scheduled prices in Schedule 2.

Formula 3: Determining the real regulatory rate of return

$$RRRRR_{rrbbbcc}^{tt} = 0.4 \times CCCCC_{rrbbbcc}^{tt} + 0.6 \times CCCCC_{rrbbbcc}^{tt}$$

$RRRRR_{rrbbbcc}^{tt}$	Is the post-tax ‘vanilla’ regulatory rate of return in real terms for regulatory year ‘t’ rounded to two decimal places, i.e. 4.347% is rounded to 4.35%
$CCCCC_{rrbbbcc}^{tt}$	Is the real cost of equity which is equal to 4.5% for 2023-24 to 2027-28

Formula 4: Trailing average cost of debt adjustment

$$CCCCR_{tt}^{ii} = (RRRRR_{tt}^{bbcc} - RRRRR_{tt}^{aabb}) \times \frac{RRRRR_{oocbbmii}^{aabb} + RRRRR_{cccoobbii}^{aabb}}{2} \times \frac{CCCCC_{tt}}{CCCCC_{bbbb}} \times \frac{\alpha^{ii} \times qq^{aabb}}{\sum_{ii=1,nn}^{tt} (\alpha^{ii} \times qq^{aabb})} \times \frac{1}{qq^{aabb}}$$

$CCCCR_{tt}^{ii}$	Is the trailing average cost of debt adjustment applied proportionally to tariff j, based on tariff j’s relative share of total revenues. Total revenues refer to the sum of all revenue received across the tariffs listed in Schedule 5A to which the cost of debt adjustment will apply
$RRRRR_{tt}^{bbcc}$	Is the actual calculated real post tax ‘vanilla’ regulatory rate of return in regulatory year ‘t’
$RRRRR_{tt}^{aabb}$	Is the determination real post tax ‘vanilla’ regulatory rate of return in regulatory year ‘t’
$RRRRR_{oocbbmii}^{aabb}$	Is the determination opening RAB in regulatory year ‘t’
$RRRRR_{cccoobbii}^{aabb}$	Is the determination closing RAB in regulatory year ‘t’
$CCCCC_{tt}$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter immediately preceding the start of the relevant regulatory year
$CCCCC_{bbbbbb}$	Is the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics (6401.0 - Table 8) for the March Quarter ‘t’ in year 2023 equal to 132.6.

Continued next page

Schedule 5 – Adjustment for costs associated with annual updates to the trailing average cost of debt

Formula 4: Trailing average cost of debt adjustment (continued)

α_{tt}^{ii}

Is the price for tariff j at **regulatory year** 't' before the cost of debt adjustment where:

$$\alpha_{tt}^{ii} = p_{tt-1}^{ii} \times \frac{CCCCC_{tt}}{CCCCC_{tt-1}} \times \diamond 1 + CCCC P_{tt}^{ii} \diamond$$

p_{tt-1}^{ii}

Is the price for tariff j in **regulatory year** 't-1'

$q_{ii,tt}^{aabbtt}$

Is the determination quantity for tariff j in **regulatory year** 't'

$$\sum_{ii=1,nn}^{tt=tt} (\alpha_{ii,tt}^{ii} \times q_{ii,tt}^{aabbtt})$$

Is the sum of all revenue received across the tariffs listed in Schedule 7A to which the cost of debt adjustment will apply

Formula 4 outlines the process for calculating the adjustment to prices outlined in Schedule 7A to reflect the new cost of debt. This is done in two steps. The first step is to calculate the change in the revenue requirement by multiplying the adjustment to the rate of return, to reflect the updated cost of debt, by the average regulatory asset base.

The second step is to apply the change in the revenue requirement proportionally to tariff j, based on tariff j's relative share of total revenues. Total revenues are defined as the sum of all revenues received across the tariffs listed in Schedule 7A to which the cost of debt adjustment will apply.

The Common Seal of the
Essential Services
Commission was affixed to
this Determination with the
authority of the commission.



Date: 26 June, 2023

A handwritten signature in blue ink, appearing to read "Kate Symons", written over a horizontal line.

Kate Symons
Chairperson

Annexure A

Table 1 Historical cost of debt (nominal)

Per cent

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

Table 2 Forecast real regulatory rate of return

Per cent

	2023-24	2024-25	2025-26	2026-27	2027-28
Regulatory rate of return	2.43%	2.41%	2.49%	2.58%	2.69%

Table 3 Benchmark revenue requirement

\$m 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28
Operating expenditure	29.2	28.6	26.7	27.3	26.2
Return on assets	2.8	3.3	3.6	4.0	4.3
Regulatory depreciation	4.8	5.6	5.8	6.4	7.1
Non-prescribed revenue offset of revenue requirement	-1.5	-1.5	-1.1	-1.3	-1.1
Total	35.3	36.0	35.0	36.3	36.5

Table 4 Closing regulatory asset base
\$m 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB at 1 July	49.4	61.2	72.4	91.1	73.6
<i>Plus</i> Gross capital expenditure	35.7	53.8	29.8	15.7	10.5
<i>Less</i> Government contributions	17.5	27.6	3.7	21.7	4.6
<i>Less</i> Customer contributions	0.6	9.5	1.7	0.4	0.6
<i>Less</i> Proceeds from disposals	0.8	1.3	0.4	5.0	0.6
<i>Less</i> Regulatory depreciation	5.1	4.3	5.2	6.0	6.6
Closing RAB at 30 June	61.2	72.4	91.1	73.6	71.7

Table 5 Forecast regulatory asset base
\$m 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB at 1 July	71.7	102.8	129.3	141.3	148.5	158.5
<i>Plus</i> Gross capital expenditure	53.8	48.4	25.3	16.8	19.6	15.1
<i>Less</i> Government contributions	12.1	13.8	4.4	0.4	-	-
<i>Less</i> Customer contributions	2.7	2.5	2.5	2.5	2.5	2.5
<i>Less</i> Proceeds from disposals	0.8	0.8	0.8	0.8	0.8	0.8
<i>Less</i> Regulatory depreciation	7.0	4.8	5.6	5.8	6.4	7.1
Closing RAB at 30 June	102.8	129.3	141.3	148.5	158.5	163.1

Table 6 Approved licence fee and environmental contribution assumptions
\$m 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28
Essential Services Commission licence fee	0.0	0.0	0.0	0.0	0.0
Department of Health licence fee	0.0	0.0	0.0	0.0	0.0
Environment Protection Authority licence fee	-	-	-	-	-
Environmental contribution	0.5	0.5	0.5	0.5	0.4

Table 7 Bulk water purchases
\$m 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28
Bulk water purchases	1.2	1.2	1.2	1.2	1.2

Table 8 Major capital projects

Project	Expected start date	Expected completion date
Macalister Irrigation District Modernisation Phase 2	2019-20	2024-25
Werribee Irrigation District Modernisation Stages 4 & 5	2020-21	2024-25
Groundwater and River Meter Upgrade	2023-24	2025-26
Melton Reservoir Spillway Left Training Wall Upgrade	2024-25	2026-27
Main Southern Carrier Tunnel No. 5 Remediation	2023-24	2026-27
Glenmaggie Spillway Gate Repainting	2024-25	2027-28
Southern Main Carrier Concrete Flume Joint Repair	2023-24	2027-28
Blue Rock Isolating Butterfly Valve Replacement	2021-22	2023-24
Main Northern Channel Siphon No.2	2020-21	2023-24
Main Southern Channel Siphon No. 2	2020-21	2023-24