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## 2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
WANNON WATER

MARCH 2008

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Essential Services Commission 2008, *2008 Water Price Review Draft Decision Volume II: Wannon Water*, March.

## 1. Purpose of volume II of the draft decision

The Commission is required to issue a Draft Decision that proposes either to:

- (a) approve all of the prices which a regulated entity may charge for prescribed services, or the manner in which such prices are to be calculated or otherwise determined, as set out in the regulated entity's water plan, until the commencement of the next regulatory period or
- (b) refuse to give the approval referred to above and specifies the reasons for the Commission's proposed refusal (which may include suggested amendments to, or action to be taken in respect of, the Water Plan that, if adopted or taken, may result in the Commission giving that approval) and the date by which a regulated entity must resubmit a revised Water Plan or undertake such action as to ensure compliance.

This Volume of the Draft Decision summarises for each business the suggested amendments or actions that if adopted or taken may result in the Commission giving its approval to the relevant business's proposed prices or the manner in which such prices are to be calculated or otherwise determined. The main reasons for suggested amendments or actions are summarised. More detailed reasons for the Commission's suggested amendments are outlined in Volume I of the Draft Decision.

## 2. Actions to be taken in response to this draft decision

In response to this Draft Decision, Wannon Water should by 9 May 2008 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2008 that reflects:
  - (i) the revised revenue requirement set out in Table 4
  - (ii) the revised demand forecasts set out in Tables 13–17 and
  - (iii) any changes to tariff structure suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in Tables 1–2.

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise

determined and the service standards to apply for the regulatory period 2008-09 to 2012-13 as part of its Final Determination.

### 3. Service standards

The Commission proposes to approve each of the service standards proposed in Wannon Water's Water Plan, except as indicated in table 1.

**Table 1 Approved service standards**

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<b>Water</b>						
Unplanned water supply interruptions (per 100km)	7.8	10.0	10.0	10.0	10.0	10.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	11.3	35.0	35.0	35.0	35.0	35.0
Average time taken to attend bursts and leaks (priority 2) (minutes)	56.2	60.0	60.0	60.0	60.0	60.0
Average time taken to attend bursts and leaks (priority 3) (minutes)	50.2	240.0	240.0	240.0	240.0	240.0
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	93.4	97.0	97.0	97.0	97.0	97.0
Planned water supply interruptions restored within 5 hours (per cent)	91.3	90.0	90.0	90.0	90.0	90.0
Average unplanned customer minutes off water supply (minutes)	9.0	9.9	9.9	9.9	9.9	9.9
Average planned customer minutes off water supply (minutes)	6.1	9.0	9.0	9.0	9.0	9.0
Average frequency of unplanned water supply interruptions (number)	0.1	0.1	0.1	0.1	0.1	0.1
Average frequency of planned water supply interruptions (number)	0.0	0.1	0.1	0.1	0.1	0.1
Average duration of unplanned water supply interruptions (minutes)	100.6	108.0	108.0	108.0	108.0	108.0

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Average duration of planned water supply interruptions (minutes)	190.5	180.0	180.0	180.0	180.0	180.0
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)		0.0	0.0	0.0	0.0	0.0
Unaccounted for water (per cent)	9.9	12.0	12.0	12.0	12.0	12.0
<b>Sewerage</b>						
Sewerage blockages (per 100km)	40.4	38.3	38.3	38.3	38.3	38.3
Average time to attend sewer spills and blockages (minutes)	32.0	30.0	30.0	30.0	30.0	30.0
Average time to rectify a sewer blockage (minutes)	83.0	90.0	90.0	90.0	90.0	90.0
Spills contained within 5 hours (per cent)	1.0	98.0	98.0	98.0	98.0	98.0
Customers receiving 3 sewer blockages in the year (number)		0.0	0.0	0.0	0.0	0.0
<b>Customer Service</b>						
Complaints to EWOV (per 1000 customers)	0.4	0.6	0.6	0.6	0.6	0.6
Telephone calls answered within 30 seconds (per cent)	1.0	98.9	98.9	98.9	98.9	98.9
<b>Minimum Flow Rates</b>						
	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>	
Flow rate (litres per minute)	20	35	60	90	160	

**Note** Data rounded to one decimal place. **n.p.** = Not provided.

Where the proposed service standard target deviated from Wannon Water's actual three year average performance or did not appear to make sense, the Commission sought further information from the business.

The Commission has proposed to approve two targets that appear inconsistent with the three year average performance. These are discussed in detail below.

### **Unaccounted for water**

The Commission sought further information from Wannon Water as the proposed target for unaccounted for water (12 per cent) appeared high given the two year historical average of (10.3 per cent).

Wannon Water does not believe that the original authority targets were based on accurate recording of bulk water consumption<sup>1</sup>. The business has found that several systems under the former businesses recorded more water sold through domestic meters than was recorded supplied to those systems by the bulk meters. Wannon Water is progressively putting in place more accurate bulk water recording systems. As a result, actual unaccounted for water has increased well above the targets set in the merged Authorities Water Plans.

### **Complaints to EWOV**

The Commission also sought further information from Wannon Water on its proposed target for complaints to EWOV (0.6 per 1000 customers) as it appeared high given the two year historical average of (0.4 per 1000 customers).

Wannon Water proposed to maintain the target because the business is increasingly forwarding complaints to EWOV so as to gain an independent decision to assist resolution of the more complex cases. Furthermore, the business has proposed a major restructure water tariffs, which is expected to lead to a higher level of billing complaints.

While the proposed target is above the three year average performance, the Commission notes that it is in line with the proposals of other businesses for the coming period.

The Commission also notes that Wannon Water has proposed the additional service standards outlined in table 2.

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<sup>1</sup> Wannon Water is the merged entity of three former water authorities (Glenelg Water, South West Water and Portland Coast Water).

**Table 2 Additional service standards**

<i>Service standard</i>	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Total CO2 Emissions (tonne)		38611.0 <sup>a</sup>	37741.0 <sup>a</sup>	38111.0 <sup>a</sup>	38011.0 <sup>a</sup>	37111.0 <sup>a</sup>
Recycled water target (per cent)		24.0	26.0	28.0	30.0	31.0
Biosolids reuse (per cent)		100.0	100.0	100.0	100.0	100.0
Sewer backlog connections		130.0	0.0	0.0	200.0	0.0
Environmental discharge indicator (per cent)		90	90	90	100	100
Drinking water standards						
Ecoli (per cent)		98.0	98.0	98.0	98.0	98.0
Turbidity (per cent)		95.0	95.0	95.0	95.0	95.0
Aluminium (mg/L (acid soluble))		0.2	0.2	0.2	0.2	0.2

**Note** Data rounded to one decimal place. <sup>a</sup> amended by the business in the lead up to the Draft Decision

#### 4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels except as shaded or otherwise indicated in table 3. These guaranteed service levels should be reflected in Wannon Water's Customer Charter.

**Table 3 Proposed and approved GSL events and payment levels**

<i>Proposed level of service</i>	<i>Proposed payment</i>	<i>Approved level of service</i>	<i>Approved payment</i>
More than 5 water unplanned interruptions in a rolling 12 month period	50	More than 5 water unplanned interruptions in a rolling 12 month period	50
Sewerage Spills on private property not contained within 5 hours of notification	500	Sewerage Spills on private property not contained within 5 hours of notification	500

## 5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

Table 4 **Breakdown of revenue requirement implied by ESC draft decision**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	30.58	30.86	31.83	31.64	31.79
Return on existing assets	7.86	7.59	7.28	6.98	6.77
Return on new investments	0.96	2.67	3.83	4.63	5.38
Regulatory depreciation	4.50	4.36	4.69	4.77	4.92
Tax liability	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>43.90</b>	<b>45.49</b>	<b>47.62</b>	<b>48.01</b>	<b>48.86</b>

## 6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 5.

Table 5 **Updated regulatory asset base**  
\$ million in January 2007 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	85.60	97.32	105.35
<i>Plus</i> Gross Capital expenditure	17.70	16.14	33.52
<i>Less</i> Government contributions	1.09	0.58	0.25
<i>Less</i> Customer contributions	1.38	3.57	2.90
<i>Less</i> Proceeds from disposals	0.67	0.70	0.80
<i>Less</i> Regulatory depreciation	2.84	3.26	3.59
<b>Closing RAB</b>	<b>97.32</b>	<b>105.35</b>	<b>131.33</b>

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 to 2012-13 period less any approved allowance for regulatory depreciation.

The Commission has adopted the following assumptions in relation to regulatory asset base over the regulatory period:



**Table 6**      **Rolled forward regulatory asset base**  
 \$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	131.3	158.0	178.5	185.6	195.0
<i>Plus</i> Gross Capital expenditure	36.0	35.0	15.4	15.9	14.5
<i>Less</i> Government contributions	3.2	9.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	0.9	0.4	0.4	1.4	0.5
<i>Less</i> Proceeds from disposals	0.6	0.7	3.2	0.4	0.6
<i>Less</i> Regulatory depreciation	4.5	4.4	4.7	4.8	4.9
<b>Closing RAB</b>	158.0	178.5	185.6	195.0	203.4

## 7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 6.1 per cent for all water businesses. The table below outlines the individual components for the WACC.

**Table 7**      **Real post-tax WACC**

<i>Real risk free rate</i>	<i>Equity beta</i>	<i>Market risk premium</i>	<i>Debt margin</i>	<i>Financing structure</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>(per cent)</i>	<i>(β)</i>	<i>(per cent)</i>	<i>(per cent)</i>	<i>(per cent)</i>	<i>(%)</i>	<i>(per cent)</i>
3.41	0.65	6.00	1.95	60	0.5	6.1

## 8. Operating expenditure

The Commission has made the following assumptions about operating expenditure forecasts over the regulatory period:

**Table 8 Proposed and approved operating expenditure assumptions**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	33.85	33.20	34.50	33.95	33.51
Revisions and adjustments	-3.27	-2.34	-2.67	-2.31	-1.72
Draft decision – operating expenditure	30.58	30.86	31.83	31.64	31.79

The Commission's assumptions reflect the following adjustments to Wannon Water's proposed operating expenditure forecasts:

**Table 9 Adjustments to operating expenditure**  
\$ million in January 2007 prices

<i>Expenditure item</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Productivity adjustment	-0.61	0.19	-0.12	0.23	0.79
Electricity adjustment	-2.03	-1.94	-1.93	-1.93	-1.91
Labour adjustment	-0.91	-0.82	-0.82	-0.76	-0.71
Environmental contribution	0.54	0.50	0.45	0.41	0.37
DHS licence fee	-0.02	-0.02	-0.02	-0.02	-0.02
Removal of double counting of licence fees	-0.24	-0.24	-0.24	-0.24	-0.24
<b>Total</b>	<b>-3.27</b>	<b>-2.34</b>	<b>-2.67</b>	<b>-2.31</b>	<b>-1.72</b>

- (a) No business revisions were proposed after the submission of the Water Plan.
- (b) The productivity adjustment reflects a reduction above any other adjustments required to achieve its productivity target. The productivity target reflects a 1 per cent growth adjusted productivity improvement over is 2006-07 business as usual operating expenditure, as discussed in section 4.2 of Volume 1.
- (c) Electricity expenditure adjustments reflect changes to consumption and electricity prices. SKM's forecasts of electricity pricing are discussed in section 3 of SKM's expenditure review.
- (d) Business as usual labour expenditure was adjusted to reflect a 1.25 per cent real increase in labour rates as discussed in section 3 of the SKM expenditure review. Included in the adjustment is an allowance for increases in EFT considered prudent.

- (e) Advice was received from the Department of Human Service on their licence fees and the Department of Sustainability and Environment on the environmental contribution for the regulatory period. Adjustments were made so operating expenditure reflected the Department's advice (Draft Decision section 4.7).

## 9. Capital expenditure

The Commission has made the following assumptions about capital expenditure forecasts over the regulatory period:

**Table 10 Proposed and approved capital expenditure assumptions**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	25.16	43.80	12.82	16.77	11.54
Draft decision – capital expenditure	35.99	35.00	15.36	15.95	14.46

The Commission's assumptions reflect the following adjustments to Wannon Water's proposed capital expenditure forecasts:

**Table 11 Adjustments to capital expenditure**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Hamilton Interconnector	8.94	-9.22			
Warrnambool WRP Upgrade	-4.86	-1.69	-0.10	1.88	4.77
Water recycling	0.05	<b>-0.08</b>	<b>-0.7</b>	<b>-0.7</b>	
Upgrade to Portland WRP		0.5	3.5		-4.0
Warrnambool WRP Digester (adjustments only)	-2.9			2.68	3.86
Dutton Way Services (adjustments only)			-0.25	-2.8	3.05
General Adjustments – deferrals from 2007-08	8.79	1.69	0.09	-1.88	-4.76
<b>Total ESC adjustments</b>	<b>10.83</b>	<b>-8.83</b>	<b>2.25</b>	<b>-0.82</b>	<b>2.94</b>

- (a) Hamilton Interconnector – SKM considered that Wannon Water was well placed to undertake construction for this project and therefore recommended that expenditure for this project allocated to 2009-10 be brought forward to 2008-09 (SKM, section 6.2).

- (b) Warrnambool WRP upgrade – SKM stated that they were not provided with any justifying information to support this project at this stage and therefore deferred expenditure until the end of the period (SKM, section 6.2).
- (c) Water recycling – SKM considered while this project has not been justified that it is reasonable to allow expenditure to develop this opportunity and plan further expenditure when the justification of the scheme is established (SKM, section 6.2).
- (d) Upgrade to Portland WRP – SKM recommended expenditure be moved to earlier in the period (SKM, section 6.2).
- (e) Warrnambool WRP Digester – SKM recommended the deferral of expenditure for this project until the end of the period and increased to \$6.9 million (SKM, section 6.2).
- (f) Dutton Way Services – SKM recommended that the cost for Dutton Way Services Project be deferred until the final year of the next regulatory period (SKM, section 6.2).
- (g) General adjustments from 2007-08 – As part of the review process Wannon Water identified a number of projects that could be deferred from 2007-08 until the next regulatory period. Adjustments have therefore been made for these changes in expenditure across the regulatory period (SKM, section 6.2).

Wannon Water has identified the following key capital projects to be undertaken during the regulatory period.

**Table 12 Key capital projects**

	<i>Expected completion date</i>
Hamilton Grampians Inter-Connector Pipeline	2009-10
Office Building	2009-10
Upgrade Portland WRP	2012-13
SCADA provision	2011-12
Casterton to Coleraine Pipeline	2008-09
Dutton Way Sewerage and Water Services	2011-12
Warrnambool WRP Upgrade	2011-12
Camperdown Water Mains Replacement	2012-13
West Portland Sewerage Services	2008-09
Water Recycling	2011-12

## 10. Demand forecasts

- (a) The Commission has made the following assumptions about demand for various services over the regulatory period.

- (b) The Commission has adjusted proposed demand forecasts where shaded or otherwise indicated.

**Table 13 Number of water connections**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed – total connections	43,784	44,457	45,165	45,913	46,710
Draft decision — total connections	43,784	44,457	45,165	45,913	46,710

**Table 14 Number of sewerage connections**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Total	33,318	33,690	34,068	34,450	34,842
Draft decision – total connections	33,318	33,690	34,068	34,450	34,842

**Table 15 Residential water consumption  
ML**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed total residential consumption	5,956	5,882	5,821	5,774	5,727
Draft decision – total residential consumption	5,748	5,767	5,774	5,735	5,730

- (a) Increased Wannon Water's forecasts to remove anticipated water savings arising from reductions in leakage. PwC noted that some of Wannon Water's anticipated water conservation savings came from leakage reduction. PwC was of the view that while this measure should reduce bulk water demand of the system as a whole (and help conserve water and augment supplies), it will not reduce end customer demand.
- (b) Amended Wannon Water's forecasts to provide for an earlier lifting of restrictions. In doing so, PwC recommended adjusting the water demand forecasts for 'Block 3' in Group 3 as it was their understanding that Group 3 related to areas subject to restrictions in the original forecasts.
- (c) Adjusted for price elasticity which was not included in Wannon Water's forecasts.

**Table 16 Non-residential water consumption**  
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed non-residential consumption	7,048	5,832	5,822	5,811	5,802
Draft decision – non residential consumption	7,007	6,889	6,895	6,783	6,788

**Table 17 Total water consumption**  
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed total consumption	13,004	11,714	11,643	11,585	11,529
Draft decision – total consumption	12,754	12,656	12,669	12,518	12,518

## 11. Form of price control

- (a) The Commission proposes to approve individual price caps for Wannon Water.
- (b) Wannon Water should submit a schedule of prices to apply from 1 July 2008, as well as a process in which tariffs can be adjusted on an annual basis.
- (c) Wannon Water may apply for an adjustment to its prices or tariff strategy at the time of the annual price review. It would have to demonstrate in its application to the Commission that it has clearly articulated a new tariff strategy (or explained how the proposed price changes are consistent with its existing tariff strategy), undertaken appropriate customer consultation and addressed customer impacts. The average annual price increase across the range of tariffs could not be greater than the average increase calculated under a tariff basket approach. The Commission may then approve amended individual price caps for the remainder of the regulatory period.

## 12. Pass through mechanisms

Businesses may apply to the Commission to adjust their prices either at the end of the regulatory period or during the regulatory period for specified costs where these are materially different from the costs included for the purposes of the Determination. Pass through mechanisms may apply in the following cases:

- (a) Prices will be adjusted at the end of the regulatory period to reflect any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in Table 8.

**Table 18 Approved licence fee assumptions<sup>a</sup>**  
 \$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-2013</i>
Essential Services Commission	0.07	0.07	0.07	0.07	0.07
Environment Protection Authority	0.13	0.13	0.13	0.13	0.13
Department of Human Services	0.02	0.02	0.02	0.02	0.02

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (b) Prices will be adjusted at the end of the regulatory period to reflect the additional net operating costs associated with meeting changes in legislative obligations during the regulatory period where:
- (i) the impact on costs is equivalent to at least 5 per cent of the business's revenue over the regulatory period
  - (ii) changes in costs relate to changes in primary Acts and legislative instruments, including regulations; in taxes (or fees or similar charges) excluding income tax, penalties and interest on taxes, stamp duty, financial institutions duty or similar taxes and levies; to EPA licence requirements; and/or to the Statement of Obligations
  - (iii) the change in legislative obligation was unforeseen and not already reflected in expenditure forecasts
  - (iv) additional capital costs will be rolled into the regulatory asset base at the beginning of the next regulatory period where the expenditure is assessed as being prudent and efficient, and prices will be adjusted to reflect any associated financing costs.
- (c) Prices may be adjusted during the regulatory period to reflect costs associated with catastrophic events, such as fire, earthquake or act of terrorism, where:
- (i) the impact on costs is so significant as to prevent the business meeting its service requirements and obligations without compromising its financial viability during the period
  - (ii) the business can demonstrate that it had taken appropriate steps to plan for or manage the potential impact of such an event.
- (d) Prices may be adjusted during the regulatory period to reflect expenditure relating to major capital projects where:
- (i) the business has separately identified any uncertain major capital projects and excluded those projects from its expenditure forecasts
  - (ii) the Commission has identified the project as an uncertain major capital project in the Final Determination

- (iii) the application process for determining the amount, nature and timing of any adjustment will be set out in the Final Determination.
- (e) Prices may be adjusted during the regulatory period to reflect any significant differences between actual and forecast demand levels where:
  - (i) the Commission determines that actual demand levels are significantly different from those forecast for the purposes of the Final Determination
  - (ii) the Commission finds a material impact on the business's revenues.

### **13. Retail water tariffs**

- (a) The Commission proposes to approve Wannon Water's proposed tariff structure on the basis that it is consistent with the WIRO.
- (b) Wannon Water is proposing a significant restructuring of tariffs towards variable charges resulting in large price increases for some customers. Wannon Water should provide further information on its proposals for mitigating customer impacts, particularly with regard to non-residential customers and tenants.

### **14. Retail sewerage tariffs**

The Commission proposes to approve Wannon Water's proposed tariff structure on the basis that it is consistent with the WIRO.

### **15. Trade waste charges**

- (a) The Commission proposes to generally approve Wannon Water's proposed trade waste tariff structure on the basis that it is consistent with the WIRO and the Commission's trade waste pricing principles. However, the Commission proposes, at this stage, not to approve Wannon Water's proposed salt charge for trade waste customers without evidence that the allocation of costs complies with the trade waste pricing principles.
- (b) Wannon Water is required to set out and apply specific trade waste pricing principles to apply to those customers for whom scheduled prices do not apply. The principles should be consistent with the following principles:
  - (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
  - (ii) 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
  - (iii) 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



- (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
- (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination.
- (vi) Customers should be provided with full details of the manner in which prices have been calculated. 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.

## **16. Recycled water**

- (a) The Commission is proposing to approve Wannon Water's proposed pricing principles on the basis that they are consistent with the principles set out below.
- (b) The Commission considers that Wannon Water should set its recycled water prices according to a set of principles that ensure that prices:
  - (i) have regard to the price of any substitutes and customers' willingness to pay
  - (ii) cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand)
  - (iii) include a variable component.
- (c) Where a business does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:
  - (i) it has assessed the costs and benefits of pursuing the recycled water project
  - (ii) it has clearly identified the basis on which any revenue shortfall is to be recovered
  - (iii) if the revenue shortfall is to be recovered from non-recycled water customers, either that the project is required by 'specified obligations' or that there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

## **17. Customer contributions**

- (a) The Commission proposes to approve Wannon Water's proposed new customer contributions.
- (b) Approval is subject to an adjustment clarifying that recycled water services, due to their unique nature, will not be subject to a scheduled charge but

rather will be regulated by the Commission’s proposed pricing principles for recycled water.

**Table 19 New customer contributions charges**  
\$ per lot

	<i>Category 1<sup>a</sup></i>	<i>Category 2<sup>b</sup></i>	<i>Category 3<sup>c</sup></i>
Water	550.00	1,100.00	2,200.00
Sewerage	550.00	1,100.00	2,200.00

<sup>a</sup> For developments which are designed in a manner that will have minimal impacts on future water resource demands (lot sizes typically no greater than 450 square meters). <sup>b</sup> For water sensitive urban developments which will require further investment in infrastructure within a six year period to service these developments (lot sizes typically between 450 and 1,350 square metres). <sup>c</sup> For developments that will create demand for water resources over and above high-density, water efficient homes (lot sizes typically exceeding 1,350 square metres).

## 18. Miscellaneous charges

- (a) The Commission proposes to not approve the inclusion of water tapping and water meter dirt box charges for connections greater or equal to 75mm in Wannon Water’s core miscellaneous services. These services are expected to be provided infrequently and would be better classified as non-core services.
- (b) The Commission proposes to approve all other core miscellaneous services proposed by Wannon Water, including proposed definitions.
- (c) The Commission proposes to not approve Wannon Water’s proposed increases for core miscellaneous charges.
- (d) In response to this Draft Decision, Wannon Water is required to provide further information on the costs drivers behind the price increases, or propose price increases that are no larger than its average price increase.