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2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
WESTERN WATER

MARCH 2008

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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, Western 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 and guaranteed service levels (GSLs) 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 and GSLs 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 and GSLs 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 Western 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>
Water						
Unplanned water supply interruptions (per 100km)	22.1	22.0	21.5	21.0	20.5	20.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	15.8	25.0 ^a	25.0 ^a	25.0 ^a	25.0 ^a	25.0 ^a
Average time taken to attend bursts and leaks (priority 2) (minutes)	23.0	25.0 ^a	25.0 ^a	25.0 ^a	25.0 ^a	25.0 ^a
Average time taken to attend bursts and leaks (priority 3) (minutes)		95.0 ^a	95.0 ^a	92.0 ^a	92.0 ^a	90.0 ^a
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	100	100	100	100	100	100
Planned water supply interruptions restored within 5 hours (per cent)	90	90	90	90	90	90
Average unplanned customer minutes off water supply (minutes)	16.7	13.5 ^a	13.5 ^a	13.5 ^a	13.5 ^a	13.5 ^a
Average planned customer minutes off water supply (minutes)	10.5	11.0 ^a	10.0 ^a	9.0 ^a	7.5 ^a	6.0 ^a
Average frequency of unplanned water supply interruptions (number)	0.2	0.2	0.2	0.2	0.2	0.2
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)	83.3	90.0	90.0	90.0	90.0	90.0
Average duration of planned water supply interruptions (minutes)	222.7	220.0	200.0	180.0	150.0	120.0

<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>
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	2.0	2.0	2.0	2.0	2.0	2.0
Unaccounted for water (per cent)	11.4	10.0	9.5	9.0	8.5	8.0
Sewerage						
Sewerage blockages (per 100km)	32.1	29.0	28.5	28.0	27.5	27.0
Average time to attend sewer spills and blockages (minutes)	33.9	30.0	30.0	30.0	30.0	30.0
Average time to rectify a sewer blockage (minutes)	103.3	103.0	103.0	103.0	103.0	103.0
Spills contained within 5 hours (per cent)	100.0	100.0	100.0	100.0	100.0	100.0
Customers receiving 3 sewer blockages in the year (number)	3.3	3.0	3.0	3.0	3.0	3.0
Customer Service						
Complaints to EWOV (per 1000 customers)	0.2	0.4	0.4	0.3	0.3	0.3
Telephone calls answered within 30 seconds (per cent)	88.5	88.00	89.00	89.00	90.00	90.00
Minimum Flow Rates						
	<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. **a** amended by the business in the lead up to the Draft Decision

Where the proposed service standard target deviated from Western Water's actual three year average performance or did not appear to make sense, the Commission sought further information from the business. Table 1 indicates which of the standards were amended by the business in the lead up to the Draft Decision.

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

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>
Information Statements turned around in 5 days (per cent)		87.0	88.0	90.0	90.0	90.0
Total CO2 Emissions (Tonne)	22826.0 ^a	20923.0 ^a	19021.0 ^a	17119.0 ^a	15217.0 ^a	
Recycled water target (per cent)		88.0	90.0	92.0	95.0	100.0
Biosolids reuse (per cent)		86.0 ^a	100.0 ^a	92.0 ^a	97.0 ^a	90.0 ^a
Environmental discharge indicator		100.0	100.0	100.0	100.0	100.0
Drinking water quality indicators - E.coli		100.0	100.0	100.0	100.0	100.0
Drinking water quality indicators - Turbidity		100.0	100.0	100.0	100.0	100.0

Note Data rounded to one decimal place. ^a 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 Western Water's Customer Charter.

Table 3 Proposed and approved GSL events and payment levels

<i>Proposed level of service</i>	<i>Proposed payment</i>
Failure to notify of planned water supply interruption	25
Planned interruptions during peak hours	25
Planned water supply interruption longer than notification given	25
More than three sewer interruptions in 12 months	25
Sewerage spills inside a house not stopped within 1 hour of notification	100

- (a) The Commission proposes to not approve the GSL for Western Water's failure to give notice of planned water supply interruptions. The obligation to give notice of planned water supply interruptions already exists under the current Customer Service Code and businesses cannot pay to relieve their obligations.

- (b) The Commission suggests that Western Water considers increasing the value of their GSL payments (\$25) for the below events. Furthermore, the Commission seeks public comment on the business's proposed payment levels.
- (i) Planned interruptions during peak hours
 - (ii) Planned water supply interruption longer than notification given
 - (iii) More than three sewer interruptions in 12 months
- (c) Western Water has also proposed to introduce a GSL for Sewage spills within a house not contained within 1 hour of notification, an event that will attract a payment of \$100. This amount appears low compared to the equivalent payments of \$500 offered by other businesses. A sewerage spill inside a home is generally considered the worst of all possible retail water related events. To ensure that the payment is meaningful to both customers and the business and to maintain consistency with other businesses offering a GSL for this event, the Commission suggests that Western Water increase this payment to \$500 and seeks public comment on the on the businesses' proposed payment levels.
- (d) Western Water should adopt the exclusion relieving the business of the responsibility of providing a GSL rebate where the event was caused by, or is the responsibility, of the customer or a third party.

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	32.31	34.56	37.04	40.06	44.05
Return on existing assets	9.13	8.90	8.66	8.43	8.19
Return on new investments	1.04	2.96	4.43	5.37	6.01
Regulatory depreciation	3.44	4.12	4.66	5.02	5.28
Tax liability	0.45	0.80	1.10	1.43	1.68
Total	46.38	51.34	55.89	60.31	65.21

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	95.19	110.74	122.35
<i>Plus</i> Gross Capital expenditure	25.20	22.47	37.32
<i>Less</i> Government contributions	0.00	3.50	0.00
<i>Less</i> Customer contributions	2.83	1.58	1.67
<i>Less</i> Proceeds from disposals	1.70	0.78	0.93
<i>Less</i> Regulatory depreciation	5.12	4.99	5.46
Closing RAB	110.74	122.35	151.61

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	151.6	181.9	206.7	222.6	229.8
<i>Plus</i> Gross Capital expenditure	38.2	33.4	25.2	16.9	15.9
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	3.6	3.7	3.8	3.9	4.0
<i>Less</i> Proceeds from disposals	0.8	0.8	0.8	0.8	0.8
<i>Less</i> Regulatory depreciation	3.4	4.1	4.7	5.0	5.3
Closing RAB	181.9	206.7	222.6	229.8	235.7

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	32.99	36.44	40.10	45.70	52.02
Revisions and adjustments	-0.68	-1.88	-3.06	-5.64	-7.97
Draft decision – operating expenditure	32.31	34.56	37.04	40.06	44.05

The Commission's assumptions reflect the following adjustments to Western 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>
Reduced bulk water costs from Melbourne Water	-0.18	-0.64	-1.37	-2.49	-4.18
Reduced bulk water costs from SRW	-0.23	-0.24	-0.24	-0.25	-0.26
Cost of supplying water from local sources	-0.33	-0.84	-1.12	-1.71	-2.00
Additional chemicals - water	-0.07	-0.23	-0.31	-0.48	-0.55
Energy cost increases	0.01	-0.16	-0.27	-0.48	-0.57
Computer maintenance	0.00	-0.05	-0.05	-0.07	-0.12
Labour - EBA and EFT	-0.45	-0.23	-0.39	-0.55	-0.66
Class A system	-0.08	-0.10	0.13	-0.13	-0.10
Environmental contribution	0.66	0.61	0.56	0.51	0.47
DHS licence fee	-0.01	-0.01	-0.01	-0.01	-0.01
Total	-0.68	-1.88	-3.06	-5.64	-7.97

- (a) No business revisions were proposed after the submission of the Water Plan.
- (b) The adjustment in bulk water costs from Melbourne Water reflects the difference in price between Western Water's water plan and the Commission's one year price review undertaken at the request of the Minister of Water.
- (c) Southern Rural Water advice to Commission on their bulk water charges differs to that contained in Western Water's water plan. Expenditure has been adjusted to match Southern Rural Water's advice.
- (d) Western Water is planning to source the majority of their water from Melbourne Water (high cost option), additional costs for locally supplied water will not occur if this scenario happens, if increased local treatment occurs there will be reductions in bulk water purchase costs.
- (e) Adjustments to additional chemical costs include the removal of additional costs for locally supplied water, due to the majority of water being sourced from Melbourne Water (SKM section 6).
- (f) Electricity expenditure adjustments reflect SKM's view of electricity prices and consumption during the regulatory period as discussed in section 3 of SKM's expenditure review.
- (g) Increased computer maintenance expenditure linked to business continuity and licence fees was by SKM to be a part of business as usual expenditure and should form part of increased expenditure (SKM section 6).
- (h) 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.
- (i) SKM's review of the Eynesbury Class A system recommended an adjustment to the operational expenditure (SKM section 6).
- (j) 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	38.15	33.38	24.25	16.92	15.88
Draft decision – capital expenditure	38.15	33.38	25.15	16.92	15.88

The Commission’s assumptions reflect the following adjustment to Western 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>
Woodend Recycled Water Plant			0.90		
Total ESC Adjustment			0.90		

Woodend Recycled Water Plant – SKM recommended an additional \$0.9 million to be spent on this project in 2010-11.

Western 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>
Merrimu Water Tank	2009-10
Melton Outfall Sewer	2008-09
Woodend RWP Upgrade	2009-10
Bacchus Marsh RWP	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>
Residential					
Proposed connections	50,145	51,770	53,416	55,371	57,338
Draft decision — connections	50,145	51,770	53,416	55,371	57,338
Non-residential					
Proposed connections	3,791	3,914	4,038	4,186	4,334
Draft decision — connections	3,791	3,914	4,038	4,186	4,334
Total	53,936	55,684	57,454	59,557	61,672
Draft decision — total connections	53,936	55,684	57,454	59,557	61,672

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>
Residential					
Proposed connections	42,133	43,452	44,846	46,390	48,059
Draft decision — connections	42,133	43,452	44,846	46,390	48,059
Non-residential					
Proposed connections	2,626	2,774	2,862	2,961	3,068
Draft decision — connections	2,626	2,774	2,862	2,961	3,068
Total	44,759	46,225	47,708	49,351	51,127
Draft decision — total connections	44,759	46,225	47,708	49,351	51,127

**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 average consumption (kL)	196	206	207	215	214
Draft decision — average consumption (kL)	197	208	210	220	219
Proposed total residential consumption	9,839	10,658	11,057	11,932	12,280
Draft decision — total residential consumption	9,875	10,757	11,228	12,185	12,552

Adjustments to residential water consumption reflect PWC's advice (see the PWC, Assessment of Demand forecast Report):

- (a) to increase Western Water's demand forecasts for reductions in unaccounted for water. Western Water subtracted these savings from its baseline demand. However, PwC commented that while a reduction in unaccounted for water will reduce total demand in providing a given supply to end users, it will not reduce consumption by end users.
- (b) that customers on stage 3 or 4 level restrictions had reduced their discretionary consumption to such a point that price will have little impact on usage. For Western Water price effects were removed in the earlier years of their forecasts in recognition of the high level restrictions forecast to be in place.

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	1,914	2,073	2,151	2,321	2,389
Draft decision – non residential consumption	1,909	2,082	2,172	2,358	2,442

Adjustments to non-residential water consumption reflect PWC's advice (see the PWC, Assessment of Demand forecast Report).

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	11,753	12,731	13,208	14,253	14,669
Draft decision – total consumption	11,785	12,839	13,400	14,543	14,994

Adjustments to total water consumption reflect PWC's advice (see the PWC report) as described above.

11. Form of price control

- (a) The Commission proposes to approve individual price caps Western Water.
- (b) Western 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) Western 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^a
\$ 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	0.04	0.04	0.04	0.04	0.05
Environment Protection Authority	0.07	0.07	0.07	0.07	0.07
Department of Human Services	0.02	0.02	0.02	0.02	0.02

^a 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

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

14. Retail sewerage tariffs

The Commission proposes to approve Western 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 Western 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.
- (b) Western 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 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 proposes to approve Western Water's charge for Class A recycled water supplied to residential customers through reticulated third pipe systems.
- (b) The Commission considers that Western 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 Western 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^a</i>	<i>Category 2^b</i>	<i>Category 3^c</i>
Water	550.00	1,100.00	2,200.00
Sewerage	550.00	1,100.00	2,200.00

^a 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). ^b 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). ^c 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) Western Water did not identify a core set of miscellaneous services in its Water Plan, instead proposing a slightly revised version of its existing schedule.
- (b) In response to this Draft Decision, Western Water is required to submit:
 - (i) a core set of miscellaneous services, which would be expected to generate at least 75 per cent of miscellaneous revenue
 - (ii) proposed prices for core miscellaneous services for 2008-09
 - (iii) a brief definition of each core miscellaneous service, describing the nature of the service provided and the circumstances when the charge will apply.
- (c) The Commission proposes to approve Western Water's proposals for adjusting miscellaneous charges over the regulatory period.