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COLIBAN WATER APPLICATION FOR TARIFF ADJUSTMENT

**DETERMINATION UNDER CLAUSE 4 OF THE 2008
WATER PRICE REVIEW FINAL DECISION: COLIBAN
WATER DETERMINATION**

JUNE 2010

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CONTENTS

KEY ISSUES AND FINDINGS	2
1 INTRODUCTION	3
2 SUMMARY OF COLIBAN WATER'S APPLICATION	5
3 THE COMMISSION'S APPROACH	7
4 ASSESSING THE COLIBAN WATER APPLICATION	9
5 THE COMMISSION'S DECISION ON PRICES	12

KEY ISSUES AND FINDINGS

- The Essential Services Commission has considered the application received from Coliban Water in March 2010 for a review of its tariffs under the uncertain and unforeseen events mechanism of the *2008 Water Price Review Final Decision: Coliban Water* (2008 Determination).
- Based on its assessment of the application, the Commission is satisfied that the materiality of the decline in water demand experienced by Coliban Water (relative to levels projected in 2008) could not have been foreseen.
- The Commission has approved adjustments to Coliban Water's tariffs that:
 - recognise that customers in both the Central and Northern-Rivers pricing zones of Coliban Water should share the cost of the drought
 - support Coliban Water's financial position in 2010-11 reflecting the impact of lower than expected water availability and demand and
 - to the extent possible, maintain consistency with the tariff structures and prices set out in the 2008 Determination
- The Commission has determined that for both the Central and Northern Rivers pricing zones of Coliban Water:
 - The 2008 determination approved variable urban water prices for 2012-13 will be brought forward to 2010-11 (i.e. for residential, non-residential, non-potable, supply by agreement and recycled water customers) and held constant in real terms thereafter
 - Fixed access charges for water will decline by 5 per cent in real terms in 2010-11 and 5 per cent in real terms in 2011-12, and remain unchanged in real terms in 2012-13
- There will be no changes to rural variable water charges or sewerage charges on those approved in the 2008 Determination.
- The Commission's approved price adjustments will increase Coliban Water's revenue by an estimated \$4.9 million in 2010-11, followed by an increase of \$2.9 million in 2011-12.
- The annual bill for a customer using 170 kilolitres of water per year in Coliban's Central pricing zone will increase by nearly \$110 to \$897 in 2010-11. Significantly lower rises are estimated for 2011-12 and 2012-13.
- For a customer consuming 170 kilolitres of water in the Northern Rivers pricing zone the annual bill increases by around \$56 to just under \$740 in 2010-11. Bills rise by significantly lower amounts in 2011-12 and 2012-13.
- For both Central and Northern Rivers residential customers consuming 170 kilolitres of water per year, estimated bills in 2012-13 are lower than what would have prevailed under the 2008 Determination, and below the amounts implied by Coliban Water's pricing proposals.
- The Commission's view is that while immediate adjustment to Coliban's prices is required, the longer term outlook for water demand is positive.

1 | INTRODUCTION

In 2008 the Essential Service Commission approved a five year price path for all regional water businesses, including Coliban Water under clause 8 of the *Water Industry Regulatory Order 2003* (WIRO) and section 33 of the *Essential Services Commission Act 2001* (ESC Act). The prices approved reflect the costs faced by the businesses in delivering services to customers. For Coliban Water, tariffs were scheduled to increase each year to reflect the increasing costs of delivering reliable water services to its customers.

Setting a five year price path is desirable as it provides customers and water businesses with some degree of certainty about future water prices and bills. However in its final decisions for the regional water businesses in 2008, the Commission approved a mechanism to allow the water businesses to apply for a tariff adjustment to respond to the impact of any uncertain or unforeseen events (the uncertain or unforeseen events mechanism).

While the Commission typically has not adjusted approved prices to reflect differences between actual and forecast costs of service provision or demand, the inclusion of the mechanism recognises the large uncertainties associated with the impact of the drought on water availability and demand, and subsequently, the potential impact on the costs and revenues of water businesses.

The Commission has accepted that subject to certain criteria being met, there is a need for a review process to adjust prices during the regulatory period to respond to unforeseen events that impact on business revenues and costs. A review can be initiated by the Commission or requested by the business.

Among other things, the Commission will not approve any applications for price increases that were due to inefficient expenditures or events that should have been foreseen by the business. Under the 2008 Determination any action by the Commission can be deferred for consideration until the next regulatory period.

In practice, increased flexibility to adjust prices means that businesses and customers can increasingly share the risks (both upside and downside) associated with forecasting in an increasingly uncertain environment.

On 10 March 2010 the Commission received an application from Coliban Water for a tariff adjustment (Application) based on lower demand volumes than what was forecast at the time of its 2008 Determination. The Application has been made under clause 4.2 (a) (iii) of the 2008 Determination for Coliban Water (box 1).¹ A copy of the Application is on the Commission's website at www.esc.vic.gov.au.

¹ Essential Services Commission 2008, *2008 Water Price Review Final Decision: Coliban Water Determination*, June.

The purpose and reasons for making this Determination are to:

- (a) respond to the Application made under clause 4 of the 2008 Determination;
- (b) amend the 2008 Determination in accordance with clause 4 of the 2008 Determination;
- (c) facilitate the achievement of the Commission's objectives in the ESC Act and the *Water Industry Act 1994*; and
- (d) reflect the requirements in the WIRO.

This paper sets out the Commission's decision on the application received from Coliban Water. In addition, the paper outlines the Commission's approach and rationale for its decision. It should be read in conjunction with the 2008 Determination for Coliban Water.

The paper proceeds in four main parts:

- Chapter 2 – Summary of Coliban Water's application
- Chapter 3 – The Commission's approach
- Chapter 4 – Assessing the Coliban Water application
- Chapter 5 – The Commission's decision on prices

Box 1 Uncertain and unforeseen events (demand)

4.2. The matters that may, at the discretion of the Commission, be taken into account by the Commission under this clause 4 include ...

(a)(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 Coliban Water in one or more regulatory years during the regulatory period.

Source: Essential Services Commission 2008, *2008 Water Price Review Final Decision: Coliban Water Determination*, June

2 | SUMMARY OF COLIBAN WATER'S APPLICATION

Coliban Water's application for tariff adjustment is based on lower demand than forecast at the time of the 2008 Determination. In its application, Coliban Water explains that ongoing and severe dry conditions, reduced water inflows and the maintenance of water restrictions at levels tighter than those originally anticipated were the main drivers of lower demand. In volume terms, Coliban Water notes that demand was 46 per cent lower than projected in 2008-09 and 23 per cent lower in the first half of 2009-10 (table 1).

Table 1 Forecast and actual water demand (megalitres)

	<i>2008-09</i>	<i>2009-10 (half year)</i>
2008 forecast	31,468	9,269
Actual outcome	17,050	7,185
Per cent difference	-45.8	-22.5

Source: Coliban Water

Demand has also been constrained by the inability of the Bendigo Water Treatment Plant to operate at full capacity when treating water sourced from the Goulburn system via the Goldfields Superpipe (commissioned in 2007). Water sourced from the Superpipe has increased in importance in terms of water availability for key towns serviced by Coliban Water, including Bendigo, as natural inflows to water catchments and catchment levels have remained historically low.

Planned upgrades to the Bendigo Treatment Plant will allow for maximum operating capacity when treating water sourced via the Goldfields Superpipe. The upgrade is expected to be finalised in the period from February to April 2011 which (all other things being equal) should contribute to an easing of water restrictions. Nevertheless, Coliban Water's revised expectations for water demand over the remainder of the regulatory period are lower in comparison to those assumed in the Commission's 2008 Determination.

In its application, Coliban Water notes that the revised assumptions regarding water inflows are conservative.² Coliban Water has assumed average storage inflows for the next three years will be at least the average of the past five years. Coliban Water therefore projects a tighter water restriction policy than what was

² Coliban Water, March 2010, *Application for a tariff adjustment under the uncertain and unforeseen events mechanism*, p.13.

envisaged in 2008. For instance, at the time of the 2008 Determination, permanent water saving rules were expected to be in place for urban customers serviced by the Coliban Northern system (which accounts for the majority of Coliban Water's customer base and revenue) by 2010-11. Coliban Water now expects water restrictions to remain at stage 3GE in 2010-11 for urban customers serviced by the Coliban Northern system before changing to Stage 1 in 2011-12 and 2012-13.

Based on its reassessment of water supply and demand conditions, Coliban Water's application for tariff adjustment projects a shortfall of \$36.9 million (in net present value terms) below its approved revenue requirement over the period from 2008-09 to 2012-13. The majority of the projected shortfall occurs in the first three years of the regulatory period (table 2).

Table 2 Net prescribed revenue (\$2009-10m)

	<i>NPV</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
2008 forecast	358.7	62.1	73.8	87.0	94.0	100.1
2010 forecast	321.7	54.7	64.3	71.2	89.8	95.2
Difference	-36.9	-7.4	-9.5	-15.8	-4.2	-4.9

Source: Coliban Water

Coliban Water is not seeking a change to the revenue requirement approved in the Commission's 2008 Determination. Rather, the application notes that it is seeking to address unforeseen lower demand by increasing its net prescribed revenue by \$10.19 million (in net present value terms) over the remainder of the regulatory period to:

- address the financial viability concerns raised by the Victorian Auditor-General's Office in its 2008-09 audit of water businesses³
- remain within the revenue requirement of the Commission's 2008 determination and
- ensure that interest cover is within the Commission's acceptable limits (i.e. between 1.5 and 3 times).

Coliban Water has taken action to reduce operating expenditures in the first two years of the regulatory period, and has also re-phased some capital works in recognition of lower demand. In order to increase its net prescribed revenue and to meet these objectives, Coliban Water, from 1 July 2010 is applying to the Commission to:

- reduce the three step residential volume allowance from 200 kilolitres per step to 150 kilolitres per step (estimated impact on net prescribed revenue of \$6.8 million over the remainder of the regulatory period in net present value terms)
- bring forward the Central region tariff increases for residential water usage by 12 months and apply the same price increases to the Northern Rivers region, including non-potable supplies (net impact of \$3.4 million) and
- bring forward the reduction in water fixed access charges (net impact of -\$0.5 million).

³ Victorian Auditor General, *Water Entities: Results of the 2008-09 Audits*, November 2009.

3 | THE COMMISSION'S APPROACH

Consistent with the principles of clause 4 of the 2008 Determination, in considering Coliban Water's proposed changes to tariffs the Essential Services Commission must firstly be satisfied that any action is necessary to respond to issues that were unforeseen at the time of the 2008 Determination.

As noted in the 2008 Determination, in considering applications under the uncertain or unforeseen events mechanism the Commission will not take into account matters that:

- are or should be within a water businesses control
- were or should have been known by the water business
- could reasonably have been foreseen by the water business
- should be or should have been planned for or managed by the business and/or
- reflect inefficient expenditure by a business.

Coliban Water's application is based on lower demand volumes than what was forecast at the time of the Commission's 2008 Determination. Under clause 4.2 (a) (iii), the Commission may adjust prices in instances where it is satisfied that there is a material difference between the demand levels assumed at the time of the 2008 Determination and revised demand estimates.

As with all pricing proposals the Commission is required to assess the application from Coliban Water against the principles outlined in the *Water Industry Regulatory Order 2003* (WIRO). This includes estimates of demand, which should be based on the best available information. Demand forecasts must also be developed using appropriate forecasting methodologies and reflect reasonable assumptions about the key drivers of demand for water and water related services.

The Commission must also consider the impact of any price changes approved on customers, and whether Coliban Water has done everything within its control to mitigate the impact of lower demand (e.g. through cost control).

While not the main basis of Coliban Water's application for tariff adjustment, the Commission has assessed the impact of reduced demand on Coliban Water's revenue and financial sustainability; particularly as it relates to its ability to deliver appropriate levels of water related services to customers in the near and long term.

The Commission has taken into account the views of stakeholders received through our own consultation process as well as the consultations undertaken by Coliban Water on its proposed tariff adjustments. This includes the views of

stakeholders received at the public forums held by the Commission in Bendigo and Echuca in May 2010, written submissions and letters to the Commission, as well as further customer consultation documentation provided by Coliban Water.

If the Commission is satisfied that Coliban Water's application satisfies the criteria set out at clause 4 of its 2008 determination, the Commission must then decide whether to approve the proposed changes to prices or alternatively, specify the price adjustments to apply if it is not satisfied that they were calculated or determined consistent with regulatory requirements.

The Commission can do this by amending the 2008 determination or adjusting the prices listed at Schedule 2 of the determination.

Within period reviews – additional principles

Since the 2008 Determination, the Commission has considered additional principles relating to mid-period price review processes.

Without limiting the flexibility of the Commission to address uncertain or unforeseen events on a case by case basis, the Commission believes that any adjustments to tariffs within a regulatory period should be guided by the tariff structures and prices set out in original determinations. If unforeseen circumstances dictate that prices need to be revisited during the five year period, then, as far as the Commission is concerned, this should not be seen as a trigger for major tariff reform.

This recognises that to the extent possible, more substantive adjustments to tariff structures should be considered in the context of the next five year price setting process. When unforeseen circumstances require a review of prices during a five year pricing period, that review should look at the minimum possible adjustment to tariffs to address the problem at hand.

Along with other guidance provided by the Commission, these principles should inform any future applications for tariff adjustments within a regulatory period.

Does Coliban Water's application satisfy the uncertain or unforeseen events criteria?

The Essential Services Commission has determined that Coliban Water's application for tariff adjustment satisfies the Commission's 2008 Determination in terms of when the uncertain or unforeseen events mechanism can be invoked by a water business to apply for an adjustment to its prices.

The Commission agrees that Coliban Water could not have foreseen, back in 2008, the circumstances in which it now finds itself. Low run-offs from local catchments continue to hit new lows that are historically unprecedented. Demand volumes were down by an estimated 46 per cent in 2008-09 on original projections with volumes in 2009-10 also significantly lower than forecast in 2008. The Commission considers that the fall in demand is material.

This has led to tighter water restrictions than originally projected across most of Coliban Water's customer regions, and increased the need for more water to be supplied via the Goldfields Superpipe. This has placed significant pressure on Coliban Water's capacity to treat that volume of water. In response, Coliban Water is upgrading the capacity of the Bendigo Water Treatment Plant.

In allowing Coliban Water's application for tariff adjustment to proceed under the uncertain or unforeseen events mechanism, the Commission has also taken into account actions by Coliban Water to implement efficiency improvements and re-phase some capital works in response to lower than anticipated demand.

In any future assessment of applications from water businesses under the uncertain or unforeseen events mechanism, the Commission will continue to look for evidence that businesses have undertaken appropriate internal action to address any unforeseen deterioration in demand and/or revenues.

Water availability and demand

In considering the prices to apply for the period from 1 July 2010 to 30 June 2013, the Commission has placed particular emphasis on the reasonableness of the water supply and demand estimates provided by Coliban Water.

The updated demand volume forecasts are outlined at table 3. The revisions are consistent with the actual reduction in demand experienced by Coliban Water over the regulatory period to date and also reflect conservative assumptions regarding future water inflows to main storages, albeit with water availability and demand to improve substantially in the final two years of the regulatory period.

Table 3 Water demand forecasts (megalitres)

	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
2008 forecast	38,692	39,073	39,466
2010 forecast	21,910	29,118	29,408
Per cent difference	-43.4	-25.5	-25.5

Source: Coliban Water

Recent augmentations to supply, the upgrade of the Bendigo Water Treatment Plant, as well as relatively strong recent increases in water reserves in main catchments suggest that water restrictions could be eased by more than currently anticipated.

Coliban Water's application also included lower customer numbers than forecast at the time of the 2008 Determination (the revised estimates for customer numbers have generally been lowered in each financial year by more than 1,000 on those estimated in 2008). All other things being equal, the lowering of customer numbers increases the amount prices would need to rise by to increase revenue to the level sought by Coliban Water.

While the Commission has accepted the revised estimates for water volumes, we have not accepted the lower customer numbers proposed by Coliban Water. Any proposed revisions to customer numbers will be addressed by the Commission during the next five year price setting process.

Based on a business as usual scenario (i.e. no changes to prices but using updated water demand forecasts), the revised demand estimates imply a weak financial outcome for Coliban Water in 2010-11 (see table 4). Revenue in 2010-11 would be an estimated \$17 million lower than projected in 2008. Estimated cash flow in 2010-11 would be negative with interest cover at 0.9 times well below the lower bound of the Commission's desirable range (i.e. 1.5 to 3 times). This follows a number of years of relatively large cash losses by Coliban Water.

The outlook for interest cover beyond 2010-11 is relatively positive however, rising to an estimated 1.7 times in 2011-12 and 1.9 times in 2012-13. The projected improvement is underpinned by expectations of stronger demand, reflecting the likelihood of increased water availability and an easing in water restrictions (in part reflecting the impact of upgrades to the Bendigo Water Treatment Plant).

Table 4 **Key financial indicators – estimates**
Business as usual scenario

	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Net prescribed revenue (2009-10 \$m)	72.9	91.5	97.1
Funds from operations/ cash flow (2009-10 \$m)	-2.3	15.5	21.3
Interest cover (times)	0.9	1.7	1.9

Source: Essential Services Commission

5 | THE COMMISSION'S DECISION ON PRICES

The Essential Services Commission has reviewed Coliban Water's forecasts and is satisfied that the materiality of the decline in water demand could not have been foreseen at the time of the Commission's 2008 Determination. The Commission considers that adjusting prices in the current regulatory period is appropriate given recent cash losses recorded by Coliban Water and a weak financial outlook for 2010-11.

The Commission will continue to monitor water availability and demand with a view to ensuring that the price increases approved by the Commission do not result in unwarranted profits for Coliban Water. In doing so, the Commission will ensure that water charges are not higher than needed for Coliban Water to recover its efficient costs of service delivery.

Consistent with the principles outlined in Chapter 3, the Commission is approving adjustments to Coliban Water's tariffs that:

- recognise that customers in both the Central and Northern-Rivers pricing zones of Coliban Water should share the cost of the impact of the drought
- provide support to Coliban Water's financial position in 2010-11 reflecting the impact of lower than expected water availability on demand and revenue
- recognise the upside potential for water availability and demand in the period from 2011-12 to 2012-13 and
- to the extent possible, maintain consistency with the tariff structures and prices set out in the 2008 Determination for Coliban Water.

The Commission has sought to remain as consistent as possible to the five year endpoint for prices set in the 2008 Determination – this is with a view to minimising the impact of price adjustments on Coliban Water's customers in both the Central and Northern price zones.

While we acknowledge the quality of the research and analysis undertaken by Coliban Water in developing its pricing proposal, we consider that some of the changes to tariff structures proposed in its application be considered in the context of the Commission's five year price setting process.

Therefore, the Commission has not approved Coliban Water's proposed changes to the volumes applying to the three step residential tariff, which would have accounted for the majority of the additional revenue sought by Coliban Water.

We have consequently decided on a slightly different approach from the one favoured by Coliban Water in its application for tariff adjustment. However,

wherever possible we have sought to maintain consistency with their longer-term tariff objectives.

The Commission has attempted to meet the expectations of Coliban Water and its customers by shifting more of the average water bill on to variable charges and less on to fixed supply charges. Or to put it another way, over the next three years, customers will have increasingly greater control over their water bills.

Table 5 outlines the approved tariffs which will take effect from 1 July 2010. All other tariffs not listed at table 5 (e.g. sewerage and trade waste) will remain at the levels set in the 2008 Determination. A full schedule of prices (Schedule 2) will be published by Coliban Water and the Commission prior to 30 June 2010, consistent with the process of annual tariff approvals for all water businesses.

In summary, the Commission has determined that for both the Central and Northern Rivers pricing zones of Coliban Water:

- The 2008 determination approved variable urban water prices for 2012-13 will be brought forward to 2010-11 (i.e. for residential, non-residential, non-potable, supply by agreement and recycled water customers) and held constant in real terms thereafter
- Fixed access charges for water will decline by 5 per cent in real terms in 2010-11 and 5 per cent in real terms in 2011-12, and remain unchanged in real terms in 2012-13.

The Commission's view is that given that the basis for Coliban Water's application is reduced demand reflecting low water inflows that price increases should only apply to water services. It is also appropriate that to the extent possible, all customers share the costs of lower demand. The Commission has therefore approved variable water price increases for Coliban Water's non-residential and supply by agreement customers. The Commission has not approved variable price changes for rural customers as this group have been on significantly reduced water allocations for some time.

For recycled water, the Commission has brought forward the 2008 Determination approved variable prices for 2012-13. These will now apply from 2010-11 in order to maintain consistency with other adjustments to variable water tariffs.

However, once water restrictions are eased customers may become less willing to pay for recycled water because of its lower quality than potable water. Variable charges for recycled water should be reviewed by Coliban Water through the remainder of the regulatory period to ensure that customers have sufficient incentive to use recycled water as restrictions are eased.

There will be no changes to rural variable water charges or sewerage charges on those approved in the 2008 Determination. Coliban Water's application did not propose price changes for rural customers on the basis that this group has been on significantly reduced allocations for some time.

Table 5 **Approved changes to tariffs (\$2009-10)**

	<i>2009-10 (actual)</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Water volume charge (per kL)				
Central districts				
- residential step 1	1.34	1.81	1.81	1.81
- residential step 2	1.62	2.18	2.18	2.18
- residential step 3	2.66	3.58	3.58	3.58
- all non-residential	1.47	1.98	1.98	1.98
- agreement	1.47	1.98	1.98	1.98
Northern River districts				
- residential step 1	0.73	0.88	0.88	0.88
- residential step 2	0.90	1.09	1.09	1.09
- residential step 3	1.45	1.76	1.76	1.76
- all non-residential	0.80	0.97	0.97	0.97
- agreement	0.80	0.97	0.97	0.97
Non-potable systems				
- residential step 1	0.60	0.64	0.64	0.64
- residential step 2	0.74	0.78	0.78	0.78
- residential step 3	1.20	1.27	1.27	1.27
- all non-residential	0.67	0.71	0.71	0.71
- agreement	0.67	0.71	0.71	0.71
Recycled Water				
Recycled Access – prices as per water access				
Recycled Variable (Central only)	1.10	1.49	1.49	1.49
Access fees				
- 0 & 20 mm Meter	100.39	95.37	90.60	90.60
- 25 mm Meter	136.98	130.13	123.62	123.62
- 32 mm Meter	233.83	222.14	211.03	211.03
- 40 mm Meter	343.99	326.79	310.45	310.45
- 50 mm Meter	503.81	478.62	454.69	454.69
- 80 mm Meter	1,203.97	1,143.77	1,086.58	1,086.58
- 100 mm Meter	1,881.21	1,787.15	1,697.79	1,697.79
- 150 mm + Meter	3,953.18	3,755.52	3,567.74	3,567.74

Source: Essential Services Commission

Financial and customer impacts

The Commission's approved price adjustments will increase Coliban Water's revenue by an estimated \$4.9 million in 2010-11, followed by an increase of \$2.9 million in 2011-12 (in \$2009-10). This is compared with the business as usual scenario outlined at table 4. In net present value terms, the prices approved by the Commission increases estimated revenue over the three years to 2012-13 by approximately \$7.3 million.

The price changes approved by the Commission will help support a transition by Coliban Water to a projected positive cash flow position in 2010-11 (table 6). While the estimated interest cover for 2010-11 remains below the Commission's desirable lower bound, over the final two years of the regulatory period interest cover is projected to be above 1.5 times (i.e. within the Commission's desirable range).

Table 6 **Key financial indicators – estimates**
Based on Commission approved prices

	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Net prescribed revenue (2009-10 \$m)	77.8	94.4	97.0
Funds from operations/ cash flow (2009-10 \$m)	3.0	19.1	21.8
Interest cover (times)	1.1	1.8	2.0

Source: Essential Services Commission

The Commission has sought to minimise the impact of the approved price changes on customers. Under the prices determined by the Commission, the annual bill (in \$2009-10 and including water and sewerage charges) for a customer using 170 kilolitres of water per year in Coliban Water's Central pricing zone⁴ will increase by nearly \$110 to \$897 in 2010-11. Significantly lower rises of less than \$20 are estimated for 2011-12 and 2012-13 (table 7).

For a customer consuming 170 kilolitres of water in the Northern Rivers pricing zone⁵ the annual bill (in \$2009-10) increases by around \$56 to just under \$740 in 2010-11. Bills rise by significantly lower amounts in 2011-12 and 2012-13.

For both Central and Northern Rivers residential customers consuming 170 kilolitres of water per year, bills in 2012-13 are lower than what would have prevailed under the 2008 Determination, and below the bill amounts implied by Coliban Water's pricing proposals as outlined in its application for tariff adjustment.

⁴ The Central pricing zone covers towns including Bendigo, Castlemaine and Kyneton.

⁵ The Northern Rivers pricing zone covers towns including Echuca and Leitchville.

The price changes approved by the Commission will also impact on the water bills of non-residential (commercial) customers. The annual water and sewerage bill in 2010-11 for a commercial user in the Central pricing zone using around 750 kilolitres per year with a meter size of 50 mm will be around \$3,550; up from \$3,300 or 8 per cent on the amount implied at the time of the Commission's 2008 Determination (this excludes trade waste charges).

Table 7 Estimated annual residential customer bill for water and sewerage (\$2009-10)
Based on consumption of 170 kilolitres per year

	2009-10	2010-11	2011-12	2012-13	Ave. 2009-10 to 2012-13
Central					
ESC 2010 amended prices	788	897	912	932	882
Coliban proposal	788	879	921	941	882
ESC 2008 approved prices	788	848	894	933	866
Northern Rivers					
ESC 2010 amended prices	683	740	754	774	738
Coliban proposal	683	746	777	797	751
ESC 2008 approved prices	683	726	753	776	734

Source: Essential Services Commission and Coliban Water

As noted above, the price changes approved by the Commission will provide customers with more control over their water charges (i.e. excluding fixed sewerage fees) by increasing the proportion accounted for by variable usage charges (assuming constant consumption).

In 2008-09 for households consuming 170 kilolitres of water per year, fixed water charges accounted for 37 per cent of the total annual water charges for customers in Coliban Water's Central price zone. Under the Commission's approved prices, this will decrease to 23 per cent by 2011-12 (table 8).

For the Northern pricing zone, fixed charges accounted for around 48 per cent of total annual water charges for a customer consuming 170 kilolitres of water per year in 2008-09. This will decrease to an estimated 35 per cent in 2011-12.

The Commission recognises that affordability will be an issue for particular customer groups, such as low income and vulnerable groups. Coliban Water has outlined to the Commission an extensive approach to address affordability issues. This includes providing customers with alternative payment arrangements,

promoting Victorian Government Utility Relief Grants (increased funding was provided in the 2010-11 by the State Budget) and working with welfare agencies.

While the Commission has determined new variable water prices for non-residential customers in 2010-11 and 2011-12, Coliban Water at its discretion may enter into separate agreements with commercial users to take into account significant adverse impacts on water bills.

Table 8 **Residential water charges (\$2009-10)**
Based on consumption of 170 kilolitres per year


	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Central				
Fixed water access	100	95	91	91
Variable water	228	307	307	307
Total water	329	402	397	397
<i>Fixed as per cent of total</i>	<i>31</i>	<i>24</i>	<i>23</i>	<i>23</i>
Northern Rivers				
Fixed water access	100	95	91	91
Variable water	124	166	166	166
Total	224	262	257	257
<i>Fixed as per cent of total</i>	<i>45</i>	<i>36</i>	<i>35</i>	<i>35</i>

Source: Essential Services Commission

This Determination is made by the Commission under clause 4 of the 2008 *Water Price Review Final Decision: Coliban Water*, clause 8 of the WIRO and clause 33 of the ESC Act. The Essential Services Commission has determined that the prices listed at table 5 will be the amended prices that will be incorporated into Schedule 2 of the 2008 Determination.

Date: // June 2010





Dr Ron Ben-David

Chairperson