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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
YARRA VALLEY WATER

APRIL 2013

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YARRA VALLEY WATER

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, Yarra Valley Water should by 20 May 2013 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2013 that reflects:
 - (i) the revised revenue requirement set out in table 3
 - (ii) the revised demand forecasts set out in tables 14–21 and
 - (iii) any tariff structure changes suggested by the Commission.

- (b) its proposed desalination adjustment factor, including sufficient information on how these adjustments would apply to specific tariffs or charges.
- (c) a revised service standard target for 'Average time taken to attend bursts and leaks (priority 3)' that is consistent with the business's five year historical performance, or further explanation justifying why the business believes it will be unable to match the historical average over the third regulatory period.
- (d) updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.

In response to this draft decision, Yarra Valley Water should by 10 May 2013 resubmit:

- a) the New Customer Contribution Charges (NCCs) proposal with specific actions required by the Commission set out in section 16.
- b) the Backlog Sewerage Scheme Charge proposal set out in section 17.

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 2013-14 to 2017-18 as part of its final determination.

3. Service standards

Table 1 below summarises the targets for each of the core service standards proposed in Yarra Valley Water's Water Plan.

Table 1 Approved service standards

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Water						
Unplanned water supply interruptions (per 100km)	56.7	56.7	56.7	56.7	56.7	56.7
Average time taken to attend bursts and leaks (priority 1) (minutes)	30.6	32.8	32.8	32.8	32.8	32.8
Average time taken to attend bursts and leaks (priority 2) (minutes)	43.0	44.7	44.7	44.7	44.7	44.7
Average time taken to attend bursts and leaks (priority 3) (minutes)	415	453.4	453.4	453.4	453.4	453.4
Unplanned water supply interruptions restored within 5 hours (per cent)	97.2	96.3	96.3	96.3	96.3	96.3
Planned water supply interruptions restored within 5 hours (per cent)	99.2	99.2	99.2	99.2	99.2	99.2
Average unplanned customer minutes off water supply (minutes)	24.0	24.2	24.2	24.2	24.2	24.2
Average planned customer minutes off water supply (minutes)	7.4	7.4	7.4	7.4	7.4	7.4
Average frequency of unplanned water supply interruptions (number)	0.24	0.24	0.24	0.24	0.24	0.24
Average frequency of planned water supply interruptions (number)	0.05	0.06	0.06	0.06	0.06	0.06
Average duration of unplanned water supply interruptions (minutes)	100.3	104.4	104.4	104.4	104.4	104.4

Continued...

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Average duration of planned water supply interruptions (minutes)	144.6	145	145	145	145	145
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	334.6	335	335	335	335	335
Unaccounted for water (per cent)	12.1	10	10	10	10	10
Sewerage						
Sewerage blockages (per 100 km)	41.2	41.2	41.2	41.2	41.2	41.2
Average time to attend sewer spills and blockages (minutes)	40.0	52.8	52.8	52.8	52.8	52.8
Average time to rectify a sewer blockage (minutes)	193.6	196.3	196.3	196.3	196.3	196.3
Spills contained within 5 hours (per cent)	99.6	97.7	97.7	97.7	97.7	97.7
Customers receiving more than 3 sewer blockages in the year (number)	16.0	14.8	14.8	14.8	14.8	14.8
Customer Service						
Complaints to EWOV (per 1000 customers)	n.a.	0.76	0.76	0.76	0.76	0.76
Telephone calls answered within 30 seconds (per cent)	n.a.	77	77	77	77	77

The Commission proposes to approve the targets for all of the standards summarised in table 1 with the exception of the target set for 'Average time taken to attend bursts and leaks (priority 3)'. In response to this draft decision, Yarra Valley Water is required to either provide adequate reasoning for deviating from the five year average in setting its targets for this standard or amend it to reflect the five year average.

4. Guaranteed service level scheme

The Commission proposes to approve the GSL events and payment levels proposed by Yarra Valley Water (table 2).

Table 2 **Draft decision on GSL events and payment levels**

<i>Proposed GSL event</i>	<i>Proposed payment (\$)</i>
Water	
Unplanned interruptions not restored within four hours of notification	50
Give at least 3 days" notice of a planned water interruption	50
Interruptions	
More than five unplanned interruptions in any 12 month period	50
Planned interruption during peak hours (5qm -9am and 5pm – 11pm)	50
Planned interruption longer than advised	50
Planned interruption longer than five hours	50
Sewerage	
More than three interruptions in any 12 month period	100
Interruptions not restored within four hours	100
Spills not contained within four hours	1 000
Spills in a house not contained within one hour of notification	1 000
Hardship	
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours (as defined by the Essential Services Commission) to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	300

5. Revenue requirement

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

Table 3 **Breakdown of revenue requirement**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Operating expenditure	691.0	684.6	681.9	679.2	677.1
Return on existing assets	152.2	148.3	145.1	142.2	139.3
Return on new investments	4.8	14.2	23.3	32.1	40.6
Regulatory depreciation	96.5	82.5	73.6	78.7	81.6
Tax liability	7.8	5.6	4.4	5.3	6.1
Total	952.3	935.1	928.3	937.4	944.7

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2008 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2011-12 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 4.

Table 4 **Updated regulatory asset base**
\$m 2012-13

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	2 427.5	2 555.0	2 778.9	2 933.9
<i>Plus</i> Gross Capital expenditure	199.5	300.9	239.4	242.9
<i>Less</i> Government contributions	2.9	1.1	0.6	4.7
<i>Less</i> Customer contributions	13.3	20.0	30.8	31.3
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.1
<i>Less</i> Regulatory depreciation	55.7	55.9	53.0	50.5
Closing RAB	2 555.0	2 778.9	2 933.9	3 090.2

The regulatory asset base as at 1 July 2012 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2012-13 to 2017-18 period less any approved allowance for regulatory depreciation. These rolled forward values are shown in table 5.

Table 5 **Rolled forward regulatory asset base**
\$m 2012-13

	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Opening RAB	3 090.2	3 285.9	3 396.3	3 518.8	3 647.2	3 769.2
<i>Plus</i> Gross capital expenditure	268.3	234.6	233.6	227.8	226.6	224.5
<i>Less</i> Government contributions	0.0	2.3	3.2	0.0	0.0	0.0
<i>Less</i> Customer contributions	16.8	24.5	24.5	24.5	24.5	24.5
<i>Less</i> Proceeds from disposals	0.9	0.9	0.9	1.3	1.5	1.5
<i>Less</i> Regulatory depreciation	54.9	96.5	82.5	73.6	78.7	81.6
Closing RAB	3 285.9	3 396.3	3 518.8	3 647.2	3 769.2	3 886.0

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all greater metropolitan water businesses. The table below outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

Table 6 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 (gearing)</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>per cent</i>	β	<i>per cent</i>	<i>per cent</i>	<i>per cent</i>	γ	<i>per cent</i>
0.679 – 1.023	0.65	6.0	3.03 – 4.53	60	0.5	4.7

8. Operating expenditure

The Commission has taken the following approach in assessing the total prescribed operating expenditure for the next regulatory period (table 10).

Total prescribed operating expenditure comprises:

- total controllable operating expenditure, adjusted to remove non-recurrent expenditure and to allow for new initiatives or obligations to the business's baseline year 2011-12 (table 7)
- bulk water charges adjusted by the Commission (table 8) and
- regulatory charges (table 9).

Table 7 shows the Commission's proposed:

- business-as-usual (BAU) allowance, incorporating both growth and the productivity efficiency requirement
- allowance (or reduction) for each of Yarra Valley Water's proposed new expenditure initiatives or obligations.

Together these comprise the total recommended controllable operating expenditure.

Table 7 **Allowance for controllable operating expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Baseline BAU expenditure	128.90	129.28	129.67	130.06	130.45
<i>New initiatives or obligations</i>					
Water conservation	1.70	1.70	1.70	1.70	1.70
Water mains cleaning	0.00	0.00	0.00	0.00	0.00
Backflow prevention	0.00	0.00	0.00	0.00	0.00
Integrated sewage quality management for trade waste	0.00	0.00	0.00	0.00	0.00
Enhanced nutrient removal at sewage treatment plants	0.00	0.00	0.00	0.00	0.15
Recycled water compliance and cross connection prevention	0.00	0.00	0.00	0.00	0.00
Increased energy costs	0.49	0.51	0.42	0.43	0.44
Labour costs above CPI	0.00	0.00	0.00	0.00	0.00
IT (licences, support and maintenance)	0.00	0.00	0.00	0.00	0.00
Operation & maintenance of asset infrastructure	0.10	0.17	0.17	0.21	0.36
Customer contacts	0.00	0.00	0.00	0.00	0.00
Debt collection	0.00	0.00	0.00	0.00	0.00
Bill payment costs	0.00	0.00	0.00	0.00	0.00
Merchant service fees	0.00	0.00	0.00	0.00	0.00
Bill generation costs	0.00	0.00	0.00	0.00	0.00
Metering	0.00	0.00	0.00	0.00	0.00
Supporting customers in hardship	0.00	0.00	0.00	0.00	0.00
Hardship initiative – water audit and retrofit program	0.15	0.15	0.15	0.15	0.15
Opex that declines annually	0.00	0.00	0.00	0.00	0.00
Additional sewerage costs	0.00	0.00	0.00	0.00	0.00
Unfunded superannuation liability	0.46	0.35	0.00	0.00	0.00
Price rise impact assistance	1.96	0.00	0.00	0.00	0.00
Total new initiatives or obligations	4.86	2.87	2.44	2.49	2.80
Total recommended controllable operating expenditure	133.76	132.16	132.11	132.55	133.25

- (a) PwC agrees with Yarra Valley Water's forecast for water conservation expenditure on the basis of its customer willingness to pay surveys (see section 4.4.2 of PwC's expenditure review). Note that the 2011-12 amount for water conservation was removed from the baseline BAU, and the allowance here is a slightly lower amount, representing an overall reduction in water conservation expenditure by Yarra Valley Water.
- (b) PwC agrees with Yarra Valley Water's proposed increased costs for enhanced nutrient removal at sewage treatment plants, because of increasing standards for 'licensed point source discharges with approved mixing zones' (see section 4.4.2 of PwC's expenditure review).
- (c) PwC recommended the allowance for increases in energy price be allowed in line with the Commission's guidance to allow for the impact of the carbon tax (see section 4.4.2 of PwC's expenditure review).
- (d) Adjustments were made to account for labour costs over the next regulatory period in line with the Commission's guidance and the government's wages policy (see section 4.4.2 of PwC's expenditure review).
- (e) PwC identified a number of minor items for which Yarra Valley Water proposed additional expenditure over the period that were not considered to be sufficiently material or unique to suggest they could not be funded through business-as-usual expenditure (see section 4.4.2 of the expenditure review). Forecast expenditure for these items has been removed, as it is considered expenditure that does not qualify as a new initiative or obligation.
- (f) PwC recommended operation and maintenance of asset infrastructure expenditure be increased above the amount requested by Yarra Valley Water to maintain the extensive capital works programs that have occurred in recent years and to account for customer growth (see section 4.4.1 of PwC's expenditure review).
- (g) Hardship initiative – water audit and retrofit program – PwC recommended that Yarra Valley Water's proposed expenditure be allowed, based on the results of Yarra Valley Water's customer willingness to pay surveys (see section 4.4.2 of PwC's expenditure review).
- (h) Additional expenditure was recommended, based on actuarial advice for unfunded superannuation liability payments (see section 4.4.2 of PwC expenditure review).

- (i) PwC recommended an adjustment be made to remove Yarra Valley Water's additional 'operating expenditure that declines annually' proposal as it was not clearly justified (see section 4.4.2 of PwC's expenditure review).
- (j) The Commission has allowed an additional amount for Yarra Valley Water to assist customers in managing the impact of the proposed price increases for the first year of the period. (This replaces Yarra Valley Water's proposal for supporting customers in hardship.)

The Commission has used the following estimates for bulk water charges to estimate prices, revenue, expenditure and bills for the purposes of the draft decision.

Table 8 Bulk charges
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Business proposed	556.5	552.4	550.4	547.9	545.7
Commission's estimate	527.2	523.3	521.3	518.9	516.8
Bulk charges adjustment	-29.3	-29.1	-29.1	-29.0	-28.9

The Commission has adjusted licence fees to reflect its own projections and advice provided by EPA Victoria and the Department of Health. The environmental contribution payable to the state government has also been adjusted to reflect advice provided by the Department of Sustainability and Environment.

Table 9 Regulatory charges
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Environmental contribution	29.06	28.26	27.48	26.73	25.99
Essential Services Commission	0.62	0.62	0.62	0.65	0.75
Department of Health	0.25	0.25	0.25	0.25	0.25
EPA Victoria	0.07	0.07	0.07	0.07	0.07
Draft decision – total regulatory charges	30.0	29.2	28.4	27.7	27.1

Table 10 **Operating expenditure adjustment summary**
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Total recommended controllable operating expenditure	133.76	132.16	132.11	132.55	133.25
Estimated bulk charges	527.2	523.3	521.3	518.9	516.8
Total regulatory charges	30.0	29.2	28.4	27.7	27.1
Draft decision – total prescribed operating expenditure	691.0	684.6	681.9	679.2	677.1
Business proposed total prescribed operating expenditure ^a	721.4	717.1	714.5	711.0	709.2
Total prescribed operating expenditure adjustment	-30.4	-32.5	-32.6	-31.8	-32.1

^aThis is the amount requested by Yarra Valley Water in its Water Plan.

9. Capital expenditure

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

Table 11 **Proposed and approved capital expenditure assumptions**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed capital expenditure	234.6	233.6	227.8	226.6	224.5
Draft decision – capital expenditure	234.6	233.6	227.8	226.6	224.5

The Commission's assumptions reflect the following adjustments to Yarra Valley Water's proposed capital expenditure:

Table 12 **Adjustments to capital expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
No adjustments	0.0	0.0	0.0	0.0	0.0

Yarra Valley Water has identified the following key capital projects that it proposes to deliver during the regulatory period.

Table 13 Key capital projects

	<i>Expected completion date</i>
Water reticulation pipe renewal program	2013-14 to 2017-18
Water distribution main renewal program	2013-14 to 2017-18
House connection branch renewal program	2013-14 to 2017-18
Sewer renewal program (main, branch and reticulation)	2013-14 to 2017-18
Sewer capacity upgrades	2013-14
Epping branch sewer tunnel	2020
Amaroo branch sewer	2017
Lockerbie branch sewer	2018
Warrandyte North sewerage project	2013-14
Donvale sewerage project	2015-16

10. Demand forecasts

The Commission has used the following assumptions about demand for various services over the regulatory period.

The Commission's assumptions reflect Yarra Valley Water's revised submission of residential and non-residential water volumes. The Commission has also revised Yarra Valley Water's residential and non-residential sewage volumes to reflect these changes.

Table 14 Number of water connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	623 700	633 420	643 280	652 850	662 130
Draft decision – connections	623 700	633 420	643 280	652 850	662 130
Non-residential					
Proposed connections	41 930	42 610	43 300	43 980	44 630
Draft decision – connections	41 930	42 610	43 300	43 980	44 630
Proposed – Total connections	665 630	676 030	686 580	696 830	706 760
Draft decision – total connections	665 630	676 030	686 580	696 830	706 760

Table 15 Number of sewerage connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	601 000	610 840	620 890	630 780	640 440
Draft decision – connections	601 000	610 840	620 890	630 780	640 440
Non-residential					
Proposed connections	39 590	40 300	41 010	41 720	42 400
Draft decision – connections	39 590	40 300	41 010	41 720	42 400
Proposed – Total connections	640 590	651 140	661 900	672 500	682 840
Draft decision – total connections	640 590	651 140	661 900	672 500	682 840

Table 16 **Residential water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed average consumption – Water Plan (kL)	158	155	154	152	150
Draft decision – average consumption (kL)	161	159	157	155	153
Proposed total residential consumption	98 494	98 446	98 884	99 106	99 385
Draft decision – total residential consumption	100 464	100 415	100 862	101 088	101 373

Table 17 **Non-residential water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential consumption – Water Plan	25 005	24 736	25 129	25 090	25 169
Draft decision – non-residential consumption	25 505	25 231	25 632	25 592	25 672

Table 18 **Total water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total consumption	123 499	123 182	124 013	124 196	124 554
Draft decision – total consumption	125 969	125 646	126 494	126 680	127 045

Table 19 **Residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total residential usage	69 648	69 777	70 266	70 612	71 003
Draft decision – total residential usage	75 348	75 311	75 646	75 816	76 029

Table 20 **Non-residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential usage – Water Plan	12 816	12 911	13 073	13 150	13 245
Draft decision – non-residential usage	13 072	13 169	13 335	13 413	13 509

Table 21 **Total sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total usage	82 464	82 688	83 340	83 763	84 248
Draft decision – total usage	88 420	88 480	88 981	89 230	89 539

The Commission requires Yarra Valley Water to resubmit updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.

11. Form of price control

The Commission proposes to approve a revenue cap for Yarra Valley Water with its proposed 2 per cent rebalancing constraint.

Where Yarra Valley Water proposes price changes that result in a material tariff change, the Commission proposes to require the business to consult with

customers. The determinations will require water businesses to provide evidence of customer consultation and a statement about customer impacts and how the business will address those impacts.

12. Retail water tariffs

- (a) The Commission proposes to approve Yarra Valley Water's proposed retail water tariff structure.
- (b) The Commission proposes to approve Yarra Valley Water's proposal to introduce fixed water charges per connected property.

13. Retail sewerage tariffs

- (a) The Commission proposes to approve Yarra Valley Water's proposed retail sewerage tariff structure.
- (b) The Commission proposes to approve Yarra Valley Water's proposal to introduce fixed sewerage charges per connected property.

14. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariff structures proposed by Yarra Valley Water.
- (b) The Commission requires Yarra Valley Water to continue to:
 - (i) include the Commission's trade waste pricing principles in their tariff schedules. All metropolitan water business are required to use the trade waste pricing principles when determining trade waste charges for customer to whom scheduled prices do not apply
 - (ii) consult with trade waste customers before changes to trade waste structures occur.

15. Recycled water

- (a) The Commission proposes to approve Yarra Valley Water’s recycled water pricing 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.
- (b) 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.
- (c) The Commission proposes to approve the recycled water tariffs proposed by Yarra Valley Water for third pipe customers.

16. New customer contributions

Table 22 **New customer contributions charges**
\$2012-13 per connection, by category

	Category					
	1 ^a	2 ^b	3 ^c	4 ^d	5 ^e	6 ^f
Water	500	250	750	2 500	1 250	3 750
Sewerage	500	250	750	2 500	1 250	3 750
Recycled Water	500	250	750	1 300	650	1 950

^a Brownfield (300 – 900 sqm). ^b Brownfield (<300 sqm). ^c Brownfield (>900 sqm). ^d Greenfield (300 – 900 sqm). ^e Greenfield (< 300 sqm). ^f Greenfield (>900 sqm).

- a) The Commission is proposing to approve the manner in which Yarra Valley Water determines its NCC, subject to it taking the following actions:
- (i) Improve the cost-reflectivity of its proposal by assessing how it can present more options for offering more location-specific NCC. If the option is a uniform or combined NCC, then it must demonstrate that there is little material difference in between the NCC calculated for specific locations or services.
 - (ii) Improve the transparency of its NCC proposal by providing maps to show the boundaries of the areas (or towns) within which standard NCC apply, and/or define any threshold that must be met for a NCC to be levied.
 - (iii) Clearly describe the circumstances (that is, the eligibility criteria) under which NCC will be negotiated, and confirm it will apply the core pricing principles when negotiating such NCC.
 - (iv) Consult with other metropolitan water businesses to propose a common timeframe to estimate incremental revenues and incremental operating costs
 - (v) Consult with stakeholders following the draft decision
 - (vi) Make other modelling adjustments:
 - Update calculations of standard NCC with any relevant expenditure adjustments arising from the draft decision.
 - Update calculations of standard NCC with any relevant demand adjustments arising from the draft decision.
 - Review NCC calculations and include tax rates in the model only for the years the business expects to pay tax.
 - Update calculations of standard NCC with the Commission's draft decision on the WACC.
 - (vii) Re-submit a forecast of NCC revenue for each service for each year of the third regulatory period, following changes made in accordance with the above requirements.
- b) Given that the levels of standard NCC are still in the process of consultation with stakeholders, the Commission requires that Yarra Valley Water re-submit its latest standard NCC proposal for the Commission's final decision.
- c) Any revisions to NCC will need to be submitted to the Commission by 10 May 2013. This allows sufficient time to review and consult on the Yarra Valley Water's submission.

17. Backlog Sewerage Charges

The Commission is aware Yarra Valley Water is still consulting on its NCC for new developments. Because it proposes to approve the manner in which Yarra Valley Water calculates this NCC, the Commission requires Yarra Valley Water to resubmit its backlog sewerage charge for the third regulatory period.

18. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Yarra Valley Water.
- (b) All businesses that proposed miscellaneous charges for developers are required to:
 - (i) name all charges relating to developers
 - (ii) explain how these charges relate to NCCs
 - (iii) define the services that will be provided for these charges.

19. Adjusting prices

For the third regulatory period, the Commission proposes to approve an uncertain and unforeseen events mechanism that sets out a process for a reopening of price determinations to account for events that were uncertain or unforeseen at the time of the price review, which the businesses could not control or effectively manage such as:

- unsustainable or unwarranted differences between actual and forecast demand level
- changes in legislative and other government imposed obligations
- catastrophic events (such as fire, earthquake or act of terrorism).

Key features of the mechanism are:

- A water business (by application to the Commission) or the Commission may initiate a reopening.
- Prices can either be raised or reduced as a result of an uncertain or unforeseen event.

- An adjustment to prices may be implemented by the Commission at any time within a regulatory period (and not only on 1 July in any year), or at the end of the regulatory period.
- There will be no nominal thresholds for applications (based on differences between forecast and actual outcomes for expenditure, revenue and demand). However in applying to reopen a decision, the water business will need to demonstrate it does not have the financial resources or operational capacity to manage its exposure.
- The Commission proposes to reserve the discretion to limit the reopening of a determination to a single event, rather than the full suite of factors influencing business costs and revenues where:
 - i. the impact of an uncertain and unforeseen event on business costs or revenues is material, and
 - ii. the effects of which can be isolated with certainty

The Commission will only approve a mid-period price adjustment proposed by a water business, when it is satisfied:

- the event is clearly outside the business's control and not predictable with any confidence
- the business has exhausted all opportunities within its control to mitigate against the circumstances in which it finds itself, including demonstrable reprioritisation of its operating and capital expenditure programs
- customers are not unduly exposed to risk or price fluctuations
- the impact of the event is material, clearly observable and verifiable, and
- the net impact on costs or revenue of all changes that occurred during the period being considered is significant (except in cases where the Commission identifies a material event for which the effects can be isolated).

In determining whether a mid-period price adjustment is appropriate the Commission will focus on the business's ability to absorb the impacts of any event on costs or revenues, with particular emphasis on the business' viability ratios.

Adjusting prices for desalination costs

Yarra Valley Water is required to resubmit its proposal for an adjustment factor for payments made for water ordered from the desalination plant. Their proposal should specify how the price changes will be applied to tariffs.