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2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
COLIBAN 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, Coliban 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 3
 - (ii) the revised demand forecasts set out in Tables 12–16 and
 - (iii) any changes to tariff structure suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in Tables 1–2.

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the service standards to apply for the regulatory period 2008-09 to 2012-13 as part of its Final Determination.

3. Service standards

The Commission proposes to approve each of the service standards proposed in Coliban Water's Water Plan.

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)	28.8	25.0	25.0	25.0	25.0	25.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	28.2	30.0	30.0	30.0	30.0	30.0
Average time taken to attend bursts and leaks (priority 2) (minutes)	113.6	95.0	95.0	90.0	85.0	80.0
Average time taken to attend bursts and leaks (priority 3) (minutes)		1440.0	1440.0	1440.0	1440.0	1440.0
Unplanned water supply interruptions restored within 5 hours (per cent)	97.7	98.0	98.0	98.0	98.0	98.0
Planned water supply interruptions restored within 5 hours (per cent)	95.7	80.0	80.0	85.0	85.0	85.0
Average unplanned customer minutes off water supply (minutes)	11.3	11.4	11.4	11.4	10.8	10.8
Average planned customer minutes off water supply (minutes)	8.3	29.0	29.0	29.0	29.0	29.0
Average frequency of unplanned water supply interruptions (number)	0.0	0.1	0.1	0.1	0.1	0.1
Average frequency of planned water supply interruptions (number)	0.0	0.1	0.1	0.1	0.1	0.1
Average duration of unplanned water supply interruptions (minutes)	114.0	95.0	95.0	95.0	90.0	90.0
Average duration of planned water supply interruptions (minutes)	128.0	290.0	290.0	290.0	270.0	270.0
Number of customers experiencing 5 unplanned	5.3	5.0	5.0	5.0	5.0	5.0

<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>
water supply interruptions in the year (number)						
Unaccounted for water (per cent)	27.0	20.0	20.0	18.0	18.0	15.0
Sewerage						
Sewerage blockages (per 100km)	96.1	80	70	60	50	50
Average time to attend sewer spills and blockages (minutes)	32.7	32.00	32	32	32	32
Average time to rectify a sewer blockage (minutes)	45.7	60	55	50	50	45
Spills contained within 5 hours (per cent)	100.0	99	99	99	99	99
Customers receiving 3 sewer blockages in the year (number)	96.1	4.00	4	4	4	4
Customer Service						
Complaints to EWOV (per 1000 customers)	0.2	0.32	0.3	0.3	0.3	0.3
Telephone calls answered within 30 seconds (per cent)	81.5	85.00	85	90	90	90
Minimum Flow Rates						
	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>	
Flow rate (litres per minute)	20.0	35.0	60.0	90.0	160.0	

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

The Commission has proposed to approve two targets that appear inconsistent with the three year average performance recorded by Coliban Water.

Planned water supply interruptions restored within 5 hours and average duration of planned water supply interruptions

Following an unsatisfactory audit Coliban Water reviewed its interruption (planned and unplanned) statistics and has revised data collection and management. This has led to a revision of both planned and unplanned targets. The adjusted compliance rate within 5 hours is based on the last 7 months statistics.

Coliban Water proposed targets of 80 per cent and 290 minutes for planned water supply interruptions restored within 5 hours and average duration of planned water supply interruptions respectively. The Commission accepts and proposes to approve both targets put forward by the business.

The Commission also notes that Coliban 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>
Total CO2 Emissions (tonne)	n.p.	29500 ^a	28730 ^a	27950 ^a	27170 ^a	26400 ^a
Recycled water target (per cent)	21	64	67	72	73	82
Biosolids reuse (per cent)	n.p.	100	100	100	100	100
Sewer backlog connections and small town schemes (number)	n.p.	0	25	340	0	0
Drinking water quality indicators (per cent)	94.7	97.7	97.7	98.8	98.8	99.4

Note Data rounded to one decimal place. n.p. = Not provided. ^a amended by the business in the lead up to the Draft Decision

4. Guaranteed service level scheme

The business has not proposed to introduce a GSL scheme in the forthcoming period.

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 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	54.66	50.93	50.88	51.02	52.17
Return on existing assets	6.88	6.69	6.49	6.31	6.13
Return on new investments	2.21	5.55	7.48	8.51	9.30
Regulatory depreciation	4.35	6.20	7.23	7.71	8.04
Adjustments from previous period	3.64	3.64	3.64	3.64	3.64
Tax liability	0.00	0.00	0.00	0.00	0.00
Total	71.74	73.01	75.72	77.19	79.27

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect approved capital expenditure 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 value is shown in table 4.

Table 4 **Updated regulatory asset base**
\$ million in January 2007 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	19.98	38.30	67.90
<i>Plus</i> Gross Capital expenditure	22.08	85.14	83.49
<i>Less</i> Government contributions	0.00	52.90	34.63
<i>Less</i> Customer contributions	2.93	1.45	0.95
<i>Less</i> Proceeds from disposals	0.00	0.00	0.00
<i>Less</i> Regulatory depreciation	0.83	1.19	1.48
Closing RAB	38.30	67.90	114.33

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 5 **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	114.3	183.7	217.5	240.6	245.3
<i>Plus</i> Gross Capital expenditure	76.0	42.3	32.9	14.6	25.5
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	2.3	2.3	2.6	2.3	2.3
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	4.4	6.2	7.2	7.7	8.0
Closing RAB	183.7	217.5	240.6	245.3	260.5

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 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</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 7 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	55.19	52.44	51.44	51.15	52.10
Revisions and adjustments	-0.53	-1.51	-0.56	-0.13	0.07
Draft decision – operating expenditure	54.66	50.93	50.88	51.02	52.17

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

Table 8 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>
Goldfields Superpipe (excluding temporary water rights)	0.68	0.63	0.46	0.34	0.32
Temporary water rights for Goldfield Superpipe	-0.36	-1.50	-0.50	0.00	0.00
Epsom-Spring Gully Recycling	-0.80	-0.74	-0.68	-0.61	-0.28
Electricity	-0.37	-0.10	0.02	0.05	0.07
Recycling	-0.19	-0.25	-0.25	-0.25	-0.33
Environmental contribution adjustment	0.51	0.45	0.40	0.34	0.29
DHS licence fee adjustment	-0.002	-0.002	-0.002	-0.002	-0.002
Total	-0.53	-1.51	-0.56	-0.13	0.07

- (a) No business revisions were proposed after the submission of the Water Plan
- (b) Discussions with Coliban Water led to a number of adjustments to the Goldfields Superpipe expenditure. SKM's recommended increases in expenditure for bulk water costs for permanent entitlements and carbon offsets, while expenditure on temporary entitlements has been reduced (SKM section 6)
- (c) Coliban Water advised SKM of revised costings for the Epsom-Spring Valley Recycling and these are reflected in the adjustments to the water plan expenditure (SKM section 6)
- (d) Coliban Water has entered into an electricity contract for the first three years of the regulatory period. Changes in electricity prices have been accepted by SKM and adjustments made to the water plan projections. These adjustments are separate to electricity expenditure components of the Goldfields Superpipe and Epsom-Spring Valley Recycling projects, which utilise the same contract.

- (e) Deferral of the Harcourt recycling scheme to the third regulatory period will result in a reduction in expenditure associated with recycled water (SKM section 6)
- (f) 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 9 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	51.52	44.49	45.74	43.92	28.43
Draft decision – capital expenditure	76.04	42.29	32.94	14.64	25.52

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

Table 10 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>
Rural channel system configuration	-1.00	-3.00	-5.00	-9.00	-2.00
Water Quality Improvement Projects	4.96	10.00			
Leitchville and Gunbower WTP	-0.69	-0.69			
Sewer Improvement Strategy - Bendigo and Echuca Works	-0.7	-0.7	-0.7	-0.7	-2.88
Bulk water purchases	11.50	-3.50	-6.00	-4.00	0.00
Harcourt Valley Recycle water scheme				-14	4
Sewer Pump Station Renewals	1.58	-0.03	-0.03	-0.73	-0.03
Adjustments to Overall capital expenditure program	8.87	-4.27	-1.07	-0.87	-1.99
Total ESC Adjustment	24.51	-2.19	-12.80	-29.30	-2.90

- (a) Rural Channel System Reconfiguration (Coliban Water) – SKM considered that the cost of the project of \$40 million for water savings of 4,000 ML was relatively expensive especially when compared with the expenditure for other water saving options such as the urban leakage reduction program. SKM considered that it would be prudent to reduce the planned level of expenditure for this project, and undertake some of the less expensive components of the project over the next regulatory period. It also considered that further investigations were required to more clearly establish cost effective ways of reducing system losses and/or prioritise the sub-component initiatives within this category of works. Further, SKM noted that the completion of the Superpipe would appear to reduce the need and urgency to undertake the rural channel system reconfiguration works and realisation of the associated water savings less critical. SKM therefore recommended that the forecast expenditure for this project be reduced from \$40 million to \$20 million (SKM, section 6.2).
- (b) Water Quality Improvement Projects – This project was identified by Coliban Water during review process as being deferred from 2007-08 and to be undertaken during the period (SKM, section 6.2).
- (c) Leitchville and Gunbower WTP – Further work carried out by Coliban Water since the submission of the Water Plan, has reduced the forecast expenditure on this project to \$4.381 million (SKM, section 6.2).
- (d) Sewer Improvement Strategy: Bendigo and Echuca Works – SKM considered that the projects were justified however recommended some minor adjustments to expenditure forecasts (SKM, section 6.2).

- (e) Bulk Water purchases – SKM noted that actual purchases in 2007-08 have already exceeded expectations at the time the Water Plan was prepared. SKM therefore recommended an adjustment to reduce the volume of purchases and an acceleration of the proposed rate of purchases, which has resulted in an increase of \$3 million in 2008/09 and 2009-10 and a reduction of \$10 million spread over 2010-11 and 2011-12 (SKM, section 6.2).
- (f) Harcourt Valley Recycling Water Scheme – SKM recommended for expenditure to be spread over 2010-11 and 2012-13 and into the following regulatory period (SKM, section 6.2).
- (g) Sewer Pump Station Renewals – SKM has recommended some minor adjustments to the forecast for sewer pump station renewals (SKM, section 6.2).
- (h) Adjustments to overall capital expenditure program – Coliban Water identified a number of variations to its forecast expenditure due to changes in timing and variation of projects. (SKM, section 6.2)

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

Table 11 Key capital projects

	<i>Expected completion date</i>
Rural channel system configuration	2012-13
Sewer improvement strategy	2012-13
Bulk water purchases	2009-10
Recycled Water scheme	2011-12
Pipelines for potable supply – Bridgewater, Raywood, Sebastian and Goornong	2011-12
Main channel refurbishment	2010-11
Water augmentation for 2013 demand	2012-13
Leitchville and Gunbower water treatment plant	2009-10
Sewer pump stations	2012-13
Sewer improvement strategy – Echuca trunk and reticulation mains	2012-13

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 12 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	58,470	59,414	60,368	61,339	62,323
Draft decision — connections	58,470	59,414	60,368	61,339	62,323
Non-residential					
Proposed connections	7,544	7,635	7,730	7,822	7,915
Draft decision — connections	7,544	7,635	7,730	7,822	7,915
Total	66,014	67,049	68,098	69,161	70,238
Draft decision — total connections	66,014	67,049	68,098	69,161	70,238

Table 13 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	52,105	52,969	54,052	54,843	55,648
Draft decision — connections	52,105	52,969	54,052	54,843	55,648
Non-residential					
Proposed connections	5,571	5,586	5,655	5,690	5,726
Draft decision — connections	5,571	5,648	5,743	5,805	5,867
Proposed — total connections	57,676	58,555	59,707	60,533	61,374
Draft decision — total connections	57,676	58,617	59,795	60,648	61,515

The number of sewerage connections has been adjusted on PWC's advice (see the PWC report).

Table 14 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)	239	250	287	287	287
Draft decision – average consumption (kL)	239	250	287	287	287
Proposed total residential consumption	13,955	14,883	17,348	17,628	17,912
Draft decision – total residential consumption	13,955	14,883	17,348	17,628	17,912

Table 15 Non-residential water consumption
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed non-residential consumption	7,864	8,237	9,287	9,388	9,498
Draft decision – non residential consumption	7,864	8,237	9,287	9,388	9,498

Table 16 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	21,819	23,120	26,634	27,016	27,409
Draft decision – total consumption	21,819	23,120	26,634	27,016	27,409

11. Form of price control

- (a) The Commission proposes to approve individual price caps for Coliban Water.
- (b) Coliban 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) Coliban 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 17.

Table 17 **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	0.05	0.05	0.05	0.05	0.06
Environment Protection Authority	0.16	0.16	0.16	0.16	0.16
Department of Human Services	0.03	0.03	0.03	0.03	0.03

^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

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

14. Retail sewerage tariffs

The Commission proposes to approve Coliban 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 Coliban 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) Coliban 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 is proposing to approve Coliban Water's proposed pricing principles on the basis that they are consistent with the principles below.
- (b) The Commission considers that Coliban 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 Coliban 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 18 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) The Commission proposes to not approve the inclusion of rental charges and grazing licence charges in Coliban Water's core miscellaneous services, as these are non-prescribed services.
- (b) The Commission proposes to not approve the inclusion of debt collection charges in Coliban Water's core miscellaneous services. These are calculated on an actual cost basis and would be better classified as non-core services.
- (c) The Commission proposes to approve all other core miscellaneous services proposed by Coliban Water, including proposed definitions and CPI price increases over the regulatory period.
- (d) In response to this Draft Decision, Coliban Water is required to propose additional core miscellaneous services, so that the core set would be expected to generate at least 75 per cent of miscellaneous revenue.