



Level 2, 35 Spring St
Melbourne 3000, Australia
Telephone +61 3 9651 0222
 +61 1300 664 969
Facsimile +61 3 9651 3688

2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
CENTRAL HIGHLANDS WATER

MARCH 2008

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

1. Purpose of volume II of the draft decision

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

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

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

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

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

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2008 that reflects:
 - (i) the revised revenue requirement set out in Table 4
 - (ii) the revised demand forecasts set out in Tables 13–18 and
 - (iii) any changes to tariff structure suggested by the Commission.
- (b) the guaranteed service levels (GSLs) to apply over the regulatory period consistent with any revisions suggested by the Commission set out in Tables 1–2.

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

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

3. Service standards

The Commission proposes to approve each of the service standards proposed in Central Highlands 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)	36.2	37.1	37.1	37.1	37.1	37.1
Average time taken to attend bursts and leaks (priority 1) (minutes)	45.3	60.0	60.0	60.0	60.0	60.0
Average time taken to attend bursts and leaks (priority 2) (minutes)	207.0	120.0	120.0	120.0	120.0	120.0
Average time taken to attend bursts and leaks (priority 3) (minutes)	263.0	720.0	720.0	720.0	720.0	720.0
Unplanned water supply interruptions restored within 5 hours (per cent)	99.5	98.7	98.7	98.7	98.7	98.7
Planned water supply interruptions restored within 5 hours (per cent)	86.7	87.0	87.0	87.0	87.0	87.0
Average unplanned customer minutes off water supply (minutes)	8.6	18.0 a	18.0 a	18.0 a	18.0 a	18.0 a
Average planned customer minutes off water supply (minutes)	5.0	12.0 a	12.0 a	12.0 a	12.0 a	12.0 a
Average frequency of unplanned water supply interruptions (number)	0.1	0.2	0.2	0.2	0.2	0.2
Average frequency of planned water supply interruptions (number)	0.0	0.1 a	0.1 a	0.1 a	0.1 a	0.1 a
Average duration of unplanned water supply interruptions (minutes)	94.5	120.0	120.0	120.0	120.0	120.0
Average duration of planned water supply interruptions (minutes)	246.9	240.0 ^a	240.0 ^a	240.0 ^a	240.0 ^a	240.0 ^a

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	0.0	0.0	0.0	0.0	0.0	0.0
Unaccounted for water (per cent)	17.2	14.0	12.5	11.0	10.0	10.0
Sewerage						
Sewerage blockages (per 100km)	21.5	32.0	32.0	31.0	30.0	28.0
Average time to attend sewer spills and blockages (minutes)	39.2	60.0	60.0	60.0	60.0	60.0
Average time to rectify a sewer blockage (minutes)	87.0	150.0	150.0	150.0	150.0	150.0
Spills contained within 5 hours (per cent)	100.0	100.0	100.0	100.0	100.0	100.0
Customers receiving more than 3 sewer blockages in the year (number)	0.0	0.0	0.0	0.0	0.0	0.0
Customer Service						
Complaints to EWOV (per 1000 customers)	0.8	0.6 ^a	0.6 ^a	0.6 ^a	0.6 ^a	0.6 ^a
Telephone calls answered within 30 seconds (per cent)	n.p.	86.0	87.0	88.0	89.0	90.0
Minimum Flow Rates						
	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>	
Flow rate (litres per minute)	10.0	25.0	50.0	80.0	130.0	

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

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

The Commission has proposed to approve a target that appears inconsistent with the average performance recorded by Central Highlands Water.

Sewerage blockages (per 100km) & Average time to rectify a sewer blockage

Latest annual and interim data shows a clear upward trend in both the number of sewerage blockages across the Central Highlands Water network and the average time to rectify these blockages. The business anticipates that with warmer weather continuing the increasing trend will continue for average time to rectify a sewer

blockage until the end of June and has proposed a target of 150 minutes and similarly for sewerage blockages with an increased target of 32 blockages per 100km.

In order to achieve both targets, the business has proposed extensive programs for sewer main inspections and tree root clearances, preventative maintenance programs and sewer relining and reconstruction of problem areas for the coming regulatory period.

The Commission accepts Central Highland Water's explanation and further notes that both targets put forward are close to the industry average.

Between 2003-04 and 2005-06, Central Highlands Water reported just one period of data (2005-06). In assessing the service standards proposed the Commission has considered the latest two year average with data from 2006-07.

The Commission also notes that Central Highlands 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>
Recycled water target (per cent)		10.9	12.5	13.2	13.7	15.8
Biosolids reuse (per cent)		100%	100%	100%	100%	100%
Sewer backlog connections and small town schemes (number)		0	0	0	0	0
Environmental discharge indicator (per cent)		100%	100%	100%	100%	100%
Drinking water quality indicators (per cent)		100%	100%	100%	100%	100%

Note Data rounded to one decimal place.

4. Guaranteed service level scheme

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

Table 3 Proposed and approved GSL events and payment levels

<i>Proposed level of service</i>	<i>Proposed payment</i>
Unplanned water supply interruptions in excess of 5 in a 12 month period	25
Unplanned interruptions to sewer service not rectified within 5 hours	25
Sewerage service interruptions not exceeding 3 within a 12 month period	25
Leaking water service not fixed within 5 business days	25
Unplanned interruptions to water supply not rectified within 5 hours	25

- (a) The Commission proposes to approve the GSL events proposed by Central Highlands Water
- (b) The Commission suggests that Central Highlands Water consider increasing the value of their GSL payments from \$25. Furthermore, the Commission seeks public comment on the businesses' proposed payment levels.

5. Revenue requirement

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

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

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	47.17	45.40	47.52	45.51	45.23
Return on existing assets	13.04	12.69	12.38	12.09	11.80
Return on new investments	1.52	3.73	5.12	6.40	7.53
Regulatory depreciation	5.60	7.22	7.71	8.65	9.29
Tax liability	0.00	0.00	0.00	0.00	0.00
Total	67.33	69.04	72.73	72.65	73.84

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 values are shown in table 5.

Table 5 Rolled forward regulatory asset base
\$ million in January 2007 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	76.9	86.7	124.0
<i>Plus</i> Gross Capital expenditure	15.0	71.6	142.7
<i>Less</i> Government contributions	0.1	27.3	42.8
<i>Less</i> Customer contributions	0.8	1.6	1.1
<i>Less</i> Proceeds from disposals	1.0	0.8	0.6
<i>Less</i> Regulatory depreciation	3.3	4.7	5.6
Closing RAB	86.7	124.0	216.5

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

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

Table 6 Updated 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	216.5	260.7	277.8	295.9	310.1
<i>Plus</i> Gross Capital expenditure	52.8	27.1	28.4	25.3	25.2
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	1.9	1.8	1.4	1.4	1.4
<i>Less</i> Proceeds from disposals	1.0	1.0	1.0	1.0	1.0
<i>Less</i> Regulatory depreciation	5.6	7.2	7.7	8.7	9.3
Closing RAB	260.7	277.8	295.9	310.1	323.5

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 7 Real post-tax WACC

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

8. Operating expenditure

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

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

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	43.23	45.82	48.06	45.51	45.47
Revisions and adjustments	3.94	-0.42	-0.55	0.01	-0.24
Draft decision – operating expenditure	47.17	45.40	47.52	45.51	45.23

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

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

<i>Expenditure item</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Superpipe	2.96	-1.52	-1.77	-1.25	-1.25
Electricity (excluding the Goldfields Superpipe)	0.26	0.36	0.43	0.47	0.47
Labour	0.06	0.13	0.26	0.30	0.12
Environmental contribution adjustment	0.67	0.61	0.55	0.49	0.44
DHS licence fee adjustment	-0.001	-0.001	-0.001	-0.001	-0.001
Total	3.94	-0.42	-0.54	0.01	-0.24

- (a) No business revisions were proposed after the submission of the Water Plan
- (b) SKM recommended adjustments to the proposed Superipe expenditure for electricity charges and operational and maintenance costs (SKM section 6)

- (c) Electricity expenditure adjustments reflect changes to consumption and electricity prices. SKM's forecasts of electricity pricing are discussed in section 3 of SKM's expenditure review
- (d) Business as usual labour expenditure was adjusted to reflect a 1.25 per cent real increase in labour rates as discussed in section 3 of the SKM expenditure review
- (e) Advice was received from the Department of Human Service on their licence fees and the Department of Sustainability and Environment on the environmental contribution for the regulatory period. Adjustments were made so operating expenditure reflected the Department's advice (Draft Decision section 4.7)

9. Capital expenditure

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

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

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	53.6	25.5	22.16	20.9	18.3
Draft decision – capital expenditure	52.8	27.1	28.4	25.3	25.2

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

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

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Ballarat Sewer System Upgrade	-1.6	-0.9	-1.4	-1.7	5.5
Goldfields Superpipe – Ballarat Link	12.9				
Blackwood sewerage scheme	-3.9	-3.0	3.1	3.1	
Gordon Sewerage scheme	-2.0	-1.9	2.0	1.4	
Waubra sewerage scheme	-2.0	1.6			
Smythesdale sewerage scheme	-1.9	2.3	2.1		
Avoca water supply upgrade	-2.0	1.1	2.0	0.9	
Landsborough water supply scheme		3.0			
Ballarat South WWTP improvements	-0.2	-0.5	-1.4	0.7	1.4
Total ESC Adjustment	-0.7	1.7	6.3	4.4	6.9

- (a) Ballarat Sewer System Upgrade – SKM recommended that due to some uncertainty with the deliverability with this project to defer some expenditure until the final year of the regulatory period (SKM, section 5.2).
- (b) Goldfields Superpipe – Central Highlands Water identified as part of the review process that some expenditure for the Goldfields Superpipe be shifted from 2007-08 to 2008-09 (SKM, section 5.2).
- (c) Country Towns Water and Sewerage Schemes – SKM considered that while there is an obligation to undertake these works, they are not aware of any requirements concerning timing associated with this obligation. It therefore recommended the deferral of works for Smythesdale, Waubra, Landsborough and Avoca for two years and the towns of Blackwood and Gordon for three years to commence in 2011-12 (SKM, section 5.2).
- (d) Ballarat South WWTP improvements – SKM recommended deferral of some expenditure for this project until the end of the regulatory period (SKM, section 5.2).
- (e) Central Highlands Water has identified the following key capital projects to be undertaken during the regulatory period.

Table 12 Key capital projects

	<i>Expected completion date</i>
Ballarat Sewer System Upgrade	2013-14
Country Town Sewerage Schemes	2009-10
Goldfields Superpipe	2008-09
Plant and vehicle replacement	2012-13
Ballarat North and Creswick WWTP upgrades	2009-10
Water and sewer main replacements	2013-14
Dam safety improvement program	2013-14
Ballarat & Creswick WWTP improvements	2009-10
Beaufort WWTP upgrade and reuse	2013-14
Country Town Water Upgrade Schemes	2009-10

10. Demand forecasts

- (a) The Commission has made the following assumptions about demand for various services over the regulatory period.
- (b) The Commission has adjusted proposed demand forecasts where shaded or otherwise indicated.

Table 13 Number of water connections

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Residential					
Proposed connections	53,853	54,453	55,061	55,674	56,298
Draft decision — connections	53,886	54,772	55,663	56,562	57,465
Non-residential					
Proposed connections	5,230	5,282	5,336	5,390	5,443
Draft decision — connections	5,216	5,302	5,388	5,475	5,562
Total	59,083	59,735	60,397	61,064	61,741
Draft decision — total connections	59,103	60,073	61,051	62,037	63,027

The number of water connections has been adjusted on PWC's advice to increase Central Highlands Water's forecast residential water and non-residential connections to reflect VIF's household growth projections for Central Highlands Water and the strong growth in population and development in general expected for that region. (See the PWC, Assessment of Demand Forecast Report)

Table 14 Number of sewerage connections

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Residential					
Proposed connections	44,924	45,489	46,061	46,642	47,230
Draft decision – connections	45,649	46,399	47,155	47,917	48,681
Non-residential					
Proposed connections	3,683	3,724	3,766	3,808	3,851
Draft decision – connections	3,727	3,788	3,850	3,912	3,974
Total	48,607,	49,213	49,827	50,450	51,081
Draft decision – total connections	49,376	50,187	51,005	51,828	52,656

The number of water connections has been adjusted on PWC's advice to increase Central Highlands Water's forecast residential and non-residential sewerage connections to reflect VIF's household growth projections for the Central Highlands Water and the strong growth in population and development in general expected for that region. (See the PWC, Assessment of Demand Forecast Report)

Table 15 Residential water consumption
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed average consumption (kL)	144	152	169	190	193
Draft decision – average consumption (kL)	144	152	169	190	193
Proposed total residential consumption	7,760	8,272	9,293	10,555	10,850
Draft decision – total residential consumption	7,764	8,320	9,395	10,724	11,075

The adjustments to total residential consumption reflect a larger number of water connections in line with PWC's advice detailed above.

Table 16 Non-residential water consumption
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed non-residential consumption	4,525	4,726	5,117	5,560	5,694
Draft decision – non residential consumption	4,512	4,743	5,167	5,648	5,819

The adjustments to total residential consumption reflect a larger number of water connections in line with PWC's advice detailed above.

Table 17 Total water consumption
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed total consumption	12,284	12,998	14,410	16,115	16,543
Draft decision – total consumption	12,277	13,064	14,562	16,371	16,893

The adjustments to total water consumption reflect PWC's advice on the number of water connections.

Table 18 Total sewage volumes
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed sewage volume	516	521	526	531	537
Draft decision – sewage volume	522	530	538	546	554

The adjustments to total sewage volumes reflect PWC's advice on the number of water connections.

11. Form of price control

- (a) The Commission proposes to approve individual price caps for Central Highlands Water.
- (b) Central Highlands 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) Central Highlands 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 19.

Table 19 **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	0.11	0.06	0.06	0.06	0.06
Environment Protection Authority	0.20	0.20	0.19	0.19	0.19
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 Central Highlands Water's proposed tariff structure on the basis that it is consistent with the WIRO.
- (b) Central Highlands Water is proposing a significant restructuring of tariffs resulting in large price increases for some customers. Central Highlands 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

- (a) The Commission proposes to approve Central Highlands Water's proposed tariff structure on the basis that it is consistent with the WIRO.
- (b) Central Highlands Water should consider amending its price path such that Beaufort customers are subjected to smooth year on year price increases rather than a small decrease followed by a small increase and then three substantial increases.

15. Trade waste charges

- (a) The Commission proposes to approve Central Highlands 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) Central Highlands Water is required to set out and apply specific trade waste pricing principles to apply to those customers for whom scheduled prices do not apply. The principles should be consistent with the following principles:
- (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
 - (ii) the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner
 - (iii) the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the Commission
 - (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
 - (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination
 - (vi) customers should be provided with full details of the manner in which prices have been calculated. Where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

16. Recycled water

- (a) The Commission is proposing to approve Central Highlands Water's proposed pricing principles on the basis that they are consistent with the pricing principles set out below.
- (b) The Commission considers that Central Highlands 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 Central Highlands 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 20 **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

The Commission proposes to approve all core miscellaneous services proposed by Central Highlands Water, including proposed definitions and CPI price increases over the regulatory period.