



Level 37, 2 Lonsdale St
Melbourne 3000, Australia
Telephone +61 3 9032 1300
 +61 1300 664 969
Facsimile +61 3 9032 1303

2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
COLIBAN WATER

MARCH 2013

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COLIBAN 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, Coliban Water should by 2 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 12–18 and
 - iii. any changes to tariff structure suggested by the Commission.
- (c) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in table 1.

- (d) the guaranteed service levels (GSLs) to apply over the regulatory period consistent with any revisions suggested by the Commission set out in table 2.
- (e) the demand adjusted revenue cap or an alternative form of price control to apply over the regulatory period.
- (f) the New Customer Contribution Charges (NCCs) to apply over the regulatory period consistent with any revisions suggested by the Commission.
- (g) pass through mechanisms to apply over the regulatory period consistent with any revisions suggested by the Commission set out in section 18.

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

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

Table 1 **Approved service standards**

<i>Service standard</i>	<i>5yr Avg 2008-13</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)	19.24	20	20	20	20	20
Average time taken to attend bursts and leaks (priority 1) (minutes)	32.34	32	32	32	32	32
Average time taken to attend bursts and leaks (priority 2) (minutes)	86.08	80	80	80	80	80
Average time taken to attend bursts and leaks (priority 3) (minutes)	722.95	1440	1440	1440	1440	1440

Service standard

*5yr Avg 2013-14 2014-15 2015-16 2016-17 2017-18
2008-13*

Unplanned water supply interruptions restored within 5 hours (per cent)	97.95	98	98	98	98	98
Planned water supply interruptions restored within 5 hours (per cent)	100	98	98	98	98	98
Average unplanned customer minutes off water supply (minutes)	15.5	12	12	12	12	11
Average planned customer minutes off water supply (minutes)	0.11	14	14	14	14	14
Average frequency of unplanned water supply interruptions (number)	0.11	0.1	0.1	0.1	0.1	0.1
Average frequency of planned water supply interruptions (number)	0	0.1	0.1	0.1	0.1	0.1
Average duration of unplanned water supply interruptions (minutes)	140.2	120	120	118	115	112
Average duration of planned water supply interruptions (minutes)	31.87	140	140	140	140	140
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	3.8	5	5	5	5	5
Unaccounted for water (per cent)	9.33	15	15	15	15	15
Sewerage						
Sewerage blockages (per 100km)	50.89	53	53	50	45	43
Average time to attend sewer spills and blockages (minutes)	30.86	30	30	30	30	30
Average time to rectify a sewer blockage (minutes)	78.4	80	80	80	80	80
Spills contained within 5 hours (per cent)	99.89	99	99	99	99	99
Customers receiving 3 sewer blockages in the year (number)	0.8	2	2	2	2	2

Service standard

*5yr Avg 2013-14 2014-15 2015-16 2016-17 2017-18
2008-13*

Customer Service

Complaints to EWOV (per 1000 customers)	No Audit Data available	2	2	2	2	2
Telephone calls answered within 30 seconds (per cent)	No Audit Data available	88	90	90	90	90

Note: Data rounded to two decimal places.

4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels in table 2. These guaranteed service levels should be reflected in Coliban Water's Customer Charter.

Table 2 Proposed and approved GSL events and payment levels

<i>Proposed level of service</i>	<i>Proposed payment</i>
More than five unplanned supply interruptions in 12 months	\$50
More than three sewer interruptions in 12 months	\$50
Sewer spill in a house not contained in one hour	\$1000

The Commission proposes to approve the GSL events proposed by Central Highlands Water.

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**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2011-2012</i>	<i>2017-18</i>
Operating expenditure	66.0	66.3	66.9	67.1	66.5
Return on existing assets	18.8	18.3	17.8	17.3	16.8
Return on new investments	0.7	2.1	3.2	4.2	5.2
Regulatory depreciation	10.7	11.5	12.3	13.2	13.9
Total	96.2	98.1	100.3	101.8	102.4

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved actual capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 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>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	80.2	158.7	221.2	241.9	270.3
<i>Plus</i> Gross Capital expenditure	98.7	70.5	29.9	40.4	38.2
<i>Less</i> Government contributions	17.4	0.5	0.0	0.0	1.3
<i>Less</i> Customer contributions	1.1	1.7	1.2	2.7	2.5
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.1	0.1
<i>Less</i> Regulatory depreciation	1.7	5.8	8.0	9.2	9.8
Closing RAB	158.7	221.2	241.9	270.3	294.8

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.

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

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	294.8	404.5	425.0	440.7	454.3	462.8
<i>Plus</i> Gross Capital expenditure	33.1	33.7	29.8	28.7	24.4	28.5
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	2.7	2.6	2.7	2.7	2.7	2.8
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	10.1	10.7	11.5	12.3	13.2	13.9
Closing RAB	315.0	425.0	440.7	454.3	462.8	474.6

Revenue Shortfall

The Commission proposes not to accept Coliban Water’s proposal to include \$89.5 million in its RAB to reflect a revenue shortfall. However, we acknowledge that there is a case to adjust Coliban Water’s revenue requirement on the grounds of financial viability.

Our draft decision has approved a revenue requirement for Coliban Water that will, on the information provided to us, ensure that the business can sustain a financial position that is consistent with the viability requirements of the WIRO (that is, an interest cover ratio averaging near 1.5).

However, we will require Coliban Water to undergo a financial review between the draft and final decisions to assess its financial position independently, in order to provide assurance that an increase in its revenue requirement is justified on grounds of financial viability. We have not had an opportunity to undertake this work prior to our draft decision as Coliban Water has consistently provided insufficient and delayed responses to information requests.

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 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 (gearing)</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>γ</i>	<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 made the following assumptions about operating expenditure forecasts over the regulatory period:

Table 7 Proposed and approved operating 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 operating expenditure	67.3	67.0	67.5	68.4	67.3
Revisions and adjustments	-1.3	-0.7	-0.6	-1.3	-0.8
Draft decision – operating expenditure	66.0	66.3	66.9	67.1	66.5

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

Table 8 Adjustments to operating expenditure
\$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>
Labour	0.04	-0.11	-0.33	-0.19	-0.21
Electricity	0.99	1.00	1.08	1.13	1.19
Defined benefits	-0.18	-0.17	-0.17	-0.16	-0.16
Biosolids reuse	-1.25	-0.65	-0.05	-0.35	-0.50
Water quality	-0.65	-0.60	-0.56	-0.67	-0.47
Contracted services	-0.26	-0.14	-0.51	-1.04	-0.67
Environment Contribution	0.00	-0.01	-0.01	-0.01	-0.01
Licence fees	-0.03	-0.03	-0.03	-0.02	-0.01
Total	-1.33	-0.71	-0.57	-1.32	-0.84

- (a) Adjustments reflect changes to wage rates to make them consistent with the new wage policy. Proposed expenditure associated with increases in FTE's was removed due to insufficient justification provided (section 4.2.1 of Deloitte's expenditure report).
- (b) Adjustments reflect changes to electricity prices and accounts for additional costs inadvertently omitted by Coliban Water in their initial submission (section 4.2.2 of Deloitte's expenditure report).
- (c) Defined benefits expenditure in the next regulatory period was reduced to reflect an annuity payment over 15 years at 5.75 per cent (section 4.2.3 of Deloitte's expenditure report).
- (d) Adjustments reflect Coliban Water's proposal to capitalise \$2.5 million of its original proposed expenditure (section 4.2.4 of Deloitte's expenditure report).
- (e) Adjustments reflect allowing expenditure for the top three priority towns only, with the amount recalculated to reflect the ability to air-scour mains of up to and including 300mm, spread evenly over the next regulatory period (section 4.2.5 of Deloitte's expenditure report).
- (f) Contracted services payments have been reduced because of lack of detailed information provided to support the prudence and efficiency of the proposed expenditure. They were also adjusted to be brought into line with growth and productivity benchmarks based on actual 2011-12 expenditure (section 4.2.7 of Deloitte's expenditure report).
- (g) Adjustments reflect recent advice from the Department of Sustainability and Environment on the environmental contribution for the regulatory period (chapter 6 of volume I of this draft decision).

- (h) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority on their respective licence fees. Also includes the Commission's adjustments on the ESC licence fees (chapter 6 of volume I of this draft decision).

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
\$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	53.6	34.5	30.3	29.0	30.6
Draft decision – capital expenditure	33.7	29.8	28.7	24.4	28.5

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

Table 10 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>
Harcourt rural modernisation project	-23.6	-3.4	0.0	0.0	0.0
Bridgewater and Laanecoore water treatment plant upgrades	0.0	-2.5	-1.3	-0.3	-0.4
Occupational health and safety program	-0.3	-0.4	-0.4	-0.2	-0.1
Heathcote backlog sewerage	4.0	1.6	0.0	-4.0	-1.6
Total ESC Adjustment	-19.9	-4.7	-1.7	-4.5	-2.1

- (a) Harcourt rural modernisation project – Deloitte considered that there is insufficient justification for the backbone component of the project, and no clear evidence of customer willingness to pay for the reticulation system component. Deloitte recommended deferring the expenditure to WP4. It also recommended possible re-including this project in the forecast if Coliban Water can provide evidence of customer willingness to pay for the

reticulation system and the backbone component of the project. However, if this is the case, Deloitte suggested that Coliban Water revisit the system design to ensure that it is appropriate for the number and locations of customers that will participate (section 5.3 of Deloitte's expenditure report).

- (b) Bridgewater and Laanecoorie water treatment plant upgrades – Deloitte recommended removing the allowance proposed in anticipation of changes to the Safe Drinking Water Regulations in 2015 (section 5.7 of Deloitte's expenditure report).
- (c) Occupational health and safety program – Deloitte recommended reducing the forecast expenditure to the average annual spend in the second regulatory period, given uncertainty about the personal access upgrade projects and other minor works (section 5.10 of Deloitte's expenditure report).
- (d) Heathcote backlog sewerage – Deloitte proposed no adjustments to the proposed expenditure but it adjusted the timing of expenditure consistent with Coliban Water's updated proposal (section 5.9 of Deloitte's expenditure report).

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>
Echuca and Cohuna water treatment plant upgrades	2013-14 to 2015-16
Cohuna water reclamation plant refurbishment	2016-17 to 2017-18
Rochester wastewater connection to Echuca	2013-14
Bridgewater and Laanecoorie water treatment plant upgrades	2017-18
Water main renewals program	2013-14 to 2017-18
Heathcote backlog sewerage	2014-15
Occupational, health and safety program	2013-14 to 2017-18
Sewer main renewals program	2013-14 to 2017-18
Coliban main channel	2016-17

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 indicated.

Table 12 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	63 039	64 137	65 254	66 391	67 548
Draft decision – connections	63 039	64 137	65 254	66 391	67 548
Non-residential					
Proposed connections	6 648	6 714	6 780	6 847	6 915
Draft decision – connections	6 614	6 680	6 746	6 812	6 880
Proposed – total connections	69 687	70 851	72 034	73 238	74 463
Draft decision – total connections	69 653	70 817	72 000	73 204	74 428

Table 13 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	55 669	56 639	57 626	58 630	59 651
Draft decision – connections	56 959	57 952	58 961	59 988	61 033
Non-residential					
Proposed connections	5 290	5 342	5 395	5 449	5 502
Draft decision – connections	5 495	5 585	5 678	5 735	5 792
Proposed – total connections	60 959	61 981	63 021	64 078	65 153
Draft decision – total connections	62 454	63 537	64 639	65 723	66 825

Coliban Water resubmitted residential and non-residential sewerage connection forecasts following a query from Frontier Economics. Frontier Economics adopted these revisions because they were consistent with historical growth rates. The Commission agrees with this assessment and proposes to accept Coliban Water's revised forecasts for sewerage connections and sewage volumes.

Table 14 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 (kL)	170	169	168	168	167
Draft decision – average consumption (kL)	164	164	163	162	162
Proposed total residential consumption	10 713	10 839	10 973	11 121	11 277
Draft decision – total residential consumption	10 366	10 492	10 626	10 774	10 930

Table 15 Non-residential water consumption

<i>ML</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential consumption	6 019	6 052	6 084	6 117	6 150
Draft decision – non-residential consumption	5 939	5 972	6 004	6 037	6 070

Table 16 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	16 732	16 891	17 057	17 238	17 427
Draft decision – total consumption	16 305	16 464	16 630	16 811	17 000

Table 17 Non-residential volumetric sewage
KL

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total consumption	936 959	951 950	967 182	982 657	998 379
Draft decision – total consumption	955 792	965 350	975 003	984 753	994 601

Table 18 Trade waste phosphorus volumes
Tonnes

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed – Phosphorus	35	35	35	35	35
Draft decision – Phosphorus	32	36	39	44	48

Coliban Water forecast that Phosphorus volumes would remain stable. Frontier Economics recommended increasing Coliban Water’s forecasts for phosphorus volumes to reflect historical trends (see the Frontier Economics Report).

11. Form of price control

The Commission proposes not to approve Coliban Water’s application for a demand adjusted revenue cap. In response to this draft decision, Coliban Water is required to:

- (a) explain how the additional complexity of the proposed form of price control contributes significantly to achieving Coliban Water’s objective of risk sharing
- (b) explain how it proposes to communicate this proposal to customers, or
- (c) propose an alternative form of price control. If Coliban Water proposes a form of price control that enables price variations, it is also required to propose a rebalancing constraint.

12. Retail water tariffs

- (a) The Commission proposes to approve Coliban Water’s proposed retail water tariff structure.
- (b) Coliban Water is proposing to restructure its three tier inclining block variable tariff to a single tier. Coliban Water should provide further information on how it will inform customers of the change.
- (c) Coliban Water is proposing to consolidate tariffs across its two regions resulting in price increases for northern area customers. Coliban Water should provide information on how it will mitigate negative customer impacts and how it will inform customers of the change.

13. Retail sewerage tariffs

- (a) The Commission proposes to approve Coliban Water's proposed retail sewerage tariff structure.
- (b) Coliban Water is proposing to consolidate fixed sewerage tariffs across its three geographic pricing zones. Coliban Water should provide further information on the manner in which it will inform customers of the changes.

14. Trade waste charges

- (a) The Commission proposes to approve Coliban Water's trade waste tariffs, subject to it including a clearly defined classification structure in its pricing schedules (given Coliban Water proposed to change its trade waste categories).
- (b) The Commission proposes to approve the trade waste tariffs proposed by Coliban Water subject to Coliban Water:
 - (i) including its pricing principles in its price schedule
 - (ii) not charging a trade waste customer a total dissolved solids charge if its treatment plant does not remove or reduce salt from the customer's waste.

15. Recycled water

- (a) The Commission proposes to approve Coliban Water's proposed recycled water tariff structure for residential third pipe schemes.
- (b) The Commission proposes to approve Coliban Water's proposed scheduled charges for non-residential recycled water services.
- (c) The Commission proposes to approve Coliban Water's proposed pricing principles on the basis that they are consistent with the principles below.
- (d) 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.

- (e) 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.

16. New Customer contributions

Table 19 New customer contributions charges
\$2012-13 per lot

Water	\$1 198
Sewerage	\$1 198
Recycled Water	\$599

Subject to Coliban Water amending its NCC proposal consistent with the specific actions required by the Commission described below, the Commission proposes to approve the manner in which Coliban Water's NCC charges are determined.

The Commission requires Coliban Water to:

- (a) Resubmit its spread sheet model used to calculate standard NCC, with incremental operating costs and revenues estimated over 30 years.
- (b) Assess how they can improve the cost reflectivity of its NCC proposal and to present options on offering more location specific NCC. If the option is a uniform or combined NCC then the water business must demonstrate that there is little material difference between NCC calculated for specific locations or services.
- (c) Confirm that all NCC charges have been calculated in accordance the core pricing principles.
- (d) Improve the transparency of its NCC proposal by providing maps to show the boundaries around the areas (or towns) within which standard NCC apply. Or define any threshold that must be met in order for an NCC to be levied.

- (e) Clearly describe the circumstances (i.e. eligibility criteria) under which NCC will be negotiated and confirm that it will apply the core pricing principles when such NCC are negotiated.
- (f) Consult with other water businesses to develop a best practice negotiating framework.
- (g) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- (h) Consult with stakeholders following the draft decision
- (i) Make other modelling adjustments:
 - i. Update calculations of standard NCC with any expenditure adjustments arising from the draft decision
 - ii. Update calculations of standard NCC with any demand adjustments arising from the draft decision
 - iii. Review NCC calculations and only include tax rates in the model only for the years the business expects to pay tax
 - iv. Update calculations of standard NCC with the Commission's draft decision on the Weighted Average Cost of Capital (WACC).
 - v. Resubmit a forecast of NCC revenue for each service for each year of the third regulatory period, following changes made in accordance with the above.

17. Miscellaneous charges

- (a) In response to this draft decision, Coliban Water is required to submit:
 - i. definitions and proposed charges for connection fees, information fees and meter reading fees, if these are not already included in its core set of miscellaneous services.
 - ii. if proposing any miscellaneous charges for developers:
 - o the name all charges relating to developers
 - o explain how these charges relate to NCCs
 - o define the services that will be provided for these charges.
- (b) The Commission proposes to not approve the miscellaneous services charges proposed by Coliban Water because it is not satisfied that the extent of the proposed increases are justified. Coliban Water must provide information on the reasons for its proposed increases in response to this draft decision.

18. Reopening 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:

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

Key features of the mechanism are:

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

- (i) the event is clearly outside the business's control and not predictable with any confidence
- (j) 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
- (k) customers are not unduly exposed to risk or price fluctuations
- (l) the impact of the event is material, clearly observable and verifiable, and

- (m) 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.

Pass through events

Coliban Water proposed to pass through costs associated with expenditure variations arising from changes to the following forecasts:

- (a) Goulburn Murray Water's 2017 pricing determination.
- (b) financial accommodation levy variations.
- (c) environmental contribution (2017 and onwards) variation.
- (d) greenfields capital expenditure it cannot recoup from developers or new customers.
- (e) new taxes.
- (f) significant changes in legislative obligations or licence fees.
- (g) water demand.

The Commission proposes not to approve the pass through events proposed by Coliban Water