



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:
NORTH EAST WATER

MARCH 2013

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NORTH EAST 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, North East 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 12–17 and
 - iii. any changes to tariff structure suggested by the Commission.
 - iv. the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in table 1.

- (b) the New Customer Contribution Charges (NCCs) proposal with specific actions required by the Commission as set out in section 16.

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 below table summarises the targets North East Water has proposed for core service standards for the third regulatory period, either in its Water Plan or in response to subsequent requests for information by the Commission.

Table 1 Proposed service standards

<i>Service standard</i>	<i>Draft decision – service standards</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)	11.91	14	14	14	14	14
Average time taken to attend bursts and leaks (priority 1) (minutes)	16.43	23	23	23	23	23
Average time taken to attend bursts and leaks (priority 2) (minutes)	22.52	23	23	23	23	23
Average time taken to attend bursts and leaks (priority 3) (minutes)	26.1	60	60	60	60	60
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	97.72	98	98	98	98	98
Planned water supply interruptions restored within 5 hours (per cent)	98.44	100	100	100	100	100
Average unplanned customer minutes off water supply (minutes)	9.45	6.2	6.2	6.2	6.2	6.2

<i>Service standard</i>	<i>Draft decision – service standards</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>
Average planned customer minutes off water supply (minutes)	3.03	4	4	4	4	4
Average frequency of unplanned water supply interruptions (number)	0.08	0.1	0.1	0.1	0.1	0.1
Average frequency of planned water supply interruptions (number)	0.03	0.1	0.1	0.1	0.1	0.1
Average duration of unplanned water supply interruptions (minutes)	110.17	95	95	95	95	95
Average duration of planned water supply interruptions (minutes)	96.05	95	95	95	95	95
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	374	375	375	375	375	375
Unaccounted for water (per cent)	8.64	11	11	11	11	11
Sewerage						
Sewerage blockages (per 100km)	11.12	12	12	12	12	12
Average time to attend sewer spills and blockages (minutes)	24.04	24	24	24	24	24
Average time to rectify a sewer blockage (minutes)	138.23	140	140	140	140	140
Spills contained within 5 hours (per cent)	97.79	100	100	100	100	100
Customers receiving 3 sewer blockages in the year (number)	14	30	30	30	30	30
Customer Service						
Complaints to EWOV (per 1000 customers)	No audit data available	0.4	0.4	0.4	0.4	0.4
Telephone calls answered within 30 seconds (per cent)	No audit data available	95	95	95	95	95

Note Data rounded to two decimal places.

Where the proposed service standard target deviated from North East Water's actual three year average performance or did not appear to make sense, the Commission sought further information from the business.

The Commission proposes to approve targets proposed for all service standards apart from those listed below. The targets for the following standards deviated from the five-year average and Northeast Water did not provide a reason as to why they will not be able to maintain that level of service on average over the third regulatory period:

- (a) Unplanned water supply interruptions per 100km (number)
- (b) Average time taken to attend bursts and leaks (priority one) (minutes)
- (c) Average time taken to attend bursts and leaks (priority three) (minutes)
- (d) Average planned customer minutes off water supply (minutes)
- (e) Average frequency of unplanned water supply interruptions (number per customer per year)
- (f) Average frequency of planned water supply interruptions (number per customer per year)
- (g) Unaccounted for water (per cent)
- (h) Number of customers experiencing more than three sewer blockages in a year (number).

In response to this draft decision, Northeast Water is required to either provide adequate reasoning for deviating from the five-year average in setting its targets for these standards or amend them to reflect the five-year average.

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 Northeast 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 water interruptions within 12 month period	\$50
Sewage spills in a house not contained within one hour of notification	\$1 000

The Commission proposes to approve the GSL events proposed by Northeast 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>2016-17</i>	<i>2017-18</i>
Operating expenditure	34.6	34.7	34.7	34.7	34.7
Return on existing assets	8.7	8.3	8.0	7.7	7.4
Return on new investments	0.4	1.1	1.6	2.1	2.5
Regulatory depreciation	6.6	6.9	7.3	7.7	8.4
Total	50.2	51.1	51.6	52.2	53.0

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 - urban**
\$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	121.8	137.8	150.1	158.8	167.4
<i>Plus</i> Gross Capital expenditure	22.3	19.3	18.1	18.0	14.1
<i>Less</i> Government contributions	0.3	0.5	1.9	0.4	0.7
<i>Less</i> Customer contributions	0.7	1.1	1.3	1.7	1.4
<i>Less</i> Proceeds from disposals	0.5	0.5	0.5	0.6	0.3
<i>Less</i> Regulatory depreciation	4.8	4.8	5.7	6.7	7.4
Closing RAB	137.8	150.1	158.8	167.4	171.8

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 included \$9.6m into North East Water's 2012-13 regulatory asset base which represents capital works completed for the small town sewerage scheme.

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	181.4	188.0	197.5	203.0	205.4	210.4
<i>Plus</i> Gross Capital expenditure	16.2	18.7	15.0	12.3	15.2	10.9
<i>Less</i> Government contributions	0.3	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	1.5	2.1	2.1	2.1	2.1	2.1
<i>Less</i> Proceeds from disposals	0.0	0.5	0.5	0.5	0.5	0.5
<i>Less</i> Regulatory depreciation	7.9	6.6	6.9	7.3	7.7	8.4
Closing RAB	188.0	197.5	203.0	205.4	210.4	210.4

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7per 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	36.0	36.8	37.7	38.6	39.6
Revisions and adjustments	-1.4	-2.1	-3.0	-3.9	-4.9
Draft decision – operating expenditure	34.6	34.7	34.7	34.7	34.7

The Commission's assumptions reflect the following adjustments to North East 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	-0.7	-1.3	-2.0	-2.7	-3.4
Electricity	-0.5	-0.5	-0.6	-0.7	-0.9
Defined benefits	0.2	0.2	0.2	0.2	0.2
IT	-0.3	-0.3	-0.3	-0.4	-0.4
Operating expenditure from capital projects	0.0	0.0	0.0	0.0	-0.1
Environment contribution	-0.1	-0.1	-0.2	-0.2	-0.3
Licence fees	0.0	0.0	0.0	0.0	0.0
Total	-1.4	-2.1	-3.0	-3.9	-4.9

- (a) Adjustments reflect changes to wage rates (section 4.2.1 of Deloitte's expenditure report).
- (b) Adjustments reflect changes to electricity prices. The cost of green energy in the forecast was disallowed from the forecast because North East Water has not justified this expenditure through a commercial cost-benefit analysis (section 4.2.2 of Deloitte's expenditure report).
- (c) Adjustments reflect recovery of \$1.9 million defined benefit superannuation payments made to Vision Super in 2012-13 (section 4.2.3 of Deloitte's expenditure report).

- (d) IT costs related to software development, GIS and other activities without adequate justification have been removed from the next regulatory period (section 4.2.5 of Deloitte's expenditure report).
- (e) Operating expenditure from capital projects has been adjusted to account for project delays and to maintain consistency with labour and energy cost assumptions (see section 4.2.6 of Deloitte's expenditure review for further details).
- (f) Adjustments reflect recent advice from the Department of Sustainability and Environment on the environment contributions for the next regulatory period (chapter 6 of volume I of this draft decision).
- (g) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority regarding their respective licence fees for the next regulatory period. Also reflects the Commission's adjustments on the ESC licence fees for the next period (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	20.1	16.4	13.6	16.6	12.3
Draft decision – capital expenditure	18.7	15.0	12.3	15.2	10.9

The Commission's assumptions reflect the following adjustments to North East 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>
Water main replacement program	-0.5	-0.5	-0.5	-0.5	-0.5
Sewer above ground asset replacements program	-0.5	-0.5	-0.5	-0.5	-0.5
Water above ground asset replacements program	-0.2	-0.2	-0.2	-0.2	-0.2
Water quality improvement	-0.2	-0.2	-0.2	-0.2	-0.2
Total ESC Adjustment	-1.3	-1.3	-1.3	-1.3	-1.3

- (a) Water main replacement program – Deloitte recommended reducing the proposed expenditure to the historical average, with an additional allowance to replace high risk trunk mains and galvanised iron pipes (section 5.3 of Deloitte's expenditure report).
- (b) Sewer above ground asset replacements program – Deloitte recommended reducing the proposed expenditure to the historical average, subject to receiving further information from North East Water about the criticality of assets identified for replacement (section 5.7 of Deloitte's expenditure report).
- (c) Water above ground asset replacements program – Deloitte recommended reducing the proposed expenditure to the historical average of \$0.60 million per year. Deloitte noted that North East Water has not adequately justified the proposed increase in expenditure for this project (section 5.8 of Deloitte's expenditure report).
- (d) Water quality improvement – Deloitte recommended removing the allowance proposed in anticipation of changes to the Safe Drinking Water Regulations in 2015 (section 5.13 of Deloitte's expenditure report).

North East 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>
Water main replacement program	2013-14 to 2017-18
Sewer main replacement program	2013-14 to 2017-18
Bright water treatment plant	2017-18
Bright off-stream storage	2013-14
Sewer above ground asset replacements program	2013-14 to 2017-18
Water above ground asset replacements program	2013-14 to 2017-18
Yackandandah reclaimed water management	2016-17
Major and minor plant renewals program	2013-14 to 2017-18
Servicing un-serviced communities (small towns)	2014-15
Wangaratta wastewater treatment stage 1 upgrade	2017-18
Water quality improvement projects	2013-14 to 2017-18

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>
Proposed – total connections	47 922	48 489	49 113	49 721	50 339
Draft decision – total connections	47 920	48 589	49 268	49 956	50 653

North East Water assumed that there would be no growth in non-residential connections over the period. The Commission observes that North East Water resubmitted their forecasts on several occasions during the review process and submitted a final set of updated forecasts after Frontier Economics had submitted its final report. The Commission asked Frontier Economics to review the final resubmission, which resulted in Frontier Economics recommending several revisions. The Commission has adopted Frontier Economics' recommendation to revise North East Water's non-residential connections as the Commission believes that the revised growth rates, though not seen by North East Water, represent a more accurate connections forecast than what North East Water presented in their final Water Plan.

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>
Proposed – total connections	43 126	44 237	44 886	45 515	46 161
Draft decision – total connections	43 126	44 237	44 886	45 515	46 161

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 total residential consumption	9 977	10 295	10 631	10 969	11 314
Draft decision – total residential consumption	9 976	10 317	10 664	11 021	11 385

Table 15 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	1 429	1 400	1 371	1 342	1 312
Draft decision – non-residential consumption	1 429	1 400	1 371	1 342	1 312

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	11 406	11 695	12 002	12 310	12 626
Draft decision – total consumption	11 405	11 717	12 035	12 362	12 697

Table 17 **Trade waste volumes**
Tonnes

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed – volume (ML)	847	853	860	863	865
Draft decision – volume (ML)	897	904	911	914	917
Proposed – COD	2 300	2 335	2 371	2 382	2 392
Draft decision – COD	2 712	2 753	2 795	2 808	2 820
Proposed – SS	591	598	605	605	605
Draft decision – SS	809	818	828	828	828
Proposed – TKN	128	129	130	130	130
Draft decision – TKN	135	136	137	137	136
Proposed – P	28	28	28	28	28
Draft decision – P	31	31	31	31	31
Proposed – TDS	1 313	1 333	1 353	1 360	1 367
Draft decision – TDS	1 490	1 512	1 535	1 543	1 551
Proposed – Sodium	180	182	184	184	184
Draft decision – Sodium	217	220	222	222	223

North East Water forecast an unexplained step decline in trade waste volumes for 2012-13. As outlined above, it also submitted several incorrect trade waste figures (actuals and forecast) to both the Commission and Frontier Economics. Frontier Economics recommended amending North East Water's forecasts to remove the decline and forecast growth to continue at the same growth rates forecast by North East Water. Therefore, the Commission proposes to revise North East Water's trade waste volumes.

11. Form of price control

The Commission proposes to approve a hybrid form of price control, whereby:

- (a) it approves price caps for North East Water and
- (b) this businesses may propose to move to a tariff basket at the time of the annual price review within the period.

Where a business proposes to transfer to a hybrid form of price control during the next regulatory period, and where that proposal results 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 (including customer consultative committees) and a statement about customer impacts and how the business will address those impacts.

12. Retail water tariffs

- (a) The Commission proposes to approve North East Water's proposed retail water tariff structure.
- (b) North East Water is proposing to introduce three locational pricing zones for its fixed water charge. North East Water should provide further 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 North East Water's proposed tariff structure.
- (b) North East Water is proposing to reduce the number of geographic pricing zones from ten to four for fixed sewerage tariffs. North East Water should provide further information for mitigating negative customer impacts and how it will inform customers of the change.

14. Trade waste charges

- (a) The Commission proposes to approve North East Water's trade waste tariffs, subject to it including a clearly defined classification structure in its pricing schedules (given North East Water proposed to change its trade waste categories).

- (b) The Commission requires North East Water to continue to include the Commission's trade waste pricing principles in its tariff schedules. North East Water is required to use the pricing principles when determining trade waste charges for customers to whom scheduled prices do not apply.

15. Recycled water

- (a) The Commission considers that North East 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.
- (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.

16. New Customer contributions

Table 18 New customer contributions charges
\$ 2012-13 per lot

Water	2 500
Sewerage	1 900

Subject to North East 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 North East Water's NCC charges are determined.

The Commission requires North East Water to:

- (a) Recalculate and resubmit NCC taking into account incremental operating costs and incremental revenues
- (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 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.
- (j) Consult with stakeholders on appropriate transition arrangements.

17. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by North East Water.
- (b) In response to this draft decision, North East 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.
 - (j) 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.

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

North East Water did not propose any automatic pass through events for the third regulatory period.