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## 2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
SOUTH GIPPSLAND WATER

MARCH 2013

**An appropriate citation for this paper is:**

Essential Services Commission 2013, *2013-18 Water Price Review Draft Decision Volume II: South Gippsland Water*, March.

# SOUTH GIPPSLAND 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, South Gippsland 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 12–16 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 and 2.
- (c) the New Customer Contribution Charges (NCC) 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 South Gippsland 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>
<b>Water</b>						
Unplanned water supply interruptions (per 100km)	24.05	25	25	25	25	25
Average time taken to attend bursts and leaks (priority 1) (minutes)	45.1	30	30	30	30	30
Average time taken to attend bursts and leaks (priority 2) (minutes)	21.35	35	35	35	35	35
Average time taken to attend bursts and leaks (priority 3) (minutes)	374.44	600	600	600	600	600
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	99.51	99	99	99	99	99
Planned water supply interruptions restored within 5 hours (per cent)	98.24	99	99	99	99	99
Average unplanned customer minutes off water supply (minutes)	22.11	30	30	30	30	30
Average planned customer minutes off water supply (minutes)	53.82	100	100	100	100	100

<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 frequency of unplanned water supply interruptions (number)	0.22	0.3	0.3	0.3	0.3	0.3
Average frequency of planned water supply interruptions (number)	0.24	0.4	0.4	0.4	0.4	0.4
Average duration of unplanned water supply interruptions (minutes)	97.56	100	100	100	100	100
Average duration of planned water supply interruptions (minutes)	220.79	250	250	250	250	250
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	0	0	0	0	0	0
Unaccounted for water (per cent)	16.35	16	16	16	16	16
<b>Sewerage</b>						
Sewerage blockages (per 100km)	17.13	18	18	18	18	18
Average time to attend sewer spills and blockages (minutes)	30.32	30	30	30	30	30
Average time to rectify a sewer blockage (minutes)	111.71	120	120	120	120	120
Spills contained within 5 hours (per cent)	100	100	100	100	100	100
Customers receiving 3 sewer blockages in the year (number)	0	0	0	0	0	0
<b>Customer Service</b>						
Complaints to EWOV (per 1000 customers)	No audit data available	1.1	1.1	1.1	1.1	1.1
Telephone calls answered within 30 seconds (per cent)	No audit data available	98	98	98	98	98

**Note** Data rounded to two decimal places.

Where the proposed service standard target deviated from Western 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 South Gippsland 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:

- Average time taken to attend bursts and leaks (priority three) (minutes)
- Average unplanned customer minutes off water supply (minutes)
- Average duration of planned water supply interruptions (minutes).

In response to this draft decision, South Gippsland 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 South Gippsland Water’s Customer Charter.

**Table 2 Proposed and approved GSL events and payment levels**

<i>Proposed level of service</i>	<i>Proposed payment</i>
Unplanned water interruptions not restored within five hours of notification.	\$75
Unplanned interruptions to sewer service not rectified within five hours of notification	\$75
Sewage spill within house caused by business.	\$1000

The Commission proposes to approve the GSL events proposed by South Gippsland 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	16.3	16.2	16.3	15.9	15.7
Return on existing assets	5.2	5.0	4.9	4.7	4.5
Return on new investments	0.2	0.4	0.5	0.6	0.8
Regulatory depreciation	3.2	3.4	3.5	3.6	3.6
Adjustments from last period	0.3	0.3	0.3	0.3	0.3
<b>Total</b>	<b>25.2</b>	<b>25.3</b>	<b>25.5</b>	<b>25.0</b>	<b>24.8</b>

## 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	70.2	75.3	80.6	86.1	94.6
<i>Plus</i> Gross Capital expenditure	9.5	11.0	9.8	14.2	12.2
<i>Less</i> Government contributions	1.2	1.8	0.0	1.1	0.5
<i>Less</i> Customer contributions	0.6	0.4	0.6	0.8	0.6
<i>Less</i> Proceeds from disposals	0.5	0.4	0.5	0.5	0.7
<i>Less</i> Regulatory depreciation	2.2	3.0	3.2	3.4	3.5
<b>Closing RAB</b>	<b>75.3</b>	<b>80.6</b>	<b>86.1</b>	<b>94.6</b>	<b>101.4</b>

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	101.4	113.3	117.5	116.4	114.6	111.9
<i>Plus</i> Gross Capital expenditure	15.9	9.5	7.4	8.9	9.6	9.8
<i>Less</i> Government contributions	0.0	0.3	3.4	5.5	7.0	3.2
<i>Less</i> Customer contributions	0.5	1.2	1.2	1.2	1.2	1.2
<i>Less</i> Proceeds from disposals	0.4	0.6	0.6	0.6	0.6	0.6
<i>Less</i> Regulatory depreciation	3.5	3.2	3.4	3.5	3.6	3.6
<b>Closing RAB</b>	<b>113.0</b>	<b>117.5</b>	<b>116.4</b>	<b>114.6</b>	<b>111.9</b>	<b>113.2</b>

## 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	16.6	16.7	17.1	16.9	17.0
Revisions and adjustments	-0.3	-0.5	-0.8	-1.1	-1.4
<b>Draft decision – operating expenditure</b>	<b>16.3</b>	<b>16.2</b>	<b>16.3</b>	<b>15.9</b>	<b>15.7</b>

The Commission's assumptions reflect the following adjustments to South Gippsland 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	-0.26	-0.45	-0.66	-0.88	-1.10
Electricity	-0.04	-0.04	-0.05	-0.07	-0.09
Living Melbourne Living Victoria	-0.05	-0.05	-0.05	-0.05	-0.05
Defined benefits superannuation costs	0.11	0.10	0.10	0.10	0.09
Chemical costs	-0.03	-0.07	-0.11	-0.15	-0.18
GSLs	-0.04	-0.04	-0.04	-0.04	-0.04
Metering	-0.03	0.00	0.00	0.00	0.00
Desludging	0.11	0.11	0.11	0.11	0.11
Environmental contribution	0.00	0.00	0.00	0.00	0.00
Licence fees	-0.09	-0.09	-0.09	-0.09	-0.09
<b>Total ESC Adjustment</b>	<b>-0.32</b>	<b>-0.53</b>	<b>-0.79</b>	<b>-1.07</b>	<b>-1.35</b>

- (a) Adjustments reflect changes to wage rates (section 4.2.1 of Deloitte's expenditure report).
- (b) Adjustments reflect changes to electricity rates (section 4.2.2 of Deloitte's expenditure report).
- (c) Living Melbourne Living Victoria allowance has been removed because no specific projects have been identified (section 4.23 of Deloitte's expenditure report).
- (d) Defined benefits were adjusted to account for the requirement to make a payment of \$1.07 million to Vision Super by 2013 (section 4.2.4 of Deloitte's expenditure report).
- (e) Adjustments reflect changes to chemical prices and the flat forecasts of water use (section 4.2.5 of Deloitte's expenditure report).
- (f) GSL forecast allowance was reduced to reflect historical GSL payments and proportional administrative costs (section 4.2.6 of Deloitte's expenditure report).
- (g) Adjustments reflect a 2014-15 commencement instead of South Gippsland Water's proposed 2013-14 commencement (section 4.2.7 of Deloitte's expenditure report).
- (h) Adjustments reflect additional costs of \$0.106 million per year associated with sludge removal at Lance Creek (section 4.2.8 of Deloitte's expenditure report).
- (i) 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).
- (j) Adjustments reflect recent advice from the Environment Protection Authority regarding 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	9.8	16.3	19.7	18.0	8.3
<b>Draft decision – capital expenditure</b>	<b>9.5</b>	<b>7.4</b>	<b>8.9</b>	<b>9.6</b>	<b>9.8</b>

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

**Table 10 Adjustments to capital expenditure**  
\$ million in January 2013 prices

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Poowong/Loch/Nyora sewerage scheme	0.00	-8.47	-9.93	-6.66	0.00
Northern towns supply connection works - Lance Creek to Korumburra	-0.02	-0.15	-0.09	-0.02	0.10
Vehicle replacements	-0.09	-0.09	-0.09	-0.09	-0.09
Northern towns supply connection works - Korumburra to Poowong	-0.05	-0.15	-0.59	-1.50	2.61
Reticulation sewer replacement/rehabilitation	-0.05	-0.05	-0.05	-0.05	-0.05
Leongatha wastewater treatment plant- refurbish de-commissioned digestion system	-0.03	0.00	0.00	0.00	0.00
Foster wastewater treatment plant - rising main pipeline and storage	0.00	0.00	0.00	0.00	-1.04
<b>Total</b>	<b>-0.24</b>	<b>-8.91</b>	<b>-10.75</b>	<b>-8.32</b>	<b>1.54</b>

- (a) Poowong/Loch Nyora Sewerage Scheme – Deloitte noted that South Gippsland Water had recently commenced a broader review of wastewater treatment and reclaimed water management options for the scheme, including consideration of regional wastewater treatment in conjunction with South East Water.

The Commission considers the proposed scheme to be costly (about \$40 000 per connection) and has received a submission expressing community concern at the proposal. The Commission supports further examination of potentially more cost-effective options for this sewerage scheme. Given that this review has only just commenced, the Commission proposes to not allow the capital expenditure for this project requested in South Gippsland Water's Water Plan, but will allow \$1.5 million in the first year to support feasibility work exploring further options. Should a project proceed during the period, capital costs can be dealt with either via a pass through mechanism once completed or they can be rolled-in to the regulatory asset base with capitalised interest at the end of the regulatory period (section 5.3 of Deloitte's expenditure report and chapter 7 of volume I of this draft decision).

- (b) Northern towns supply connection works - Lance Creek to Korumburra – Deloitte recommended reducing expenditure to reflect the P50 cost estimates provided by South Gippsland Water (section 5.6 of Deloitte's expenditure report).
- (c) Vehicle replacements – Deloitte considered the forecast expenditure to be high compared with other water businesses with similar service areas. It recommended reducing the forecast expenditure by 10 per cent (section 5.5 of Deloitte's expenditure report).
- (d) Northern towns supply connection works - Korumburra to Poowong – Deloitte recommended revising forecast to reflect the P50 cost estimate provided by South Gippsland Water and deferring the project by one year (section 5.6 of Deloitte's expenditure report).
- (e) Reticulation sewer replacement/rehabilitation – Deloitte recommended reducing the proposed expenditure to the current budget until there is supporting data from the new asset management system to justify an increase (section 5.7 of Deloitte's expenditure report).
- (f) Leongatha WWTP – refurbish de-commissioned digestion system – Deloitte recommended reducing the proposed expenditure to reflect the P50 cost estimate provided by South Gippsland Water (section 5.9 of Deloitte's expenditure report).
- (g) Foster WWTP - rising main pipeline and storage – Deloitte recommended deferring the proposed expenditure until there is greater certainty regarding augmentation requirements (section 5.12 of Deloitte's expenditure report).

South Gippsland 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>
Poowong/Loch Nyora sewerage scheme	2013-14
Northern towns supply connection works-Lance Creek to Korumburra	2017-18
Vehicle replacements	2013-14 to 2017-18
Northern towns supply connection works-Korumburra to Poowong	2017-18
Reticulation sewer replacement/rehabilitation	2013-14 to 2017-18
Water renewals/replacement	2013-14 to 2017-18
Leongatha wastewater treatment plant-refurbish decommissioned digestive system	2013-14
Wonthaggi sewer system upgrades	2013-14 to 2017-18
Environmental obligations	2013-14 to 2017-18
Foster wastewater treatment plant-rising main pipeline and storage	early WP4

## 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	20 626	20 916	21 213	21 511	21 810
<b>Draft decision – total connections</b>	<b>20 636</b>	<b>20 935</b>	<b>21 240</b>	<b>21 545</b>	<b>21 854</b>

In its final Water Plan, South Gippsland Water stated that it assumed historical growth rates for non-residential customers. However, Frontier Economics could not replicate South Gippsland Water's calculation of growth rates for the southern region and recommended revising growth rates to 1.7 per cent (the historical growth rate from 2005-06 to 2011-12). South Gippsland Water agreed with this revision. The Commission proposes to approve South Gippsland Water's revised connections forecast.

**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	17 631	17 924	18 223	18 513	19 348
<b>Draft decision – total connections</b>	<b>17 631</b>	<b>17 924</b>	<b>18 223</b>	<b>18 513</b>	<b>19 348</b>

**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	3 238	3 274	3 310	3 347	3 384
<b>Draft decision – total residential consumption</b>	<b>3 294</b>	<b>3 334</b>	<b>3 375</b>	<b>3 415</b>	<b>3 459</b>

Frontier Economics recommended adjusting South Gippsland Water's average residential consumption to an average, representative year (2009-10).

Frontier Economics was concerned South Gippsland Water assumed continuing wet weather conditions for the next regulatory period and recommended it select a year representing average conditions (see Frontier Economics' report). South Gippsland Water chose 2009-10 as a representative year for average consumption. The Commission proposes to approve South Gippsland Water's revised residential volumes.

**Table 15 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	4 518	4 512	4 509	4 546	4 583
<b>Draft decision – total consumption</b>	<b>4 574</b>	<b>4 572</b>	<b>4 573</b>	<b>4 614</b>	<b>4 658</b>

The Commission proposes to approve South Gippsland Water’s revised total water consumption to reflect their revised average residential water consumption and non-residential connections numbers.

**Table 16 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	193 630	193 630	193 630	193 630	193 630
<b>Draft decision – total consumption</b>	<b>193 630</b>	<b>193 630</b>	<b>193 630</b>	<b>193 630</b>	<b>193 630</b>

## 11. Form of price control

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

- (a) it approves price caps for South Gippsland 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 South Gippsland Water’s proposed retail water tariff structure.

## 13. Retail sewerage tariffs

- (a) The Commission proposes to approve South Gippsland Water’s proposed retail sewerage tariff structure.

## **14. Trade waste charges**

- (a) The Commission proposes to approve the trade waste tariffs proposed by South Gippsland Water.
- (b) The Commission requires South Gippsland Water to continue to include the Commission's trade waste pricing principles in its tariff schedules. South Gippsland 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 is proposing to approve South Gippsland Water's proposed pricing principles on the basis that they are consistent with the principles set out below.
- (b) The Commission considers that South Gippsland 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.



## 16. New Customer Contributions

Table 17      **New customer contributions charges**  
\$ 2012-13 per lot

Water	2 020 <sup>a</sup>
Sewerage	5 000 <sup>b</sup>

<sup>a</sup> combined water and sewerage charge. <sup>b</sup> Poowong, Loch Nyora.

Subject to South Gippsland 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 South Gippsland Water's NCC charges are determined.

The Commission requires South Gippsland Water to:

- (a) 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.
- (b) Confirm that all NCC charges have been calculated in accordance the core pricing principles.
- (c) 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.
- (d) 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.
- (e) Consult with other water businesses to develop a best practice negotiating framework.
- (f) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- (g) Consult with stakeholders following the draft decision
- (h) 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.
  - vi. Review the number of customers count in the calculation model.
  - vii. Confirm whether capital expenditure forecasts should be included in the calculation model after the last customer has connected.
- (i) Consult with stakeholders on appropriate transition arrangements.

## **17. Miscellaneous charges**

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

## **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*

South Gippsland Water did not propose any automatic pass through events for the third regulatory period.