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METROPOLITAN MELBOURNE WATER PRICE REVIEW 2013

SOUTH EAST WATER DETERMINATION

1 JULY 2013 – 30 JUNE 2018

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1. General

1.1 Introduction

- (a) Clause 8 of the *WIRO* requires the Commission to either:
 - (i) approve 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*; or
 - (ii) specify 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.
- (b) On 21 June 2013, the Commission made its decision under the *WIRO* in respect of:
 - (i) the prices which South East Water Corporation (trading as South East Water) (ABN 89 066 902 547) (*South East Water*) may charge for *prescribed services* during the *regulatory period*; and
 - (ii) the standards and conditions of service and supply which *South East Water* has included in its *Water Plan*.
- (c) This Determination is made by the Commission under section 33 of the *ESC Act*, pursuant to clause 8 of the *WIRO*.
- (d) The purpose and reasons for the making of this Determination are to:
 - (i) give effect to the decision of the Commission referred to in clause 1.1(b)(i);
 - (ii) specify the prices which *South East Water* may charge for *prescribed services* during the *regulatory period* or the manner in which such prices are to be calculated or otherwise determined;

- (iii) facilitate the achievement of the Commission's objectives in the **ESC Act** and the **WI Act**; and
- (iv) reflect the requirements in the **WIRO**.

1.2 Application

This Determination applies to **South East Water** and its successors and assigns in respect of the business carried on by **South East Water** at the date of this Determination.

1.3 Effective period

(a) Term

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette and 1 July 2013 and, subject to clause 1.3(b), has effect until the earlier of the date on which it is amended or revoked by a later determination or 30 June 2018.

(b) Next regulatory period

Subject to clause 2.3(b)(ii), if the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2018, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of **prescribed services** provided by **South East Water** between 1 July 2018 and the date on which the determination for the **next regulatory period** comes into effect.

1.4 Modification of time periods

The Commission may, by notice to **South East Water**, extend or reduce the time by which, or the period within which, **South East Water** or the Commission must comply with an obligation under this Determination.

1.5 Summary and structure

Clause 2 of this Determination specifies the prices which will apply to **prescribed services** during the **regulatory period** and sets out the procedure and formula according to which prices may be adjusted during the **regulatory period** on an annual basis. Clauses 3, 4, 5 and 6 provide for the circumstances in which prices may be adjusted during the regulatory period otherwise than in accordance with clause 2.

1.6 Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1 (or, where only used within a clause, the meaning given upon their first use); and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

1.7 Annexure

- (a) For convenience, annexure A to this Determination summarises:
 - (i) the assumptions underpinning the prices to apply to **South East Water** during the **regulatory period** or the manner in which such prices are to be calculated or otherwise determined; and
 - (ii) the standards and conditions of services and supply additional to those specified in the **Code** which will be provided by **South East Water** pursuant to the decision referred to in clause 1.1(b)(ii).
- (b) For the avoidance of doubt, annexure A does not form part of this Determination.

2. Price control

2.1 General principles

Subject to this Determination:

(a) **Scheduled prices**

South East Water must not charge more than:

- (i) the scheduled prices in Schedule 2, during the first **regulatory year**, and
- (ii) the amounts determined in accordance with clause 2.3, during each subsequent **regulatory year**,

in respect of those **prescribed services** to which the scheduled prices in Schedule 2 relate, in accordance with Schedule 3.

(b) Application principles

The application principles in Schedule 3 will apply to the prices charged by **South East Water** in respect of **prescribed services** during the **regulatory period**.

(c) Pricing principles

During the **regulatory period**, **South East Water** must apply the pricing principles in Schedule 4 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 4 relate.

2.2 Operational matters

(a) Contracts

Where **South East Water** has entered into a **relevant contract** which relates to the provision of **prescribed services** prior to 1 July 2013, **South East Water** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 4 will apply for the remainder of the **regulatory period**.

(b) Dispute Resolution

Any question as to whether a price has been set in accordance with this Determination will be determined by the Commission on the basis of the Commission's interpretation of this Determination.

(c) Publication

South East Water must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that is relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. The schedule must clearly indicate in respect of each price, the amount determined in accordance with this Determination, the amount of GST payable and the total price (in a

manner consistent with the requirements of the *Competition and Consumer Act 2010* (Cth)).

(d) **GST**

South East Water will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount applying under this Determination only by reason of the levying of a charge on account of **GST**.

2.3 Annual adjustment of prices

(a) **Adjustment**

Subject to Schedule 2 and (in the event of a change in desalination costs to **South East Water** including by the making of a desalination water order in respect of a particular **regulatory year**) Schedule 5, the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formula in clause 2.3(b)(i) and the procedure in clause 2.3(c), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) **Formula**

- (i) Subject to Schedule 2 and if applicable Schedule 5, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$P_t = P_{t-1} * CPI_t * (1 + PPM_t)$$

where:

P_t is the price component for **regulatory year t**

P_{t-1} is the price component for **regulatory year t-1**

CPI_t for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

PPM_t is the prescribed price movement for the price component for **regulatory year** t determined in accordance with Schedule 2.

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2018, PPM_t will be set equal to zero for the purpose of adjusting prices in accordance with the formula in clause 2.3(b)(i) for **regulatory years** commencing on or after 1 July 2018 until the date on which this determination is amended or revoked by a later determination.

(c) Adjustment procedure

- (i) At least 30 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period**, **South East Water** must submit its calculation of maximum prices for the **prescribed services** referred to in clause 2.3(a) to apply in that subsequent **regulatory year** (the **revised scheduled prices**) to the Commission for approval, together with sufficient information to enable the Commission to assess whether those maximum prices comply with this Determination.
- (ii) The Commission will approve the **revised scheduled prices** if it considers that they have been calculated in accordance with the formula set out in clause 2.3(b)(i).
- (iii) The Commission will be deemed to have approved the **revised scheduled prices** if it has not provided notice under clause 2.3(c)(iv) to **South East Water** within 20 **business days** from the date of its receipt of the submitted calculation of the **revised scheduled prices**.
- (iv) If the Commission does not approve the **revised scheduled prices**, the Commission:
 - (A) will provide notice to **South East Water** (including a statement of its reasons);

- (B) may request **South East Water** to provide any additional information specified by the Commission;
- (C) will take any additional information provided by **South East Water** into account; and
- (D) will determine the **revised scheduled prices**.

2.4 Price changes during a billing period

(a) Application of this clause

This clause 2.4 applies where **South East Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

(b) Method of charging

South East Water must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change, but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

2.5 Reporting requirements

- (a) **South East Water** must make available to the Commission all information reasonably requested by the Commission from time to time for the purpose of enabling it to confirm that **South East Water** is complying with this Determination.
- (b) Without limiting clause 2.5(a), if, during the **regulatory period**, **South East Water** enters into a **new contract** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 4 relate, **South East Water** must, within 30 **business days** of the date of the **new contract**, provide the Commission with a notice specifying:
 - (i) details of the **new contract**; and
 - (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

- (c) Without limiting clause 2.5(a), if **South East Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:
- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the Commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **South East Water** proposes to stop providing the **prescribed service**; and
 - (ii) in the case of a refusal to provide a **prescribed service** to a customer, or potential customer, **South East Water** must provide a notice to the Commission within 5 **business days** of the refusal, stating the nature of the **prescribed service** and the reason for the refusal.

3. Amendment of Schedule 2

- (i) **South East Water** may amend the prescribed price movements and/or price components included in Schedule 2 for the following **regulatory year** (the **relevant regulatory year**) and all subsequent **regulatory years** remaining in the **regulatory period** (the **revised tariff schedule**) in accordance with this clause 3 and (in the event of a change in desalination costs to **South East Water** including by the making of a desalination water order in respect of a particular **regulatory year**) Schedule 5.
- (ii) An increase in any scheduled price in Schedule 2 in any **regulatory year** must not exceed the average of all scheduled price increases in that **regulatory year** by more than 3%.
- (iii) The average price movement for the **relevant regulatory year** and for each subsequent **regulatory year** in the **regulatory period** determined in accordance with the **revised tariff schedule** must not exceed the average price movement that would otherwise have applied under

this Determination as calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m ap_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}, i = 1, \dots, n; j = 1 \dots m$$

where **South East Water** has n tariff categories, which each have up to m tariff components, and where, for each **regulatory year** t for which the calculation is undertaken:

p_{t-1}^{ij} is the tariff charged in **regulatory year** $t-1$ for component j of tariff i

p_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied

ap_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is applied

q_{t-2}^{ij} is the quantity of component j of tariff i that was sold in **regulatory year** $t-2$, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** $t-2$ or a forecast of the quantity of component j of tariff i that is expected to be sold in **regulatory year** $t-2$

4. Uncertain or unforeseen events

4.1 General principle

- (a) **South East Water** may apply to the Commission for the amendment of this Determination and/or the adjustment of the scheduled prices in Schedule 2 to reflect increased or decreased

costs incurred by **South East Water** and/or increased or decreased revenue received by **South East Water** as a result of events which were uncertain or unforeseen at the time this Determination was made (an **uncertain events application**).

- (b) Whether or not **South East Water** makes an application under clause 4.1(a), **South East Water** must promptly notify the Commission upon becoming aware of an event which could form part or all of the basis of an application.
- (c) The Commission may take action under clause 4.3(b) in respect of an **uncertain events application** where the Commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this Determination provided that the Commission is satisfied that such action takes into account the interests of customers. Generally the matters taken into account will include positive and negative influences on revenue and expenditure. The Commission may limit an adjustment to only some events or a single event.

4.2 Consideration by the Commission

(a) Examples of uncertain and unforeseen events

The matters that may, at the discretion of the Commission, be taken into account by the Commission under this clause 4 include:

- (i) actual licence fees or contributions payable by **South East Water** during a particular **regulatory year** during the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 24 of the *Environment Protection Act 1970* (Vic) and section 4H(2) of the *WI Act* which differ from the forecast licence fees or contributions set out in annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **South East Water** on major capital projects;
- (iii) instances where the Commission is satisfied that there is a material difference between the forecast demand levels set out in annexure A and actual demand levels for **South East Water** in one or more **regulatory years** during the **regulatory period**; and
- (iv) a change in or to any of the following:

- (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 1970* (Vic) or regulations made under any of them;
- (B) any licence issued pursuant to any of the Acts referred to in clause 4.2(a)(iv)(A);
- (C) a **relevant tax**; or
- (D) the Statement of Obligations, or
- (E) the introduction or cessation of a statutory carbon price or tax or a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

(b) Exclusions

In considering an **uncertain events application**, the Commission will not take into account matters that:

- (i) are or should be within **South East Water's** control;
- (ii) were or should have been known by **South East Water** at the time the Determination was made;
- (iii) could reasonably have been foreseen by **South East Water**;
- (iv) should be or should have been planned for or managed by **South East Water**, and/or
- (v) reflect inefficient expenditure by **South East Water**.

(c) Dispute resolution

Any question as to whether a matter should be taken into account by the Commission under this clause 4 will be determined by the Commission in its absolute discretion.

4.3 Procedure

(a) Application process

- (i) An **uncertain events application** must be accompanied by a statement setting out:
 - (A) the details of the relevant uncertain or unforeseen event;

- (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the **regulatory period** and/or the amount and timing of any increase or decrease in revenue associated with the relevant event during the **regulatory period**;
 - (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 4.3(a)(i)(B); and
 - (D) details of the proposed action to be taken by the Commission under clause 4.3(b).
- (ii) The Commission may identify an event or events which it considers has had or may have a material impact on **South East Water's** operating and/or capital expenditure and/or revenue and may decide to take action under clause 4.3(b) in the absence of an **uncertain events application** by **South East Water**.
 - (iii) The Commission may request **South East Water** to provide any additional information specified by the Commission in connection with an **uncertain events application**.

(b) Action by the Commission

If the Commission is satisfied about the matters set out in clause 4.1(b) in respect of an **uncertain events application** or an event identified by the Commission under clause 4.3(a)(ii), the Commission may, in its absolute discretion:

- (i) amend this Determination or adjust the scheduled prices in Schedule 2 and/or the revenue requirements in Schedule 4 with effect from a date and in a manner decided by the Commission (in respect of one or more events) at a time decided by the Commission; or
- (ii) take the **uncertain events application** into account in making its determination in respect of the prices which **South East Water** may charge for **prescribed services** in the **next regulatory period**.

5. Material error and unintended consequences

Where the Commission is satisfied that:

- (a) there is a manifest and material error in this Determination;
- (b) any information on which this Determination was based was false or misleading in a material respect; or
- (c) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

the Commission may decide to amend this Determination and/or specify a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

6. Pass-through of changed Melbourne Water prices in fourth and fifth regulatory years

Where the Commission:

- (a) makes a price determination for storage operator and bulk water services supplied by Melbourne Water Corporation for some or all of the period from 1 July 2016; and
- (b) declares that such price determination provides for different prices to be charged to **South East Water** from those assumed in the making of this Determination;

the Commission may decide to amend this Determination, specify a price adjustment and/or specify a mechanism for making a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes or will take into account the interests of customers.

Schedule 1 – Definitions and Interpretation

A. Definitions

business day means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

Code means the applicable *Customer Service Code* made under the **WI Act**.

ESC Act means the *Essential Services Commission Act 2001* (Vic).

GST has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

miscellaneous services means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 4.

new contract means any contract for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period**.

next regulatory period means the period commencing on 1 July 2018 and ending on a date specified by the Commission.

prescribed services has the meaning given in the **WIRO** and includes **miscellaneous services**.

regulated entity has the meaning given in the **WIRO**.

regulatory period means the period commencing on 1 July 2013 and ending on 30 June 2018.

regulatory year means each period of twelve months commencing on 1 July and ending on 30 June.

relevant contract means a contract which relates to the provision of **prescribed services**.

relevant tax means any tax imposed by or payable directly or indirectly to any government or public authority in the Commonwealth of Australia (including **GST**) but excluding:

- (a) the licence fees referred to in clause 4.2 of this Determination;
- (b) penalties and interest for late payment of any tax; or

- (c) any tax that replaces any of the taxes referred to in (a) and (b), where tax includes any rate, duty, charge or other like or analogous impost.

Water Act means the *Water Act 1989* (Vic).

Water Plan has the meaning given in the **WIRO**.

WI Act means the *Water Industry Act 1994* (Vic).

WIRO means the Water Industry Regulatory Order 2012 as at the date of this Determination.

B. Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to, this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.
- (i) The symbol ' Σ ' requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.

- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
 - (i) **regulatory year** 't' is the **regulatory year** in respect of which the calculation is being made;
 - (ii) regulatory year 't-1' is the **regulatory year** immediately preceding **regulatory year** 't';
 - (iii) **regulatory year** 't-2' is the **regulatory year** immediately preceding **regulatory year** 't-1'.

Schedule 2 - Prices

This schedule should be read in conjunction with Schedule 3 and Schedule 4. Variable water, wastewater and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

PART A: Tariff basket services

<i>Tariff and Price Component</i>	<i>Price (1 July 2013)</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>	<i>PPM Year 4</i>	<i>PPM Year 5</i>
1.1 Residential water tariff¹					
Service charge (per annum)	118.93	0.0%	0.0%	0.0%	0.0%
Usage charge (per kL)					
Block 1 (0-440 litres/day)	2.5262	0.0%	0.0%	0.0%	0.0%
Block 2 (441-880 litres/day)	3.0679	0.0%	0.0%	0.0%	0.0%
Block 3 (881 + litres/day)	3.6602	0.0%	0.0%	0.0%	0.0%
1.2 Non-residential water tariff¹					
Service charge (per annum)	118.93	0.0%	0.0%	0.0%	0.0%
Usage charge (per kL)	3.0679	0.0%	0.0%	0.0%	0.0%
1.3 Residential sewerage tariff¹					
Sewer service charge (per annum)	372.69	0.0%	0.0%	0.0%	0.0%
Sewage disposal charge (per kL)	1.8155	0.0%	0.0%	0.0%	0.0%
1.4 Non-residential sewerage tariff¹					
Sewer service charge (per annum)	442.59	0.0%	0.0%	0.0%	0.0%
Sewage disposal charge (per kL)	1.8155	0.0%	0.0%	0.0%	0.0%
1.5 Residential reticulated recycled water					
Service charge (per annum)	22.30	0.0%	0.0%	0.0%	0.0%
Usage charge (per KL)	2.1473	0.0%	0.0%	0.0%	0.0%
1.6 Trade waste charges					
Volume (per kL)	0.8987	0.0%	0.0%	0.0%	0.0%
BOD (per kg)	0.8527	0.0%	0.0%	0.0%	0.0%
SS (per kg)	0.4781	0.0%	0.0%	0.0%	0.0%
TKN (per kg)	1.8727	0.0%	0.0%	0.0%	0.0%

1.7 Trade waste – agreement fees

(Risk ranking)

Risk Rank 1	13222.82	0.0%	0.0%	0.0%	0.0%
Risk Rank 2	6611.41	0.0%	0.0%	0.0%	0.0%
Risk Rank 3	4407.60	0.0%	0.0%	0.0%	0.0%
Risk Rank 4	2203.80	0.0%	0.0%	0.0%	0.0%
Risk Rank 5	384.38	0.0%	0.0%	0.0%	0.0%

1.8 Other charges

Fire service Fixed Tariff - All declared serviced properties	118.93	0.0%	0.0%	0.0%	0.0%
Fire Service Volumetric Tariff - Metered Customer Usage Charge (per kL)	3.0679	0.0%	0.0%	0.0%	0.0%
Bunyip Main Race - Maintained Private Extensions (per annum)	118.93	0.0%	0.0%	0.0%	0.0%
Customers drawing non potable water from Bunyip and Tarago open channels (per kL)	1.3958	0.0%	0.0%	0.0%	0.0%

¹ South East Water will apply the following transition factors to water and sewerage service charges for occupancies, as defined in clause 3.1(b) and 3.1(c), that are on single titled and connected properties but prior to 2013-14 had not been receiving a service charge.

Transition to uniform service charges

Regulatory year	Year 1	Year 2	Year 3	Year 4	Year 5
Proportion of full service charge	0%	50%	100%	100%	100%

PART B – Price cap services

Tariff and Price Component	Price (1 July 2013)	PPM Year 2	PPM Year 3	PPM Year 4	PPM Year 5
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1.10 New customer contributions (Per lot charges)

Casey corridor¹

Water	1003.76	0.0%	0.0%	0.0%	0.0%
Sewerage	640.64	0.0%	0.0%	0.0%	0.0%
Recycled Water	1446.43	0.0%	0.0%	0.0%	0.0%

Cardinia corridor¹

Water	1413.97	0.0%	0.0%	0.0%	0.0%
Sewerage	1012.03	0.0%	0.0%	0.0%	0.0%
Recycled Water	933.79	22.0%	18.0%	15.3%	1.5%

Other areas						
Water	640.64	0.0%	0.0%	0.0%	0.0%	0.0%
Sewerage	640.64	0.0%	0.0%	0.0%	0.0%	0.0%
Recycled Water	640.64	0.0%	0.0%	0.0%	0.0%	0.0%
1.11 Trade waste – application fee	51.25	0.0%	0.0%	0.0%	0.0%	0.0%
1.12 Food waste						
Hospitals and other institutions (per bed)	45.79	0.0%	0.0%	0.0%	0.0%	0.0%
1.12 Miscellaneous fees and charges						
20 mm meter + delivery and installation	94.30	0.0%	0.0%	0.0%	0.0%	0.0%
20 mm service connection to mains of up to 300 mm	333.13	0.0%	0.0%	0.0%	0.0%	0.0%
Removal and testing of water meters	117.88	0.0%	0.0%	0.0%	0.0%	0.0%
Application fee for connection of single residential property to water and/or sewer	51.25	0.0%	0.0%	0.0%	0.0%	0.0%
Plan showing sewer location within a Property (Property Sewerage Plan)	25.63	0.0%	0.0%	0.0%	0.0%	0.0%
Backlog Sewerage Tariff Fee ²	1500.00	0.0%	0.0%	0.0%	0.0%	0.0%
Information statements						
All forms of lodgements	28.77	0.0%	0.0%	0.0%	0.0%	0.0%
Restoration of supply at the meter	87.13	0.0%	0.0%	0.0%	0.0%	0.0%
Application fee to build over South East asset or easement	61.50	0.0%	0.0%	0.0%	0.0%	0.0%
Application fee - non works	187.58	0.0%	0.0%	0.0%	0.0%	0.00%
Non-core miscellaneous services	Actual Cost					

¹ Where lot sizes are less than 300 metres square, the applicable Other Areas New Customer Contribution prices will apply.

² This fee will be collected over 5 years (paid quarterly) from the time that customers are declared to be serviced. South East Water will offer customers a reduced fee of \$525 per lot contribution (collected at \$75 per quarter) if customers agree to connect within the first two years of being notified that a connection is available.

Schedule 3 – Application of prices

3.1 Imposition of service charges

(a) Subject to clause 3.1(b), **South East Water** may only impose a service charge referred to in clause 3.2 under a tariff pursuant to sections 259(1)(a), 259(2)(a) and 260 of the Water Act on the owner of the property that either:

- (i) has been declared to be a serviced property under section 144 of the Water Act; or
- (ii) is taken to be a serviced property by clause 11 of Schedule 17 of the Water Act,

for the purpose of the relevant service to which the service charge relates.

(b) Despite clause 3.1(a), **South East Water** may impose a separate service charge on the owner of a serviced property in respect of each separate occupancy on that property pursuant to section 259(9) of the Water Act.

(c) For the purposes of this Schedule:

"property" means either:

(i) in the case of land subject to the *Transfer of Land Act 1958*, land for which there is a single folio in the register; or

(ii) in the case of general law land:

(A) land held in fee simple, whether by one person, tenants in common or joint tenants; or

(B) Crown Land, occupied by one or more persons.

"separate occupancy", as required by section 259(10) of the Water Act, means a portion of a parcel of land on which a building is erected that is occupied separately, or is obviously adapted to being occupied separately, from other land in the parcel.

3.2 Service charges only to be imposed on connected properties

(a) **South East Water** may only impose a service charge relating to:

- (i) water supply (including a supply of recycled water or for fire suppression); or
- (ii) sewerage,

under clause 3.1, if the relevant serviced property has previously been connected to **South East Water's** works that provide the service to which the service charge relates, pursuant to section 145 of the Water Act.

(b) For the sake of clarity:

- (i) for the purposes of clause 3.2(a) and section 258(1A) of the Water Act, where a serviced property is connected to South East Water's works, each separate occupancy on that serviced property is also deemed to be connected to South East Water's works, whether or not the service to which a service charge relates is delivered to the portion of the parcel of land where the separate occupancy occurs;
- (ii) for the purposes of clause 3.2(a) and section 263(A) of the Water Act, each lot of land affected by an owner's corporation is deemed to be connected to South East Water's works.

3.3 Water usage charges

(a) A water usage charge shall only be imposed where a meter or meters have been installed to measure the amount of water supplied to a property or to a property together with other properties. This includes metered water supplied through fire services when used for non-fire fighting purposes.

(b) A water usage charge shall be calculated by reference to the volume, expressed in kilolitres, or part thereof, of water supplied during a meter-reading period to a property or properties.

3.4 Residential property

A 'residential property' means:

- a property used or intended to be used primarily as a residence or residences;
- in the case of vacant land, land zoned for residential purposes;

but does not include a property used or intended to be used as:

- a guest house, motel, hotel or caravan park;

- a farming enterprise; or
- a residence attached to a shop or professional suites.

3.5 Non-residential property

A non-residential property is a property which is not a residential property.

3.6 Dwellings and units/flats

A 'dwelling' means: a house, flat or unit used for residential purposes, or a vacant lot on which a residence is being erected, but not a 'movable unit' (granny flat) provided by the Director of Housing under Section 18 of the Housing Act 1983, caravan or similar temporary accommodation.

'unit/flat' (definition as contained in section 2 of Valuation of Land Act 1960) means:

- (a) A unit on a registered plan of strata subdivision subject to Schedule 2 to the Subdivision Act 1988; and
- (b) A stratum estate within the meaning of Transfer of Land Act 1958; and
- (c) A building or part of a building in the exclusive occupation of a person who is entitled to occupation by virtue of being a shareholder in a company which owns the building or a tenant of such a shareholder; and
- (d) A residential unit in respect of which a residence right in a retirement village under the Retirement Villages Act 1986 is in force.

3.7 Block tariff charges

A block tariff is applicable for residential customers with different price increments occurring at 440L/day and 880L/day. Where multiple dwellings are supplied from a single meter, the blocks are multiplied by the number of dwellings. For example, the steps for a 2 dwelling residential property would be 880L/day and 1760L/day.

3.8 Private Extension Fees

South East Water may, as a term of any agreement with the owner of a property for the supply of water from its works made under section 124(7) of the Water Act, require that owner to pay:

- (a) an annual private extension supply fee equivalent to the Service charge (per annum); and
- (b) a private extension usage fee equivalent to the Usage charge (per kL),

specified in item 1.1 of Schedule 2.

3.9 Sewage disposal charges

- (a) A sewage disposal charge shall only be imposed where a meter has been installed:
 - (i) To measure the amount of water supplied to a property or to a property together with other properties; or
 - (ii) To measure the amount of sewage discharged from a property.
- (b) A sewage disposal charge shall be calculated by reference to the volume, expressed in kilolitres, or part thereof, of sewage discharged or estimated to have been discharged during a meter reading period from a property or properties.
- (c) Except as provided for in the next three paragraphs, the volume of sewage discharged to the sewerage system from a property or properties during a meter-reading period shall be calculated according to a formula specified below.
- (d) If South East Water is satisfied that the use of the formula is likely to systematically and substantially overestimate or underestimate the volume of sewage discharged from a property, South East Water may use another formula or method for estimating the volume.
- (e) South East Water may apply 'property specific' sewage disposal charge factors to customers that are served by a third pipe recycled water supply, or any other form of alternative water supply (eg. rainwater tanks). In those circumstances, South East Water would undertake a 'water balance' of potable water consumed as against expected discharges to sewer.
- (f) A customer may seek a customised discharge factor using the consumption history at the property to determine the assumed percentage of water discharged to the sewer annually. The formula used to calculate the volume of sewage may differ from that otherwise applied with the standard discharge factor replaced by a customised discharge factor.

3.10 Backlog sewerage surcharge tariff fee

- (a) Subject to paragraph (b), South East Water may impose a backlog sewerage tariff fee pursuant to section 259(1)(a) of the **Water Act**, as specified in Schedule 2 on the owner of any property that:
- (i) has been identified in a sewerage management plan as requiring the provision of sewerage services to resolve problems relating to wastewater management on that property; and
 - (ii) has been declared to be a serviced property for the purposes of sewerage by South East Water, under section 144(1)(b) of the **Water Act**.
- (b) Paragraph (a) does not apply to the owner of any property in respect of which either:
- (i) an accelerated backlog sewerage development tariff fee referred to in clause 4.6 of Schedule 4; or
 - (ii) a brought-forward backlog sewerage tariff fee referred to in paragraph (c),
- has previously been paid.

If South East Water, on the application of a property owner, agrees to bring forward a backlog sewerage connection to a date earlier than that which might otherwise apply, South East Water may impose on the relevant owner a brought-forward backlog sewerage tariff fee pursuant to section 259(1)(a) of the **Water Act**, calculated in the manner set out in Schedule 4.3, as if a reference in that clause to a "new customer contribution" were a reference to a "brought-forward backlog sewerage tariff fee".

3.11 Sewage disposal charge formula – residential

Where a volumetric sewage disposal charge is levied on residential customers in South East Water's area, it will be based on the metered water consumption, and a set of assumptions made about their return rate, that is, the proportion of the water that they use which is deemed to be returned as wastewater. Thus the sewage disposal charge is calculated as:

Sewage Disposal Charge = Price x Actual Metered Volume of Water Supplied x Return Rate

The return rate is to be 75 per cent for houses, and 85 per cent for units/flats. Where customers receive recycled water services, the 'Actual Metered Volume' is the sum of metered potable water and metered recycled water.

Note: The calculation of the sewage disposal charge is subject to clauses 3.9 (c)-(f).

3.12 Sewage disposal charge formula – non-residential

For non-residential customers, the formula is:

Trade waste customers:

$$\text{Sewage Disposal Charge} = \text{Price} \times (\text{Metered volume} - \text{Process volume} - \text{Trade waste volume}) \times 0.9$$

Other customers:

$$\text{Sewage Disposal Charge} = \text{Price} \times \text{Metered volume} \times \text{Discharge factor}$$

Note: In circumstances where a customer is supplied with recycled water that is discharged to sewer, metered volume includes both potable and recycled water.

Note: The calculation of the sewage disposal charge is subject to clauses 3.8 (c)-(f).

In the absence of meters to measure waste streams, the discharged volume is derived via estimation. For trade waste customers, this involves a detailed water audit, including whether there are any seasonal relationships with water use and sewage disposal. For non-trade waste customers, an alternative (more customer specific) factor is assigned. This factor essentially addresses the 'process' volume, for example watering ovals etc, and is primarily based on the industry in which the customer operates. See the following table for details:

per cent	Discharge factors
0	Farms, Fountain, Nature strip, Planter box, Round-a-bout, Vacant Land
10	Football oval, Golf course, Plant Nursery, Quarry, Racing tracks, Recreation reserve
25	Cemetery, Construction site, Bowling green, Tennis Club
50	Ambulance, Bus/tram depot, Car sales, Caravan Park, Caravan/Boat parking lot, Child care centre, Fire Brigade, Kennels, Kindergartens, Machinery storage, School, SES, Yacht club
75	Swimming centre
90	Laundrette, Library, Petrol station, Police station/courthouse, Post office, Printing works, Professional offices - , Public toilet block, Railway station, Reception centre, Repair workshop, Restaurant, RSL or other non-sporting club, Shopfront printing works, Shopping centre, Silo/Grain storage or flour mill , Single shop, Storage depot for gas or fuel, Supermarket, Telephone exchange, Tip, Travel agency
90	All other non-residential customers

3.13 Assignment of trade waste risk rank

Trade waste risk rank is calculated as:

$$RR = L*(V + H + A)$$

Where:

L = Location

is the location of the discharge in relation to the treatment plant.

If discharging to Eastern Treatment Plant or Western Treatment Plant and >5 km

L = 1

If discharging to Eastern Treatment Plant or Western Treatment Plant and <5 km

L = 1.2

If discharging to Somers, Boneo, Mt Martha or Pakenham Treatment Plants L = 1.2

If discharging to Other Local Treatment Plants L = 1.5

V = Volume

is the maximum daily discharge volume from recorded volumes . Volumes for new customers are supplied by the customer and verified during the application assessment stage.

Average daily volume (kL)	V
< 5	1
≥ 5 and < 25	10
≥ 25 and < 50	20
≥ 50 and < 75	30
≥ 75 and < 100	40
≥ 100 and < 500	50
≥ 500 and < 1000	75
≥ 1000 and < 2000	100
≥ 2000	150

H = History

is the compliance history taken over the last two years.

New work/change of occupier, H=0

Customers with non-compliance in the past two years for a parameter breach for an environmental concern will be assigned a History weight of 10

Customers with non-compliance in the past two years for a parameter breach for an Occupation Health & Safety concern will be assigned a History weight of 20

A = Activity

every customer has a list of activities assigned to its business. It is the activity with the highest value that is used i.e. activity and value with highest risk. The following are examples that can be expanded upon during discussions with new applicants:

food preparation	A = 1
dry cleaning	A = 30
abattoir	A = 100
liquid waste disposal	A = 120

Based on the calculation of **RR**, the risk rank is assigned as per the table below.

The risk rank determines:

- the inspection and sampling frequency
- the agreement terms and conditions
- requirements for customer self-monitoring
- requirements for a risk profile plan
- requirements for a waste management plan.

RR Calculation total	Risk rank	Inspection frequency
> 151	1 (Extreme)	Monthly
121 – 150	2 (High)	Bimonthly
91 – 120	3 (Medium)	Quarterly
51 – 90	4 (Low)	Half Yearly
< 50	5 (Minimal)	Annually or as required

3.14 Trade waste volumetric and quality charges

In addition to the Trade Waste Agreement charges, customers whose trade waste exceeds any one of the following parameters will be charged the trade waste volumetric and quality charges included in Schedule 2:

- Volume greater than 1,000 kL per year; or
- Bio-chemical Oxygen Demand (BOD) greater than 600mg/L; or
- Suspended Solids (SS) greater than 600mg/L.

3.15 Miscellaneous fees and charges

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
<p>20mm meter plus delivery and installation</p>	<p>Properties connecting to the water supply system are required to pay for the provision of a meter(s) to be supplied and installed by South East Water at the property.</p> <p>Fee covers:</p> <ul style="list-style-type: none"> • Provision of information on metering policy covering the size and type required for the customers property (i.e. whether 'remote read' meter is required, location of meters within unit developments, sizing to achieve required flow rates, etc.) • the supply of the meter, and its delivery to a South East Water approved contractor, • its installation by the contractor, or the supervision of its installation by the contractor, and • the creation or updating of the customer's record to indicate the size, type serial number and location of the meter has been installed at the customers property, whether it is part of a meter network within the development, and its inclusion of the meter reading data base.

Miscellaneous service	Definition
<p>20mm service connection to mains up to 300mm</p>	<p>Water Service connections (Tappings, Tee Insertions)</p> <p>The connection points (tapping saddles) required to connect water service pipes to water mains were not installed in residential subdivisions constructed prior to 1992, and have never been installed in mains serving non-residential subdivisions.</p> <p>Therefore whenever an owner of a property requires to connect to a water supply main where connection points do not exist, a tapping saddle needs to be bolted on to the main and the main tapped, or in some instances a tee inserted. Connections can only be carried out by South East Water's contractors and a fee applies.</p> <p>This fee covers:</p> <ul style="list-style-type: none"> • Administration costs of staff who determine that a connection can be installed in the main, arrange the connection date and time with the customer (or their plumber) and South East Water's contractor, and update the records indicating the type and size of connection, and • Contractor's fees, which cover the contractor's labour, materials, travelling and other costs. <p>The customer or their plumber is responsible for the excavation, backfilling, site reinstatement and traffic management costs.</p>

Miscellaneous service	Definition
<p>Application fee for connection of single residential property to water and/or sewer</p>	<p>The application fee needs to be lodged when applying:</p> <ul style="list-style-type: none"> • For a 20mm water supply and standard sewer connection for a residential property, • Demolishing and rebuilding where the water meter is retained on the land. • Undertaking house extensions or alterations such as installing an additional toilet, • Converting from a septic system to a sewer connection, • A 20mm non-residential connection that does not warrant the preparation of conditions of connection (e.g. could apply to a milk bar, doctor's consulting rooms located in a residential subdivision). <p>The fee covers the costs of verifying that the services being applied for are available, and the capacity exists to service the property. The customer receives approval (letter of consent) to connect, and if applicable an indication as to whether the water supply connection is to require a tapping of the main or the installation of a meter assembly, and a copy of a plan showing the location of sewer pipes and the sewer connection point.</p>
<p>Plan showing sewer location within a property</p>	<p>Applied on request by customer for a meter accuracy test to be conducted at an Australian Government National Measurement Institute accredited laboratory. Fee covers cost of visiting property to remove meter and install a new meter in its place, freight costs, laboratory charges, cost of a new meter and administrative costs. If the laboratory test indicates that the meter was registering outside the National Measurement Act parameters, the fee is refunded to the customer. If the meter is registering accurately the fee is not refunded.</p>

Miscellaneous service	Definition
Backlog sewerage tariff fee	<p>The backlog sewerage tariff fee will be applied to an un-sewered property that is currently connected to South East Water's water supply system, and that is identified in a sewerage management plan as requiring the provision of sewerage services to solve a wastewater management issue. The charge is applied in equal instalments over five years once the sewer infrastructure has been installed, regardless of whether the customer connects.</p>
Information statements all forms of lodgements (includes MW share)	<p>The fee needs to be lodged to obtain an Information Statement that shows:</p> <ul style="list-style-type: none"> • The Drainage charge levied on the property during the current financial year and the amount outstanding, • The Parks charge levied on the property during the current financial year and the amount currently outstanding, • Details of any Encumbrances placed on the property by South East Water on the property, • Details of Melbourne Water's Encumbrances placed on the property. <p>The fee covers:</p> <ul style="list-style-type: none"> • The cost issuing the statement and the cost of an update of the amount outstanding if such an update is requested within 6 months of the issue date of the statement. • Melbourne Water's costs of providing encumbrance information for inclusion on the statement.

Miscellaneous service	Definition
Restoration of supply at the meter	<p>South East Water offers a range of assistance schemes and payment plans to customers experiencing difficulty paying their bills. Customers who do not pay their bills, and after being contacted by South East Water do not enter into an agreement or a payment plan, may have their water supply restricted.</p> <p>The fee recovers part of the costs of visiting the property to attempt to again negotiate a payment plan prior to restricting the property, then again visiting the property to remove the restriction device when a payment plan is agreed. Withdrawal at or near the meter.</p>
Application fee to build over SEW asset or easement	<p>Property owners who want to erect a structure over or abutting a sewer, water main or within a South East Water easement can only do so if approval is obtained from South East Water.</p> <p>Their application must be accompanied by the fee which recovers part of the costs of the investigations that need to be undertaken to determine whether:</p> <ul style="list-style-type: none"> • Their request can be granted as requested, • Be granted subject to conditions, or • An additional fee needs to be lodged to cover the cost of investigating the condition of the asset/sewer, before a decision can be made.

Miscellaneous service	Definition
<p>Application fee non works</p>	<p>This fee must accompany all applications lodged for:</p> <ul style="list-style-type: none"> • Connection of new buildings/properties/developments to water and sewerage services, other than the connection of a single residential property to water or sewer, • Supply of services to redevelopments of existing properties, which result in an increase in demand for the service, • Alterations or relocations of sewer connection points, • Relocation or upsizing/downsizing of existing water service connections, • Subdivisions, where a letter of consent needs to be issued by South East Water for the Council to issue a Statement of Compliance, where no extension, upsizing, alteration of an existing asset (water main or sewer) or no new works are required to be constructed to service the new development. <p>The fee recovers part of the cost of:</p> <ul style="list-style-type: none"> • All discussions with the applicant regarding the application, including discussions prior to lodgement of application and after the receipt of their conditions, • Site visits undertaken to clarify any matters necessary to determine the conditions to be placed on a development, • Engineering investigations undertaken to determine that the existing services are adequate to meet the demands placed on them by the applicant's development, • Preparation of a letter detailing all the conditions placed on the application, and the fees that need to be lodged by the applicant before connections can be obtained, eg tapping fees, meter fees, creation of easement fee, etc. <p>Where required, issuing the letter of consent for the Council to issue a Statement of Compliance.</p>

Schedule 4 – Pricing principles

4.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where **South East Water** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to **South East Water** or pursuant to other Government policies that apply to **South East Water** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

4.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost (LRMC) of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- 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;

- 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;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer)
- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the Commission;
- 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.

4.3 Pricing principles New Customer Contributions (NCC)

Core pricing principles

NCC, including standard or negotiated NCC, will be calculated by applying the following core NCC pricing principles.

Standard and negotiated NCC will:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- have regard to the incremental future revenues that will be earned from customers at that connection;
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

Notes:

1. Given that NCC are to be based on the net incremental cost of connection (ie incremental costs net of incremental benefits), in this context, the costs referred to in the efficient pricing bound are the net costs, specifically the avoidable net cost of connection and standalone net cost of connection.

2. Where the connection arrangement requires assets to be gifted, the value of gifted assets will be excluded for the purposes of calculating net costs.
3. Incremental costs may include financing costs associated with constructing an asset sooner than planned.

NCC application

NCC are applied on a per lot basis, and may be levied on any connection of a new customer that is separately titled or is, or can be, individually metered.

Incremental financing costs

Incremental financing costs (IFC) should be calculated using this formula:

$$\text{IFC} = (1 - [1 / (1+r)^n]) \times \text{cost of capital being provided sooner than planned}$$

where:

r = estimated pre-tax WACC

n = the number of years the asset is required sooner than planned.

Gifted Assets

South East Water can require developers to provide and gift to **South East Water** specified assets as a condition of connection, provided that **South East Water**.

- makes clear to potential developers which assets a developer will be responsible for providing and gifting, and which will be provided by **South East Water**;
- confirms that negotiation of any non-standard connection and associated charges will be undertaken in accordance with **South East Water's** [published] negotiating framework; and
- the value of gifted assets will be excluded for the purposes of calculating net costs.

Backlog sewerage scheme

If a customer requires connection under the backlog sewerage scheme sooner than scheduled, then **South East Water** may charge an amount to recover any incremental financing costs incurred by it. This amount is to be calculated using the formula shown under section "incremental financing costs" above.

4.4 Pricing principles for accelerated backlog sewerage connections

South East Water has made special arrangements for the construction and progressive connection of properties to its sewers in its Mornington Peninsula backlog sewerage area. Forecast connection dates have been determined in consultation with the Mornington Peninsula Shire, the Environment Protection Authority and community members.

Affected properties will progressively be declared to be serviced properties for sewerage services under section 144(1)(b) of the Water Act, once South East Water is in a position to allow all properties in an area to be connected. At that stage, South East Water is authorised to impose the backlog sewerage tariff fee referred to in paragraph 3.9(a) of Schedule 3 on relevant property owners.

However, if a property owner:

- (a) wishes to bring forward the forecast connection date for a property that is not a serviced property for the purposes of sewerage; and
- (b) has entered into an agreement with South East Water to participate in South East Water's accelerated backlog sewerage program for the Mornington Peninsula

South East Water may impose an accelerated backlog sewerage development tariff fee on the property owner pursuant to section 259(1)(b) of the Water Act, calculated in accordance with the following formula:

$$ADT = 1 - \left[\frac{1}{(1+r)^n} \right]$$

where:

ADT is the accelerated backlog sewerage development tariff fee expressed as a percentage and applied to net incremental costs calculated with reference to the principles set in clause 4.3 of schedule 4;

r is the estimated pre-tax weighted average cost of capital, and

n is the number of years by which the connection to the backlog sewerage works have been brought forward.

4.5 Pricing principles for miscellaneous services not included in Schedule 2

Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

4.6 Guidelines

South East Water must comply with any guidelines issued by the Commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 4 relates.

Schedule 5 – Adjustment for costs associated with the Victorian Desalination Plant

If in any *regulatory year* there will be a change in desalination costs to **South East Water** including by the making of a desalination water order in respect of that *regulatory year*, the following formula will apply for the purpose of annual adjustment of potable prices instead of the formula set out in clause 2.3(b):

$$1) P_t = P_{t-1} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HV}) * (1 + DCC_t^{HF}) + DWO_t$$

where:

P_t is the price component for *regulatory year* t

P_{t-1} is the price component for *regulatory year* t-1

CPI_t for the particular *regulatory year* is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant *regulatory year*

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

PPM_t is the prescribed price movement for the price component for *regulatory year* t, in accordance with Schedule 2.

DWO_t is South East Water's desalination water order cents per kilolitre for the water order made in year t costs. It is calculated from the additional bulk charges related to a water order from Melbourne Water in year t divided by the price determination forecast number of kilolitres sold to customers in year t. The DWO cents per kilolitre applied to tiers 1, 2 and 3 and the non-residential volumetric potable price will vary, where the higher tiers will incur a higher proportion of the DWO costs.

DCC_t^{HV} is the adjustment factor applied to South East Water's water volumetric charges, to account for an approved adjustment in South East Water's headworks variable charge, contained in Melbourne Water's price determination, related to a change in desalination plant contract costs. This may include changes in the security payment costs and any carry forward adjustments from the previous year.

DCC_t^{HF} is the adjustment factor applied to water service charges associated with the approved adjustment in South East Water's headworks fixed charges from Melbourne Water's price determination due to a change in desalination plant costs. This may include changes in the security payment costs and any carry forward adjustments from the previous year.

Where under the proposed tariff basket price control mechanism the following side constraint formula applies:

$$2) P_t = P_{t-1} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HV}) * (1 + DCC_t^{HF}) * (1 + 0.03) + DWO_t$$

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2018, PPM_t will be set equal to zero for the purpose of adjusting prices in accordance with the formula in clause 2.3(b)(i) for **regulatory years** commencing on or after 1 July 2018 until the date on which this determination is amended or revoked by a later determination.

Application of Desalination contract cost changes

(i) Water volumetric charge adjustments

Any changes in bulk headworks variable charges due to changes in desalination contract costs are to be passed through water volumetric charges by calculating an adjustment factor to account for this change in cost and applying the following formula:

$$WV_t^j = WV_{t-1}^{det,j} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HV})$$

Where under South East Water's tariff basket price control mechanism the following side constraint formula applies:

$$WV_t^j = WV_{t-1}^{det,j} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HV}) * (1 + 0.03)$$

Where:

WV_t^j is the price for residential block 1, 2 and 3 and non-residential potable water volumetric tariffs j, for component of regulatory year t

$WV_{t-1}^{det,j}$ is the determination price for residential block 1, 2 and 3 and non-residential volumetric potable water tariffs j, for component for regulatory year t-1, adjusted for PPM_{t-1} , and CPI_{t-1}

DCC_t^{HV} is the adjustment factor applied to South East Water's water volumetric tariffs, to account for an approved adjustment in South East Water's headworks variable charge, where:

$$DCC_t^{HV} = A_t^{HV} / \sum_{j=1}^4 (WV_{t-1}^{det,j} * Q_t^{WV,j}) * CPI_t * (1 + PPM_t)$$

$WV_{t-1}^{det,j}$ is the determination price for each water volumetric tariff j, in regulatory year t-1, adjusted for PPM_{t-1} , and CPI_{t-1}

$Q_t^{WV,j}$ is the determination quantity for each water volumetric tariff j, in regulatory year t

A_t^{HV} is the approved adjustment in South East Water's total headworks variable charges from Melbourne Water's determination due to a change in desalination costs, where:

$$A_t^{HV} = (HV_t^{adj} - HV_t^{det}) * Q_t^{HV}$$

HV_t^{adj} is the water headworks variable per ML charge adjusted for desalination costs in regulatory year t, adjusted for the relevant PPM_t in Melbourne Water's price determination and CPI_t

HV_t^{det} is the determination water headworks variable per ML charge in regulatory year t, adjusted for the relevant PPM_t in Melbourne Water's price determination, and CPI_t

Q_t^{HV} is South East Water's determination bulk water volumes contained in Melbourne Water's price determination in regulatory year t.

(ii) Water service charge adjustments

Any changes in bulk headworks fixed charges due to changes in desalination contract costs are to be passed through water service charges by calculating an adjustment factor to account for this change in cost, and applying the following formula:

$$WS_t^j = WS_{t-1}^{det,j} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HF})$$

Where under South East Water's tariff basket price control mechanism the following side constraint formula applies:

$$WS_t^j = WS_{t-1}^{det,j} * CPI_t * (1 + PPM_t) * (1 + DCC_t^{HF}) * (1 + 0.03)$$

Where:

WS_t^j is the price for residential and non-residential potable water service tariffs j, for component of regulatory year t

$WS_{t-1}^{det,j}$ is the determination price for residential and non-residential potable water service tariffs j, component for regulatory year t-1, adjusted for PPM_{t-1}, and CPI_{t-1}

DCC_t^{HF} is the adjustment factor applied to water service charges associated with the approved adjustment in South East Water's headworks fixed charges, where:

$$DCC_t^{HF} = \frac{A_t^{HF}}{\sum_{j=1}^3 (WS_{t-1}^{det,j} * Q_t^{WS,j})} * CPI_t * (1 + PPM_t)$$

$Q_t^{WS,j}$ is the determination quantity for each water service tariff j in year t

A_t^{HF} is \$ approved adjustment in South East Water headworks fixed charges from Melbourne Water's price determination due to changes in desalination costs, where:

$$A_t^{HF} = (HF_t^{adj} - HF_t^{det}) * 12$$

HF_t^{adj} is South East Water's headworks fixed monthly charge, contained in Melbourne Water's price determination, adjusted for desalination costs in year t, adjusted for the relevant PPM_t contained in Melbourne Water's price determination and CPI_t

HV_t^{det} is South East Water's headworks fixed monthly charge contained in Melbourne Water's price determination, in regulatory year t, adjusted for the relevant PPM_t in Melbourne Water's price determination and CPI_t

(d) Desalination plant water orders

Any changes in South East Water bulk charges due to costs associated with a desalination plant order will be passed through South East Water's potable water volumetric charges by adding the required cents per kilolitre for the water order in that year, with reference to the Desalination Water Order schedule, and applied in accordance with the following formula:

$$WV_t^j = WV_{t-1}^{det,j} * CPI_t * (1 + PPM_t) + (DWO_t)$$

Where:

WV_t^j is the price for residential block 1, 2 and 3 and non-residential potable water volumetric tariffs j, for component of regulatory year t

$WV_{t-1}^{det,j}$ is the determination price for residential block 1, 2 and 3 and non-residential volumetric potable water tariffs j, for component for regulatory year t-1, adjusted for PPM_{t-1} , and CPI_{t-1}

DWO_t is South East Water's desalination water order cents per kilolitre for the water order made in year t costs. A set of indicative DWO cents per kilolitre adjustments for each possible desalination plant order are included in table 8 of Annexure A.

The Common Seal of the
Essential Services Commission
was affixed to this Determination
with the authority of the
Commission.

Date: *26* June, 2013



Dr Ron Ben-David
Chairperson



Annexure A

Table 1 **Weighted average cost of capital**
(per cent)

<i>Post tax WACC</i>	<i>Implied pre-tax WACC</i>
4.5	4.8

Table 2 **Benchmark revenue requirement**
\$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	655.4	648.4	642.8	642.3	641.3
Return on existing assets	116.1	114.2	112.4	110.6	108.9
Return on new investments	5.5	16.0	25.0	32.6	39.3
Regulatory depreciation	42.6	50.8	58.4	64.3	68.1
Adjustments from last period	(3.2)				
Tax liability	0.9	2.3	3.2	4.1	4.4
Total	817.4	831.8	841.9	853.9	862.0

Table 3 **Updated regulatory asset base**
\$m 2012-13

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	2 078.0	2 165.4	2 298.9	2 425.2
<i>Plus</i> Gross capital expenditure	149.4	197.4	202.2	175.7
<i>Less</i> Customer contributions	16.9	20.7	23.8	22.3
<i>Less</i> Government contributions	8.9	1.6	0.0	0.0
<i>Less</i> Regulatory depreciation	36.2	41.7	47.0	50.7
<i>Less</i> Proceeds from disposals	0.0	0.0	5.0	1.2
Closing RAB	2 165.4	2 298.9	2 425.2	2 526.7

Table 4 **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	2 526.7	2 600.1	2 803.9	2 984.4	3 124.4	3 239.7
<i>Plus</i> Gross capital expenditure	152.1	269.9	252.0	219.0	200.9	193.8
<i>Less</i> Customer contributions	25.5	20.0	19.5	19.3	20.0	20.1
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	52.4	42.6	50.8	58.4	64.3	68.1
<i>Less</i> Proceeds from disposals	0.9	3.4	1.2	1.2	1.2	1.2
Closing RAB	2 600.1	2 803.9	2 984.4	3 124.4	3 239.7	3 344.1

Table 5 **Approved licence fee and environmental contribution assumptions**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Essential Services Commission licence fee	0.59	0.59	0.59	0.62	0.71
Department of Human Services licence fee	0.23	0.23	0.23	0.23	0.23
Environment Protection Authority licence fee	0.10	0.10	0.10	0.10	0.10
Environmental contribution	27.16	26.43	25.72	25.02	24.35

Table 6 **Bulk water and sewerage purchases**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Bulk water purchases	505.38	502.01	501.66	501.26	500.11

Table 7 **Demand forecast**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Water assessments (no.)					
Residential	616 924	626 553	636 185	645 187	655 135
Non-residential	52 152	53 042	53 928	54 828	55 743
Total	669 075	679 596	690 113	700 015	710 878
Sewerage assessments (no.)					
Residential	590 527	601 519	612 496	623 345	634 177
Non-residential	47 447	48 338	49 224	50 123	51 039
Total	637 974	649 856	661 720	673 468	685 215
Billable water consumption (ML)					
Residential	91 941	91 587	92 100	92 554	92 810
Non-residential	28 881	28 448	28 689	28 939	29 017
Total	120 822	120 034	120 790	121 493	121 828

Table 8 **Key capital projects and programs**

Projects	<i>Expected completion date</i>
Pound Rd sewerage pump station	2013-14
Cranbourne recycled water tank	2013-14
Mt Martha treatment plant – long term sludge upgrade	2014-15
Boneo treatment plant capacity upgrade	2016-17
Lang Lang treatment plant upgrade	2016-17
Programs	
Dromana-Portsea backlog scheme	Ongoing
Sewer mains renewal program	Ongoing
Water mains renewal program	Ongoing
Sewer rising mains renewal program	Ongoing

Table 8 **Indicative desalination water order adjustments – cents per kilolitre**

<i>Water order (GL)</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
0	0	0	0	0	0
50	na	9	9	9	9
75	na	15	14	14	14
100	na	22	22	22	22
125	na	30	30	30	30
150	na	40	40	39	39

na No water has been ordered from the Victorian desalination plant for 2013-14.