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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
SOUTH EAST WATER

APRIL 2013

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SOUTH EAST WATER

1. Purpose of volume II of the draft decision

The Commission is required to issue a draft decision that proposes either to:

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

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

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

In response to this draft decision, South East Water should by 20 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 14–21 and

- (iii) any tariff structure changes suggested by the Commission.
- (b) in support of its depreciation forecast - documentation covering disaggregated capital projects reflecting proposed adjustments in response to this draft decision
- (c) its proposals to pass through desalination water order cost changes through adjustment factors for changes in fixed and variable bulk water costs, including sufficient information to allow customers to readily understand the prices that will apply if desalinated water is ordered.
- (d) in relation to the business's proposed form of price control - its tariff strategy.
- (e) its proposed RAB, adopting the 2012-13 Determination forecasts as per the Commission's guidance paper.
- (f) updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.

In response to this draft decision, South East Water should by 10 May 2013 resubmit:

- a) the New Customer Contribution Charges (NCCs) proposal with specific actions required by the Commission set out in section 16.
- b) the Backlog Sewerage Scheme Charge proposal set out in section 16.1

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the service standards to apply for the regulatory period 2013-14 to 2017-18 as part of its Final Determination.

3. Service standards

The Commission proposes to approve the service standard targets proposed in South East Water's Water Plan (table 1).

Table 1 Approved service standards

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Water						
Unplanned water supply interruptions (per 100km)	27.5	27.5	27.5	27.5	27.5	27.5
Average time taken to attend bursts and leaks (priority 1) (minutes)	35.6	36	36	36	36	36
Average time taken to attend bursts and leaks (priority 2) (minutes)	92.2	92	92	92	92	92
Average time taken to attend bursts and leaks (priority 3) (minutes)	266.3	264	264	264	264	264
Unplanned water supply interruptions restored within 5 hours (per cent)	99.6	99.4	99.4	99.4	99.4	99.4
Planned water supply interruptions restored within 5 hours (per cent)	80.1	80.1	80.1	80.1	80.1	80.1
Average unplanned customer minutes off water supply (minutes)	16.5	16.6	16.6	16.6	16.6	16.6
Average planned customer minutes off water supply (minutes)	6.0	5.9	5.9	5.9	5.9	5.9
Average frequency of unplanned water supply interruptions (number)	0.190	0.191	0.191	0.191	0.191	0.191
Average frequency of planned water supply interruptions (number)	0.030	.033	.033	.033	.033	.033
Average duration of unplanned water supply interruptions (minutes)	86.5	86.6	86.6	86.6	86.6	86.6
Average duration of planned water supply interruptions (minutes)	179.6	179.2	179.2	179.2	179.2	179.2

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	178.8	167	167	167	167	167
Unaccounted for water (per cent)	10.9	10.4	10.4	10.4	10.4	10.4
Sewerage						
Sewerage blockages (per 100km)	18.9	18.8	18.8	18.8	18.8	18.8
Average time to attend sewer spills and blockages (minutes)	47	47	47	47	47	47
Average time to rectify a sewer blockage (minutes)	137.8	137.1	137.1	137.1	137.1	137.1
Spills contained within 5 hours (per cent)	99.6	100	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	1.2	0	0	0	0	0
Customer Service						
Complaints to EWOV (per 1000 customers)	n.a.	0.08	0.08	0.08	0.08	0.08
Telephone calls answered within 30 seconds (per cent)	n.a.	94.9	94.9	94.9	94.9	94.9

4. Guaranteed service level scheme

The Commission proposes to approve the GSL events and payments proposed by South East Water (table 2).

Table 2 **Draft decision on GSL events and payment levels**

<i>Proposed GSL event</i>	<i>Proposed payment (\$)</i>
Water	
Unplanned interruptions not restored within five hours of notification	50
More than five unplanned interruptions in any 12 month period	50
Sewerage	
More than three interruptions in any 12 month period	50
Unplanned interruptions not restored within five hours	50
Spills not contained within five hours of notification	1000
Spills in a house not contained within one hour of notification	1000
Hardship	
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours (as defined by the Essential Services Commission) to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	300

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**
\$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	661.9	655.7	650.0	649.4	648.3
Return on existing assets	121.3	119.4	117.5	115.7	113.8
Return on new investments	5.6	16.1	24.9	32.4	39.1
Regulatory depreciation	42.7	50.8	58.4	64.1	67.6
Tax liability	3.5	5.7	6.6	6.3	6.6
Total	834.9	847.7	857.4	867.9	875.4

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2008 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2011-12 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 4.

Table 4 **Updated regulatory asset base**
\$m 2012-13

	<i>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> Government contributions	16.9	20.7	23.8	22.3
<i>Less</i> Customer contributions	8.9	1.6	0.0	0.0
<i>Less</i> Proceeds from disposals	36.2	41.7	47.0	50.7
<i>Less</i> Regulatory depreciation	0.0	0.0	5.0	1.2
Closing RAB	2 165.4	2 298.9	2 425.2	2 526.7

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. These rolled forward values are shown in table 5.

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	2 526.7	2,600.1	2,800.0	2,967.4	3,094.7	3,203.9
<i>Plus</i> Gross capital expenditure	152.1	269.8	251.8	218.8	200.7	193.6
<i>Less</i> Government contributions	25.5	25.9	32.4	31.9	26.1	26.2
<i>Less</i> Customer contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Proceeds from disposals	52.4	42.7	50.8	58.4	64.1	67.6
<i>Less</i> Regulatory depreciation	0.9	1.2	1.2	1.2	1.2	1.2
Closing RAB	2 600.1	2,800.0	2,967.4	3,094.7	3,203.9	3,302.5

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all metropolitan water businesses. Table 6 outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

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 taken the following approach in assessing the total prescribed operating expenditure for the next regulatory period (table 10).

Total prescribed operating expenditure comprises:

- total controllable operating expenditure, adjusted to remove non-recurrent expenditure and to allow for new initiatives or obligations to the business's baseline year 2011-12 (table 7);
- bulk water charges adjusted by the Commission (table 8); and
- regulatory charges (table 9).

Table 7 shows the Commission's proposed:

- business-as-usual (BAU) allowance, incorporating both growth and the productivity efficiency requirement
- allowance (or reduction) for each of South East Water's proposed new expenditure initiatives or obligations.

Together these comprise the total recommended controllable operating expenditure.

Table 7 **Allowance for controllable operating expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Baseline BAU expenditure	114.28	114.74	115.20	115.66	116.12
<i>New initiatives or obligations</i>					
Agency collection	0.00	0.00	0.00	0.00	0.00
Meter reading	0.00	0.00	0.00	0.00	0.00
Lease – buildings	0.11	-0.03	-2.00	-2.24	-2.37
IT costs	0.84	0.62	0.66	0.69	0.73
Fringe benefits tax	0.17	0.17	0.17	0.17	0.17
Chemicals	0.53	0.56	0.63	0.67	0.70
Electricity price increase	0.82	0.86	0.72	0.78	0.82
Electricity volume change - treatment plant – class A	1.05	1.14	1.13	1.24	1.28
Postage	0.00	0.00	0.00	0.00	0.00
Labour wages costs above CPI	0.00	0.00	0.00	0.00	0.00
Efficiencies from office relocation	0.00	0.00	-3.25	-3.25	-3.25
Desludging	0.00	0.00	0.00	0.00	0.00
Water conservation efficiency	-0.35	-0.33	-0.31	-0.29	-0.22
Treatment plants - other	2.11	1.74	1.83	1.87	1.91
Debt collection	0.00	0.00	0.00	0.00	0.00
Consulting	0.00	0.00	0.00	0.00	0.00
Compliance	0.00	0.00	0.00	0.00	0.00
Remedial maintenance	0.00	0.00	0.00	0.00	0.00
Reticulation sewer repairs, cleaning and mono pumps	0.18	0.30	0.43	0.55	0.68
2012-13 additional expenditure adjustment	0.00	0.00	0.00	0.00	0.00
Rural bulk water	0.00	0.00	0.00	0.00	0.00
Price rise impact assistance	1.94	0.00	0.00	0.00	0.00
Total new initiatives or obligations	7.40	5.03	0.01	0.18	0.45
Total recommended controllable operating expenditure	121.68	119.77	115.21	115.84	116.58

- (a) PwC agreed with South East Water's proposed operating expenditure savings resulting from relocation to its new offices in 2014-15 that includes the associated lease savings (see section 4.4.2 of PwC's expenditure review). A further reduction of \$0.9 million has been included to reflect commercial leasing of space in the new building.
- (b) PwC accepted South East Water's proposed new IT costs (see section 4.4.2 of PwC's expenditure review).
- (c) The Commission accepts that the payments for the fringe benefits tax is treated as a new obligation, due to changes that occurred from 2011 (see section 4.4.2 of PwC's expenditure review).
- (d) The allowance for increased chemicals expenditure is related to the class A treatment plant upgrade (see section 4.4.2 of PwC's expenditure review).
- (e) PwC recommended an allowance to energy price increase in line with the Commission's guidance to allow for the impact of the carbon tax (see section 4.4.2 of PwC's expenditure review).
- (f) Electricity volume expenditure increases are related to the class A treatment plant (see section 4.4.2 of PwC's expenditure review).
- (g) Adjustments were made to account for labour costs over the next regulatory period in line with the Commission's guidance and the government's wages policy (see section 4.4.2 of PwC's expenditure review).
- (h) A reduction in expenditure has been included to reflect forecast operating efficiencies resulting from South East Water's office relocation (see section 4.4.2 of PwC's expenditure review).
- (i) Water conservation efficiency expenditure has been reduced for the period, through a reduction from the BAU as requested by South East Water (see section 4.4.2 of PwC expenditure review).
- (j) PwC has agreed with the proposed increase in expenditure related to the class A treatment plant upgrade (see section 4.4.2 of PwC's expenditure review).
- (k) Additional expenditure for reticulated sewer repairs, cleaning and mono pumps has been allowed due to the sewerage backlog capital projects and changes in sewer repairs and cleaning activities in the next regulatory

period, but PwC has recommended a reduction in the amount requested by South East Water (see section 4.4.2 of PwC's expenditure review).

- (l) PwC recommended an adjustment be made to remove South East Water's forecast for rural bulk water expenditure (see section 4.4.1 of PwC's expenditure review).
- (m) PwC recommended an adjustment be made to remove South East Water's expenditure related to consulting, due to insufficient justification (see section 4.4.2 of PwC's expenditure review).
- (n) PwC identified a number of minor items for which South East Water proposed additional expenditure over the period that were not considered to be sufficiently material or unique to suggest they could not be funded through business-as-usual expenditure (see section 4.4.2 of the expenditure review). Forecast expenditure for these items has been removed, as it is considered expenditure that does not qualify as a new initiative or obligation.
- (o) The Commission has allowed an additional amount for South East Water to assist customers in managing the impact of the proposed price increases for the first year of the period.

The Commission has used the following estimates for bulk water charges to estimate prices, revenue, expenditure and bills for the purposes of the draft decision.

Table 8 **Bulk charges**
\$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>
Business proposed	542.4	538.6	538.1	537.5	536.1
Commission's estimate	512.2	508.7	508.2	507.7	506.5
Bulk charges adjustment	-30.2	-29.9	-29.9	-29.8	-29.7

The Commission has adjusted licence fees to reflect its own projections and advice provided by EPA Victoria and the Department of Health. The environmental contribution payable to the state government has also been adjusted to reflect advice provided by the Department of Sustainability and Environment.

Table 9 **Regulatory charges**
\$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>
Environmental contribution	27.1	26.3	25.6	24.9	24.2
Essential Services Commission	0.59	0.59	0.59	0.62	0.71
Department of Human Services	0.23	0.23	0.23	0.23	0.23
EPA Victoria	0.10	0.10	0.10	0.10	0.10
Draft decision - total regulatory charges	28.0	27.3	26.5	25.9	25.3

Table 10 **Operating expenditure adjustment summary**
\$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>
Total recommended controllable operating expenditure	121.7	119.8	115.2	115.8	116.6
Estimated bulk charges	512.2	508.7	508.2	507.7	506.5
Total regulatory charges	28.0	27.3	26.5	25.9	25.3
Draft decision - total prescribed operating expenditure	661.9	655.7	650.0	649.4	648.3
Business proposed total prescribed operating expenditure ^a	695.2	691.5	686.7	686.1	685.2
Total prescribed operating expenditure adjustment	-33.3	-35.7	-36.7	-36.6	-36.9

^a This is the amount requested by South East Water in its Water Plan.

9. Capital expenditure

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

Table 11 **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	269.8	251.8	218.8	200.7	193.6
Draft decision – capital expenditure	269.8	251.8	218.8	200.7	193.6

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

Table 12 **Adjustments to capital expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
No adjustments	0.0	0.0	0.0	0.0	0.0

South East Water has identified the following key capital projects that it proposes to deliver during the regulatory period.

Table 13 Key capital projects

	<i>Expected completion date</i>
Dromana-Portsea backlog scheme	2013-14 to 2017-18
Boneo treatment plant capacity upgrade	2013-14 to 2016-17
Mt Martha treatment plant – long term sludge upgrade	2013-14 to 2014-15
Lang Lang treatment plant upgrade	2013-14 to 2016-17
Sewer mains renewal program	2013-14 to 2017-18
Water mains renewal program	2013-14 to 2017-18
Sewer rising mains renewal program	2013-14 to 2017-18
Pound Rd sewerage pump station	2013-14
Cranbourne recycled water tank	2013-14

10. Demand forecasts

The Commission has used the following assumptions about demand for various services over the regulatory period.

The Commission’s assumptions reflect South East Water’s revised submission of residential water volumes. The Commission has also revised South East Water’s residential sewage volumes to reflect these changes.

Table 14 Number of water connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	616 924	639 401	661 880	670 882	680,830
Draft decision – connections	616 924	639 401	661 880	670 882	680,830
Non-residential					
Proposed connections	52 152	53 042	53 928	54 828	55,743
Draft decision – connections	52 152	53 042	53 928	54 828	55,743
Proposed – Total connections	669 075	692 443	715 808	725 710	736,573
Draft decision – total connections	669 075	692 443	715 808	725 710	736,573

Table 15 Number of sewerage connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	590 527	614 063	637 584	648 433	659 265
Draft decision – connections	590 527	614 063	637 584	648 433	659 265
Non-residential					
Proposed connections	47 447	48 338	49 224	50 123	51,039
Draft decision – connections	47 447	48 338	49 224	50 123	51,039
Proposed – Total connections	637 974	662 400	686 808	698 556	710,303
Draft decision – total connections	637 974	662 400	686 808	698 556	710 303

Table 16 Residential water consumption
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed average consumption – Water Plan (kL)	144	138	134	133	132
Draft decision – average consumption (kL)	148	143	139	138	136
Proposed total residential consumption	88 597	88 204	88 820	89 332	89 570
Draft decision – total residential consumption	91 606	91 252	91 933	92 512	92 810

Table 17 **Non-residential water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential consumption – Water Plan	28 614	27 914	28 156	28 406	28 484
Draft decision – non-residential consumption	28 614	27 914	28 156	28 406	28 484

Table 18 **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	117 212	116 118	116 976	117 737	118 054
Draft decision – total consumption	120 221	119 166	120 089	120 918	121 294

Table 19 **Residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total residential usage	64 588	64 521	65 216	65 764	66 107
Draft decision – total residential usage	66 855	66 820	67 567	68 168	68 557

Table 20 **Non-residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential usage – Water Plan	14 757	14 440	14 568	14 701	14 832
Draft decision – non-residential usage	14 757	14 440	14 568	14 701	14 832

Table 21 **Total sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total usage	79 344	78 961	79 785	80 465	80 938
Draft decision – total usage	81 612	81 260	82 135	82 868	83 389

The Commission requires South East Water to resubmit updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.

11. Form of price control

The Commission proposes to approve price caps for South East Water for the first year of the regulatory period, and to approve the business's proposal for a tariff basket for the remainder of the regulatory period. The Commission proposes to approve South East Water's proposed rebalancing constraint of 3 per cent.

Where South East Water proposes price changes that result 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 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 East Water's proposed retail water tariff structure.
- (b) The Commission proposes to approve South East Water's proposal to introduce fixed water charges per connected property.

13. Retail sewerage tariffs

- (a) The Commission proposes to approve South East Water's proposed retail sewerage tariff structure.
- (b) The Commission proposes to approve South East Water's proposal to introduce fixed sewerage charges per connected property.
- (c) The Commission proposes to approve South East Water's proposal to introduce a sewage volume factor of 75 per cent for houses and 85 per cent for apartments.

14. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariff structures proposed by South East Water, subject to South East Water providing additional information on why it has chosen to not implement the ITDS charge to replace the TDS charge.
- (b) The Commission requires South East Water to continue to:
 - (i) include the Commission's trade waste pricing principles in their tariff schedules. All metropolitan water business are required to use the trade waste pricing principles when determining trade waste charges for customer to whom scheduled prices do not apply
 - (ii) consult with trade waste customers before changes to trade waste structures occur.

15. Recycled water

- (a) The Commission proposes to approve South East Water's recycled water pricing principles that ensure that prices:
 - (i) have regard to the price of any substitutes and customers' willingness to pay
 - (ii) cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand)
 - (iii) include a variable component.

- (b) Where a business does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:
- (i) it has assessed the costs and benefits of pursuing the recycled water project
 - (ii) it has clearly identified the basis on which any revenue shortfall is to be recovered
 - (iii) if the revenue shortfall is to be recovered from non-recycled water customers, either that the project is required by 'specified obligations' or that there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.
- (c) The Commission proposes to approve recycled water tariffs proposed by South East Water for third pipe customers.

16. New customer contributions

Table 22 **New customer contributions charges**
\$2012-13 per lot

	<i>Category 1^a</i>	<i>Category 2^b</i>	<i>Category 3^c</i>
Water	1324	821	401
Sewerage	2632	1785	727
Recycled Water	1991	2023	0

^a Officer-Pakenham. ^b Cranbourne. ^c Infill.

- a) The Commission does not propose to approve South East Water's NCC proposal. The Commission requires South East Water to re examine its approach, consult with stakeholders and resubmit its NCC proposal consistent with the WIRO and guidance provided by the Commission.
- b) Any revisions to NCC will need to be submitted to the Commission by 10 May 2013. This allows sufficient time to review and consult on South East Water's submission.

16.1 Backlog Sewerage Charges

- a) The Commission requires South East Water:
- (i) to confirm how it calculated its standard backlog sewerage charge. If the business did not calculate these charges in accordance with the core NCC pricing principles, it should resubmit its proposal
 - (ii) to explain how it derived charges for those connecting under the accelerated program - it should resubmit its proposal.

17. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by South East Water.
- (b) All businesses that proposed miscellaneous charges for developers are required to:
- (i) name all charges relating to developers
 - (ii) explain how these charges relate to NCCs
 - (iii) define the services that will be provided for these charges.

18. Adjusting 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:

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

Key features of the mechanism are:

- A water business (by application to the Commission) or the Commission may initiate a reopening.

- Prices can either be raised or reduced as a result of an uncertain or unforeseen event.
- 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.
- 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.
- 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:

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

Adjusting prices for desalination costs

South East Water is required to resubmit its proposal for an adjustment factor for payments made for water ordered from the desalination plant. South East Water should apply d-factor adjustments on a cents per kilolitre basis and provide the Commission and customers a table of the prices that will apply in the instance of each incremental desalination water order.