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## 2009 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
CITY WEST WATER

APRIL 2009

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Essential Services Commission 2009, *2009 Water Price Review Draft Decision Volume II: City West Water*, April.

## 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, City West Water should by 19 May 2009 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2009 that reflects:
  - (i) the revised revenue requirement set out in table 4
  - (ii) the revised demand forecasts set out in tables 13–17 and
  - (iii) any tariff structure changes suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in tables 1–2.

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 2009-10 to 2012-13 as part of its Final Determination.

### 3. Service standards

The Commission proposes to approve each of the service standards proposed in City West Water's Water Plan.

**Table 1 Approved service standards**

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<b>Water</b>					
Unplanned water supply interruptions (per 100km)	60.3	60.3	60.3	60.3	60.3
Average time taken to attend bursts and leaks (priority 1) (minutes)	24.3	24.3	24.3	24.3	24.3
Average time taken to attend bursts and leaks (priority 2) (minutes)	34.2	34.2	34.2	34.2	34.2
Average time taken to attend bursts and leaks (priority 3) (minutes)	233.8	233.8	233.8	233.8	233.8
Unplanned water supply interruptions restored within 5 hours (per cent)	86.1 <sup>a</sup>	86.1	86.1	86.1	86.1
Planned water supply interruptions restored within 5 hours (per cent)	93.3	93.3	93.3	93.3	93.3
Average unplanned customer minutes off water supply (minutes)	47.6 <sup>a</sup>	47.6	47.6	47.6	47.6
Average planned customer minutes off water supply (minutes)	7.8	7.8	7.8	7.8	7.8
Average frequency of unplanned water supply interruptions (number)	0.31	0.31	0.31	0.31	0.31
Average frequency of planned water supply interruptions (number)	0.06	0.06	0.06	0.06	0.06
Average duration of unplanned water supply interruptions (minutes)	175.5 <sup>a</sup>	175.5	175.5	175.5	175.5
Average duration of	137.2	137.2	137.2	137.2	137.2

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
planned water supply interruptions (minutes)					
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	64	64	64	64	64
Unaccounted for water (per cent)	9.2	9.2	9.2	9.2	9.2
<b>Sewerage</b>					
Sewerage blockages (per 100km)	27.6	27.6	27.6	27.6	27.6
Average time to attend sewer spills and blockages (minutes)	23.4	23.4	23.4	23.4	23.4
Average time to rectify a sewer blockage (minutes)	115.9	115.9	115.9	115.9	115.9
Spills contained within 5 hours (per cent)	100	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	0	0	0	0	0
<b>Customer Service</b>					
Complaints to EWOV (per 1000 customers)	0.55	0.55	0.55	0.55	0.55
Telephone calls answered within 30 seconds (per cent)	78.6	80	80	80	80

### Minimum Flow Rates

	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>
Flow rate (litres per minute)	20.0	35.0	60.0	90.0	160.0

**Note** <sup>a</sup>City West Water has re-calculated past performance based on new field practices introduced in 2007-08

The Commission also notes that City West Water has proposed the additional service standards outlined in table 2. The Commission proposes to approve all of the additional service standards proposed by City West Water.

**Table 2 Additional service standards**

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
CO <sub>2</sub> emissions (net tonnes)		3 400	3 300	3 300	3 300
Recycled water (ML)		370	1 710	3 250	3 440
Biosolids reused/recycled (per cent)		100	100	100	100
Sewer backlog connections (number)		60	13	13	0
Compliance with environment discharge licence requirement (per cent)	80.6	100	100	100	100
Compliance with drinking water quality regulations	100	100	100	100	100
Water quality complaints (per 1000 customers)	1.1	1.1	1.1	1.1	1.1
Average time to rectify water faults (days)	1.0	1.0	1.0	1.0	1.0
Water main breaks (per 100km)	71.5	71.5	71.5	71.5	71.5
Systems faults calls answered within 30 seconds (per cent)	93.3	93.3	93.3	93.3	93.3
Account enquires answered within 30 seconds (per cent)	74.5	74.5	74.5	74.5	74.5
Interruptions to sewerage services restored within 5 hours (per cent)	97.6	97.6	97.6	97.6	97.6
Sewer spills within a house contained within 1 hour of notification (per cent)	100	100	100	100	100
Priority 1 bursts responded to within 1 hour (per cent)	99.8	99.8	99.8	99.8	99.8

Customer correspondence responded to within 10 working days	100	100	100	100	100
Sewer spills per 1000 properties	1.8	1.8	1.8	1.8	1.8

#### 4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels as shown in table 3. The Commission proposes not to approve the payment levels proposed for all GSL events. These guaranteed service levels should be reflected in City West Water's Customer Charter.

Table 3 **Draft decision on GSL events and payment levels**

<i>Proposed level of service</i>	<i>Draft decision payment</i>
<b>Water</b>	
Unplanned interruptions not restored within five hours of notification	50
More than five unplanned interruptions in 12 months	50
<b>Sewerage</b>	
More than three interruptions in 12 months	50
Interruptions not restored within five hours of notification	50
Spills not contained within five hours of notification	1000
Spills in a house not contained within one hour of notification	1000

- (a) The Commission proposes to approve the GSL events proposed by City West Water.
- (b) The Commission proposes not to approve the GSL payments proposed by City West Water for all events. Payments for all events except sewer spills should increase from \$25 to \$50 and sewer spill payments should increase from \$500 to \$1000.
- (c) The Commission requires City West Water to develop an appropriate GSL event related to compliance with its hardship policies and programs, propose a payment amount for the event, and propose monitoring and reporting measures for the event.

#### 5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

Table 4 **Breakdown of revenue requirement implied by ESC draft decision**  
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Operating expenditure	227.9	244.4	292.9	336.0
Return on existing assets	45.1	44.1	43.3	42.6
Return on new investments	6.3	12.2	17.1	19.6
Regulatory depreciation	25.7	27.5	26.4	29.0
Tax liability	5.5	6.1	6.0	6.7
<b>Total</b>	<b>310.5</b>	<b>334.3</b>	<b>385.6</b>	<b>433.9</b>

## 6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 5.

Table 5 **Updated regulatory asset base**  
\$ million in January 2009 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	869.9	904.4	931.6
<i>Plus</i> Gross capital expenditure	64.2	61.2	76.0
<i>Less</i> Government contributions	0.0	0.0	0.0
<i>Less</i> Customer contributions	5.6	4.8	7.3
<i>Less</i> Proceeds from disposals	0.1	0.0	0.1
<i>Less</i> Regulatory depreciation	24.0	27.1	29.7
<b>Closing RAB</b>	<b>904.4</b>	<b>931.6</b>	<b>970.5</b>

The regulatory asset base as at 1 July 2008 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2012-13 period less any approved allowance for regulatory depreciation. These rolled forward values are shown in table 6.



Table 6 **Rolled forward regulatory asset base**  
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	970.5	1 023.5	1 117.0	1 226.5	1 288.1
<i>Plus</i> Gross capital expenditure	85.4	133.6	150.0	98.5	54.3
<i>Less</i> Government contributions	0.0	3.9	2.5	0.0	0.0
<i>Less</i> Customer contributions	9.8	10.5	10.5	10.5	10.5
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	22.5	25.7	27.5	26.4	29.0
<b>Closing RAB</b>	<b>1 023.5</b>	<b>1 117.0</b>	<b>1 226.5</b>	<b>1 288.1</b>	<b>1 302.9</b>

## 7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.8 per cent for all metropolitan water businesses. The table below outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

Table 7 **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</i>	<i>Franking credit value</i>	<i>WACC (feasible range)</i>	<i>WACC (draft decision)</i>
<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>	<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>
1.508 - 1.755	0.65	6.00	2.0 - 2.7	60	0.5	4.3 – 4.9	4.8

## 8. Operating expenditure

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

Table 8 **Proposed and approved operating expenditure assumptions**

\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	228.3	263.5	304.9	350.1
Revisions and adjustments	-0.4	-19.1	-11.9	-14.2
<b>Draft decision – operating expenditure</b>	<b>227.9</b>	<b>244.4</b>	<b>292.9</b>	<b>336.0</b>

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

Table 9 **Adjustments to operating expenditure**

\$ million in January 2009 prices

<i>Expenditure item</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Maintenance cost escalation	-1.19	-1.80	-2.44	-3.09
VCEC Productivity	0.80	0.45	0.10	0.10
West Werribee treatment costs	0.00	0.00	-0.31	0.00
Labour	2.87	1.23	-0.25	-0.33
Water conservation	-0.50	-1.50	-1.58	-1.73
Reallocation from prescribed to not prescribed	-1.38	-1.39	-1.40	-1.42
Electricity	0.00	-0.57	-1.11	-1.36
Bulk Charges reduction	-1.00	-15.60	-5.04	-6.47
DHS licence fee	-0.01	-0.01	-0.01	-0.01
Environmental contribution	0.04	0.08	0.12	0.15
<b>Total</b>	<b>-0.37</b>	<b>-19.11</b>	<b>-11.92</b>	<b>-14.16</b>

- (a) Maintenance cost escalation reflects changes to the assumed cost escalation (see section 5.2.3 of the expenditure consultant's report).
- (b) The Victorian Competition and Efficiency Commission recommended businesses achieve savings through shared services and bulk procurement. The allocation of savings is discussed in section 5.4.1 of the expenditure consultant's report.
- (c) The expenditure consultants recommended an adjustment to the operating expenditure for the West Werribee Dual Water Scheme as the project is not scheduled to be operational until June 2012 (as discussed in section 6.2.4 of the consultant's report).

- (d) Government advice on CPI and expected wages growth resulted in the allowance for real labour growth rates increasing from 1.1 to 1.5 per cent, as discussed in section 6.2 of the expenditure consultant's report.
- (e) The expenditure consultants recommended that operating expenditure for water conservation be reduced (see section 6.2.6 of the report).
- (f) Some operating expenditure for the billing role undertaken on behalf of Melbourne Water was reallocated from prescribed to non-prescribed (see section 6.2.10 of the expenditure consultants' report).
- (g) The expenditure consultants recommended reductions in City West Water's forecast electricity between 2010-11 to 2012-13 (see section 6.2.2 of the report).
- (h) The Commission adjusted bulk expenditure to be consistent with its draft decision for Melbourne Water.
- (i) Advice was received from the Department of Human Services on its licence fees and the Department of Sustainability and Environment on the environmental contribution for the regulatory period. Adjustments were made so operating expenditure reflected the Departments' advice (see the draft decision, section 4.7).

## 9. Capital expenditure

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

Table 10 **Proposed and approved capital expenditure assumptions**  
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	90.4	139.8	159.6	109.0	61.5
<b>Draft decision – capital expenditure</b>	<b>85.4</b>	<b>133.6</b>	<b>150.0</b>	<b>98.5</b>	<b>54.3</b>

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

Table 11 **Adjustments to capital expenditure**  
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Sayers Road to Dohertys Road	0.00	-0.06	-0.17	-0.11	0.00
West Werribee - 750mm inlet/outlet	0.00	-0.06	-0.16	-0.10	0.00
West Werribee - low level reservoir	0.00	-0.03	-0.08	-0.05	0.00
West Werribee - 600mm inlet/outlet	0.00	-0.03	-0.06	-0.04	0.00
Dunnings Rd to Sneydes Rd	1.14	-1.14	0.00	0.00	0.00
Cost escalation	-2.20	-6.74	-11.39	-10.25	-7.14
City West Water adjustments	-3.94	1.86	2.30	0.00	0.00
<b>Total adjustment</b>	<b>-5.01</b>	<b>-6.20</b>	<b>-9.56</b>	<b>-10.55</b>	<b>-7.14</b>

- (a) Sayers Road to Dohertys Road – Halcrow-Deloitte identified that a 3.5 per cent capital escalation factor had been used as opposed to City West Water’s proposed 2.5 per cent (see section 7.4.7 of the report, which should be read in conjunction with point (f) which further adjusts the escalation factors).
- (b) West Werribee - 750mm inlet/outlet– Halcrow-Deloitte identified that a 3.5 per cent capital escalation factor had been used as opposed to City West Water’s proposed 2.5 per cent (see section 7.4.8 of the report, which should be read in conjunction with point (f) which further adjusts the escalation factors).
- (c) West Werribee - low level reservoir – Halcrow-Deloitte identified that a 3.5 per cent capital escalation factor had been used as opposed to City West Water’s proposed 2.5 per cent(see section 7.4.10 of the report, which should be read in conjunction with point (f) which further adjusts the escalation factors)
- (d) West Werribee - 600mm inlet/outlet – Halcrow-Deloitte identified that a 3.5 per cent capital escalation factor had been used as opposed to City West Water’s proposed 2.5 per cent (see section 7.5.1 of the report, which should be read in conjunction with point (f) which further adjusts the escalation factors).
- (e) Dunnings Rd to Sneydes Rd – City West Water advised that the project had been brought forward and completed in 2008-09.
- (f) Capital cost escalation reflects changes to the assumed cost escalation as discussed in section 7.3 of the Halcrow-Deloitte expenditure review.

Forecast capital cost have been escalated at CPI rather than 2.5 per cent per annum.

- (g) City West Water proposed an adjustment for 2008-09 expenditure deferred into the regulatory period.

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

**Table 12 Key capital projects**

	<i>Expected completion date</i>
West Werribee Dual Water Supply Scheme	2012
Altona recycled water project	2010
Water mains renewals – social risk – reticulation	ongoing
Water mains renewals – social risk – distribution	ongoing
Derrimut Interceptor Sewer	2011
Renew water mains – KPI attainment – reticulation	ongoing
1150mm main – Sayers Road to Dohertys Road	2012
Werribee West – 750mm inlet/outlet main	2012
New Meter program	ongoing
Werribee West – Low Level Reservoir	2012

## 10. Demand forecasts

- (a) The Commission has made the following assumptions about demand for various services over the regulatory period.
- (b) The Commission has adjusted proposed demand forecasts where shaded or otherwise indicated.

Table 13 **Number of water connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	305 892	313 392	320 892	328 392
<b>Draft decision — connections</b>	<b>306 449</b>	<b>314 723</b>	<b>323 220</b>	<b>331 947</b>
<i>Non-residential</i>				
Proposed connections	31 771	32 550	33 329	34 108
<b>Draft decision — connections</b>	<b>31 876</b>	<b>32 786</b>	<b>33 721</b>	<b>34 683</b>
Proposed – total connections	337 663	345 942	354 221	362 500
<b>Draft decision — total connections</b>	<b>338 325</b>	<b>347 509</b>	<b>356 941</b>	<b>366 630</b>

Table 14 **Number of sewerage connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	304 739	312 239	319 739	327 239
<b>Draft decision – connections</b>	<b>305 293</b>	<b>313 565</b>	<b>322 059</b>	<b>330 782</b>
<i>Non-residential</i>				
Proposed connections	30 348	31 127	31 906	32 685
<b>Draft decision – connections</b>	<b>30 403</b>	<b>31 259</b>	<b>32 138</b>	<b>33 039</b>
Proposed – total connections	335 087	343 366	351 645	359 924
<b>Draft decision – total connections</b>	<b>335 696</b>	<b>344 824</b>	<b>354 197</b>	<b>363 821</b>

Table 15 **Residential water consumption**  
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed average consumption – Water Plan (kL)	161	166	168	164
Revised average consumption - February 2009 (kL)	161	167	169	165

<b>Draft decision – average consumption (kL)</b>	<b>160</b>	<b>166</b>	<b>168</b>	<b>164</b>
Proposed total residential consumption	49 246	52 130	53 997	53 884
Revised total consumption - February 2009 (kL)	49 139	52 251	54 307	54 324
<b>Draft decision – total residential consumption</b>	<b>49 139</b>	<b>52 251</b>	<b>54 307</b>	<b>54 324</b>

Table 16 **Non-residential water consumption**  
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed non-residential consumption – Water Plan	37 066	36 812	35 642	34 799
Revised non-residential water consumption – February 2009	37 066	36 812	35 642	34 799
<b>Draft decision – non residential consumption</b>	<b>37 765</b>	<b>37 624</b>	<b>36 580</b>	<b>35 882</b>

Table 17 **Total water consumption**  
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed total consumption	86 311	88 942	89 639	88 683
Revised total water consumption – February 2009	86 205	89 063	89 949	89 123
<b>Draft decision – total consumption</b>	<b>86 905</b>	<b>89 875</b>	<b>90 887</b>	<b>90 205</b>

## 11. Form of price control

- (a) The Commission proposes to approve individual price caps for City West Water.
- (b) City West Water should submit a schedule of prices to apply from 1 July 2009, as well as a process by which tariffs can be adjusted on an annual basis that is consistent with the following adjustment mechanism.
- (c) City West Water may apply for an adjustment to its prices or tariff strategy at the time of the annual price review. It would have to demonstrate in its application to the Commission that it has clearly articulated a new tariff strategy (or explained how the proposed price changes are consistent with its existing tariff strategy), undertaken appropriate customer consultation and addressed customer impacts. The average annual price increase across the

range of tariffs could not be greater than the average increase calculated under a tariff basket approach. The Commission may then approve amended individual price caps for the remainder of the regulatory period.

## 12. Uncertain and unforeseen events mechanism

City West Water may apply to the Commission to adjust its prices either at the end of the regulatory period or during the regulatory period to reflect increased or decreased costs incurred by City West Water and/or increased or decreased revenue received by City West Water as a result of events that were uncertain or unforeseen at the time the Determination is made. Events that may be taken into account under this mechanism include:

- (a) Any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in table 18.

Table 18 **Approved licence fee assumptions<sup>a</sup>**  
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Essential Services Commission	0.36	0.36	0.36	0.89
Environment Protection Authority	0.05	0.11	0.11	0.11
Department of Human Services	0.11	0.11	0.11	0.11

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (b) Any difference between assumed and actual environmental contribution levied by DSE. To avoid any doubt, the assumed environmental contribution payable for each year of the regulatory period are set out in table 19.

Table 19 **Environmental contribution<sup>a</sup>**  
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Environmental contribution	10.5	10.3	10.0	9.8

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (c) Changes in the timing or scope of expenditure by City West Water on major capital projects.
- (d) A material difference between the forecast demand levels set out in tables 13–17 and actual demand levels for City West Water.



- (e) Changes in relevant legislation, licences, relevant taxes or the Statement of Obligations or the introduction of a national emissions trading scheme.

The Commission will not take into account matters that:

- (a) are or should be within City West Water's control;
- (b) were or should have been known, or could reasonably have been foreseen, by City West Water;
- (c) should be or should have been planned for or managed by City West Water; and/or
- (d) reflect inefficient expenditure by City West Water.

### **13. Retail water tariffs**

- (a) Although the water usage charges proposed by City West Water appear reasonable, the Commission proposes to not approve the business' proposal to increase all tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with the WIRO pricing principles.
- (b) City West Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing potable water services (see Volume I for more detail).

### **14. Retail sewerage tariffs**

- (a) The Commission proposes to not approve City West Water's proposal to increase fixed and volumetric sewerage tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with the requirements of the WIRO.
- (b) City West Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing sewerage services (see Volume I for more detail).
- (c) The Commission suggests that City West Water consider amending its seasonal sewerage discharge indices in a similar way to that proposed by Yarra Valley Water for the forthcoming regulatory period.

### **15. Trade waste charges**

- (a) The Commission proposes to approve the following pricing principles proposed by City West Water for calculating non-scheduled trade waste charges:
  - (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
  - (ii) the total revenue received from each customer should be greater than the cost that would 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
  - (iii) 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
  - (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
  - (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination.
  - (vi) customers should be provided with full details of the manner in which prices have been calculated. 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.
- (b) The Commission proposes to approve City West Water's proposed scheduled trade waste tariffs for 2009-10.
  - (c) The Commission proposes to require City West Water to review and amend its trade waste tariffs during the regulatory period, including introducing charges for inorganic total dissolved solids.
  - (d) In response to this draft decision, City West Water is required (in consultation with the other retailers and Melbourne Water) to identify when during the regulatory period a review of trade waste tariffs will be feasible.

## **16. Recycled water**

- (a) The Commission proposes to approve City West Water's proposed pricing principles on the basis that they are consistent with the following 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 City West Water for third pipe customers as it continues to be consistent with the Commission's pricing approach.
- (d) The Commission requires City West Water, during the coming regulatory period, to develop a pricing strategy to manage the demand impact of easing water restrictions.
- (e) In response to the draft decision, City West Water must provide its 'Application of Prices' schedule, including a clear explanation of the sewage discharge factors applied to recycled water customers and the volumes of water to which they are applied.

## **17. Customer contributions**

- (a) The Commission proposes to approve City West Water's scheduled new customer contributions and pricing principles for developer charges for new customers.

## **18. Miscellaneous charges**

- (a) The Commission proposes to approve City West Water's miscellaneous charges.