



By Email [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

9th May 2008

Mr Sean Crees  
Director Regulation (Water)  
Essential Services Commission  
Level 2, 35 Spring Street,  
MELBOURNE VIC 3000

Dear Sean,

**RE: 2008 Water Price Review - Response to Draft Decision**

Western Water welcomes the opportunity to respond to the 2008 Water Price Review Draft Decision handed down in March 2008. As required, Western Water has supplied a revised schedule of tariffs giving effect to the amendments set out in the Draft Decision. Furthermore, additional amendments have been made where necessary, and all changes are highlighted in the relevant sections below. A template and schedule of amendments capturing all the changes are attached. The proposed changes are as follows:

- *Guaranteed Service Levels (GSL)*

The Guaranteed Service Levels to apply over the regulatory period are set out in Table 1 below with an amendment to the proposed payment amount for 'Sewer spills inside a house not stopped within 1 hour of notification'. Western Water has also removed the GSL for failure to give notice of planned water supply interruptions, and sought relief by adopting the exclusion clause whereby a GSL will not apply where the event was caused by, or is the responsibility of, the customer or a third party.

**Table 1 GSL Events and Payment Levels\***

<b>Proposed level of service</b>	<b>Proposed payment</b>
Planned interruptions during peak hours	\$25
Planned water supply interruption longer than notification given	\$25
More than three sewer interruptions in 12 months	\$25
Sewer spills inside a house not stopped within 1 hour of notification	\$500

\*Western Water is not responsible for providing a GSL rebate where the event was caused by, or is the responsibility, of the customer or a third party.

Western Water considered increasing all GSL payment levels however following additional customer consultation, and the fact that GSL events are being introduced for the first time, the GSL payment was increased from \$100 to \$500 on the event with the greatest customer impact (sewer spills inside house not stopped within 1 hour of notification), and all other payment levels remain unchanged.

- *Revenue Requirement*

The revenue requirement proposed by Western Water is identified in Table 2 below. The key changes are covered in Tables 3 and 4 and in the section covering Operating Expenditure.

**Table 2 Proposed Revenue Requirement - \$ million in January 2007 Prices**

	2008/09	2009/10	2010/11	2011/12	2012/13
Operating expenditure	31.68	34.53	37.34	40.99	45.30
Return on existing assets	8.96	8.73	8.50	8.27	8.03
Return on new investments	1.04	2.96	4.44	5.36	5.98
Regulatory depreciation	3.38	4.06	4.60	4.95	5.21
Tax liability	0.42	0.78	1.10	1.47	1.72
<b>Total</b>	<b>45.50</b>	<b>51.07</b>	<b>55.98</b>	<b>61.04</b>	<b>66.24</b>

- *Rolled Forward Regulatory Asset Base (RAB)*

The RAB has been updated to include corrected customer contributions and proceeds from disposals for 2006/07 and forecast gross capital expenditure for 2007/08 (Table 3).

**Table 3 Updated regulatory asset base brought forward - \$ million in January 2007 prices**

	2004/05	2005/06	2006/07	2007/08
Opening RAB	91.38	95.19	110.74	122.40
Plus Gross Capital expenditure	21.99	25.20	22.47	34.46
Less Customer contributions	11.74	2.83	1.70	1.67
Less Government contributions			3.50	
Less Regulatory depreciation	5.65	5.12	4.99	5.46
Less Proceeds from disposals	0.79	1.70	0.62	0.93
<b>Closing RAB</b>	<b>95.19</b>	<b>110.74</b>	<b>122.40</b>	<b>148.79</b>

The opening RAB for the 2008/09 regulatory period has been adjusted to reflect the changes identified in Table 3 above and is reflected in Table 4 below.

**Table 4 Regulatory Asset Base - \$ million in January 2007 Prices**

	2008/09	2009/10	2010/11	2011/12	2012/13
Opening RAB	148.79	179.26	204.10	219.94	226.91
Plus Gross Capital expenditure	38.15	33.38	25.15	16.92	15.88
Less Customer contributions	3.53	3.7	3.94	4.22	4.36
Less Government contributions					
Less Regulatory depreciation	3.39	4.07	4.60	4.96	5.22
Less Proceeds from disposals	0.77	0.77	0.77	0.77	0.77
<b>Closing RAB</b>	<b>179.26</b>	<b>204.10</b>	<b>219.94</b>	<b>226.91</b>	<b>232.44</b>

- *Operating Expenditure*

Western Water has reviewed all proposed operating expenditure adjustments as per the Draft Decision. The changes proposed by Western Water are detailed as follows:

(a) Bulk Water Costs from Wholesalers

Western Water have unbundled the pooled costs for bulk water costs from wholesalers, and pumping and treatment of water from local sources as contained in the Draft Decision. This process was necessary to improve understanding of the effects of the Draft Decision, and is required to be undertaken for budgeting and cost control purposes. In regards to bulk water costs from wholesalers, further advice from Melbourne Water (MWC) was received that required a change to the annual bulk water charges to Western Water. This has resulted in a net reduction in bulk water costs from MWC of \$430k (see attachment Water costs.xls). Western Water accepts the bulk water costs from Southern Rural Water as contained in the Draft Decision, and no change is proposed to this item.

(b) Cost of Supplying Local Water

The unbundling process has identified that additional expenditure of \$6.878M is essential to treat and pump water from local supplies, and to supply water from wholesalers to meet expected demand increases (see attachment). These additional costs are required to support drawing the full contracted volume from MWC and making up the balance from local supplies. Some recovery of local reservoirs is expected during the period of the Water Plan and a sensitivity analysis was carried out on the impact of changing the supply source mix on treatment and pumping costs. The analysis highlights the financial advantages of drawing from local supplies when possible (see attachment). However, as can be seen from the graphs on the 10 year history of reservoir levels (attached), this has not been possible due to declining local storage levels resulting from limited rainfall and continuation of the 11 year drought in the region. Given the outcomes of the sensitivity analysis, and current low local storage levels, following the unbundling of bulk water supply costs, Western Water believes that an additional \$6.878M in expenditure to supply water locally is required.

(c) Electricity

Western Water has accepted the Draft Decision in regards to electricity price increases and acknowledges that these are applied consistently across the industry. Western Water would like to draw the ESC's attention to the outcomes of the latest Strategic Purchasing electricity supply tender (when known) for further guidance prior to delivering a final decision.

(d) Miscellaneous Expenditure Items

The Draft Decision identified a number of operating expenditure projects and items which were considered business as usual (BAU) and would have been deducted if a further productivity saving had been applied to Western Water. Of these items Western Water has reviewed each, and determined to deduct a total of \$383k over the five years. These reduced or eliminated items include: Depot R&M, IT Strategy, Uniforms, Dam Safety, Asbestos Bin Cleaning & Subscriptions.

(e) Depreciation

Incorrectly included in the Water Plan – reduction to operating expenditure of \$2.61M made.

(f) Environmental Contribution

The Environmental Contribution has been adjusted to reflect changes to the calculation based on actual 2006/07 revenue. The Environmental Contribution now incorporated is \$1.51M per annum.

(g) Western Water accepts all remaining adjustments contained in Table 9 of the Draft Decision.

- *Demand Forecasts*

Western Water confirm the revised demand forecasts as submitted previously in our response dated 7th March 2008 and shown in Tables 5-7 below. Please note for the purpose of calculating real average price increases over the 5 year regulatory period, 2007/08 assessment numbers and volumes have been provided.

**Table 5 Demand Forecasts – Number of Water Connections**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Residential	49,370	50,959	52,630	54,318	56,180	58,204
Non-residential	3,676	3,798	3,921	4,046	4,194	4,343

**Table 6 Demand Forecasts – Number of Sewerage Connections**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Residential	42,516	43,886	45,324	46,779	48,383	50,126
Non-residential	2,599	2,685	2,772	2,860	2,965	3,070

**Table 7 Demand Forecasts – Recycled Water Customers & Volumes**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Class A – customers	120	260	545	1,085	1,908	2,731
Class A – volumes (kl)	228,000	249,000	295,000	409,000	578,000	746,000
Gisborne – fixed	6	15	15	15	15	30
Gisborne – peak (ML)	137	179	105	112	118	173
Gisborne – off-peak (ML)	59	64	64	64	64	154
Sunbury-Melton – fixed	40	59	65	72	79	87
Sunbury-Melton – peak (ML)	571	725	910	1,125	1,351	1,588
Sunbury-Melton – off-peak (ML)	413	391	432	478	528	583

Romsey – fixed	1	2	3	4	5	65
Romsey – peak (ML)	56	68	80	92	105	79
Romsey – off-peak (ML)	17	5	5	5	5	45
Woodend – fixed	3	3	3	10	10	10
Woodend – peak (ML)	109	115	128	80	87	94
Woodend – off-peak (ML)	104	41	41	96	96	96
Riddells Creek – fixed		4	4	4	4	6
Riddells Creek – peak (ML)		30	30	30	33	40
Riddells Creek – off-peak (ML)		10	10	10	10	10

- *Form of Price Control*

The proposed schedule of tariffs to apply for each year of the regulatory period commencing 1st July 2008 in accordance with the revenue requirement detailed in Table 2 and the demand forecasts detailed in Tables 5-7 is attached.

No change to the form of price control is proposed. Some reductions in third tier water usage charges have been incorporated into the tariff proposal. In addition, Class A recycled water supplied to residential customers in new growth areas forms a key part in the delivery of Western Water's Water Supply Demand Strategy. Some of the benefits to be gained include approximately 50% less bulk water required to service these new dual pipe developments. Furthermore, Western Water supports the ESC's recycled water and trade waste pricing principles.

- *Customer Contributions (NCC)*

Western Water supports the VicWater Industry submission on NCC and is proposing to implement a 50% reduction to water NCC where a dual pipe development is proposed.

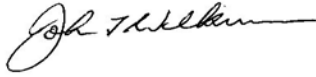
- *Miscellaneous Charges*

Western Water has provided a copy of its core set of miscellaneous services, proposed prices for core miscellaneous services and a brief definition of each core services as per the Draft Decision recommendation. This is contained in the Revised Schedule of Tariffs as attached.

In addition to the points raised above and additional information provided, should further changes be necessary (for example changes to real energy prices or in the event of a change to the WACC), Western Water would like to advise that it's preferred treatment would be to apply any further changes to the fixed sewer tariff.

Should any further information be required, please contact Vicki Pinder, Manager Regulation via email [vicki.pinder@westernwater.com.au](mailto:vicki.pinder@westernwater.com.au) or on 0403 154 923.

Yours sincerely,



**John Wilkinson**  
**MANAGING DIRECTOR**

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Attachments: Revised Schedule of Tariffs  
Template for Final Decision  
Schedule of Amendments to Draft Decision  
Water Costs  
10 Year of Local Reservoir Levels