



**2013-2018 WATER PRICE REVIEW**

**A response to the Draft Determination prepared by the Essential Services Commission.**

**2<sup>nd</sup> May 2013**

## INTRODUCTION

This document is in response to the 2013-18 Water Price Review Draft Determination Volume II prepared by the Essential Services Commission (ESC). It is a concise pragmatic response dealing only with issues that impact on South Gippsland Water (SGW) and issues where the ESC requested further action or clarification.

### Service Standards

The commission proposed to approve the targets submitted by SGW with the exception of the following:

*Draft Water Plan Service Standards Submitted by SGW (not approved by ESC)*

<b>Service Standard</b>	<b>5 yr Average 2008-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
1) Average time taken to attend bursts and leaks (priority 3) (minutes)	374.44	600	600	600	600	600
2) Average unplanned customer minutes off water supply (minutes)	22.11	30	30	30	30	30
3) Average duration of planned water supply interruptions (minutes)	220.79	250	250	250	250	250

In South Gippsland Water's view service standards are a set of clear and public criteria with explicit indicators that define the service delivery performance by which services can be monitored and reviewed.

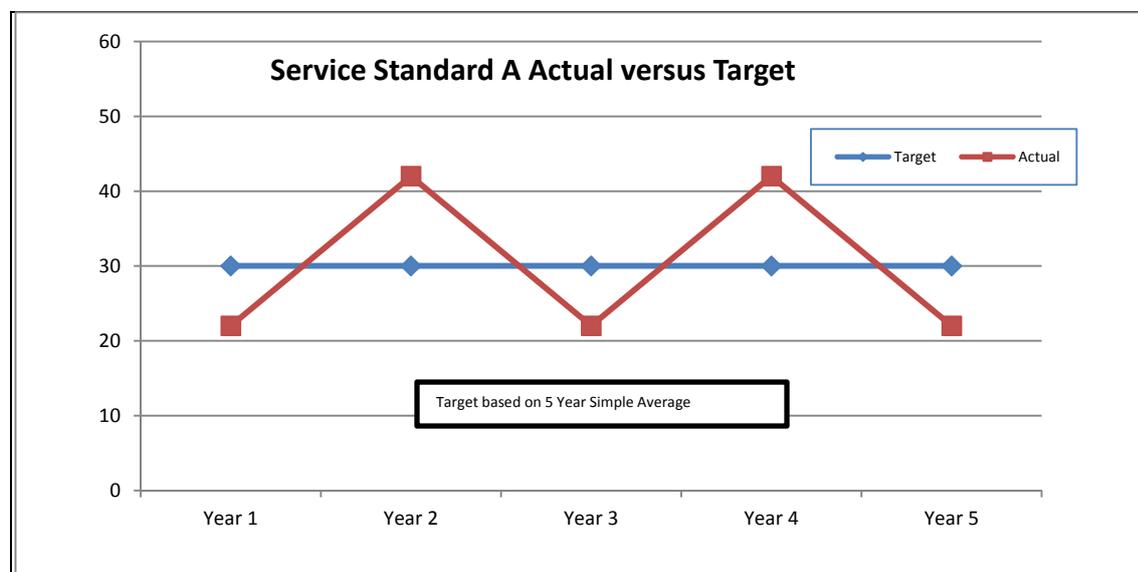
The standards define the quality of service that are provided, and as such need to be set at a level that can be achieved within the current resources and with clear, targeted and measurable improvement goals.

The purpose of service standards is to

- Assist customers in knowing what to expect in relation to the quality of service delivery
- Maximise satisfaction and confidence with services
- Support provision of consistently high quality service delivery
- Encourage continuous improvement and identify specific areas for improving service quality
- Foster a collective commitment to quality through a common set of clear and measurable criteria
- Provide for audit of the quality of service
- Meet reporting and accountability requirements
- Assist with monitoring and evaluation processes

Therefore, in general response, it should be noted that the use of historical averages for setting service standards will be flawed when results fluctuate substantially (especially based on externalities like climatic conditions).

In simple terms it may provide a standard that is breached one in every two years as demonstrated in the diagram below (contrary to the principle of “achievability”). If historical averaging is to be utilised by the ESC as the method for setting service standards they should be renamed “average performance indicators”.



**1. Average time taken to attend bursts and leaks (priority 3)**

SGW cannot reconcile the ESC Audit data of 374.4 minutes and believes the historical average is more in the order of 470 with a low of 390 and a high of 516 over the recent past. If it was set as an average South Gippsland Water would have failed in meeting its target in 2010/11 and 2011/12. The standard has already been lowered from 1,440 to 600 minutes and while SGW believes that 600 minutes is appropriate, it is prepared to lower it further to 500 minutes.

**2. Average unplanned customer minutes off water supply (minutes)**

This standard is a product of the “Average unplanned frequency of water supply interruptions (ratio)” and the “Average duration of unplanned water supply interruptions (minutes)”. To set it in isolation is inappropriate. This standard can heavily depend on climatic conditions during the year (wet or dry) and location of the work, i.e. sizes of SGW towns vary significantly from 100 people to 6,000 people.

The “Average duration of unplanned water supply interruptions (minutes)” is proposed as 100 minutes and has been accepted by the ESC as an appropriate target.

The “Average unplanned frequency of water supply interruptions (ratio)” averages 0.22 over the last 5 years but has fluctuated from 0.08 to 0.36 dependant on a number of externalities, including climatic conditions (the historical average is heavily skewed by the 0.08 result in 2011/12 – a wet year).

Given that this standard is dependent on the targets of two other service standards, the wide fluctuation in results over the last five years, and the reduction in target from Water Plan 2, SGW believes that a proposed target of 25 minutes (reduced from 33 in Water Plan 2) is appropriate.

### **3. Average planned customer minutes off water supply (minutes)**

This standard is a product of the “Average planned frequency of water supply interruptions (ratio)” and the “Average duration of planned water supply interruptions (minutes)”. To set it in isolation is inappropriate. Planned interruptions are mostly due to air scouring activities.

In the last five years air scouring was suspended during the drought years and there have been some delays, in particular last year, in its reimplementation due to staff transitioning in the air scouring group.

During 2013, SGW undertook a staff restructure to have the air scouring group aligned with the water quality group, and therefore increase the focus on air scouring in order to reduce water quality complaints.

Over the past five years, the “Average planned customer minutes off water supply (minutes)” has been as low as 187 and high as 238. If it was set as an average, South Gippsland Water would have failed in meeting its target in two of the last five years.

The “Average duration of planned water supply interruptions (minutes)” is proposed as 250 minutes (a reduction from 300) and given historical results SGW believes this is still an appropriate target. However, SGW is prepared to vary this further to 240 minutes.

**SGW requests the Essential Services Commission to consider the clarifications above and accept the proposed revised service standards, 1 – 3 below:-**

<b>Service Standard</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
1) Average time taken to attend bursts & leaks (priority 3)(minutes)	500	500	500	500	500
2) Average unplanned customer minutes off water supply (minutes)	25	25	25	25	25
3) Average duration of planned water supply interruptions (minutes)	240	240	240	240	240

## Adjustments to Operating Expenditure

### Labour Costs

The Essential Services Commission has recommended reductions of \$3.3m over the regulatory period which includes applying real growth in wages of 0% based on current DTF policy of allowing only 2.5% (inflation) wage increases in EBA's.

SGW's current EBA expired in September 2012, with negotiations occurring between February 2012 and September 2012. The Enterprise Bargaining Agreement (EBA) has been formally submitted to the Department of Environment and Primary Industry (DEPI) & the Department of Treasury and Finance (DTF) reflecting a 3%, 3.25% and 3.5% increase in years 1, 2 and 3 respectively.

The EBA has been approved by DTF / DSE under the old policy of genuine workplace reforms and is currently with the Minister for approval and sign off before submission to Fair Work Australia.

As a result of its timing SGW's EBA falls outside the current government policy which has been applied in making the recommendation to cut labour costs by \$3.3m. In addition, SGW believe that given the old policy was genuine workplace reforms rather than wage savings, SGW are being hit for productivity savings on top of wage savings. This is effectively a double hit for productivity.

**SGW therefore request that ESC consider the following reduction in adjustments to wages which reflects the increases within the new EBA awaiting approval and a 2.75% (inflation) per annum after its expiry.**

*ESC Recommendation Regarding Wages;*

Operating Exp Item	Actual 2011/12	2013/14	2014/15	2015/16	2016/17	2017/18
Proposed labour Exp	7.165	7.663	7.849	8.140	8.357	8.665
ESC suggested Adjustments		-0.260	-0.450	-0.660	-0.880	-1.100
ESC Proposed Adjusted		7.403	7.399	7.480	7.477	7.565

SGW Proposal re changes to Wages

Operating Exp Item	Actual 2011/12	2013/14	2014/15	2015/16	2016/17	2017/18
Proposed labour Exp	7.165	7.663	7.849	8.140	8.357	8.665
SGW suggested Adjustments		-0.088	-0.217	-0.349	-0.566	-0.783
SGW Proposed Adjusted		7.575	7.632	7.791	7.791	7.882

*Note: includes increases in FTE's as approved.*

## **Defined Benefit**

SGW welcomes the recovery of the Defined Benefit Unfunded Superannuation call made in 2012. SGW, however challenges the period of 15 years over which the recovery has been allowed for the following reasons:

- There have been four Defined Benefit calls over the last 15 years.
- The VBI Index reached a high of 126 in 2005, however subsequent calls have still occurred reflecting the volatility of the fund.
- Vision super have geared the payback over 15 years as a convenience to local government and not for any other reason.
- This is a “one off” decision to recover over 15 years due to the size of the call.

In addition SGW has received the following advice from Vision Super

*The following legislation applies and impacts the future calls of defined benefit funds.*

*SUPERANNUATION INDUSTRY (SUPERVISION) REGULATIONS 1994 - REG 9.17*

*Technical insolvency -- operating standard*

*The trustee of a defined benefit fund that is taken to be technically insolvent for the purposes of these regulations must either:*

*(a) initiate a program in accordance with this Division that is designed by an actuary to return the fund to a position that would enable the actuary to certify the solvency of the fund in a funding and solvency certificate in accordance with regulation 9.10 not later than 5 years after the date on which the technical insolvency commenced; or*

*(b) initiate winding-up proceedings in accordance with Division 9.4.*

Note that if the fund WAS NOT technically insolvent at the date and if the Vested Benefits Index is under 95% and the scheme is unfunded, the regulator imposes a “plan” on each occasion.

That means that each time we may have an unfunded liability, Vision needs to negotiate with APRA and they may enforce a shorter period.

Furthermore, there are proposed changes for the Prudential Standards SPS 160 Defined Benefits Matters, which is looking at making this period three years. This is in a final proposed stage but yet to be passed.

This indicates that the current 15 year agreement with APRA is potentially a “one off” purely to alleviate the financial impost to employers based on the quantum of the call and our endeavours to reduce the potential burden for some employers who are not in a great financial position.

**SGW requests that the Unfunded Call be allowed to be recovered over the 5 year Water Plan 3 period and believes that the ESC need to consider carefully that there may be additional calls made during Water Plan 3, which would further compound the recovery issue.**

**Demand**

SGW Accept the Draft Determination regarding Demand, except 2012/13 Non Residential Vacant Land average consumption of 350.

This was the figure proposed by SGW in its Water Plan, however, with further review of past demand we believe that this figure is flawed and should now be adjusted to 335 for the 2012/13 base.

This is based on reviewing the latest demand and averages over the last 5 years.

Refer table below: Average Annual Water Consumption



EAST / WEST AREA	2008/09			2009/10			2010/11			2011/12			2012/13		
	Residential	Non-Residential	Total												
1. General Tariff	141	356	178	132	316	163	130	351	167	127	320	159	130	350	167
2. Vacant Land	45	167	70	45	161	70	46	159	71	48	111	74	46	165	71
3. Agreements	-	978	978	-	860	860	-	714	714	-	719	719	-	720	720
4. Concessional	-	301	301	-	305	305	-	268	268	-	271	271	-	270	270
	133	442	210	126	396	192	124	380	186	122	364	180	124	381	185
<b>SOUTHERN AREA</b>															
Service Charge															
1. General Tariff	109	271	118	106	291	115	98	277	107	101	280	110	102	280	111
2. Vacant Land	37	4	35	40	5	37	41	5	38	40	12	38	41	10	39
3. Agreements	-	1,440	1,440	-	1,287	1,287	-	1,273	1,273	-	1,236	1,236	-	1,265	1,265
4. Concessional	-	601	601	-	526	526	-	520	520	-	452	452	-	515	515
	104	536	140	102	504	134	94	486	126	97	465	127	98	483	130
	118	464	176	113	421	164	108	405	157	108	389	154	110	406	158

**SGW request the adjustment of the 2012/13 Non Residential average consumption base from 350 to 335.**

## Living Melbourne Living Victoria Expenditure

The Essential Services Commission has removed the Living Melbourne Living Victoria expenditure proposed in Draft Water Plan 3 for the reason that no specific projects have been identified.

Since the initial visit by Deloitte, SGW has submitted a project to the Office of Living Victoria and received advice on 8<sup>th</sup> April 2013 that the project has been accepted to move to stage two.

The specific project identified and accepted to proceed to stage two is registered with the Office of Living Victoria (OLV) as project number 153821 - South Gippsland Water Nyora WWTP Managed Aquifer Recharge Feasibility.

The breakdown of the estimated cost to SGW for the proposal is as follows:

- a) \$100,000 – feasibility study with assistance of a specialist consultant
- b) \$150,000 – installation of monitoring bore
- c) \$20,000 – project management by South Gippsland Water.

South Gippsland Water is seeking funding from OLV toward this project and is expected to contribute \$ for \$

SGW will fund the project management component from within current wages budget.

**SGW is requesting ESC consider reversing their decision to not allow the \$50,000 per annum and approve the inclusion of the \$125,000 in operating expenditure in Year 1 of WP3 given the recent announcement of the project acceptance by OLV.**

## EPA Fees

SGW made an error in submitting the draft template. Inadvertently including an annual payment of \$50,000 to the Environment Protection Authority for joint catchment management activities.

This \$50,000 per annum was included in EPA licence fees, however while it is paid to the EPA it should not have been included in this line item. Rather this should be included in operating expenditure and not be removed in entirety as the ESC is suggesting in the draft determination.

The payment is for part funding of an authorised EPA Catchment Officer to undertake assessments investigations and inspections of premises within South Gippsland Water's declared water supply catchments that have the potential to cause pollution of waterways. The program is an important component of South Gippsland Water's Safe Drinking Water Management System.

**SGW acknowledge that the EPA has advised its licence to the ESC for WP3. However, South Gippsland Water request that the \$50,000 miss-allocated in our draft template be allowed as operating expenditure in the final determination.**

## **Additional Operating Expenditure Request**

Since the draft determination SGW has identified an additional new initiative for ongoing Operating Expenditure which it proposes to include in the final determination.

SGW has identified ongoing issues with Bio-Solid Waste from the Corporation's Waste Water Treatment Plants. Traditionally SGW has stockpiled this waste on site at the 11 Waste Water Treatment Plants with adequate room to do so.

SGW has recently identified that the ongoing storage space on site is dwindling, and in addition EPA has identified that this method is not an ideal sustainable way of dealing with Bio-solid Waste.

As a result of a recent review of Waste Water Treatment Plant Waste management, SGW has identified that the preferred option is for drying and stockpiling the waste at our Leongatha Waste Water Treatment site. Waste would be dried and stockpiled until the water content is reduced to an acceptable level in order to be reused. Equipment and facilities have/are to be constructed/purchased during 2012/13

*Additional operating costs per annum include:*

<b>Item</b>	<b>Cost</b>
Bob Cat fuel, rego, insurance and maintenance	\$9,850
Lab Testing of Waste Stockpiles	\$10,985
Bio-Solids reuse transport	\$10,500
Bio-Solids spreading at reuse sites	\$14,700
Labour costs	\$25,475
<b>Total additional New initiative OPEX</b>	<b>per annum \$71,510</b>

*Note: Labour Costs will be absorbed within a current role therefore total new OPEX sought in WP3 is \$40,035 per annum.*

**SGW request that the ESC approve additional new Initiative Operating Expenditure of \$40,035 per annum**

## **CAPITAL EXPENDITURE**

### **Poowong Loch Nyora Sewerage Scheme**

SGW sent a letter to the Essential Services Commission on the 15<sup>th</sup> April 2013 under separate cover regarding this project and we understand the ESC has received many submissions with respect to the project.

South Gippsland Water reiterates its request to the Essential Services Commission that;

- The Corporation will take a broader perspective of the project and perform a complete review of the scope of the scheme and potential solutions with the aim of improving the cost/benefit ratio.
- The review includes alternate options to improve the health and amenity of the townships including alternative technologies and treatment solutions, together with the potential for reduced development capacity.
- Timing for the review, 6 – 9 months.
- A notional \$20M be provided in Water Plan 3 capital expenditure.

### **Foster Waste Water Treatment Plant Upgrades**

ESC have recommended the removal of Foster Waste Water Treatment Plant Stage 1 from the Water Plan 3 Capex program.

SGW is reluctant to remove the Capex from WP3 as this will cause the breach of a previously issued and subsequently removed Pollution Abatement Notice (PAN) from EPA as summarised below.

This information has also been provided to Deloittes.

- PAN issued on 21<sup>st</sup> January 2011
- PAN Step 1 – must engage a suitably qualified consultant to provide options to meet water quality limits. This was done on 8<sup>th</sup> February 2011.
- PAN Step 2 – detailed report for long term strategy must be developed. Completed 23<sup>rd</sup> February 2011.
- PAN Step 3 – provide consultants report with interim options including achievable timeframes. Completed 21<sup>st</sup> April 2011.
- Consultants report detailed additional land to be purchased December 2012, Design and upgrade of plant September 2012, Construction June 2013 and Commission July 2013, Additional Irrigation January 2014
- Formal PAN Revocation Issued 11<sup>th</sup> January 2012
- Email from EPA – 11<sup>th</sup> January 2012 noting PAN revoked however expectation that the recommendations within the report be implemented. Any failure to do so would result in a new PAN being issued.

South Gippsland Water have staged the suggested timelines from the original report across WP3, WP4 and WP5 to reduce pricing impact. The EPA have agreed to this.

**SGW request that Foster WWTP Capex be included in WP3. Omission of this funding may result in the Foster WWTP being issued with another PAN and potentially require all Capex to be performed immediately in order to meet the previously issued PAN.**

### **Additional Capital Costs Required for Water Plan 3**

#### **IT Capital Costs**

Since submitting is Draft Water Plan 3, SGW have experienced extreme performance issues in their IT Communication Wide Area Network (WAN).

The issues are a result of significant increase in remote workforce as a result of workplace reform and productivity initiatives implemented as part of the EBA negotiations.

South Gippsland Water have determined via quotes that the cost to upgrade the network to a usable standard will require an additional \$125,000 of BAU Capex.

In their draft report Deloitte's recommended that this be included, however ESC did not consider this in the draft determination.

**SGW request that the additional \$125,000 be allowed in Year 1 of Water Plan 3.**

#### **Regulatory Depreciation**

SGW did submit the expected date for completion for all major capital projects as part of the WP3 submission, however agrees that in the calculation of regulatory depreciation included the assumption that capex each year was fully commissioned when this should have been adjusted for the completion dates of the projects.

All major projects would remain in Work in Progress until the completion date at which time they would be included for accounting and regulatory depreciation.

The Poowong, Loch & Nyora Sewerage Scheme impacts on this calculation:

<b>Project</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>Total</b>
Total proposed Capex program timing	9.65	12.88	16.05	17.83	8.18	64.58
PLN Project timing adjustments required	(1.50)	(5.21)	(6.37)	(6.66)	20.00	—
Total Capex distributed for depreciation calculations	8.15	7.67	9.68	11.17	28.18	64.58

The Northern Towns Connection Project has assumed annual matching government contributions, therefore, has no impact on the regulatory asset base.

All other capex projects will be capitalised / commissioned in the year of planned capital expenditure.

## Tariff Schedule

SGW's Draft WP3 requested that tariffs increase by an average of 1.9% per annum. ESC have determined that SGW reduce Tariffs by an average 1.7% per annum over the five year period.

SGW has resubmitted the tariff plan based on the draft determination adjusted for the issues raised in this paper. The resultant tariff increases is on average a 0% real increase per annum, while maintaining pricing signals for volumetric usage and pursuing the alignment of water service charges tariffs between Eastern and Southern regions as was proposed after consultation with the community.

Refer to table below for proposed pricing path in real dollars.

<b>SOUTH GIPPSLAND WATER</b>						
<b>2013 to 2018 Tariff Schedule</b>						
<b>REAL Prices - 2012/13</b>						
	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<i>Tariff and Price Component</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>
<b>1.1 Water access fees (per annum)</b>						
<b>East/West District</b>						
Access fee – Developed	305.40	305.40	305.40	305.40	305.40	305.40
Access fee – Undeveloped	305.40	305.40	305.40	305.40	305.40	305.40
Access fee – Agreements	277.65	277.65	277.65	277.65	277.65	277.65
Access fee – Concessional	250.35	250.35	250.35	250.35	250.35	250.35
<b>Southern District</b>						
Access fee – Developed	355.35	342.38	329.89	317.85	305.40	305.40
Access fee – Undeveloped	355.35	342.38	329.89	317.85	305.40	305.40
Access fee – Agreements	319.35	307.69	296.47	285.65	277.65	277.65
Access fee – Concessional	250.35	250.35	250.35	250.35	250.35	250.35
<b>1.2 Water usage charges (per kL)</b>						
Volumetric fee – Murray Goulburn	1.99	2.02	2.04	2.07	2.10	2.13
Volumetric fee – Change 1st Nov.	1.64	1.66	1.68	1.71	1.73	1.75
<b>Unmetered Fee</b>						
Change on 1st Nov. Based on 15kl per bill@new vol fee	73.80	74.78	75.78	76.79	77.82	78.85

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<i>Tariff and Price Component</i>						
	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>
<b>1.3 Sewerage access fees (per annum)</b>						
<b>Residential and non-residential</b>						
Access fee – Developed	452.25	453.92	455.60	457.29	458.98	460.67
Access fee – Undeveloped	265.50	266.48	267.47	268.46	269.45	270.45
<b>1.4 Cistern access fees (per annum)</b>						
1-2 Cisterns	146.55	147.11	147.67	148.23	148.79	149.36
3-5 Cisterns	385.50	386.96	388.44	389.91	391.39	392.88
6-10 Cisterns	746.25	749.09	751.93	754.79	757.66	760.54
11-15 Cisterns	1194.90	1199.44	1204.00	1208.57	1213.17	1217.78
16-20 Cisterns	1992.45	2000.02	2007.62	2015.25	2022.91	2030.60
21-26 Cisterns	2851.65	2862.49	2873.36	2884.28	2895.24	2906.24
27-35 Cisterns	3495.30	3508.58	3521.91	3535.30	3548.73	3562.22
36–Greater Cisterns	3993.90	4009.08	4024.31	4039.60	4054.95	4070.36
<b>Volume Charge – (per kL)</b>						
Volume Charge	1.64	1.66	1.68	1.71	1.73	1.75
<b>1.5 Minor trade waste fees</b>						
<b>Application fees (per application)</b>						
Category 1	111.00	111.44	111.89	112.34	112.79	113.24
Category 2	177.00	177.71	178.42	179.13	179.85	180.57
Category 3	324.00	325.30	326.60	327.90	329.22	330.53
<b>Access fees (per annum)</b>						
Access fee - Category 1	594.75	597.01	599.28	601.56	603.84	606.14
Access fee - Category 2	789.90	792.90	795.91	798.94	801.98	805.02
Access fee - Category 3	979.95	983.67	987.41	991.16	994.93	998.71
<b>Volumetric fees (per kL)</b>						
Change on 1st Nov.	0.79	0.7930	0.7960	0.7990	0.8021	0.8051
<b>Quality fees (per kg)</b>						
BOD	0.6125	0.6150	0.6174	0.6199	0.6224	0.6248
SS	0.5775	0.5798	0.5821	0.5845	0.5868	0.5891
Nitrogen	2.5850	2.5953	2.6057	2.6161	2.6266	2.6371
Phosphorous	14.7250	14.7839	14.8430	14.9024	14.9620	15.0219
<b>Additional sampling (per sample)</b>						
All Categories						
<b>Exceedence fees (per kg)</b>						
Oil & Grease	0.0925	0.0929	0.0932	0.0936	0.0940	0.0944
Sodium	0.0925	0.0929	0.0932	0.0936	0.0940	0.0944
TOS	0.6600	0.6626	0.6653	0.6680	0.6706	0.6733

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<i>Tariff and Price Component</i>						
	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>
<b>Backflow (SGW Supplied)</b>						
20-25mm	279.75	280.81	281.88	282.95	284.03	285.11
25-25mm	308.25	309.42	310.60	311.78	312.96	314.15
32.32mm	368.70	370.10	371.51	372.92	374.34	375.76
40-40mm	385.20	386.66	388.13	389.61	391.09	392.57
50-55mm	475.35	477.16	478.97	480.79	482.62	484.45
80-80mm	783.90	786.88	789.87	792.87	795.88	798.91
100-100mm	1001.40	1005.21	1009.03	1012.86	1016.71	1020.57
150-150mm	1308.00	1312.97	1317.96	1322.97	1328.00	1333.04
200-200mm will not supply						
Backflow Application Fee	239.00	239.96	240.92	241.88	242.85	243.82
Fire Service Fees						
Inspection Fee						
20mm	67.95	67.95	67.95	67.95	67.95	67.95
25mm	67.95	67.95	67.95	67.95	67.95	67.95
32mm	67.95	67.95	67.95	67.95	67.95	67.95
40mm	67.95	67.95	67.95	67.95	67.95	67.95
50mm	67.95	67.95	67.95	67.95	67.95	67.95
80mm	67.95	67.95	67.95	67.95	67.95	67.95
100mm	67.95	67.95	67.95	67.95	67.95	67.95
150mm	67.95	67.95	67.95	67.95	67.95	67.95
Reseal Fee	220.00	220.00	220.00	220.00	220.00	220.00
Additional Meter	19.00	19.00	19.00	19.00	19.00	19.00
<b>1.6 New customer contributions (per lot)</b>						
<b>Water</b>						
Category one charge - Lot size < 450 sq m	608.00	900.00	1150.00	1450.00	1750.00	2030.00
Category two charge - Lot size 450 - 1350 sq m	1217.00	1370.00	1530.00	1700.00	1875.00	2030.00
Category three charge - Lot size > 1350 sq m	2434.00	2365.00	2290.00	2225.00	2155.00	2030.00
<b>Sewer (excluding Poowong, Loch Nyora and Alberton)</b>						
Category one charge - Lot size < 450 sq m	608.00	900.00	1150.00	1450.00	1750.00	2030.00
Category two charge - Lot size 450 - 1350 sq m	1217.00	1370.00	1530.00	1700.00	1875.00	2030.00
Category three charge - Lot size > 1350 sq m	2434.00	2365.00	2290.00	2225.00	2155.00	2030.00
<b>Sewer (Poowong Loch &amp; Nyora)</b>						
All lot sizes	N/A	N/A	N/A	N/A	N/A	10000.00
<b>Sewer (Alberton)</b>						
All lot sizes	N/A	N/A	N/A	N/A	5000.00	4800.00

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<i>Tariff and Price Component</i>						
	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>	<i>Annually</i>
<b>Recycled water</b>						
Category one charge - Lot size < 450 sq m	608.00	900.00	1150.00	1450.00	1750.00	2030.00
Category two charge - Lot size 450 - 1350 sq m	1217.00	1370.00	1530.00	1700.00	1875.00	2030.00
Category three charge - Lot size > 1350 sq m	2434.00	2365.00	2290.00	2225.00	2155.00	2030.00
<b>1.7 Miscellaneous fees and charges</b>						
Property information statements	46.00	46.00	46.00	46.00	46.00	46.00
Special meter readings	23.50	23.50	23.50	23.50	23.50	23.50
As constructed charge	63.50	63.50	63.50	63.50	63.50	63.50
Tapping fee (20mm)	349.50	349.50	349.50	349.50	349.50	349.50
Plumbing Industry Commission (PIC) Fee	196.50	196.50	196.50	196.50	196.50	196.50
Standpipe water sales						
- registered users	4.92	4.99	5.05	5.12	5.19	5.26
- non-registered users	6.56	6.65	6.74	6.83	6.92	7.01
Septic tank waste receival (kL)	23.50	23.59	23.69	23.78	23.88	23.97

## **New Customer Contributions.**

SGW has rerun the models for New Customer Contributions (NCC) based on the draft determination. The impact of the requested reduction in tariffs has resulted in increased NCC's produced by the model as a result of lower revenue recovery over the 30 years in each area.

The Poowong Loch and Nyora Sewerage scheme has been requested to be removed from WP3, however SGW and the local community have, we believe, demonstrated the need to include some expenditure (\$20M) in WP3 and as a result has left \$20M (real dollars) in WP3 capex for the purposes of calculating NCC's.

In addition, there is a clear mandate from the ESC based on the WIRO to send pricing signals using the model.

SGW has run the model for areas across the service region and based on the administrative burden that would be placed on SGW to have differential NCC's within each 11 sewer districts and 13 water districts and the fact that the NCC calculated would not be materially different between a majority of areas, SGW proposes to have three different standard NCC's which send locational price signals to the areas required.

As a result of re-running the models SGW has formulated the following proposal for the ESC regarding standard NCC charges for WP3.

	<b>Proposed Draft WP3</b>	<b>Proposed based on Draft Determination</b>
<b>Water NCC</b>	\$1,010	\$2,030
<b>Waste Water NCC</b>	\$1,010	\$2,030
<b>PLN Waste Water NCC</b>	\$5,000 reduced from model outcome of (\$28,032)	\$10,000 reduced from model outcome of (\$19,028)
<b>Alberton Waste Water NCC</b>	N/A	\$5,000

South Gippsland Water is proposing to reduce the PLN charge from the suggested model charge of \$19,388 to a more tenable \$10,000 per lot. SGW believe while sending locational price signals, the \$19,388 would stifle growth in that area hence the requested \$10,000 charge.

The Alberton sewerage scheme also poses an interesting situation over WP3 period. The scheme charges will be \$10,000 per developed residential lot and \$5,000 per vacant lot in 2013/14 when the scheme is implemented. However, there is a need to ensure equity over the first few years of the scheme in order to avoid a situation where a new customer may in fact pay a significantly lesser charge to gain scheme access only a short time after an existing customer (supposedly subsidised by government grants). SGW will require a transitional plan for Alberton NCC's commencing at \$5,000 per vacant lot until 2017/18 after which it can return to the broader region NCC charge 1/7/18. While the NCC model produces \$0 contribution for Alberton residents as a result of it being a fully funded scheme, to charge scheme participants \$10,000 one day then the next day charge new connections the standard NCC would be inequitable. As a result SGW requests that a 5 year transition plan occur in Alberton to smooth this discrepancy.

## Transition Plan

SGW NCC charges are proposed to increase from an average of \$2,434 (Water & Waste Water) to an average of \$4,060 over the WP3 period (with the exception of PLN & Alberton).

In addition the current charge is based on lot size, and SGW proposes to remove this regime and move to a flat charge for Water and Waste Water. As a result SGW request a transition plan to be phased in over WP3 as tabled below:

Type	Size	Existing	Yr1	Yr2	Yr3	Yr4	Yr5
<b>Water – ALL</b>	< 450 sqm	\$613	\$900	\$1,150	\$1,450	\$1,750	\$2,030
	450 – 1350 sqm	\$1,217	\$1,370	\$1,530	\$1,700	\$1,875	\$2,030
	>1350 sqm	\$2,434	\$2,365	\$2,290	\$2,225	\$2,155	\$2,030
<b>Waste Water All (exclude PLN)</b>	< 450 sqm	\$613	\$900	\$1,150	\$1,450	\$1,750	\$2,030
	450 – 1350 sqm	\$1,217	\$1,370	\$1,530	\$1,700	\$1,875	\$2,030
	>1350 sqm	\$2,434	\$2,365	\$2,290	\$2,225	\$2,155	\$2,030
<b>Waste Water PLN</b>	All sizes	n/a	n/a	n/a	n/a	n/a	\$10,000
<b>Waste Water Alberton</b>	All sizes	n/a	n/a	n/a	n/a	\$5,000	\$4,800
<b>Recycled Water</b>	< 450 sqm	\$613	\$900	\$1,150	\$1,450	\$1,750	\$2,030
	450 – 1350 sqm	\$1,217	\$1,370	\$1,530	\$1,700	\$1,875	\$2,030
	>1350 sqm	\$2,434	\$2,365	\$2,290	\$2,225	\$2,155	\$2,030

**The proposed negotiation framework, definitions, Map of standard NCC charge areas and models will be submitted as an individual paper due to the size of the paper.**

## Miscellaneous Fees

In addition to providing water and wastewater services, South Gippsland Water also provides other secondary services in connection with its primary prescribed services. These are known as miscellaneous services and are also prescribed services under the WIRO.

South Gippsland Water has identified the following core miscellaneous services and provides costs and descriptions below:

<b>Property Information Statements</b>	<i>Fee imposed for providing a certificate issued in accordance with Section 158 of the, Water Act 1989.</i>	\$46.00 per application (1/1/13 prices)
<b>Special Meter Readings</b>	<i>Fee imposed for providing a certificate which indicates water usage charges up to a specified date. Generally provided, on application, for property sales.</i>	\$23.50 per application (1/1/13 prices)
<b>Administration Developer Fee</b>	<i>Fee charged to cover administration costs for time spent on processing new developer funded applications.</i>	Fee at 6.5% of cost of works excluding GST (1/1/13 prices)
<b>As Constructed Charge</b>	<i>Fee for preparing as constructed asset information from the field then transferring to maps, for both water and sewerage systems.</i>	\$63.50 per allotment (1/1/13 prices)
<b>20mm Tapping Fee</b>	<i>Fee imposed for meter and labour associated in providing a tapping to the water main.</i>	\$349.50 per tapping (1/1/13 prices)
<b>Plumbing Industry Commission (PIC) Fee</b>	<i>Fee imposed for providing sewer plans and processing applications to connect or modify plumbing.</i>	\$196.50 per application (1/1/13 prices)
<b>Standpipe Water Sales</b>	<i>Fee imposed for the sale of water via a metered standpipe.</i>	300% of uniform volumetric rate per kL for registered users, 400% of uniform volumetric rate per kL for unregistered users (1/1/13 prices)
<b>Septic Tank Waste Receptival</b>	<i>Fee imposed on septic tank waste carters, for the disposing of sewage and/or other acceptable waste.</i>	23.50 per kL (1/1/13 prices)

Non-scheduled miscellaneous prices are to be set such that they:

- Reflect the direct costs of service provision (including materials and/or costs associated with contractors);
- Reflect the internal costs incurred by South Gippsland Water such as labour, transport and general overheads;
- For new miscellaneous services, exclude costs previously accounted for in approved prices; and
- Are transparent.

South Gippsland Water proposes to retain pricing at current prices (in real terms) for the duration of the Water Plan period.

As a principle, South Gippsland Water proposes to recover all direct costs plus a 25% contribution to overheads for the provision of non-scheduled miscellaneous services.

Charges to developers would include:

- NCC Charge as per proposed Table above
- Administration developer fee
- As constructed charge
- Gifted assets in accordance with NCC framework.

The administration fee and the as constructed charge are in addition to the NCC and are pure cost recovery of time taken to process the relevant information. These have been miscellaneous charges levied by South Gippsland Water since 2005/06.

NCC are calculated based on incremental revenues, growth capital costs and incremental costs of servicing the additional lots ongoing. The recovery of the above miscellaneous fees are over and above the NCC and a recovery of actual cost at the time of the application.

In summary the miscellaneous fees are cost recover now and the NCC covers cost recovery in the future.