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Goulburn Valley Region Water Corporation

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9 May 2008

Mr Greg Wilson
Chairman
Essential Services Commission
Level 2
35 Spring Street
MELBOURNE 3000

Dear Greg

2008 WATER PRICE REVIEW – 2008-13 DRAFT DECISION – MARCH 2008

I refer to the Draft Decision and thank you for the opportunity to respond and provide further information.

Overall, we are happy with your report and Draft Decision regarding service standards and prices for the next five years. There have been minimal adjustments made to our final Water Plan submitted in October 2007 and we accept the adjustments except for the adjustment relating to Water Treatment Plant filter repairs. This matter will be explained later in this response.

Proposed Retail Tariff Structures for Sewerage Services

At table 7.6 of the Draft Decision it is noted that Goulburn Valley Water (GVW) have a fixed sewerage service charge for residential customers and a fixed charge plus a usage charge for non-residential customers. At page 154 of the Draft Decision, it is reported that non-residential customers with low discharge therefore face significantly higher prices than residential customers with similar levels of discharge.

This in fact is not the case, because the usage charge for non-residential customers is only applied to calculated discharges of greater than 180kLs per annum which is the average discharge for residential customers in our region. Sewerage fees and charges are therefore raised equitably for residential and non-residential customers.

Proposed Schedule of Tariffs

GVW has revised our schedule of tariffs in the Draft Decision Revenue Model and forwarded the revised Revenue Model to the ESC electronically. The revised schedule of tariffs reflect the revised revenue requirement and demand forecast from the Draft Decision, and is submitted for your consideration and approval.



We have not changed the structure of our tariffs, but have changed the percentage increases in price in order to achieve the revised revenue requirement as follows:

	Real Percentage Increase	
	Water Plan October 2007	Draft Decision March 2008
Water Service Fees – Residential and Non-Residential	0%	4.8%
Water Volumetric Charge – Residential and Non-Residential	8.2%	9.5%
Sewerage Service fees – Residential and Non-Residential	6.2%	8.8%
Sewerage Volumetric Charge – Non-Residential	6.2%	8.8%
Trade Waste Charges	6.2%	8.8%

A portion of the increase in total revenue requirement has now been applied to Water Service Fees. The price increase for Water Volumetric Charges remains high to encourage customers to conserve water.

Table 1 – Approved Service Standards

GVW agree that the service standards included in Table 1 are correct and are appropriate standards for the Corporation to endeavour to meet over the five year regulatory period.

Table 2 – Additional Service Standards

GVW agree that the additional service standards included in Table 2 are those proposed in the final Water Plan – October 2007. The additional service standards remain appropriate for the Corporation to endeavour to meet over the regulatory period except for Small Town Scheme Developed Properties Not Connected to Sewer. The Corporation has recently done a lot of work regarding properties not yet connected to sewer. Owners of the majority of properties remaining unconnected are experiencing financial hardship. The Board have resolved that we work patiently with these customers to encourage connection rather than forcing connection via Court action. We therefore wish to amend the target for this additional service standard as follows:

	3 year ave. 2003-06	2008-09	2009-10	2010-11	2011-12	2012-13
Water Plan October 2007 Target (%)	76.0	91.0	93.0	95.0	95.0	95.0
Proposed Revised Target (%)	76.0	87.0	88.0	89.0	90.0	91.0

Table 4 – Regulatory Asset Base and Table 5 – Rolled Forward Regulator Asset Base

GVW agree with the calculation of regulatory asset base from 2005-06 to 2007-08, and the rolled forward regulatory asset base from 2008-09 to 2012-13.



GVW has made one amendment to the Draft Decision financial templates. Between the completion of our Water Plan October 2007, and the review of our operating and capital expenditure conducted by SKM in January 2008, a review of the operation of filters at several water treatment plants was carried out. Consultants concluded that the filters at Shepparton, Kyabram and Broadford water treatment plants required significant repairs.

SKM have confirmed the works are required as part of their review and have recommended an adjustment of \$600,000 to capital expenditure in 2008-09. The adjustment should be to operating expenditure rather than capital expenditure. We have amended the Draft Decision templates by increasing Operating Expenditure and reducing Capital Expenditure by \$600,000 in 2008-09. The adjustment has been recorded on the Amendments to the Draft Decision Financial Template schedule returned to the ESC electronically.

Table 6 – Proposed and Approved Operating Expenditure and Table 7 – Adjustments to Operating Expenditure

GVW agree with the adjustments made to Operating Expenditure and the Approved Operating Expenditure. However, we have made a further adjustment for water filter repairs mentioned above.

Table 8 – Proposed and Approved Capital Expenditure and Table 9 – Adjustments to Capital Expenditure

GVW agree with the adjustments made to Capital expenditure and the Approved Capital Expenditure. However, we have made a further adjustment for water filter repairs mentioned above.

Table 10 – Key Capital Projects

GVW agree with the projects listed and the expected completion dates.

Table 11 – Water Connections and Table 12 – Sewerage Connection

GVW agree with the Draft Decision number of water connections and sewerage connections.

Table 13 – Water Consumption

GVW agree with the Draft Decision total water consumption.

Retail Water and Sewerage Tariffs

GVW note that the Commission proposes to approve our proposed tariff structure on the basis that it is consistent with the WIRO.

Trade Waste Charges

GVW note that the Commission proposes to generally approve our proposed trade waste tariff structure on the basis that it is consistent with the WIRO and the Commission's trade waste pricing principles.



GVW advise that scheduled trade waste prices are applied to all our trade waste customers. Should a situation arise in future where scheduled prices may not be appropriate for a specific customer, then prices will be determined based on the following principles:

- (i) Volumetric and load based prices will, to the extent practicable reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal.
- (ii) Revenue received from each customer will be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand-alone cost of providing the service to the customer in the most efficient manner.
- (iii) The methodology used to allocate common and fixed costs to that customer will be clearly articulated and be consistent with any guidance provided by the Commission.
- (iv) Prices will reflect reasonable assumptions regarding the volume and strength of trade waste produced by the customer.
- (v) Depreciation rates and rates of return used to determine prices will be consistent with those adopted by the Commission in our Price Determination.
- (vi) Customers shall be provided with details of the manner in which prices have been calculated. Where applying these principles result in significant changes to prices or tariff structures, arrangements for phasing in the changes will be considered and any transitional arrangements will be clearly articulated.

Recycled Water

GVW note that the Commission propose to approve our pricing principles for recycled water as set out below.

GVW will set recycled water prices to ensure 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.

Where GVW does not propose to fully recover the costs associated with recycled water, the Corporation will demonstrate to the Commission that:

- (i) The costs and benefits of pursuing the recycled water project have been assessed;
- (ii) The basis on which any revenue shortfall is to be recovered has been identified;



- (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.

GVW will provide details of tariff arrangements for customers on individual contracts where scheduled prices do not apply on request during the regulatory period. This includes the charges and quantities contained within such contracts, how they have been calculated and how they comply with the pricing principles listed above.

Customer Contributions

GVW notes that the Commission proposes to approve the new Customer Contributions per the table below:

	New Customer Contribution Charges (\$ per lot)		
	Category 1	Category 2	Category 3
Water	550.00	1,100.00	2,200.00
Sewerage	550.00	1,100.00	2,200.00

Category 1 for developments which are designed in a manner that will have minimal impact on future water resource demands (lot sizes typically no greater than 450 square metres).

Category 2 for water sensitive urban developments which will require further investment in infrastructure to service these developments (lot sizes typically between 450 and 1350 square metres).

Category 3 for developments that will create demand for water resources over and above high density, water efficient homes (lot sizes typically exceeding 1,350 square metres).

Miscellaneous Services

GVW notes the Commission proposes to approve all core miscellaneous service charges, including proposed definitions and price adjustments over the regulatory period. Further, core charges have been added to our list per the table below to ensure that the core set will generate at least 75% of miscellaneous services revenue.

Core Miscellaneous Service Charges and Definitions

Service	Definition/Description	2007-08 Price (current \$)	Proposed Price Movement
Water Sales via standpipes – per kL.	Water available to cartage contractors who deliver to rural properties and other users including road making	\$1.26	9.5% plus CPI ⁽¹⁾

Service	Definition/Description	2007-08 Price (current \$)	Proposed Movement Price
Information Statements	The provision of property information to solicitors and others to assist with property conveyancing in accordance with Section 158 of the Water Act 1989	\$39.30	CPI
Special Meter Read fee – per read	Meter read requested by property owner to facilitate property conveyancing or tenancy changes	\$21.50	CPI
Meter Fee – 20mm meter	The supply of a meter for the connection of a new property or to replace a damaged meter	\$128.40	CPI
Sewer Connection Fee – per connection	Application fee to connect a property to sewer reticulation	\$120.80	CPI
Septic Tank Waste Receival Fee (per litre)	Fee raised on septic tank waste carters for the receival of septic tank waste	\$0.0335	8.8% plus CPI ⁽²⁾
Grease Trap Waste Receival Fee (per litre)	Fee raised on grease trap waste carters for the receival of grease trap waste	\$0.0894	8.8% plus CPI ⁽²⁾

Prices for all other Miscellaneous Services will be set based on the principle of actual cost except for fire service charges where prices are linked to the same price path as the water service fee tariff.

⁽¹⁾ The price for water delivered via standpipes is to increase at the same rate as water volumetric tariff to maintain relativity and promote water conservation.

⁽²⁾ The price for septic tank and grease trap waste receival is to increase at the same rate as sewerage and trade waste tariffs to maintain relativity.

I hope the information provided above in response to your Draft Decision is sufficient to allow you to form your Final Determination. Please contact me or Graeme Jolly (5832 0441) if you require further information or clarification.

Yours sincerely



Peter Quinn
MANAGING DIRECTOR