

2011/12 Price Review

Melbourne Water's Special Drainage Areas

2011/12 Price Review Process for Melbourne Water's Special Drainage Areas

1. Summary and recommendation

Melbourne Water provides higher levels of drainage and waterway services to residents in Patterson Lakes and the Koo Wee Rup – Longwarry Flood Protection District. In order to recover costs, prices are submitted annually to the Essential Services Commission (ESC) for approval.

The proposed 2011/12 Patterson Lakes price increases are 13% plus CPI for the Tidal Waterways and 11% plus CPI for the Quiet Lakes. The proposed price increases are part of a strategy to achieve cost recovery over the next two regulatory periods. There is no change in the price for the Koo Wee Rup – Longwarry Flood Protection District. The proposed prices have been determined in consultation with precept advisory committees and a communication plan is being developed to explain the new prices.

It is recommended that the ESC approve the proposed 2011/12 special drainage area prices as set out in Table 16, Section 9 of this submission.

2. Introduction

The Water Act (1989) requires the Board of Melbourne Water to levy prices for its drainage services in the metropolitan general rate area and special drainage areas on an annual basis. General rate area prices are set consistent with the 2008/09 to 2012/13 price path determined by the ESC based on proposals included in Melbourne Water's 2008 Waterways Water Plan.

Special drainage areas refer to areas where Melbourne Water provides a higher level of drainage and waterway services, which includes Patterson Lakes and the Koo Wee Rup – Longwarry Flood Protection District. Retaining high level pricing principles (rather than explicit price caps) for special drainage area prices was recommended by Melbourne Water in the 2008 Waterways Water Plan given the active role of customer advisory committees and Melbourne Water's proposal to review the basis for special area prices within the 2008 regulatory period. The ESC accepted this approach.

Special drainage area prices in Patterson Lakes are currently based on a property's 1990 Site Value (SV). Koo Wee Rup – Longwarry Flood Protection District prices are based on 1990 Net Annual Values (NAV), subject to a minimum fee of \$56.40.

Melbourne Water's prices for waterways and regional drainage services are calculated by multiplying a rate in the dollar by the 1990 Net Annual Value (NAV) of a property, subject to a minimum price. Higher rates in the dollar are charged in the special areas.

Patterson Lakes ratepayers pay both the metropolitan waterways and drainage rate and the additional special area rate to reflect the higher level of service received from drainage services in the area.

Properties within the Koo Wee Rup - Longwarry Flood Protection District do not pay the metropolitan waterways and drainage rate. They pay an exclusive rate that reflects the higher levels of drainage service provided in the area. Differential rates have been established for divisions A and B within the district to reflect the level of flood protection provided by the drainage system.

The remainder of this submission provides further information in respect of the precept areas and outlines the various pricing issues, Melbourne Water's proposed 2011/12 prices, expenditure and revenue for its special drainage areas, longer term pricing reform, and consultation and communication plans.

3. Background

Special drainage areas represent 0.2% of Melbourne Water's waterways customer base and consist of the Patterson Lakes residential estate and the Koo Wee Rup – Longwarry Flood Protection District.

Melbourne Water assumed responsibility for the special rating areas when it merged with the Dandenong Valley and Western Port Authority (DVWPA) in 1991.

Services Provided

Table 1 provides a summary of the services provided to each area.

Table 1: Summary of special rating area services

Special Area	Area (Sq Km)	Customers	Services provided
Patterson Lakes	1.6	1,260	Management of recreation related assets
Koo Wee Rup – Longwarry Flood Protection District	460.7	3,590	Flood protection

Patterson Lakes

Melbourne Water manages the waterways and flood protection structures within the Patterson Lakes residential estate which incorporates a system of tidal canals (the Tidal Waterways area) and three freshwater lakes (the Quiet Lakes area). Waterway services involve maintenance of predominantly recreational assets which include canals, private beaches and jetties. The services provided include:

- Maintenance and renewal of capital assets (jetties and retaining walls)
- Periodic de-silting

- Beach raking monthly
- Beach grooming from October to March
- Debris collection (leaves and litter) and removal monthly
- Removal of fish pests such as Carp
- Water quality testing weekly
- Beach weed spraying monthly
- Operation of the bore pump that supplies water to the Quiet Lakes
- Lighting maintenance
- Grass maintenance
- Water quality management actions.

Koo Wee Rup - Longwarry Flood Protection District

The Koo Wee Rup - Longwarry Flood Protection District is a former swampland area that has been extensively drained to convert the land for intensive grazing and cropping uses. Melbourne Water provides drainage and flood protection services to the area by maintaining local and main carrier drains, culverts, floodgate structures, occupational bridges, fences and flood warning systems in the area to a design flood event. The maintenance program for this district is more intensive than that undertaken across other areas serviced by Melbourne Water due to the concentration of drains and the significant flood risk to the area.

Customer Committees

Due to the unique service requirements of Patterson Lakes and the Koo Wee Rup - Longwarry Flood Protection District areas, local representative advisory committees consulting on service levels and charging arrangements were established under the *Melbourne and Metropolitan Board of Works Act 1958* (MMBW Act). As the *MMBW Act* was repealed from the 1 July 2007, Melbourne Water continues to consult with customer committees under general provisions included in the amended *Water Act 1989*.

The role of the Patterson Lakes Advisory Committee (PLAC) and the Koo Wee Rup – Longwarry Flood Mitigation Advisory Committee is to provide advice on maintenance and renewal related issues, assist in prioritising works and to provide advice on setting prices for the areas.

Regular meetings are held with the Patterson Lakes and the Koo Wee Rup – Longwarry Flood Mitigation Advisory Committees (on average every 2 months) to provide a forum for monitoring activities undertaken in the areas and to discuss future service requirements. Rates are discussed with the Advisory Committees on an annual basis before they are submitted to Melbourne Water’s Board for approval and subsequently to the ESC. Further information on the consultation process for the 2011/12 prices can be found in Section 4.

4. Cost increases and revenue under recovery

Patterson Lakes - Tidal Waterways

In the Tidal Waterways, property owners paid the initial capital cost of waterways assets (eg. tidal gates, jetties) directly to the developer. For over 20 years, special precept area charges were set to pay to maintain assets only, not replace them. Precept rates have, therefore, not been sufficient to cover the cost of replacing assets

in the Tidal Waterways and many assets now require replacement. This is putting upward pressure on the special precept area charges.

Melbourne Water has been working with the PLAC to establish a price path that will enable it to achieve cost recovery over the medium term (by 2022/23). This process has seen the Tidal Waterways precept charge increased by 5% in 2008/09, 20% plus CPI in 2009/10 and 18% plus CPI in 2010/11. Prices will need to keep increasing to cover the cost of the asset renewal program.

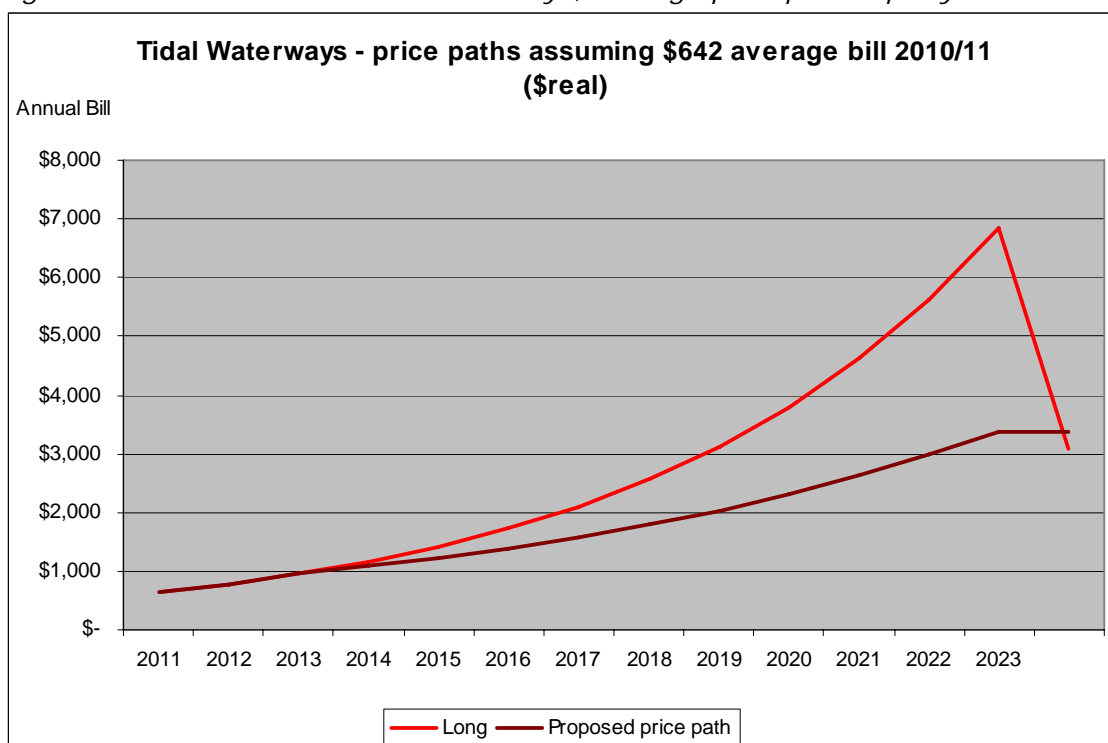
Sustained annual price increases of 26% plus CPI until the end of the next two regulatory periods (2022/23) would be required to cover the latest cost estimate of the renewals program. Melbourne Water does not consider that this is a viable option.

Taking into account likely community views, a revised price path was calculated consisting of the minimum annual price increases necessary for annual precept revenue to cover expenditure and achieve a sustainable price by 2022/23. The revised price path results in the proposed 2011/12 price increases, and subsequent annual increases until 2022/23, being a more sustainable 13% plus CPI. This can be seen in Figure 1, where the sustainable price path tracks to just over \$3,000 by 2022/23.

The proposed price path has been achieved via a transitional arrangement to full revenue recovery until 2022/23 and by Melbourne Water taking over the Tidal Waterway's 42% contribution to the renewal of the tidal gates is proposed to be recovered through the general drainage rate (in recognition of the amenity afforded by the access the gates provide to the wider community for recreational activity and the broad community benefit provided in terms of flood protection and avoided drainage pump stations). The long term full cost recovery price path is also presented in Figure 1 and the difference between the two price paths is the proposed cost/revenue requirement that will not be recovered from the Tidal Waterways customers.

The total revenue shortfall to be absorbed over the next 12 years by Melbourne Water (exclusive of the Tidal Gates) is likely to be \$7.5M in present value terms (\$2010/11). Any such shortfall will need to be funded via efficiency savings, project reprioritisation, borrowings or reduced dividends.

Figure 1 – Price Paths for Tidal Waterways, average precept rate per year



At its meeting on 9 February 2011, the PLAC Tidal Waterways Sub Committee agreed by a majority of 3 to 2 to the 13% plus CPI price increase for 2011/12. The minority which were opposed believe that the City of Kingston should take over provision of core precept services (jetty and beach maintenance) to be paid for out of general council rates and that the remaining services provided by Melbourne Water are of a general rather than special nature and should therefore be paid for by the general waterways and drainage rate.

An average bill under a 13% plus CPI (2.5% estimate) increase will rise from \$642 to \$742 in 2011/12.

Patterson Lakes - Quiet Lakes

In addition to the Tidal Waterways charges needing to increase, the Quiet Lakes charges also need to increase due to the ending of a cross subsidy from the Tidal Waterways and an under recovery of costs. In addition, a low cost program of expenditures is required to be undertaken which is designed to achieve incremental improvements to water quality to reduce the likelihood of algal blooms.

Melbourne Water has been working with the PLAC to establish a price path that will enable it to achieve cost recovery over the medium term (by 2022/23). This process has seen the Quiet Lakes precept charge increased by 5% in 2008/09, 25% in

2009/10 and 11% plus CPI in 2010/11. Prices will need to keep increasing to address the above issues.

Unsustainable annual price increases of 20% plus CPI until the end of the next two regulatory periods (2022/23) would be required to address the cost under recovery situation without some form of transitional arrangements.

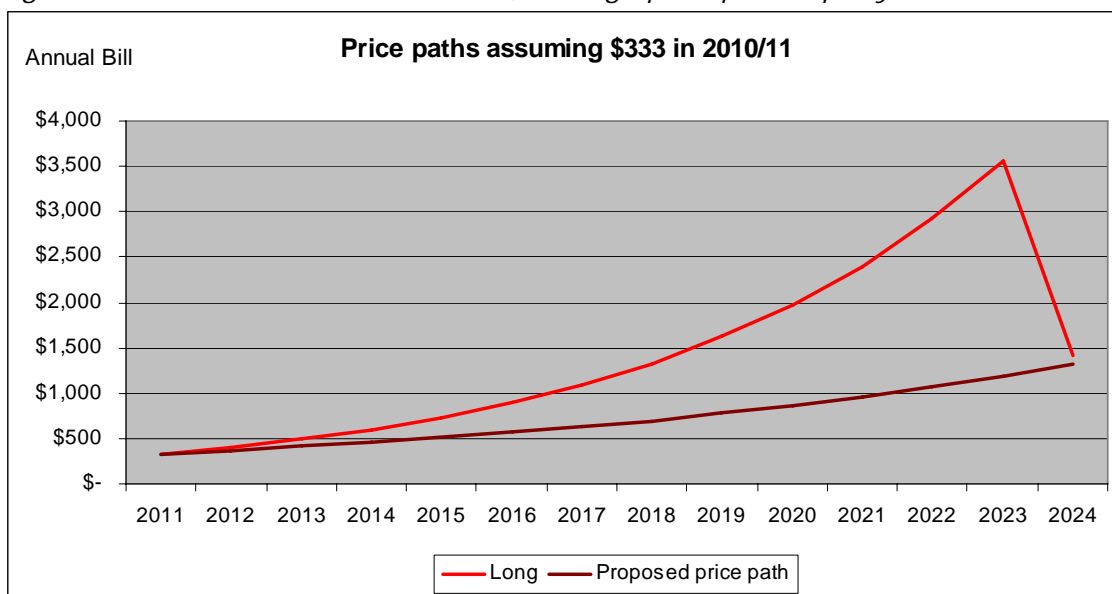
Taking into account likely community views, a revised price path was calculated consisting of the minimum annual price increases necessary for annual precept revenue to cover expenditure and achieve a sustainable price by 2022/23. The revised price path reduces the proposed 2011/12 prices, and subsequent annual increases until 2022/23, to a more sustainable 11% plus CPI by transitioning to full revenue recovery. This can be seen in Figure 2, where the sustainable price path tracks to just under \$1,500 by 2022/23. This can be compared to the long term full cost recovery price path - the difference between the two price paths is the proposed cost/revenue requirement that will not be recovered from Quiet Lakes customers.

The total revenue shortfall to be absorbed over the next 12 years by Melbourne Water is \$1.9M in present value terms (\$2010/11).

At its meeting on 9 February 2011, the PLAC Quiet Lakes Sub Committee agreed by a majority of 3 to 2 to the 11% plus CPI price increase for 2011/12. The minority which were opposed believe that Melbourne Water should build trust with the community by delivering the water quality program first and then seek the price increases to pay for it retrospectively.

An average bill under an 11% plus CPI (2.5% estimate) increase will rise from \$333 to \$378 in 2011/12.

Figure 2 – Price Paths for Quiet Lakes, average precept rate per year



Koo Wee Rup - Longwarry Flood Protection District

The Koo Wee Rup – Longwarry Flood Mitigation District Advisory Committee represents property owners within the flood protection district. Property owners are charged a special drainage area price that covers maintenance services undertaken on the extensive network of channels used to drain the floodplain area.

The Koo Wee Rup – Longwarry precept charge increased by 0% in 2008/09, 0% in 2009/10 and 1.3% including CPI in 2010/11 as revenue generally exceeded the cost of services for this period.

At its meeting on 24 February 2011, the Advisory Committee agreed to a 0% increase for 2011/12 inclusive of CPI while Melbourne Water will increase expenditure on services provided to the precept area. This reflects an amendment to the funding arrangements for maintenance works on carrier drains which provide a level of protection to the precept area from upstream floodwaters. From 2011/12, full cost recovery of the works from the precept will reflect an equal distribution of base maintenance costs for carrier drains between the community and Melbourne Water. This replaces the previous way pricing has been modelled whereby since 1999 Melbourne Water had been recovering the full cost of carrier drain maintenance from the precept. The Advisory Committee believes that it had not entered into such an arrangement but has now negotiated a new arrangement with Melbourne Water to equally share the base costs from 2011/12 onwards. An agreement on any backdating of the arrangement is to be finally resolved upon completion of a review to verify the estimated amount of revenue over recovery.

It is the strong view of the Committee that expenditure on maintenance services should be increased, including opportunities for the maintenance of both the precept and carrier drains, rather than prices reduced to end the annual over collection of revenue. As a result, Melbourne Water will increase maintenance service activities to achieve a zero price increase for 2011/12. It has been proposed that projects for the investment of any over recovery be investigated over the next 12 months for implementation at the beginning of the next Water Plan period (2013/14).

5. Progress against Plan for the approved 2010/11 operating (Opex) and capital (Capex) expenditures

This section highlights actual performance to December 2010 compared to plan for the current financial year. Revised annual forecasts for 2010/11 compared with the planned expenditure for this year and the last two year's actual expenditure are also presented.

Patterson Lakes Tidal Waterways – Opex Expenditure

Opex expenditure to the end of Quarter Two (December 2010) was 9% below plan. The variance is mainly due to timing issues as detailed in Table 2. It is expected that

the annual plan will be achieved with the exception of under expenditures against the newsletter and contract management fees.

The forecast annual expenditure for 2010/11 is \$445,863, \$9,303 less than the annual plan due to the expected variances in expenditure on newsletters and contract management fees.

Table 2: Tidal Waterways Planned vs Actual expenditure to December 2010 (\$real 2010/11)

	YTD Q2 Plan	YTD Q2 Actual	YTD Q2 Variance	YTD % variance	Comments
Tidal gates maintenance	25,200	13,157	-12,043	-48%	Maintenance is conducted on the gates four times a year. The variance is a timing issue
General maintenance	154,700	168,970	14,270	9%	The rate of work completed is running ahead of plan, reflecting easier access by barge. The positive variance will decrease and the annual budget will be met.
Newsletter	5,448	-	-5,448	-100%	The annual forecast has been amended to reflect a one off reduction in the number of newsletters
Jetty maintenance	8,667	7,199	-1,468	-17%	Fluctuations in expenditure is to be expected from period to period. The annual budget will be realised
Contract management fees	32,376	13,550	-18,826	-58%	Claims for management costs, training & downtime, phones, vehicles, uniforms or protective equipment are easier to forecast as an annual amount rather than by individual period.
Maintenance co-ordinator	35,484	35,484	0	0%	On budget
	261,875	238,359	-23,516	-9%	

Table 3 compares the revised 2010/11 forecast with expenditure incurred for the years 2008/09 and 2009/10. This indicates relatively stable patterns of expenditure for the last two historical years.

Table 3: Tidal Waterways Annual Operating Expenditure (\$nominal)

	2008/09 Actual	2009/10 Actual	2010/11 Plan	2010/11 Forecast	2010/11 Variance
Tidal gates maintenance	52,663	60,366	49,376	49,000	- 376
General maintenance	175,349	217,909	250,000	250,000	-
Newsletter	18,384	5,427	14,526	10,895	- 3,631
Jetty maintenance	29,230	15,918	20,000	20,000	-
Contract management fees	-	48,817	50,296	45,000	- 5,296
Maintenance co-ordinator	68482	70,968	70,968	70,968	-
Civil assets monitoring					
	344,108	419,405	455,166	445,863	- 9,303

Patterson Lakes Tidal Waterways – Capex Expenditure

The Capex program for 2010/11 consists of three major projects; the Tidal Gates Replacement, Jetties Renewal and associated Dredging. As indicated in Section 4, the precept's 42% cost share of the Tidal Gates project is no longer proposed to be recovered from the precept, but the project is included in this section for completeness. The status of these expenditure items for 2010/11 is as follows:

Tidal Gates Replacement (\$4.04M)	The project is expected to achieve the 2010/11 Capex Plan and the forecasted total project budget. The project is running one month behind schedule due to design and flooding issues. The Western Channel is expected to be completed in the second week of February 2011 at which time work will commence on the Eastern Channel.
Jetties renewal (\$1.47M)	The 2010/11 expenditure plan is progressing as projected, based on the demand for jetties provided by ratepayers.
Dredging (\$0.81M)	The dredging work to remove accumulated sand, increase mooring depths and improve navigation is progressing to plan.

Patterson lakes Quiet Lakes – Opex Expenditure

Opex expenditure in the Quiet Lakes to the end of Quarter Two of 2010/11 (December 2010) was 15% below plan. The variance is mainly due to timing issues associated with general maintenance activities and contract management fees. The full schedule of variances and explanatory comments can be found in Table 4.

Table 4: Quiet Lakes Planned vs Actual expenditure to December 2010 (\$nominal)

	YTD Q2 Plan	YTD Q2 Actual	YTD Q2 Variance	YTD % variance	Comments
General maintenance	53,383	40,855	-12,528	-23%	The variance is a timing / accrual issue as all of the planned work has been completed
Newsletter	2,737	-	-2,737	-100%	The annual forecast has been amended to reflect a one off reduction in the number of newsletters
Water quality testing	5,000	5,000	-	0%	On budget
Fish removal	7,500	12,748	5,248	70%	The increased cost reflects an unplanned carryover of the program from last year due to timing issues
Contract management fees	9,576	5,577	-3,999	-42%	Claims for management costs, training & downtime, phones, vehicles, uniforms or protective equipment are easier to forecast as an annual amount than by individual period.
Maintenance co-ordinator	14,516	14,516	-	0%	On budget
	92,712	78,696	- 14,016	-15%	

The forecast annual expenditure for 2010/11 is \$198,194, \$6,628 more than the annual plan due to the additional proposed expenditure on Carp removal (refer to Table 5).

Table 5: Quiet Lakes Annual Operating Expenditure (\$nominal)

	2008/09	2009/10	2010/11	2010/11	2010/11
	Actual	Actual	Plan	Forecast	Variance
General maintenance	105,120	100,246	110,000	110,000	-
Newsletter	5,474	2,234	5,474	4,106	- 1,368
Water quality testing	5,126	10,000	20,000	10,000	- 10,000
Fish removal	15,000	-	7,500	25,496	17,996
Contract management fees	18,137	20,091	19,560	19,560	-
Maintenance co-ordinator	29,032	29,032	29,032	29,032	-
	177,889	161,603	191,566	198,194	6,628

Patterson Lakes Quiet Lakes – Capex Expenditure

There are no capital works planned or undertaken that are payable by the precept rate in 2010/11.

Koo Wee Rup Longwarry Flood protection District - Precept Drains Operating Expenditure

Operating expenditure to the end of December 2010 was 3% above plan. The variance is mainly due to additional silt and vegetation control expenditure balancing under spending on erosion control and general repairs as detailed in Table 6.

It is expected that the annual plan will be exceeded given the need to commit additional expenditure to clean-up and instigate some priority repairs following the flood of 5-6 February 2011.

(Continued next page)

Table 6: Precept Drains: Planned vs Actual expenditure to December 2010 (\$real 2010/11)

	YTD Q2 Plan	YTD Q2 Actual	YTD Q2 Variance	YTD % variance	Comments
Desilting	50,000	59,940	9,940	20%	Expect to meet budget with less work in the second half
Vegetation control	160,000	186,978	26,978	17%	Weather has increased amount of work on precept drains due to reactive work
Erosion control	17,500	0	-17,500	-100%	Wet weather has increased slips work which is under way now but have not been billed
General	15,000	18,489	3,489	23%	Higher than normal trees and rubbish in drains in first half - This is reactive work and we aim to meet budget
Floodgate Maintenance	20,000	19,086	-914	-5%	Several large floodgates have been renewed and we expect to come in slightly under budget on flood gate inspection
Office Maintenance	7,500	6,947	-553	-7%	Expect to meet budget
General repairs	12,500	8,560	-3,940	-32%	Down on forecast - work as required
Management fees	53,000	45,045	-7,955	-15%	Expect to be on budget - timing of billing
	335,500	345,045	9,545	3%	

Koo Wee Rup Longwarry Flood protection District - Carrier Drains Operating Expenditure

Operating expenditure to the end of December 2010 achieved plan. Minor reductions in vegetation and erosion control and management fees were offset by an increase in general maintenance as detailed in Table 7. It is expected that the annual plan will be exceeded given the need to commit additional expenditure to clean-up and instigate some priority repairs following the flood of 5-6 February 2011.

The forecast 2010/11 annual expenditure for the Precept Drains is \$686,700, \$70,700 more than plan. The forecast annual expenditure for the Carrier Drains is \$457,300 compared to the plan amount of \$384,000 (an increase of \$73,700). These increases are based on the annual expenditure plan for both areas being achieved with an additional one off \$144,000 of expenditure for 2010/11 required for clean up and repairs (split equally between both areas) following the flood of 5-6 February 2011.

Table 7: Carrier Drains: Planned vs Actual expenditure to December 2010 (\$real 2010/11)

	YTD Q2 Plan	YTD Q2 Actual	YTD Q2 Variance	YTD % variance	Comments
Desilting	30,000	34,002	4,002	13%	Expect to meet budget with less work in the second half
Vegetation control	85,000	80,277	-4,723	-6%	Expect to meet budget. There are less carrier drains than precept drains to be influenced by weather
Erosion control	30,000	28,807	-1,193	-4%	Expect to meet budget
General	12,500	17,757	5,257	42%	Higher than normal trees and rubbish in drains in first half - This is reactive work and we aim to meet budget
General repairs	7,500	8,560	1,060	14%	Up on forecast - work as required.
Management fees	32,000	27,200	-4,800	-15%	Expect to be on budget - timing of billing
Total	197,000	196,604	-396	0%	

Table 8 compares the revised 2010/11 forecast with expenditure incurred for the years 2008/09 and 2009/10. This indicates generally stable patterns of expenditure for the last two historical years.

Table 8: KWRLFPD Annual Operating Expenditure (\$nominal)

Activity	2008/09 Actual	2009/10 Actual	2010/11 Plan	2010/11 Forecast	2010/11 Variance
Precept Drains					
desilting	70,100	75,400	85,000	85,000	0
vegetation control	238,000	242,400	250,000	260,000	10,000
erosion control	32,600	31,800	35,000	40,000	5,000
general	26,200	28,600	30,000	30,000	0
Sub Total	366,900	378,200	400,000	415,000	15,000
Floodgate Maintenance	53,600	56,100	65,000	60,000	-5,000
Office Maintenance	12,400	14,200	15,000	15,000	0
General Repairs	24,200	27,600	30,000	90,700	60,700
Management Fees	87,300	97,000	106,000	106,000	0
Total Direct Expenditure - Precept Drains	544,400	573,100	616,000	686,700	70,700
Carrier Drains					
desilting	23,200	24,800	50,000	50,000	0
vegetation control	129,300	141,600	170,000	170,000	0
erosion control	53,400	55,200	65,000	65,000	0
general	16,800	21,900	25,000	97,000	72,000
Sub Total	222,700	243,500	310,000	382,000	72,000
General Repairs	4,200	8,800	10,000	11,300	1,300
Management Fees	52,700	58,300	64,000	64,000	0
Total Direct Expenditure - Carrier Drains	279,600	310,600	384,000	457,300	73,300
Total Expenditure - Flood Protection District	824,000	883,700	1,000,000	1,144,000	144,000

6. Planned Opex (maintenance activities) for 2011/12

This section sets out the proposed operating expenditures and associated activities for 2011/12 for the Patterson Lakes precept areas and the Koo Wee Rup Longwarry Flood Protection District.

Patterson Lakes Tidal Waterways – Opex Expenditure

The 2011/12 year will generally see a continuation of stable and predictable levels of expenditure for regular activities. Key waterway management activities for 2011/12 include:

- the maintenance of access (grass cutting, repairs to fences and gates)
- debris/rubbish collection
- cleaning pits and grates, tidal gate maintenance of tidal gates (mainly channel desilting and underwater inspections to ensure the ongoing function of the gates)
- beach raking and sand retrieval, beach weed spraying, desilting of moorings
- newsletters
- dredging associated with jetty renewals
- replacement of foreshore rocks and sand
- inspection and maintenance of jetty structures.

A new initiative proposed for 2011/12 and future years is the inclusion of \$20,000 (Table 9) for civil assets monitoring to monitor asset condition and to provide an accurate idea on when they need to be replaced and the most cost effective means of doing so.

Table 9: Tidal Waterways Planned 2011/12 Opex (\$ real 2010/11)

	2009/10 Actual	2010/11 Plan	2010/11 Forecast	2011/12 Plan
Tidal gates maintenance	60,366	49,376	49,000	49,000
General maintenance	217,909	250,000	250,000	250,000
Newsletter	5,427	14,526	10,895	14,526
Jetty maintenance	15,918	20,000	20,000	20,000
Contract management fees	48,817	50,296	45,000	45,000
Maintenance co-ordinator	70,968	70,968	70,968	70,968
Civil assets monitoring				20,000
	419,405	455,166	445,863	469,494

Patterson Lakes Quiet Lakes – Opex Expenditure

A significant number of new initiatives to the value of \$84,990 which are designed to incrementally improve water quality are proposed for the 2011/12 year (refer Table

10). These activities are likely to include (subject to verification through development of the Water Quality Management Plan);

- bore pump electricity and monitoring associated with greater use
- fish stocking with native fish (species yet to be determined)
- maintenance of the solar bee
- external aquatic advice for water quality improvement purposes

In addition more frequent Carp removal expenditure will match the significant increase in expenditure on this activity forecast for 2010/11 (\$25,496).

Table 10: Quiet Lakes Planned 2011/12 Opex (\$ real 2010/11)

	2009/10 Actual	2010/11 Plan	2010/11 Forecast	2011/12 Plan
General maintenance	100,246	110,000	110,000	110,000
Newsletter	2,234	5,474	4,106	5,474
Water quality testing	10,000	20,000	10,000	10,000
Fish removal	-	7,500	25,496	25,496
Contract management fees	20,091	19,560	19,560	19,560
Maintenance co-ordinator	29,032	29,032	29,032	29,032
Other water quality works				84,990
	161,603	191,566	198,194	284,552

Koo Wee Rup Longwarry Flood protection District

This section sets out the proposed operating expenditures and associated activities for 2011/12 for the KWRLFPD precept area by Precept Drains and Carrier Drains. Total proposed expenditure for both areas is \$1,219,700, an increase of \$75,700 on the 2010/11 forecast.

Operating Expenditure

The 2011/12 year planned expenditure (Table 11) has been increased by about \$200,000 in order to maintain prices at current levels. The 2011/12 year planned expenditure assumes a return to average weather conditions. Key waterway management activities for 2011/12 include:

- de-silting
- vegetation control
- erosion control
- bridge and structures maintenance
- debris removal
- repairs

Table 11: Planned 2011/12 Opex (\$ real 2010/11) – Precept and Carrier Drains

Activity	2009/10 Actual	2010/11 Plan	2010/11 Forecast	2011/12 Plan
Precept Drains				
desilting	75,400	85,000	85,000	85,000
vegetation control	242,400	250,000	260,000	265,000
erosion control	31,800	35,000	40,000	40,000
general	28,600	30,000	30,000	30,000
Sub Total	378,200	400,000	415,000	420,000
Floodgate Maintenance	56,100	65,000	60,000	60,000
Office Maintenance	14,200	15,000	15,000	15,000
General Repairs	27,600	30,000	90,700	18,700
Management Fees	97,000	106,000	106,000	106,000
Total Direct Expenditure - Precept Drains	573,100	616,000	686,700	619,700
Carrier Drains				
desilting	24,800	50,000	50,000	60,000
vegetation control	141,600	170,000	170,000	171,000
erosion control	55,200	65,000	65,000	70,000
general	21,900	25,000	97,000	25,000
Sub Total	243,500	310,000	382,000	326,000
General Repairs	8,800	10,000	11,300	11,300
Management Fees	58,300	64,000	64,000	64,000
Total Direct Expenditure - Carrier Drains	310,600	384,000	457,300	401,300
Sub Total - Combined Precept	883,700	1,000,000	1,144,000	1,021,000
Additional maintenance				198,700
Grand Total - Combined Precept	883,700	1,000,000	1,144,000	1,219,700

7. Planned Capex (capital expenditure) for 2011/12

This section provides details of programmed capital expenditure in the Patterson Lakes Tidal Waterways and Quiet Lakes. Although the focus of this submission is on the 2011/12 price review, forward projections of planned works are included to give a general indication of the capital works strategy for the precept areas which are reflected in the pricing proposals.

Tidal Waterways – Capex Expenditure

The 2011/12 year will see a continuation of jetties replacement and dredging. Dredging costs will increase by 100% to make further progress on the removal of accumulated silt as part of the jetty renewal program. The 2011/12 jetties expenditure reflects the precept funded contribution based on latest estimates of resident take up rates and how many can be replaced in 12 months. Foreshore works of \$418,000 including provision for the creation of alternate works depots due to

zoning and other issues are also planned. The Tidal Gates Replacement Project is excluded as it is no longer proposed to be 42% funded by the precept rate.

Table 12: Tidal Waterways Capital Expenditure (\$ real 2010/11)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Retaining wall replacement		-	-	-	-	1,279,250	1,279,250
Jetty Replacement	524,018	1,471,248	2,942,496	2,942,496	1,471,248		-
Dredging as part of jetty renewal		-	813,948	1,627,896	1,627,896	813,948	-
Foreshore works		-	-	418,100	192,100	192,100	192,100
	524,018	2,285,196	4,988,492	4,762,492	3,756,546	1,471,350	

Quiet Lakes - Capex Expenditure

The operating cost initiatives referred to in Section 4 are complemented by the following proposed capital expenditure commencing in 2011/12 and summarised in Table 13. These activities are proposals only at this stage and still require further community input to confirm the exact mix and extent of activities, but may include:

- Planting of aquatic vegetation (Macrophytes)
- Bore Pump testing and monitoring to provide maximum yield from the bore
- Civil works program of valve replacements for drainage system in the Quiet Lakes
- Silt removal trial to support planting program
- Solar Bee equipment purchase to increase water circulation

Table 13: Quiet Lakes Capital Expenditure (\$real 2010/11)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Macrophytes	18,309	18,309	18,309	18,309	18,309	18,309	18,309
Bore Pump	99,600						
Civil Works	30,480	30,480	30,480	30,480	30,480		
Silt Removal	41,000	41,000	1,364,000		594,000		242,000
Solar Bee	65,646	65,646	65,646	65,646	65,646		
	255,035	155,435	1,478,435	114,435	708,435	18,309	260,309

Koo Wee Rup Longwarry Flood protection District

Melbourne Water will work with the advisory committee to identify capital projects to apply the accumulated historical revenue over recovery. These works will be included in the capital program for Water Plan 3 (2013/14 – 2017/18).

8. Estimated Revenue

Patterson Lakes

Planned revenue for Patterson Lakes is expected to total \$852,124 for 2011/12.

Table 14 provides a comparison between estimated revenues and forecast expenditure for the Patterson Lakes area.

Table 14: Revenue and expenditure comparison for Patterson Lakes (\$ real 2010/11)

	2010/11	2011/12
	Forecast	Plan
Revenue – Tidal Waterways¹	644,603	719,952
Direct expenditure – Tidal Waterways	445,863	469,494
'building block' return on and of capex - Tidal Waterways	133,455	477,328
Total Expenditure - Tidal Waterways	579,318	946,822
Revenue – Quiet Lakes	119,074	132,172
Direct expenditure – Quiet Lakes	198,184	284,552
'building block' return on and of capex - Quiet Lakes	-	13,587
Total Expenditure - Quiet Lakes	198,184	298,139
Total Revenue - Patterson Lakes	763,677	852,124
Total Expenditure - Patterson Lakes	777,502	1,244,961

The difference between total revenue and expenditure reflects the present revenue shortfall described in preceding sections of this submission. The proposed exclusion of the precept's 42% contribution to the Tidal Gates renewal would result in forecast revenue exceeding expenditure in the Tidal Waterways for 2010/11, but this situation will revert to a deficit in future years due to planned capital expenditure.

Melbourne Water will incur \$7.5M and \$1.9M losses (PV \$2010/11) over the next 12 years in the Patterson Lakes Special Precept Area.

Koo Wee Rup - Longwarry Flood Protection District

Table 15 provides a comparison between estimated revenues and forecast direct operating expenditure for the flood protection district area. The difference between total income and expenditure in 2010/11 mainly reflects additional forecasted works to respond to the flood event of 5-6 February 2011. The difference between the income and expenditure in 2011/12 reflects an increase in the level of maintenance services to

¹ Includes maintenance income received from the Patterson Lakes Marian under a separate commercial agreement

achieve a zero price increase for 2011/12 and share of the Carrier Drain base maintenance by the broader community.

Table 15: Revenue and expenditure comparison for Koo Wee Rup - Longwarry Flood Protection District (\$ 2010/11)

	2010/11 Forecast	2011/12 Plan
Revenue – Division A	796,162	796,000
Revenue – Division B	205,523	205,000
Total revenue	1,001,685	1,001,000
Direct expenditure – Precept Drains	686,700	619,700
Direct expenditure – Carrier Drains	457,300	600,000
Total expenditure	1,144,000	1,219,700

9. Price Schedule

Table 16 outlines Melbourne Water's proposed prices to apply in the special drainage areas of Patterson Lakes, excluding proposed CPI increases², and Koo Wee Rup – Longwarry Flood Protection District for 2011/12.

Table 16: 2010/11 Proposed prices

MELBOURNE WATER SPECIAL DRAINAGE AREA PRICES FOR 2011/12		
Drainage prices for the financial year 2011/12 are based on the 1990 Net Annual Value (NAV) or Site Value (SV) of the property (Note: 2010/11 fee is represented in brackets)		
Special Drainage Area Prices	Rate in \$ NAV	Minimum Fee
Koo Wee Rup – Longwarry Flood Protection District		
Division A (higher flood impact exposure)	3.649¢ (3.649¢)	\$56.40 (\$56.40)
Division B (lower flood impact exposure)	2.027¢ (2.027¢)	\$56.40 (\$56.40)
Patterson Lakes		
	Rate in \$ SV	Minimum Fee
Tidal Waterways	0.6830¢* (0.6045¢)	\$0.00 (\$0.00)
Quiet Lakes	0.5410 ¢* (0.4874¢)	\$0.00 (\$0.00)

* CPI increases to be added.

² Melbourne Water will include the proposed special drainage area price increases, plus the March 2011 Australian All Groups CPI increase, in the schedule with the general drainage and diversion prices, which will be submitted to the ESC for approval in May 2011.

The proposed prices reflect:

- Previous funding arrangements agreed with customers
- Customer consultative committee feedback in relation to proposed increases (18% plus CPI for Tidal Waterways, 11% plus CPI for Quiet Lakes and 0% for Koo Wee Rup)

10. Pricing reform

General rate area prices for waterways and drainage are set consistent with the 2008/09 to 2012/13 price path determined by the ESC based on proposals included in Melbourne Water's 2008 Waterways Water Plan. This involves moving general rate base residential customers from property based charges to a single fixed charge. Pricing proposals will also be developed during the 2008/09 – 2012/13 regulatory period to move non residential customers off the rate base. The proposal will be submitted to the ESC for approval and implementation in the 2013 regulatory period.

Moving the precept areas off the rate base to a cost reflective pricing regime would achieve consistency with reforms already approved by the ESC and to be proposed for the 2013 Water Plan.

The reform process would examine alternative revenue recovery methods based on potentially the cost of service. This may result in ratepayers' bills reflecting the cost of service provided to each property, or potentially a flat charge may be introduced.

Given the potentially significant change involved in such reform, Melbourne Water proposes to conduct an extensive community consultation and engagement program in the coming months prior to submitting a proposal to the ESC for approval as part of its Water Plan 3 (2013/14 – 2017/18) submission.

11. Stakeholder communication strategy

Prices for the special drainage areas were developed in consultation with the local area advisory committees.

A communications strategy was prepared and implemented to explain the basis for the 2010/11 price increases in the Patterson Lakes Special Drainage Area, including the need for continued price increases.

An additional communication and engagement plan is being prepared to support the roll out of the proposed new charges for 2011/12, as well as an approach to how Melbourne Water engages the precept customers outside of the advisory committees, on moving off the rate base and establishing the cost recovery model.