

Pricing Proposal for Patterson Lakes Special Drainage Area



Pricing Submission

The focus of this submission is the Water Plan pricing proposal for the Patterson Lakes special drainage area. Pricing reform, recommendations from the Patterson Lakes Independent Review and consultation with the community have all informed the development of the proposal.

Summary and Recommendation

This document summarises the outcomes, actions and expenditures that Melbourne Water is proposing to undertake, and prices it proposes to charge over the remainder of the 2013 Regulatory period commencing 1 July 2014. At a glance Melbourne Water is proposing a management strategy for delivery of services in Patterson Lakes consisting of:

- Uniform user pays pricing for jetty related services,
- Waterway health and regional drainage services funded from the waterways and drainage rate base, and
- A negotiated transfer of some open space and local drainage services to Kingston City Council

The management strategy is consistent with the recommendations of an independent review reporting to the Patterson Lakes community and Melbourne Water. The management strategy aims to provide more equitable funding and service delivery arrangements while maintaining service levels for all residents.

Background

Patterson Lakes is a unique waterfront residential development in the City of Kingston. The estate comprises a system of tidal canals (the 'Tidal Waterways') and the freshwater lakes (the 'Quiet Lakes') providing 23 kilometres of shoreline water frontage to residential properties within the estate. The Tidal Waterways offer a boating oriented lifestyle with direct access to Port Phillip Bay.

Since 1991 Melbourne Water has had the responsibility of managing the Patterson Lakes waterways and associated infrastructure. Residents paid a Special Precept Rate in order to provide funds for managing the waterways, which contain assets specific to the area (e.g. jetties and beaches) and a higher level of service than provided elsewhere (e.g. beaches raked monthly).

In the lead up to the 2013 Water Plan Melbourne Water worked with the community to develop a price strategy to address a growing shortfall between costs and revenues and to move away from out-dated property value based pricing in the precept area. As part of this strategy Melbourne Water aimed to deliver an outcome where:

- The beneficiary pays
- Costs reflect the level of service required
- Revenues match costs over a reasonable time period
- Existing roles and responsibilities for service provisions were retained

In mid-2012, Melbourne Water received negative feedback from precept ratepayers in relation to the 2013 Water Plan submission. The principal objections to the proposed changes to the precept rate were:

- Perceived inequities between properties
- The public benefit of the system was not sufficiently recognised
- Proposed price increases were unaffordable

Following this feedback and subsequent discussions between Melbourne Water, the residents' representatives, the Minister and other Members of Parliament, the Patterson Lakes Independent Review was established and undertaken by four sessional members from Planning Panels Victoria, with a brief to consider all aspects of the management of Patterson Lakes including funding arrangements.

The Review included the establishment of a community reference group comprising representatives from the community, Kingston City Council, Parks Victoria and Melbourne Water. A call for submissions went out in early November 2012 and public hearings were held over two days in mid-December 2012.

Melbourne Water established a multi-disciplinary team to support the review process and prepared a detailed submission.

Key recommendations of the review report, released in March 2013, included:

- The management and replacement of jetty infrastructure including dredging is of a private benefit nature and therefore user pays
- All other aspects of the system have a public benefit and therefore the Special Precept Rate should be discontinued from 1 July 2013
- Melbourne Water is not obligated to maintain water quality in the Quiet Lakes at a level higher than secondary contact standard except on a user pays basis
- Under a proposed shared governance arrangement responsibility for funding and delivery of services would be distributed to Melbourne Water, Kingston City Council and Parks Victoria.

In response to the April 2013 Water Plan draft decision, Melbourne Water proposed to provide a price submission to the Essential Services Commission (ESC) taking account of the independent review and further consultation and engagement with the Patterson Lakes community and key stakeholders.

Melbourne Water proposed that until the Commission rules on the price submission the existing precept rate would cease and services would continue to be provided as normal. Customers would also still pay the general waterways and drainage charge. The Commission accepted this proposal.

Proposal

Melbourne Water accepts the findings of the Independent Review Recommendations. Adoption of the key recommendations has lead Melbourne Water to develop the Patterson Lakes management strategy, consisting of:

- Melbourne Water ceasing to charge the former precept rate from 1 July 2013
- Implementing uniform user pays pricing for those services and assets that are linked to private recreational benefit. This is applicable to jetty replacement and maintenance, and dredging feasibility costs as determined in consultation with the community. The prices will apply to 731 jetty lease holders.
- For all other services considered to have a regional and community benefit, these will continue to be funded through the Waterways & Drainage Charge. These services and capital works in the Tidal Waterways include:
 - operation, maintenance and dredging of the floodgates
 - retaining wall maintenance & monitoring
 - interconnecting pipes maintenance
 - general civil assets monitoring & works
 - community communications/consultations

In the Quiet Lakes, these include:

- carp removal
 - water quality testing
 - general civil assets monitoring & works
 - community communications/consultations
- Melbourne Water is not obligated to provide water quality in the Quiet Lakes at a level higher than secondary contact standard except on a user pays basis. Trial use of a bore pump is proposed to address water quality concerns in the Quiet Lakes over a two year period. The outcome of this trial will inform Quiet Lakes residents and Melbourne Water whether user pays pricing for water quality improvements in the Quiet Lakes would be applicable. If so, user pays pricing for water quality improvements will be incorporated into the 2016 Water Plan submission subject to appropriate community consultation.
 - Implementation of the recommendations of the independent review findings for the transfer of services accountabilities to Kingston City Council. The Independent Review recommended that Kingston City Council take over responsibility for certain services provided to Tidal Waterways and Quiet Lakes residents from 1 July 2014 (refer to **Appendix A** for full details). To date there has been constructive consultation with Kingston City Council regarding the transfer of accountabilities, and as proposed in this submission, if formal acceptance occurs it is anticipated that transfer of service accountabilities will take place in July 2014.

- In response to the recommendations of the independent review findings, Parks Victoria has decided it is unwilling to take over jetty management accountabilities as this would not fall within its charter. Melbourne Water will therefore continue to manage these activities as set out in this submission. Parks Victoria has however, agreed to extend its existing “Recreational Water Manager” role on Patterson River into the Tidal Waterways.

Proposed Prices

Tidal Waterways

Melbourne Water proposes to introduce uniform prices for user pays services within the Tidal Waterways community. This will consist of a jetty management charge which covers the cost of renewal and associated annual maintenance. For the 731 properties with a jetty mooring, the charge that will apply will depend on the type of asset constructed, either a timber jetty or concrete jetty. The materials used in construction of these assets and their respective useful lives vary which impacts on the charge.

Melbourne Water has applied the regulatory revenue building block methodology to calculate the revenue requirement and annual prices for the Jetty Replacement Program. The full capital cost of the program including borrowing costs ('building block' return on and of capital) is proposed to be recovered from residents over the assets' lives.

Jetty mooring lease holders will also incur an annual maintenance charge. The *Revenue and Expenditure* Section provides a breakdown of capital and operating costs.

The community elected not to have a dredging program to maintain mooring depths but agreed to the recovery of feasibility costs.

Table 1 sets out the proposed prices for the Jetty Replacement Program. In a negotiated arrangement with residents CPI is not applicable to the proposed prices with the exception of annual maintenance costs. The proposed prices would be applicable for the 2013 Water Plan period and will be reviewed at each subsequent Water Plan period.

Table 1: Patterson Lakes jetty replacement and management charge

Charge type	Term	Annual cost over term	Total cost over term
Capital			
Timber Jetty Replacement	15 years	\$ 1,399	\$ 20,982
Concrete Jetty Replacement ¹	25 years	\$ 946	\$ 23,646
Dredging Feasibility Project	20 years	\$ 85	\$ 1,708
Operating			
Annual Maintenance	Annually	\$ 130	N/a

Billing and collection administration will be managed by South East Water on a quarterly basis. Pending the ESC determination, Melbourne Water anticipates a start date for billing of 1 July 2014.

¹ The Concrete Jetty Replacement price does not include the additional private contribution that residents are required to pay for upgrading from a Timber to Concrete Jetty, this cost can vary for each individual Concrete Jetty

Stub jetties

Melbourne Water proposes to remove 13 stub jetties from the Jetty Replacement Program that are significantly different structures and constrained due to reduced navigation width in the channel when compared to other jetties in the program. This will limit the replacement options of the jetty. These jetty lessees will have no opportunity to upgrade their mooring to a 9m lease or a concrete pontoon. It is proposed to levy the actual cost of construction for the 13 Stub jetties that are very small compared with normal jetties within the program and only accommodate a single lease holder.

Private Contributions

Residents have the choice to either select a timber jetty or pay voluntary upfront capital contributions to upgrade to a concrete jetty. Private resident jetty upgrade contributions are calculated by Melbourne Water for each individual jetty and are collected directly from the residents. Private upfront capital contributions for jetty upgrades are separate to the former precept rates and proposed jetty management charge.

Flexible payment options

In response to community requests, flexible payment options will be made available for residents who have the financial capacity to pay the full capital cost of jetty replacements and dredging feasibility up front. Lease holders who take up this option will benefit from lower borrowing costs passed on by Melbourne Water. Pricing analysis demonstrates that upfront payments may reduce prices very slightly for leaseholders who make payments over the lives of the jetty assets, dependent on the take up rate.

The proposed prices for full upfront jetty replacement payments are set out in Table 2 below.

Melbourne Water will also provide payment options for residents experiencing financial hardship. These payment options will be considered on a case by case basis.

Table 2: Patterson Lakes Upfront Payment pricing

Charge type	Total one-off upfront payment
Timber Jetty Replacement	\$ 15,781
Concrete Jetty Replacement ²	\$ 14,587
Dredging Feasibility Project	\$ 1,127

² The Concrete Jetty Replacement price does not include the additional private contribution that residents are required to pay for upgrading from a Timber to Concrete Jetty, this cost can vary for each individual Concrete Jetty

Quiet Lakes

Currently, there is no proposed price applicable to Quiet Lakes residents consistent with the recommendations of the Independent Review. However, the outcome of a recently commenced two year Bore Water trial will inform residents and Melbourne Water whether user pays pricing to achieve water quality improvements above secondary contact standards in the Quiet Lakes would be applicable. If so, user pays pricing for water quality improvements will be incorporated into Melbourne Water's 2016 Water Plan submission.

Proposed Adjustment to Waterways prices

The proposed transfer of service accountabilities to Kingston City Council as per the independent review recommendations requires that an adjustment to the Waterways & Drainage Charge be performed. The adjustment would reduce the average charge by 10 cents for Waterways customers in 2014/15 and would be performed within the Waterways & Drainage ESC approved price cap.

Customer Consultation

Melbourne Water undertook a comprehensive community engagement and consultation program in July-August 2013.

The Patterson Lakes Management Plan Steering Committee, involving Melbourne Water, Parks Victoria, Kingston City Council and local residents was also established to implement the Independent Panel's recommendations and is meeting monthly.

The consultation program included distribution of information packs to households, doorknocking of homes within the Precept Area and three community information sessions.

Melbourne Water incorporated feedback from the community into the Water Plan submission.

As stated above, Melbourne Water also consulted with Kingston City Council and Parks Victoria on the proposed transfer of the designated service accountabilities to these agencies. Consultation with Kingston City Council and Parks Victoria is ongoing.

A communications strategy has been prepared to keep the community informed of the regulatory review and implementation of the new arrangements.

Full details of the customer consultation program are set out in **Appendix B**.

Revenue and Expenditure

The prices proposed in this submission will achieve sufficient revenue to recover the capital and operating costs of jetties (and dredging feasibility costs) over their respective useful lives.

Tidal Waterways capital expenditure

The total capital cost of the Jetty Replacement Program is approximately \$10.9M with the remaining \$5.1M to be completed in the 2013 Water Plan period. The feasibility cost of the dredging program is \$824k. Table 3 shows a summary of Melbourne Water's total planned capital expenditure in Tidal Waterways to be recovered through the prices proposed in this submission.

Planned Jetty Replacement Program expenditure reflects the latest estimates of resident take up rates and forecast costs. It is expected the Jetty Replacement Program will be fully complete in 2014/15.

Table 3: Tidal Waterways Jetty Replacement Program Total Capital Expenditure (2012/13 \$Real)

Capital Expenditure	Pre 1 July 2013 ³	2013/14 Forecast	2014/15 Plan	2015/16 Plan
Capital – Jetty Replacement Program	5,854,470	2,730,000	2,340,000	-
Capital – Dredging Feasibility Study	823,907	-	-	-
Total Expenditure	6,678,377	2,730,000	2,340,000	0

Tidal Waterways operating expenditure

The Water Plan period will see a continuation of stable and predictable levels of expenditure for maintenance activities as identified in the Independent Review (Table 4). Operating costs are subject to annual adjustment for CPI.

Table 4: Tidal Waterways Operating Expenditure (2012/13 \$Real)

Operating Expenditure	2012/13 Actuals	2013/14 Forecast	2014/15 Plan	2015/16 Plan
Jetties Maintenance	30,500	30,500	30,500	30,500
Maintenance co-ordinator	18,219	18,219	18,219	18,219
Office Overheads	35,957	35,957	35,957	35,957
Public Liability Insurance	10,000	10,000	10,000	10,000
	94,676	94,676	94,676	94,676

Quiet Lakes capital & operating expenditure

The cost of the bore pump water quality trial to be performed over next two summers will be funded by the Waterways & Drainage charge.

³ This represent Jetty Replacement Program capital spend during the 2008 Water Plan less revenue which was recovered through the former precept rate

Price Schedule

Table 5 outlines Melbourne Water’s proposed jetty management price schedule to apply in the Patterson Lakes Tidal Waterways area.

Table 5: Proposed prices

MELBOURNE WATER PATTERSON LAKES PRICES			
	2013/14⁴	2014/15	2015/16
Fixed Prices			
Timber Jetty Replacement	\$ 1,399	\$ 1,399	\$ 1,399
Concrete Jetty Replacement ⁵	\$ 946	\$ 946	\$ 946
Dredging Feasibility Project	\$ 85	\$ 85	\$ 85
Timber Jetty full upfront payment	\$ 15,781	\$ 15,781	\$ 15,781
Concrete Jetty full upfront payment	\$ 14,587	\$ 14,587	\$ 14,587
Prices subject to CPI			
Annual Maintenance	\$ 130	\$ 130 (+ CPI)	\$ 130 (+CPI)

⁴ For illustrative purpose only, Melbourne Water anticipate billing to commence in July 2014

⁵ The Concrete Jetty Replacement price does not include the additional private contribution that residents are required to pay for upgrading from a Timber to Concrete Jetty, this cost can vary for each individual Concrete Jetty

Appendices

A. Independent Review Proposed Kingston City Council Service Accountabilities

The independent review findings recommend that Kingston City Council take over responsibility for certain services at a total annual cost of \$205k per annum from 1 July 2014, refer to the below table for details.

Kingston City Council service Accountabilities for Patterson Lakes

Service provided	Annual Expenditure
<i>Tidal Waterways</i>	
Beach raking	\$ 16,600
Debris collection beach and foreshore	\$ 60,000
Beach weed spraying	\$ 21,900
Grass maintenance to access easements	\$ 12,800
Convening the PLAC, PLAC newsletter and website	\$ 7,300
<i>Quiet Lakes</i>	
Beach Grooming	\$ 9,908
Debris Collection	\$ 45,000
Beach weed spraying	\$ 7,008
Lighting bollards inspection program	\$ 1,000
Grass maintenance to access easements	\$ 18,000
Convening the PLAC, PLAC newsletter and website	\$ 5,500
Total services provide by Kingston City Council	\$ 205,016

B. Community Consultation

The Customers and Prices section of Melbourne Water's website contains the key Water Plan pricing consultation communications documents used in community consultation process.

<http://www.melbournewater.com.au/aboutus/customersandprices/PattersonLakes>

Tidal Waterways

During July and August 2013 Melbourne Water undertook a number of community consultation activities to seek feedback from Tidal Waterway residents on the preferred level of service for dredging and jetty pricing options. Activities included door-knocking by Melbourne Water staff, bulletin and letter updates, information packs, three community information sessions, and a community ballot on dredging service level options.

Dredging ballot

The dredging ballot consulted on three alternate levels of service. A total of 403 ballots were returned out of the 753 issued (54%).

Dredging Option	Annual cost	Total cost over term
Option 1 – Full - Dredge all moorings to minus 1.6m AHD (<i>within engineering constraints</i>)	\$1,187	\$23,744
Option 2 – Partial - Dredging to the original/historic depth when mooring was created	\$635	\$12,704
Option 3 – Maintain current limited dredging program	\$143	\$2,860

Of the respondents 79% voted for the third dredging option which proposed only dredging areas between navigation channels and moorings on as-needs basis up to \$30,500 per year as well as the recovery of some investigation costs.

Further, given the considerable negative response to the proposal to charge for any form of on-going dredging, and after further discussions with the Tidal Waterways community representatives, it was agreed that residents not be charged an annual amount for ongoing dredging. This reduced the proposed annual charge under Option 3 to \$85 per year.

Quiet Lakes

During July and August 2013 Melbourne Water undertook a number of community consultation activities to seek Quiet Lake residents' feedback and interest level in a user pays service to reach a higher water quality level in the Quiet Lakes. Consultation activities included Melbourne Water staff doorknocking Quiet Lakes' households, bulletin and letter updates, information packs sent to home owners and renters, and hosting three community information sessions.

Approximately 190 residents across Quiet Lakes and Tidal Waterways attended one of three community information drop-in sessions and completed 81 feedback forms.

A summary of resident feedback compiled by independent research firm Evaluation Solutions and is set out below. This information informed further consultation with the Quiet Lakes community on options to improve water quality including the proposed bore water flushing trial.

A total of 81 feedback forms were returned out of the 344 issued, a response rate of 24 per cent. The results showed:

- 73 per cent respondents said they want swimmable water
- About 42 per cent said they would consider additional costs to achieve swimmable water.
- A further 20 per cent said they would definitely pay for swimmable water
- 20 per cent of respondents said they would not pay additionally for enhanced water quality
- Around 10 per cent of respondents were positive and 10 per cent negative about Melbourne Water's maintenance of the Quiet Lakes, with a variety of other themes reflected in the remaining comments.
- About 43 per cent of respondents referenced the bore flushing trial as a success in improving water quality

Quiet Lakes Bore Water Flushing Trial

Melbourne Water has committed to funding an additional two years of the bore water flushing trial. The decision to extend the trial for a further two years was based on recommendations in the latest version of the Quiet Lakes Water Quality Management Plan, and feedback from residents and community representatives. Melbourne Water will share data and independent reports with the resident representatives and work collaboratively to build an understanding of water quality and how best to manage it. This will assist residents make an informed decision about future user pays services.