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## 2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
CENTRAL HIGHLANDS WATER

MARCH 2013

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# CENTRAL HIGHLANDS WATER

## 1. Purpose of volume II of the draft decision

The Commission is required to issue a draft decision that proposes either to:

- (a) approve all of the prices which a regulated entity may charge for prescribed services, or the manner in which such prices are to be calculated or otherwise determined, as set out in the regulated entity's water plan, until the commencement of the next regulatory period or
- (b) refuse to give the approval referred to above and specifies the reasons for the Commission's proposed refusal (which may include suggested amendments to, or action to be taken in respect of, the Water Plan that, if adopted or taken, may result in the Commission giving that approval) and the date by which a regulated entity is required resubmit a revised Water Plan or undertake such action as to ensure compliance.

This volume of the draft decision summarises for each business the suggested amendments or actions that if adopted or taken may result in the Commission giving its approval to the relevant business's proposed prices or the manner in which such prices are to be calculated or otherwise determined. The main reasons for suggested amendments or actions are summarised. More detailed reasons for the Commission's suggested amendments are outlined in volume I of the draft decision.

## 2. Actions to be taken in response to this draft decision

In response to this draft decision, Central Highlands Water should by 2 May 2013 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2013 that reflects:
  - i. the revised revenue requirement set out in table 3
  - ii. the revised demand forecasts set out in tables 12–17 and
  - iii. any changes to tariff structure suggested by the Commission.
- (b) the targets for service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in table 1.

- (c) the guaranteed service levels (GSLs) to apply over the regulatory period consistent with any revisions suggested by the Commission set out in table 2.
- (d) the New Customer Contribution Charges (NCC) proposal with specific actions required by the Commission set out in section 16.

If a business does not submit a revised schedule of tariffs and/or the GSLs to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the GSLs to apply for the regulatory period 2013-14 to 2017-18 as part of its Final Determination.

### 3. Service standards

The below table summarises the targets Central Highlands Water has proposed for core service standards for the third regulatory period, either in its Water Plan or in response to subsequent requests for information by the Commission.

**Table 1 Proposed service standards**

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>5yr Avg 2008-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
<b>Water</b>						
Unplanned water supply interruptions (per 100km)	14.94	20.3	20.3	20.3	20.3	20.3
Average time taken to attend bursts and leaks (priority 1) (minutes)	40.13	45	45	45	45	45
Average time taken to attend bursts and leaks (priority 2) (minutes)	68.64	90	90	90	90	90
Average time taken to attend bursts and leaks (priority 3) (minutes)	163.29	360	360	360	360	360
Unplanned water supply interruptions restored within 5 hours (per cent)	96.68	100	100	100	100	100
Planned water supply interruptions restored within 5 hours (per cent)	92.66	92.66	92.66	92.66	92.66	92.66
Average unplanned customer minutes off water supply (minutes)	12.66	18	18	18	18	18

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>5yr Avg 2008-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Average planned customer minutes off water supply (minutes)	3.55	12	12	12	12	12
Average frequency of unplanned water supply interruptions (number)	0.08	0.15	0.15	0.15	0.15	0.15
Average frequency of planned water supply interruptions (number)	0.02	0.02	0.02	0.02	0.02	0.02
Average duration of unplanned water supply interruptions (minutes)	150.61	120	120	120	120	120
Average duration of planned water supply interruptions (minutes)	181.8	200	200	200	200	200
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	9.6	0	0	0	0	0
Unaccounted for water (per cent)	13.97	11	11	11	11	11
<b>Sewerage</b>						
Sewerage blockages (per 100km)	19.2	25.4	25.4	25.4	25.4	25.4
Average time to attend sewer spills and blockages (minutes)	46.78	45	45	45	45	45
Average time to rectify a sewer blockage (minutes)	117.79	120	120	120	120	120
Spills contained within 5 hours (per cent)	100	100	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	0	0	0	0	0	0

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>5yr Avg 2008-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
<b>Customer Service</b>						
Complaints to EWOV (per 1000 customers)	No audit data available	1	1	1	1	1
	No audit data available	1	1	1	1	1
Telephone calls answered within 30 seconds (per cent)	No audit data available	1	1	1	1	1

Where the proposed service standard target deviated from Central Highlands Water's actual five-year average performance or did not appear to make sense, the Commission sought further information from the business.

The Commission proposes to approve targets proposed for all service standards apart from those listed below. The targets for the following standards deviated from the five-year average and Central Highlands Water did not provide a reason as to why they will not be able to maintain that level of service on average over the third regulatory period:

- (a) Average time taken to attend bursts and leaks (priority one) (minutes)
- (b) Average time taken to attend bursts and leaks (priority three) (minutes)
- (c) Average planned customer minutes off water supply (minutes)
- (d) Average frequency of unplanned water supply interruptions (number per customer per year)
- (e) Average frequency of planned water supply interruptions (number per customer per year)
- (f) Unaccounted for water (per cent)
- (g) Number of customers experiencing more than three sewer blockages in a year (number).

In response to this draft decision, Central Highlands Water is required to either provide adequate reasoning for deviating from the five-year average in setting its targets for these standards or amend them to reflect the five-year average.

#### 4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels except as shaded or otherwise indicated in table 2. These guaranteed service levels should be reflected in Central Highlands Water's Customer Charter.

Table 2 **Proposed and approved GSL events and payment levels**

<i>Proposed level of service</i>	<i>Proposed payment</i>
Rectifying any unplanned interruption to a customer's water supply within five hours of the business becoming aware of the interruption	\$50
Not more than five water supply interruptions for each customer in any twelve month period.	\$50
If a water service pipe, for which the business has responsibilities to maintain under the Customer Charter, is leaking, the business will fix it within five business days of becoming aware of the leak	\$50
Rectifying any interruption to a customer's sewerage service within five hours of the business becoming aware of the interruption	\$50
Not exceeding three sewerage service interruptions for each customer in any twelve month period	\$50

The Commission proposes to approve the GSL events proposed by Central Highlands Water

## 5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

**Table 3 Breakdown of revenue requirement implied by ESC draft decision**  
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Operating expenditure	50.3	50.3	50.6	50.7	51.3
Return on existing assets	13.7	13.1	12.5	12.0	11.4
Return on new investments	0.6	1.5	2.4	3.1	3.9
Regulatory depreciation	12.3	12.5	12.8	13.1	13.5
Adjustments from previous period	5.4	0.0	0.0	0.0	0.0
<b>Total</b>	<b>82.2</b>	<b>77.5</b>	<b>78.3</b>	<b>78.9</b>	<b>80.0</b>

## 6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved actual capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 to 2011-12 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 4.

**Table 4 Updated regulatory asset base**  
\$m 2012-13

	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	146.5	147.7	206.2	249.4	275.5
<i>Plus</i> Gross Capital expenditure	166.8	69.2	52.6	34.5	22.6
<i>Less</i> Government contributions	156.9	5.5	2.2	0.0	0.0
<i>Less</i> Customer contributions	1.3	0.0	0.0	0.0	0.0
<i>Less</i> Proceeds from disposals	0.7	1.0	1.1	1.0	1.0
<i>Less</i> Regulatory depreciation	6.7	4.2	6.1	7.3	8.5
<b>Closing RAB</b>	<b>147.7</b>	<b>206.2</b>	<b>249.4</b>	<b>275.5</b>	<b>288.6</b>



The regulatory asset base as at 1 July 2012 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2012-13 to 2017-18 period less any approved allowance for regulatory depreciation.

The Commission has adopted the following assumptions in relation to regulatory asset base over the regulatory period:

**Table 5 Updated regulatory asset base**  
\$m 2012-13

	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Opening RAB	288.6	318.8	331.5	333.9	342.8	341.8
<i>Plus</i> Gross Capital expenditure	20.3	26.3	16.3	22.6	13.0	25.1
<i>Less</i> Government contributions	0.1	0.5	0.5	0.0	0.0	0.0
<i>Less</i> Customer contributions	1.7	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Proceeds from disposals	1.2	0.9	0.9	0.9	0.9	0.9
<i>Less</i> Regulatory depreciation	9.0	12.3	12.5	12.8	13.1	13.5
<b>Closing RAB</b>	<b>296.8</b>	<b>331.5</b>	<b>333.9</b>	<b>342.8</b>	<b>341.8</b>	<b>352.5</b>

#### *Revenue Shortfall*

The Commission notes that Central Highlands Water is operating at a more than sufficient interest cover ratio (averaging around 2), without any adjustment to its regulatory asset base to reflect revenue shortfall in the current regulatory period.

Further, as noted above, Central Highlands Water's did not provide an opportunity for customers to comment on its proposal to recover foregone revenue through prices: the proposal was not included in its draft Water Plan released in May 2012 as a basis for customer consultation. For these reasons the Commission proposes not to approve the proposed recovery of \$22 million.

## 7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all water businesses. The table below outlines the individual components for the WACC.

Table 6 **Real post-tax WACC**

<i>Real risk free rate</i>	<i>Equity beta</i>	<i>Market risk premium</i>	<i>Debt margin</i>	<i>Financing structure (gearing)</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>per cent</i>	<i>β</i>	<i>per cent</i>	<i>per cent</i>	<i>per cent</i>	<i>γ</i>	<i>per cent</i>
0.679 – 1.023	0.65	6.0	3.03 - 4.53	60	0.5	4.7

## 8. Operating expenditure

The Commission has made the following assumptions about operating expenditure forecasts over the regulatory period:

Table 7 **Proposed and approved operating expenditure assumptions**  
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed operating expenditure	51.7	52.7	53.9	54.9	56.5
Revisions and adjustments	-1.4	-2.3	-3.3	-4.2	-5.3
<b>Draft decision – operating expenditure</b>	<b>50.3</b>	<b>50.3</b>	<b>50.6</b>	<b>50.7</b>	<b>51.3</b>

The Commission's assumptions reflect the following adjustments to Central Highlands Water's proposed operating expenditure forecasts:

**Table 8 Adjustments to operating expenditure**  
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Labour	-0.67	-1.20	-1.82	-2.53	-3.34
Electricity	-0.45	-0.53	-0.45	-0.63	-0.84
Defined Benefits superannuation costs	0.51	0.50	0.48	0.47	0.46
Intelligent Water Networks	-0.20	-0.20	-0.20	-0.20	-0.20
Water Plan 4 development	0.00	-0.15	-0.30	-0.25	-0.15
Asset management plans	-0.18	-0.15	-0.10	-0.05	-0.03
Living Victoria/Living Ballarat initiatives	0.00	0.00	-0.20	-0.20	-0.20
Development Servicing Plans	0.00	-0.10	-0.10	-0.10	-0.10
Biosolid strategy implementation	-0.15	-0.15	-0.15	-0.15	-0.15
New capital expenditure initiatives	-0.05	-0.05	-0.05	-0.10	-0.20
Inflow and infiltration abatement	-0.13	-0.13	-0.13	-0.13	-0.13
Environment contribution	-0.09	-0.17	-0.25	-0.33	-0.41
Licence fees	0.00	0.00	0.01	0.00	0.01
<b>Total</b>	<b>-1.40</b>	<b>-2.33</b>	<b>-3.25</b>	<b>-4.19</b>	<b>-5.26</b>

- (a) Adjustments reflect changes to wage rates to make them consistent with the new wage policy (section 4.2.1 of Deloitte's expenditure review).
- (b) Adjustments reflect changes to energy usage and electricity prices (section 4.2.2 of Deloitte's expenditure review)
- (c) Adjustments reflect recovery of \$5.19 million defined benefit superannuation payments made to Vision Super in 2012 (section 4.2.4 of Deloitte's expenditure report).
- (d) Adjustments reflect Commission-revised allowance of \$50000 per annum for the next regulatory period (section 4.2.3 of Deloitte's expenditure report).
- (e) Adjustments reflect removal of expenditure associated with tariff choice investigation for the next regulatory period. These should be contained within the existing BAU budget (section 4.3.1 of Deloitte's expenditure report).
- (f) Adjustments reflect removal of costs associated with development of asset management initiatives. These should be contained within the existing BAU budget (section 4.3.2 of Deloitte's expenditure report).

- (g) Adjustments reflect Commission's treatment of Central Highlands Water's proposed operating expenditure as capital rather operating (section 6.5.10 of volume I of this draft decision).
- (h) Adjustments reflect removal of expenditure related to the ongoing cost of updating the Development Servicing Plans (section 4.3.4 of Deloitte's expenditure report).
- (i) Expenditure has been adjusted downwards by 50 per cent in the absence of supporting information to justify its scale, given that obligations are currently being met (section 4.3.5 of Deloitte's expenditure report).
- (j) This adjustment of 50 per cent downwards is due to lack of more detailed information on cost estimates (section 4.3.5 of Deloitte's expenditure report).
- (k) Inflow and infiltration abatement programs were adjusted downwards by 50 per cent due to lack of detailed supporting information to justify program scale (section 4.3.5 of Deloitte's expenditure report).
- (l) Adjustments reflect recent advice from the Department of Sustainability and Environment (chapter 6 of volume I of this draft decision).
- (m) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority on their respective licence fees for the next regulatory period. Also includes the Commission's adjustments on ESC licence fees (chapter 6 of volume I of this draft decision).

## 9. Capital expenditure

The Commission has made the following assumptions about capital expenditure forecasts over the regulatory period:

Table 9 **Proposed and approved capital expenditure assumptions**  
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed capital expenditure	22.9	21.3	16.0	20.8	19.0
<b>Draft decision – capital expenditure</b>	<b>26.3</b>	<b>16.3</b>	<b>22.6</b>	<b>13.0</b>	<b>25.1</b>

The Commission's assumptions reflect the following adjustments to Central Highlands Water's proposed capital expenditure forecasts:

**Table 10 Adjustments to capital expenditure**  
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Maryborough water quality improvement project	-0.5	0.0	0.0	-6.0	3.3
Ballarat South wastewater treatment plant augmentation works	3.3	-5.6	6.6	-1.8	2.8
Ballarat West aquifer (stage 1)	0.6	0.6	0.0	0.0	0.0
Contributions Ballarat West aquifer (stage 1)	-0.5	-0.5	0.0	0.0	0.0
<b>Total ESC Adjustment</b>	<b>3.0</b>	<b>-5.5</b>	<b>6.6</b>	<b>-7.8</b>	<b>6.1</b>

(a) Maryborough water quality improvement project – Deloitte recommended to defer the majority of capital expenditure out of the next regulatory period due to significant uncertainty over this project and lack of full justification. Deloitte allowed the current allowance of \$0.5 million in 2013-14 for investigation works be deferred to 2016-17 to allow for some investigation and design work to occur closely to the likely construction period (section 5.3 of Deloitte's expenditure report).

(b) Ballarat South wastewater treatment plan augmentation works – Deloitte recommended no adjustments to the updated capital costs, apart from updating the original number taken from the Water Plan to the latest figure submitted by Central Highlands Water to Deloitte (section 5.7 of Deloitte's expenditure report).

(c) As discussed in chapter 6, volume I of this draft decision, Central Highlands Water recently provided the Commission with a forecast of \$0.5 million operating expenditure for the Living Victoria Living Ballarat (LVLB) program, which its Water Plan did not include. Central Highlands Water subsequently provided information about the Ballarat West aquifer storage and recovery project, which it proposed to implement under the LVLB program. It submitted the project's stage 1 (proof of concept) will cost \$1.2 million, with Central Highlands Water and the City of Ballarat contributing \$0.3 million each, and the balance of \$0.6 million to come from a funding proposal to the Office of Living Victoria. Stage 2 is to develop an implementation plan, assuming stage 1 recommendation is to proceed with the project.

The Commission is satisfied with Central Highlands Water's justification. The draft decision is to include an additional gross capital expenditure allowance of \$1.2 million: \$0.6 million (gross) in each of 2013-14 and 2014-15 (\$0.15 million net in each year) for funding commitments to stage 1 of the project. The Commission does not allow Central Highlands Water's proposed expenditure of \$0.2 million for stage 2, given that stage depends on the outcome of stage 1 and is uncertain. The Commission expects

Central Highlands Water will confirm the external funding for this project before the Commission makes its final decision.

- (d) These adjustments reflect the government contributions to the project by the City of Ballarat and LVLB.

**Table 11 Key capital projects**

	<i>Expected completion date</i>
Maryborough water quality improvement project	2017-18
Ballarat West urban growth zone	2017 -18
Reservoir and dam upgrade works	2013-14 to 2017-18
Water and sewer main renewals	2013-14 to 2017-18
Ballarat South wastewater treatment plant augmentation works	2017 -18
Fleet replacement - operational	2013-14 to 2017-18
ICT infrastructure replacements and upgrades	2013-14 to 2017-18
Raw water pipeline replacement	2017 -18
Ballarat South flow containment project - Ballarat South outfall sewer	2017-18
Lexton water supply project	2013-14

## 10. Demand forecasts

- (a) The Commission has made the following assumptions about demand for various services over the regulatory period.
- (b) The Commission has adjusted proposed demand forecasts where indicated.

**Table 12 Number of water connections**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2012-2013</i>
Residential					
Proposed connections	59 182	60 138	61 110	62 099	63 104
<b>Draft decision – connections</b>	<b>59 182</b>	<b>60 138</b>	<b>61 110</b>	<b>62 099</b>	<b>63 104</b>
Non-residential					
Proposed connections	6 702	6 750	6 799	6 848	6 897
<b>Draft decision – connections</b>	<b>6 702</b>	<b>6 750</b>	<b>6 799</b>	<b>6 848</b>	<b>6 897</b>
Proposed – total connections	65 884	66 888	67 909	68 946	70 001
<b>Draft decision – total connections</b>	<b>65 884</b>	<b>66 888</b>	<b>67 909</b>	<b>68 946</b>	<b>70 001</b>

**Table 13 Number of sewerage connections**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2012-2013</i>
Residential					
Proposed connections	50 899	51 873	52 900	54 014	54 812
<b>Draft decision – connections</b>	<b>50 899</b>	<b>51 873</b>	<b>52 900</b>	<b>54 014</b>	<b>54 812</b>
Non-residential					
Proposed connections	4 319	4 341	4 363	4 385	4 745
<b>Draft decision – connections</b>	<b>4 319</b>	<b>4 341</b>	<b>4 363</b>	<b>4 385</b>	<b>4 745</b>
Proposed – total connections	55 218	56 214	57 263	58 399	59 558
<b>Draft decision – total connections</b>	<b>55 218</b>	<b>56 214</b>	<b>57 263</b>	<b>58 399</b>	<b>59 558</b>

Table 14 **Residential water consumption**  
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2012-2013</i>
Proposed average consumption (kL)	131	132	133	134	134
<b>Draft decision – average consumption (kL)</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>
Proposed total residential consumption	7 763	7 949	8 130	8 307	8 483
<b>Draft decision – total residential consumption</b>	<b>7 963</b>	<b>8 101</b>	<b>8 230</b>	<b>8 359</b>	<b>8 509</b>

Central Highlands Water initially proposed a step decline from the last year of actual data (2011-12) to 2012-13. Frontier Economics recommended using 2011-12 as the base year and Central Highlands Water adopted this recommendation and resubmitted their forecasts. The Commission proposes to approve Central Highlands Water's revised total residential consumption.

Table 15 **Non-residential water consumption**  
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2012-2013</i>
Proposed non-residential consumption	3 087	3 149	3 210	3 271	3 332
<b>Draft decision – non-residential consumption</b>	<b>3 166</b>	<b>3 209</b>	<b>3 249</b>	<b>3 291</b>	<b>3 342</b>

Table 16 **Total water consumption**  
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2012-2013</i>
Proposed total consumption	10 850	11 098	11 340	11 578	11 815
<b>Draft decision – total consumption</b>	<b>11 130</b>	<b>11 310</b>	<b>11 480</b>	<b>11 650</b>	<b>11 851</b>

Table 17 **Non-residential volumetric sewage**  
KL

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total consumption	434 282	460 339	487 959	517 237	548 271
<b>Draft decision – total consumption</b>	<b>434 282</b>	<b>460 339</b>	<b>487 959</b>	<b>517 237</b>	<b>548 271</b>



## **11. Form of price control**

The Commission proposes to approve a hybrid form of price control, whereby:

- (a) it approves price caps for Central Highlands Water and
- (b) this businesses may propose to move to a tariff basket at the time of the annual price review within the period.

Where a business proposes to transfer to a hybrid form of price control during the next regulatory period, and where that proposal results in a material tariff change, the Commission proposes to require the business to consult with customers. The determinations will require water businesses to provide evidence of customer consultation (including customer consultative committees) and a statement about customer impacts and how the business will address those impacts.

## **12. Retail water tariffs**

- (a) The Commission proposes to approve Central Highlands Water's proposed retail water tariff structure.
- (b) Central Highlands Water is proposing to restructure its three tier inclining block variable tariff to two tiers. Central Highlands Water should provide information on how it will mitigate negative customer impacts and how it will inform customers of the change.

## **13. Retail sewerage tariffs**

- (a) The Commission proposes to approve Central Highlands Water's proposed retail sewerage tariff structure.

## **14. Trade waste charges**

- (a) The Commission proposes to approve the trade waste tariffs proposed by Central Highlands Water.
- (b) The Commission requires Central Highlands Water to continue to include the Commission's trade waste pricing principles in its tariff schedules. Central Highlands Water is required to use the pricing principles when determining trade waste charges for customers to whom scheduled prices do not apply.

## 15. Recycled water

- (a) The Commission proposes to approve Central Highlands Water's proposed pricing principles on the basis that they are consistent with the pricing principles set out below.
- (b) The Commission considers that Central Highlands Water should set its recycled water prices according to a set of principles that ensure that 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.
- (c) Where a business does not propose to fully recover the costs associated with recycled water, it is required demonstrate to the Commission that:
  - i. it has assessed the costs and benefits of pursuing the recycled water project
  - ii. it has clearly identified the basis on which any revenue shortfall is to be recovered
  - 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.

## 16. New Customer contributions

Table 18      **New customer contributions charges**  
\$ 2012-13 per lot

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Water	To be recalculated
Sewerage	To be recalculated

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Subject to Central Highlands Water amending its NCC proposal consistent with the specific actions required by the Commission described below, the Commission proposes to approve the manner in which Central Highlands Water's NCC charges are determined.

The Commission requires Central Highlands Water to:

- (a) Resubmit its calculations for NCC charges

- (b) Assess how they can improve the cost reflectivity of its NCC proposal and to present options on offering more location specific NCC. If the option is a uniform or combined NCC then the water business is required to demonstrate that there is little material difference between NCC calculated for specific locations or services.
- (c) Confirm that all NCC charges have been calculated in accordance the core pricing principles.
- (d) Improve the transparency of its NCC proposal by providing maps to show the boundaries around the areas (or towns) within which standard NCC apply. Or define any threshold that must be met in order for an NCC to be levied.
- (e) Clearly describe the circumstances (i.e. eligibility criteria) under which NCC will negotiated and confirm that it will apply the core pricing principles when such NCC are negotiated.
- (f) Consult with other water businesses to develop a best practice negotiating framework.
- (g) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- (h) Consult with stakeholders following the draft decision
- (i) Make other modelling adjustments:
  - i. Update calculations of standard NCC with any expenditure adjustments arising from the draft decision
  - ii. Update calculations of standard NCC with any demand adjustments arising from the draft decision
  - iii. Review NCC calculations and only include tax rates in the model only for the years the business expects to pay tax
  - iv. Update calculations of standard NCC with the Commission's draft decision on the Weighted Average Cost of Capital (WACC).
  - v. Resubmit a forecast of NCC revenue for each service for each year of the third regulatory period, following changes made in accordance with the above.

## **17. Miscellaneous charges**

- (a) In response to this draft decision, Central Highlands Water is required to submit:
  - i. definitions and proposed charges for connection fees, information fees and meter reading fees, if these are not already included in its core set of miscellaneous services.

- ii. if proposing any miscellaneous charges for developers:
  - o the name all charges relating to developers
  - o explain how these charges relate to NCCs
  - o define the services that will be provided for these charges.
- (b) The Commission proposes to approve the miscellaneous service fees and charges proposed by Central Highlands Water, subject to the business submitting more detailed definitions of its core miscellaneous services.

## 18. Reopening prices

For the third regulatory period, the Commission proposes to approve an uncertain and unforeseen events mechanism that sets out a process for a reopening of price determinations to account for events that were uncertain or unforeseen at the time of the price review, which the businesses could not control or effectively manage such as:

- (a) unsustainable or unwarranted differences between actual and forecast demand level
- (b) changes in legislative and other government imposed obligations
- (c) catastrophic events (such as fire, earthquake or act of terrorism).

Key features of the mechanism are:

- (d) A water business (by application to the Commission) or the Commission may initiate a reopening.
- (e) Prices can either be raised or reduced as a result of an uncertain or unforeseen event.
- (f) An adjustment to prices may be implemented by the Commission at any time within a regulatory period (and not only on 1 July in any year), or at the end of the regulatory period.
- (g) There will be no nominal thresholds for applications (based on differences between forecast and actual outcomes for expenditure, revenue and demand). However in applying to reopen a decision, the water business will need to demonstrate it does not have the financial resources or operational capacity to manage its exposure.

- (h) The Commission proposes to reserve the discretion to limit the reopening of a determination to a single event, rather than the full suite of factors influencing business costs and revenues where:
  - i. the impact of an uncertain and unforeseen event on business costs or revenues is material, and
  - ii. the effects of which can be isolated with certainty

The Commission will only approve a mid-period price adjustment proposed by a water business, when it is satisfied:

- (i) the event is clearly outside the business's control and not predictable with any confidence
- (j) the business has exhausted all opportunities within its control to mitigate against the circumstances in which it finds itself, including demonstrable reprioritisation of its operating and capital expenditure programs
- (k) customers are not unduly exposed to risk or price fluctuations
- (l) the impact of the event is material, clearly observable and verifiable, and
- (m) the net impact on costs or revenue of all changes that occurred during the period being considered is significant (except in cases where the Commission identifies a material event for which the effects can be isolated).

In determining whether a mid-period price adjustment is appropriate the Commission will focus on the business's ability to absorb the impacts of any event on costs or revenues, with particular emphasis on the business' viability ratios.

#### *Pass through events*

Central Highlands Water did not propose any automatic pass through events for the third regulatory period.