

MELBOURNE WATER PATTERSON LAKES SPECIAL DRAINAGE AREA PRICE REVIEW 2014-15 TO 2015-16

Draft decision

April 2014

An appropriate citation for this paper is:

Essential Services Commission 2014, *Melbourne Water Patterson Lakes Special Drainage Area Price Review 2014-15 to 2015-16: Draft Decision*, April.

1 INTRODUCTION

On 19 December 2013 Melbourne Water submitted its pricing proposal for the Patterson Lakes special drainage area for the period from 1 July 2014 to 30 June 2016, for the Commission's assessment. The proposal covers a range of services provided by Melbourne Water in Patterson Lakes (which comprises two separate areas, the Tidal Waterways and Quiet Lakes) including:

- in Tidal Waterways: jetty maintenance and replacement; operation, maintenance and dredging of floodgates
- in Quiet lakes: carp removal, water quality testing and monitoring and works on assets.¹

When developing its price proposals for the current regulatory period, Melbourne Water consulted with the Patterson Lakes community to inform a price strategy to address what it claimed was a growing shortfall between costs and revenues, and to move away from property value based pricing for the area.

After Melbourne Water was unable to reach agreement on pricing with residents, an Independent Review (the Independent Review) was established to consider aspects of the management of Patterson Lakes including services provided to residents by Melbourne Water. Melbourne Water stated it would base its pricing proposal on the recommendations of the Review.

¹ See the attachment for a map of Patterson Lakes

THE INDEPENDENT REVIEW

The Minister for Water requested the establishment of the Independent Review to review the management of the Patterson Lakes waterways. The key aim of the Independent Review was to assess the management arrangements and provide recommendations on future action to create a sustainable management framework based on a fair and equitable funding model that included beneficiaries of both the Quiet Lakes and Tidal Waterways. The Independent Review was established in early September 2012 and the members were formally appointed in November 2012. Melbourne Water and the Patterson Lakes Residents Association selected the reviewers from Planning Panels Victoria's group of independent panel members.²

The Independent Review's Report was published on 8 March 2013. The Independent Review recommended that:³

- the existing Precept Rate to cease from 1 July 2013 and be replaced by a funding framework that augments the Melbourne metropolitan waterways and drainage charge.
- existing jetty and mooring leases be replaced with new leases entered into by residents who would pay the full cost of services including jetty maintenance, replacement and dredging necessary for navigation and berthing, under the auspices of Parks Victoria. This reflected the Independent Review's finding that these services delivered a private benefit to those receiving the service, not a public benefit.
- the system of interconnecting water flows between the three Quiet Lakes be managed, funded, and operated by Melbourne Water to deliver the outcomes recommended in the Review. These would be funded from the Melbourne metropolitan waterways and drainage charge because they provided a public benefit.

² Patterson Lakes Independent Review (2013), Report of the Independent Review, March, page 7.

³ Patterson Lakes Independent Review (2013), Report of the Independent Review, March, page 3.

- Melbourne Water manage, operate, and maintain the Tidal Waterways functions from the Melbourne metropolitan waterways and drainage charge because they provided a public benefit.
- any additional services sought and agreed between Melbourne Water, Kingston City Council, Parks Victoria and the property owners are to be delivered on a user pays cost recovery basis.⁴
- Melbourne Water transfer to Kingston City Council the responsibilities for managing the local drainage infrastructure that drains to the Tidal Waterways and Quiet Lakes and review its performance in improving the quality of stormwater inflows.
- Melbourne Water empower Parks Victoria as ‘waterways manager’ for all the Patterson Lakes waterways (except Runaway Bay and Middle Harbour) subject to contractual agreement covering service provision and funding revenues.

Melbourne Water was not able to provide a pricing proposal for Patterson Lakes for the Commission’s assessment as part of its 2013-16 Price Review. However, as an interim proposal Melbourne Water proposed to:

- cease the existing precept charge
- fund services that the Independent Review concluded had a public benefit through the Melbourne metropolitan waterways and drainage charge
- conduct further consultation with residents to inform a more detailed proposal at a later date

The Commission approved Melbourne Water’s interim proposal in its 2013 water price review final decision, subject to a further proposal from Melbourne Water .⁵

⁴ Patterson Lakes Independent Review (2013), Report of the Independent Review, March, pages ix-xi.

⁵ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision, June.

2 SUMMARY OF MELBOURNE WATER'S PROPOSAL

In Melbourne Water's December 2013 pricing submission, it proposed a management strategy for the delivery of services in Patterson Lakes that was generally consistent with the recommendations and suggestions of the Independent Review. The management strategy comprised:

- implementing uniform user pays pricing for jetty related services and assets that are linked to private recreational benefit, including jetty replacement, maintenance and dredging feasibility costs.
- continuing to fund waterway health and regional drainage services through the waterways and drainage charge.
- a negotiated transfer of some open space and local drainage services to the City of Kingston. These services include:
 - beach raking and grooming
 - debris collection
 - beach weed spraying
 - grass maintenance to access easements, and
 - convening the Patterson Lakes Advisory Committee, and its newsletter and website.

2.1 CONSULTATION

Melbourne Water's submission stated that in July and August 2013, it consulted with customers and key stakeholders on its proposed pricing strategy for Patterson Lakes.⁶ It explained that for both the Tidal Waterways and Quiet Lakes, its consultation program included the distribution of information packs to households, doorknocking of homes within the area, three community information sessions, a community ballot on dredging service level options for the Tidal Waterways, and a community ballot on water quality service options for Quiet Lakes. This consultation informed Melbourne Water's proposals.

2.2 PRICING

Melbourne Water's proposal comprised pricing for both user pays services and services with broader community benefit.

2.2.1 USER PAYS PRICING

In 2010, Melbourne Water commenced planning a program to replace more than 260 jetties that it leases to residents with an allocated mooring. The program seeks to provide safer and improved facilities to boat owners. The charge associated with the replacement of jetties is compulsory for residents with a jetty mooring.

Melbourne Water proposed to introduce uniform prices for user pays services within the Tidal Waterways community. These prices would comprise jetty related charges for the 731 properties with a jetty mooring.⁷

The jetty charges comprise an operating component and a capital component:

- The operating cost reflects the ongoing cost of maintaining the jetties for all residents with a jetty mooring. Melbourne Water has proposed to recover this through an annual maintenance charge of \$130.

⁶ Melbourne Water (2013), *Pricing Proposal for Patterson Lakes Special Drainage Area*, December, pp. 12-13.

⁷ Melbourne Water (2013), *Pricing Proposal for Patterson Lakes Special Drainage Area*, December, pp. 6-7.

- The capital costs reflect the costs needed to replace the existing jetties and cost recovery for the dredging feasibility project.

Residents would have two options for replacing their jetties:

- replace their existing jetty with a timber jetty, or
- upgrade their existing jetty to a concrete jetty and pay an additional upfront jetty upgrade contribution.

Melbourne Water proposes to offer customers two options for paying for the capital costs (the jetties and the dredging feasibility project):

- Pay upfront and receive the benefit of lower borrowing costs (table 1.1).
- Pay over time with timber jetties being recovered over 15 years, concrete jetties over 25 years and the dredging feasibility project over 20 years (table 1.2).

In net present value terms, these two options are approximately equivalent.

TABLE 1.1 MELBOURNE WATER'S PROPOSED UPFRONT PRICING FOR PATTERSON LAKES JETTY RELATED CAPITAL CHARGE

Charge type	Total one-off upfront payment (\$)
Timber jetty replacement	15 781
Concrete jetty replacement ^a	14 587
Dredging feasibility project	1 127

^a The concrete jetty replacement price does not include the additional variable contribution that residents are required to pay for upgrading from a timber to a concrete jetty.

TABLE 1.2 MELBOURNE WATER'S PROPOSED PRICES FOR TIDAL WATERWAYS JETTY RELATED CAPITAL CHARGE

Charge type	Term (years)	Annual payment (\$)	Total cost over term (\$)
Timber jetty replacement	15	1 399	20 982
Concrete jetty replacement ^a	25	946	23 646
Dredging feasibility project	20	85	1 708

Note: Melbourne Water does not propose to apply annual CPI adjustments to the annual capital charges.

^a The concrete jetty replacement price does not include the additional variable contribution that residents are required to pay for upgrading from a timber to a concrete jetty.

In addition to the charges listed in tables 1.1 and 1.2, any customers seeking to upgrade their jetties to a concrete jetty would pay a once off contribution that would vary for each jetty and would be determined by Melbourne Water using the miscellaneous charges pricing principles in its determination.⁸

Melbourne Water proposed to exclude 13 stub jetties from the jetty replacement program as they are space-constrained and cannot be upgraded to a larger jetty.⁹ It proposed to levy the actual construction cost for these jetties on relevant customers, which is substantially lower than for the average jetty within the program.

Melbourne Water also proposed to provide payment options for residents experiencing financial hardship.

2.2.2 COMMUNITY BENEFIT PRICING

Melbourne Water's proposal also covered waterways and drainage services with a wider community benefit. It noted that it would need to adjust the Melbourne metropolitan waterways and drainage charge to reflect the proposed transfer of service accountabilities to the City of Kingston if the City of Kingston agreed to accept the additional responsibilities. This adjustment would reduce the average waterways and drainage charge by 10 cents per Melbourne metropolitan customer in 2014-15.

⁸ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision: Melbourne Water Determination, June, p.27.

⁹ Stub jetties are smaller jetties that only have two berths.

3 COMMISSION'S ASSESSMENT

3.1 THE COMMISSION'S ASSESSMENT FRAMEWORK

In its 2013 final decision, the Commission approved Melbourne Water's proposed Melbourne metropolitan waterways and drainage charge and its proposal to provide a price submission for Patterson Lakes at a later date.¹⁰

The Commission has assessed Melbourne Water's proposal with consideration for the WIRO pricing principles.

The Commission's key areas of focus were whether:

- Melbourne Water's proposed service outcomes reflect customer preferences and their willingness to pay, and
- the costs of providing Melbourne Water's proposed services were efficient.

In order to assess Melbourne Water's proposed jetty related charges, the Commission has considered Melbourne Water's proposal, stakeholder submissions, an independent assessment of costs from ARUP, and Melbourne Water's consultation.

The City of Kingston has stated that no agreement exists for it to take on the additional services recommended by the Independent Review. Therefore, the Commission has not considered lowering the Melbourne metropolitan waterways and drainage charge to reflect a transfer of funding responsibilities. The Commission also considers that the change in prices would be immaterial.

¹⁰ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision, June, p.155

3.2 SUBMISSIONS

The Commission received four submissions on Melbourne Water's proposal.

The submission from Andrew Meehan & David Jordan, Tidal Waterways Representatives on the Patterson Lakes Independent Review Steering Committee, wrote to support Melbourne Water's Pricing Proposal and to note that the Independent Review had recommended that City of Kingston take over responsibility for certain services.

A joint submission from 12 residents of Whalers Cove, who are joint lessees of a single concrete jetty complex consisting of 15 individual moorings, stated that the pricing proposal for the concrete moorings was not fit for purpose. Their reasons included that uniform user pays pricing does not recognise the different actual costs faced by jetty owners.

In its initial submission, the City of Kingston submitted that the Council has not yet agreed to take on any further responsibility and that there should be discussion to explore all funding opportunities before agreeing on additional responsibilities that Council would undertake and be compensated for. In a further submission, the City of Kingston stated it remains committed to working through that process and that it is not possible to advise Council's final position on the recommendations.

Melbourne Water's response to the submissions from the City of Kingston stated Melbourne Water's proposal is based on the recommendations of the Independent Review.

Parks Victoria's response to the submission from the City of Kingston stated it had been participating in the Steering Committee for the implementation of the Independent Review's Panel Report. Parks Victoria has not agreed to take on the management of the private jetties and dredging in the Tidal Waterways from Melbourne Water.

3.3 SERVICE OUTCOMES

The Commission's view is that Melbourne Water has consulted appropriately with customers and key stakeholders in developing its pricing proposal for Patterson Lakes. This consultation has included:

- participating in monthly meetings of the Patterson Lakes Management Plan Steering Committee with Parks Victoria, the City of Kingston and local residents
- distributing information packs to residents with options for pricing and service levels
- extensively doorknocking homes in the area
- holding three community information sessions and conducting ballots on its pricing and service options

The Commission's view is that Melbourne Water has incorporated feedback from customers in developing its proposed service levels and pricing.

The Commission has considered the range of submissions received. The submissions generally support Melbourne Water's proposed jetty replacement and management charge. There is broad community support for Melbourne Water's pricing submission. However, the Commission has also noted the concerns of the Whaler's Cove residents with regards to their preference for concrete jetties to be either individually costed and priced or priced in four tiers. Melbourne Water has stated that South East Water's billing system (through which Melbourne Water bills customers) cannot accommodate billing for individual jetties. It also costed the implementation of an individually priced system at an additional \$260 000 over the life of the project. A four tier system would both incur additional cost and still not fully address concerns about direct cost reflectivity. The Commission notes that it appears that the uniform prices proposed by Melbourne Water have widespread community support. The Commission is of the view that this proposal would create undue administrative burden and generate additional costs for the overall jetty replacement program.

3.4 EXPENDITURE ASSESSMENT

To approve the proposed charges the Commission must be of the view that Melbourne Water's proposed prices for jetty related services are efficient and have been set according to its actual costs for contractor invoices, direct internal costs and a fair contribution to overheads.

To assist the Commission with its assessment of Melbourne Water's proposed prices for Patterson Lakes, it engaged an engineering consulting firm, ARUP. The Commission asked ARUP to advise it on whether Melbourne Water's actual and proposed expenditure for Patterson Lakes is appropriate and efficient. ARUP's review covered an assessment of capital and operating expenditure for the Tidal Waterways and Quiet Lakes. ARUP also detailed Melbourne Water's proposed expenditure for the Tidal Waterways (tables 3.1 and 3.2). The ARUP report is available separately on the Commission's website.

TABLE 3.1 PROPOSED CAPITAL EXPENDITURE FOR THE TIDAL WATERWAYS 2013/14
(\$2012/13)

Tidal Waterways Capital Expenditure	2013/14	2014/15	2015/16	Total
Timber Jetty Replacement	817,880	701,040	-	1 518,919
Concrete Jetty Replacement	1 912 120	1,638,960	-	3 551,081
Total Expenditure	2 730 000	2 340 000	-	5 070 000

TABLE 3.2 ACTUAL AND FORECAST OPERATING EXPENDITURE IN THE TIDAL WATERWAYS FOR 2012/13 TO 2015/16
(\$2012/13)

Tidal Waterways 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 coordinator	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
Total Expenditure	94 676	94 676	94 676	94 676

ARUP's review of Melbourne Water's proposed and actual expenditure found the proposed operating and capital costs were reasonable. Therefore, ARUP did not recommend any adjustments to Melbourne Water's expenditure.

The Independent Review recommended Melbourne Water close its Patterson River depot and utilise the City of Kingston's and Parks Victoria's depots. ARUP recommended delaying the closure of Melbourne Water's Patterson River depot until the conclusion of the jetty replacement program.

The Commission agreed with ARUP's assessment and has decided to adopt all recommendations made by ARUP. Therefore, the Commission has not adjusted Melbourne Water's proposed expenditure for the Tidal Waterways and accepts Melbourne Water's proposed charges.

3.5 DRAFT DECISION

The Commission proposes to accept Melbourne Water's proposed prices and expenditure for jetty related services in Patterson Lakes because Melbourne Water's proposed expenditure and prices reflect the service outcomes desired by customers and are efficient.

The Commission's view is that Melbourne Water's proposed method for calculating jetty upgrade contributions for those customers who upgrade to a concrete jetty is consistent with the pricing principles for miscellaneous services in Melbourne Water's Determination.¹¹

¹¹ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision: Melbourne Water Determination, June, p.27

COMMISSION'S DRAFT DECISION

The Commission has proposed to approve Melbourne Water's:

- proposed jetty related capital charge, and
- proposed annual jetty maintenance charge.

3.6 NEXT STEPS AND RESPONDING TO THIS DRAFT DECISION

The Commission is interested in the thoughts and comments of the public on this draft decision. The responses will assist the Commission to make its final decision in May 2014.

Interested parties can provide feedback on the draft decision in one of two ways:

You can send a written submission or comments in response to the draft decision. Written comments are due by 2 May 2014.

The Commission would prefer to receive them by email at water@esc.vic.gov.au.

You can also send comments by mail to

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

ATTACHMENT

FIGURE 1 PATTERSON LAKES



Source: Patterson Lakes Independent Review (2013), Report of the Independent Review, March, page 2