



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

Final decision

May 2014

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

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 around floodgates
- in Quiet lakes: carp removal, water quality testing and monitoring and works on assets.¹

When developing its price proposals for the 2013-14 to 2017-18 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 the services to be provided to residents by Melbourne Water. Melbourne Water stated it would base its pricing proposal on the recommendations of the Review. The Independent Review's Report was published on 8 March 2013.²

¹ See the attachment for a map of Patterson Lakes

² Patterson Lakes Independent Review (2013), Report of the Independent Review, March, page 3.

Melbourne Water was not able to provide a full pricing proposal for Patterson Lakes for the Commission's assessment as part of its 2013-14 to 2017-18 price review. However, as an interim measure, 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, noting that we expected a more detailed pricing proposal from Melbourne Water.³

Melbourne Water's December 2013 Patterson Lakes pricing submission proposed a management strategy for the delivery of services 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.

On 4 April 2014, the Commission released its draft decision on Melbourne Water's pricing proposal for public consultation. The Commission proposed to accept Melbourne Water's pricing proposal for its jetty related capital charge and its annual jetty maintenance charge.

The Commission invited written submissions and comments in response to the decision. The Commission did not receive any submissions on its draft decision.

³ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision, June.

1.1.1 MELBOURNE WATER'S PROPOSED 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.⁴

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 proposed to recover this through an annual maintenance charge of \$130.
- The capital costs reflect the costs of replacing 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 proposed that it would 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. The values to individual customers will vary.

⁴ Melbourne Water (2013), *Pricing Proposal for Patterson Lakes Special Drainage Area*, December, pp. 6-7.

TABLE 1.1 MELBOURNE WATER'S PROPOSED UPFRONT PRICING FOR TIDAL WATERWAYS 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.⁵

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.⁶ It proposed to levy the actual construction cost for these jetties on relevant customers, which is substantially lower than the charge levied for the average jetty within the program.

Melbourne Water proposed payment options for residents in financial hardship.

⁵ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision: Melbourne Water Determination, June, p.27.

⁶ Stub jetties are smaller jetties that only have two berths.

2 COMMISSION'S ASSESSMENT AND FINAL DECISION

2.1 THE COMMISSION'S ASSESSMENT FRAMEWORK

The Commission has assessed Melbourne Water's proposal against the Water Industry Regulatory Order (WIRO) pricing principles. The Commission's focus was whether:

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

When making its final decision on Melbourne Water's proposed jetty related charges, the Commission has considered Melbourne Water's proposal, stakeholder submissions, an assessment of costs undertaken by an engineering consultant, and Melbourne Water's consultation.

2.2 OVERVIEW OF DRAFT DECISION

On 4 April 2014, the Commission released its draft decision on Melbourne Water's pricing proposal for public consultation.⁷ The Commission proposed to accept Melbourne Water's proposal for its jetty related capital and maintenance charges.

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

⁷ Essential Services Commission 2014, Melbourne Water Patterson Lakes Special Drainage Area Price Review 2014-15 to 2015-16: Draft Decision, April.

reflect a transfer of funding responsibilities. The Commission also considers that the change in prices would be not particularly material.

2.2.1 SERVICE OUTCOMES

In its draft decision, the Commission concluded that Melbourne Water had consulted appropriately with customers and key stakeholders and had incorporated feedback in developing its pricing proposal for Patterson Lakes.

The submissions received on Melbourne Water's pricing proposal generally supported Melbourne Water's proposed jetty replacement and management charge indicating broad community support for Melbourne Water's submission. However, the Commission also noted the Whaler's Cove residents' 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 uniform prices proposed by Melbourne Water have widespread community support. The Commission considers that non-uniform pricing would create undue administrative burden and generate additional costs that well exceed the benefits for the overall jetty replacement program.

2.2.2 EXPENDITURE ASSESSMENT

The Commission assessed Melbourne Water's proposal against the pricing principles set out in Schedule 4 of Melbourne Water's price Determination.⁸ To approve the proposed charges the Commission must be satisfied that Melbourne Water's proposed prices for jetty related services are efficient and have been derived based on its actual costs for contractor invoices, direct internal costs and a fair contribution to overheads.

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

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 was appropriate and efficient. ARUP’s review covered an assessment of capital and operating expenditure for the Tidal Waterways and Quiet Lakes.

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 the expenditure.

The Commission agreed with ARUP’s assessment and has decided to adopt Melbourne Water’s forecast operating expenditure and capital expenditure. The ARUP report is available separately on the Commission’s website.

2.3 CONSULTATION

On 4 April 2014, the Commission released its draft decision on Melbourne Water’s pricing proposal for public consultation. No submissions were received.

2.4 FINAL DECISION

The Commission has approved Melbourne Water’s prices and expenditure for jetty related services in Patterson Lakes. The approved charges are in tables 2.1 and 2.2.

TABLE 2.1 UPFRONT PRICING FOR TIDAL WATERWAYS 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 2.2 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 will not 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.

The Commission has approved an annual maintenance charge of \$130. Also, the Commission considers that Melbourne Water’s proposal to use the pricing principles for miscellaneous services in Melbourne Water’s Determination⁹ to calculating jetty upgrade contributions for customers who upgrade to a concrete jetty is appropriate.

COMMISSION’S FINAL DECISION

The Commission has approved Melbourne Water’s:

- proposed jetty related capital charges,
- proposed methodology for charges for stub jetties, and jetty upgrades and
- proposed annual jetty maintenance charge.

⁹ Essential Services Commission 2013, Metropolitan Melbourne Water Price Review 2013 Final Decision: Melbourne Water Determination, June, p.27.

