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## 2008 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
GIPPSLAND WATER

MARCH 2008

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Essential Services Commission 2008, *2008 Water Price Review Draft Decision Volume II: Gippsland Water*, March.

## 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 must 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, Gippsland Water should by 9 May 2008 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2008 that reflects:
  - (i) the revised revenue requirement set out in Table 4
  - (ii) the revised demand forecasts set out in Tables 12–16 and
  - (iii) any changes to tariff structure suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in Tables 1–2.

If a business does not submit a revised schedule of tariffs and/or the service standards 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 service standards to apply for the regulatory period 2008-09 to 2012-13 as part of its Final Determination.

### 3. Service standards

The Commission proposes to approve each of the service standards proposed in Gippsland Water's Water Plan, except as indicated in table 1.

**Table 1 Approved service standards**

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<b>Water</b>						
Unplanned water supply interruptions (per 100km)	35.8	45.0	45.0	45.0	45.0	45.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	47.3	40.0	40.0	40.0	40.0	40.0
Average time taken to attend bursts and leaks (priority 2) (minutes)	224.4	150.0	150.0	150.0	150.0	150.0
Average time taken to attend bursts and leaks (priority 3) (minutes)	2614.4	2300.0	2300.0	2300.0	2300.0	2300.0
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	91.8	97.8	97.8	97.8	97.8	97.8
Planned water supply interruptions restored within 5 hours (per cent)	79.9	87.0	87.0	87.0	87.0	87.0
Average unplanned customer minutes off water supply (minutes)	9.2	16.1 <b>a</b>	16.1 <b>a</b>	16.1 <b>a</b>	16.1 <b>a</b>	16.1 <b>a</b>
Average planned customer minutes off water supply (minutes)	20.6	26.2 <b>a</b>	26.2 <b>a</b>	26.2 <b>a</b>	26.2 <b>a</b>	26.2 <b>a</b>
Average frequency of unplanned water supply interruptions (number)	0.1	0.1 <b>a</b>	0.1 <b>a</b>	0.1 <b>a</b>	0.1 <b>a</b>	0.1 <b>a</b>
Average frequency of planned water supply interruptions (number)	0.1	0.2 <b>a</b>	0.2 <b>a</b>	0.2 <b>a</b>	0.2 <b>a</b>	0.2 <b>a</b>
Average duration of unplanned water supply interruptions (minutes)	98.4	115.0 <b>a</b>	115.0 <b>a</b>	115.0 <b>a</b>	115.0 <b>a</b>	115.0 <b>a</b>
Average duration of planned water supply interruptions (minutes)	175.2	130.8	130.8	130.8	130.8	130.8
Number of customers experiencing 5 unplanned water supply interruptions in	0.0	0.0	0.0	0.0	0.0	0.0

<i>Service standard</i>	<i>Draft decision – service standards</i>					
	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
the year (number)						
Unaccounted for water (per cent)	13.1	14.5	14.5	14.3	14.2	14.1
<b>Sewerage</b>						
Sewerage blockages (per 100km)	26.5	25.0	25.0	25.0	25.0	25.0
Average time to attend sewer spills and blockages (minutes)	90.9	35.0	35.0	35.0	35.0	35.0
Average time to rectify a sewer blockage (minutes)	0.3	0.3	0.3	0.3	0.3	0.3
Spills contained within 5 hours (per cent)	84.3	84.3	84.3	84.3	84.3	84.3
Customers receiving 3 sewer blockages in the year (number)	0.3	0.3	0.3	0.3	0.3	0.3
<b>Customer Service</b>						
Complaints to EWOV (per 1000 customers)	0.3	0.7	0.7	0.7	0.7	0.7
Telephone calls answered within 30 seconds (per cent)	84.3	80.0	80.0	80.0	80.0	80.0
<b>Minimum Flow Rates</b>						
	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>	
Flow rate (litres per minute)	20	35	60	90	160	

**Note** Data rounded to one decimal place. **n.p.** = Not provided. **a** amended by the business in the lead up to the Draft Decision

Where the proposed service standard target deviated from Gippsland Water's actual three year average performance or did not appear to make sense, the Commission sought further information from the business. The table above indicates which of the standards were amended by the business in the lead up to the Draft Decision.

The Commission is currently seeking further information in relation to the following proposed service standard target:

#### **Average duration of planned water supply interruptions**

Gippsland Water has revised its proposed target for this indicator from 118.7 minutes to 115 minutes, which is closer to the three year average result of 96 minutes.

Gippsland Water explained that the deviation from the three year average is attributable to a new occupation health and safety requirement implemented in mid 2007. Before any work commences to restore water services a 12 page Job Safety

Analysis (JSA) must be completed, a process that is estimated to take between 18-20 minutes.

The revised target for this indicator is based on the simple addition of the three year average and the average time taken to complete a new JSA (19 minutes).

The Commission has proposed to approve some targets that appear inconsistent with the three year average performance.

### **Average planned frequency of water supply interruptions**

Gippsland Water has revised its proposed target for this indicator from 0.5 to 0.2, bringing the target closer three year average of 0.10.

The revised target remains higher than the three year average performance to reflect the expected increase in planned works as water restriction come to an end. Gippsland Water explained that the field based “asset location work” will lead to a significant increase in the identification of minor planned works as various valves and fittings, during the course of discovery and exercise, will be identified as needing to be replaced.

### **Complaints to EWOV**

Gippsland Water has proposed a target of 0.7 per 1000 customers for Complaints to EWOV. The business is concerned that increases in tariffs, together with greater awareness of the facilitative role of the Ombudsman will lead to an increase in complaints in this area. The Commission notes that although the proposed target is above the three year average performance, it is in line with the proposals of other businesses for the forthcoming period.

The Commission also notes that Gippsland Water has proposed the additional service standards outlined in table 2.

**Table 2 Additional service standards**

<i>Service standard</i>	<i>3yr Avg 2003-06</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Population receiving water meeting E.coli standards (per cent)	99.9	100.0	100.0	100.0	100.0	100.0
Population receiving water meeting Disinfection by-products standards (per cent)	99.8	100.0	100.0	100.0	100.0	100.0
EPA Discharge Quality licence compliance (per cent)	99.3	100.0	100.0	100.0	100.0	100.0
Population receiving water meeting Turbidity standards (per cent)	100.0	100.0	100.0	100.0	100.0	100.0
Total CO2 Emissions (Tonne)		TBD	TBD	TBD	TBD	TBD
Recycled water target (per cent)		10.0	20.0	20.0	20.0	20.0
Biosolids reuse (per cent)		100.0	100.0	100.0	100.0	100.0
Sewer backlog connections		0.0	17.0	16.0	15.0	5.0
CTWSS Connections		330.0	0.0	0.0	77.0	0.0

Note Data rounded to one decimal place.

#### **4. Guaranteed service level scheme**

Gippsland Water has not proposed to introduce a GSL scheme in the forthcoming period.

#### **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**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	50.09	53.58	53.22	53.70	54.01
Return on existing assets	19.74	19.25	18.75	18.23	17.72
Return on new investments	1.57	3.90	5.47	7.75	10.45
Regulatory depreciation	8.29	9.27	9.99	10.95	12.05
Tax liability	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>79.69</b>	<b>86.00</b>	<b>87.42</b>	<b>90.63</b>	<b>94.22</b>

## 6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 4.

**Table 4 Updated regulatory asset base**  
\$ million in January 2007 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	179.39	172.27	210.56
<i>Plus</i> Gross Capital expenditure	43.08	65.88	128.69
<i>Less</i> Government contributions	39.72	17.09	0.00
<i>Less</i> Customer contributions	1.67	0.66	0.50
<i>Less</i> Proceeds from disposals	0.69	0.73	0.79
<i>Less</i> Regulatory depreciation	8.12	9.11	10.20
<b>Closing RAB</b>	<b>172.27</b>	<b>210.56</b>	<b>327.76</b>

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 to 2012-13 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**      **Rolled forward regulatory asset base**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	327.8	371.2	387.6	406.4	445.3
<i>Plus</i> Gross Capital expenditure	53.6	30.6	40.5	53.2	62.3
<i>Less</i> Government contributions	0.0	0.4	6.8	0.4	0.0
<i>Less</i> Customer contributions	1.4	4.1	4.3	1.9	16.9
<i>Less</i> Proceeds from disposals	0.5	0.5	0.7	1.0	0.5
<i>Less</i> Regulatory depreciation	8.3	9.3	10.0	11.0	12.0
<b>Closing RAB</b>	<b>371.2</b>	<b>387.6</b>	<b>406.4</b>	<b>445.3</b>	<b>478.1</b>

## 7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 6.1 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</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>(%)</i>	<i>(per cent)</i>
3.41	0.65	6.00	1.95	60	0.5	6.1

## 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**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	51.10	55.39	55.54	56.81	57.07
Revisions and adjustments	-1.01	-1.81	-2.32	-3.12	-3.05
Draft decision – operating expenditure	50.09	53.58	53.22	53.70	54.01

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

**Table 8 Adjustments to operating expenditure**  
\$ million in January 2007 prices

<i>Expenditure item</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Electricity (non-GWF)	0.02	-0.33	-0.32	-0.36	-0.36
Electricity (GWF)	0.00	-0.17	-0.33	-0.66	-0.66
Labour	-0.88	-0.86	-1.14	-1.44	-1.60
Chemical costs	-0.56	-0.77	-0.77	-0.82	-0.52
Environmental contribution adjustment	0.93	0.85	0.77	0.69	0.62
DHS licence fee adjustment	-0.01	-0.01	-0.01	-0.01	-0.01
Licence fees double counted	-0.52	-0.53	-0.52	-0.52	-0.52
<b>Total</b>	-1.01	-1.81	-2.32	-3.12	-3.05

- (a) No business revisions were proposed after the submission of the Water Plan
- (b) Electricity expenditure adjustments, including the Gippsland Water Factory, reflect SKM's view of electricity prices during the regulatory period. Electricity pricing changes reflect the Commission's view of a reasonable pricing assumption and are discussed in section 3 of SKM's expenditure review.
- (c) Business as usual labour expenditure was adjusted to reflect a 1.25 per cent real increase in labour rates as discussed in section 3 of the SKM expenditure review
- (d) SKM has recommended that chemical costs, excluding the Gippsland Water Factory, be reduced from the original forecast (SKM section 6)
- (e) The Commission adjusted DHS licence fees and DSE's environmental contribution based on advice the departments (Draft Decision section 4.7). A reduction in licence fees was also recommended by SKM due their inclusion twice in the operational expenditure.

## 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**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	56.93	32.26	42.45	56.89	62.74
Draft decision – capital expenditure	53.64	30.58	40.52	53.19	62.27

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

**Table 10 Adjustments to capital expenditure**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Coongulla Waste System Project	-0.08	-0.06	-0.33	-1.19	2.42
Glenmaggie Waste System Project	-0.69	-2.45	-1.04	1.45	2.76
GWF - Amenities Facility	-2.4				
Warragul - Moe Interconnection project	-0.03	-0.14	0.1	-0.25	-0.87
Allowance for groundwater projects		1.5	1.5		
Moe Groundwater Project	-0.09	-0.17	-1.02	-3.39	-3.39
Mirboo North Groundwater Augmentation		-0.05	-0.2	-1.27	-0.17
Warragul Groundwater Augmentation			-0.1	-0.2	-1.22
Drouin Wastewater Treatment plant		-0.31	-0.84	1.15	
<b>Total ESC Adjustment</b>	<b>-3.29</b>	<b>-1.68</b>	<b>-1.93</b>	<b>-3.7</b>	<b>-0.47</b>

- (a) Coongulla and Glenmaggie Waste System Projects – SKM recommended that that commencement of construction related expenditure be deferred until 2011-12 and to flow into the following regulatory period (SKM, section 6.2).
- (b) Gippsland Water Factory Amenities Facility – SKM considered that as there is no obligation to develop this facility it has a lesser priority than other

important capital expenditure in the period. It however recommended a reduction in the forecast expenditure that would allow for essential site operations buildings, including a control room, laboratories, reception and administrative offices (SKM, section 6.2).

- (c) Warragul - Moe Interconnection project – SKM considered the forecast cost of \$11M to be high and would not expect costs to exceed \$8M. SKM has therefore recommended a pro-rata reduction in expenditure forecast for this project (SKM, section 6.2).
- (d) Moe Groundwater, Warragul Groundwater and Mirboo North Groundwater projects – As these projects are currently at options study stage and that there may be some interactions between the needs of these projects, the SKM recommended for some expenditure to be allowed for planning and feasibility to be undertaken in the next regulatory period. However if the project costs are finalised and Gippsland Water could justify that these projects will be delivered in the next regulatory period they could allow for an adjustment of Gippsland Water's price determination (SKM, section 6.2).
- (e) Drouin Waste Water Treatment plant – SKM considered that a period of negotiations with the EPA concerning the appropriateness of the license requirement may lead to a delay in implementation and it is proposed that expenditure for the construction component be deferred by one year (SKM, section 6.2).

Gippsland Water has identified the following top ten capital projects to be undertaken during the regulatory period.

**Table 11 Key capital projects**

	<i>Expected completion date</i>
Loch Sport Sewer Project	2012-13
Coongulla Waste system Project	Post 2012-13
Gippsland Water Factory	2008-09
Water Reticulation Renewals Program	2012-13
Sewer Pump Station Rehabilitation Program	2012-13
Moe Groundwater Project	Post 2012-13
Shared Assets (Regional Development)	2012-13
Glenmaggie Waste System Project	Post 2012-13
Gippsland Water Factor Micro Hydro/Bio Gas	2008-09
Warragul Moe Interconnection Project	Post 2012-13
Drouin Waste Water Treatment Upgrade	2011-12
Mirboo North Groundwater Augmentation	2012-13
Warragul Groundwater Augmentation	Post 2012-13

## 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 shaded or otherwise indicated.

**Table 12 Number of water connections**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
<b>Residential</b>					
Proposed connections	54,038	54,579	55,107	55,631	56,154
Draft decision — connections	54,349	55,200	56,066	56,945	57,838
<b>Non-residential</b>					
Proposed connections	5,604	5,628	5,652	5,675	5,698
Draft decision — connections	5,634	5,658	5,682	5,705	5,728
<b>Total</b>	59,642	60,207	60,759	61,306	61,752
Draft decision — total connections	<b>59,983</b>	<b>60,858</b>	<b>61,747</b>	<b>62,649</b>	<b>63,565</b>

The number of water connections has been adjusted on PWC's advice (see PWC, Assessment of Demand Forecast Report). Gippsland Water's forecast lower growth in residential connections from that which had occurred in the past. PwC

advised that these forecasts were at odds with historical growth rates and land supply forecasts which found higher growth rates were expected and recommended increasing Gippsland Water's forecast of residential connections.

**Table 13 Number of sewerage connections**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
<b>Residential</b>					
Proposed connections	46,180	46,796	47,235	47,722	48,366
Draft decision – connections	46,304	47,044	47,797	48,562	49,339
<b>Non-residential</b>					
Proposed connections	4,903	4,924	4,944	4,964	4,984
Draft decision – connections	4,903	4,924	4,944	4,964	4,984
Proposed – total connections	51,083	59,503	60,051	60,595	61,138
Draft decision – total connections	<b>51,206</b>	<b>51,968</b>	<b>52,741</b>	<b>53,526</b>	<b>54,323</b>

The number of sewerage connections has been adjusted on PWC's advice (see PWC, Assessment of Demand Forecast Report). Gippsland Water's forecast lower growth in residential connections from that which had occurred in the past. PwC advised that these forecasts were at odds with historical growth rates and land supply forecasts which found higher growth rates were expected and recommended increasing Gippsland Water's forecast of residential connections. The increased the growth rate reflects more accurately the connections growth rate experienced over past seven years.

**Table 14 Residential water consumption**  
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed average consumption (kL)	194	188	181	175	169
Draft decision – average consumption (kL)	192	186	179	173	168
Proposed total residential consumption	10,498	10,244	9,994	9,749	9,509
Draft decision – total residential consumption	10,448	10,253	10,062	9,875	9,692

Residential water consumption has been adjusted on PWC's advice (see PWC, Assessment of Demand Forecast Report) an adjustment for price elasticity to average consumption volumes and an increase in total volume due to increased growth rates. The increased the growth rate reflects more accurately the connections growth rate experienced over past seven years.

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

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed non-residential consumption	3,562	3,573	3,583	3,594	3,604
Draft decision – non residential consumption	3,562	3,573	3,583	3,594	3,604

**Table 16 Total water consumption**  
ML

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Proposed total consumption	14,061	13,817	13,577	13,343	13,113
Draft decision – total consumption	14,011	13,826	13,645	13,469	13,296

Total water consumption has been adjusted on PWC’s advice as detailed above (see the PWC report).

## 11. Form of price control

- (a) The Commission proposes to approve individual price caps for Gippsland Water.
- (b) Gippsland Water should submit a schedule of prices to apply from 1 July 2008, as well as a process in which tariffs can be adjusted on an annual basis.
- (c) Gippsland Water may apply for an adjustment to its prices or tariff strategy at the time of the annual price review. It would have to demonstrate in its application to the Commission that it has clearly articulated a new tariff strategy (or explained how the proposed price changes are consistent with its existing tariff strategy), undertaken appropriate customer consultation and addressed customer impacts. The average annual price increase across the range of tariffs could not be greater than the average increase calculated under a tariff basket approach. The Commission may then approve amended individual price caps for the remainder of the regulatory period.

## 12. Pass through mechanisms

Businesses may apply to the Commission to adjust their prices either at the end of the regulatory period or during the regulatory period for specified costs where these are materially different from the costs included for the purposes of the Determination. Pass through mechanisms may apply in the following cases:

- (a) Prices will be adjusted at the end of the regulatory period to reflect any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in Table 17.

**Table 17 Approved licence fee assumptions<sup>a</sup>**  
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-2013</i>
Essential Services Commission	0.12	0.12	0.12	0.12	0.12
Environment Protection Authority	0.44	0.46	0.46	0.47	0.47
Department of Human Services	0.03	0.03	0.03	0.03	0.03

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (b) Prices will be adjusted at the end of the regulatory period to reflect the additional net operating costs associated with meeting changes in legislative obligations during the regulatory period where:
- (i) the impact on costs is equivalent to at least 5 per cent of the business's revenue over the regulatory period
  - (ii) changes in costs relate to changes in primary Acts and legislative instruments, including regulations; in taxes (or fees or similar charges) excluding income tax, penalties and interest on taxes, stamp duty, financial institutions duty or similar taxes and levies; to EPA licence requirements; and/or to the Statement of Obligations
  - (iii) the change in legislative obligation was unforeseen and not already reflected in expenditure forecasts
  - (iv) additional capital costs will be rolled into the regulatory asset base at the beginning of the next regulatory period where the expenditure is assessed as being prudent and efficient, and prices will be adjusted to reflect any associated financing costs.
- (c) Prices may be adjusted during the regulatory period to reflect costs associated with catastrophic events, such as fire, earthquake or act of terrorism, where:
- (i) the impact on costs is so significant as to prevent the business meeting its service requirements and obligations without compromising its financial viability during the period
  - (ii) the business can demonstrate that it had taken appropriate steps to plan for or manage the potential impact of such an event.
- (d) Prices may be adjusted during the regulatory period to reflect expenditure relating to major capital projects where:
- (i) the business has separately identified any uncertain major capital projects and excluded those projects from its expenditure forecasts
  - (ii) the Commission has identified the project as an uncertain major capital project in the Final Determination



- (iii) the application process for determining the amount, nature and timing of any adjustment will be set out in the Final Determination.
- (e) Prices may be adjusted during the regulatory period to reflect any significant differences between actual and forecast demand levels where:
  - (i) the Commission determines that actual demand levels are significantly different from those forecast for the purposes of the Final Determination
  - (ii) the Commission finds a material impact on the business's revenues.

### **13. Retail water tariffs**

The Commission proposes to approve Gippsland Water's proposed tariff structure on the basis that it is consistent with the WIRO.

### **14. Retail sewerage tariffs**

The Commission proposes to approve Gippsland Water's proposed tariff structure on the basis that it is consistent with the WIRO.

### **15. Trade waste charges**

- (a) The Commission proposes to generally approve Gippsland Water's proposed trade waste tariff structure on the basis that it is consistent with the WIRO and the Commission's trade waste pricing principles.
- (b) Gippsland Water is required to set out and apply specific trade waste pricing principles to apply to those customers for whom scheduled prices do not apply. The principles should be consistent with the following principles:
  - (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
  - (ii) the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner
  - (iii) the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the Commission
  - (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
  - (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination.
  - (vi) Customers should be provided with full details of the manner in which prices have been calculated. Where applying these principles results in significant changes to prices or tariff structures, arrangements for

phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

## **16. Recycled water**

- (a) The Commission is proposing to approve Gippsland Water's proposed pricing principles on the basis that they are consistent with the principles below.
- (b) The Commission considers that Gippsland 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 must 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.

## **17. Customer contributions**

- (a) The Commission proposes to approve Gippsland Water's proposed new customer contributions.
- (b) Approval is subject to an adjustment clarifying that recycled water services, due to their unique nature, will not be subject to a scheduled charge but rather will be regulated by the Commission's proposed pricing principles for recycled water.

**Table 18 New customer contributions charges**  
\$ per lot

	<i>Category 1<sup>a</sup></i>	<i>Category 2<sup>b</sup></i>	<i>Category 3<sup>c</sup></i>
Water	550.00	1,100.00	2,200.00
Sewerage	550.00	1,100.00	2,200.00

<sup>a</sup> For developments which are designed in a manner that will have minimal impacts on future water resource demands (lot sizes typically no greater than 450 square meters). <sup>b</sup> For water sensitive urban developments which will require further investment in infrastructure within a six year period to service these developments (lot sizes typically between 450 and 1,350 square metres). <sup>c</sup> For developments that will create demand for water resources over and above high-density, water efficient homes (lot sizes typically exceeding 1,350 square metres).

## **18. Miscellaneous charges**

- (a) The Commission proposes to approve all core miscellaneous services proposed by Gippsland Water, including proposed CPI price increases over the regulatory period.
- (b) In response to this Draft Decision, Gippsland Water is required to clarify how much of its miscellaneous revenue it expects to generate from its core set.
- (c) If required, Gippsland Water should propose additional core miscellaneous services, so that the core set would be expected to generate at least 75 per cent of miscellaneous revenue.