



# COLIBAN WATER RURAL PRICE REVIEW

Final Decision

May 2014



**An appropriate citation for this paper is:**

Essential Services Commission 2014, *Coliban Water Rural Price Review: final decision*, May

# 1 INTRODUCTION

On 3 March 2014, Coliban Water submitted to the Commission its proposed rural tariffs to apply for the remainder of the regulatory period, from 1 July 2014 to 30 June 2018. Coliban Water also applied to convert from a price cap form of price control to a tariff basket form of price control.

During the 2013 price review, Coliban Water proposed a revenue allowance, and urban tariffs for the full regulatory period, but only proposed rural tariffs for the first year of the regulatory period. It stated it would undertake a rural tariff review in 2013-14 to develop tariffs to submit to the Commission for the remainder of the regulatory period. The Commission approved this proposal in its 2013 price review decision.

In October 2013, the Commission approved a price cap hybrid form of price control which enables Coliban Water<sup>1</sup>, under clause 3 of its Determination,<sup>2</sup> to apply through the annual tariff approval process to convert its form of control to a tariff basket.<sup>3</sup>

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<sup>1</sup> Essential Services Commission 2013, *Coliban Water's proposed form of price control – final decision*, October.

<sup>2</sup> Essential Services Commission 2013, 2013 Water Price Review Final Decision: Coliban Water Determination, June. – Amendment to Determination 23 October 2013.

<sup>3</sup> Price cap – under a price cap, maximum prices, based on an approved maximum allowed revenue, are approved by the Commission at the start of the regulatory period. They are fixed for the regulatory period (except for inflation and productivity adjustments), which provides certainty and stability to customers.

Tariff Basket – under a tariff basket, a weighted average price cap is applied to a basket of services. The weighted average price follows a predetermined price path escalated by inflation. Businesses can adjust individual tariffs each year if the overall weighted average price increase is within the price cap set for the basket of services.

## 2 SUMMARY OF COLIBAN WATER'S SUBMISSION

Coliban Water's rural price application is part of the tariff strategy in its 2012 Water Plan in which Coliban Water proposed to reform rural tariffs in consultation with customers to make tariffs simpler and fairer and send clearer cost signals to customers.

Coliban Water proposes three changes to its rural tariffs:

- creating a new tariff, *Channel – Single Shared Outlet* which is 20 per cent lower than the channel access charge. This new charge would apply to customers of unmodernised systems who only access one shared outlet (who currently pay the full channel access charge)
- a 3.6 per cent real increase in the infrastructure charge for customers of unmodernised systems. This is designed to offset the tariff reduction for shared outlet customers
- splitting the infrastructure charge for customers of modernised systems into two new tariffs—a network component and a headworks component, with no overall change in the charge.

Coliban Water submits these changes do not alter the forecast revenue collected from rural customers, which is a requirement of its Determination. Coliban Water stated the changes to its unmodernised tariffs were supported by many customers to make tariffs fairer for customers who only access one shared outlet.

Coliban Water states that the proposal to split the modernised infrastructure charge into network and headworks components aims to facilitate the future charging of

termination fees<sup>4</sup>, which will be based on the network component of the infrastructure charge from 2013-14. This split is based on an approximate allocation of Coliban Water's modernised network and infrastructure costs. Coliban Water's consultation indicated that its customers would prefer the split to be rounded to a 90/10 split for simplicity.

Coliban Water has not proposed any real price changes for rural services for the remainder of the current regulatory period.

Coliban Water's proposed revised tariff schedule is in table 2.1. All prices in the table are real except for the 2014-15 prices listed as "nominal". Prices will increase by CPI during the regulatory period.

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<sup>4</sup> Termination fees are governed by the *Water Charge (Termination Fees) Rules 2009*

**TABLE 2.1 REVISED RURAL TARIFF SCHEDULE**  
Rural Tariffs (\$2013-14)

<b>Unmodernised Rural Tariffs</b>						<i>Prescribed price movements</i>		
<b>Tariff Category</b>	<b>Type</b>	<b>Charge</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2014-15 (nominal)</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Access Charges</b>	Pipeline	<i>per annum</i>	\$793.36	\$793.36	\$816.60	0.0%	0.0%	0.0%
	Channel	<i>per annum</i>	\$445.88	\$445.88	\$458.94	0.0%	0.0%	0.0%
	Channel – Single Shared Outlet	<i>per annum</i>	n/a	<b>\$356.70</b>	<b>\$367.15</b>	0.0%	0.0%	0.0%
	Storage	<i>per annum</i>	\$98.86	\$98.86	\$101.76	0.0%	0.0%	0.0%
<b>Variable Charge</b>	Volume	<i>per ML</i>	\$242.3364	\$242.3364	\$249.44	0.0%	0.0%	0.0%
	Excess Usage	<i>per ML</i>	\$3,000.00	\$3,000.00	\$3,087.89	0.0%	0.0%	0.0%
<b>Infrastructure Charge</b>	Infrastructure	<i>per ML licence volume</i>	\$148.15	<b>\$153.55</b>	<b>\$158.05</b>	0.0%	0.0%	0.0%
<b>Outlet Charges</b>	2-5 outlets	<i>per additional outlet</i>	\$25.52	\$25.52	\$26.27	0.0%	0.0%	0.0%
	6-10 outlets	<i>per additional outlet</i>	\$35.76	\$35.76	\$36.81	0.0%	0.0%	0.0%
	11+ outlets	<i>per additional outlet</i>	\$35.76	\$35.76	\$36.81	0.0%	0.0%	0.0%
<b>Modernised Rural Tariffs</b>						<i>Prescribed Price Movements</i>		
<b>Access Charge</b>	Meter based	<i>per annum</i>	<i>As per potable Urban Water Access Fees</i>					
<b>Variable Charge</b>	Volume	<i>per ML</i>	\$242.3364	\$242.3364	\$249.44	0.0%	0.0%	0.0%
	Excess usage	<i>per ML</i>	\$3,000.00	\$3,000.00	\$3,087.89	0.0%	0.0%	0.0%
<b>Infrastructure Charge</b>	Network Component	<i>per ML licence volume</i>		\$207.57	<b>\$213.65</b>	0.0%	0.0%	0.0%
	Headworks component	<i>per ML licence volume</i>	\$230.63		<b>\$23.74</b>	0.0%	0.0%	0.0%
<b>Termination Fee</b>				in accordance with ACCC principles and <i>Water Charge (Termination Fees) Rules 2009</i>				

## 2.1 CUSTOMER IMPACTS

Coliban Water submits there will be no large negative impacts on customers of unmodernised and modernised systems

Coliban Water stated that for customers of unmodernised systems, the introduction of the discounted single shared outlet charge and the resultant increase in the infrastructure charge would have only minor impacts on customers and would therefore not require transition arrangements. The largest increase in a customer charge (for customers with licence volumes of 1-10 ML) is a 1.2 per cent increase in a customer bill for a 10ML licence volume customer with non-shared channel access. A customer with a 1 ML licence volume and shared channel access would experience a 10 per cent reduction in its bill. The customer impacts of these changes are outlined in table 2.2.

**TABLE 2.2 CUSTOMER IMPACTS: ESTIMATED 2014-15 BILLS – UNMODERNISED SYSTEMS**  
(2014-15\$)

	<b>Licence Volume</b>	<b>Access Type</b>	<b>No change to tariffs</b>	<b>Proposed tariffs</b>	<b>Impact</b>
1	ML	Pipeline	\$1 219	\$1 224	0.5%
1	ML	Channel	\$861	\$866	0.6%
1	ML	Channel- Shared	\$861	\$775	-10.0%
5	ML	Pipeline	\$2 826	\$2 854	1.0%
5	ML	Channel	\$2 469	\$2 496	1.1%
5	ML	Channel – Shared	\$2 469	\$2 405	-2.6%
10	ML	Pipeline	\$4 836	\$4 891	1.1%
10	ML	Channel	\$4 478	\$4 534	1.2%
10	ML	Channel - Shared	\$4 478	\$4 442	-0.8%

For customers of modernised systems, the splitting of the infrastructure charge into network and headworks components will not have any effect on customer prices and will assist the calculation of termination fees.

### 2.1.1 CONSULTATION

In its submission, Coliban Water states it consulted extensively with its rural customers during its review of rural prices, primarily through its Rural Customer Advisory Group. Coliban Water's consultation included:

- discussions with its Rural Customer Advisory Group to:
  - inform the group of the purpose of the review
  - provide information on timeframes and regulatory expectations
  - discuss opportunities for tariff reform
  - inform the development of a rural customer pricing survey
- a survey of all rural customers in November 2013 with a response rate of 27 per cent
- a February 2014 mail-out of a draft pricing proposal incorporating survey results
- two rural drop-in sessions held in February 2014 to discuss the draft pricing proposal
- a presentation of the draft pricing proposal at the February 2014 Rural Customer Advisory Group meeting.

Coliban Water concluded its rural customers:

- did not support a major overhaul to its current unmodernised rural tariff structure or paying more to receive a higher level of service
- supported a reduction in the channel access charges for customers of unmodernised systems with a shared outlet, with an off-setting increase in other charges.



# 3 THE COMMISSION'S ASSESSMENT

## 3.1 THE COMMISSION'S ASSESSMENT FRAMEWORK

The Commission has assessed Coliban Water's application against Clause 3 of Coliban Water's Determination, which allows it:

- to apply for a tariff basket form of price control
- to apply for the amendment of the prescribed price movements and/or price components.<sup>5</sup>

According to the Determination, the Commission may approve an application for a tariff basket with a revised tariff schedule if it satisfied that:

- It is accompanied by a clearly articulated new tariff strategy consistent with the *Water Industry Regulatory Order (WIRO)*.
- The prices comply with the price formula in its Determination.
- The revised tariff schedule is consistent with the tariff strategy.
- The basis for calculating the demand for services is reasonable.
- Coliban Water has consulted effectively with its customers on the tariff strategy and revised tariff schedule.
- Coliban Water has effectively addressed customer impacts.

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<sup>5</sup> Essential Services Commission 2013, *2013 Water Price Review Final Decision: Coliban Water Amended Determination*, October.

Under a hybrid form of price control, any approved price adjustments must be consistent with the tariff basket approach, including limiting average annual price increases across the range of tariffs to the average increase under a tariff basket.

The Commission also expected that a tariff basket application will be accompanied by a rebalancing constraint to limit the impact of individual price adjustments.

### 3.1.1 TARIFFS

The Commission has assessed Coliban Water's proposal and believes that Coliban Water's:

- pricing proposal was accompanied by a clearly articulated new tariff strategy consistent with the WIRO
- revised tariff schedule was consistent with the tariff strategy
- prices complied with the price formula in its Determination
- basis for calculating demand was reasonable – it is consistent with the demand forecasts that the Commission adopted in its 2013 final decision on Coliban Water's prices.

The Commission considers that a rebalancing constraint is required for a tariff basket to ensure that water customers are protected from large price shocks. Coliban Water has stated that the proposed price changes (3.6 per cent) in this application are the extent of proposed tariff changes for this regulatory period and therefore can be treated as the rebalancing constraint for this application.

### 3.1.2 CONSULTATION

The Commission considers that Coliban Water has consulted appropriately with customers and key stakeholders in developing its rural pricing proposal. First, Coliban Water consulted with customers prior to proposing a tariff basket, and second, it developed its pricing proposal in accordance with customer views.

Coliban Water's proposed changes to its unmodernised tariffs generally reflect customer preferences for lower access charges for shared outlet customers.

### 3.1.3 CUSTOMER IMPACTS

The Commission considers that Coliban Water has adequately addressed customer impacts for its unmodernised rural customers. This is because the low magnitude of increases in access charges (around 1 per cent) for pipeline and channel customers does not require a specific transition arrangement.

The Commission received and considered two submissions on Coliban Water's proposal. One of the points raised in these submissions was that it is unfair that single shared outlet customers with larger entitlements receive a lower percentage discount on their overall rural charges compared to those with lower entitlements.

While in percentage terms it may seem that single shared outlet channel customers with a larger licence volume receive a smaller discount (around 1 per cent for a 10 ML licence volume compared to 10 per cent for a 1 ML licence volume), both customers receive the same discount on their fixed charge.

Another matter raised in submissions was that the overall level of Coliban Water's rural prices is too high. The Commission assessed the efficiency of Coliban Water's expenditure and the overall level of Coliban Water's rural prices in its 2013 price review. In this decision, the Commission has considered the structure of Coliban Water's rural tariffs, not the overall level of Coliban Water's rural tariffs (as the overall level remains unchanged from that approved last year).

## 3.2 FINAL DECISION

The Commission has approved Coliban Water's proposed rural prices because Coliban Water has met the conditions in its Determination. That is, Coliban Water's:

- application was accompanied by a clearly articulated new tariff strategy consistent with the WIRO.
- proposed prices comply with the price formula in its Determination.
- revised tariff schedule is consistent with its tariff strategy.

- basis for calculating the demand for services is reasonable and consistent with the demand forecasts that the Commission adopted in its 2013 final decision on Coliban Water's prices.

Coliban Water has consulted effectively with its customers on the tariff strategy and revised tariff schedule. It has also effectively addressed customer impacts.

## COMMISSION'S FINAL DECISION

The Commission has approved Coliban Water's:

- proposed change to a tariff basket form of price control with an upper bound rebalancing constraint of 3.6 per cent
- proposed new unmodernised access charge for channel customers with only one shared outlet
- proposed 3.6 per cent increase in the infrastructure charge for unmodernised customers, and
- proposed splitting of the modernised infrastructure charge into a new headworks tariff and a new network tariff.