



GWMWater

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*Certified to best practice standards
ISO 9001 / 14001 and AS/NZS 4801*

Our ref: 09/070/063
Contact: Mark Williams
Office: 11 McLachlan Street, Horsham

2 May 2013

Dr Ron Ben David
Chairman
Essential Services Commission
Spring Street
MELBOURNE VIC 3000

Dear Dr Ben David

2013-2018 Water Price Review

Please find enclosed GWMWater's submission to the draft decision on the GWMWater 2013-2018 Water Plan.

GWMWater generally accepts the findings and proposed variations to the GWMWater 2013-18 Water Plan. The detailed responses to the proposed changes are outlined in the table below.

Issue	GWMWater Response
Changed accounting treatment - decommissioning project \$5 million	Accept - Will be recovered in subsequent regulatory periods.
Adjustment to the labour costs in the outward years to 2.5%	Accept - This is consistent with current Victorian government wages policy.
Adjustment to labour costs to reflect real \$'s as opposed to nominal \$'s	Challenge - The basis of this adjustment is incorrect. Cardno has provided additional information to verify that GWMWater expressed labour costs in real \$. A copy of the review by Cardno is provided in Attachment 1.
Adjustments to electricity costs	Accept - Not sufficiently material.
Adjustments to reflect unfavourable movements in defined benefits funds that were paid (\$1.4 million)	Accept - This is a cost carrying forward from this regulatory period.
Adjustments to maintain the Environment Contribution Levy in nominal \$	Accept - This reflects GWMWater's current understanding.

Issue	GWMWater Response
Adjustment to licence fees (ESC, EPA, DOH)	Accept - The ESC has greater control over this price setting.
Adjustment to the Weighted Average Cost of Capital (WACC) to 4.7%. The \$ impact is reflective anticipated lower finance charges.	Accept - The water industry WACC is developed in consultation with TCV.
Change to the urban residential consumption by removal of the one in five year dip.	Accept - The proposed adjustment to urban volumetric will be adopted by GWMWater.
Disallowance of any escalation of the excess charge that forms part of the rural pipeline tariff	Accept - GWMWater will not challenge the ESC decision on the rural pipeline excess charge.

In addition to this, GWMWater has participated in the negotiating strategy developed by the water industry through VicWater.

The proposed price increases have been reviewed and the following table summarises the real price increases being proposed to support GWMWater's 2013-2018 Water Plan.

Service	Real Price Increase Year 1		Average annual real price increase year 2-5	
	Original	Revised	Original	Revised
Urban water	3%	2.9%	2.4%	0.4%
Urban wastewater	3%	2.9%	2.4%	0.4%
Rural domestic and stock	2.5%	2.4%	1.5%	0.1%
Irrigation	2.5%	2.5%	2.4%	2.4%
Groundwater	17.6%	17.6%#	1.5%	0.1%^
Unregulated licences - surface water	2.5%	2.4%	1.5%	0.1%
Bulk water	2.5%	2.5%	2.4%	2.4%
Recreation Lakes Water	2.5%	0%	1.5%	0%
Minor trade waste*	33%	33%	0.4%	0.4%

Year 1-3

^ Year 4-5

* 100% increase over Year 1-3, offset by removal of volumetric wastewater tariff over Year 1-3 previously applied to non-residential customers only

GWMWater does challenge the basis of the proposed changes to the seven service targets being proposed by the ESC. GWMWater performance has been better than the targets established for Water Plan 2 and belies our geographical challenges. We have bettered our target this period as we still have sufficient resource post pipeline to dispatch people quickly.

The establishment of a 2% productivity target will challenge our ability to continue to perform to this level over the next regulatory period. The retention of the targets as proposed in our 2013-2018 Water Plan will not impinge on the indicators that give rise to an interruption of service. The restoration of water supply and waste water service have been maintained and our performance in these areas incentivised by their inclusion in the GSL scheme.

- (a) Average time taken to attend bursts and leaks (priority one) (minutes)
- (b) Average time taken to attend bursts and leaks (priority two) (minutes)
- (c) Average time taken to attend bursts and leaks (priority three) (minutes)
- (d) Average unplanned customer minutes off water supply (minutes)
- (e) Average duration of unplanned water supply interruptions (minutes)
- (f) Average time to attend sewer spills and blockages (minutes)
- (g) Average time to rectify a sewer blockage (minutes).

It is proposed that all the performance targets be consistent with those proposed in the GWMWater 2013-2018 Water Plan. The detail of the analysis done to support this proposal is provided in Attachment 2.

GWMWater will be adopting the negotiating framework developed by VicWater to support the implementation of New Customer Contributions (NCC) applying the principles based approach. A copy of the negotiating framework is provided in Attachment 3.

The ESC information template to support this submission has been adjusted and will be lodged separately.

Yours sincerely



Mark Williams
Managing Director

Encl.

Memorandum. Labour cost adjustment

Background

Cardno has been engaged by the Essential Services Commission (ESC) to undertake an independent review of the expenditure forecasts provided by Grampians Wimmera Mallee Water (GMMWater) as part of its Water Plan submission for the five year period commencing 1 July 2013 and provide advice on whether the proposed expenditure forecasts are consistent with the requirements of the legislative framework. The final report setting out the findings from this review was published on 26 March 2013.

GMMWater has reviewed the final review report and identified that some information on which the review report analysis was based was incorrect and inconsistent with other information provided for the review. Specifically, GMMWater has advised Cardno that the data provided by them relating to labour costs assumptions were provided on a nominal rather than real basis in one area of the ESC's regulatory model. Cardno made an adjustment to GMMWater's recommended operating expenditure on the basis of this incorrect data. GMMWater has requested that this adjustment be revisited.

Analysis

During our review, we reconciled the operating expenditure forecasts provided by GMMWater in its Water Plan 3 submission to its finance system and found them to be consistent. GMMWater adopted a base year approach and then overlaid numerous variances to this base year to arrive at future operating expenditure estimated. We also reviewed these variances as expressed in GMMWater's financial models and found them to be consistent with both the data submitted to the ESC and the assumptions made by the business.

The discrepancy was not identified because 'business as usual operating expenditure' is reported to the ESC by various sub-categories which do not include labour as a separate component. Labour costs are instead reported as a 'key assumption' but not reconciled to the overall operating expenditure forecasts.

We requested that GMMWater provide to us analysis of its overall operating expenditure forecasts disaggregated to management reporting groups which includes areas such as labour costs, materials, consultants, etc. We have reconciled these expenditure forecasts with those provided by GMMWater in its original submission and found them to be consistent. This analysis also confirms that GMMWater had incorrectly entered its labour costs into the 'key assumptions' area of the pricing model.

Therefore, we are satisfied that the original adjustment made to GMMWater's labour costs as presented in our final report was on the basis of incorrect information and should now be reversed.

Recommendation

We recommend that the ESC reverse the adjustment made in Cardno's final report to GMMWater's labour costs. This adjustment increases GMMWater's operating expenditure by \$720k in the final year of the regulatory period.

Table 1 sets out our revised recommendation for GMMWater's operating expenditure.

Table 1 – Revised recommendations for GMMWater's operating expenditure

	13/14	14/15	15/16	16/17	17/18
GMMWater forecast business as usual operating expenditure	29.17	28.33	27.91	27.73	27.48
<i>Reallocation of decommissioning costs to capex</i>	<i>(1.00)</i>	<i>(1.00)</i>	<i>(1.00)</i>	<i>(1.00)</i>	<i>(1.00)</i>
<i>Adjustment to labour costs</i>	-	-	-	-	-

	13/14	14/15	15/16	16/17	17/18
<i>Adjustment to electricity costs</i>	-	(0.07)	(0.09)	(0.13)	(0.17)
Recommended business as usual operating expenditure	28.17	27.26	26.82	26.60	26.31
Variance	(1.00)	(1.07)	(1.09)	(1.13)	(1.17)
GMMWater forecast total prescribed operating expenditure	32.77	32.01	31.92	31.82	31.61
Recommended total prescribed operating expenditure	31.77	30.94	30.82	30.69	30.45

Table 2 shows that after reversing this adjustment, GMMWater still easily achieves its target productivity hurdle. Across the regulatory period, GMMWater's proposed operating expenditure is \$15.1M or 10% lower than the target set by the ESC.

Table 2 Productivity hurdle assessment (\$M)

Operating expenditure item	Actual 11/12	13/14	14/15	15/16	16/17	17/18	Total
Recommended operating expenditure		29.45	28.61	28.48	28.11	27.86	142.51
Less prudent and efficient new initiatives expenditure		1.00	1.07	1.09	1.13	1.17	5.46
Recommended BAU expenditure		28.17	27.26	26.82	26.60	26.31	135.16
Adjusted BAU target	30.24	30.15	30.1	30.05	30.01	29.96	150.27
Amount above BAU target		-1.98	-2.84	-3.23	-3.41	-3.65	-15.11
% above BAU target		-6.58%	-9.42%	-10.75%	-11.36%	-12.19%	-10.06%

Stephen Walker CPEng RPEQ

9 April 2013

Proposed ESC Core Service Standard Targets for 2013-18

Urban Water Delivery Service Standards																	
Service Standard	Existing target	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	5 Year GWMWater Performance (Average) 2006-2011	ESC 5yr average 2003-06	Proposed Target					Requirements needed to meet proposed target	Cost and Price implications	Consultation undertaken	Additional Comments
									13/14	14/15	15/16	16/17	17/18				
Average time from notification to attend urban water bursts and leaks (minutes) - Priority 1	30	26	27	23	24	28	25	24	30	30	30	30	30	Business as usual	No change	Not required	
Average time from notification to attend urban water bursts and leaks (minutes) - Priority 2	60	30	28	31	24	25	28	26	40	40	40	40	40	Business as usual	No change	Not required	2011/12 Corporate Plan received approval for 40 minutes
Average time from notification to attend urban water bursts and leaks (minutes) - Priority 3	60	42	52	33	25	23	35	32	40	40	40	40	40	Business as usual	No change	Not required	2011/12 Corporate Plan received approval for 40 minutes
Average unplanned customer minutes off water supply	20	18.43	14.42	21.85	11.73	18.18	17	16	20.00	20.00	20.00	20.00	20.00				
Average duration of unplanned water supply interruptions (minutes)	100	81	78	98	85	79	84	83	100	100	100	100	100	Business as usual	No change	Not required	
Average time to attend sewer spills and blockages (minutes)	30	27	24	12	30	12	21	22	30	30	30	30	30	Business as usual	No change	Not required	
Average time to rectify a sewer blockage (minutes)	180	136	120	108	156	102	124	113	130	130	130	130	130	In order to meet existing service levels, an extra 10 minutes would cover business as usual	No change	Not required	There is a proposed GSL for interruptions to sewer supply to be restored withing five (5) hours of notification. Rebate is \$50,. 2011/12 Corporate Plan received approval for 120 min

GWMWater New Customer Contribution Negotiating Framework

1. Application of Negotiating Framework

This Negotiating Framework forms a part of GWMWater's approved water plan for the 2013-2018 water plan period.

1.1 Purpose

This Negotiating Framework sets out procedural and information requirements relevant to services to which developer charges apply. It requires GWMWater and connection applicants to negotiate in good faith to agree the price, standards and conditions of services to be provided. It also provides for transparent information to enable the connection applicant to understand the reasons for decisions made by GWMWater.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in the *Water Act 1989*, the *Planning & Environment Act 1987* (including under any planning scheme or permission), the *Subdivision Act 1988*, subordinate regulation under the described legislation, or any other relevant legislation or instruments (the "Regulatory Instruments").

In the case of inconsistency between the Regulatory Instruments and this negotiating framework, the relevant Regulatory Instruments will prevail.

This Negotiating Framework does not alter the rights of a connection applicant to seek a review of a GWMWater's decision by the Victorian Civil and Administrative Tribunal (VCAT).

1.2 Who this negotiating framework applies to

This Negotiating Framework applies to GWMWater and to any property owner - generally a property developer - that is a connection applicant who requests connection to GWMWater's works in accordance with section 145 of the *Water Act 1989*.

It also applies to GWMWater in responding to such requests from a connection applicant.

1.3 No obligation to provide service, good faith obligation

Nothing in the negotiating framework imposes an obligation on GWMWater to allow the Connection Applicant to connect to GWMWater's works or provide services to the connection applicant.

GWMWater can refuse its consent, consent, or consent subject to any terms and conditions that GWMWater considers appropriate, as provided under section 145(3) of the *Water Act 1989*.

However, GWMWater and the connection applicant must negotiate in good faith the price, terms and conditions for services sought by the connection applicant.

1.4 Timeframes

GWMWater and the connection applicant will use their reasonable endeavours to achieve the following timeframes:

- a) Agree the milestones, information requirements and any other relevant issues within 10 days of GWMWater's receipt of an application;
- b) Finalise negotiations within 120 business days of the initial application or earlier as agreed for standard connections.

1.5 Commencing, progressing and finalising negotiations

Table 1 below provides an indicative timeframe regarding the process of NCC negotiations.

Step	Actions	Timing
1	Receipt of written application for connection	X
2	<p>Parties discuss:</p> <ul style="list-style-type: none"> • the nature of the services required; • any information to be provided by the connection applicant <p>Parties agree:</p> <ul style="list-style-type: none"> • timeframes for negotiation and consultation; • funding of investigation costs; and • milestones <p>Connection applicant pays application fee.</p>	X + 10 Business Days
3	Connection applicant provides information to GWMWater	X + 30 Business Days
4	Where required, GWMWater consults with others potentially affected	X + 50 Business Days
5	All necessary information is received by GWMWater, including: <ul style="list-style-type: none"> • the completed application; • the Connection Applicant's information; and • consultation feedback where required. 	Y
6	GWMWater provides Commercial Information and makes offer (in form of Notice).	Y + 20 Business Days
7	Parties finalise negotiations	Y + 70 Business Days

1.6 Provision of information by connection applicant

The connection applicant must provide sufficient information, as required by GWMWater, to enable the proper assessment of the application. The connection applicant also has an obligation to provide additional information if requested by the GWMWater.

Both GWMWater and the connection applicant will maintain information as 'Commercial in Confidence' as agreed.

1.7 Provision of information by GWMWater

GWMWater has an obligation to provide relevant information (including cost information) to the connection applicant in order for the connection applicant to either proceed / not proceed with the application.

1.8 Pricing Principles

GWMWater's new customer contribution and associated charges will:

- a) Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- b) Have regard to the incremental future revenues that will be earned from customers at that connection; and
- c) Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

In setting charges, GWMWater will also comply with:

- a) The regulatory principles set out in clause 14 of the WIRO; and
- b) The Commission's Pricing Determination

1.9 Consultation with affected parties

If GWMWater considers that persons other than the Connection Applicant may be affected by proposed connection services, then:

- subject to legal confidentiality requirements, GWMWater may share any necessary information with others potentially affected to assess impacts
- parties will allow sufficient time for reasonable consultation with affected parties to occur.

1.10 Payment of GWMWater's Costs

The connection applicant will be required to pay GWMWater an application fee and other investigation costs as agreed.

In circumstances where the development is part of the rural pipeline network and the development requires a 'standard water connection', developers will be required to purchase a water allowance.

All other associated connection fees and charges will be applied in accordance with the prices and pricing principles set out in the price determination made by the Commission for GWMWater.

1.11 Termination of negotiations

The connection applicant may elect not to continue with its application for a service to which a developer charge applies, and may terminate the negotiations by giving GWMWater written notice of its decision to do so.

GWMWater may terminate a negotiation under this Negotiating Framework by giving the connection applicant written notice of its decision to do so where:

1. GWMWater believes on reasonable grounds that the connection applicant is not conducting the negotiation under this negotiating framework in good faith;
2. GWMWater reasonably believes that the connection applicant will not acquire be able to receive a service from GWMWater; or
3. An act of insolvency occurs in relation to the connection applicant; or
4. GWMWater reasonably believes that the Connection Applicant has provided false or misleading information.

1.12 Dispute resolution

In the event of a dispute between parties, GWMWater will continue attempts to resolve the matter by negotiation.

After GWMWater provides its Offer, if the connection applicant does not accept the Offer, and attempts to resolve the matter by negotiation are unsuccessful, generally the connection applicant has particular rights to seek a review in the Victorian Civil and Administrative Tribunal ("VCAT") of the terms and conditions of connection and the NCC charge applied. These VCAT review rights, including the various time lines, rights and processes are set out in the *Water Act 1989* and the *VCAT Act 1998*.

1.13 Giving notices

Address for notices:

GWMWater
PO Box 481
HORSHAM VIC 3402

1.14 Terms and abbreviations

Connection Applicant - The person making the application to connect to GWMWater's system.

Application - The formal request for servicing conditions made pursuant to Section 145 of the *Water Act 1989*.

GWMWater - means Grampians Wimmera Mallee Water (ABN: 35 584 588 263).

Commission - means the Essential Services Commission of Victoria.

Price Determination - means the GWMWater Determination 1 July 2013 - 30 June 2018 made by the Commission under section 33 of the Essential Services Commission Act 2001 and clause 8 of the Water Industry Regulatory Order 2003.

Standard Water Connection - a rural water service connection that does not service a household.

Primary Water Connection - a rural water service connection that services a household and has the benefit of providing a primary allowance of 730 kL.