

Response to the ESC Draft Decision

Coliban Water

2013-2018 Water Price Review

Response to ESC Draft Decision

2 May 2013

1	Household bills.....	4
2	Service Standards.....	5
3	Guaranteed Service Levels (GSLs).....	5
4	Financing capital investments.....	6
4.1	Roll Forward RAB 2011-12.....	6
4.2	Independent financial viability review.....	6
4.3	Weighted Average Cost of Capital (WACC).....	7
4.4	Capital expenditure 2012-13.....	7
5	Operating Expenditure.....	7
5.1	Defined benefits superannuation.....	7
5.2	Biosolids reuse.....	8
5.3	Water distribution quality.....	8
5.4	Environmental Contribution.....	9
5.5	Business Model Review.....	9
5.6	Bulk Water.....	10
5.7	Other Adjustments.....	11
5.8	Operating expenditure summary.....	11
6	Capital Expenditure.....	12
6.1	Harcourt rural modernisation project.....	12
6.2	Bridgewater and Laanecoorie water treatment plant upgrades.....	15
6.3	Biosolids reuse.....	17
6.4	Capital expenditure summary.....	17
7	Demand.....	18
7.1	Trade Waste.....	18
7.2	Rural Demand.....	18
8	Form of Price Control.....	19
8.1	Objective.....	20
8.2	Revenue cap may lead to inappropriate net revenue.....	22
8.3	Scope of price controls.....	22
8.4	Managing complexity.....	24
8.5	Communicating the Demand Adjusted Revenue Cap.....	24
8.6	Reopening mechanism.....	24
9	Retail Water Service Tariffs.....	25
10	Recycled Water.....	25
11	Retail Sewer Service Tariffs.....	26
12	Rural Tariffs.....	26
12.1	Unmodernised rural tariffs.....	26
12.2	Modernised rural tariffs.....	28
13	Trade waste.....	29
14	New customer contributions.....	30

14.1	Experience working with developers	30
14.2	ESC Draft Decision	30
14.3	Options for locational pricing of standard NCCs.....	31
14.4	Non-standard NCC.....	32
14.5	Developer Installed Works.....	32
14.6	Negotiating framework.....	33
14.7	Timeframe for estimating capital expenditure	33
15	Miscellaneous Charges	33
16	Schedule 2 Prices	35
17	Schedule 3 Application of prices	38
17.1	Water Volume Charge.....	38
17.2	Wastewater Access Fee.....	38
17.3	Non-Residential Wastewater Access Fee Calculation.....	39
17.4	Wastewater Volume Charge.....	39
17.5	Recycled and Untreated Water Charges	39
17.6	Industry discharge factors.....	40
18	Schedule 4 Pricing Principles.....	41
18.1	Major Trade Waste.....	41
19	Draft NCC Negotiating Framework.....	42
19.1	Application of Negotiating Framework.....	42
19.2	Timeframes.....	42
19.3	Provision of information by Connection Applicant	43
19.4	Provision of information by Coliban Water	43
19.5	Pricing Principles	43
19.6	Consultation with affected parties	44
19.7	Payment of Coliban Water's Costs.....	44
19.8	Termination of negotiations.....	44
19.9	Dispute resolution	44
19.10	Giving notices	45
19.11	Terms and abbreviations.....	45

1 Household bills

In its Draft Decision the ESC detailed the expected household bill for the first and last year of the Water Plan period. Throughout the community consultation period, both before and after the Draft Decision, Coliban Water has strived to balance the financial sustainability considerations of the corporation with the effects tariff reforms and pricing will have on customers.

The Water Plan proposed a maximum price increase of 3 per cent per annum after 2013-14. In recognition of the Draft Decision, Coliban Water has developed this response so movements in the average customer bill over the next regulatory period do not exceed those provided by the Draft Decision. The following tables reflect Coliban Water's average household bill for Owner-Occupier and Tenant customers.

Owner-Occupier household (\$ 2012-13)			
	2012-13	2013-14	2017-18
Draft Decision	1,003	1,153	1,256
Response	1,003	1,153	1,256

These figures reflect the assumptions used by the ESC in the Draft Decision. Prices shown are indicative because the business has proposed a revenue cap form of price control. Maximum allowable prices may change during the regulatory period.

Tenanted household (\$ 2012-13)			
	2012-13	2013-14	2017-18
Draft Decision	328	346	377
Response	328	346	377

These figures reflect the assumptions used by the ESC in the Draft Decision. Prices shown are indicative because the business has proposed a revenue cap form of price control. Maximum allowable prices may change during the regulatory period.

Given that the Coliban Water supply region contains two pricing districts the Water Plan submitted in September 2012 provided customers with forecast average bills based on location. While the tables above demonstrate the 'average' customer bill, Coliban Water recognises that the average customer consumption across each pricing zone is significantly different. As a guide, the following tables demonstrate the likely billing outcome for specific customers based on their pricing district and an appropriate expectation of consumption.

Owner-Occupier household (\$ 2012-13)			
		2013-14	2017-18
Central (155kL)	Water	523	571
	Sewer	607	662
	Total	1130	1232
Northern (195kL)	Water	412	573
	Sewer	607	662
	Total	1019	1235

These figures reflect the assumptions used by the ESC in the Draft Decision. Prices shown are indicative because the business has proposed a revenue cap form of price control. Maximum allowable prices may change during the regulatory period.

Coliban Water's preferred method of price control is the Demand Adjusted Revenue Cap and is discussed in section 8.3.1. This method of price control will help to mitigate excessive demand based revenue volatility and will lead to a greater degree of certainty in billing for customers. This is consistent with customers' stated preference for cost reflective pricing.

2 Service Standards

Coliban Water acknowledges the approval of all proposed core Services Standards in the Draft Decision.

Coliban Water also seeks formal approval of its additional service standards as proposed in Section 5.2 of the Water Plan. The related standards are restated below.

Additional Service Standards

	2013-14'	2014-15	2015-16	2016-17	2017-18
Customer correspondence responded to within 10 business days (per cent)	95	95	95	95	95
Drinking water quality indicators (per cent)	98	98	98	98	98
Biosolid reuse (per cent)	100	100	100	100	100
Recycled water target (per cent)	42	42	42	42	42

Coliban Water notes that changes in Service Standards from 2012-13 to 2013-14 will necessitate changes to the Customer Code. Coliban Water seeks guidance from the ESC regarding any timelines that may be applicable to revised Customer Codes and Charters.

3 Guaranteed Service Levels (GSLs)

The Draft Decision endorsed three GSLs as proposed in Water Plan 3. Further to this Coliban Water submits the following revised wording to the endorsed GSLs in order to promote transparency and simplicity in the definition of GSLs for our customers. The intent of these GSLs remain unchanged.

1. More than five unplanned water supply interruptions within a financial year.
2. More than three sewer interruptions within a financial year.
3. Sewer spill within a house, caused by the failure of a Coliban Water system, not contained within one hour of notification.

4 Financing capital investments

4.1 Roll Forward RAB 2011-12

Following submission of our Water Plan in September 2012, Coliban Water has submitted its 2011-12 Regulatory Accounts.

Analysis of these regulatory accounts as submitted to the ESC has established that the level of 2011-12 regulatory capital expenditure is approximately \$2.36m higher than that outlined in the Water Plan. This is due to Coliban Water's contribution to the East Loddon project, which was necessary expenditure to provide water supply to the Loddon towns of Serpentine and Jarklin. Additional supporting documentation will also be provided to the ESC.

Furthermore, Coliban Water has identified that \$1.02m of flood insurance received has been treated as a negative operating expenditure in 2011-12 for statutory purposes. However, for regulatory purposes, Coliban Water believes this revenue should instead be treated as negative capital expenditure to result in a lower revenue requirement. This ensures customers benefit from the insurance payout received by Coliban Water and the gross capital expenditure rolled into the Regulatory Asset Base in 2011-12 is reduced. Additional supporting documentation can be provided to the ESC upon request.

2011-12 Roll Forward RAB (\$m 2012-13)

	Water Plan	Actual	Variation
Opening RAB	270.35	270.35	0.00
Plus Gross Capital expenditure	38.15	39.49	1.34 ¹
Less Government contributions	1.32	1.32	0.00
Less Customer contributions	2.52	2.52	0.00
Less Proceeds from disposals	0.12	0.12	0.00
Less Regulatory depreciation	9.75	9.75	0.00
Closing RAB	294.79	296.12	1.34

4.2 Independent financial viability review

Coliban Water supports the inclusion of an appropriate RAB adjustment in the Draft Decision financial model, but considers the description in the Draft Decision commentary about the RAB adjustment is unclear and possibly ambiguous, as it refers to not approving the corporation's proposal, yet a provision equivalent to the corporation's proposal has been made in the RAB calculations.

The corporation welcomes an independent review of financial viability, and is working with the ESC and its consultant to enable a proper position on financial viability to be established. The corporation has noted the Draft Decision's limited focus on Interest Cover and submits that the independent review should consider all other financial KPIs relevant to the water industry. In particular, other ESC indicators, such as Economic Gearing², and VAGO indicators should also be considered.

The WIRO requires the approval of a financially sustainable revenue stream.

Coliban Water is working with Department of Sustainability and Environment (DSE) on the Financial Sustainability Working Group that is, amongst other things, reconciling different financial KPIs to ensure appropriate transparency and public accountability.

¹ This positive variation of \$1.34m comprises additional expenditure of \$2.36m and treatment of the insurance payout as a negative capital expenditure of -\$1.02m.

² The ratio of Borrowings to RAB.

4.3 Weighted Average Cost of Capital (WACC)

Coliban Water notes the low level of the WACC proposed in the Draft Decision. Given that

- interest repayments are nominal;
- the WACC is real; and
- Coliban Water's Economic gearing is above 90%,

Coliban Water is concerned that a lower WACC in the Final Decision could actually result in the corporation's true interest repayments being less than the contribution financing costs make to the revenue requirement. Any lower WACC could pose financial concerns for Coliban Water.

4.4 Capital expenditure 2012-13

Coliban Water notes that the Draft Decision proposes to roll into the RAB a level of capital expenditure lower than Coliban Water's actual 2012-13 capital expenditure.

Coliban Water notes this may place financial pressure on the corporation, and weaken the financial indicators of the corporation. This is especially true if the capitalisation of the revenue shortfall from the second regulatory period is not fully allowed for in the third regulatory period.

5 Operating Expenditure

In its Draft Decision the ESC accepted all changes to proposed operational expenditure recommended by Deloitte in their Assessment of expenditure forecasts Final Report. Specifically, the ESC proposed the following adjustments:

Adjustment to operating expenditure (\$m 2012-13)

	2013-14	2014-15	2015-16	2016-17	2017-18
Electricity	0.99	1.00	1.08	1.13	1.19
Defined benefits	-0.18	-0.17	-0.17	-0.16	-0.16
Biosolids reuse	-1.25	-0.65	-0.05	-0.35	-0.50
Water distribution quality	-0.65	-0.60	-0.56	-0.67	-0.47
Contracted services	-0.26	-0.14	-0.51	-1.04	-0.67
Environmental contribution	0.00	-0.01	-0.01	-0.01	-0.01
Labour	0.04	-0.11	-0.33	-0.19	-0.21
Licence fees	-0.03	-0.03	-0.03	-0.02	-0.01
Total ESC Adjustment	-1.33	-0.71	-0.57	-1.32	-0.84

5.1 Defined benefits superannuation

Coliban Water contends the approach for recovery of Defined Benefits Superannuation contributions outlined in the Draft Decision undercompensates businesses for the true liability. This arises because the proposed solution only gives businesses five years' worth of payments, without compensating businesses for payments in years 6-15.

Coliban Water recognises the lowest cost payment arrangement for businesses is to pay the Vision Super liability in full and take out a 15-year loan with TCV. This would take advantage of lower TCV interest rates and reduce overall interest payments.

However, there is a likelihood that visibility of payments in years 6 to 15 (2018-19 to 2027-28) will be lost in the regulatory system. This is as interest payments directly attributable to an additional TCV loan will not be easily separable from total interest payments generally – where interest payments are excluded from direct recovery under the current model of economic regulation.

The ESC, in its adjustments to this item, has asserted that customers in this period should only be paying the net financial cost incurred in this period. However, the ESC should also ensure that customers in future periods pay only the net costs incurred in future periods.

Given that the liability is accrued once (in 2011-12) but recouped over time, Coliban Water believes it is appropriate to capitalise this expenditure (in 2013-14) for pricing purposes. Recovering the full amount for pricing purposes results in a minimal pricing impact to customers in this regulatory period while ensuring cost reflectivity over the next three regulatory periods.

The capital expenditure adjustment for this item is outlined in the Capital Expenditure Summary in section 6.4.

5.2 Biosolids reuse

In the Deloitte Final Report it was noted for the revised Biosolids Strategy that it was proposed to capitalise \$2.55m of the operating expenditure originally proposed in the Water Plan. In line with this proposal Coliban Water understands that the capitalised amount will be allowed for in capital expenditure within the financial template. The Biosolids Strategy capital adjustment is outlined in Section 7.3 and is incorporated into the Capital Expenditure summary at the end of Section 7.

5.3 Water distribution quality

Coliban Water has identified a miscommunication of costing information provided to the ESC regarding the size range of waters mains that are subject to air scouring. The costs included were calculated based on swabbing of mains >300mm, as previously advised. However, air scouring costs were calculated for all mains <300mm and not only for mains <250mm. Hence, the proposed adjustment of costs in the Draft Decision is inappropriate given the basis for original costing conforms to Deloitte's method.

With regard to the prioritisation of systems, the data presented in the strategy document provided to Deloitte during the expenditure review process was a summary of the total data set. The complete data for Section 22 and 18 notifications under the *Safe Drinking Water Act 2003* to the Department of Health for breaches of regulated water quality parameters or immediate risks to health in their entirety are tabulated below. Note that the tables included in the strategy document for Sections 22 and 18 were identified by their "water sampling locality" while the systems prioritised for cleaning are grouped by the "system" which generally includes more than one sampling locality.

System	Section 22	Section 18
Castlemaine	16	1
Heathcote	8	1
Bridgewater	6	3
Kyneton	5	0
Laanecoorie	3	2
Echuca	3	1
Bendigo	3	0
Serpentine	2	1
Cohuna	1	5
Korong Vale	1	2
Goornong	1	1
Trentham	1	0
Pyramid Hill	1	0
Rochester	1	0
Gunbower	0	7
Boort	0	5
Lockington	0	1
Elmore	0	0
Leitchville	0	0

The table above emphasises the range of water quality issues that Coliban Water manages. Despite some systems underperforming more than others, the data shows that water quality issues are widespread across all locations with only two of the smaller systems having had no health notification events.

Coliban Water maintained a water mains cleaning program until 1996 when operations and maintenance services were outsourced. Since then, customers have benefitted through efficiency gains from the outsourced services model however, as discussed in previous submissions and demonstrated in the above data, it is imperative that an extensive water mains cleaning regime be reinstated to minimise the risk to health of our urban customers.

The previous program was conducted annually by high velocity unidirectional water flushing. By using a combination of air scouring and swabbing, it is expected that the frequency of cleaning events will reduce into future leading to lower costs of service and significantly fewer interruptions to customer's supply, whilst maintaining the improved level of water quality delivered through a better maintained delivery network. The exclusion of these works from the operational expenditure as proposed would require significant reduction in other operational activities leading to detrimental impacts to the level and quality of service delivered to urban customers.

The extent of water distribution quality events is the driver for a mains cleaning program that covers the entirety of Coliban Water's systems. The necessity for the program is further reinforced by the regulatory undertaking under Section 30 of the *Safe Drinking Water Act 2003* with the Department of Health requiring Coliban Water to address risks for all drinking supplies due to repeated detection of bacterial contamination in a number of supply systems. The Department of Health's support for this initiative is summarised below:

"With regard to the mains cleaning project, the widespread use of mains cleaning forms part of an undertaking with the department under section 30 of the Act. The undertaking was put in place to deal with an unacceptably high rate of E. coli detections in a number of water supply systems, but, in framing the undertaking, it was the department's view that the underlying conditions that led to the detections are present in most of Coliban Water's supply systems. Adopting a risk-based approach, mains cleaning should be carried out in as many water supply systems as is possible."

In requiring the undertaking, the Department has determined that Coliban Water has breached, and is likely to continue to breach, the *Safe Drinking Water Act 2003*, and failure to complete any requirement under a Section 30 undertaking will result in the Department of Health taking action Coliban Water under Section 31 of the Act, which could encompass prosecution.

Coliban Water contends that the operational expenditure related to the Water Distribution Quality project remains prudent and necessary to complying with the Department of Health undertaking. The revisions to the Draft Decision are outlined below.

5.4 Environmental Contribution

In the Draft Decision, an adjustment was made to the Environment Contribution on the basis of DSE advice.

Coliban Water believes the amounts originally proposed in the Water Plan are correct and seeks an adjustment to the Draft Decision operating expenditure as outlined in the table below.

Environment Contribution adjustment (\$m real 2012-13)					
	2013-14	2014-15	2015-16	2016-17	2017-18
Draft Decision	3.182	3.095	3.009	2.927	2.846
Response	3.192	3.107	3.024	2.943	2.864
Adjustment	+0.010	+0.012	+0.014	+0.016	+0.018

5.5 Business Model Review

Coliban Water has historically outsourced its water and wastewater system operations and maintenance functions, and its IT and customer service functions including billings, meter reading and debt collection.

From early 2012, Coliban Water has conducted a comprehensive review of its business functions to assess and determine the most effective future outsourcing arrangements for the corporation. This review has confirmed outsourcing is a preferred method for continued delivery of core water supply and sewerage services to urban customers subject to the market price for services clearly demonstrating value for money. It also highlighted the benefit in best value terms to Coliban Water, and ultimately its customers, of repatriating several key service functions back within the business and resuming direct control of those functions.

The services to be outsourced have been put to market for tender responses and tender discussions are continuing.

Repatriation of service functions comprising rural operations and maintenance, IT support services and revenue services (billing, meter reading and debt collection) has commenced and deployment of these functions into Coliban Water should be completed by the end of this financial year.

Coliban Water notes the reduction in operating expenditure of \$2.6m in the Draft Decision related to contracted services, and it is currently forecast that total expenditure related to the corporation's revised business model is in excess of what has been allowed for in the Draft Decision.

As a customer focussed organisation, Coliban Water is cognisant of the additional pressure higher prices place on our customers. Accordingly, the corporation is not seeking recovery of this additional operating expenditure through prices and will instead seek other as yet unidentified efficiency savings to achieve operating efficiency benchmarks.

5.6 Bulk Water

Coliban Water notes the following corrections to bulk water expenditure in response to the ESC's Draft Decision. Previous expenditure assumptions did not include a component for the low pressure reliable water supply from the East Loddon Pipeline commissioned in 2012. The 146km pipeline and pump station project replaced the inefficient open channel and weir system. This correction comprises the majority of adjustments tabled below. The remaining correction is attributable to expenditure forecasts based on now superseded Goulburn-Murray Water's prices. These prices were inclusive of a 2 per cent assumption for inflation, where 2013-14 inflation is now shown to be 2.50 per cent.

Bulk Water correction (\$m real 2012-13)

	2013-14	2014-15	2015-16	2016-17	2017-18
Draft Decision	1.410	1.500	1.630	1.680	1.710
Response	1.536	1.644	1.799	1.862	1.881
Adjustment	+0.126	+0.144	+0.169	+0.182	+0.171

Coliban Water will provide the ESC with modelling in order to clarify the corrections to Bulk Water expenditure and assist the ESC in including an appropriate level of Bulk Water expenditure in the final determination.

5.7 Other Adjustments

Coliban Water notes that there are other expenditure items subject to adjustment as a result of the recent lower inflation figure released by the ABS. All of these items have been forecast in nominal dollars and converted back to real dollars using inflation of 2.75 per cent, however the applicable inflation figure is 2.50 per cent. Owing to the nature of these items, they are fixed in nominal dollars in 2013-14.

- Labour expenditure
- BOOTs
- Electricity
- Environmental Contribution
- Some licence fees

Given the sum of annual expenditure on these items is approximately \$30 million; Coliban Water is potentially exposed to expenditure of \$0.1m per year more than forecast. It is expected that the ESC will adjust forecast operating expenditure as a result of the actual 2013-14 inflation figure.

Coliban Water notes exposure to other potential expenditure adjustments:

- Fire Services Levy
- Goulburn-Murray Water bulk water tariffs subject to a future ACCC/ESC Determination
- Financial Accommodation Levy

It is not possible at this time to accurately forecast the extent of this exposure, and Coliban Water will rely on the ability to adjust approved prices for material changes to additional government imposed levies and determinations.

Further, Coliban Water notes the change to the productivity formula within the financial template. This change makes it more difficult for corporations to meet the efficiency hurdle compared to the hurdle placed on businesses when the Water Plan Guidance Paper was published.

5.8 Operating expenditure summary

Coliban Water submits the following revisions to operating expenditure forecasts in response to the Draft Decision.

Adjustments to operating expenditure (\$m 2012-13)

		2013-14	2014-15	2015-16	2016-17	2017-18
Water distribution quality	Draft Decision	0.293	0.293	0.293	0.293	0.293
	Response	0.947	0.897	0.850	0.966	0.762
	Adjustment	+0.654	+0.603	+0.556	+0.672	+0.469
Bulk Water	Draft Decision	1.410	1.500	1.630	1.680	1.710
	Response	1.536	1.644	1.799	1.862	1.881
	Adjustment	+0.126	+0.144	+0.169	+0.182	+0.171
Environmental contribution	Draft Decision	3.182	3.095	3.009	2.927	2.846
	Response	3.192	3.107	3.024	2.943	2.864
	Adjustment	+0.010	+0.012	+0.014	+0.016	+0.018
Defined Benefits Super	Draft Decision	0.12	0.12	0.12	0.11	0.11
	Response	0.00	0.00	0.00	0.00	0.00
	Adjustment	-0.12	-0.12	-0.12	-0.11	-0.11

6 Capital Expenditure

In its Draft Decision the ESC accepted all recommended changes to proposed capital expenditure recommended by Deloitte in their Assessment of Expenditure Forecasts Final Report. Specifically, the ESC proposed the following adjustments:

Adjustment to capital expenditure (\$m 2012-13)	2013-14	2014-15	2015-16	2016-17	2017-18
Harcourt rural modernisation project	-23.6	-3.4	0.0	0.0	0.0
Bridgewater and Laanecoorie water treatment plant upgrades	0.0	-2.5	-1.3	-0.3	-0.4
Occupational health and safety program	-0.3	-0.4	-0.4	-0.2	-0.1
Heathcote backlog sewerage	4.0	1.6	0.0	-4.0	-1.6
Total ESC Adjustment	-19.9	-4.7	-1.7	-4.5	-2.1

6.1 Harcourt rural modernisation project

6.1.1 Previously approved capital expenditure

In its final 2008 Expenditure Report, the ESC's consultant SKM approved \$23.6m (\$20m \$1/1/07) and stated:³

The proposed adjustments to the capital expenditure for 'rural system reconfiguration' project works are indicated in Table 5-5. In effect the expenditure for this item is spread over a longer period (including beyond the second regulatory period) and it is recommended that the expenditure forecast by Coliban Water during the second regulatory period be reduced by half.

The capital cost of works indicated is \$40M in the second regulatory period alone (and this is only a portion perhaps less than half) of the total costs envisaged to achieve the 3,000 ML/year savings.

Further, SKM also noted the remaining \$23.6m (\$20m \$1/1/07) be transferred to later periods

In the Final Decision, the ESC approved an increase in expenditure to \$25m (\$1/1/07) for rural modernisation.

Also, in the 2008 Final Decision, the ESC approved an additional \$8.3m (\$7m \$1/1/07) for Harcourt Valley recycling. SKM stated that:⁴

The scheme is primarily intended to secure the water supplies to the important irrigators situated in the Harcourt Valley, and will also achieve increased use of recycled water, and recycled water substitution, supporting the business strategies.

Studies to date have been at the pre-feasibility level only. The detail of the cost estimate is appropriate to that level of study and includes allowances for contingencies (15%) and design and management fees. The study evaluates several options and alternative treatment strategies to produce either Class A or Class C water. Coliban Water has indicated that the option selected, as described above, may be changed depending on the outcomes of further studies. The cost estimate is therefore considered indicative.

As previously advised to Deloitte and ESC, Coliban Water prioritised Harcourt as the first system to be modernised. The best option to secure the water supplies to the important irrigators in the Harcourt Valley was to build new Harcourt rural reticulation and integrate the rural system with the Castlemaine Link backbone pipeline (southern section), and proceeding with this project would result in significant business cost savings compared to the total approved in the 2008 Final Decision and recommended by SKM.

³ SKM (2008), *Expenditure Forecast Review for the Victorian Regional Urban Water Businesses – Coliban Water*.

⁴ SKM (2008), *ibid*.

In total, the ESC approved the following expenditure in its 2008 Final Decision⁵:

Approved capital expenditure \$m 2012-13			
	2008-2013	2013-2018	Total
Rural modernisation	23.6	23.6	47.2
Harcourt Valley recycling	8.3	11.8	20.1
Total approved	31.9	35.4	67.3
2013-2018 Water Plan	12.6 (actual) ⁶	27.1	39.7
Capital cost reduction	-19.3	-8.3	-27.6

6.1.2 Importance of water security

The most important statutory, and indeed moral, obligation of any water corporation is to provide a fit-for-purpose, secure water service to customers who are dependent on the quality and reliability of supply of the water product. To this end, Coliban Water has committed to minimising the utilisation of water restrictions to regulate water consumption in order to maintain the balance between demand for water and available water supply. This commitment is strategically managed through the corporation's Water Supply Demand Strategy.

The Coliban Southern system is, uniquely, isolated from the interconnection between the Coliban Northern system and Goulburn system through the Goldfields Superpipe. There is currently no alternative source of water to the towns of Castlemaine and Kyneton (and surrounding towns; over a dozen in total) other than the existing Coliban Southern headworks storages. In recent times, the reliability of our Coliban Southern headworks storages has been more and more compromised. Indeed, the recent "Coefficient of Variation"⁷ of these headworks inflows exceeds 1.00⁸.

Water security is also important for financial reasons. As outlined in the Water Plan, Coliban Water experienced a 2008-2013 revenue shortfall of approximately \$100m as a result of enforcing restrictions across the region for a prolonged period. Updated storage levels show that our dams have a relatively quick, single season fill-spill profile and yield can be heavily impacted by climate variation:

Storage	Late October	11 December 2012	30 April 2013
Upper Coliban	Spilling	99.7%	71.2%
Lauriston	Spilling	90.8%	81.1%
Malmsbury	Spilling	82.4%	32.8%

Coliban headworks storages are shallow and located in a hot and dry part of the state, leading to significant evaporation. In 2011-12, approximately the same volume of water was lost in evaporation as was supplied to urban customers throughout the Coliban Water region. Although appearing relatively full now, given the past unreliability of our inflows, the corporation may again be faced with water shortages in the not-too-distant future and within the third regulatory period.

⁵ Essential Services Commission (2008), *2008 Water Price Review, Regional and Rural Businesses' Water Plans 2008-2013, Melbourne Water's Drainage and Waterways Water Plan 2008-2013 – Final Decision*, June.

⁶ Note the Water Plan outlined that \$12.6m is the expenditure for both Harcourt rural modernisation and miscellaneous rural modernisation/reconfiguration expenditure. This slightly overstates actual expenditure on this project in this regulatory period. Water Plan proposed 2013-2018 expenditure is for Harcourt alone.

⁷ CoV is the ratio of standard deviation to the mean; a commonly used measure of variation.

⁸ A CoV exceeding 1.0 implies the standard deviation exceeds the mean.

6.1.3 Widespread regional support

It is submitted that the Harcourt project has widespread customer and community support, demonstrated through a robust consultation process. This is evidenced by approximately two thirds of customers choosing to remain in the system and, in doing so, accepting increased prices and increased water deliverability that the modernised system will provide. Additionally, two Shire Councils (Macedon Ranges and Mount Alexander) and the Harcourt Water Services Committee, made up of a number of Harcourt rural customers, have indicated their support for the project proceeding. Please see appendices B, C and D for these letters of support.

Given the level of regional support that has been demonstrated for the Harcourt project, and the support also given by the Victorian Treasurer and the Victorian Minister for Water, Coliban Water continues to progress the project in readiness to commence its implementation in 2013-14. Independent Gateway Reviews of the project business case (Gate 2) and its readiness for market (Gate 3) have confirmed that the successful delivery of the project in relation to time, cost and quality appears highly likely, and there are no major outstanding issues that at this stage of the project appear to threaten delivery significantly.

For further information, please refer to the Executive Summary of the Harcourt Modernisation Business Case in Appendix A.

6.1.4 Customer supply

Deloitte raised concerns with additional on-property infrastructure that customers connecting to the new rural system have to provide without attributing any benefits customers will receive by having an on-demand system and access to a supply year-round. The preferred option and additional item of scope (delivery to irrigation customers within six months)⁹ increase the standard of service to Harcourt rural customers, and also ensures that any concerns regarding the deliverability of the water are adequately addressed.

Also, it must be reiterated that any customer who voluntarily chooses to remain in the system is doing so in the full knowledge that on-property infrastructure may be required. Many customers have chosen to partially participate in the buybacks and reduce their water entitlement volume. Discussions with customers show this has been done to provide external funding to finance on-site works, while remaining in the modernised system with a reduced entitlement volume. The provision by customers of their own private infrastructure as part of a major reconfiguration of rural water supply has been an accepted position for projects such as the Wimmera Mallee and Northern Mallee Pipeline Projects.

6.1.5 Water buyback

In the Water Plan, it was assumed there would be a buyback “take-up” of 25% of licence volume from Harcourt rural. However, a greater percentage of buybacks has been sought by customers than was initially anticipated. Approximately two thirds of customers have applied to remain in the system, with the level of buyback volume being around 50%. Please refer to the business case for more detail.

6.1.6 Revised financial analysis

As stated above, the additional buyback take-up rate has also enhanced the project business case, by delivering more water licence volume to Coliban Water than previously forecast at a lower per megalitre cost. Although the risk adjusted capital cost has now increased slightly to allow for the additional items of scope, Coliban Water is proposing to adjust the 2013-2018 revenue requirement only to the extent that the project was allowed for in the Final Water Plan.

		2013-14	2014-15	2015-16	2016-17	2017-18
Harcourt rural modernisation project	Draft Decision	0.00	0.00	0.00	0.00	0.00
	Response	23.64	3.42	0.00	0.00	0.00
	Adjustment	+23.64	+3.42	0.00	0.00	0.00

⁹ Please refer to Appendix A – Harcourt Business Case Executive Summary for more detail.

6.2 Bridgewater and Laanecoorie water treatment plant upgrades

In its Final Report to the ESC Deloitte noted that:

“Coliban Water has appropriately identified the need to address salinity issues at Bridgewater and Laanecoorie Water Treatment Plants in anticipation of proposed changes to the 2015 Safe Drinking Water Regulations.”

However, owing to uncertainty surrounding the regulations and the understanding that water corporations await further instruction from the Department of Health, Deloitte recommended that all expenditure proposed in anticipation of these changes be removed from expenditure forecasts.

In addition Deloitte questioned the information previously provided relating to the appropriate engineering solution to correct salinity issues in these systems.

6.2.1 Salinity Management

The Department of Health’s Water Plan 3 Guidance note advised that:

Addressing water supplies with elevated levels of total dissolved solids (TDS)

Whilst total dissolved solids (TDS) is generally considered an aesthetic characteristic, if the TDS is consistently high then the supplied water is likely to be undrinkable. If the water being supplied is undrinkable it is unlikely that the supplied water would meet the definition of drinking water.

Where the TDS of the drinking water supply regularly exceeds 1200 mg/L, remedial action should be taken during the regulatory period to reduce the concentration of TDS in the water. Ideally, the TDS of supplied water should be regularly below a TDS of 600 mg/L.

In the information previously provided through the expenditure review process, Coliban Water have clearly demonstrated that these plants are subject to salinities greater than 1200mg/L TDS on a regular basis, except following high rainfall periods. Written advice from the Department of Health confirms that they have concerns about these two supply systems in relation to these supplies being unpalatable (and hence not regarded as drinking water) when the salinity is elevated. Regardless of any future regulatory standard for TDS levels, these systems have been shown to continually exceed the upper salinity threshold referred to by the Department. Given Department of Health advice that remedial action should be taken under circumstances where levels of TDS exceed 1200mg/L, Coliban Water believes that the capital expenditure proposed to upgrade the Bridgewater and Laanecoorie water treatment plants remains prudent and is critical to ensuring the continued delivery of fit-for-purpose drinking water to customers who and pay for and reasonably expect to continue to receive a drinking water supply.

The works proposed consisted of expansion of the Reverse Osmosis plant installed at the Bridgewater Water Treatment Plant in 2009-10 and installation of an Electro-dialysis Reversal (EDR) plant at Laanecoorie as an alternative to Reverse Osmosis.

The expansion at Bridgewater is imperative to supplying projected summer demand under Permanent Water Savings Rules (PWSR). The 2012-13 summer is the first moderately dry summer since the move to PWSR and showed that the existing plant is not adequately sized to supply customer demand. During the peak supply period, the plant ran for extended periods (up to two weeks) with interruptions only for faults while town storage levels fell below the minimum required for security of supply. Based on this experience and forecast future demand, this plant does not have the capacity to meet customer demand during peak periods and will require the re-introduction of water restrictions for these towns to regulate consumption. Customers across our systems have clearly expressed the desire for there to be no return to water restrictions other than for exceptional situations.

The installation of EDR at Laanecoorie will result in a more cost effective approach to desalination at this site than the use of Reverse Osmosis due to its lower cost of installation and integration into the existing process and higher water recoveries. Historically, salinity at Laanecoorie has been lower than Bridgewater but still clearly exceeds the levels that the Department of Health intend to regulate and this is confirmed by their letter of support for this proposal.

The options assessment for these works assessed all possible solutions to this issue. The preferred solution was to connect these systems to the Bendigo supply which has high security and quality and presented a lower ongoing cost to customers, but a high capital cost. This solution remains the preferred option but has been deferred in recognition of the capital expenditure constraints on the business and to mitigate pricing impacts. With no alternate source of water available in the area serviced by these two plants, the proposed expenditure in the form of a desalination process is critical to supply security and quality for these systems. Coliban Water believes that the most prudent approach is to expand the current plant at Bridgewater rather than replacing it entirely and is planning to install the most cost effective solution available at Laanecoorie in the medium term.

In recognition of the latest guidance received from the Department of Health, and after reconsidering the most appropriate engineering solution for the proposed works, Coliban Water proposes the following adjustments to the Draft Decision outlined at the end of this chapter.

6.2.2 UV disinfection systems:

The Department of Health's Water Plan 3 guidance note advises that:

Schedule 2 (drinking water quality standards)

• *Include additional standards which relate to operational performance, specifically relating to filter performance and disinfection contact time. The proposed filter performance standard would most likely be based on the post-filtration turbidity values included in the revised Australian Drinking Water Guidelines. The disinfection contact time standard will probably be structured around compliance with a system-specific disinfection contact time. Both these proposed standards will be influenced by the outcome of the proposal to include health-based targets in the Australian Drinking Water Guidelines.*

Coliban Water has reviewed all of its water treatment plant disinfection systems and determined that the Laanecoorie and Bridgewater systems do not meet any internationally recognised standard. It is reasonable to expect that the foreshadowed changes to regulatory standards will be equivalent to other international standards such as USEPA or WHO. Neither the Laanecoorie or Bridgewater plants are able to meet the requirements of these, or any other comparable, standard. Failure to upgrade these plants to meet current day disinfection standards will continue to expose customers to health risks and prevent Coliban Water from conforming to foreshadowed regulatory standards. Given that it is clear that these plants will not comply with any disinfection standard imposed, Coliban Water consider that it would be prudent to integrate these upgrades as part of the other upgrade works to be conducted at these sites outlined in Section 6.2.1 to minimise overhead and administration costs from and gain efficiencies of scale in procurement processes.

The selection of UV disinfection as opposed to alternative technologies represented an order of magnitude lower financial impact on our customers whilst ensuring the delivering safe drinking water.

		2013-14	2014-15	2015-16	2016-17	2017-18
Bridgewater and Laanecoorie water treatment plant upgrades	Draft Decision	0.00	0.50	0.70	0.28	0.18
	Response	0.00	3.00	2.00	0.60	0.60
	Adjustment	+0.00	+2.50	+1.30	+0.32	+0.42

6.3 Biosolids reuse

As discussed in Section 6.2 the Deloitte Final Report noted that the revised Biosolids Strategy proposed to capitalise \$2.55m of the operating expenditure originally proposed. In line with this proposal Coliban Water understands that the capitalised amount is to be allowed for in capital expenditure within the financial template. In response to this omission Coliban Water submits the following corrections.

Biosolids capital expenditure adjustment \$m 2012-13

	2013-14	2014-15	2015-16	2016-17	2017-18
Draft Decision	0.00	0.00	0.00	0.00	0.00
Coliban Response	1.20	0.60	0.00	0.30	0.45
Adjustment	+1.20	+0.60	+0.00	+0.30	+0.45

6.4 Capital expenditure summary

Coliban Water submits the following revisions to capital expenditure forecasts in response to the Draft Decision.

Capital expenditure adjustments (\$m 2012-13)

		2013-14	2014-15	2015-16	2016-17	2017-18
Harcourt rural modernisation project	Draft Decision	0.00	0.00	0.00	0.00	0.00
	Response	23.64	3.42	0.00	0.00	0.00
	Adjustment	+23.64	+3.42	0.00	0.00	0.00
Bridgewater and Laanecoorie water treatment plant upgrades	Draft Decision	0.00	0.50	0.70	0.28	0.18
	Response	0.00	3.00	2.00	0.60	0.60
	Adjustment	+0.00	+2.50	+1.30	+0.32	+0.42
Defined Benefits Superannuation	Draft Decision	0.00	0.00	0.00	0.00	0.00
	Response	1.28	0.00	0.00	0.00	0.00
	Adjustment	+1.28	0.00	0.00	0.00	0.00
Biosolids	Draft Decision	0.00	0.00	0.00	0.00	0.00
	Response	1.20	0.60	0.00	0.30	0.45
	Adjustment	+1.20	+0.60	+0.00	+0.30	+0.45

7 Demand

Coliban Water accepts the total demand forecasts as outlined in Tables 12-18 of Volume II of the Draft Decision. Demand forecasts in the financial template reflect these figures.

7.1 Trade Waste

In regards to Trade Waste forecasts, Coliban Water recognises the ESC's guidance whereby

"...Coliban Water can apply a total dissolved solids charge only at sewerage treatment plants that can remove or reduce salt loads."

In response, Coliban Water submits the following revisions to demand forecasts for billable units of total dissolved solids (TDS) over the next regulatory period.

Revised TDS forecast (kg)	2013-14	2014-15	2015-16	2016-17	2017-18
WP3 Submission	2,017,046	2,017,046	2,017,046	2,017,046	2,017,046
Revised Forecast	314,460	314,460	314,460	314,460	314,460

The Water Plan submission consisted of trade waste discharge forecast for Bendigo, Castlemaine, Kyneton and Echuca. The revised forecast reflects billable discharge to treatment plants in locations that satisfy the above guidance only.

7.2 Rural Demand

Coliban Water has previously forecast Rural Water Demand at 6000ML for 2012-13 and 6000ML in each year of Water Plan 3. In consultation with the ESC and Frontier Economics during the Demand Review process, Coliban Water foreshadowed ongoing rural demand analysis. Rural forecasts require ongoing consideration given that Water Plan 2 data consists of significant flood and drought events along with low rural allocations that constrained demand. In past consultation Coliban Water noted the following considerations:

- The volumetric price of water has increased to \$236/ML (154%) over Water Plan 2 and is set to remain at this rate throughout Water Plan 3. The price effects on demand bounce back should be acknowledged.
- With the resumption of rural allocations in 2010-11, demand was flood affected, and 2010-11 is considered a 'wet' year (798 ML consumed).
- Apart from significant rainfall at the end of February through March that reduced demand, 2011-12 had 100% allocation and relatively low climatic variation. 2011-12 is considered an 'average' consumption year (3,157 ML consumed).

Rural demand is highly dependent upon climatic conditions, particularly the level and timing of rainfall. Based on rainfall, temperature and allocation, Coliban Water believes that 2011-12 is most representative of an 'average' year for rural demand.

In the six months to December 2012, despite experiencing a hotter and drier lead up to summer, rural demand through December was down 5% on the previous year. In the nine months to March 2013 rural consumption has reached 4,149 ML on the back of warmer than average summer conditions. 2012-13 Rainfall remains well below the long term average.

	Year	Total Rainfall (mm)	Temperature Variation from Long Run Avg.	Rural Demand (ML)
Wet	2010-11	1,212	-12%	798
Average	2011-12	715	-6%	3,157
Dry*	2012-13	254	7%	4,283

*Data Inclusive through March 2013

Assuming that the last 3 months of 2012-13 remain consistent with a 'dry' scenario, demand in these months will total approximately 40 per cent higher than in an 'average' year. The upper bound estimate for rural demand in 2012-13 is 4,863 ML.

During the Demand Review Coliban Water indicated that the 6000ML per year originally proposed in September 2012 was likely to overstate the average rural demand. Based on the latest expectation for rural usage it is forecast that on average, given recent price increases and any reasonable variability in climate, future consumption will remain within the range of 3,000 ML – 5,000 ML per annum.

Coliban Water seeks that the ESC revise rural water demand to be on average 4000ML in each year of next regulatory period.

8 Form of Price Control

Coliban Water notes the ESC's 2011 Guidance Paper¹⁰ stated:

The Commission uses criteria to determine whether the proposed form of control meets the WIRO requirements. Specifically, the form of control should:

- provide incentives to align price structures with underlying costs — High cost services should have higher prices, while low cost services should have lower prices. Aligning costs and prices is important for efficient investment and water service use*
- manage and allocate demand and supply risks efficiently — The choice of form of control should reflect demand and supply risks and how they affect revenue. Water businesses should consider aligning risky activities with the forms of control that can mitigate that risk.*
- minimise administrative complexity, cost and intrusiveness — Administratively simple forms of control are easy for customers to understand and result in lower costs for the water industry.*

In its Water Plan, Coliban Water outlined how:

- Price Caps;
- Revenue Cap;
- Tariff Basket; and
- Demand Adjusted Revenue Cap;

performed against the Guidance Paper principles and “Provide for a sustainable revenue stream” (from the Water Industry Regulatory Order).

¹⁰ Essential Services Commission (2011), 2013 Water Price Review – Guidance on Water Plans, October.

In additional correspondence to the ESC, Coliban Water also assessed how a “Demand factor” adjustment would fare against the four price control principles. The assessment was as follows:

	Price caps	Revenue cap	Tariff basket	Demand Adjusted Revenue Cap	D-factor
Provide incentives to align price structures with underlying costs;	No	No	No	Yes	Yes
Manage and allocate demand and supply risks efficiently;	No	No	No	Yes	Yes
Minimise administrative complexity, cost and intrusiveness	Yes	Partially	Partially	Partially	<i>Partially</i>
Provide for a sustainable revenue stream	No	Partially	Partially	Yes	Yes

Coliban Water never applied “risk sharing” as a principle by which to assess different forms of price control – only the ESC’s principles and an additional WIRO principle were used. The Water Plan did, however, assert that risk sharing did occur with a Demand Adjusted Revenue Cap whereas demand risk is entirely with customers where a Revenue Cap applies.

In its Draft Decision and in various correspondence to Coliban Water, the ESC has raised the following issues with the proposed Demand Adjusted Revenue Cap:

- Objective: What is Coliban Water trying to achieve?
- Revenue cap inappropriateness of sustainable revenue stream
- Scope: Price Control includes all tariffs (some which are not fixed and not linked to water demand)¹¹; and
- Complexity: explain how the additional complexity of the proposed form of price control contributes significantly to achieving the business’ objective of risk sharing;¹²

8.1 Objective

The primary outcome of the Demand Adjusted Revenue Cap is to ensure that revenue consistently meets costs over the regulatory period.

Price caps have been assessed by the corporation as failing to achieve revenue stability and led to a significant revenue shortfall this regulatory period – the corporation considers that use of a price cap for volumetric water would result in significant financial risk. Although price caps are historically seen as providing customer price certainty, it is noted that this actually leads to bill uncertainty for the average customer in each year if consumption varies from one year to the next. This is because increased customer consumption leads to increased bills, for example, and in the absence of a revenue cap annual bills will fluctuate accordingly.

Revenue caps would leave the business exposed to risk in the opposite direction. This risk is due to the business hypothetically incurring additional water supply costs that cannot be recouped, as revenue would be fixed over the period. A revenue cap price control could result in significant swings in customer prices from one year to the next, although overall revenue and average customer bills would be fixed over the regulatory period. From an economic perspective, revenue is locked in but incentives to increase supply and avoid restrictions are diminished.

¹¹ Presentation given by the ESC to Coliban Water customers in Bendigo, 18 April 2013.

¹² ESC Draft Decision, Volume II.

A demand adjusted revenue cap applying to water tariffs is seen as a suitable compromise between price caps and revenue caps. Bill swings for customers are minimised and some revenue cap amounts are lower when water sales are lower, reflective of the reduced cost of supplying less water.

It is noted that if a Demand Adjusted Revenue Cap had been in place over the 2008-2013:

- Coliban Water would not have needed a mid-period Determination reopening in 2010; and
- The significant price increase of 11% proposed in the Water Plan would have been much lower,

as prices would have been adjusted throughout the regulatory period to respond to drought, flood and sustained reduced water consumption.

8.1.1 Strong customer support

This innovative form of price control was developed in tandem with the wishes of our customers. Coliban Water undertook extensive customer consultation whilst preparing its Draft Water Plan and it was observed that the majority of customers were concerned at our ongoing and significant financial losses. In response, the corporation developed the innovative Demand Adjusted Revenue Cap to reduce the likelihood of larger financial losses in the future.

Coliban Water carefully considered how to communicate this to customers. In addition to providing a detailed Price Control Supplement¹³, it was stated in the Draft Water Plan that:

We are proposing to change the manner in which we adjust prices throughout the next five years, starting 1 July 2013. Previously we have had fixed percentage price increases for each year. In the future, we want prices to raise sufficient revenue to meet our ongoing costs and that the revenue we receive from our customers through the prices we charge do not create super-surpluses or super-losses.

This means that the increases described above are estimates that have taken into account our best assessments of future water consumption. We propose that, where actual consumption in the future varies from what we have forecast, our prices can be adjusted. Prices will either increase or decrease depending on the water consumption outcome to ensure that, over the long run, revenues fairly cover our costs.

In the survey response to the Draft Water Plan, the majority of customers supported this approach, with only 32 per cent of customers opposed.¹⁴

In the fifteen public forums that Coliban Water held between the Draft and Final Water Plans, Coliban Water also referred to prices varying in line with demand rather than being set five years in advance. On the whole, this was positively received by customers.

Using an extensive array of engagement methods, Coliban Water explained the Demand Adjusted Revenue Cap to customers in the simplest possible way and is pleased that our customers demonstrated support for a cost-reflective form of price control.

¹³ Draft Water Plan 2013-2018 – Supplement E – Price Control.

¹⁴ Coliban Water posted the Draft Water Plan to each residential and non-residential customer. In the “pack” was also the survey and a reply paid envelope. Over 1000 responses were received by Coliban Water.

8.2 Revenue cap may lead to inappropriate net revenue

Coliban Water expresses concern about the inability of a revenue cap to provide a sustainable revenue stream. Expenditure is based on a particular demand scenario, which is considered the “most likely” scenario at this time. If water consumption is higher than forecast, additional cost will necessarily be incurred beyond that which is currently forecast, and a revenue cap will leave the corporation with unable to recoup this expenditure.

Conversely, if water consumption is lower than forecast, the corporation’s costs will be lower and revenue collected from customers will exceed the efficient costs of servicing customers.

Just like price caps, a revenue cap also fails to ensure that revenue fairly meets costs over the regulatory period but with a reversed incentive – with price caps the incentive is for corporations to increase sales and with a revenue cap the incentive is for businesses to reduce sales.

Given the corporation’s highly balanced financial position, only a Demand Adjusted Revenue Cap applying to water services will meet business financial requirements while simultaneously minimising bill swings for customers.

8.3 Scope of price controls

Coliban Water notes the concerns of the ESC regarding the application of the Demand Adjusted Revenue Cap to all tariff components and the corporation now presents a revised proposal.

8.3.1 Demand Adjusted Revenue Cap services

The most significant area of revenue uncertainty is volumetric water. As material cost is incurred providing water to customers, it is imperative that this additional expenditure be recouped from customers without exceeding the efficient cost of service provision. In line with the approximate ratio of Long Run Marginal Cost to Price, Coliban Water believes that an adjustment factor of 50% apply to revenue variations attributable to volumetric water. Customers have, to this point, indicated a strong desire to maintain an incentive to reduce water consumption in line with a “user-pays” model

Modelling has shown that applying a Demand Adjusted Revenue Cap to only volumetric water could lead to the water price varying by more than +/- 10 per cent in any given year. Also, the percentage of the average household bill that is variable will also fluctuate. It is therefore proposed that all urban water charges, including fixed and variable, be adjustable due to variations in the level of consumption of water.

Coliban Water outlined in the Water Plan a clearly articulated tariff strategy that for the first time links the prices for treated and untreated water, both fixed and variable. In order to ensure consistency with this strategy, the volumetric price of additional classes of water will be as follows:

Volumetric price of Northern, Recycled and Untreated water as a percentage of the central region price.

	2013-14	2014-15	2015-16	2016-17	2017-18
Northern	52.2%	59.2%	65.7%	72.0%	80.0%
Recycled	75.0%	75.0%	75.0%	75.0%	75.0%
Untreated	39.1%	44.4%	49.3%	54.0%	60.0%

Linking the prices in this manner will ensure that no adverse outcomes, such as recycled water costing more than treated water, will occur and that clear messaging relating to the relative value of different types of water can be maintained.

As outlined in our Water Plan, Coliban Water is proposing to maintain linkages between fixed fees of various water products as follows:

Fixed charges for untreated and recycled services.

	2013-14	2014-15	2015-16	2016-17	2017-18
Untreated	50%	50%	50%	50%	50%
Recycled	50%	50%	50%	50%	50%

In summary, this means there are just three individual prices that would be annually set in response to the revenue cap amount.¹⁵ Each of these should have a rebalancing constraint of 6 per cent. Given the general global increase of three per cent, this rebalancing constraint represents a variation from the average of just an additional three per cent. A rebalancing constraint of less than six per cent would mean that negative demand variations of 10% (i.e. the average demand decreasing from 165kL to about 148kL) could not be fully recouped in the final year. It is proposed that this rebalancing constraint is one-sided, that is, the tariffs could decrease by more than this amount if required.

Over the second regulatory period, continued reduced water consumption resulted in the sewerage revenue percentage exceeding costs. Use of the Demand Adjusted Revenue Cap will ensure relative cost reflectivity of water and sewer services.

In the event that an innovative Demand Adjusted Revenue Cap is not approved by the ESC, Coliban Water proposes that these services are instead in the tariff basket as outlined in the next section. Given customer support for a flexible form of price control, reversion to a Tariff Basket is also in line with customer wishes.

8.3.2 Tariff basket services

It is proposed that the following services be included in a tariff basket:

- Sewer fixed charges
- Sewer variable charges
- Rural services

Owing to the significant tariff reform applicable to both sewer fixed and variable charges, a tariff basket will be necessary to manage any unforeseen pricing impacts that may arise over the period. Also, the inclusion of rural services in the tariff basket will allow the business flexibility to modify the revenue share attributable to rural and urban customers if necessary.

In line with the rebalancing constraint for water services, a similar six per cent rebalancing constraint is proposed for water services.

Although included in the tariff basket, rural services tariffs and an appropriate rebalancing constraint from 2014-2018 will be proposed following an extensive period of customer consultation in the 2013-14 financial year.

8.3.3 Price cap services

It is proposed that the following services be subject to price caps and annual prescribed price movements:

- Fire services
- Trade Waste variable charges
- Trade Waste fixed charges
- Land Development related core miscellaneous services, remaining services are to be price based on cost recovery

8.3.4 Cost recovery services

Coliban Water is proposing to charge for the following services in a cost-reflective manner.

- Core miscellaneous services in years 2-5 of the next regulatory period.
- Non-core miscellaneous services

¹⁵ These three charges are the Central Volumetric charge, the Fixed Treated Water charge and the Northern Major Customer Volumetric charge.

8.4 Managing complexity

The complexity involved in administering the Demand Adjusted Revenue Cap is minimal from both the ESC's perspective and Coliban Water's perspective. In any case, the price control formula is almost identical to the Revenue Cap formula so this will not impose any incremental administrative cost or complexity.

Coliban Water has developed a spreadsheet that details the price changes that would be applicable under the Demand Adjusted Revenue Cap and will work with the ESC to ensure mutual understanding.

8.5 Communicating the Demand Adjusted Revenue Cap

Each year, Coliban Water implements a Communications Plan to guide the annual tariff approval process. This Plan includes details of how customers will be informed of any price changes, the extent of price changes, advertising, website changes, key messages, etc.

From 2014-15, there will be a change in prices due to the Demand Adjusted Revenue Cap. Although it is forecast that any change in tariffs will be less than +/- 1 per cent, it is important that customers are aware of the reason for the change in prices. Given inflation is forecast to be in the range of 2-3%, any change in prices due to the price control will be almost immaterial.

Key messaging will relate to Coliban Water's over (and under) collection of revenue compared to forecast and the need to ensure customers receive an offsetting but small reduction (or increase) in prices in the following year. This will ensure that average household bills more closely match the levels proposed in this Determination. This messaging will apply regardless of whether the Demand Adjusted Revenue Cap adjustment is positive or negative.

Coliban Water will also use customised bill messaging, media releases and social media, where appropriate to ensure effective customer engagement.

8.6 Reopening mechanism

Coliban Water believes the reopening mechanism can be enhanced. Coliban Water is supportive of any reopening mechanism that is symmetric and does not just rely on financial viability indicators to adjust prices. Coliban Water is concerned the "single event" mechanism could, hypothetically, be used to cherry pick cost reductions without taking into consideration other reasonable cost increases. Coliban Water believes that recognition of the designated pass through events would allow for more cost reflective pricing.

8.6.1 Pass through events

In line with recent regulatory trends to ensure cost reflectivity of pricing, Coliban Water proposed a number of pass throughs in the Water Plan. Specifically, the operational expenditure pass through events proposed were in relation to Goulburn-Murray Water's 2017 pricing determination, Financial Accommodation Levy variations and Environmental Contribution variations. Other pass through proposals were for unrecovered Greenfields capital expenditure.

In the Draft Decision the ESC proposed to not approve the pass throughs as proposed stating the mid-period reopening provisions should allow for consideration of the matters not approved for automatic pass through.

For the reasons discussed above, Coliban Water believes approval of pass throughs rather than relying on a reopening is better suited to ensuring cost reflectivity and risk mitigation over the next regulatory period. Coliban Water believes it remains financially exposed by the exclusion of such pass through events.

9 Retail Water Service Tariffs

Coliban Water acknowledges the ESC's endorsement of the proposed retail water tariff structure in the Draft Decision. The major components of tariff structure reforms are the removal of inclining block tariffs in lieu of a single volumetric price for water and the harmonisation of North and Central Pricing Zones.

To further community understanding of tariff reforms Coliban Water has in place an extensive communications program with the intention to provide clarity for customers given a new tariff structure. In the lead up to the next regulatory period reforms will be communicated widely to customers through initiatives such as direct mail, online campaigns, information packages as bill inserts and tailored communication to key stakeholders to name a few. Within this communication Coliban Water will enable customer understanding of a single variable price for water which will be reinforced through physical changes to a customer's bill. The general concept of harmonisation will continue to be relayed to customers so that Northern District customers may appreciate that increased investment in their area underlies the need for tariff reform and alignment with Central District customers moving forward.

The ESC notes that the consolidation of tariffs across two regions will result in price increases for Northern District customers. Coliban Water has balanced these price pressures with the expectations of the customer base as a whole. Through an extensive Water Plan community consultation process the business has developed a 7 year harmonisation plan to help mitigate billing impacts, bringing northern pricing in line with investments in the area. It is imperative that Northern Zone pricing reflects the cost of service delivery for Northern Zone customers. A majority of customer response supported the need for a transition that enabled all customers pricing to reflect like for like services as soon as possible. It should be noted that the average household bill for a Northern Zone customer will remain below Central Zone customers at the end of the Water Plan 3 period.

Furthermore, Coliban Water has introduced a Hardship scheme for the Water Plan 3 period to help mitigate negative customer impacts. The objective of the program is to provide relief to customers experiencing hardship through a payment incentive scheme and the possibility of a once off debt reduction.

10 Recycled Water

Coliban Water accepts the ESC's endorsement of recycled water tariffs and seeks to retain the pricing principles outlined in section 12.2 of the Draft

It should be noted that Coliban Water intends scheduled recycled water tariffs to apply to reticulated residential and non-residential supply, where tariffs to be applied outside of such schemes are to be developed with reference to pricing principles.

11 Retail Sewer Service Tariffs

A major driver of the Water Plan process was to develop pricing that allowed a similar price for a similar service. Along with fairness and simplicity, a cost reflectivity approach to tariff reform has been a pivotal feature of customer communications throughout the consultation process. In respect to Wastewater Access Fees, the Draft Decision proposes to approve the amalgamation of residential prices in year one of the period, with non-residential charges to be aligned by year three. In both cases there are currently three sewer zones (Major, Enviro1, Enviro2) to be amalgamated.

The Non-Residential Wastewater Access Fee remains meter based during the transition to the amalgamated price. Until the price commences on 1 July 2015 the maximum applicable non-residential charge will be equivalent to the Residential Wastewater Access Fee, regardless of location. The minimum charge applicable depends upon the customer's location and meter size. These prices can be found in the Schedule of Fees & Charges.

In year three of the Water Plan all customers, both residential and non-residential, will pay the same fee to access the sewer network. This approach is intrinsically fair given all customers essentially discharge to the sewer in the same manner. A volumetric discharge fee will remain applicable to non-residential customers only, applied to discharge in excess of 230kL per annum.

To further community understanding of tariff reforms Coliban Water has in place an extensive communications program with the intention to provide clarity for customers given the new tariff structure. In the lead up to the next regulatory period reforms will be communicated widely to customers through initiatives such as direct mail, online campaigns, information packages as bill inserts and tailored communication to key stakeholders to name a few.

12 Rural Tariffs

Coliban Water proposed changes to rural tariffs in the Water Plan and seeks formal endorsement in response to the Draft Decision.

12.1 Unmodernised rural tariffs

Coliban Water has undertaken an extensive round of consultation with customers and customer representatives from right across the service region, including the Rural Customer Advisory Group. Much feedback received related to how customers viewed the current tariff structure as being unfair and the business is keen to ensure all pricing displays a "similar price for a similar service."

Particularly, concerns were raised regarding the lack of significant price differential between:

- Recycled and raw water
- Channel and rural pipeline customers
- Rostered channels and other channels (and even channels with different degrees of rostering)
- Shared outlets and individual outlets
- Customers with no private infrastructure and customers that need to maintain private infrastructure
- Unmodernised channels and (future) modernised systems.

Coliban Water is keen to ensure an appropriate balance of fairness and simplicity where future tariffs will need to consider these issues.

In order to best consult with rural customers, the business is planning to undertake a special round of rural consultation during 2013-14. This will allow the business time to consider all pricing issues that customers have and to establish new rural tariffs that are both fair and simple.

Tariffs for 2014-15 and beyond will be determined through the annual tariff approval process applicable to a demand adjusted revenue cap method of price control. Coliban Water proposes that unmodernised rural prices will remain approximately constant in real terms from 2014-15 through 2017-18.

12.1.1 Interim unmodernised rural tariffs

Coliban Water proposes an average price *decrease* in 2013-14 for rural customers of 3 per cent, with customer consultation in 2013-14 to determine whether tariff structures should change in 2014-15. As an interim measure, Coliban Water is proposing unmodernised rural tariffs for 2013-14 as specified below in the table below. These tariffs are based on the existing rural tariff structure save for a few minor changes and represents an average revenue decrease of approximately 3 per cent.

Firstly, the volumetric charge has remained unchanged. Given increasing pumping costs and customers' preference for more control over their bills, it was determined that this charge remain as is allowing for a greater percentage price reduction in other areas.

Secondly, the capacity charge has been converted to a fixed charge, similar to an infrastructure charge, based on a customer's licenced volume (in alignment with reforms for modernised tariffs) although a nominal revenue reduction equivalent to 10 per cent of this tariff has been applied to unmodernised rural tariffs generally. This is to allow for the fact that rural allocations of 100 per cent will be delivered in more than 90 per cent of years in accordance with the corporation's Water Supply Demand Strategy. Reflecting consultation with customers, the business has decided to hold the capacity charge (in real terms) for 2013-14 and divert the price reduction to the service fee.

The key message received from rural consultation was that the channel service fee is too high, particularly when compared to Coliban Water urban customers or rural customers serviced by other water corporations. Accordingly, Coliban Water has made the decision to reduce this fee as much as possible while ensuring a forecast revenue reduction of 3 per cent is maintained. This results in a decrease in this charge of approximately 38 per cent that will provide bill reductions to the majority of rural customers.

Finally, outlet, pipeline and storage service fees have had the general 3 per cent reduction applied to their 2012-13 level.

As with modernised rural tariffs, an excess usage fee is proposed. An exception here is that the business will not impose the excess usage fee when reason for the excess usage is solely due to any action of Coliban Water or its contractors.

Interim unmodernised rural tariffs (in January 2013 prices)

Interim Rural Tariffs	2013-14 Unmodernised
Volumetric charge	236
Capacity charge	-
Infrastructure charge	145
Service fee – Pipeline	774
Service fee – Channel	435
Service fee – Storage	96
Additional Outlets	24 - 44
Excess Usage	3000

12.2 Modernised rural tariffs

As previously discussed, Coliban Water is seeking the ESC's support for the Harcourt Rural Modernisation project in the Final Determination. A modernised pipeline system will be sized for customers choosing to remain in that system and a credible set of tariffs have been outlined to Harcourt customers during project consultation.

In order to ensure revenues are sufficient to cover financing and depreciation, a termination fee is proposed. Such a termination fee will need to be in accordance with ACCC rules, currently capping the termination fee at an equivalent of 10 times the annual fixed charges. A termination fee is in the best interests of customers choosing to remain in the system as their fees will not continue to spiral if their neighbours wish to exit the system. It is important to note that a termination fee will not apply if a customer either:

- sells water to another customer within the modernised Harcourt area; the purchasing customer will then assume liability for the termination fees; or
- sells their land and their licence together; the new land owner will then assume the future exposure to the liability for the termination fees.

Details of termination fees and how they apply will be communicated to Harcourt customers in due course to ensure all customers are fully aware of the proposed fees and how and when they apply.

As customers will have a pressurised system, it is appropriate that service fees are aligned to those which apply to urban non-residential customers. This will mean that Harcourt customers will have a meter based charge for the first time, although in order to mitigate any significant customer impacts, Coliban Water proposes to cap modernised rural service fees at a level less than that which would theoretically apply to an 80mm meter.

The capacity charge is proposed to be converted to an infrastructure fee based on a customer's licenced volume. That is, the per megalitre charge will apply regardless of the level of allocations. This approach removes the potential or perceived conflict within the business by uncoupling the process of setting fixed charges and allocating water.

An excess fee is also proposed to encourage additional trade within the system. If a customer's water use exceeds their licenced volume, then their preferred option must always be to trade within the rural system rather than to just pay any excess fees. During the consultation process, customer feedback has strongly indicated that a strong market for trading unutilised licenced volume would be beneficial. Enforcement of an excess fee would help encourage more rural trade.

The transfer fee will continue to apply and will continue to be determined in accordance with ACCC principles.

It is important to note that the modernised rural tariff will only apply when customers receive water via the Harcourt rural modernised system. Until this point, customers within Harcourt will only pay the unmodernised rural tariff.

There is no real price increase proposed over the regulatory period for the infrastructure fee, volumetric charge and termination fee. Prices for the service fee will be linked to the prices that apply to the urban service fee for any given meter size.

Modernised rural tariffs (in January 2013 prices)

	Modernised Rural Tariffs
Volumetric charge	236
Infrastructure charge	225
Service fee – Pipeline	199+
Additional Outlets	199+
Service fee – Pipeline or additional outlet – capped fee	2,798
Termination Fees	ACCC Principles
Excess Usage	3,000

13 Trade waste

As outlined in Volume II of the Draft Decision:

14 (a) - The Commission proposes to approve Coliban Water's trade waste tariffs, subject to it including a clearly defined classification structure in its pricing schedules (given Coliban Water proposed to change its trade waste categories).

Coliban Water considers the tariff reforms as proposed maintain the current major trade waste classification structure as outlined in our customer charter. Trade waste tariff reforms provide generic pricing principles and a single pricing schedule for all customers, replacing locational pricing. The classification framework for determining a major trade waste customer remains unchanged.

Coliban Water would like to clarify the Major Trade Waste proposal in light of the following statements in the Draft Decision – it was considered that these passages may introduce ambiguity for Major Trade Waste customers understanding tariff reforms.

14.3.2 - Coliban Water..... will obtain similar trade waste revenues from tariffs and negotiated contracts.

14.4.2 -It also stated it will endeavour to keep major trade waste customers on site specific contracts rather than having them pay the scheduled charges.

The proposed tariff reforms provide all Major Trade Waste customers with a single pricing schedule. Given this subtle difference, Coliban Water affirms that all customers will be charged the same schedule of trade waste tariffs. However, there will be specific transitional arrangements for customers in order to minimise bill impacts. General transition arrangements have been consulted with customers.

Separate to this, Coliban Water utilises site specific Trade Waste agreements for contractual purposes (to detail total acceptable volumes, sampling regimes, customer/site specific matters etc). Within any agreement the applicable pricing would remain the ESC approved schedule of tariffs.

The Draft Decision requires that all water businesses should publish, as part of its tariff schedule for the regulatory period, clear pricing principles to determine trade waste charges when scheduled prices do not apply. In response, Coliban Water has incorporated the principles outlined in Section 14.2.1 of the Draft Decision. In addition to these principles provided by the ESC, Coliban Water has elaborated further in order to provide pricing principles for customers wishing to connect to the network and to provide further clarity for customers where scheduled charges do not apply.

Owing to the Draft Decision guidance related to charging for TDS, Coliban Water has provided revised TDS forecasts in the Trade Waste section of this document.

14 New customer contributions

14.1 Experience working with developers

The foreword to the ESC's NCC guidance paper states that "water corporations and developers have made numerous calls for the Commission to review and amend the existing 'new customer contributions' (NCC) regime."

The guidance continues to state that "many disputes ... resulted from the existing uniform or 'one size fits all' rules and charges based framework."

This is not the experience of Coliban Water. The business' interactions with developers are based on a collaborative approach, recognising each other's importance in the supply chain of new housing and industry. It is important to note in this perspective that Coliban Water considers itself not solely in the business of water and sewer services, rather a key player in the economic development of the region. Our relationship with developers is based on this principle.

As a customer-focused corporation, Coliban Water has had no formal disputes with local developers during the current regulatory period. The business utilises a cooperative and collaborative approach to ensure decisions are made in the best interests of developers and existing customers, who benefit via an expanded customer base. This customer centric approach has ensured efficient infrastructure provision to new customers and has avoided costly disputes that may have arisen from a less collaborative approach. This mutually beneficial outcome has been achieved working within the rules and confines of the current ESC Determination.

Additionally, informal feedback from the development community in our region is that current guidelines have worked well and no major changes are required.

14.2 ESC Draft Decision

Coliban Water welcomes the ESC approving the manner in which NCC charges are determined and the response herein meets the additional requirements noted in Volume II.

However, Coliban Water notes the rejection of the innovative approach to growth capital expenditure as outlined in the Water Plan. Because of the business' preference for compliance based capital expenditure rather than risk based, and in order to minimise the level of uncertainty in the capital program, no uncertain capital expenditure was included within Water Plan forecasts and subsequently most of the greenfields and augmentation expenditure was excluded from pricing. The business knows from experience that additional growth capital expenditure will be required and financing and depreciation was proposed to be recovered on an annual pass-through basis where such expenditure is necessarily incurred. Financial analysis done by the business showed that price variations due to this approach were likely be minimal – within plus or minus 0.5 per cent per annum. Rejection of this innovative approach presents a financial risk to Coliban Water and also increases the likelihood that non-standard NCCs will have to be charged to developers where capital expenditure that is not included in general prices needs to be brought forward into the 2013-2018 regulatory period.

All standard NCC charges have been calculated in accordance with the core pricing principles.

14.3 Options for locational pricing of standard NCCs

Since the Draft Decision, Coliban Water has considered the applicability of locational based pricing for standard NCCs. Three different options have been considered: Suburb based, system based and region based.

14.3.1 Suburb based standard NCCs

Coliban Water has calculated the standard NCC that would apply in each of four growth regions of Bendigo (where the majority of overall growth occurs, and the majority of greenfield and augmentation capital expenditure is required).

Hypothetically, the appropriate standard NCC in each of the four main growth areas is as follows:

Hypothetical suburb based NCCs				
	Water	Sewer	Recycled	Total
Area 1	5,688	2,133	n/a	7,821
Area 2	0	0	6,232	6,232
Area 3	6,966	5,062	n/a	12,029
Area 4	5,168	0	n/a	5,168
Average	4,456	1,799	6,232	7,813

It is noted that these values are significantly above the currently approved standard NCC (\$609 – \$2435 per lot for water and sewer). It is considered that charging on a locational basis at the suburb level is not appropriate. Given the lag in time in which price signals flow through to actual development, implementation of these NCCs would significantly impede development in areas where development is either happening or is imminent.

Further consideration of this option was discontinued.

14.3.2 System based standard NCCs

Coliban Water also considered the possibility of charging a separate standard NCC in each of three areas:

1. The interconnected Coliban Water System (including Bendigo, Castlemaine and Kyneton);
2. Echuca; and
3. All other towns.

14.3.3 Region based standard NCCs

Finally, Coliban Water considered maintenance of the status quo, where the catchment for regional based standard NCCs is based on water corporations' operational regions.

14.3.4 Assessment of region and system based standard NCCs

The region based method is in line with the Coliban Water board's endorsed principle of "similar price for similar service" that has been applied to urban tariffs. As outlined in the Water Plan, Coliban Water is aligning all prices across the region where a similar service is received.

Additionally, the corporation believes the following principles are valid:

- Simplicity: The NCC attributable to water should be the same as that attributable to sewer, and should be independent of lot size.
- Fairness: Due to the positive externality all customers receive as a result of recycled water, it is justified that new recycled water connections are subject to a lower charge than water and sewer connections. In line with ongoing charges, Coliban Water is proposing that the recycled water connection charge is half of that of the water and sewer connection charge.

Accordingly, the table below outlines the standard NCCs that Coliban Water is proposing.

Standardised New Customer Contributions (\$ January 2013)

Service	2008-2013 NCC¹⁶	2013-2018 Standard NCC
Water	\$609 - \$2,435 ¹⁷	\$1,443
Sewer	\$609 - \$2,435	\$1,443
Recycled Water	\$609 - \$2,435	\$ 722

As outlined in previous correspondence to the ESC, Coliban Water considers that disconnecting NCCs from lot sizes will result in a clearer message to developers and a simpler tariff structure. Informal feedback from developers indicates that some fail to understand the rationale for current fees that are dependent on lot size, particularly for sewer connections.

14.4 Non-standard NCC

Coliban Water proposes that a non-standard NCC will apply in situations where:

- a development requires growth capital expenditure not included in the capital program for which standard NCCs have been calculated; and
- the non-standard NCC is in excess of the standard NCCs that would otherwise be charged.

Subject to financial requirements, Coliban Water may be able to reprioritise capital program within the regulatory period to include particular projects within the program.

As a result of the Draft Decision excluding Coliban Water's ability to adjust prices on an annual basis for growth capital expenditure, it is more likely that non-standard NCCs may have to be charged at some point during the regulatory period.

Coliban Water confirms that the core NCC pricing principles will apply to non-standard NCCs.

14.5 Developer Installed Works

When connecting to Coliban Water's water, sewerage and/or recycled water network, the developer must fund the design and construction of all assets required to service their development and connect to Coliban Water's network. This includes all assets that are explicitly required in relation to prescribed services for the development under consideration

The developer will provide assets at the minimum size as prescribed in the Corporation's approved technical standards.

If a developer is required to provide assets that exceed the requirements of its development in a material respect, the developer can only be required to contribute to the costs of Developer Installed Works to the extent that reflects the requirements of its development. The balance of the costs of the assets in such a case is funded by the corporation.

For the avoidance of confusion, a developer is required to fund the cost of Developer Installed Works in addition to paying a New Customer Contribution.

¹⁶ Current NCCs are dependent on lot size. The new Standard NCC removes this dependency.

¹⁷ These prices apply for per standard lot. Where a development is in a designated recycled water area, the Water NCC is reduced by 50%.

14.6 Negotiating framework

As the ESC is aware, VicWater convened a working group that has established a draft model Negotiating Framework. Coliban Water notes compliance with the required action 16(f) in Volume II of the ESC Draft Decision, “Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.”

See Section 19 for the draft Negotiating Framework.

Coliban Water will seek to continually improve its Negotiating Framework over the regulatory period through maintaining a detailed Land Development manual.

14.7 Timeframe for estimating capital expenditure

Coliban Water has used a 20 year time period for estimating capital expenditure because it is the maximum time period for which future augmentation plans are available. Current augmentation plans are done on a 25 year horizon but such plans may only be done five yearly. This means that at any given time, only between 20-25 years of future augmentation planning exists, making it impossible to consistently model the next 25 years of future augmentation.

As required by Volume II of the Draft Decision, Coliban Water has consulted with other businesses regarding this timeframe, however it was generally agreed that each business should have their own timeframes for estimating capital expenditure.

15 Miscellaneous Charges

Coliban Water understands that the Draft Decision has approved the definitions for Core Miscellaneous Services. Coliban Water notes that in Table E.3 of Appendix D to the Draft Decision that definitions for these services were tabled as not being provided, contrary to the discussions in the Draft Decision and dialogue with the ESC prior to its release.

Section 16.4.4 Common Services of the Draft Decision requires the submission of definitions and charges for connection fees, information statements and meter reading fees if they are not already included in the Core Miscellaneous schedule. These definitions are as follows:

- *Connection Fees:* Property Connection Application fee for the administration required to process a new connection application.
- *Information Statements:* Provision of information statements on the transfer of properties.
- *Meter Reading Fee:* Fee to conduct a meter read at a customer’s request.

Where not done so previously, prices for these core services have been incorporated into the Core Miscellaneous pricing schedule.

With regard to the requests outlined in Section 16.4.5 Developer Administration Charges, Coliban Water submits that proposed miscellaneous charges related to developers cover the staff cost associated with services provided to developers regarding *developer installed works*. New Customer Contributions are monies contributed towards the design and construction of *growth infrastructure*.

The definitions of proposed charges relating to developers demonstrate how these charges are not covered under the NCC framework:

- *Project Management Fees:* These fees are charged for the assistance we provide developers in designing and constructing assets required to service their subdivision. This includes the assessment of design plans and inspections of works. The fee includes a fixed and variable component (per lot) to account for the size of the works.
- *Water and sewer plan amendment:* This fee covers the work associated with issuing plumbing consent for alteration of existing private drains.
- *Property Connection Application:* Similar to Project Management Fees, this fee relates to the administration required to process a new connection application.
- *Consent to Erect a Structure (Buildover):* Fee associated with assessing applications to build over or near an asset.
- *Recycled Water – Plumbing Industry Charge:* This charge represents the pass through of the Plumbing Industry Commission's state-wide fee for inspecting a recycled water connection.

The following pricing schedule outlines the proposed Core Miscellaneous services for 2013-14.

Core Misc. Charges	Definition	\$2013-14 Real
Project Management Fee (per project)	Fees for the management of developer works. Applied on a per project basis	500.00
Project Management Fee (per lot)	Fees for the management of developer works. Applied on a per lot basis	66.88
Water & Sewer Plan amendment fee	Fee for the management of adjustments to on site water and sewer assets	67.15
Property Connection Application	Fee for administering the lodgement and management of land development applications and associated works	67.15
Special Meter Reading Fee	Fee to conduct a special meter read at a customer's request	34.18
Information Statements	Provision of information statements on the transfer of properties	51.34
Non-Core Miscellaneous services		Act. Cost

Core Miscellaneous services pertaining to Land Development remain as proposed for Water Plan 3. These prices have been developed on a cost recovery basis to ensure developers fully fund the services provided to them. Information relating to the development of Miscellaneous Charges under a cost recovery approach has been previously provided to the ESC. Water Plan 3 proposes to consolidate the Project Management and Developer Admin Fees into a single fee per project. Further to this, the variable component to Project Management Fees will become a 'per lot' fee. Aligning charges where appropriate will enable a simpler, more transparent schedule of Project Management Fees, the intent of which remains unchanged. Both a fixed and variable component enables revenue recovery in line with increasing cost of service for larger projects. Prices for developer related miscellaneous charges developed under the cost recovery model are proposed to increase by CPI only over the next regulatory period.

For the remaining Core Miscellaneous Services Coliban Water proposes a first year price increase in line with CPI only. However, it is critical that Core Miscellaneous charges remain flexible over the course of the Water Plan period to ensure that movements in prices reflect the cost of service delivery. Coliban Water proposes that Core Miscellaneous Service prices be set 'at cost' for out years in the next regulatory period rather than being set in the determination. Coliban Water considers that price changes to reflect the cost of service delivery is pivotal to ensuring cost recovery pricing for Core Miscellaneous Services.

16 Schedule 2 Prices

This schedule should be read in conjunction with Schedule 3 and Schedule 4. Variable water, wastewater and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to two decimal places

<i>Tariff and Price Component</i>	<i>Price (1 July 2013)</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>	<i>PPM Year 4</i>	<i>PPM Year 5</i>
1.1 Water Volume Charges (per kL)					
Central District	2.1464	<i>PPM subject to price control</i>			
Northern District	1.1204	<i>PPM subject to price control</i>			
Untreated	0.8403	<i>PPM subject to price control</i>			
1.2 Urban Water Access Fees (per annum)					
0 & 20 mm Meter	203.98	<i>PPM subject to price control</i>			
25 mm Meter	318.72	<i>PPM subject to price control</i>			
32 mm Meter	522.19	<i>PPM subject to price control</i>			
40 mm Meter	815.92	<i>PPM subject to price control</i>			
50 mm Meter	1,274.87	<i>PPM subject to price control</i>			
80 mm Meter	3,263.68	<i>PPM subject to price control</i>			
100 mm Meter	5,099.50	<i>PPM subject to price control</i>			
150 mm + Meter	11,473.87	<i>PPM subject to price control</i>			
1.3 Fire Services Access Fees (per annum)					
32 mm Meter	44.81	3.00%	3.00%	3.00%	3.00%
40 mm Meter	67.22	3.00%	3.00%	3.00%	3.00%
50 mm Meter	96.58	3.00%	3.00%	3.00%	3.00%
80 mm Meter	230.84	3.00%	3.00%	3.00%	3.00%
100 mm Meter	360.72	3.00%	3.00%	3.00%	3.00%
150 mm + Meter	758.03	3.00%	3.00%	3.00%	3.00%
1.4 Wastewater Access Fee Residential (per annum)					
Residential Sewer Access	622.63	3.00%	3.00%	2.71%	0.00%
1.5 Wastewater Access Fees Non-Residential (per annum)					
Non-Residential Sewer Access (commencing 1 July 2015)	622.63	3.00%	3.00%	2.71%	0.00%
Sewer Access – Major					
Maximum	622.63	3.00%	NA	NA	NA
Minimum	520.25	20.00%	NA	NA	NA
20 mm Meter	507.49	20.00%	NA	NA	NA
25 mm Meter	647.02	20.00%	NA	NA	NA
32 mm Meter	1,104.31	20.00%	NA	NA	NA

40 mm Meter	1,624.07	20.00%	NA	NA	NA
50 mm Meter	2,378.91	20.00%	NA	NA	NA
80 mm Meter	5,684.40	20.00%	NA	NA	NA
100 mm Meter	8,247.35	20.00%	NA	NA	NA
150 mm + Meter	17,129.29	20.00%	NA	NA	NA
Sewer Access - Enviro 1					
Maximum	622.63	3.00%	NA	NA	NA
Minimum	525.09	20.00%	NA	NA	NA
20 mm Meter	511.21	20.00%	NA	NA	NA
25 mm Meter	651.77	20.00%	NA	NA	NA
32 mm Meter	1,112.43	20.00%	NA	NA	NA
40 mm Meter	1,635.99	20.00%	NA	NA	NA
50 mm Meter	2,396.37	20.00%	NA	NA	NA
80 mm Meter	5,726.16	20.00%	NA	NA	NA
100 mm Meter	8,307.95	20.00%	NA	NA	NA
150 mm + Meter	17,255.13	20.00%	NA	NA	NA
Sewer Access - Enviro 2					
Maximum	622.63	3.00%	NA	NA	NA
Minimum	476.58	20.00%	NA	NA	NA
20 mm Meter	467.56	20.00%	NA	NA	NA
25 mm Meter	596.11	20.00%	NA	NA	NA
32 mm Meter	1,017.42	20.00%	NA	NA	NA
40 mm Meter	1,496.28	20.00%	NA	NA	NA
50 mm Meter	2,191.75	20.00%	NA	NA	NA
80 mm Meter	5,237.20	20.00%	NA	NA	NA
100 mm Meter	7,598.52	20.00%	NA	NA	NA
150 mm + Meter	15,781.68	20.00%	NA	NA	NA

1.6 Wastewater Volume Charge

(per kL non-residential only)

Wastewater Volume Charge	0.8303	3.00%	3.00%	3.00%	3.00%
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1.7 Rural District Volume Charges

(per ML)

Volume Charge	242.34	<i>subject to approval</i>
Excess Usage	3,000.00	<i>subject to approval</i>

1.8 Rural District Access Fees

(per annum)

Unmodernised Pipeline	793.37	<i>subject to approval</i>
Channel	445.89	<i>subject to approval</i>
Storage Access	98.86	<i>subject to approval</i>
Modernised Pipeline	NA	<i>As per urban water access charges</i>
Infrastructure Charge - unmodernised (per ML ent)	148.15	<i>subject to approval</i>
Infrastructure Charge – Modernised (per ML ent)	230.63	<i>subject to approval</i>
Termination fee (per ML ent)	NA	<i>In accordance with ACCC rules</i>

1.9 Rural District Outlet Charges

(per additional unmodernised outlet)

2-5 outlets	25.52	<i>subject to approval</i>			
6-10 outlets	35.76	<i>subject to approval</i>			
11+ outlets	35.76	<i>subject to approval</i>			

1.10 Recycled Water

Recycled Water Access	101.99	3.00%	3.00%	2.71%	0.00%
Recycled Water Variable	1.6098	3.00%	3.00%	2.71%	0.00%

1.11 Major Trade Waste Charges

Access Fee (per annum)		<i>In accordance with pricing principles</i>			
Volume Charge (per kL)	0.8303	3.00%	3.00%	3.00%	3.00%
Quality Charges (per kg)					
COD	0.3178	3.00%	3.00%	3.00%	3.00%
SS	0.6785	3.00%	3.00%	3.00%	3.00%
TKN	1.3464	3.00%	3.00%	3.00%	3.00%
P	2.6025	3.00%	3.00%	3.00%	3.00%
TDS	0.0205	3.00%	3.00%	3.00%	3.00%
Sampling	Actual Cost				
Minor Trade Waste (per annum)	128.13	3.00%	3.00%	3.00%	3.00%

1.12 New Customer Contributions

(per lot)

Water	1,479.11	0.00%	0.00%	0.00%	0.00%
Sewer	1,479.11	0.00%	0.00%	0.00%	0.00%
Recycled water	739.56	0.00%	0.00%	0.00%	0.00%

1.13 Core Miscellaneous Services

Project Management Fee (per project)	512.51	0.00%	0.00%	0.00%	0.00%
Project Management Fee (per lot)	68.55	0.00%	0.00%	0.00%	0.00%
Water & Sewer Plan Amendment Fee	68.83	0.00%	0.00%	0.00%	0.00%
Property Connection Application	68.83	0.00%	0.00%	0.00%	0.00%
Special Meter Reading Fee	35.04	Actual Cost			
Information Statement	52.62	Actual Cost			
Minor Trade Waste	128.13	0.00%	0.00%	0.00%	0.00%
Non-Core Miscellaneous	Actual Cost				

17 Schedule 3 Application of prices

17.1 Water Volume Charge

The table below indicates the allocation of towns for the purposes of applying the appropriate water volume charge.

Pricing District	Allocation
Northern District	The towns of Echuca, Cohuna, Gannawarra, Gunbower, Leitchville, Mead and Rochester.
Central District	All towns within the Coliban Water supply region except those mentioned in the Northern District are subject to Central District pricing.
Untreated Supply	All water that is supplied untreated. Some towns include Borung, Dingee, Jarklin, Macorna, Mitiamo, Mysia and Wychitella.

17.2 Wastewater Access Fee

	Allocation
Residential	
Residential Wastewater Access Fee	Applicable to all residential customers.
Non-Residential	
	The non-residential wastewater zones (Major, Enviro 1 & Enviro 2) will be amalgamated at 1 July 2015.
	Until such time the current allocation of towns continue for the purpose of the Wastewater Access Fee. The calculation continues as a meter based charge.
Access Charges – Major	Bendigo, Castlemaine, Cohuna, Echuca, Elmore, Epsom, Heathcote, Kyneton, Lockington, Maiden Gully, Malmsbury, Rochester, Strathfieldsaye.
Access Charges – Enviro 1	Bridgewater, Epsom (Envirosafe), Campbells Creek, Chewton, Hansen Street (Echuca), Harcourt, Huntly, Inglewood, Maldon, Marong, Pyramid Hill, Trentham, Tylden, Wharparilla Drive (Echuca).
Access Charges – Enviro 2	Axedale, Boort, Dunolly, Gunbower, Leitchville, Newstead, Wedderburn.

The Non-Residential Wastewater Access Fee remains meter based during the transition to the amalgamated price. Until the amalgamated price commences on 1 July 2015 the maximum applicable non-residential charge will be equivalent to the Residential Wastewater Access Fee, regardless of location. The minimum charge applicable depends upon the customer's location and meter size. Prices for all locations may be found in Schedule 2. The meter based calculation is demonstrated below.

17.3 Non-Residential Wastewater Access Fee Calculation

Access Fee \times Share of Meter \times Industry discharge factor
(by meter size & location) (percentage share) (refer to table below)

Example: In 2013-14, a service station in Bendigo with a 100% share of a 25mm meter.
 $\$647.02 \times 1 \times 0.95 = \614.67

Where this calculation results in an access fee less than the minimum access fee, the minimum access fee applies. Where this calculation results in an access fee greater than the maximum access fee, the maximum access fee applies.

Commencing 1 July 2015 all non-residential customers will be subject to the Wastewater Access Fee, priced equivalently to the Residential Wastewater Access Fee.

17.4 Wastewater Volume Charge

Only non-residential customers are subject to the Wastewater Volume Charge on discharges in excess of 230kL per annum. This charge is not applicable to Major Trade Waste customers where they are subject to the trade waste pricing schedule. The volume charge calculation is as follows:

$((\text{Water Consumption} \times \text{Industry discharge factor}) - ((230 / \text{Days in year}) \times \text{Days in period})) \times \text{Price}$
(kL per billing period) (refer to table below) (allowable discharge in the period kL) (\$/kL)

Example: In 2013-14, a service station in Bendigo with 100kL consumption in a 30 day billing period.
 $((100 \times 0.95) - ((230 / 365) \times 30)) \times \$0.8303 = \$63.18$

Where this calculation results in a negative (occurring when a customer's wastewater volume is less than the allowable volume in a period) the applicable charge becomes \$0.00.

17.5 Recycled and Untreated Water Charges

Recycled Water Volume Charge: 75% of the Central District Volumetric rate, regardless of location.

Recycled Water Access Charge: 50% of the equivalent Urban Water Access Fee (Meter based).

Untreated Water Volume Charge: 75% of the Northern District Volumetric rate, regardless of location.

Untreated Water Access Charge: 50% of the equivalent Urban Water Access Fee (Meter based).

17.6 Industry discharge factors

Description	%	Description	%
Airfield	50	Office	95
Bakery	25	Panel Beating	95
Bank/Financial Institution	95	Plant Nursery	25
Bowling Club	25	Police station and dwelling	75
Building	95	Post Office	95
Café/Restaurant	95	Pottery	25
Caravan Park	50	Poultry Shed	50
Car Park	95	Pre School	50
Car Yard	75	Private Hospital	75
Cemetery	25	Public Utility	95
Church	75	Quarry	25
Court House	95	Racecourse/Stables	50
Dairy	95	Railway Station	75
Dental Clinic	95	Recreational Club	95
Depot	95	Recreation Centre	95
Factory	95	Recreation Reserve – Facilities	25
Farm including house	65	Recreation Reserve – No Facilities	0
Fire Station	75	Restaurant	95
Funeral Director	95	Retail Store	95
Golf Course	25	School – Large Non Discharge Usage	15
Guest House	75	School – Normal Discharge Usage	50
Hall	95	School – Zero Non Discharge Usage	75
Health Centre	95	Service Station	95
Hospital	75	Shed	95
Hotel – Large Non Discharge Usage	35	Shop	95
Hotel – Normal Discharge Usage	95	Shop and Dwelling	75
Ice Skating Rink	75	Shop and Factory	95
Industrial Land	0	Special Accommodation	75
Infant Welfare	50	Squash Courts	95
Information Centre – Tourist	95	Standpipe	0
Jail	75	Swimming Pool	50
Kennels	75	Telephone Exchange	95
Laboratory	95	Tennis Courts	95
Laundry/Dry Cleaner	95	Theatre	95
Lawn Tennis Courts	25	Timber Yard	95
Library	95	Tip	95
Median Strip	0	Toilet	95
Medical Rooms	95	Trade Waste (by agreement)	
Mining Lease	0	Unspecified	95
Mining Treatment	25	Veterinary Clinic	75
Motel – Normal Discharge Usage	75	Warehouse	95
Motel – Large Non Discharge Usage	40	Winery	25
Municipal Office	95	Workshop	95
Nursing Home	75	Youth Club	95

18 Schedule 4 Pricing Principles

18.1 Major Trade Waste

For new customers, or where the Trade Waste Schedule of Prices do not apply, charges will be developed with regard to the following principles:

- volumetric and load based prices should, as far as is practical, reflect the long run marginal cost of trade waste transfer, treatment and disposal
- Where Coliban Water incurs costs associated with the transfer, treatment, disposal or management of an existing, temporary, once-off or newly ongoing trade waste stream that is not recovered through the approved schedule of fees and charges, these costs may be recovered through customer or site specific pricing
- For new customers, access fees will be based on a variety of considerations such as specific infrastructure requirements, expected discharge volumes, variability of the waste stream, impacts to current processing, impacts to plant capacity along with any risk based considerations
- Administration costs incurred in developing a Major Trade Waste Agreement or to establish a new customer may be recovered based on actual cost. The pricing principles for non-core miscellaneous form the basis for developing actual costs
- the total revenue received from each customer should be greater than the cost avoided from ceasing to serve that customer, and (subject to meeting the avoidable cost) less than the standalone cost of providing the service to the customer in the most efficient manner
- the method used to allocate common and fixed costs to that customer should be clearly articulated and consistent with any guidance by the Commission
- prices should reflect reasonable assumptions about the volume and strength of trade waste produced by a customer
- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission
- customers should be provided with full details of how prices are calculated and
- if applying these principles would result in significant changes to prices or tariff structures, the business may consider phasing in the changes. In this case, any transitional arrangements should be articulated.

19 Draft NCC Negotiating Framework

19.1 Application of Negotiating Framework

This Negotiating Framework forms a part of Coliban Water's water plan for the 2013-2018 regulatory period.

This Framework applies to both Standardised New Customer Contribution (NCC) Charges (standardised charge for Connection Applicants wishing to connect to Coliban Water's System) and non-standard NCC Charges (applies where the Standardised NCC Charge is not applicable due to the nature and/or locality of the development).

19.1.1 Purpose

This Negotiating Framework sets out procedural and information requirements relevant to services to which developer charges (New Customer Contributions) apply, as defined in the Water Industry Regulatory Order (WIRO). New Customer Contributions (NCC) are levied when new connections are made to the water corporation's water, sewerage and recycled water networks. The framework requires Coliban Water and any Connection Applicant 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 Coliban Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in or imposed under 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 as well as the *Land Development Manual*, 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 Coliban Water decision by the Victorian Civil and Administrative Tribunal (VCAT).

19.1.2 Who this negotiating framework applies to

This Negotiating Framework applies to Coliban in dealing with any property owner – generally a property developer – that is a Connection Applicant who requests connection to Coliban Water's works in accordance with section 145 of the *Water Act 1989* ("Application").

It also applies to Coliban Water in responding to such requests from a Connection Applicant.

19.1.3 No obligation to provide service, good faith obligation

Nothing in this negotiating framework imposes an obligation on Coliban Water to allow the Connection Applicant to connect to Coliban Water's works or provide services to the Connection Applicant.

Coliban Water can refuse its consent, consent, or consent subject to any terms and conditions that Coliban Water thinks fit, as provided under section 145(3) of the *Water Act*.

However, Coliban Water and the Connection Applicant must negotiate in good faith the price, terms and conditions for services sought by the Connection Applicant.

19.2 Timeframes

Coliban Water and the Connection Applicant will use their reasonable endeavours to the timeframes outlined in the Land Development Manual.

19.3 Provision of information by Connection Applicant

The Connection Applicant must provide sufficient information to enable Coliban Water to assess the Application and determine the service requirements and costings for the development. The information generally required by Coliban Water is detailed in the *Land Development Manual*.

The level of information required by Coliban Water, and the detail of its response, will vary depending on the complexity and size of the development. As stated above, additional information may be sought by Coliban Water in the event of a Non-standard NCC Charge being sought.

19.4 Provision of information by Coliban Water

After consideration of servicing requests, Coliban Water may provide an offer, via letter, draft agreement and/or notice ("Offer"). The Offer will include specific requirements for the particular development and also include various standard conditions and other information including charges and fees to achieve connection to Coliban Water's assets. This includes New Customer Contributions.

The information relating to the Offer is detailed in the *Land Development Manual*.

The Offer is provided by Coliban Water pursuant to the Regulatory Instruments.

19.5 Pricing Principles

19.5.1 New Customer Contributions

Coliban Water's NCC 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, Coliban Water will also comply with:

- (a) the regulatory principles set out in clause 14 of the Water Industry Regulation Order (WIRO); and
- (b) Specific pricing principles approved by the Essential Services Commission as part of Coliban Water's water plan applying at the relevant time.

19.5.2 Developer Installed Works

When connecting to Coliban Water's water, sewerage and/or recycled water network, the developer must provide for the design and construction of all assets required to service their development and connect to Coliban Water's network. This includes all assets that are explicitly required in relation to prescribed services for the development under consideration, but are not required to be upsized to support other future developments.

The developer will provide assets at the minimum size as prescribed in the Corporation's approved technical standards.

If a developer is required to provide reticulation assets that exceed the requirements of their development in a material respect, the developer can only be required to contribute to the costs of the reticulation assets an amount that reflects the requirements of their development. The balance of the costs of the assets in such a case is funded by the corporation.

19.6 Consultation with affected parties

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

- (a) subject to legal confidentiality requirements, Coliban Water may share any necessary information with others potentially affected to assess impacts; and
- (b) parties will allow sufficient time for reasonable consultation with affected parties to occur.

19.7 Payment of Coliban Water's Costs

All developments of land requiring new or upgraded connection to Coliban Water's system will incur associated fees and charges payable to Coliban Water.

Fees and charges levied by Coliban Water are subject to approval processes under the *Water Act 1989* and/or as approval by the ESC. Details about the fees and charges can be found in the Land Development Manual.

Should the particular Application require a non-standard NCC Charge, rather than the Standardised NCC Charge this will arise from the relevant negotiation, subject to the Regulatory Instruments in place at the time.

19.8 Termination of negotiations

The Connection Applicant may elect not to continue with its Application and may end the negotiations by giving Coliban Water written notice of its decision to do so.

Coliban Water may terminate a negotiation under this Negotiating Framework by giving the Connection Applicant written notice of its decision to do so where:

- (a) Coliban Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation in good faith; or
- (b) Coliban Water reasonably believes that the Connection Applicant and the particular development will not be able to receive a service from Coliban Water; or
- (c) an act of insolvency occurs in relation to the Connection Applicant; or
- (d) Coliban Water reasonably believes that the Connection Applicant has provided false or misleading information to Coliban Water

19.9 Dispute resolution

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

After Coliban Water 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 various time lines, rights and process are set out in the *Water Act 1989* and the *VCAT Act 1998*.

19.10 Giving notices

The address for correspondence and notices is:

Coliban Water

PO Box 2770

BENDIGO DC VIC 3554

landdevelopment@coliban.com.au

A notice must be:

- (a) in writing and signed by a person duly authorised by the sender;
- (b) sent via email to the recipient's address for Notices, as varied by any Notice given by the recipient to the sender; and
- (c) if given or received under any Regulatory Instruments or other statute of regulation, must be given under the requirements of that relevant instrument, or other statute or regulation.

19.11 Terms and abbreviations

Coliban Water – A water corporation established pursuant to Part 6 of the *Water Act 1989*.

Connection Applicant – The person making application to connect to the Coliban Water system pursuant to Section 145 of the *Water Act 1989*.

Land Development Manual – Coliban Water's Land Development Manual, which outlines policies and guidelines for customers to connect to water and sewerage services, available at www.coliban.com.au.

Standardised NCC Charge – This is the standardised charge for Connection Applicants wishing to connect to the Coliban Water System.

Non-standard NCC Charge – This charge, derived from the NCC principles developed by Coliban Water will apply where the Standardised NCC Charge is not applicable due to the nature and/or locality of the development or arising out of negotiation with the Connection Applicant.

Executive Summary

Coliban Water is seeking Board approval to proceed with the modernisation of its Harcourt rural water supply system. This updated business case outlines the critical nature and scope of the proposed investment.

Coliban Water completed a comprehensive business case for the Harcourt Modernisation Project (referred to as the Project) in July 2011. The business case was endorsed by the Minister for Water and approved by the Treasurer in January 2012.

Since the business case approval by government, Coliban Water has progressed the project, including receiving all necessary environmental and planning approvals; commencing the Harcourt Water Licence Offer to Sell process, and commencing the compulsory acquisition process.

This updated business case is in response to feedback from a review, using a Gateway approach, undertaken between 29 January 2013 and 1 February 2013. The updated business case addresses the following.

- Refinement of the drivers for the investment. The original business case was written in 2010, following a period of significant drought. As such, the updated business case highlights the continued validity of the project drivers which led to the recommended investment proposal.
- Refinement of the project scope based on outcomes from the Harcourt Water Licence Offer to Sell process which has impacted the volume of irrigation licences and future supply requirements that the project is being designed for.
- Updates the project risk assessment.
- Updates the project cost to reflect changes in scope, certainty and changes in market conditions. This includes providing a risk adjusted cost estimate.
- Refines the project delivery schedule.
- Review of financial impact of the project based on updated costs, risk assessment, pricing impact and revenue projections.

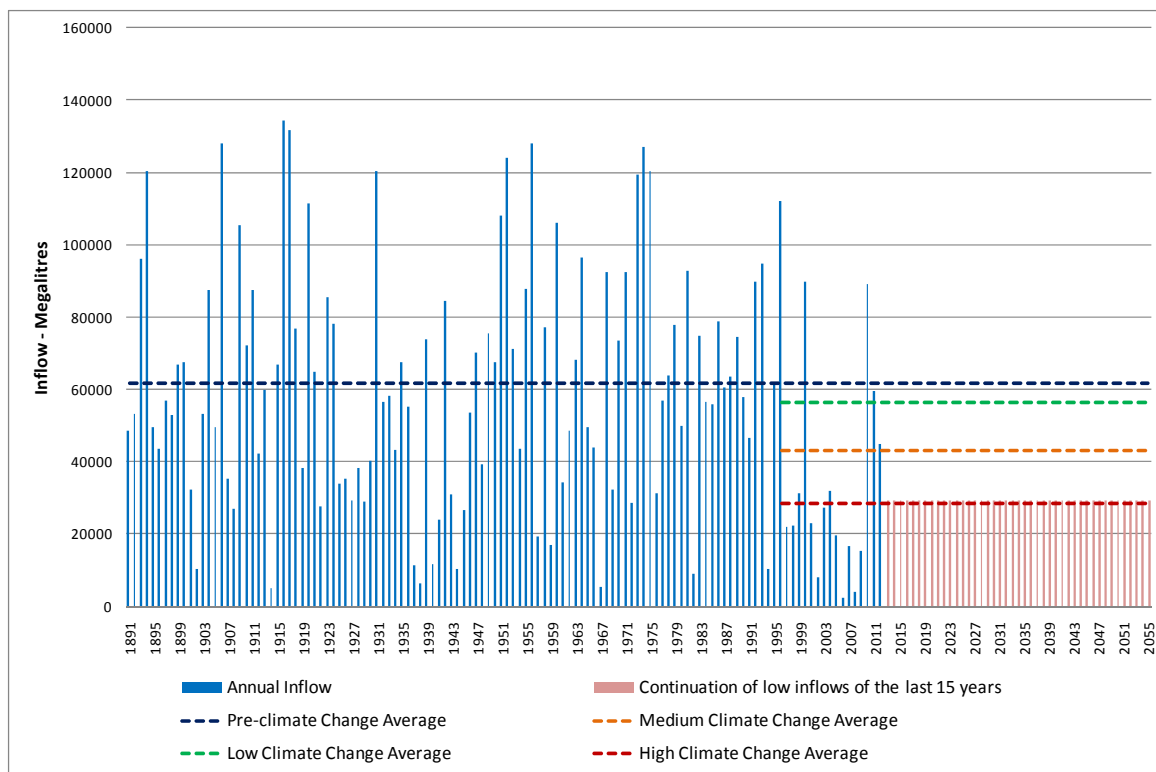
Background

Much of Coliban Water's rural channel system has been in place for more than 100 years and comprises of concrete and earthen channels of varying physical condition. This leads to significant transfer losses through seepage, evaporation and leakage. The Harcourt area has been identified as a priority area for modernisation works, as it accounts for approximately 29% of Coliban Water rural licence volumes and supports a major horticulture industry.

Currently, the only source of water for the rural customers in Harcourt as well as for urban customers in Castlemaine, Kyneton and surrounding towns, is from the Upper Coliban storages. These storages have experienced a step change in average inflows to the Coliban storages, with average inflows dropping to 53% below the long term average (of 63 GL) in the past seven years. In June 2009, Upper Coliban storage had only enough water to guarantee 13 months of essential urban supplies for urban customers. In the following year, **if the region had experienced a repeat of 2006/07 inflows, storage levels would have been completely depleted by March 2010.**

Fortunately, inflows have increased particularly since 2011, bringing much needed temporary relief to the area. However, **the Campaspe region has been identified by the CSIRO as one of five regions likely to be most at risk of being affected by reduced reliability of surface water due to predicted climate change.** As such, it is crucial that Coliban Water prepares for a return to dry conditions and reduced security of supply for both rural and urban customers.

Figure 1 Inflow scenario projections to 2055



Service need

The high transfer losses from the dilapidated Harcourt rural system can no longer be tolerated as Coliban Water prepares for a future with reduced reliability of inflows.

The system’s inefficiencies impact both rural and urban customers. Overall, the average transfer loss for the years when the emergency transfer pipeline was not in operation was approximately 986 ML/annum. This is equivalent to approximately 43% of Castlemaine and Kyneton urban demand from the Upper Coliban storages under Stage 4 urban restrictions (2.3 GL). This average is for allocations between 50% and 100%. It is expected that if lower allocations in the Harcourt area were not supplied during the drought via temporary pipelines installed by Coliban Water, average losses would be even higher.

Coliban Water does not currently issue seasonal allocations below 30%, as more than half the water released would be lost in transfer. With very limited access to the temporary water market, Harcourt customers have no alternative means of supplementing their water supply during years of low allocations. Therefore the system inefficiencies, which exacerbated the impact of low allocations, threaten the livelihood of Harcourt irrigators during prolonged dry periods.

With Castlemaine, Kyneton and surrounding towns solely dependent on the Upper Coliban storages, Coliban Water’s existing infrastructure does not have the flexibility needed to provide adequate security of urban supply for these customers.

It is important that Coliban Water takes a strategic approach to managing the likelihood of reduced average inflows in the future. When storages reached critical levels in June 2009, Coliban Water had very limited contingency options available in the event that low flows continued. The Upper Coliban system (or southern system) can only transfer water in one direction – from South to North (i.e. from Malmsbury to Bendigo). In addition to the risk of not meeting essential urban water needs, this inflexibility results in over-reliance on urban water restrictions as a response measure, and compromises reliability of rural supply.

The backbone of the Harcourt Modernisation Project has been sized to facilitate a future connection between the Bendigo System and Castlemaine and Kyneton (Southern System). The approval of this future connection does not form part of this Business Case, however it is prudent to plan for the future and install infrastructure capable of meeting both the current and future needs of the area.

Proposed Project Scope

In 2008, five preliminary project options were evaluated to modernise the rural network in Harcourt and were compared to the do nothing option. The evaluation was based on a triple bottom line approach and considered the capital cost, net present cost, social impacts, environmental impacts and economic impacts. Following the triple bottom line assessment, two options had similar scores.

The preferred option had the highest ranking but also provided the added benefit of being able to send water both directions improving future water security for Castlemaine and Kyneton areas.

The proposed project involves the construction of approximately 51 km of pressurised reticulated pipeline network throughout the Harcourt area. This will replace the existing dilapidated concrete and earthen gravity channel system. This network includes a 450 mm diameter trunk main "Backbone Pipeline" which will transfer water between Faraday and Barkers Creek Reservoir and will also supply the Harcourt reticulation network. The backbone for the modernisation project will eventually form part of a pipeline connecting Castlemaine's and Bendigo's water supply (part of a future approval process).

The system also consists of a pump station at Barkers Creek to pump water from the reservoir into the reticulated pipe system, a balancing tank to provide a constant pressure and some storage at low demands, and a pump station at the southern end of the system (Faraday) that will allow flows from the Upper Coliban storages to be diverted into the supply system, as well as fill the Barkers Creek Reservoir.

A map of the infrastructure works, as well as the future expansion of the backbone to complete the pipeline connection between Bendigo and Castlemaine is provided below.

Figure 2 Schematic of Modernisation works



The project scope also includes:

- **Offer to Sell process for sleeper licences** – consistent with the original business case, Coliban Water has developed an Offer to Sell process, recognising that many licensees now hold licences in excess of their long term requirements. The scope of the process covered:
 - Issuing of a public prospectus to all licence holders with three options: join the modernised system and retain their currently licenced volume; join the modernised system and offer to sell part of their currently licenced volume to Coliban Water; or exit the system and offer to sell all of their currently licenced volume to Coliban Water;
 - A defined period of time for customers to respond;
 - Coliban Water clearly stated the price it is willing to pay for partial sale (\$1,000/ML) and full sale (\$2,000/ML);
 - Supporting information including brochures, a web page and a dedicated project hotline; and
 - Process administered by a third party.

Following the Offer to Sell process with license holders, the total potential volume offered for sale was 2,121 ML. This is approximately 50% of the total current licence volume in the system (4,188 ML) and is significantly higher than the 20% assumed in the initial business case approved in early 2012.

- **Introducing a new Allocation Framework** – a new Allocation Framework has been developed to provide more transparency and certainty about how Coliban Water allocates water between its customers, and the minimum water reserve.

Project Timelines

It is proposed that the pipeline construction commences by October 2013 and commissioned by November 2014

Expected Benefits

The proposed project will lead to the following significant benefits.

- More productive use of available water. Based on the average seasonal allocation and rural water demand it is estimated that an average of 950 ML a year will be saved from the modernisation of the Harcourt rural system, which is equivalent to 17% of Castlemaine's and Kyneton's urban demand under Stage 1 water restrictions or 40.6% of urban demand under Stage 4 water restrictions;
- Improved business certainty for Harcourt irrigators. More transparency and certainty about seasonal allocations and the ability for Coliban Water to supply allocations of less than 30% will improve irrigators ability to manage their business risk, and improve reliability of supply;
- More efficient and equitable allocation of water. The modernisation works will enable lower seasonal allocations to be issued to a larger customer base than was the case during the previous drought. There will no longer be a need for the temporary pipeline works installed during the drought, meaning that intra-regional trade will be possible at lower seasonal allocations. This will facilitate water being allocated to its highest value use;
- More efficient and equitable allocation of water. The system is currently sized to delivery water in 8 – 12 months. Delivery in less than six month, consistent with current channel operation, can be achieved with a small increase in project budget. Delivery within six months is supported by the Harcourt Water Services Committee.
- Improved accuracy and efficiency of water ordering, measurement and monitoring, in line with national standards for metering.
- Improved capacity to respond to (or avoid) a future shortage in urban supplies. With the Harcourt Backbone component of the pipeline complete and all design and planning/environmental approvals undertaken, only an eight month lead time would be required to fully complete a pipeline connection between Bendigo and Castlemaine.
- Capacity to mitigate future shortages in urban supplies can be improved by increasing the size of the backbone pipeline from DN450 to DN500. A DN500 backbone will deliver 29.5 ML/d, consistent with the Castlemaine-Kyneton link business case previously endorsed by the Board.

Project Cost

Based on the detailed design, the estimated capital cost of the proposed project is \$38.916 million (nominal, P50), including contingency and risk allowance. A summary of the capital and recurrent expenditure profiles are provided in Table 1 and Table 2 respectively.

Table 1 Capital Cost (nominal)

Financial Year End	2010	2011	2012	2013	2014	2015	TOTAL
Planning	\$ 3.487 m	\$ 0.589 m	\$ 0.121 m	\$ 0.408 m	\$ 0.856 m	\$ 0.046 m	\$5.507 m
Construction				\$ 0.769 m	\$ 22.339 m	\$ 0.979 m	\$24.087 m
Project Management	\$ 0.578 m	\$ 0.521 m	\$ 0.229 m	\$ 0.240 m	\$ 0.400 m	\$ 0.420 m	\$2.388 m
Offer to Sell				\$ 3.530 m			\$ 3.530 m
Contingency				\$ 0.253 m	\$ 2.355 m	\$ 0.145 m	\$2.753 m
Total CAPEX incl. contingency	\$ 4.065 m	\$ 1.110 m	\$ 0.350 m	\$5.200 m	\$ 25.950 m	\$ 1.590 m	\$38.265 m
Net Present Cost (capital)							\$ 31.744 m
Risk Costs (both estimate and discrete risk, P50)				\$ 0.021 m	\$ 0.603 m	\$ 0.027 m	\$0.650 m
Risk Adjusted Capital Cost (incl Contingency & P50)	\$4.065 m	\$ 1.110 m	\$ 0.350 m	\$5.220 m	\$26.552 m	\$ 1.619 m	\$38.916 m

Table 2 Operating Costs, allowing for acquisition of all water offered for sale, 42% allocation (nominal)

Nominal Operating Costs (42% seasonal allocation)

Financial Year	2012/13	2013/14	2014/15	2015/16	Ongoing
Running Costs (pump stations)	-	-	\$ 0.090 m	\$ 0.092 m	\$ 0.094 m
General maintenance	-	-	\$ 0.053 m	\$ 0.054 m	\$ 0.055 m
Breakdown Maintenance	-	-	\$ 0.053 m	\$ 0.054 m	\$ 0.055 m
Other Parts replacement	-	-	\$ 0.026 m	\$ 0.027 m	\$ 0.028 m
Filter Replacement *	-	-	-	-	-
Operator Salary	-	-	\$ 0.105 m	\$ 0.108 m	\$ 0.110 m
Contingency	-	-	\$ 0.049 m	\$ 0.050 m	\$ 0.051 m
TOTAL OPEX INCL CONTINGENCY	-	-	\$ 0.375 m	\$ 0.384 m	\$ 0.394 m
Avoided operating costs	-	-	(\$ 0.275 m)	(\$ 0.282 m)	(\$ 0.289 m)
NET OPEX	-	-	\$ 0.100 m	\$ 0.103 m	\$ 0.105 m

* Allowed for \$100,000 every ten years (2010/11 dollars)

Additional Scope

This business case considers two additional items of scope:

- Backbone pipe size increase from DN450 to DN500: This is consistent with the Board-endorsed Castlemaine-Kyneton Link business case and will add \$1.1 m to the project's total cost. Inclusion of this scope now will mitigate the need to build an additional pipeline to service the demand of 29.5 ML/d at Castlemaine/Kyneton in 20 years' time. The project as currently scoped will allow 23.5 ML/d transfer and the inclusion of this item of scope is considered in the project's risk register.
- Delivery to irrigation customers within six months: The network has been sized to deliver to customers in 8 – 12 months, depending on licenced volume. Customers, including members of the Harcourt Water Services Committee, have expressed a desire to receive their licenced volume in four to six months, consistent with current irrigation practices. Inclusion of this additional scope will increase the project's budget by \$0.14 m and will allow customers to receive their licenced volume over a period better fitting with their horticultural needs.

Table 3 Nominal CAPEX including scope additions

Financial Year End	2010	2011	2012	2013	2014	2015	TOTAL
Planning	\$ 3.487 m	\$ 0.589 m	\$ 0.121 m	\$ 0.408 m	\$ 0.856 m	\$ 0.046 m	\$5.507 m
Construction				\$ 0.769 m	\$ 23.437 m	\$ 0.986 m	\$25.192 m
Project Management	\$ 0.578 m	\$ 0.521 m	\$ 0.229 m	\$ 0.240 m	\$ 0.400 m	\$ 0.420 m	\$2.388 m
Offer to Sell				\$ 3.530 m			\$3.530 m
Contingency				\$ 0.253 m	\$ 2.463 m	\$ 0.146 m	\$2.862 m
Total CAPEX incl. contingency	\$4.065 m	\$1.110 m	\$0.350 m	\$5.200 m	\$27.156 m	\$1.598 m	\$39.479 m
Net Present Cost (capital)							\$ 31.744 m
Risk Costs (both estimate and discrete risk, P50)				\$ 0.021 m	\$ 0.603 m	\$ 0.027 m	\$0.650 m
Risk Adjusted Capital Cost (incl Contingency & P50)	\$4.065 m	\$1.110 m	\$0.350 m	\$5.221 m	\$27.759 m	\$1.625 m	\$40.129 m

Funding Approach

No Government funding is being sought for the proposed project. The project funding will be based on cost recovery principles, depending on whether rural or urban customers are the primary beneficiaries. The project components will be funded as follow:

Table 4 Funding rationale (incl. DN500 backbone and supply to customers in less than six months)

Project Component	Value (nominal, P50)	Beneficiary	Cost recovery/funding approach
Reticulation network (51 km) and associated works (excluding offer to sell allowance)	\$15.3 m	Rural Customers	<p>This component of the project is solely aimed improving the efficiency and effectiveness of the rural system and has been captured in the 2013-18 Water Plan (Water Plan 3).</p> <p>\$25 million was allocated towards modernisation works in the 2008-13 Water Plan (Water Plan 2). It is forecast that \$10.5 million will be spent within this regulatory period (2008-2013) with the balance of expenditure (now \$29 million) allocated to the next regulatory period (2013-18 or Water Plan 3). The shift of expenditure to the next regulatory period has been submitted to the Essential Services Committee as part of Water Plan 3.</p> <p>This will result in a one off price increase of 70% in the first year of operation.</p>
Backbone and balancing tank, and associated works	\$21.3 m	Urban Customers	<p>Both the Backbone Pipeline and the balancing tank will form critical components of a future Bendigo-Castlemaine pipeline, with the primary objective being to improve long term urban water security. As the backbone has been designed to comply with the future Bendigo-Castlemaine pipeline specification, it will not be funded from the budget allocated in the current Water Plan 2 for rural modernisation works.</p>
Offer to Sell Allowance	\$3.5 m	Urban Customers	<p>The water secured through the Offer to Sell process will be allocated towards urban security, with rural customers compensated as follows:</p> <ul style="list-style-type: none"> \$1,000/ML for water those relinquishing part of their licensed volume \$2,000/ML for full relinquishment. <p>Coliban Water will seek to recover the full costs associated with the Offer to Sell process through future urban tariffs as part of its 2013-18 Water Plan.</p>

Recommendation

It is recommended that the business case is endorsed at a cost of \$40.13 m (P50, nominal), with the project including the additional costs for

- the backbone upsizing at \$1.1M
- increase capacity to deliver supply to rural customers over 6 months at \$0.14M

for commissioning by November 2014.



Our Ref: 46/17/01

15 April 2013

All mail and tenders:

PO Box 151, Kyneton, Vic 3444
Tel: (03) 5422 0333
Fax: (03) 5422 3623
E: mrsc@mrsc.vic.gov.au
W: www.mrsc.vic.gov.au
ABN 42 686 389 537

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

To Whom It May Concern

I write in support of Coliban Water's, *Harcourt Rural Modernisation Project*. I understand that the integrated project will not only modernise the current rural water system, it will in the long term deliver improved water security to towns within Macedon Ranges Shire. Without providing a secondary supply source, some towns located in the shire may be at future risk of secure water supplies.

It is acknowledged that the new system is designed to meet resident's immediate needs, with also giving consideration to the future growth of the region. The strategic approach by Coliban Water to manage the likelihood of reduced average inflows in the future is commended.

As it will improve the capacity to respond to a future shortage in urban water supplies and for the benefit of the community, I support the *Harcourt Rural Modernisation Project*.

Should you have any questions in relation to the above matter please do not hesitate to contact me on 5422 0308.

Yours sincerely

Peter Johnston
Chief Executive Officer

29 April 2013

Our reference: DOC/13/15375

Dr Ron Ben-David
Chairman
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Dr Ben-David

Harcourt Modernisation Project

I am pleased to write a letter of support in relation to the proposal by Coliban Water to undertake an integrated project that modernises the rural water system at Harcourt and provides for a future interconnecting pipeline from Bendigo to Castlemaine.

The Harcourt Valley is a significant region for agricultural production. It is currently the fifth largest apple and pear producing region in Australia. Industry restructuring in recent years has been in response to the challenges posed by the prolonged drought and also the emerging challenge of greater competition from imports. Greater water security will assist the long term viability of the sector.

Council is currently progressing a strategic landuse planning project which supports the Harcourt Valley following the completion of the Calder Freeway. The study proposes additional areas for residential development and a significant land area for industrial development. Harcourt township is projected to grow significantly over the next twenty years and has an important role in the hinterland of Bendigo, the regional capital.

The proposed interconnecting pipeline will deliver improved water security to Coliban Water's southern towns, being Castlemaine, Kyneton and their surrounding townships. In the absence of this infrastructure these communities may be at risk in the future in terms of a secure water supply should there be a return to the extreme dry conditions experienced in recent years.

I am pleased to support the Harcourt Modernisation Project and would be happy to speak directly to any interested stakeholder. I can be contacted during business hours on 03 5471 1705.

Yours sincerely



PHIL ROWLAND
Chief Executive Officer

2 May 2013

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37/2 Lonsdale St
MELBOURNE VIC 3000

Dear Dr Ben-David,

Support for Harcourt Rural Modernisation Project

I write to you on behalf of the Harcourt Water Services Committee and the local community in support of the Harcourt Rural Modernisation Project.

As you are aware the Committee was established by Coliban Water in November 2008 to provide community input into the feasibility of the project and ultimately to assist with the development of the business case. The committee is made up of nine local landowners who hold water entitlements in the Harcourt rural system.

The Harcourt area is well known for its fruit growing industry which provides high quality produce and supports local businesses and employment. The project will eliminate unsustainable water losses and provide a more accessible and reliable rural water service to customers. It will also provide greater business certainty to many local irrigators and businesses which will in turn provide benefits to the broader community and region.

Through forward planning and a common sense approach the project also provides additional water security for the towns of Castlemaine and Kyneton by providing key infrastructure for connection to Bendigo when it becomes necessary.

The committee fully endorses and supports the implementation of this project and believes that it is essential for the future prosperity of the region.

If you have any further enquiries regarding this matter please do not hesitate to contact me on (0438) 544317.

Yours faithfully



Tim Robertson
Chairman
Harcourt Water Services Committee

HARCOURT RURAL MODERNISATION PROJECT

Harcourt Water Licence Offer to Sell

INFORMATION BOOKLET



Before we can finalise the design of a new Harcourt piped water system to replace the old rural channel system, we need to know who wants to be a part of the new system.

This booklet will provide information to assist your decision-making. It is not intended to answer all of your questions. Please attend an information session, arrange a meeting with a project representative or call our Project Information Line for further information.

All Harcourt rural customers need to fill in the **'My Choice' form** and return it in the enclosed **Reply Paid Envelope** by the end of the *Harcourt Water Licence Offer to Sell* period on **23 November 2012**.

Project Information Line: 1800 135 904

E-mail: rural@coliban.com.au | Web: www.coliban.com.au/projects



A step closer to Harcourt's new piped water system



The investigation stage for the Harcourt Rural Modernisation Project was completed at the start of this year with the Business Case being endorsed and approved by the Victorian Government.

Since receiving the approval we've had an internal focus on planning for the Harcourt Rural Modernisation Project. We know many Harcourt rural customers are keen to see something happening on the ground, but what you can't see is all the work we've been doing behind the scenes.

This is our first rural modernisation project and it's taken a significant amount of planning and preparation. We're committed to the project and achieving the right outcomes for the Harcourt region and also for Coliban Water.

We now need to hear from our current Harcourt rural licence holders about your proposed level of involvement in the new Harcourt piped water system to be delivered by this modernisation project.

The decisions current customers make is important to the final design of the Harcourt piped water system and for us to finalise the cost of the new system for continuing customers.

What's inside...

A step closer to Harcourt's new piped water system 2

Your water licence options 5

Customer prices for a modernised system 6

Harcourt Water Licence Offer to Sell step by step 9

Getting information to make an informed decision 10

Mock case studies 11

Land Easements and Channel Decommissioning 12

Timelines 12

Project Contact Information 12

To help guide you through the process, this booklet outlines:

- Background information about why there's a project to replace the Harcourt rural channel system with a new underground piped water system
- Details of the proposed design for the new piped system
- The potential impacts of the project and the new piped system on your property
- Information about how you can make an offer to sell to Coliban Water some or all of the water volume you currently hold under your water licence, and
- Steps you need to take, including completing the 'My Choice' form, and returning it in the reply paid envelope by **23 November 2012**.

Why a new Harcourt piped water system?

The installation of a new piped water system will underpin a sustainable future for Harcourt's strong agricultural community and ensure a robust system is in place to improve business efficiency and productivity.

The existing rural channel system, although appropriate for its time, no longer meets customer or business needs. Current water losses in the Harcourt rural channel system are up to 50 per cent of water supplied, and the existing supply is only available over the period from November to May each year.

Understanding things from a local perspective has been integral throughout the planning process and we thank the Harcourt Water Services Committee for their commitment and valuable suggestions in assisting us with this project.



Project snapshot

- Estimated project cost is \$39 million
- Estimated water savings are 950 megalitres per year
- 65 kilometres of open channels replaced by new underground piped water system
- Construction of two pump stations at Faraday and Barkers Creek
- Construction of a two megalitre balancing tank
- Piped system can run all year round
- Customers choose when to access water
- Piped system removes the need for water orders
- Water meters introduced to improve billing accuracy

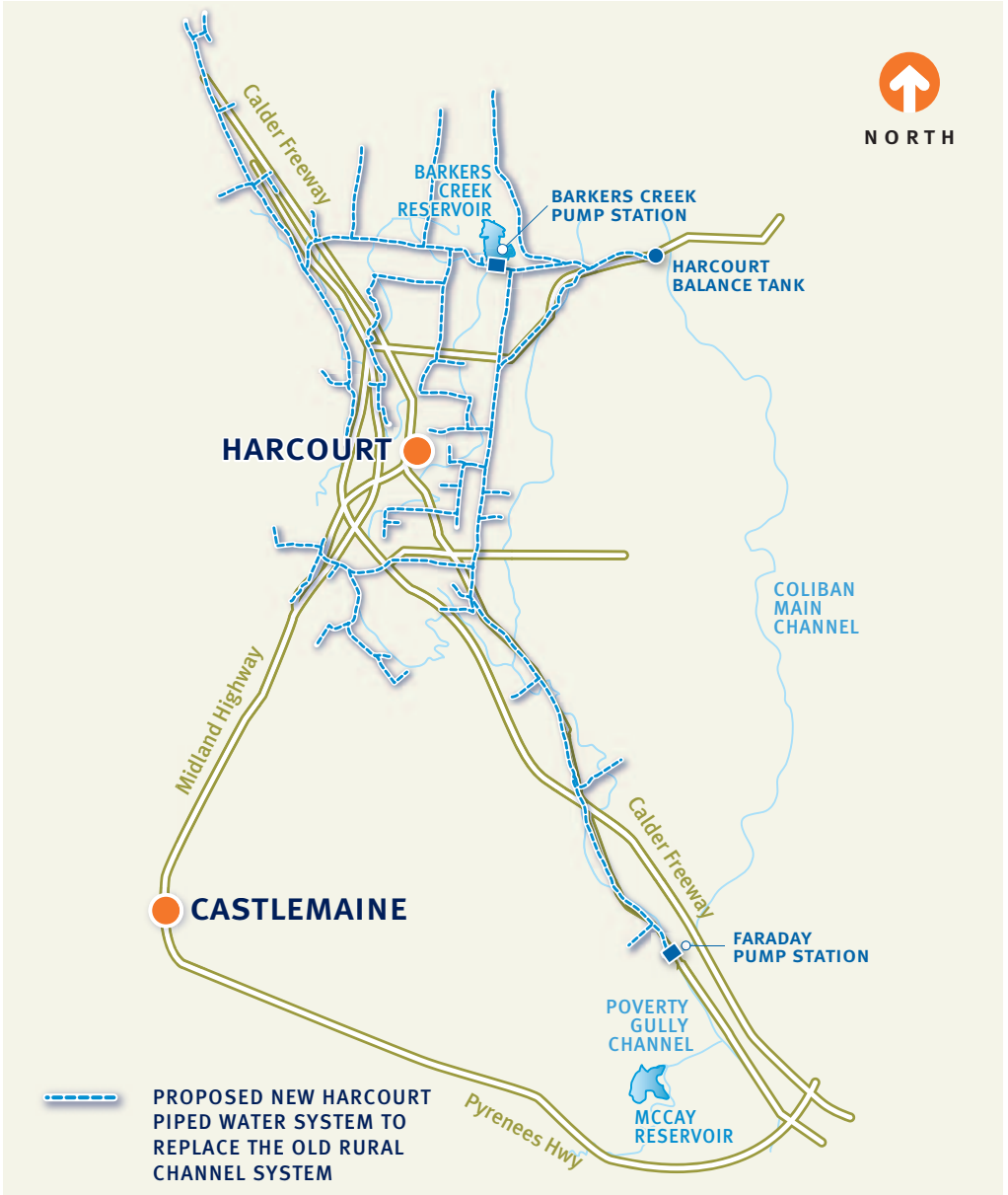
Allocations into the future

Due to the investments made in infrastructure we now have improved water security and reliability of supply. The construction of the Goldfields Superpipe has created an alternative supply option for Bendigo. This flexibility also provides greater water security for the Castlemaine and Kyneton areas supplied by the upper coliban storages near Kyneton. These storages are also the source of supply for the Harcourt rural system.

Modelling of our system with the Goldfields Superpipe demonstrates that allocations in the rural system will be 100 per cent in the vast majority of years (95 years out of 100). This gives our customers greater confidence when making decisions in relation to their future water needs.

Proposed new Harcourt piped water system

Below is the layout of the proposed new Harcourt piped water system. The design will be finalised once we know which of our existing rural customers want to be part of the new piped system and those customers that want to exit completely. We will also be considering applications for new customer connections as part of the project.



Your water licence options

Because the new Harcourt piped water system will be an entirely new water supply system we need to know who wants to be a part of it.

Your Choices

Option 1

Remain in the rural system with a reduced licence volume and connect to the new piped water supply

Offer to **sell part** of your licence volume to Coliban Water at a fixed rate of \$1000 per megalitre. (No termination fees apply during the offer to sell process).

Option 2

Exit the rural system completely and not connect to the new piped water supply

Offer to **sell all** of your water licence volume to Coliban Water at a fixed rate of \$2000 per megalitre. (No termination fees apply during the offer to sell process).

Option 3

Remain in the rural system with no change to licence volume and connect to the new piped water supply

Choose to remain in the rural system with **no change** to your licence volume (Termination fees will apply to all Harcourt licences sold permanently to customers outside of the Harcourt rural system after the *Harcourt Water Licence Offer to Sell* process is complete).

Important things to note

- Coliban Water's acceptance of an offer to sell is not guaranteed.
- The offer applies only to licence volume held by the customer at the start of the *Harcourt Water Licence Offer to Sell* period from **8 October 2012**.
- No termination fees are applicable during the *Harcourt Water Licence Offer to Sell* process.
- All offers to sell must be made using the enclosed 'My Choice' form within the specified offer period ending on **23 November 2012**.
- Rural Finance Corporation of Victoria will act as an independent party to manage the transfer of offer and acceptance documentation between Coliban Water and our customers where an offer to sell is accepted.
- Rural Finance Corporation of Victoria will also manage the transfer of funds for accepted offers to sell.
- For Harcourt licences surrendered prior to the *Harcourt Water Licence Offer to Sell* period we may consider pro-rata retrospective payments following the *Harcourt Water Licence Offer to Sell* period. This is subject to the extent of offers made to sell licences to Coliban Water. There is no guarantee of retrospective payments.

Water Licence Offer to Sell considerations

Some of you may have more water volume under licence than you need in future because:

- In dry years you bought more licence volume that you now no longer need
- Your property needs have changed from commercial agriculture to rural residential
- Your on-property water storage and systems are now more water efficient
- You haven't been able to sell all or part of your water volume through the water market

Reducing the total volume of water to be delivered through the new Harcourt piped water system reduces costs involved in building the new water system infrastructure and operating the system.

This is why we are considering offers to sell licence volume from existing Harcourt rural customers.

What you need to do

Find out more information to make an informed decision, and then complete and return the 'My Choice' form in the enclosed reply paid envelope by **23 November 2012**.

If you would like to discuss your options or would like further information refer to the *Getting information to make an informed decision* section of this booklet.

Customer prices for a modernised system



A new Harcourt piped water system requires an investment from customers and Coliban Water for us to achieve the expected benefits.

Proposed pricing

The proposed pricing for a new Harcourt piped water system has been submitted to the Essential Services Commission (ESC) for review as part of Coliban Water's 2013–2018 Water Plan. The ESC is Victoria's economic and pricing regulator and it will ensure customer prices reflect the future cost of providing the modernised service.

A financial contribution to the project will also be made by Coliban Water in recognition of the considerable water savings and efficiencies that will result from modernisation.

On-line pricing estimator

Because every customer's situation is different, we have developed an on-line pricing estimator. You can estimate the proposed cost for your service under the new Harcourt piped water system. You can also estimate termination fees that will apply after the *Harcourt Water Licence Offer to Sell* process is complete.

The pricing estimator can be found on our website www.coliban.com.au/hmpe.asp

For those of you without internet access please attend a customer information session where we can walk you through the pricing estimator, or contact the Project Team using the contact information in this booklet.

Type of charge	Charge (\$)	Explanation of charge
Volumetric	236	Water consumption per megalitre
Infrastructure	225	Fixed charge per licence volume (megalitres) regardless of allocations
Access – pipeline	*199+	Annual service charge dependent on meter size
Additional Meter	*199+	Cost of additional meters per year
Termination fee	$225 \times 10 = 2250$	Fee for leaving the system completely (per megalitre)
Excess usage	3000	Charge for using water above allocation amount (per megalitre)

**Meter based charging to apply – refer to table below.*

Please note, all prices will change with inflation each year.

Meter size

Your meter size will be based on the total volume of your water licence. This is to ensure customers can receive the full allocation of their future water licence volume. The pricing estimator we refer to above will automatically select the right meter size for the water licence volume that you enter. If you need information on flow rates for your planning please contact our Project Team.

Meter size	Licence Volume (megalitres)	Annual Meter Charge (\$)
20mm	Up to 8	199
25mm	8+ to 13	311
32mm	13+ to 19	509
40mm	19+ to 39	796
50mm	39+ to 60	1244
80mm	60+ to 237	2798
100mm	237+ to 394	2798
150mm	394+	2798

Additional costs to consider

Connections

New property connection points are unlikely to be the same as current ones. You will be consulted prior to determining the location of new connection points.

There will be one connection point per licence, unless your licence extends over non-adjacent land titles. In such cases, one connection point per isolated land title will be provided. You will be charged for any additional connections that you may require.

On property works

A connection to the new pipeline will be required to access water.

You will be responsible for upgrading all on-property infrastructure from the new connection point at the meter.

Water tanks

If your licensed volume is five megalitres or less, you will need to transfer the water into a tank on your property that is connected directly to your metered connection point.

Water meters

We will provide water meters and we will be responsible for all infrastructure works up to and including the meter assembly.

You will be responsible for all works on your side of the water meter. All of your works will need to be completed prior to supply being available.

Your new water supply will be via on-demand metered connections, similar to a town water supply. The meter at each outlet will be a standard urban volumetric meter.

Meters will be fitted with flow control devices to ensure peak demands do not exceed the capacity of the new system. Where installed, these devices may vary from property to property to account for variations in supply pressures and licensed volumes across the system.

Excess usage charges

Under the new Harcourt piped water system, excess usage charges will apply if you use more than your allocated water volume. Customers should continue to use the water market to purchase additional water needed to avoid excess usage charges.

Termination fees

Termination fees will apply to the new Harcourt piped water system. A termination fee will apply to any water that is surrendered or permanently traded outside the Harcourt system after the *Harcourt Water Licence Offer to Sell* process is complete.

A termination fee is a payment made by a licence holder who either surrenders their licence to us, or permanently trades a licence outside the Harcourt area. This fee is to meet the ongoing cost of operating, maintaining and financing the new water system, thereby minimising future financial pressure on those licence holders remaining in the new system.

Termination fees will not apply to temporary water trades or permanent water trades to other rural customers within the new Harcourt piped water system.

It is water industry practice to apply a termination fee, and the fee is capped at 10 times the annual fixed fee in accordance with the Australian Competition and Consumer Commission water charge rules, and we have adopted this method. The termination fee is calculated on the volume of rural licence relinquished or traded.

Termination fees will not apply during the *Harcourt Water Licence Offer to Sell* process.

Termination fees can be estimated using the online pricing estimator on our website www.coliban.com.au/hmpe.asp

Harcourt Water Licence Offer to Sell step-by-step



Some key steps in the *Harcourt Water Licence Offer to Sell* process:

Step 1.

Information sessions and customer conversations

Read the enclosed information, attend an information session, seek advice and determine the best option for you.

Step 2.

Complete the *Harcourt Water Licence Offer to Sell* 'My Choice' form

This form must be filled in by all existing Harcourt rural customers and returned to Rural Finance Corporation in the reply paid envelope provided by **23 November 2012**. You will receive written confirmation from Rural Finance Corporation that your 'My Choice' form has been received.

Step 3.

Consideration of *Harcourt Water Licence Offers to Sell*

At the end of the *Harcourt Water Licence Offer to Sell* process all customer offers made to Coliban Water to purchase licences in the existing Harcourt rural system will be considered. There is no guarantee that all offers made by customers will be accepted.

Step 4.

Evaluate project design

Based on the outcome of the *Harcourt Water Licence Offer to Sell* process we will review the preferred system design and if necessary make modifications and communicate further with customers, impacted landowners and the community.

Step 5.

Processing of *Harcourt Water Licence Offers to Sell*

All customers who have made an offer will be notified of Coliban Water's decision to accept or reject their offer to sell. For any offers we do not accept, we will explain why to the customer. The timing of payments to customers for accepted offers will be determined after the *Harcourt Water Licence Offer to Sell* process concludes.

Getting information to make an informed decision

Information sessions

We have a Community Open Day for the general community and customers, and Customer Information Sessions specifically for Harcourt rural customers. The sessions are really important to assist customers with their decision-making. Customers unable to attend a session should contact us to make another time for a conversation.

Community Open Day

Harcourt North Hall
Tuesday 16 October, 10am – 7pm

Customer information sessions

Harcourt North Hall
Wednesday 17 October, 10am – 6pm
Thursday 18 October, 10am – 6pm
Friday 19 October, 10am – 6pm
Saturday 20 October, 10am – 1pm

Project information line and e-mail

Our dedicated project information line is (free call) **1800 135 904** and the e-mail is rural@coliban.com.au

Website

The *Harcourt Rural Modernisation Project* web page will have the latest project information including answers to frequently asked questions. Go to www.coliban.com.au/projects and click on the link to the Harcourt project page.

Harcourt Water Services Committee

Since late 2008 our Harcourt Water Services Committee has been providing feedback and advice to assist us with the project. Final decision making has been Coliban Water's but the committee has provided invaluable local knowledge. The committee are a good contact point for the community and they regularly provide feedback to us from a local perspective.

Members current and former:

Tim Robertson (Chair)	Suzanne Blume Hugh Finlay	Garry Holmes Gavin Lang	Garth Doolan (retired Sept 2011)
John Bauer	Drew Henry	Trevor Peeler	

Seeking other advice

Some customers, at their own expense, may choose to seek advice from a financial advisor, accountant, business planner, irrigation consultation or other relevant business to assist your decision on the *Harcourt Water Licence Offer to Sell*.

Mock Case Studies



Sam and Kate want to sell all their water licence

Sam and Kate have decided not to be a part of the new Harcourt piped water system. They have a two megalitre water licence and want to sell it all back to Coliban Water. They decide to chat to their accountant to get advice about tax implications.

If their offer to sell is accepted by Coliban Water they will receive \$2000 per megalitre (\$4000 in total).

Julie wants to sell part of her water licence

Julie wants to be connected to the new Harcourt piped water system, but would prefer to sell some of her rural water licence volume to Coliban Water. Her licence for seven megalitres is greater than her current and future needs.

She will only need four megalitres and therefore fills in the 'My Choice' form and offers to sell three megalitres.

Julie thinks she might use the money she gets to offset the cost of reconfiguring her on-farm infrastructure to connect to the meter off the new pipeline.

If her offer to sell part of her licence is accepted by Coliban Water she will receive \$1000 per megalitre – a total of \$3000.



Bill decides to keep all his current water licence

Bill currently holds a water licence for 25 megalitres and wants to retain all of his existing rural water licence.

He uses the Harcourt Rural Modernisation Project on-line pricing estimator to understand more about pricing into the future.

Bill will need to change his access point from the old rural channel at the rear of his property to the new pipeline at the front.

This means reconfiguring his existing infrastructure at his own cost.

Bill plans to engage an irrigation consultant to provide advice.



Land easements and channel decommissioning

Land easements

We have started the land easements process with potentially impacted landowners. This is a separate part of the project. Further information is available from our Project Team on the contact details below.

Channel decommissioning

The Harcourt Rural Modernisation Project does not include the decommissioning of rural channels. Plans for decommissioning of the old channel system will be discussed when the project is complete.

Project timelines

We are keen to complete the Harcourt Rural Modernisation Project in the shortest possible time. However, complex projects of this size do take time. The project could take a further two years to complete.

In the short term our priorities are to complete the *Harcourt Water Licence Offer to Sell* process, so that we better understand how much water the community intends to use into the future.

Project contact information

Coliban Water Project Team

For enquiries about the project please call our Project Team on **1800 135 904**, email rural@coliban.com.au, or visit our website www.coliban.com.au/projects and click on Harcourt Rural Modernisation Project.

Rural Finance Corporation

For enquiries about the processing of your *Water Licence Offer to Sell*, please contact Rural Finance Corporation on **(03) 5448 2600** or email admin@ruralfinance.com.au

Disclaimer – The information in this booklet is specific to the Harcourt Rural Modernisation Project and does not apply to any other systems within the Coliban Water Rural Supply Network. Proposed customer pricing for a modernised Harcourt rural system is subject to Essential Services Commission approval. Water Licence Offers to Sell made to Coliban Water are not guaranteed to be accepted. Coliban Water reserves the right to alter information contained in this booklet at any time. Information correct at time of printing. 29/09/12