

9 May 2008-05-09

Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne VIC 3000

e-mail: [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

**RE: ESC WATER PRICE REVIEW DRAFT DECISION – BARWON WATER 2008  
WATER PLAN**

Thank you for the opportunity to provide a submission on the Essential Services Commission's 2008 Water Price Review Draft Decision into Barwon Water's 2008 Water Plan released on 28 March 2008.

Barwon Water's submission is attached.

Do not hesitate to contact Nicole O'Malley, Economist Strategy and Technology on 5226 2391 if you have any questions regarding this submission.

Yours sincerely

**Michael Malouf**  
Managing Director



# 2008 WATER PLAN

## ESC DRAFT DETERMINATION

### BARWON WATER SUBMISSION

#### 9 MAY 2008

#### **Background**

In October 2007 Barwon Water submitted its 2008 Water Plan to the Essential Services Commission (ESC) for the regulatory period 2008/09 – 2012/13.

The Water Plan outlines Barwon Water's business plan for the upcoming five years, including the forecast revenue requirements to deliver the proposed operating and capital programs, and the resultant price increase of 10.5 per cent per annum.

The ESC released an Issues Paper in December 2007 outlining the key areas of the Victorian water businesses' 2008 Water Plans. The Issues Paper did not outline any draft decisions on specific issues, but rather highlighted key areas for customers' and stakeholders' information.

Following this, the ESC released its Draft Decisions for the Victorian water businesses (except the Melbourne metropolitan businesses and Melbourne Water) on 28 March 2008.

#### **Submission**

Barwon Water's submission discusses the adjustments made to expenditure items in the ESC's Draft Decision as well as the arrangements to deal with uncertainty in the environment in which businesses operate.

#### ***Capital Expenditure***

Barwon Water acknowledges the amendments made to the capital expenditure program and accepts the overall value.

#### ***Operating Expenditure***

Barwon Water accepts the changes made to the labour expenditure. While Barwon Water considers it important for businesses to have the ability to retain current staff in such a demanding employment market it is willing to bear the increased expenditure as part of business.

Barwon Water questions the ESC's removal in the pandemic expenditure profile. SKM's draft report removed all expenditure for this item however after additional information was provided SKM agreed there needed to be some expenditure for this item and therefore provided for \$0.02M per annum in its final report. Barwon Water seeks guidance from the ESC on why all expenditure was still removed in the Draft Decision.

Since the release of the Draft Decision Barwon Water has been provided with its revised electricity contract for the first three years of the regulatory period. Barwon Water considers the most up-to-date information should be included in the expenditure forecasts and, therefore, requests the actual electricity costs be

incorporated into the revenue allowance. Barwon Water will work with the ESC over the coming weeks to determine the electricity revenue requirement for incorporation into the operating expenditure profile.

Barwon Water supports the ESC's approach of allowing adjustments to occur during the regulatory period for a carbon trading scheme and the associated costs of such a scheme.

### ***Dealing with Uncertainty and Flexibility***

The ESC has implemented mechanisms to deal with uncertainty in both capital forecasts and demand forecasts. Barwon Water welcomes these measures as it recognises the uncertain environment facing all water businesses.

Barwon Water considers the ability to amend its capital works program with the ability to re-open the Decision should the need arise for change to be a positive signal to customers that price will reflect the benefits of services provided to its customers and the community.

The ESC has not removed any projects from Barwon Water's capital profile for this upcoming regulatory period.

Barwon Water is also pleased with the ability to propose a review of the demand forecasts through the regulatory period. However Barwon Water would like the ESC to define what it considers to be "material" to enable water businesses to determine when it is eligible to have the Decision re-opened for this purpose.

While Barwon Water sees these flexible arrangements as very positive for the industry it may be appropriate, if the level of uncertainty were to continue into the future, to re-consider the length of the regulatory period and possibly adopt a shorter regulatory period, which would alleviate many of the issues associated with the uncertainty.

### ***Customer Assistance***

The ESC has requested Barwon Water to provide further information regarding how it intends to assist those customers who may struggle to cope with the proposed price increase, in particular the impact of the price increase on tenants and large residential users.

Barwon Water worked extensively to ensure its tariff re-structure resulted in revenue recovery based on a fair and equitable outcome as well as promoting water conservation and sustainability by adopting a more user pays approach through increasing the water volume charge and reducing the fixed component of a customers bill, therefore the less water a consumer uses the lower their total bill. Barwon Water recognises that in the first year of the regulatory period some customer segments will see a greater impact on their bill however, programs have been put in place to assist those customer segments.

Barwon Water outlined its Hardship Programs in its 2008 Water Plan. These programs, as well as the Customer Assistance Programs (also discussed in the 2008 Water Plan) have been designed to assist customers who are adversely affected by the increased price. Barwon Water considers this to be a comprehensive approach to assisting customers and believes it has covered all issues that may be faced by its customers, ranging from understanding the customer's needs for assistance, interpreter services to payment plans.

Barwon Water has also implemented proactive programs to assist with residential and non-residential customers reducing their consumption that will, in turn, have an impact on their final bill. These programs are detailed in Section 11 of the 2008

Water Plan. Barwon Water's Water Secure Programs include indoor and outdoor programs to assist with water saving changes for the home, as well as programs aimed towards large non-residential users, which will assist the implementation of measures to reduce their water consumption.

It is important to note that Barwon Water has undertaken customer consultation on the revised tariff structure and the impacts it will have on residential and non-residential customers and, in general, the revised tariff structure has been accepted across the region.

### ***Foregone Revenue***

In its Draft Decision the ESC has removed \$0.2M from Barwon Water's revenue adjustments from the current regulatory period. It has suggested this was for "foregone revenue" requested by Barwon Water. Barwon Water would like to clarify the \$0.2M was for adjustments made due to increased licence fees during the current regulatory period (see page 136 of the 2008 Water Plan). It is understood any adjustment for licence fees will be included in the following Water Plan, therefore Barwon Water seeks to have this \$0.2M re-included.

### ***Trade Waste Charges***

Following a meeting held with the ESC after the release of the Draft Decision, Barwon Water provided further information regarding its trade waste charges to highlight that the charges reflect cost recovery pricing and are consistent with the Water Industry Regulatory Order requirements.

### ***Miscellaneous Charges***

The ESC requested Barwon Water provide its core set of miscellaneous charges for approval. Consistent with the ESC's Draft Decision, Barwon Water proposes a core set of services subject to individual price caps and the annual tariff approval process. Table 1 attached represents the core set of services that provides more than 65 per cent of Barwon Water's total proposed miscellaneous revenue and their definitions.

Barwon Water supports the ESC's Draft Decision for prices of the remaining non-core miscellaneous services to be consistent with a pricing principle related to actual cost - that is direct costs of service provision (including materials and/or costs associated with contractors) plus direct marginal internal costs (including labour, materials and transport) plus a 25 per cent contribution to overheads.

Barwon Water proposes to set prices for the majority of its non-core miscellaneous services on an annual basis with a small number being applied at actual cost on a case-by-case basis. Barwon Water's prices for bank dishonor, debt collection and legal fees will reflect third party costs without a contribution for internal costs.

Prices for miscellaneous services are proposed to be constant in real terms over the regulatory period.

Barwon Water has reviewed the structure of the miscellaneous charges for water connection related processes. The increase in the tapping and meter connection charges is as a result of the removal of the current administration charge and the apportionment of this charge over the remaining components of the water connection process.

Analysis of actual costs for meter readings has provided a slight increase in the proposed prices for Special Meter Read and Tenant Meter Read.

**TABLE 1 MISCELLANEOUS CHARGES**

<b>Service</b>	<b>Core miscellaneous services and definitions</b>	<b>2007-08 current price</b>	<b>Proposed price</b>
<b>Information Statements</b>	Provision of a property information statement as required under Section 158 of the Water Act 1989.	52.74	52.74
<b>Sale Of Meter</b>	The supply of a meter for the connection of new property or to replace a damaged meter.		
	<b>20mm positive displacement</b>	164.69	164.69
	<b>20mm remote read meter</b>	290.64	290.64
	<b>25mm positive displacement</b>	290.64	290.64
	<b>25mm remote read meter</b>	416.58	416.58
<b>Water Tapping</b>	The provision of an under pressure water tapping into the water main.		
	<b>20mm service pipe, all water main sizes</b>	184.04	220.42
	<b>20mm remote service pipe, all water main sizes</b>	184.04	220.42
	<b>25mm service pipe, all water main sizes</b>	184.04	271.42
	<b>25mm remote service pipe, all water main sizes</b>	184.04	271.42
	<b>30mm service pipe, all water main sizes</b>	406.88	300.42
	<b>40mm service pipe, all water main sizes</b>	455.31	342.42
<b>Meter Connection</b>	The installation of the meter to the property by Barwon Water.	40.68	60.85
<b>Sewer Application</b>	Application for the processing of sewer connection or alteration.		
	<b>New Sewer Connection</b>	135.07	135.07
	<b>Amended Sewer Connection</b>	106.56	106.56
<b>Meter Reading</b>	Fee imposed per meter reading to provide water usage information to a specified date. Generally provided on application for property sale.		
	<b>Special Meter Read</b>	19.37	20.70
	This fee provides for the recording of two meter readings, when a tenancy commences and then on termination of the tenancy arrangement.		
	<b>Tenant Meter Read</b>	29.06	34.00