



In reply please quote: C2013/04035
Enquiries to: Damian O'Doherty 03 5565 6656

3 May 2013

Mr Marcus Crudden
Acting Director - Water
Essential Services Commission
Level 37
2 Lonsdale Street
Melbourne Vic 3000

Dear Marcus

**WANNON WATER'S RESPONSE TO: ESSENTIAL SERVICES COMMISSION 2013, 2013-18
WATER PRICE REVIEW DRAFT DECISION VOLUME II: WANNON WATER, MARCH**

Please find attached Wannon Water's response to the Commission's Draft Decision on Water Plan 3. Wannon Water has provided relevant information in regard to matters that it would like the Commission to further consider regarding operating expenditure and capital projects.

Further, Wannon Water has arranged a meeting with local developers for Monday 6th May, 2013 to discuss the revised New Customer Contributions as reflected in the attached response. The outcome of this meeting will be relayed to the Commission as soon as practical thereafter.

Should you have any queries, please direct them in the first instance to Damian O'Doherty, General Manager Regulation.

Yours sincerely

Grant Green
Managing Director



Wannon Water's Response to the Draft Decision

1 Essential Service Commission's Request

The Commission requested that Wannon Water respond to its Draft Water Plan 3 Decision and address the following issues:

- a) The revised schedule of tariffs to apply in each year of the regulatory period commencing 1 July, 2013,
- b) Any changes in tariff structure suggested by the Commission,
- c) Revised Service Standards,
- d) Guaranteed Service Levels,
- e) Miscellaneous Charges, and
- f) New Customer Contributions.

2 Revised Revenue Requirement

Wannon Water has carefully considered the Commission's revised revenue requirement of \$315.90M being a reduction of \$11.72M on Wannon Water's Water Plan 3 updated December submission of \$327.62M (which included revised New Customer Contribution revenue).

Wannon Water submits that the following matters require further consideration by the Commission:

2.1 Regulatory Asset Base

Wannon Water in error submitted capital expenditure of \$14.10M for the 2012-13 year in the calculation of its Regulatory Asset Base model.¹ Wannon Water will actually spend \$28.73M on capital expenditure in 2012-13. Wannon Water's total capital expenditure for the Water Plan 2 regulatory period accords with the Commission's Water Plan 2 decision.

As the delays in projects were not of Wannon Water's making, consideration by the Commission is sought for the inclusion within the RAB of \$28.73 M being the anticipated capital expenditure for 2012-13.

Of the \$ 28.73 M, \$11.97M is for 12 projects which were carried forward from the 2011-12 year. All of the projects had been commenced in 2011-12 but were delayed due to various reasons including VCAT Panel Hearing Delays, delays in obtaining approvals from various bodies including the Department of Sustainability and Environment, Gunditj Mirring Traditional Owners Corporation, City of Warrnambool, Vic-Track and V/Line, Powercor, Shire of Corangamite and the Shire of Glenelg. A detailed list and reasons is set out in the table overleaf:

¹ Wannon Water's model should have at least escalated the 2008-13 Water Plan 5th year capital expenditure to \$17.18 M.

CAPITAL WORKS EXPENDITURE CARRIED FORWARD TO 2013-14.

Project	Reasons for Delay	Amount Carried Over from 2011/12
Portland Water Reclamation Plant Upgrade Project	Significant delays were incurred waiting the rezoning of the Portland water reclamation plant site by the Glenelg Shire Council. Construction is well advanced and the project will be completed by August 2013.	\$5.27M
Portland – West Portland Sewerage Scheme (Backlog area)	This project was delayed pending the outcome of a VCAT Panel hearing. VCAT took more than 12 months to address landowner objections to the Scheme. The project was further delayed once VCAT dismissed the appeals as construction of the Scheme in residential properties could not commence in winter. Construction of this project is well advanced and will be completed by June 2013.	\$2.35M
SCADA/Telemetry Installations – Stage 3	Thirty two of 33 sites have been completed. Installation of the remaining site (Wyatt Street bore) is being held over pending the Commission's Final Water Plan 3 Decision as the replacement of the Wyatt Street bore was excluded in the Draft Decision.	\$1.02M
Konongwootong Reservoir Stabilising Berm	Lengthy delays were incurred in consulting with the Gunditj Mirring Traditional Owners Corporation in regard to obtaining cultural heritage approval for the construction works as the site contains an unmarked burial plot of the remains of Aboriginal people massacred at the site by early European settlers. Construction of the project will be completed mid May 2013.	\$0.87M
Port Campbell – Timboon Feeder Main Replacement	Negotiations with the Department of Sustainability & Environment and Corangamite Shire Council regarding vegetation offsets for this pipeline caused extensive delays during the planning approvals process for this project. Construction is well advanced and will be completed by June 2013.	\$0.80M
Terang Branch Main Replacement	This project was delayed as the contractor (lowest tender) had other projects to complete before its resources could be deployed on the project. Construction works are well advanced and will be completed by June 2013.	\$0.46M
Warrnambool – Connemarra Sewer Pump Station	This project will service a new development area and the developer delayed construction to the 2012/13 year.	\$0.25M
Warrnambool – South Warrnambool Feeder Main	Lengthy delays were caused awaiting VicTrack and V-Line approval for a railway under crossing to the east of the Warrnambool railway station. Construction works are well advanced and will be completed mid May 2013.	\$0.24M
Warrnambool Brine Receiving Facility	Extensive delays were incurred in awaiting Warrnambool City Council drafting its lease for construction of this facility on Council's former municipal landfill. Construction is well advanced and will be completed by May 2013.	\$0.22M
Camperdown Industrial Water Reclamation Plant	Construction of this project commenced in 2011-12 but was delayed for months due to wet ground conditions. Construction recommenced and will be completed by mid-May 2013.	0.210
Hamilton – Petschells Lane Sewer Pump Station	The construction works were suspended due to wet weather in the winter of 2012. This project was completed in April 2013.	\$0.14M
Mobile Information Management System (MIMS)	This project was substantially completed and commissioned in 2011/12. Interfacing with Wannon Water's asset management information system was held over to 2012/13 pending a software update of the asset management system in July 2012. The MIMS/Asset Management systems interface is progressing and will be completed by June 2013.	\$0.13M
Total Amount		\$11.97M

2.2 Operating Expenditure

The Commission removed the following operating expenditure in its Draft Water Plan 3 Decision based on the recommendations in the Deloitte report.

Table 8 Adjustments to operating expenditure of \$4.43M in \$ 1 January 2013 over the WP3 period.

<i>Expenditure item</i>	<i>2013-14 \$M</i>	<i>2014-15 \$M</i>	<i>2015-16 \$M</i>	<i>2016-17 \$M</i>	<i>2017-18 \$M</i>
1. Electricity	0.02	-0.13	-0.14	-0.33	-0.55
2. Chemicals	-0.07	-0.11	-0.17	-0.22	-0.27
3. Hardship GSL	-0.02	-0.02	-0.02	-0.02	-0.02
4. Defined benefits	-1.31	0.14	0.14	0.14	0.14
5. Minor new initiatives	-0.20	-0.24	-0.23	-0.24	-0.24
6. Konongwootong operating activities	-0.03	-0.02	-0.03	-0.02	-0.02
7. Safe work compliance training	-0.03	-0.03	-0.03	-0.03	-0.03
8. Environment contribution	0.00	0.00	-0.01	-0.01	-0.01
9. Licence fees	-0.04	-0.04	-0.04	-0.03	-0.02
Total	-1.67	-0.44	-0.53	-0.76	-1.03

2.2.1 Electricity

ESC draft decision:
Reduction of \$1.136M over 5 years, primarily due to new information and revised assumptions.

Response:

Wannon Water notes that Deloitte utilised Wannon Water's model to calculate forecast operating costs for electricity. As such Wannon Water is satisfied with the underlying data to produce the forecast.

However, Wannon Water questions the following base assumptions regarding electricity network charges:

- Real increases of 6.3%, 6.9% and 7.4% have been allowed in the 2013 year and first two years of the Water Plan 3 period.

Wannon Water submits that Deloitte have incorrectly interpreted the Weighted Average Pricing Cap and have therefore miscalculated the electricity forecast.

Wannon Water's understands network costs increase by the Weighted Average Pricing Cap (WAPC) %. The calculation of the WAPC is based on a four criteria, being the:

- Consumer Price Index
- X Factor – determined by the Australian Energy Regulator
- L Factor – pass through adjustment for licence fees
- S Factor – Service Target Performance Incentive Scheme

Deloitte state in their Final Overview Document that "...smaller adjustments are made to reflect performance (S Factor) and licence fees (L Factor)". It further states that "...we have not included any S Factor or L Factor outcomes". In effect, Deloitte have only allowed for real increases based on the X Factor alone (being 6.3%, 6.9% and 7.4% for the 2013 year and first two years of the Water Plan 3 period).

Wannon Water has received advice from Procurement Australia that for 2013 prices, the S Factor is 2.49% and the L factor is 0.03%. Whilst the L Factor can be discarded as 'smaller', it appears Deloitte have erred by not including the S Factor when calculating the WAPC % being applied to electricity network charges.

Real increases have not been allowed in the final three years of Water Plan 3. Wannon Water submits that this is not a realistic assumption.

Wannon Water has sought advice from Sinclair Knight Merz – McLennan Magasanik Associates ("SKM MMA") regarding network charges going forward. SKM MMA advised that its assumed network charge going forward is at a compound annual growth rate of 3.9% (real) for Victoria.

This projection is based on "...historical trends in network investment...spread across the expected 5 year load forecast for the next (electricity) regulatory period" and "...the investment costs itself, which is driven by peak demand growth".

In relation to investment costs driven by peak demand growth, SKM MMA state that "There is mixed anecdotal evidence of whether this is still increasing faster than energy growth or if it has slowed down". They continue to state that they "...have anecdotal evidence from our network clients that peak demand is as strong as ever, at least in some parts of the grid, and some articles in the media are also painting a similar picture".

Wannon Water has subsequently modelled electricity price forecasts based on the below WAPC % for each year:

Criterion	2013 YR 0	2014 YR 1	2015 YR 2	2016 YR 3	2017 YR 4	2018 YR 5
Consumer Price Index	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
X Factor ¹	6.30%	6.90%	7.40%	3.90%	3.90%	3.90%
L Factor ²	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
S Factor ³	2.49%	1.00%	1.00%	1.00%	1.00%	1.00%
WAPC (1+CPI) x (1+X) x (1+S) x (1+L) -1	11.98%	10.94%	11.46%	7.82%	7.82%	7.82%

Notes:

- The X Factor going forward has been assumed at 3.9% based on advice from SKM MMA outlined above
- The L Factor has been assumed at 0% for the Water Plan 3 period
- The S Factor has been assumed at 1%, well below that achieved / allowed for by the AER in 2013.

The revised forecast in 1 January 2013 \$ is:

2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	TOTAL
\$3.457M	\$3.555M	\$3.635M	\$3.690M	\$3.776M	\$18.114M

In comparison, Deloitte's calculation of WAPC % was:

Criterion	2013 YR 0	2014 YR 1	2015 YR 2	2016 YR 3	2017 YR 4	2018 YR 5
Consumer Price Index	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
X Factor	6.30%	6.90%	7.40%	0.00%	0.00%	0.00%
L Factor	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
S Factor	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
WAPC (CPI + X + S + L) ¹	9.05%	9.65%	10.15%	2.75%	2.75%	2.75%

Note: the calculation of the WAPC by Deloitte is incorrect. It is not the sum of the factors, rather the multiplication.

Deloitte's forecast for the Water Plan period expressed in 1 January 2013 \$, using the above WAPC was:-

2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	TOTAL
\$3.413M	\$3.491M	\$3.536M	\$3.530M	\$3.536M	\$17.505M

The difference is a considerable \$0.609M (see table below \$m, 01/01/2013) and is \$0.527M less than that submitted by Wannon Water in the Draft Water Plan on September 30, 2012.

2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	TOTAL
\$0.044M	\$0.065M	\$0.099M	\$0.160M	\$0.241M	\$0.609M

Wannon Water considers Deloitte's assumption that the energy (usage) component of the bill will not change in real terms at the conclusion of the current Procurement Australia contract to be unreasonable. Historical price patterns, even excluding the impact of carbon tax, indicate that the likelihood of energy (usage) prices increasing is high. It is however a low likelihood that an increase will have a material impact on Wannon Water's electricity spend during the Water Plan 3 period. Therefore, the revised electricity forecast of \$18.114M includes Deloitte's assumption that the energy (usage) component of the bill will not change in real terms at the conclusion of the current Procurement Australia contract.

Wannon Water submits that Deloitte's assumptions of network costs are unrealistic and further that:

- Network charges for years 2013, 2014 & 2015 be set at nominal rates of 11.98%, 10.94% and 11.46% respectively; and,
- Given the advice from SKM MMA, it is prudent to expect network costs to continue to rise from 2016 onwards at a rate of 7.82% per annum (nominal).

Request:

Wannon Water requests that the Commission reinstate expenditure of \$18.114M for electricity costs, resulting in a reduction over the Water Plan 3 regulatory period of \$0.527M.

2.2.2 Chemicals

ESC draft decision:

Reduction of \$0.827m over 5 years, primarily due to the assumption of no real price increases to chemical prices.

Response:

Wannon Water notes the Commission's stance that an assumption based on historical price increases is not justification for making allowance for future price increases. Wannon Water does not concur with this or the Commission's arguments and logic in setting a zero real increase for future chemical prices.

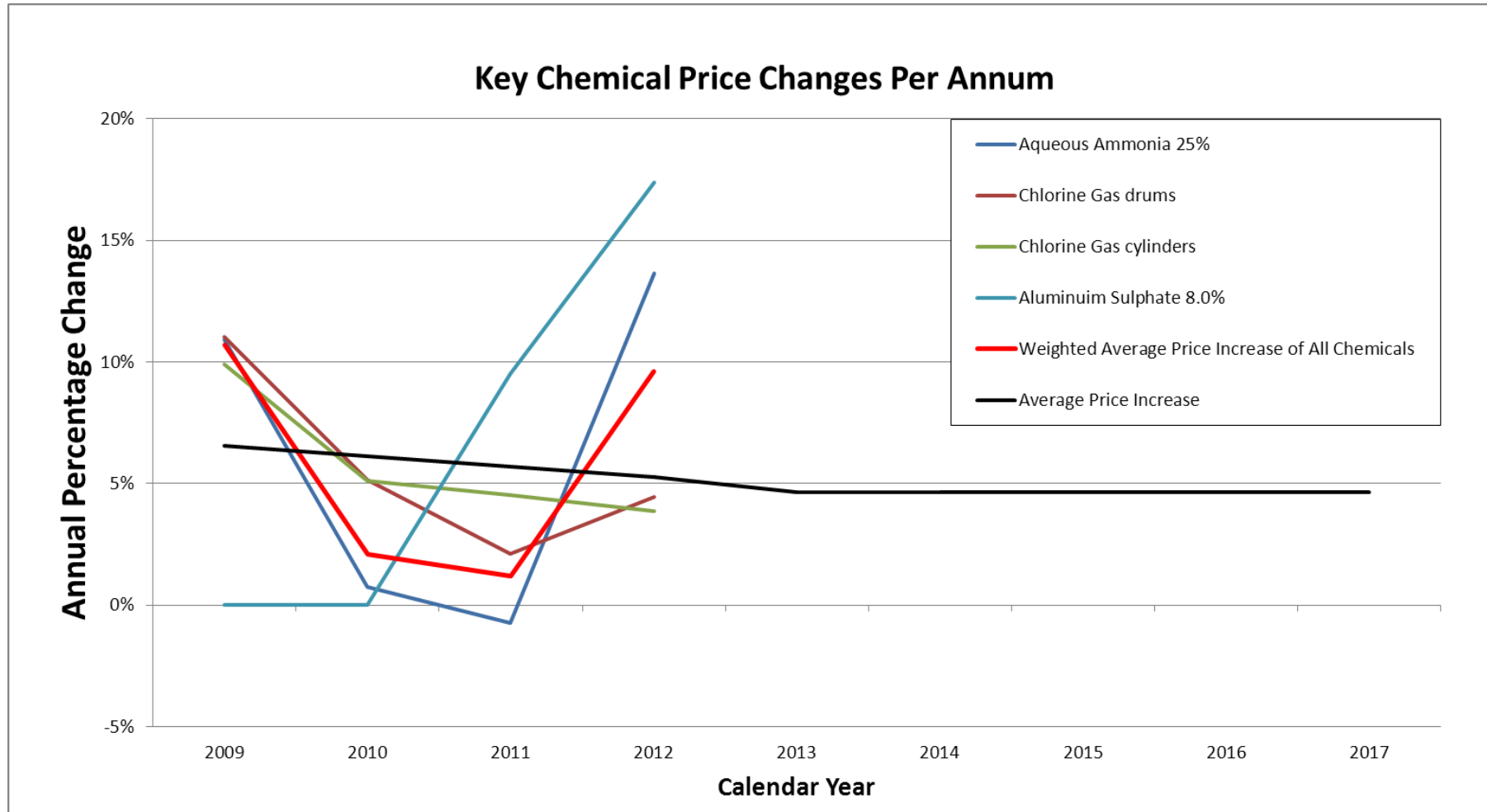
Wannon Water concurs that it is difficult to predict chemical prices from a ground up approach as there are many national and international impacts and many different price drivers effecting chemical prices. Deloitte in their Final overview report states that "...industry experts often differ on forecast price movements" as the price of chemicals "...are a by-product of demand and supply

for other goods". These factors alone put into question the validity of the Commission's proposal to freeze chemical costs throughout the Water Plan period.

Chemical costs are volatile in nature and Wannon Water's chemical prices are under contract for 6 months only. It is not possible to get price quotations/contracts for longer than six months. There are only two suppliers, Orica Watercare and Omega Chemicals. Orica Watercare is dominant and has a virtual monopoly. These circumstances increase Wannon Water's risk exposure to potential future chemical price increases.

Wannon Water examined the movement in its chemical prices over the last four years to project a 4.45% real increase per year in Water Plan 3. The review of chemical prices included prices for the 2012 calendar year to form five years of chemical price data. The annual percentage change is shown in Chart 1 Section 2.2.2 overleaf.

Chart 1 – Section 2.2.2 Chemicals



As can be seen from the abovementioned chart:

- The annual chemical price change for the four most costly chemicals (aqueous ammonia, chlorine gas cylinders and drums, and aluminium sulphate) is mostly always positive, except in three instances, twice with no increase (aluminium sulphate) and once with a slight decrease (aqueous ammonia). In all three instances there were significant increases in the following year of around 10%.
- The weighted average price increase for all chemicals (red line) remains positive in each year.

In the absence of any reliable future pricing movements, historical information specific to Wannon Water is considered the most reliable and realistic approach to accounting for future chemical prices. This approach is consistent with the logic used by the Commission in relation to its guideline issued for setting levels of service KPI targets whereby the Commission required that Wannon Water have regard to historical performance over the past 5 years in setting its level of service targets for the Water Plan 3 regulatory period.

The additional data supplied by Wannon Water supports an increasing chemical price trend in 2013 onwards and is clearly a more realistic indication of future prices than an assumption, based on an 'if there is no better information' argument, of no increases during the life of Water Plan 3.

Wannon Water submits that an appropriate level of expenditure was allowed for in its Water Plan 3 to account for the likelihood that chemical costs will increase in real terms in the Water Plan 3 regulatory period.

2.2.3 Hardship GSL

ESC draft decision:

Reduction of \$0.078 M over 5 years, primarily due to a revised assumption in the number of site visits required to undertake this activity.

Response:

Wannon Water concurs with the Commissions reduction of \$0.078M in its Draft Decision on Water Plan 3.

2.2.4 Defined Benefits

ESC draft decision:

Reduction of \$0.777M over 5 years, being the impact of making the defined benefit payment over 15 years rather than as a lump sum in 2013/14.

Response:

Wannon Water submits that the Commission's recommended "benchmark" approach across all businesses fails to consider individual water corporation situations. In Wannon Water's circumstance, the "benchmark" approach does not provide the most cost effective outcome for our customers.

Wannon Water is in a position to fund the shortfall through cash flows from operations on 1 July 2013. Wannon Water does not require additional funds to pay the shortfall in full. Deloitte in their Final overview document, states in section 2.10.3:

In relation to the minor new initiatives identified and withdrawn from BAU expenditure by Deloitte, Wannon Water submits that:

- The number of minor new initiative is an indication of the robust continuous improvement process Wannon Water uses to ensure that it met its self-imposed operating costs target to achieve a price reduction in Water Plan 3,
- The new initiative projects are in addition to the baseline year BAU expenditure and meet the definition of new initiative in accordance with the Commission's Guideline,
- It is technically incorrect to remove the expenditure because the high number and small individual quantum, rather than deal with each item on its merits, and
- It is technically incorrect to remove the expenditure based on the title of the initiative without assessing the specific details.

Wannon Water's approach to disclosure of new initiatives within the pricing model was in strict compliance with the ESC 2013 Water Price Review Guidance, in addition to discussions/clarification with the Commission throughout the preparation of Water Plan 3.

Based on this Guidance the new initiatives have been included based on the following interpretation:

- Expenditure related to new obligations imposed by regulators and legislation, that did not exist prior to Water Plan 3
- Expenditure related to changed service outcomes as required by customers throughout Water Plan 3
- Expenditure not previously undertaken to Water Plan 3 which results in changed service outcomes for customers, efficiency improvements within the organisation and longer term cost savings – in either capital expenditure and/or operating expenditure
- Expenditure previously undertaken during Water Plan 2, but the level of expenditure is increasing during Water Plan 3, due to an increased focus or activity in the expenditure, which results in changed service outcomes for customers, efficiency improvements within the organisation and longer term cost savings in either capital expenditure and/or operating expenditure

Deloitte in its Final Report recommended a '*...reduction to Wannon Water's operating expenditure for Water Plan 3 of \$1.153m, ...associated with these 30 minor projects*'. Upon review by Wannon Water, there are 21 projects that total the \$1.153M recommended reduction. Seven projects identified for removal by Deloitte relate to expenditure in the Water Plan 4 period and do not affect tariffs in the Water Plan 3 period. In Wannon Water's opinion this highlights the lack of consideration given to the minor new initiatives by Deloitte.

Wannon Water provides the Commission with a detailed justification of each of the 21 minor new initiatives recommended for withdrawal from operating expenditure.

The following initiatives totalling \$0.46M, relate to new operational expenditure resulting from capital projects either due for completion in 2012-13 or during Water Plan 3 including works undertaken at:

- Glenthompson WTP
- Purnim WTP
- Cavendish WTP; and,
- Various other treatment & reclamation plants, bores and pumping stations

2.2.5.1 Upgrade of the existing Glenthompson WTP - \$0.085M

Scope:

An upgrade of the existing Glenthompson WTP began in 2012-13 as the current plant does not produce compliant potable water against the Safe Drinking Water Regulations 2005.

Purpose:

To improve water quality compliance against Safe Drinking Water Regulations 2005.

Justification:

Ongoing operational costs are required to operate the upgraded WTP. These costs have not been previously incurred and will ensure improved water quality to the township of Glenthompson and compliance with all Safe Drinking Water Regulations 2005 requirements.

2.2.5.2 Installation of UV system at the Purnim WTP and extension of potable mains into Framlingham community - \$0.058M

Scope:

The installation of Ultra Violet (UV) system at the Purnim Water Treatment Plant (WTP) and extension of potable water supply mains into Framlingham Trust community occurred during 2012-13.

Purpose:

To improve water quality compliance against the Safe Drinking Water Regulations 2005.

Justification:

Improved water quality for the township of Purnim and potable water provision for the Framlingham Trust community.

The Purnim water treatment plant received raw water from an unprotected water catchments and the water treatment process does not include clarification or filtration and therefore has insufficient water treatment barriers to inactivate cryptosporidium and giardia resulting in elevated water quality risk. The new system requires ongoing operating costs not previously incurred by Wannon Water.

The ongoing costs associated with operating the UV system will result in improved water quality for the township of Purnim and Framlingham Trust community, meeting water quality standards for UV disinfection.

2.2.5.3 Installation of UV system at the Cavendish WTP - \$0.048M

Scope:

Ongoing costs associated with the installation of a UV system at the Cavendish WTP. The UV system was installed in 2012-13.

Purpose:

To improve water quality compliance against Safe Drinking Water Regulations 2005.

Justification:

Similar to the Purnim UV project above, the installation of a UV system at the Cavendish WTP reduces the potential risk that exists for cryptosporidium and giardia to enter the treated water and raw water systems due to the water treatment process not including filtration. The new system requires ongoing operating costs not previously incurred by Wannon Water.

The ongoing costs associated with operating the UV system will result in improved water quality for the township of Cavendish in compliance with water quality standards for disinfection.

2.2.5.4 Waste separation infrastructure – depots & ops localities - \$0.081m & Waste separation infrastructure – offices - \$0.041M

Scope:

Ongoing operational costs associated with the installation of new waste separation bins, skips and bunkers at several strategic operational localities and with the investigation and implementation of multi-bin waste and recycling infrastructure at various corporate office locations.

Purpose:

To improve environmental performance and decrease ongoing operational expenditure on landfill disposal charges by minimising waste. Wannon Water pro-actively pursues waste minimisation and management objectives, reducing impacts upon the environment and improving as a sustainable business.

Justification:

New operational waste separation facilities at several strategic localities and waste and recycling infrastructure at corporate offices are incorporated into the Water Plan 3 capital works program. The ongoing operation and maintenance of these new facilities requires this allocation of operational funding.

The capital project delivers priority actions identified in Wannon Water's Waste Minimisation and Management Strategy, and helps meet the corporate objective of maximising business efficiency. Wannon Water is bound by the Environment Protection Act which regulates discharges to air, land and water, discharges of solid wastes, emission of noise, littering, and handling and transport of wastes.

The Victorian Waste and Resource Recovery Policy provides a commitment from Government to assist Victorians to reduce waste generation and achieve financial savings through efficient resource use. This commitment includes supporting Victorian public sector organisations to achieve financial savings through waste reduction. The project proposed by Wannon Water is consistent with achieving this Government Policy outcome and will lead to a reduction in the Corporation's environmental footprint (Wannon Water disposed of approx. 700 tonnes to landfill in a 2010/11 survey).

2.2.5.5 SCADA data management using Historian – \$0.049M

Scope:

Ongoing costs associated with the procurement and implementation of a new common SCADA Historian application to handle increased data requirements across existing SCADA systems.

Purpose:

To ensure the appropriate software licencing and support & maintenance of the SCADA Historian application.

Justification:

The capital cost of purchasing a new common SCADA Historian application to handle increased data requirements across existing SCADA systems is viewed by Wannon Water as a high priority. It is supported by the Information Technology Strategy and specifically the Corporations objective to ensure decision making is evidence-based and robust. The current SCADA systems produce an extraordinary amount of data that is housed on separate databases. A common SCADA Historian application will allow the Corporation to turn the data into usable information.

Application licences and/or support & maintenance agreements reflect the cost of operating a software application.

Application licences are an ongoing operational cost incurred to ensure the currency of an application deployed. Without licences, Wannon Water runs the risk of utilising SCADA Historian outside the providers' agreement. In most instances, the application will cease to operate if the licence is not renewed.

Largely for risk management purposes, Wannon Water's model of operating applications is to enter into a support & maintenance contract with the provider of the application. This ensures the application deployed does not require specialist training of internal resources and that support is available when and as required. In terms of risk management, this model has been assessed as the most cost effective model.

Wannon Water submits that the ongoing operational costs associated with SCADA Historian are required.

2.2.5.6 Flow Metering Modbus Standardisation – \$0.0M

Scope:

Replace and retrofit older flow analogue output metering equipment where required to digital output based Modbus protocol. Wannon Water accepts absorbing this minor cost \$0.003M in BAU expenditure.

2.2.5.7 Bore Level Monitoring (Bald Hill, Port Fairy, Tullich etc...) - \$0.020M

Scope:

Installation of equipment to automate water level monitoring at Wannon Water groundwater bores.

Purpose:

To ensure accuracy and appropriate granularity of bore water level measurements.

Justification:

Ongoing costs associated with the installation of equipment to automate water level monitoring at various Wannon Water bores.

Operating costs to maintain the equipment is required in the form of an annual calibration. The automated bore monitoring equipment is a far more cost efficient way of monitoring bore levels. Regular calibration is necessary to ensure accurate data is being received and used for water resource and operational management purposes.

2.2.5.8 GSM Data Pressure Loggers - \$0.0M

Scope:

Ongoing costs for maintenance of GSM Data Pressure Loggers after the warranty period expires. Wannon Water accepts absorbing this minor cost of \$0.001M in as BAU expenditure.

2.2.5.9 Sewer Pump Station spill level point monitoring upgrade - \$0.013M

Scope:

Procure and install standardised sewerage pump station (SPS) spill level monitoring transducers.

Purpose:

To ensure accurate spill levels to ensure all sewer spill events are detected.

Justification:

Ongoing operational costs are required to maintain the equipment that is to be installed during Water Plan 3.

Level monitor transducers provide accurate spill level data. This data is utilised to implement appropriate actions and are the reference point for benchmarks and operating SPS's as per industry standards.

2.2.5.10 Intranet Costs - \$0.037M

Scope:

A project to design, implement and operate a new intranet at Wannon Water began in 2012/13 and is due for completion during 2013/14. Operating expenditure is required to facilitate the implementation and ongoing maintenance of the intranet.

Purpose:

To facilitate the implementation and maintenance of an upgraded digital workplace to increase employee productivity and enhance service delivery.

Justification:

The intranet will provide a 'one stop shop' for employees to collaborate, find reliable and accurate information, share knowledge and streamline business processes. These practices will increase employee productivity and subsequently enhance service delivery.

Operating expenditure in Water Plan 3 is required to implement and continuously improve the intranet. Without continuous improvement, there is a risk the overall effectiveness, performance, appropriateness and relevance of the intranet will be compromised. This will result in the identified productivity gains not being realised.

2.2.5.11 Maintenance of new safety showers at WTP sites – \$0.50M

Scope:

Maintenance of new (constructed 2012-13) safety showers at Water Treatment Plant sites.

Purpose:

To comply with OHS standards by ensuring annual compliance is maintained by internal staff and a bi-annual audit conducted by external sources.

Justification:

Wannon Water has a legislative requirement to provide and maintain safety showers at locations where chemicals are stored and handled. As these are new safety showers, Wannon Water has not incurred this expenditure in the past and therefore classifies it as additional expenditure to BAU. Wannon Water has reviewed the proposed level of expenditure of \$0.105M and has reduced this to \$0.050M.

The following initiatives totalling \$0.35M, relate to new expenditure that results in efficiencies:

2.2.5.12 Bpay View Billing System - \$0.114M

Scope:

To implement Bpay View and e-mail accounts to customers

Purpose:

Operating expenditure is required to implement a new system that allows electronic delivery of invoices to customers, improving customer service, whilst providing efficiencies in terms of reduced employee resources and operating costs.

Justification:

Implementation of new systems to allow electronic delivery of invoices will initially be less cost effective due to the small numbers of customers using the new systems. However, over time, significant savings can be achieved as more customers move away from printed invoices to receiving invoices via electronic means.

Based on an optimistic 5% take-up per year, the investment results in zero net expenditure over the five year period due to savings of \$0.114m associated with no longer having to print and post invoices. Should the take-up be only 2% per year, then Wannon Water would require net funding of \$0.028M over the five years (\$0.071M cost less \$0.043M savings). The proposal as per Water Plan 3 of zero net expenditure is considered a 'best case' scenario.

If the investment is not allowed, the corresponding efficiency savings of \$0.114M would not occur. These savings would need to be added back to the operating costs during Water Plan 3.

2.2.5.13 Use of consulting and contractor support for identifying and implementing electricity efficiency projects - \$0.140M

Scope:

New operating expenditure to identify and implement electricity efficiency projects.

Purpose:

To progressively reduce Wannon Water electricity consumption by 2.5% by the end of Water Plan 3.

Justification:

Expenditure on electricity is a key component of Wannon Water's operating costs. Wannon Water is committed to maximising business efficiency, and existing project work during 2012/13 to map electricity usage and empower users to better understand the patterns of consumption and cost is well advanced.

A voluntary target for reduction in electricity use and the associated cost saving has been established for Water Plan 3. The investment in this project will build on knowledge generated through the existing data mapping work and enable site specific analysis and action to reduce direct power consumption.

The project aims to be cost neutral to customers over Water Plan 3. If the investment is not allowed, the corresponding efficiency savings of \$0.194M would not occur. These savings would need to be added back to the operating costs, effectively increasing the revenue requirement for Water Plan 3.

2.2.5.14 Trial revegetation with indigenous plants to reduce ongoing maintenance costs at WTP/WRP sites - \$0.0M

Upon further investigation, this initiative was revised post submission of Draft Water Plan 3. Total expenditure was reduced from \$0.070M to \$0.0014M.

Wannon Water accepts absorbing this minor cost of \$0.0014M amount into the BAU expenditure.

2.2.5.15 Development & Implementation of electronic newsletter - \$0.016M

Scope:

Operating expenditure to develop and implement an electronic newsletter.

Purpose:

To improve communication with our customers, promote new initiatives, notify customers of service matters including interruptions and facilitate improved community engagement and consultation.

Justification:

The project takes advantage of increasing numbers of customers who prefer to receive communications electronically and delivers business efficiencies to Wannon Water. Electronic communication improves Wannon Water's service by providing more immediate notifications and accommodating customers who prefer to receive information electronically. By reaching customers through another medium Wannon Water can improve service by reaching a wider audience for customer consultation and obtain valuable feedback. Improved service is also gained from business efficiencies and environmental sustainability outcomes.

Consistent with a growing community preference for electronic communications and coupled with Wannon Water's increased focus on electronic billing, a shift from printed to electronic newsletters is expected to contribute to significant cost savings over time, outweighing the up-front cost of establishing the electronic newsletter.

2.2.5.16 To improve processes in IRIS Risk Management Application - \$0.010M

Scope:

To develop expanded capability in the corporate Risk Management system.

Purpose:

Operating expenditure is required to reduce the administration workload and provide ongoing efficiency improvements in the management of a number of business processes.

Justification:

Improvements in key software systems can help deliver business efficiencies through reduced manual handling of data, duplication of effort, improved data accuracy and ensuring timely action by employees on priority tasks.

This investment will reduce the administration workload and improve the management of existing workflow processes in the corporate risk management system. The project aims to be cost neutral to customers over the Water Plan.

If the investment is not allowed, the corresponding efficiency savings would not occur. These savings would need to be added back to the operating costs for Water Plan 3.

2.2.5.17 Implement low fire risk land management approach following removal of Pine Plantation at Glenthompson Reservoir – Revised \$0.017M

Scope:

To mitigate the risk of wildfire impacting on Wannon Water's treatment plant and reservoir assets, the aged pine plantation at Glenthompson Reservoir was logged in 2013. The disturbed land abutting the Reservoir requires revegetation to maintain water quality and implement a low fire risk land management approach at the site.

Purpose:

To revegetate land disturbed by the removal of the pine plantation.

Justification:

This project is highlighted in Wannon Water's Wildfire Risk Reduction, Response and Recovery Plan due to the proximity of the former pine plantation to the Glenthompson Water Treatment Plant.

Assessment of the risk of fire impacting on the treatment plant and reservoir assets was rated high due to the proximity of the pine plantation to those assets in the event of a wildfire.

Since the submission of Wannon Water's Water Plan 3, a specialist contractor was identified to be working in the region for a very limited timeframe. Wannon Water took the decision to bring forward the logging of the pine plantation due to the availability of the contractor and the risk that the contractor may not return to the region in future due to the state of forestry markets.

Consequently, the harvesting of the plantation was completed in 2012-13 and a corresponding reduction in the funds is required for Water Plan 3. The revised funding to revegetate the reservoir site is \$0.017M (reduced from \$0.097M).

2.2.5.18 Improve and implement biodiversity management plan at Dunkeld WRP developed by GHD - \$0.084M

Scope:

To implement actions in a biodiversity management plan for the Dunkeld WRP developed by GHD during Water Plan 2, incorporating external funding from sources such as the Victorian Volcanic Plains tender.

Purpose:

Operating expenditure is required to implement a recently developed management plan which aims to protect and enhance significant flora and fauna species at the Dunkeld WRP.

Justification:

The Dunkeld WRP is a flagship site for Wannon Water's Biodiversity and Land Management Strategy. The site is of national significance for the biodiversity values present, including three rare or threatened species.

This primary biodiversity site received external funding during Water Plan 2 to develop a detailed management plan, which has recently been completed. The investment identified for Water Plan 3 is necessary to implement the actions listed in the management plan, and is consistent with regulatory requirements to protect and enhance habitat of the Environment Protection and Biodiversity Conservation Act listed species. The project aims to reduce costs to Wannon Water customers by securing external funds relevant to the landscape and species being protected. The site previously had no management plan in place for the significant values it contains.

2.2.5.19 Improve biodiversity and land management outcomes for various sites through revegetation and improved land management practices - \$0.057M

Scope:

To improve biodiversity and land management (natural asset) outcomes on 25ha of Wannon Water, in conjunction with external funding agencies.

Purpose:

Operating expenditure required to protect and enhance natural asset (biodiversity) values on Wannon Water sites, consistent with the objectives in Wannon Water's Biodiversity and Land Management Strategy and land management obligations (e.g.: pest plants and animals).

Justification:

Wannon Water has regulatory requirements to manage biodiversity and pest plants and animals on land that it owns or manages. Wannon Water's Biodiversity and Land Management Strategy supports the business objective to maximise business efficiency, and aims to minimise impacts to ecosystems and preserve and improve high value biodiversity on Wannon Water's land.

The proposed investment provides for operational works, and progress against the strategic directions established by Wannon Water. Withdrawal of funding increases the risk of increased future costs for more expensive rehabilitation works caused by progressively degrading sites through an absence of proactive natural asset management. The regulators (DSE/DPI) may also express dissatisfaction that pest plant and animal obligations are not being met, which could result in fines.

Historical performance in securing at least 50% external funding support from local agencies (e.g. CMA's) has been assumed to continue, substantially offsetting direct investment by Wannon Water's customers. The \$0.057M proposed by Wannon Water is Wannon Water's investment net of any funding.

Wannon Water customers have previously rated "working to protect and improve biodiversity by Wannon Water" as of very high importance, but identified a gap in business performance with a lower level of satisfaction with Wannon Water's performance in this area. This project addresses that gap, and is directly relevant to the corporate objective to deliver customer value.

2.2.5.20 Drinking water refill stations - \$0.025M

Scope:

The installation of ten drinking bottle water refill stations in prominent locations throughout Wannon Water's region.

Purpose:

To improve communication with our customers, raise awareness of water efficiency measures, engage with the local community and environmental sustainability. The project encourages the community to reuse water bottles and keep water and environmental conservation at the forefront.

Justification:

The roll out of drinking water refill stations improves Wannon Water's service by actively engaging and being a presence in the community. The pitched refill station project meets Customer Charter goals in helping to achieve excellent customer service and strengthening environmental and social responsibility goals. It will offer customers 'value for money' and increase customer satisfaction.

The project involves the acquisition of approximately 10 drinking bottle water refill stations. The stations are to be installed throughout Wannon Water's region in prominent locations to maximise usage and raise community awareness of Wannon Water's services. The stations will be purchased with appropriate Wannon Water signage and then the assets ongoing operational costs are met by local government grantees.

The project also supports Wannon Water's education program (a requirement under our Statement of Obligations) in educating the community about the value of Wannon Water's product, the health and cost benefits of drinking tap water and the environmental benefits of decreasing the number of plastic bottles going to landfill. The installation of water bottle refill stations generates goodwill in local communities and strengthens partnerships with local government.

2.2.6 Konongwootong operating activities

ESC draft decision:

Reduction of \$0.121M over 5 years, due to revised expenditure assumptions proposed by Wannon Water.

Response:

Wannon Water provided Deloitte with revised expenditure forecasts, both operating and capital, for activities at the Konongwootong Reservoir. It appears the capital component of these revised forecasts has been overlooked.

Wannon Water originally proposed total operating expenditure of \$0.258M. Subsequent to this, proposed operating expenditure was revised to \$0.137M and capital expenditure to \$0.191M.

Wannon Water agrees with the Commission's recommended reduction in operating expenditure, however requests that the additional capital expenditure of \$0.191M be included in Water Plan 3.

The revised operating expenditure is for core activities at the Konongwootong Reservoir including the staged removal of aged dangerous pine trees to increase public safety and implementation of maintenance control and removal programs for pest plant and animal species. These activities are the focus of a Landscape Management Plan developed in Water Plan 2.

The proposed capital expenditure of \$0.191M is to implement necessary upgrades and safety improvements to aging and degraded vehicle access and parking assets, as well as implement an Indigenous Heritage Recognition project required as part of the work to increase dam safety undertaken in Water Plan 2.

The revised expenditure forecasts were made in good faith. It appears the capital component has been overlooked and only the reduction in operating costs has been recognised.

Request:

Wannon Water respectfully requests that capital works relating to the Konongwootong Master Plan of \$0.191M be included in Water Plan 3 (\$0.033M in year 1 and \$0.158M in year 2).

2.2.7 Safe work compliance training

ESC draft decision:

Reduction of \$0.152M over 5 years associated with training for compliance with the Safe Work Act (OH&S).

Response:

Wannon Water accepts absorbing this training cost of \$0.152M in as BAU expenditure.

2.2.8 Environmental contribution

ESC draft decision:

Reduction of \$0.03M over the final 3 years of Water Plan 3 reflecting recent advise from the Department of Sustainability & Environment on the environment contribution for the next regulatory period.

Response:

Wannon Water concurs with the Commission's adjustment to the proposed operating expenditure, recognising that new information has been received since submission of Water Plan 3.

2.2.9 Licence fees

ESC draft decision:

Reduction of \$0.017M over the 5 years of Water Plan 3 reflecting recent advice from the Environmental Protection Authority and the Commission regarding their respective licence fees for the next regulatory period.

Response:

Wannon Water concurs with the Commission's adjustment to the proposed operating expenditure, recognising that new information has been received since submission of Water Plan 3.

2.3 Capital Expenditure

2.3.1 Casterton Water Treatment Plant (WTP) – Clarifier

ESC draft decision:

The Commission excluded the \$3.190M Casterton WTP Clarifier Project from its Draft Water Plan 3 Decision.

Response:

Background:

- The Casterton WTP supplies water to Casterton, Coleraine, Merino and Sandford.
- Casterton WTP is a direct filtration plant (no clarifier) and treats water sourced from the Tullich bores (groundwater) and the raw water is high in iron and manganese.
- The raw water contains high levels of iron and manganese that is at the limit of what a direct filtration is able to successfully treat.

- Wannon Water has had operational problems with this WTP which resulted in poor quality water being delivered to customers in 2009 and 2010 which attracted metropolitan television coverage. Minor upgrades and operational interventions resulted in improved water quality since then.
- The Casterton WTP capacity ranges from 3.7 ML/d to 4.1ML/d depending on raw water quality on the day.
- The WTP is operating at maximum daily production capacity during peak summer demands, with peak summer demands of 3.7 ML/d and 3.8 ML/d on consecutive days over the 2012/13 summer. Peak demand of 3.8 ML/d also occurred in 2009/10. Peak demands were significantly lower in prior years as Coleraine was only connected to Casterton's treated water supply system in June 2009.
- Wannon Water intends to install a clarifier at the Casterton WTP to boost peak daily water production to satisfy peak summer demand for water. The consequence of peak daily demand exceeding the plant capacity is that the quality of treated water rapidly declines resulting in:
 - Non-compliance with the *Safe Drinking Water Regulations*
 - Non-compliance with the Australian Drinking Water Guidelines,
 - Iron and manganese breakthrough resulting in customer complaints and associated claims for reimbursement of costs for damage to customers washed clothing, and
 - The potential loss of water supply to Casterton, Coleraine, Sandford and Merino.

Deloitte assessment process:

- Wannon Water provided Deloitte with a GHD report dated February 2011 titled *Casterton WTP Pre-treatment Options, Options Report*. This report was focussed on options to improve water quality and to meet future demand of 5.5 ML/d
- The draft Deloitte assessment report in relation to the Casterton WTP Clarifier is very brief and focussed on past water quality and recommended:

“The current level of documentation provided for this project does not sufficiently demonstrate the need for, or the urgency of, the proposed works. Subject to the provision of supporting evidence, it is proposed that this project be removed from WP3”.
- Wannon Water provided supporting evidence to Deloitte via a letter to clarify that the driver for the project is to meet peak demands and included a memorandum prepared by Wannon Water's consultant GHD dated 24 January 2013 which shows that existing demands equal the production capacity of the existing WTP and highlighted the risks of exceeding production capacity. The GHD memorandum and an excerpt from a Wannon Water letter are attached as Appendix 1 and Appendix 2 respectively
- The final Deloitte report text, in relation to the Casterton WTP Clarifier, did not change except for one additional paragraph in relation to a letter of support from the Department of Health. An excerpt of the final Deloitte assessment report in relation to the Casterton WTP Clarifier project is attached in Appendix 3
- There is no evidence or information from Deloitte in its draft and final reports that Deloitte has recognised that the project is required to meet peak day demands.

Wannon Water's Primary Concerns are:

That the Deloitte assessment of the Casterton WTP clarifier project is flawed as it is

- primarily based on an assessment of past water quality, however the project is presented as a mechanism to increase the peak production capacity to meet peak day demand
- Supporting evidence provided by Wannon Water clarifying that the WTP is at maximum capacity on peak days including a Memorandum prepared by consultant

GHD and Wannon Water correspondence dated 25 January 2013 was not acknowledged by Deloitte in its final report

- Peak daily demands and cumulative peak periods vary from year to year and are related to climatic conditions such as periods of low rain and warm weather. They are also impacted by demands associated with fire fighting events where large volumes of water are drawn from the reticulated system over a short period
- The Department of Health requires that “*Wannon Water will undertake prudent and efficient expenditure programs during Water Plan 3 to improve processes at the Casterton Water Treatment Plant to help ensure that residents of Casterton have reliable access to a safe and fit for purpose drinking water supply*”. (Refer Appendix 4 Letter from the Department of Health)
- Wannon Water will not be able to meet the drinking water regulations should there be a day where peak demand exceeds the WTP capacity in any year over the next five years.

Request:

Wannon Water requests that the Commission reinstate the \$3.190M Casterton WTP Clarifier Project in its final decision on Wannon Water’s Water Plan 3.

2.3.2 Replacement of Wyatt Street Bore – Portland

ESC draft decision:

The Commission excluded the \$2.96M Replacement of the Wyatt Street Bore project from its Draft Water Plan 3 Decision pending an independent assessment of the risk of the project not proceeding.

Response:

Background:

Wannon Water has three groundwater bores in Portland, two located at Bald Hill and one located within the City of Portland at Wyatt Street

The Wyatt Street bore is at the end of its life and will be decommissioned in 2014/2015. Refer to the GHD “Report for Wyatt St Bore Casing Condition Assessment – August 2010” contained in **Appendix 5**.

The Wyatt Street bore is required to maintain continuity of supply in the event of bore failure at Bald Hill.

The supply of water to Portland customers in times of peak demand is compromised after four days with one of the Bald Hill bores inoperable and two days should both Bald Hill bores be inoperable.

Wannon Water intends to construct a new bore and decommission the existing bore at Wyatt Street in 2014/2015 at a cost of \$2.96M to maintain security of supply for the Portland Water Supply System. The Wyatt Street bore is more than 1km deep.

Deloitte assessment process:

The draft Deloitte assessment report in relation to the Wyatt Street Bore Construction project is very brief and focussed on the lack of a "do nothing" option in the Business Case and recommended:

"The current supporting documentation does not present a clear case for whether the Wyatt Street bore is required as an emergency supply option. We have therefore removed the project from the forecast, pending further information on the risk associated with a "do nothing" approach".

Wannon Water provided supporting evidence to Deloitte via a letter to clarify why the "do nothing" option was unacceptable. An extract from the Wannon Water letter is attached as **Appendix 6**.

The final Deloitte report in relation to the replacement of the Wyatt Street Bore project did not change except for one additional paragraph in relation to the additional information provided by Wannon Water. An excerpt from the final Deloitte assessment report in relation to the Wyatt Street Bore project is attached in Appendix 7. Changes to the report are highlighted in yellow. The report recommended:

*"The current supporting documentation does not present a clear case for whether the Wyatt Street bore is required as an emergency supply option. We therefore recommend that a detailed and independent risk assessment be undertaken to determine whether the cost of the project can be justified given the reduction in supply risk that will occur. An allowance of 5% of the proposed capital expenditure has been made for this investigation in the first year of WP3". The proposed and recommended expenditure is shown in Table 5-5 in **Appendix 7**".*

Wannon Water is concerned that:

That the existing bore at Wyatt Street is at the end of its life and if it is de-commissioned and not replaced there is an unacceptable risk to the security of water supply system to Portland customers should one or both bores at Bald Hill be inoperable

The Portland water supply system supplies water to Portland Aluminium, Victoria's major exporter and the company's aluminium smelter is totally dependent on water supply being maintained its ingot production process.

The Commission in its draft Water Plan 3 decision requested that Wannon Water facilitate an independent assessment of the risk of not proceeding with the Wyatt Street Bore Replacement Project.

Wannon Water arranged for an independent risk assessment to be facilitated by Mr Robert Lane of SED Consulting to determine whether the cost of the project can be justified given the reduction in supply risk that will occur should the bore not be replaced. This risk assessment was held in Portland on Monday 15 April 2013.

Representatives from the following organisations participated in the assessment of the risk:

- Portland Aluminium
- Port of Portland
- Glenelg Shire Council
- Committee for Portland
- Wannon Water
- GHD Pty Ltd (technical consultants)

The risk assessment panel concluded that the risk of not replacing the Wyatt Street bore represents a "very high" risk for Wannon Water and its Portland customers. The assessment also concluded that "It is therefore apparent that the consequence of even short term interruption to the Water Supply system significantly outweighs the capital cost of "Wyatt St insurance" through replacement of the Wyatt Street Bore."

The “Wyatt St Risk Assessment Final Report – April 2013” is contained in **Appendix 8**.

Request:

Wannon Water requests that the Commission reinstate the \$2.96M Wyatt Street Bore Construction Project in its final Water Plan 3 Decision.

3 Revised Service Standards

ESC draft decision:

The Commissions Draft Decision stated that “Wannon Water is required to either provide adequate reasoning for deviating from the five-year average in setting its targets for these standards or amend them to reflect the five year average”.

Response:

Wannon Water accepts the Commission’s Draft Decision and submits the following revised targets for the levels of service targets for those targets not accepted in the Commission’s Draft Decision. The revised targets have been set having regard to the 5 year actual average performance of Wannon Water.

Wannon Water notes that the PRICE REVIEW 2013 REGIONAL URBAN WATER BUSINESSES DRAFT DECISION-APPENDICES in table B.10 shows the proposed target 2013-18 for Complaints to EWOV as 0.6 (which was the 2008-13 target), whereas the 2013-18 WANNON WATER PRICE REVIEW DRAFT DECISION VOLUME II; WANNON WATER MARCH 2013 at Table 1 Page 4 shows 1.2. The reference to 0.6 in the Appendices is assumed by Wannon Water to be a drafting error.

Revised Core Service Standards

Core Service Standard	WP3 Submission	ESC Approved in Draft decision?	ESC 5yr Average	Targets
Water				
Average time taken to attend bursts and leaks (priority 2) (minutes)	40	No	28.51	30
Average time taken to attend bursts and leaks (priority 3) (minutes)	118	No	82.31	85
Unplanned water supply interruptions restored within 5 hours (per cent)	97.0%	No	98.48%	98.0%
Planned water supply interruptions restored within 5 hours (per cent)	93.0%	No	96.63%	96.0%
Average unplanned customer minutes off water supply (minutes)	6.3	No	4.34	5
Average planned customer minutes off water supply (minutes)	3.8	No	1.92	2
Average frequency of unplanned water supply interruptions (number)	0.07	No	0.06	0.06
Average frequency of planned water supply interruptions (number)	0.03	No	0.02	0.02
Average duration of unplanned water supply interruptions (minutes)	91	No	74.49	80
Average duration of planned water supply interruptions (minutes)	166	No	132.07	135
Sewerage				
Sewerage blockages (per 100km)	22	No	11.24	12
Average time to attend sewer spills and blockages (minutes)	62	No	38.03	40
Average time to rectify a sewer blockage (minutes)	127	No	100.22	101

4 Guaranteed Service Levels

Wannon Water notes that the Commission's Draft Decision accepts Wannon Water's Guaranteed service levels.

5 Miscellaneous Charges

5.1 Definitions of Core Miscellaneous Charges

The definitions and proposed miscellaneous charges for connection fees, information fees and meter reading fees have been submitted and recorded in the Commission's "Price review 2013: Regional Urban Water Businesses - Draft Decision, Appendices A to E, March"

5.2 Miscellaneous Charges specifically related to Developers

The Commission's Draft Decision Volume II, Section (17b) –Provide information on developer fees, requires that Wannon Water "*If proposing miscellaneous charges for developers:*

- a) *name all charges relating to developers*
- b) *Explain how these charges relate to NCC's*
- c) *Define the services that will be provided for these charges".*

Response:

The following miscellaneous charges for developers will be levied and have been set to cover the costs associated with Wannon Water assessing and processing requests for connection to Wannon Water's systems.

Offer of conditions charge:

Provides for the preparation and issue of a letter of Offer or Conditions to the developer and includes:

- Development services staff preparation and review costs
- Administration staff costs
- Asset creation staff costs
- Administration costs; and
- Overhead costs.

Review of design charge (existing infrastructure):

Provides for the assessment of development applications where no new infrastructure is required to be constructed to service the development and includes:

- Development services staff preparation and review costs
- Administration staff costs
- Administration costs; and
- Overhead costs.

Construction charges (water):

Provides for the assessment of development applications where new water infrastructure is required to service the development and includes:

- Development services staff preparation and review costs
- Administration staff costs
- Administration costs including GIS input
- Water quality testing costs; and
- Overhead costs.

The charge is based on the number of new lots being created.

Construction charges (sewer):

Provides for the assessment of development applications where new sewer infrastructure is required to service the development and includes:

- Development services staff preparation and review costs
- Administration staff costs
- Administration costs including GIS input
- Review and processing of CCTV information; and
- Overhead costs.

The charge is based on the number of new lots being created.

Additional auditing and processing charges:

Provides for the additional auditing and processing time in excess of that allowed in the construction charges (water) and construction charges (sewer). This charge will be applied where initial auditing identifies non-compliance with the specified standards and includes:

- Development services staff costs
- Systems operations staff costs; and
- Overhead costs.

Bonding of works charge:

Provides for the negotiation and preparation of an agreement where Wannan Water agrees to the issuing of a Statement of Compliance prior to the developer satisfying all of Wannan Water's requirements and includes:

- Development services staff costs
- Administration costs and
- Overhead costs.

Infrastructure processing or construction fees – non-standard items:

Provides for the provision of other non-standard services or items and will be calculated at cost including a reasonable contribution towards overhead costs.

Proposed charges:

The proposed developer fees for 2013/14 (shown in \$2012/13) are set out below:

Item	Charge
Offer of conditions	\$412
Review of design (existing infrastructure)	\$183
Construction charge (water) 1-5 lots	\$1,672
Construction charge (water) 6-20 lots	\$2,729
Construction charge (water) 21-50 lots	\$5,122
Construction charge (water) 51+ lots	\$8,735
Construction charge (sewer) 1-5 lots	\$1,300
Construction charge (sewer) 6-20 lots	\$2,240
Construction charge (sewer) 21-50 lots	\$4,750
Construction charge (sewer) 51+ lots	\$8,445
Additional auditing and processing (per hour)	\$127
Bonding of works	\$310
Non-standard items	at cost

6 New Customer Contributions (NCCs)

Response to ESC Draft Decision

The Commission's 2013-18 Water Price Review draft decision Volume I and II identifies 12 specific requirements for Wannon Water to address. Each requirement is listed in Part 2 below along with Wannon Water's response.

In preparing the responses and addressing the issues identified by the Commission, Wannon Water has resolved to amend its proposed NCC charges. The amended charges are provided in Part 1 below.

Part 1 – Proposed NCC Charges

Wannon Water has revised the NCC model based on the information contained in the draft decision and is proposing NCC charges as follows:

Town/Area	Water NCC ¹	Sewer NCC ¹	Total
Warrnambool – Growth corridor ²	\$4,200	\$800	\$5,000
Warrnambool – Roof Water Harvesting ³	\$2,000	\$800	\$2,800
Warrnambool – All other areas ⁴	\$800	\$800	\$1,600
Hamilton & Portland	\$800	\$1,700	\$2,500
All other towns	\$800	\$800	\$1,600

Notes:

1. NCC Charge for a standard residential equivalent occupancy.
2. A plan outlining Warrnambool growth areas is attached as **Appendix 9**.
3. For occupancies within the growth corridors that have a connection to the Warrnambool Roof Water Harvesting project provided by the developer.
4. Infill areas of Warrnambool, outside the established growth corridors.

The above proposed NCC charges are lower than the indicative NCC charges previously discussed with the local development industry and submitted to the Commission in December 2012. The changes from the initial proposed NCC charges to the now proposed NCC charges are summarised as follows:

Town/Areas	Total NCC Charge		Reduction
	Initial (Dec-12)	Proposed (Now)	
Warrnambool - growth area	\$5,500	\$5,000	\$500
Warrnambool - infill	\$5,500	\$1,600	\$3,900
Koroit, Allansford, Dennington & Port Fairy	\$5,500	\$1,600	\$3,900
Hamilton & Portland	\$5,500	\$2,500	\$3,000
All other towns	\$2,000	\$1,600	\$400

Wannon Water has also removed the 50% reduction on NCC charges for lots less than 450 square metres in area as the removal of depreciation (refer Part 2, Item 1 below) in the estimation of incremental costs used within the NCC model now means that there is only a very weak relationship between size of lot and the NCC charge.

The revised NCC charges result in forecast NCC revenue of \$4,705,000 over the regulatory period which is lower than the estimate provided to the Commission in December 2012.

In arriving at the above NCC charges, Wannon Water has considered two important issues raised by the Commission, being a minimum NCC charge and locational based pricing signals. Each issued is discussed in the following two sections.

Minimum NCC Charge:

A minimum NCC charge provides for infill development and is a contribution to infrastructure required to service organic growth as infill development is still using up spare capacity.

In addition, in systems where there is little growth, calculation of NCC charges are sensitive to growth projections and would vary considerably each time the NCC was calculated. Wannon Water has elected to set a minimum charge of \$800 for water and \$800 for sewerage as this approach will provide greater consistency in NCC charges over time.

In the Water Plan 1 and Water plan 2 regulatory periods Wannon Water has undertaken sewerage schemes under the Country Towns Water Supply and Sewerage Program whereby the individual landowner contribution were capped by the Minister at \$800 per occupancy.

Locational Based Pricing Signals:

Following consultation with the Commission, Wannon Water calculated NCCs for the discrete growth corridors located in Warrnambool and for the balance of Warrnambool which includes Allansford and Koroit. The NCCs resulting from the model were as follows:

Warrnambool Area	Average Annual Growth (No.lots)	ESC NCC Model	
		Water	Sewer
Wollaston Rd Corridor	44	\$8,400	\$800 ¹
Hopkins Point Rd Corridor	42	\$5,700	\$1,200
North East Corridor	76	\$6,000	\$800 ¹
Balance of Warrnambool	60	\$800 ¹	\$800 ¹

Note 1 - \$800 is the minimum NCC Charge

Each growth corridor is on the outskirts of Warrnambool and require significant new infrastructure to provide new water and sewerage services.

There are a relatively small number of new lots developed each year in Warrnambool and past experience has shown that the location of new lots varies from year to year depending on the timing choices of individual developers and landowners.

Modelling of the growth corridors showed that the resulting NCC were very sensitive to the allocation of the number of lots allocated to each growth corridor and it became apparent that if Wannon Water set an NCC charge for each individual growth corridor the NCC charge would vary considerably each time the NCC was recalculated.

Wannon Water proposes to set a single NCC charge for Warrnambool growth corridors as the NCC model results for the growth corridors are of a similar order and therefore will not benefit from a locational based pricing signal. In addition this approach will provide greater consistency in setting NCC charges over time.

The model results also show the significantly lower NCC result for infill development in the balance of Warrnambool, which is the result of lower new infrastructure costs being incurred to service developments within the existing urbanised area. Given the significantly lower NCC result for the balance of Warrnambool, Wannon Water considers that a differential

charge for the balance of Warrnambool is justified and sends an appropriate locational based pricing signal.

Part 2 –The Commission’s 13 Draft Decision Requirements

1. *Draft Decision Volume II, Section 16a – Remove depreciation from NCC calculation*

Response:

Wannon Water has amended the NCC model inputs and removed depreciation.

2. *Draft Decision Volume II, Section (16b) – Review estimated North East Growth Corridor Costs*

Response:

Wannon Water has reviewed the North East Growth Corridor costs and amended the NCC model accordingly.

3. *Draft Decision Volume II, Section (16c) – Justify uniform/ combined NCC by demonstrating that there is little material difference between NCC calculated for specific locations or services*

Response:

Following action 1 and 2 above and removal of tax from the model for the period of time which Wannon Water will not be in a tax paying position (action 10 below), Wannon Water has re-calculated NCCs for key cities and the growth corridors in Warrnambool. The resulting NCCs are as follows:

Town/Area	Average Annual Growth (No.lots)	ESC NCC Model	
		Water	Sewer
Dunkeld	2	\$ 800	\$ 800
Port Fairy	32	\$ 800	\$ 800
Hamilton	30	\$3,100	\$3,100
Portland	49	\$ 800	\$700
Hamilton & Portland	79	\$ 800	\$1,700
Warrnambool	222	\$4,000	\$ 800
<i>Wollaston Rd Corridor</i>	44	\$8,400	\$ 800
<i>Hopkins Point Rd Corridor</i>	42	\$5,700	\$1,200
<i>North East Corridor</i>	76	\$6,000	\$ 800
<i>Balance of Warrnambool</i>	60	\$ 800	\$ 800

Note: \$800 minimum NCC Charge is shown in the table

Wannon Water proposes to set a single NCC charge for the Warrnambool growth corridors and separate NCC charge for infill development for the balance of Warrnambool for the reasons set out earlier in this document.

In relation to Portland and Hamilton Wannon Water proposes to set NCC charges of \$800 for water (the minimum charge) and \$1,700 for sewer.

4. *Draft Decision Volume II, Section (16d) – Confirm that NCC charges have been calculated in accordance with core pricing principles*

Wannon Water confirms that the NCC charges have been calculated with the core pricing principles. It is noted that the Commission's consultant SKM found that Wannon Water's "approach to estimating incremental costs is reasonable under the new regime" (page 266, Draft Decision Volume I).

5. Draft Decision Volume II, Section (16e) – Develop maps to show the boundaries where NCC charges apply

A plan showing the geographic location of the growth areas in Warrnambool is attached in **Appendix 9**. The plans are based on residential zoning area within the Warrnambool Planning Scheme and also the service catchment area of growth water and sewerage infrastructure.

Warrnambool City Council has indicated that it will review its land use strategy which may result in some amendments to the planning scheme zoning and therefore growth areas. Should this occur, Wannon Water intends to update the growth corridor boundaries to align with any formal revisions made by Council.

6. Draft Decision Volume II, Section (16f) – Clearly describe the circumstances where NCC will be negotiated

NCC charges will be applied to each new lot or occupancy and will be applied as set out below:

- Separately titled lot is created.
- Separate occupancy/premises that is or can be separately metered.
- Specialised, non-sub-divisional or developments with higher demand or load requirements – on a case by case basis.

The standardised NCC charges are for one residential equivalent tenement (RET). Where a developer requests a connection that is greater than the loading for one RET, or a redevelopment of an existing property increases the applicable RET for that property, Wannon Water may apply an NCC charge greater than the standard NCC charge. These changes of use are normally identified through the planning or consent to connect processes.

Further, Wannon Water may apply an NCC charge greater than the standard NCC charge in the following circumstances:

- New water and or sewerage schemes;
- Developments that occur outside the designated Warrnambool growth corridors, but the development noticeably benefits from growth assets constructed by Wannon Water.

In instances where the standardised NCC charge will not apply, the NCC charge will be negotiated and Wannon Water will apply the core pricing principles when such NCC charges are being negotiated with the developer.

Existing serviced properties will generally be deemed by Wannon Water to have already contributed NCC charges for one RET, unless specific information on that property indicates otherwise.

7. Draft Decision Volume II, Section (16g) – Consult with other businesses to develop best practice negotiating framework

Wannon Water participated in the review process co-ordinated by VicWater resulting in a best practice negotiating framework being finalised and distributed to water businesses on 1 May 2013. Wannon Water's negotiating framework is based on this document. Attached at **Appendix 10**.

8. Draft Decision Volume II, Section (16h) – Consult with other businesses to propose a common timeframe to estimate capital costs

Wannon Water notes subsequent advice provided by Commission officers on 30 April 2013 that the timeframe for estimating capital costs will be different for each business.

9. Draft Decision Volume II, Section (16i) – Consult with stakeholders

A meeting with developer stakeholders has been scheduled for Monday 6th May 2013. Feedback from stakeholders will be provided to the Commission following this meeting.

10. Draft Decision Volume II, Section (16j) – Make modelling adjustments stemming from draft decision including reducing tax rate to 0% in years where we are not required to pay tax

Wannon Water has made this amendment to the NCC model, tax is now only included from year 2028/29 onwards.

11. Draft Decision Volume II, Section (16k) - Consult with key stakeholders on appropriate transition arrangements

Currently the NCC charge for new lots is \$1,217 for both water and sewer. The current and proposed NCC charges are as follows:

Town/Area	2012/13			2013/14		
	Water	Sewer	Total	Water	Sewer	Total
Warrnambool growth corridors	\$1,217	\$1,217	\$2,434	\$4,200	\$800	\$5,000
Hamilton & Portland	\$1,217	\$1,217	\$2,434	\$800	\$1,700	\$2,500
All other areas	\$1,217	\$1,217	\$2,434	\$800	\$800	\$1,600

Wannon Water submits that no NCC charge transition arrangements are required for its revised NCC's for the Water Plan 3 regulatory period. Feedback on the revised NCC charges will be consulted with the key stakeholders at the meeting scheduled for Monday 6th May 2013. Feedback from stakeholders will be provided to the Commission following this meeting.

12. Metro Draft Decision – Appendix E p321-322 – Definition of assets to be included in Negotiating Framework

Wannon Water consulted the development industry in relation to the definition of assets in December 2012. An extract of consultation document is provided below. No responses from developers were received on the definitions indicating acceptance of the definitions.

“Developer to Construct Assets Required by Wannon Water

The developer is required to provide all assets required by Wannon Water to service the development, regardless of whether the asset is located within the development or external to the development. This includes, but is not limited to assets required to be deepened, assets required to be extended to the development/subdivisional boundary,

alignment changes of assets, upsizing of assets or temporary assets including provision for future connection to the permanent servicing arrangement.

The following sections set out the funding obligations of assets.

Assets Fully Funded by the Developer

The developer is required to fully fund and gift the following assets to Wannon Water:

- Water mains up to and including 150mm diameter and all associated assets
- Gravity sewer mains up to and including 225mm diameter and all associated assets
- For water, associated assets include water pump stations where the pump discharges into a water main of 150mm diameter or less
- For sewer, associated assets include sewer pump stations, emergency storages and rising mains where the gravity sewer inlet to the sewer pump station is 225mm diameter or less.
- For roof water harvesting areas, all on-development reticulation assets including pipes, storages and relief structures.

Assets with a Funding Contribution from Wannon Water

Wannon Water will make a funding contribution to the cost of the following assets:

- Water mains greater than 150mm diameter and all associated assets
- Gravity sewer mains greater than 225mm diameter and all associated assets
- For water, associated assets include water pump stations where the pump discharges into a water main greater than 150mm diameter
- For sewer, associated assets include sewer pump stations, emergency storages and rising mains where the gravity sewer inlet to the sewer pump station is greater than 225mm diameter

Wannon Water's funding contribution will be per the following schedule noting that the amounts shown are expressed in 1 January 2013 dollars and will increase annually by CPI, including for the 2013/14 effective from 1 July 2013:

- Wannon Water will contribute \$27.30 per metre for 225mm water mains (Wannon Water's contribution to larger diameter water mains will be determined on a case by case basis)
- Wannon Water will contribute \$26.80 per metre for 300mm sewer mains (Wannon Water's contribution to larger diameter sewer mains will be determined on a case by case basis)
- Wannon Water's contribution to water pump stations where the pump discharges into a water main greater than 150mm diameter will be determined on a case by case basis
- Wannon Water's contribution to sewer pump stations where the gravity inlet sewer to the pump station is greater than 225mm diameter will be determined on a case by case basis.

Assets Fully Funded by Wannon Water

Wannon Water will fully fund and construct the following assets:

- Water towers and associated pipelines and pumps
- Large water storages
- Roof water harvesting trunk main
- Other assets as nominated by Wannon Water."

7 Revised Tariff Levels

Should the Commission accept all Wannon Water's proposals as detailed above, a reduction in the revenue requirement will be required from 327.62 M (which was the revised submission made in December with the New Customer Contributions) to 324.70 M – a reduction of \$2.92 M.

Wannon Water has elected to apply the resulting reduction in tariffs in the following manner:-

Fire Services

For service sizes 20mm up to-100 mm only, reduce to 30% of Zone A Service Charges in Year 1.

Sewerage Tariffs – Connected

Put in place a merger path over five years for Group A sewerage tariffs to move to Group B sewerage tariffs.

Sewerage Tariffs – Unconnected

Align Group A and B **un-connected** sewerage tariffs in year 1 with Group C.

Water Services – Unconnected

Align in year 1, un-connected water service fees for Groups B, C, and D to Group A service fees.

Water Tariffs – Connected

Put in place a merger path over five years for Group D Water **Service Fees** to move to Group C Service Fees.

Put in place a merger path over five years for Group B Water **Service Fees** to move to Group A Service Fees.

Put in place a merger path over five years for Group D Water **Volume Fees** to move towards Group C Volume Fees to enable a merger in WP4.

The detail prices are reflected in the attachment **Appendix 11**.

Should the Commission determine that a further reduction to the revenue requirement is appropriate, then Wannon Water would prefer that the tariff reduction was applied in the following order:

- further the movement of Group D water volume fees toward that of Group C over the five years of the water plan 3 period.
- Install a merger path over five years for Group B Water **Volume Fees** to move towards Group A Volume Fees
- Should this be achieved, then a further reduction to Group A and B sewerage tariffs averaged over the five years to move these tariffs towards that of Group C sewerage tariffs would be appropriate.

It is Wannon Water's ultimate aim to have two water tariffs, one for those with a 30% service, 70% volume fee component bill, and the other for the holiday and "tank" towns which have a 50% service and 50% volume fee component.

For Sewerage Tariffs, the intention is to have one common tariff reflecting the common service provided to all customers.