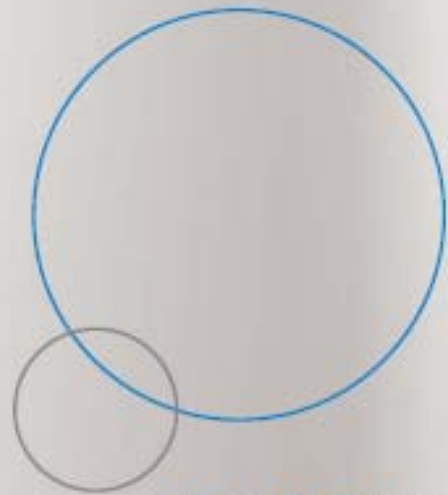




NORTH EAST WATER



northeastwater



waterplan
2008-2013

Response to ESC draft determination



Introduction

Following the Essential Services Commission's (ESC) *Draft Decision* (March 2008), we provide the following information to support the Commission in reaching a final price determination for the 2008-13 period.

Capital Project Timing

Further to the verbal requests for the Corporation to revise (bring forward) the timing of Water Quality upgrades for Mount Beauty and Myrtleford we are pleased to advise that at the April 2008 Board meeting, the Board passed a resolution to bring forward the investment in the Mount Beauty upgrade.

It is our decision not to accelerate the timing of the projects in the regulatory model for the following reasons:

- Whilst the Board is committed to the earliest possible timing of the upgrades, we must be careful about creating artificially short timeframe expectations with these communities;
- Deliverability is likely to be an issue for projects that are technically complex to integrate into the existing infrastructure;
- We are scheduled in June to perform a risk-based review of all project timings for the 5-year period;
- We are seeking to avoid a lumpy investment profile associated with simply bringing forward two key projects; and
- The requested changes exacerbate the potential price impacts on our customers.

In consideration of these issues, and the expectations of our customers and regulators we believe the requested adjustments are not necessary in the price determination. We are fully committed to these upgrades, and this will be a key input to the necessary review of all project timings in June 2008. We believe our Board is in the best position to assess the risk profiles of various project deliverables and to best mitigate the Corporation's risks without undue pressure from any particular stakeholder.

Small Towns

We note that the segregation of the Small Town projects has been agreed to in principle by the ESC (pg. 106). However it was on the basis that NEW uses the WACC (6.1%), instead of actual cost of borrowing (estimated at 7.5%).

We acknowledge that the WACC should provide the basis for future price setting, however the retrospective adjustment for the outlays outside the current price determination should be on an actual cost basis, rather than a reduced rate. Should the WACC be used instead of the actual cost, it will act as a disincentive for the Board of NEW to proceed with these projects during the second Water Plan period.

As these projects will be 100% debt funded, it is inappropriate to apply the 60/40 debt to equity assumptions embedded in the WACC.

It is important that we reiterate that our original submission was supported on the basis of an actual costs' retrospective adjustment.

We accept that the capital cost will be determined net of government and customer contributions.

Demand

Following the release of the Draft Determination we have sought further clarification from the ESC regarding the demand figures published. The following volumes have since been agreed for use in the final determination:

Customer type	2008-09 KI's	2009-10 KI's	2010-11 KI's	2011-12 KI's	2012-13 KI's
Residential	7,630,457	7,482,415	8,724,547	9,157,470	9,298,548
Commercial	2,650,413	2,689,517	3,041,247	3,916,295	3,999,319
Industrial	1,535,457	1,661,001	1,643,854	1,882,589	2,047,661
Total	11,816,327	11,832,933	13,409,648	14,956,354	15,345,528

The increasing trends in the latter years of the determination reflect the forecast end of the drought, and a corresponding increase in residential demand, in response to a relaxing of restrictions. Whilst we hold some reservations about the assumed increases in demand, particularly in light of our tariff reform; we accept that there is little empirical data to support demand forecasting in the face of rapidly changing community attitudes.

Electricity

At the time of the ESC's Draft Determination the majority of Water Corporations had still not entered into contracts for the supply of electricity for the Water Plan period. We have since received contract estimates from NEW's buying group that place the price increase far in excess of the forecast provided by SKM. We submit the following adjustments are made to NEW's revenue requirement, reflecting the increased operating expenditure:

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
NEW Adjusted Electricity Expenditure	\$1,794,712	\$1,832,877	\$1,861,746	\$1,867,862	\$1,867,862	\$9,225,060
SKM Approved Electricity Expenditure	\$1,532,000	\$1,608,000	\$1,634,000	\$1,640,000	\$1,640,000	\$8,054,000
Adjustment Required	\$ 262,712	\$ 224,877	\$ 227,746	\$ 227,862	\$ 227,862	\$1,171,060

We note that the contract contained several significant price increases in the cost of electricity including a 71% increase in peak electricity, 34% increase in off-peak electricity and a 54% increase in the cost of green energy, at our large market sites. Fortunately this has been proportionally balanced with service charges staying constant, resulting in an overall increase (from 2006/07) of approximately 30%.

Further information has been provided to the ESC in order to substantiate the adjustments above.

Service Standards

We believe that our original submission and subsequent negotiation will continue to place North East Water (NEW) as an Industry leader. Our service standards remain amongst the most competitive in the State and provide NEW with the incentive to continue to provide excellent service to its customers.

We note that these standards are set with the expectation that the climate change conditions could in the early years of the second Water Plan impact on these aspirational targets.

Major Tradewaste Customer Charges

The ESC has requested clarification on the rationale behind lower variable water charges for major customers, rather than the charge levied to the majority of the customer base (p.178).

In addition to the variable water charge, major customers also receive a separate variable charge (based on volume and load) for their wastewater discharge. This additional metered charge does not apply to small industrial/commercial customers or residential customers.

The combination of the water charge and the tradewaste charge ensures that these major customers pay their fair share of costs, and that they are not subsidised by other customer groups.

Recycled Water Charges

NEW is working with customers to ensure that the appropriate value is placed on this resource. We support the application of the following principles, on a system-by-system basis:

- have regard to the price of any substitutes and customers' willingness and ability to pay
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand)
- include a variable component.

We also acknowledge that some historic agreements are still in place, with customers transitioning to the new pricing methodology as contracts are renewed.

Application of Non-Scheduled Prices

NEW has reduced the number of customers receiving non-scheduled prices to two. These two customers are substantial employers in the local region and are on a steady transitional path to the standard tariff.

It is important to note that these customers are receiving a charge for the service that is greater than NEW's cost to supply the service. For one of these customers, due to their significant scale, there is a risk that our scheduled tariffs could exceed their stand alone cost of service provision.

Goulburn Murray Water (GMW) Price Determination

The ESC has committed to adjusting final Water Plan figures pending GMW's final determination (pg.86). However we wish to reiterate the concerns that NEW has regarding the pricing proposals made by GMW in relation to basin pricing principles.

NEW is concerned with the proposal to significantly increase charges that would apply to NEW on the Ovens System. GMW has advised that they will implement a Basin Pricing model at the wholesale level only, while retail (irrigation) customers enjoy the benefits of System Pricing. This situation would create significant anomalies within the Ovens water market.

NEW notes that the ESC stated in *Regional and Rural Businesses Water Plans 2008-2013 — Draft Decision* in March 2008, that:

“The Commission is of the view that where customers are receiving the same service they should be subject to the same prices.”

As stated in our previous advice to GMW and the ESC in January of this year, we fail to see how this tariff structure which charges irrigators \$2.92/ML and urban customers \$72.29/ML, for the same water out of the same river can be interpreted as meeting the principles of the WIRO.

NEW also opposes GMW's application of the Regional Urban Ancillary Fee. The Government's white paper, prescribed the removal of the price discriminations between urban and irrigation customers.

We reiterate that our current expenditure forecast does not include the significant increases indicated by GMW for the Ovens system, serving the community of Wangaratta. In the event that the pricing proposals satisfy the requirements of the ESC, our expenditure forecasts for bulk water purchases will need to be increased accordingly.

Victorian Budget Announcements

We note that the Victorian State Government released its budget on 6 May 2008. This announcement flagged reductions in Payroll Tax and Workcover premiums, both which are paid by NEW. Although these taxes will reduce the associated costs for these taxes it will not have a material impact on the Corporation's costs.

Customer Impacts

In response to the tariff reform being undertaken by NEW, the ESC has understandably requested further information regarding the potential impacts of price increases on various customer groups. The following information details the anticipated impacts on varying size commercial/industrial customers, as well as residential tenants. This is additional analysis to that already lodged in NEW's final Water Plan.

Although the general increase in the volumetric charge is significant it provides customers with a greater incentive to conserve water, while giving NEW a greater ability to balance supply and demand.

Small Industry/Commercial Impacts

As part of our consultative process, large Industrial and Commercial organisations were contacted (via mail) and received either a full version of the Water Plan, or the Executive Summary, inviting their comments. This process resulted in a number of customers discussing the Water Plan directly with NEW, and ultimately obtaining their support for the proposed tariff structure.

Both NEW and the ESC have undertaken extensive customer consultations on the proposals within the Water Plan, including reference groups, local councils, meeting with customer and representative groups, and public forums. This extensive process confirms the broad customer support for the proposals in the Water Plan.

The following three tables illustrate the potential impact of the price reform, based on current usage patterns:

Customer Impacts - Average Commercial	2007/08	2008/09
No of Water Properties	4,079	4,110
Total Annual Consumption (kL)	2,744,881	2,650,413
Ave Consumption (kL)	673	645
Ave Water Fixed Charge	\$ 63.12	\$ 70.44
Ave Water Vol Charge	\$ 114.97	\$ 267.65
Ave WW Fixed Charge	\$ 78.70	\$ 56.85
Ave WW Vol Charge	\$ 60.07	\$ -
Total Quarterly Account	\$ 316.86	\$ 394.93
Quarterly Account Increase (\$)		\$ 78.07
Weekly Increase (\$)		\$ 6.01

Customer Impacts - Commercial	2007/08	2008/09
Large retail centre housing approx 50 businesses		
Water Consumption (kL's)	7,952	7,952
Price	\$ 0.6834	\$ 1.3500
Water Volumetric Chg	\$ 1,358.60	\$ 2,683.80
Water Fixed Charge (100mm)	\$ 702.62	\$ 843.96
Wastewater Fixed Charge	\$ 83.69	\$ 52.38
Cistern Charge (x38)	\$ 914.28	\$ 459.61
Fire Service Charge	\$ 18.73	\$ 19.30
Minor TW Charge (x5)	\$ 147.10	\$ 151.60
Total Quarterly Account	\$ 3,225.00	\$ 4,210.65
Quarterly Account Increase (\$)		\$ 985.65
Weekly Increase (\$)		\$ 75.82

Customer Impacts - Industrial	2007/08	2008/09
Electrical Industry, 250 Employees, \$100m annual turnover		
Water Consumption (kL's)	3,961	3,961
Price	\$ 0.6834	\$ 1.3500
Water Volumetric Chg	\$ 676.74	\$ 1,336.84
Water Fixed Charge (32mm)	\$ 71.94	\$ 82.30
Wastewater Fixed Charge	\$ 83.69	\$ 52.38
Cistern Charge (6)	\$ 144.36	\$ 72.57
Fire Service Charge	\$ 18.73	\$ 19.30
Total Quarterly Account	\$ 995.45	\$ 1,563.39
Quarterly Account Increase (\$)		\$ 567.94
Weekly Increase (\$)		\$ 43.69

NEW considers that generally, the additional cost incurred by these types of organisations, is not a significant proportion of their total operating costs and the increased emphasis on volumetric tariffs will provide a greater incentive for such businesses to embrace water conservation.

Tenant Impacts

NEW has reviewed its customer base and extracted the data available for all tenants. The following data represents the forecast result of implementing price reform on residential tenants:

Customer Impacts - Tenants	Previous Structure	New Structure
No of Tenanted Properties	8,100	8,100
Total Annual Consumption (kL)	1,353,593	1,353,593
Ave Consumption (kL)	166	166
Variable Water Charge	\$ 0.68	\$ 1.35
Average Quarterly Account	\$ 28.36	\$ 56.03
Quarterly Account Increase (\$)		\$ 27.66
Weekly Increase (\$)		\$ 2.13

The variation above does not include any low income or pension rebates that often apply to these customers. The potential impact of the tariff reform on a customer receiving the rebate is outlined below:

Customer Impacts - Tenants	Previous Structure	New Structure
No of Tenanted Properties	8,100	8,100
Total Annual Consumption (kL)	1,353,593	1,353,593
Ave Consumption (kL)	166	166
Variable Water Charge	\$ 0.68	\$ 1.35
less Government Rebate	\$ 19.81	\$ 22.75
Average Quarterly Account	\$ 8.55	\$ 33.28
Quarterly Account Increase (\$)		\$ 24.73
Weekly Increase (\$)		\$ 1.90

With the State Government's recently announced increase to concessions, our tenanted customers on the lowest incomes would experience an average price increase of \$1.90 per week.

Whilst we fully acknowledge that for these customers, a price increase can be detrimental, we are committed to helping the customers make the transition to better recognise the value of the resource.

In response to potential impacts on low-income earners under this reform, the Corporation has modified its hardship policy to provide specific relief for those customers experiencing hardship as a result of these reforms. In circumstances where hardship is established it allows for a portion of the fees to be waived, reducing the impact on an average customer by approximately 50%.

The hardship policy may also be applied in circumstances where the permanent occupants of the household exceed four individuals, acknowledging the additional water required in larger low-income households.

NEW also offers further assistance to customers having difficulty paying their bills such as, direct debit, centrepay and financial counselling.

Customers having difficulty paying may also be provided with some appliances from NEW to reduce their water consumption, and ultimately their bill, such as the showerhead exchange program.

It is always difficult implementing price rises, but even with the increases, the provision of water services for an average customer would still equate to less than \$2.60 a week.

Additionally, as a tenants bill is based 100% on a variable charge, customers have a significant ability to respond to this price increase by reducing their consumption of water to reduce their total bill.

Customers bordering the network that receive Water only (i.e. outskirts of the Wodonga network).

The following table shows the potential impact of a customer who only receives a water service from NEW:

Customer Impacts - Water Service Only	Previous Structure	New Structure
No of Tenanted Properties	3,586	3,586
Total Annual Consumption (kL)	1,226,334	1,226,334
Ave Consumption (kL)	342	342
Variable Water Charge	\$ 0.68	\$ 1.35
Water Fixed Charges	\$ 28.10	\$ 32.15
Average Quarterly Account	\$ 86.52	\$ 147.56
Quarterly Account Increase (\$)		\$ 61.04
Weekly Increase (\$)		\$ 4.70

We acknowledge that for this group of customers, a price increase can have an adverse impact. In response to this situation we conducted a thorough analysis into this customer group. In most cases the increase in charges for Water only customers will still be less than the cost of supplying that service to the customer. Generally those communities who are provided with a Water only service are the beneficiaries of significant cross-subsidies from the larger centres in our service area.

Additionally customers who receive a water only service generally require more reticulation infrastructure per assessment to service. This extra infrastructure is required as these customers generally have larger blocks (due to their more rural location) and, associated with larger blocks, is often a higher degree of discretionary use.

On the balance we do not consider that the situation of this broad group of customers warrants providing any further assistance. Should any of these customers wish to reduce their consumption (and ultimately their bill) we are committed to helping the customers make the transition to better recognise the value of the resource.

Miscellaneous Charges Schedule

At the Commission’s request North East Water has condensed its previous tariff schedule to a core set of 11 miscellaneous fees and charges (see item 1.9 Miscellaneous fees and charges). These charges represent those most commonly used by NEW in its operations, comprising approximately 80% of total miscellaneous revenue. NEW also has approximately 60 other charges, forming the remaining Miscellaneous Charges revenue. These remaining fees are set on the basis of direct costs incurred by the Corporation in carrying out the service, typically driven by the cost of labour and parts.

The charge out rate for labour is set annually and determined by the base salary, applicable overtime and on-costs (Payroll tax, workers Compensation, etc.). Where NEW supplies parts, the cost of the parts will be determined by adding 10% to the invoiced cost.

Each of the scheduled Miscellaneous Charges are explained below:

Information statements

Provides information on rates and encumbrances on the requested property, this is usually requested at the time of a property settlement or change in commercial lease.

Special meter readings – tenants

Incurred when the meter is required to be read when a tenant moves out of a property, outside of our scheduled meter reads.

Septic disposal charge (per kL)

Incurred on a per kL basis for receiving, treating and disposal of residential wastewater.

Septic disposal charge – portable

Incurred for receiving, treating and disposal of wastewater per portable toilet

New wastewater connection – standard residential

Cost associated with the connection of a single residence to the sewer reticulated network.

New wastewater connection – other res

Cost associated with the connection of other residences to the sewer reticulated network, such as a block of units.

Wastewater connection alterations

Incurred as a result of changing a drainage plan on an existing residential dwelling.

Water tapping fee – 20mm service

This fee is charged for the physical connection of a 20mm pipe to our reticulated water network.

Water tapping fee – 25mm service

As above.

Water connection fee – 20mm service

This cost is charged when a customer first connects to our network, is established on our billing system and includes the cost of the water meter.

Water connection fee – 25mm service

As above.

Revised Tariff Schedule

The schedule below has been adjusted to reflect the changes made by the ESC in their March Draft Determination. It is noted that the only adjustments that have been made between the Final Water Plan and the Draft Determination are in the Water usage – all (Point 1.1) and Wastewater fixed service charges (Point 1.3):

NORTH EAST WATER PRICES					
Tariff and Price Component	Price (1 July 2008)	Price (1 July 2009)	Price (1 July 2010)	Price (1 July 2011)	Price (1 July 2012)
1.1 Water – volumetric charges (per kL)					
Water usage - all	\$ 1.3500	\$ 1.5500	\$ 1.8000	\$ 1.8900	\$ 1.9500
Water usage - Major customers	\$ 0.6667	\$ 0.6894	\$ 0.7190	\$ 0.7497	\$ 0.7787
1.2 Water – fixed service charges (per annum)					
20mm connection	\$ 128.58	\$ 139.38	\$ 145.05	\$ 150.35	\$ 155.31
25mm connection	\$ 200.93	\$ 217.81	\$ 226.68	\$ 234.97	\$ 242.71
32mm connection	\$ 329.21	\$ 356.87	\$ 371.39	\$ 384.97	\$ 397.66
40mm connection	\$ 514.43	\$ 557.64	\$ 580.33	\$ 601.56	\$ 621.38
50mm connection	\$ 803.78	\$ 871.30	\$ 906.75	\$ 939.92	\$ 970.90
80mm connection	\$ 2,057.73	\$ 2,230.58	\$ 2,321.35	\$ 2,406.25	\$ 2,485.56
100mm connection	\$ 3,215.19	\$ 3,485.27	\$ 3,627.09	\$ 3,759.75	\$ 3,883.67
150mm connection	\$ 7,234.21	\$ 7,841.88	\$ 8,160.99	\$ 8,459.47	\$ 8,738.30
1.3 Wastewater fixed service charges (per annum)					
Wangaratta, Yarrawonga, Benalla, Wodonga, Baranduda	\$ 209.53	\$ 204.42	\$ 199.44	\$ 194.57	\$ 189.82
Bright, Rutherglen, Wahgunyah, Beechworth, Mt Beauty, Tawonga, Tawonga South, Myrtleford, Porepunkah	\$ 251.44	\$ 245.30	\$ 239.33	\$ 233.49	\$ 227.78
Chiltern, Tallangatta, Corryong, Yackandandah	\$ 272.39	\$ 265.74	\$ 259.27	\$ 252.95	\$ 246.77
Bellbridge	\$ 293.34	\$ 286.18	\$ 279.22	\$ 272.40	\$ 265.75
Dartmouth	\$ 314.29	\$ 306.63	\$ 299.16	\$ 291.86	\$ 284.73
Kiewa, Tangambalanga, Barnawartha, Bundalong	\$ 361.92	\$ 353.08	\$ 344.49	\$ 336.08	\$ 327.87
1.4 Variable Wastewater charges					
Non residential cistern charge (per cistern)	\$ 46.07	\$ 46.07	\$ 46.07	\$ 46.07	\$ 46.07

1.5 Trade Waste charges per unit (per kg)					
Volume	\$ 0.9936	\$ 1.0234	\$ 1.0490	\$ 1.0700	\$ 1.0861
Chemical Oxygen Demand	\$ 0.2869	\$ 0.2955	\$ 0.3029	\$ 0.3089	\$ 0.3135
Suspended Solids	\$ 0.0783	\$ 0.0807	\$ 0.0827	\$ 0.0844	\$ 0.0856
Total Kjeldahl Nitrogen	\$ 0.9290	\$ 0.9569	\$ 0.9808	\$ 1.0005	\$ 1.0155
Total Phosphorus	\$ 11.2904	\$ 11.6291	\$ 11.9198	\$ 12.1582	\$ 12.3406
1.6 Trade Waste charges when limit exceeded (per kg)					
Total Dissolved Solids	\$ 0.0783	\$ 0.0807	\$ 0.0827	\$ 0.0844	\$ 0.0856
Oil and Grease	\$ 0.0783	\$ 0.0807	\$ 0.0827	\$ 0.0844	\$ 0.0856
Ammonia	\$ 0.0783	\$ 0.0807	\$ 0.0827	\$ 0.0844	\$ 0.0856
Sodium	\$ 0.0783	\$ 0.0807	\$ 0.0827	\$ 0.0844	\$ 0.0856
Total Oxidised Sulphur	\$ 0.5360	\$ 0.5521	\$ 0.5659	\$ 0.5772	\$ 0.5858
pH	\$110.0732	\$113.3754	\$116.2098	\$118.5340	\$120.3120
1.7 Customer contributions – water (per lot)					
Development Type A	\$ 550.00	\$ 563.75	\$ 592.29	\$ 637.83	\$ 704.05
Development Type B	\$ 1,100.00	\$ 1,127.50	\$ 1,184.58	\$ 1,275.66	\$ 1,408.09
Development Type C	\$ 2,200.00	\$ 2,255.00	\$ 2,369.16	\$ 2,551.33	\$ 2,816.19
1.8 Customer contributions – wastewater (per lot)					
Development Type A	\$ 550.00	\$ 563.75	\$ 592.29	\$ 637.83	\$ 704.05
Development Type B	\$ 1,100.00	\$ 1,127.50	\$ 1,184.58	\$ 1,275.66	\$ 1,408.09
Development Type C	\$ 2,200.00	\$ 2,255.00	\$ 2,369.16	\$ 2,551.33	\$ 2,816.19
1.9 Miscellaneous fees and charges					
Information statements	\$ 49.79	\$ 51.04	\$ 52.32	\$ 53.62	\$ 54.96
Special meter readings – tenants	\$ 24.89	\$ 25.51	\$ 26.15	\$ 26.80	\$ 27.47
Septic disposal charge (per kL)	\$ 24.89	\$ 25.51	\$ 26.15	\$ 26.80	\$ 27.47
Septic disposal charge – portable	\$ 19.91	\$ 20.40	\$ 20.91	\$ 21.44	\$ 21.97
New wastewater connection – standard residential	\$ 159.35	\$ 163.33	\$ 167.41	\$ 171.60	\$ 175.89
New wastewater connection – other res.	\$ 209.13	\$ 214.36	\$ 219.72	\$ 225.21	\$ 230.84
Wastewater connection alterations	\$ 139.42	\$ 142.91	\$ 146.48	\$ 150.14	\$ 153.89
Water tapping fee – 20mm service	\$ 59.74	\$ 61.23	\$ 62.76	\$ 64.33	\$ 65.94
Water tapping fee – 25mm service	\$ 69.70	\$ 71.44	\$ 73.23	\$ 75.06	\$ 76.94
Water connection fee – 20mm service	\$ 169.31	\$ 173.54	\$ 177.88	\$ 182.33	\$ 186.89
Water connection fee – 25mm service	\$ 298.79	\$ 306.26	\$ 313.91	\$ 321.76	\$ 329.81