

Our Ref: OUT08-03155

9 May 2008

Mr Greg Wilson
Chairperson
Essential Services Commission
Spring Street
MELBOURNE VIC 3000

water@esc.vic.gov.au

Dear Greg,

Westernport Water response to ESC Draft Determination – Water Plan 2008 to 2013

Westernport Water provides the following responses to the draft determination issued by the Commissioner in March 2008.

Westernport Water has revised the revenue requirement and tariff structure to include adjustments proposed in the draft determination. As a result, the proposed pricing path has been increased from an annual average of 5.6% proposed in the determination to 6.3%. The deviation from the draft pricing path is due to Westernport Water's adjustment of the proposed demand forecast to a more sustainable and realistic demand forecast of 1% growth per annum over the five year regulatory period.

Further details of Westernport Water's response to relevant sections of the draft determination are contained in following pages (2 to 8).

Should you need clarification on any issues contained in Westernport Water's response to draft determination, please contact Kylie White (Regulation and IT Manager) on 5956 121 or kwhite@westernportwater.com.au.

Yours sincerely,

Keith Gregory
Managing Director (Acting)

WESTERNPORT WATER RESPONSE TO DRAFT DETERMINATION

Section 3 – Service Standards

Westernport Water accepts the proposed service standards detailed in the draft determination.

Section 4 – Guaranteed Service Levels

Not applicable.

Section 5 – Revenue Requirement

Westernport Water has adopted the adjustments¹ to operating expenditure and capital expenditure proposed in the draft determination

Section 6 – RAB Rolled forward

Westernport Water has adopted the adjustments to the regulatory asset base proposed in the draft determination

Section 7 – Weighted average cost of capital

Westernport Water has adopted the increase to the WACC proposed in the draft determination.

Section 8 - Operating Expenditure

Westernport Water has adopted the additional operating expenditure proposed in the draft determination:

- additional electricity expenditure of \$210k for five year period;
- additional \$30k for WSDS in 2008/09;
- additional \$60k each year for increased environmental contribution (originally \$160k per year); and
- additional \$1k each year for DHS licences.

Section 9 - Capital Expenditure

Westernport Water has adopted the adjustments to capital expenditure proposed in the draft determination:

- Deferral of majority of costs associated with major augmentation (raising Candowie) to last two years of water plan; and
- Reduction of \$200k for feasibility costs to investigate desalination option.

Section 10 - Demand

Westernport Water provided a revised submission for demand forecasts to PricewaterhouseCoopers (PwC) in January 2008. The revised submission was based on updated billing data from March 2007, and more accurately reflected the impacts of increased tank rebates processed over the preceding 12 months for residential properties, and impacts from major water users implementing water saving measures, including:

¹ All expressed in Jan 07 dollars

- Flower farm 1ML tank;
- Herb Farm 2 x 1ML tanks – reduced consumption by 25%;
- Quarry – dams and tanks –reduced consumption by 50% ;
- Aussie Golf Ranch (new customer) – reverse osmosis unit and dams to reduce consumption; and
- Bass Coast Shire – Tank to Toilet projects.

Originally, Westernport Water predicted that no water restrictions would be in place, and demand would be strong leading into the start of the second regulatory period. The original Water Plan submission was based on 1800ML consumption for 2008/09. This figure has been revised to 1700ML based on:

- the impacts of a slower recovery from lifting restrictions (and the possibility of not lifting stage 2 restrictions until 2009/10);
- the increase in tank rebates processed;
- the notification from major water users implementing permanent water saving infrastructure; and
- the general downward trend in per property demand for residential customers due to the demographic profile of customer base (60% of residential properties are non-permanent residences).

An analysis of the variances from Westernport Water's revised submission and draft determination is attached ([Appendix A](#)).

Westernport Water believes that PwC forecasts for demand did not consider the demographics of our customers:

- 60%² of residential properties are non-permanent residents;
- Non-permanent properties only use 26% of total consumption (approx 450ML per year);
- The rate of change from non-permanent to permanent properties is minimal due to the additional properties being constructed as non-permanent (or holiday) rentals;
- Westernport Water has the highest holiday homes in the State³;
- Likelihood of major sea change is highly unlikely over the plan period;
- Current financial markets (increasing home loan rates) indicates that the market for properties on the island has slowed; and
- Water conservation is a high priority for our customers, as highlighted in customer consultation for the Water Plan, and feedback from customer consultative panel (CCP) members.

Westernport Water's revised submission reflects a sustainable balance between managing customer demand requirements and community expectations of water conservation as well the current Government's expectations to reduce consumption.

Westernport Water has reviewed the demand forecasts proposed in the Draft Determination of 6.3% (average) each year and believe that the forecast is not

² Non permanent residential properties account for 50% of total property numbers

³ Coastal Population fluctuations (Urban Enterprise May 2007)

consistent with current downward trend in consumptive behaviour, and can not be sustained⁴.

Westernport Water has amended the Draft Determination demand forecasts to reflect the revised submission forecasts of 1% growth in demand each year of the regulatory period. This has been included in the revised tariff schedule ([Appendix B](#)) and revenue requirement proposed.

The proposed annual price increase for the five year regulatory period from 1 July 2008 has been re-calculated at 6.3%, compared to an *average* annual increase of 5.6% proposed in the Draft Determination.

Section 11 – Form of price control

Westernport Water has attached a schedule of charges for 2008/09 and has in place processes to send updated schedule to the Commission each year.

Section 12 – Pass through mechanisms

Westernport Water notes the Commission's commitment to implementing flexible mechanisms to enable businesses to adjust pricing structure where there is a material variance from water plan assumptions. Westernport Water would like further clarification of '*material variance*'.

Section 13 & 14 - Noted

Section 15 – Recycled Water

Westernport Water is committed to promoting the use of recycled water as an alternative water supply, and has adopted pricing that is consistent with the pricing principles detailed in the draft determination. Westernport Water proposes to recover the short run marginal cost of providing recycled water services over the plan period.

As part of community consultation on our Water Plan, Westernport Water advised the community of the impacts of providing recycled water services at a current pricing which did not fully recover all administrative costs and other overheads. To date Westernport Water has not received any objections to the proposed recycled water pricing contained within the Water Plan.

Westernport Water believes that although the recycled water business is not a commercially viable option in the short term, the social and environmental benefits of providing alternative water supplies play a major factor in Westernport Water continuing to offer recycled water at a low take up price.

It is anticipated that social consciousness will contribute to a growth in recycled water customers, and Westernport Water is planning to develop recycled water supply capability and delivery of a class A product over the regulatory period. With an expected increase in customers, Westernport

⁴ PwC demand projections in 2012/13 are significantly higher than reservoir capacity and our peak pre-drought year (2002/03) where storages were not at full capacity.

Water is progressively developing a new pricing structure and performance measures similar to current water supply metrics.

Section 16 – New Customer Contributions

Westernport Water has adopted the new customer contribution pricing structure proposed in the draft determination, and accepts the Commission's view that this structure will not apply to recycled water customers.

Section 17 – New Customer Contributions

As part of the preparation of the Water Plan, Westernport Water reviewed the list of miscellaneous charges and streamlined the number of charges. As part of the Water Plan review process, Westernport Water was again requested to reduce the list of miscellaneous charges and reduce the number of charges from 69 down to 42. In response to the Commissioner's request, Westernport Water has again reviewed the list and now proposes a new set of core miscellaneous charges (7 only) representing 75% of total miscellaneous revenue, as detailed in [Appendix C](#).

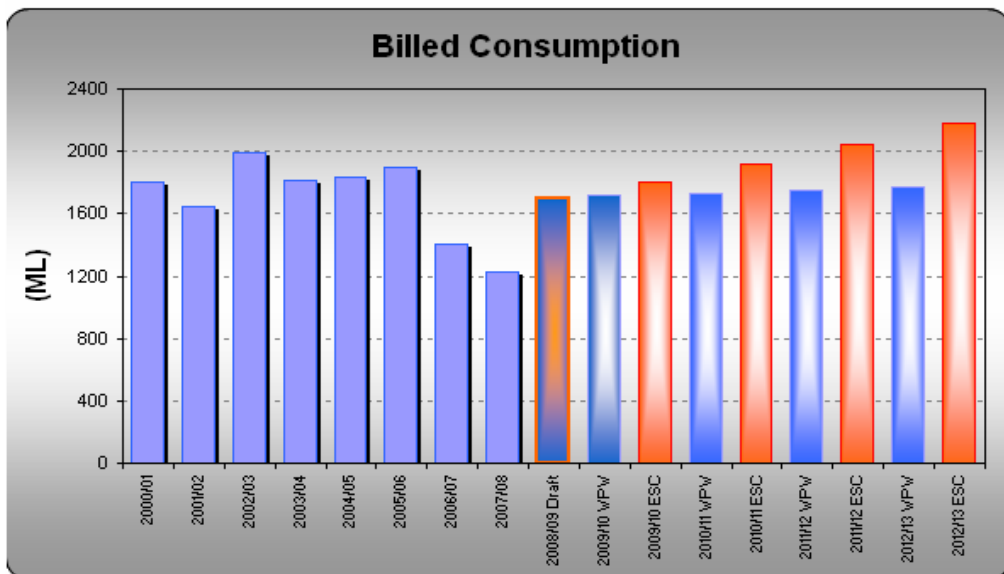
APPENDIX A – COMPARISON OF ESC AND WPW DEMAND

Property numbers	2007/08 ¹	2008/09	2009/10	2010/11	2011/12	2012/13
Residential	12,972	13,383	13,651	13,924	14,202	14,486
Non-residential	761	1,034	1,043	1,052	1,061	1,070
Demand						
Residential						
ESC	1,073,000	1,151,000	1,252,000	1,363,000	1,484,000	1,616,000
WPW	1,073,000	1,155,978	1,167,538	1,179,214	1,191,007	1,202,917
Variance		0%	7%	13%	20%	26%
Non Residential						
ESC	505,000	544,021	549,461	554,956	560,505	566,110
WPW	505,000	544,021	549,461	554,956	560,505	566,110
Variance		0%	0%	0%	0%	0%
TOTAL DEMAND						
ESC	1,578,000	1,695,021	1,801,461	1,917,956	2,044,505	2,182,110
WPW	1,578,000	1,699,999	1,716,999	1,734,170	1,751,512	1,769,027
Variance		0%	5%	10%	14%	19%
Annual Increase in demand						
ESC		6.9%	5.9%	6.1%	6.2%	6.3%
WPW		7.2%	1.0%	1.0%	1.0%	1.0%
Variance						
Total Average Residential consumption (kL) ²						
ESC	83	86	92	98	104	112
WPW	83	86	86	85	84	83
Variance		0%	7%	13%	20%	26%
Average annual consumption (kL)						
ESC						
Permanent residential	109	113	120	128	137	146
Non-permanent residential ²	59	61	64	66	69	73
WPW						
Permanent residential	109	113	112	111	110	109
Non-permanent residential ²	59	61	61	60	59	59

NOTES

¹ 2007/08 data based on Nov 2007 billing data

² Includes connected vacant land which is classified as residential



APPENDIX B – TARIFF SCHEDULE

Tariffs	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Residential Variable Charge - Block 1	\$1.1018	\$1.1711	\$1.2448	\$1.3231	\$1.4063
Residential Variable Charge - Block 2	\$1.3200	\$1.4030	\$1.4913	\$1.5851	\$1.6848
Residential Variable Charge - Block 3	\$1.7000	\$1.8069	\$1.9206	\$2.0414	\$2.1698
Residential Water Access Charge	\$269.75	\$286.72	\$304.75	\$323.92	\$344.30
Residential Sewer Access Charge	\$409.59	\$435.68	\$463.09	\$492.22	\$523.18
Unconnected Vacant Land Water Access Charge	\$202.26	\$202.26	\$202.26	\$202.26	\$202.26
Unconnected Vacant Land Sewer Access Charge	\$207.87	\$207.87	\$207.87	\$207.87	\$207.87

Non Residential Variable Charge	\$1.2000	\$1.2755	\$1.3557	\$1.4410	\$1.5317
Non-Residential 20mm Access Charge	\$269.75	\$286.72	\$304.75	\$323.92	\$344.30
Non-Residential 25mm Access Charge	\$485.54	\$516.08	\$548.55	\$583.05	\$619.73
Non-Residential 32mm Access Charge	\$917.35	\$975.06	\$1,036.40	\$1,101.59	\$1,170.89
Non-Residential 40mm Access Charge	\$1,672.70	\$1,777.93	\$1,889.77	\$2,008.65	\$2,135.00
Non-Residential 50mm Access Charge	\$2,994.70	\$3,183.10	\$3,383.34	\$3,596.16	\$3,822.37
Non-Residential 65mm Access Charge	\$5,962.44	\$6,337.53	\$6,736.21	\$7,159.95	\$7,610.33
Non-Residential 80mm Access Charge	\$10,333.16	\$10,983.22	\$11,674.14	\$12,408.50	\$13,189.03
Non-Residential 100mm Access Charge	\$18,588.94	\$19,758.36	\$21,001.31	\$22,322.40	\$23,726.53
Non-Residential 150mm Access Charge	\$42,843.93	\$45,539.24	\$48,403.99	\$51,448.84	\$54,685.10
Non Residential (1 cistern)	\$409.89	\$435.68	\$463.09	\$492.22	\$523.18
Non Residential (>2 cisterns)	\$148.90	\$158.27	\$168.22	\$178.81	\$190.05

APPENDIX C – CORE SET OF MISCELLANEOUS CHARGES

Miscellaneous Service	Price	Definition	Charge Applies
20mm Water Connection (Dry)	\$203.95	Standard house connection fee where a Westernport Water connection point exists.	Payable upon application
20mm Water Connection (Wet)	\$257.15	Standard house connection fee where there is no Westernport Water connection point. Plumber to supply additional fittings.	Payable upon application
Wasterwater Connection – Standard Residential	\$141.85	Standard residential sewer connection. Includes a copy of a property plan showing where the sewer connection point is located, Plumbing Industry Commission (PIC) authorisation number and an As Constructed Drawing.	Payable upon application
Wasterwater Connection – Standard Commercial	\$53.20 plus \$133.00 per connection.	Standard commercial sewer connection. Includes a copy of a property plan showing where the sewer connection point is located, Plumbing Industry Commission (PIC) authorisation number(s) and an As Constructed Drawing.	Payable upon application

Miscellaneous Service	Price	Definition	Charge Applies
Information Statement - Standard	\$39.20	Statement of outstanding charges against a property. Is provided to the customer within 5 business days of request	Payable upon application
Information Statement - Priority	\$78.40	Statement of outstanding charges against a property. Is provided to the customer within 24 business hours of request	Payable upon application
Special Meter Read	\$44.75	Special meter reading conducted by Westernport Water outside of normal meter reading cycle and at the specific request of a customer.	Payable upon application