



Level 37, 2 Lonsdale St
Melbourne 3000, Australia
Telephone +61 3 9032 1300
 +61 1300 664 969
Facsimile +61 3 9032 1303

2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
CITY WEST WATER

APRIL 2013

An appropriate citation for this paper is:

Essential Services Commission 2013, *Water Price Review 2013: Greater Metropolitan Water Businesses—Draft Decision Volume II: City West Water*, April.

CITY WEST WATER

1. Purpose of volume II of the draft decision

The Commission is required to issue a draft decision that proposes either to:

- (a) approve all of the prices which a regulated entity may charge for prescribed services, or the manner in which such prices are to be calculated or otherwise determined, as set out in the regulated entity's water plan, until the commencement of the next regulatory period or
- (b) refuse to give the approval referred to above and specifies the reasons for the Commission's proposed refusal (which may include suggested amendments to, or action to be taken in respect of, the Water Plan that, if adopted or taken, may result in the Commission giving that approval) and the date by which a regulated entity must resubmit a revised Water Plan or undertake such action as to ensure compliance.

This volume of the draft decision summarises for each business the suggested amendments or actions that if adopted or taken may result in the Commission giving its approval to the relevant business's proposed prices or the manner in which such prices are to be calculated or otherwise determined. The main reasons for suggested amendments or actions are summarised. More detailed reasons for the Commission's suggested amendments are outlined in volume I of the draft decision.

2. Actions to be taken in response to this draft decision

In response to this draft decision, City West Water should by 20 May 2013 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2013 that reflects:
 - (i) the revised revenue requirement set out in table 3
 - (ii) the revised demand forecasts set out in tables 14–21

- (iii) the inclusion of DHS dwellings in the per connected property charge and
- (iv) any tariff structure changes suggested by the Commission.
- (b) in support of its depreciation forecast - documentation covering disaggregated capital projects reflecting proposed adjustments in response to this draft decision.
- (c) additional information on why it has proposed to increase trade waste charges by 5 per cent in 2013-14.
- (d) a revised forecast of demand for recycled and potable water to reflect the absence of stage two of the Altona Recycling Plant and the Docklands recycled water project in the third regulatory period.
- (e) updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.
- (f) its proposed RAB, adopting the 2012-13 Determination forecasts as per the commission's guidance paper.
- (g) its proposals to pass through desalination water order cost changes through adjustment factors for changes in fixed and variable bulk water costs, including sufficient information to allow customers to readily understand the prices that will apply if desalinated water is ordered.

In response to this draft decision, City West Water should by 10 May 2013 resubmit:

- a) the New Customer Contribution Charges (NCC) proposal with specific actions required by the Commission set out in section 16.

If a business does not submit a revised schedule of tariffs and/or the service standards to apply, or otherwise make a submission as to why it has not adopted the Commission's suggested amendments by the due date, the Commission will specify the prices, or manner in which prices are to be calculated or otherwise determined and the service standards to apply for the regulatory period 2013-14 to 2017-18 as part of its Final Determination.

3. Service standards

The Commission proposes to approve each of the service standards proposed in City West Water's Water Plan (table 1).

Table 1 Approved service standards

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Water						
Unplanned water supply interruptions (per 100km)	42.9	42.8	42.8	42.8	42.8	42.8
Average time taken to attend bursts and leaks (priority 1) (minutes)	23.29	23.2	23.2	23.2	23.2	23.2
Average time taken to attend bursts and leaks (priority 2) (minutes)	32.29	32.3	32.3	32.3	32.3	32.3
Average time taken to attend bursts and leaks (priority 3) (minutes)	187.37	209	209	209	209	209
Unplanned water supply interruptions restored within 5 hours (per cent)	95.12	95.1	95.1	95.1	95.1	95.1
Planned water supply interruptions restored within 5 hours (per cent)	95.38	95.4	95.4	95.4	95.4	95.4
Average unplanned customer minutes off water supply (minutes)	27.96	28	28	28	28	28
Average planned customer minutes off water supply (minutes)	8.37	8.4	8.4	8.4	8.4	8.4
Average frequency of unplanned water supply interruptions (number)	0.20	0.198	0.198	0.198	0.198	0.198
Average frequency of planned water supply interruptions (number)	0.06	0.061	0.061	0.061	0.061	0.061
Average duration of unplanned water supply interruptions (minutes)	139.8	140.1	140.1	140.1	140.1	140.1
Average duration of planned water supply interruptions (minutes)	137.4	137.4	137.4	137.4	137.4	137.4

<i>Service standard</i>	<i>5yr Avg</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	21.20	0.0	0.0	0.0	0.0	0.0
Unaccounted for water (per cent)	8.61	8.6	8.6	8.6	8.6	8.6
Sewerage						
Sewerage blockages (per 100km)	23.74	23.8	23.8	23.8	23.8	23.8
Average time to attend sewer spills and blockages (minutes)	27.5	27.5	27.5	27.5	27.5	27.5
Average time to rectify a sewer blockage (minutes)	126.34	126.1	126.1	126.1	126.1	126.1
Spills contained within 5 hours (per cent)	100.00	100	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	0	0	0	0	0	0
Customer Service						
Complaints to EWOV (per 1000 customers)	na	0.56	0.56	0.56	0.56	0.56
Telephone calls answered within 30 seconds (per cent)	na	0.56	0.56	0.56	0.56	0.56

na: not applicable

4. Guaranteed service level scheme

The Commission proposes to approve the GSL events and payment levels proposed by City West Water (table 2).

Table 2 **Draft decision on GSL events and payment levels**

<i>Proposed level of service</i>	<i>Draft decision payment (\$)</i>
Water	
Unplanned interruptions not restored within five hours of notification	50
More than five unplanned interruptions in a 12 month period	50
Sewerage	
More than three interruptions in a 12 month period	50
Interruptions not restored within five hours of notification	50
Spills not contained within five hours of notification	50
Spills in a house not contained within one hour of notification	1000
Hardship	
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying	300

5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

Table 3 **Breakdown of revenue requirement**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Operating expenditure	452.0	459.3	459.9	462.1	463.7
Return on existing assets	66.5	64.7	63.1	61.8	60.6
Return on new investments	3.5	8.7	12.0	15.5	19.4
Regulatory depreciation	36.7	43.8	46.4	47.2	48.9
Tax liability	8.5	7.3	5.0	3.4	5.8
Total	567.3	583.7	586.5	590.1	598.5

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2008 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2011-12 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 4.

Table 4 **Updated regulatory asset base**
\$m 2012-13

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	1 074.0	1 125.0	1 240.4	1 316.1
<i>Plus</i> Gross Capital expenditure	90.7	166.5	128.7	147.2
<i>Less</i> Government contributions	0.0	5.5	3.8	3.2
<i>Less</i> Customer contributions	14.8	17.1	18.2	17.0
<i>Less</i> Proceeds from disposals	0.0	0.0	0.5	0.1
<i>Less</i> Regulatory depreciation	25.0	28.4	30.4	29.1
Closing RAB	1 125.0	1 240.4	1 316.1	1 413.9

The regulatory asset base as at 1 July 2012 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2012-13 to 2017-18 period less any approved allowance for regulatory depreciation. These rolled forward values are shown in table 5.

Table 5 **Rolled forward regulatory asset base**
\$m 2012-13

	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Opening RAB	1 413.9	1 435.3	1 543.7	1 581.5	1 615.1	1 676.0
<i>Plus</i> Gross capital expenditure	70.2	185.3	117.4	108.7	136.9	130.4
<i>Less</i> Government contributions	0.0	4.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	15.9	28.7	28.7	28.7	28.7	28.7
<i>Less</i> Proceeds from disposals	0.9	7.5	7.1	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	32.0	36.7	43.8	46.4	47.2	48.9
Closing RAB	1 435.3	1 543.7	1 581.5	1 615.1	1 676.0	1 728.9

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all metropolitan water businesses. Table 6 below outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

Table 6 **Real post-tax WACC**

<i>Real risk free rate</i>	<i>Equity beta</i>	<i>Market risk premium</i>	<i>Debt margin</i>	<i>Financing structure (gearing)</i>	<i>Franking credit value</i>	<i>WACC</i>
<i>per cent</i>	<i>β</i>	<i>per cent</i>	<i>per cent</i>	<i>per cent</i>	<i>y</i>	<i>per cent</i>
0.679 – 1.023	0.65	6.0	3.03 – 4.53	60	0.5	4.7

8. Operating expenditure

The Commission has taken the following approach in assessing the total prescribed operating expenditure for the next regulatory period (table 10).

Total prescribed operating expenditure comprises:

- total controllable operating expenditure, adjusted to remove non-recurrent expenditure and to allow for new initiatives or obligations to the business's baseline year 2011-12 (table 7);
- bulk water charges adjusted by the Commission (table 8); and
- regulatory charges (table 9).

Table 7 shows the Commission's proposed:

- business-as-usual (BAU) allowance, incorporating both growth and the productivity efficiency requirement
- allowance (or reduction) for each of City West Water's proposed new expenditure initiatives or obligations.

Together these comprise the total recommended controllable operating expenditure.

Table 7 **Allowance for controllable operating expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Baseline BAU expenditure	93.40	95.09	96.80	98.54	100.31
<i>New initiatives or obligations</i>					
Alternative water - Altona Stage 2	0.00	0.00	0.00	0.00	0.00
Alternative water - stormwater harvesting	0.10	0.16	0.19	0.21	0.34
Alternative water - West Werribee	0.00	4.19	4.33	4.60	4.83
Carbon tax	0.29	0.29	0.24	0.25	0.26
Office relocation	1.56	3.92	3.39	3.42	3.45
Superannuation Guarantee levy	0.00	0.00	0.00	0.00	0.00
Arrow IT program operating expenditure savings	0.00	-1.52	-3.08	-4.25	-4.55
Water conservation costs	-1.28	-1.29	-1.29	-1.30	-1.30
Price rise impact assistance	1.10	0.00	0.00	0.00	0.00
Total new initiatives or obligations	1.77	5.76	3.78	2.93	3.02
Total recommended controllable operating expenditure	95.18	100.84	100.57	101.47	103.33

- (a) PwC recommended the total operating expenditure proposed for the Altona Stage 2 capital project be removed in line with its removal from City West Water's capital expenditure program (see section 4.4.2 of PwC's expenditure review).
- (b) PwC recommended allowing the proposed operating expenditure for City West Water's allowance for alternative water from stormwater harvesting (see section 4.4.2 of PwC's expenditure review).
- (c) PwC recommended that City West Water's proposed expenditure for alternative water for West Werribee be allowed and have also recommended an additional amount to adequately cover increased energy costs (see section 4.4.2 of PwC's expenditure review).
- (d) PwC recommended a downward adjustment to forecast costs proposed by City West Water for energy prices related to the carbon tax, in line with the Commission's guidance (see section 4.4.2 of PwC's expenditure review).

- (e) Additional expenditure pertaining to City West Water’s office relocation has been allowed as proposed, with a downward adjustment in the last two years of the regulatory period to account for sublease payments (see section 4.4.2 of PwC’s expenditure review).
- (f) City West Water’s proposed increase to cover increased superannuation contribution rates has been removed, consistent with the government’s wages policy (see section 4.4.2 of PwC’s expenditure review).
- (g) The anticipated cost efficiency savings resulting from the implementation of the Arrow IT program have been accounted for from 2014 (see section 4.4.2 of PwC’s expenditure review).
- (h) Water conservation expenditure was reduced due to insufficient evidence of customer support (see section 4.4.2 of PwC’s expenditure review).
- (i) The Commission has allowed an additional amount for City West Water to assist customers in managing the impact of the proposed price increases for the first year of the period.

The Commission has used the following estimates for bulk water charges to estimate prices, revenue, expenditure and bills for the purposes of the draft decision.

Table 8 Bulk charges
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Business proposed	359.3	361.5	363.0	360.5	356.4
Commission’s estimate	338.2	340.3	341.7	343.4	343.6
Bulk charges adjustment	-21.1	-21.2	-21.3	-17.1	-12.8

The Commission has adjusted licence fees to reflect its own projections and advice provided by EPA Victoria and the Department of Health. The environmental contribution payable to the state government has also been adjusted to reflect advice provided by the Department of Sustainability and Environment.

Table 9 **Regulatory charges**
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Environmental contribution	18.05	17.56	17.07	16.60	16.15
Essential Services Commission	0.40	0.40	0.40	0.42	0.48
Department of Health	0.12	0.12	0.12	0.12	0.12
EPA Victoria	0.07	0.07	0.07	0.07	0.07
Draft decision – total regulatory charges	18.64	18.15	17.66	17.22	16.82

Table 10 **Operating expenditure adjustment summary**
\$m 2012-13

<i>Expenditure item</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Total recommended controllable operating expenditure	95.2	100.8	100.6	101.5	103.3
Estimated bulk charges	338.2	340.3	341.7	343.4	343.6
Total regulatory charges	18.64	18.15	17.66	17.22	16.82
Draft decision – total prescribed operating expenditure	452.0	459.3	459.9	462.1	463.7
Business proposed total prescribed operating expenditure ^a	474.7	484.6	488.4	491.6	489.2
Total prescribed operating expenditure adjustment	-22.7	-25.3	-28.5	-29.5	-25.5

^a This is the amount requested by City West Water in its Water Plan.

9. Capital expenditure

The Commission has made the following assumptions about capital expenditure forecasts over the regulatory period:

Table 11 **Proposed and approved capital expenditure assumptions**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed capital expenditure	203.5	151.5	152.8	153.9	133.2
Draft decision – capital expenditure	185.3	117.4	108.7	136.9	130.4

The Commission's assumptions reflect the following adjustments to City West Water's proposed capital expenditure forecasts:

Table 12 **Adjustments to capital expenditure**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Altona recycled water project - stage 2	-17.8	-29.6	-32.5	0.0	0.0
Footscray activity area alternative water	0.0	-1.0	-1.0	-1.0	-2.0
Sewer mining in Docklands	0.0	-2.8	-9.7	-15.3	0.0
Capitalised labour associated with alternative water projects	-0.3	-0.7	-0.8	-0.7	-0.7
Total	-18.2	-34.0	-44.1	-17.1	-2.7

- (a) Altona recycled water - stage 2 – based on information received from City West Water, PwC did not consider the justifications for the project were compelling. It noted that City West Water has not demonstrated the project to be economically efficient and there was lack of analysis demonstrating that the timing of the investment is prudent (section 6.3 of PwC expenditure report). Expenditure for this project has been removed accordingly.
- (b) Footscray activity area alternative water – based on the information received from City West Water, PwC did not consider the justifications for the project were compelling. To be justified PwC would expect that the project be demonstrated to be the least-cost means to meet City West Water’s obligations or that rigorous customer willingness to pay evidence be provided (section 6.3 of PwC expenditure report).
- (c) Sewer mining in Docklands – PwC recommended removing the expenditure from the program. The Commission has accepted PwC’s recommendations. The Commission will reconsider its draft decision on the proposed expenditure if City West Water can demonstrate and provide evidence that the project is less costly than conventional water supply (chapter 8 of volume I of the draft decision and section 6.3 of PwC expenditure report).
- (d) Capitalised labour associated with alternative water projects – adjustments reflect the changes in proposed expenditure for alternative water projects (section 6.3 of PwC expenditure report).

City West Water has identified the following key capital projects that it proposes to deliver during the regulatory period.

Table 13 Key capital projects

	<i>Expected completion date</i>
Network renewals	2013-14 to 2017-18
Growth areas – integrated supply	2013-14 to 2017-18
Growth areas – sewerage	2013-14 to 2017-18
Program Arrow	2013-14 to 2017-18
Stormwater projects	2016-17
Networks compliance	2013-14 to 2017-18
Aquifer storage and recovery	2013-14 to 2017-18
Office relocation	2013-14

10. Demand forecasts

The Commission has used the following assumptions about demand for various services over the regulatory period.

The Commission's assumptions reflect City West Water's revised submission of residential and non-residential water volumes. The Commission has also revised City West Water's residential and non-residential sewage volumes to reflect these changes.

Table 14 Number of water connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	349 008	358 808	368 258	377 358	386 358
Draft decision – connections	349 008	358 808	368 258	377 358	386 358
Non-residential					
Proposed connections	34 157	35 218	36 242	37 228	38 203
Draft decision – connections	34 157	35 218	36 242	37 228	38 203
Proposed – Total connections	383 165	394 026	404 500	414 586	424 561
Draft decision – total connections	383 165	394 026	404 500	414 586	424 561

Table 15 **Number of sewerage connections**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	349 008	358 808	368 258	377 358	386 358
Draft decision – connections	349 008	358 808	368 258	377 358	386 358
Non-residential					
Proposed connections	34 157	35 218	36 242	37 228	38 203
Draft decision – connections	34 157	35 218	36 242	37 228	38 203
Proposed – Total connections	383 165	394 026	404 500	414 586	424 561
Draft decision – total connections	383 165	394 026	404 500	414 586	424 561

Table 16 **Residential water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed average consumption – Water Plan (kL)	146	147	146	145	144
Draft decision – average consumption (kL)	149	149	148	147	146
Proposed total residential consumption	51 113	52 598	53 668	54 675	55 668
Draft decision – total residential consumption	51 879	53 387	54 473	55 496	56 503

Table 17 **Non-residential water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential consumption – Water Plan	35 529	35 742	35 713	33 551	31 059
Draft decision – non-residential consumption	36 062	36 278	36 248	34 054	31 525

Table 18 **Total water consumption**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total consumption	86 642	88 340	89 381	88 226	86 727
Draft decision – total consumption	87 941	89 665	90 721	89 550	88 028

Table 19 **Residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total residential usage	38 335	39 639	40 498	41 306	42 106
Draft decision – total residential usage	38 910	40 234	41 106	41 925	42 738

Table 20 **Non-residential sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed non-residential usage – Water Plan	16 904	17 256	17 604	17 943	18 283
Draft decision – non-residential usage	17 157	17 515	17 867	18 212	18 557

Table 21 **Total sewage volume**
ML

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total usage	55 239	56 896	58 102	59 248	60 389
Draft decision – total usage	56 067	57 749	58 973	60 137	61 295

The Commission proposes to not to adopt City West Water’s recycled water volumes for the purposes of this draft decision. City West Water should submit revised recycled and potable water forecasts to reflect changes to its allowed recycled water expenditure.

The Commission requires City West Water to resubmit updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.

11. Form of price control

The Commission proposes to approve a hybrid form of price control for City West Water:

- It approves price caps for City West Water.
- City West Water may propose a tariff basket at the time of the annual price review.

Where City West Water proposes to transfer to a hybrid form of price control during the third regulatory period, and where that proposal results in a material tariff change, the Commission proposes to require the business to consult with customers. The determinations will require water businesses to provide evidence of customer consultation and a statement about customer impacts and how the business will address those impacts.

12. Retail water tariffs

- (a) The Commission proposes to approve City West Water's proposed retail water tariff structure.
- (b) The Commission proposes to approve City West Water's proposal to introduce fixed water charges per connected property. For pricing purposes, the Commission does not approve City West Water's proposal to exempt DHS dwellings from connection based charges. If City West Water exempts DHS dwellings, it should bear the cost of this exemption and not its customer base.

13. Retail sewerage tariffs

- (a) The Commission proposes to approve City West Water's proposed retail sewerage tariff structure.
- (b) The Commission proposes to approve City West Water's proposal to introduce fixed sewerage charges per connected property. For pricing purposes, the Commission does not approve City West Water's proposal to exempt DHS dwellings from connection based charges. If City West Water exempts DHS dwellings, it should bear the cost of this exemption and not its customer base.
- (c) The Commission proposes to approve City West Water's proposal to increase the residential sewage disposal volume to 75 per cent.

14. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariff structures proposed by City West Water, subject to City West Water providing additional information on why it has chosen to increase trade waste tariffs by 5 per cent in the first year of the regulatory period.
- (b) The Commission requires City West Water to continue to:
 - (i) include the Commission's trade waste pricing principles in their tariff schedules. All metropolitan water business are required to use the trade waste pricing principles when determining trade waste charges for customer to whom scheduled prices do not apply

- (ii) consult with trade waste customers before changes to trade waste structures occur.

15. Recycled water

- (a) The Commission proposes to approve City West Water’s recycled water pricing principles that ensure that prices:
 - (i) have regard to the price of any substitutes and customers’ willingness to pay
 - (ii) cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand)
 - (iii) include a variable component.
- (b) Where a business does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:
 - (i) it has assessed the costs and benefits of pursuing the recycled water project
 - (ii) it has clearly identified the basis on which any revenue shortfall is to be recovered
 - (iii) if the revenue shortfall is to be recovered from non-recycled water customers, either that the project is required by ‘specified obligations’ or that there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.
- (c) The Commission proposes to approve recycled water tariffs proposed by City West Water for third pipe customers.

16. New customer contributions

Table 22 New customer contributions charges

	\$ per lot
Water	6 500 ^a

^a combined water, sewerage and recycled water charge

- (a) The Commission is proposing to approve the manner in which City West Water, determines its NCC, subject to it taking the following actions:
- (i) Improve the cost-reflectivity of its proposal by assessing how it can present more options for offering more location-specific NCC. If the option is a uniform or combined NCC, then it must demonstrate that there is little material difference in between the NCC calculated for specific locations or services.
 - (ii) Improve the transparency of its NCC proposal by providing maps to show the boundaries of the areas (or towns) within which standard NCC apply, and/or define any threshold that must be met for a NCC to be levied.
 - (iii) Clearly describe the circumstances (that is, the eligibility criteria) under which NCC will be negotiated, and confirm it will apply the core pricing principles when negotiating such NCC.
 - (iv) Consult with other metropolitan water businesses to propose a common timeframe to estimate incremental revenues and incremental operating costs
 - (v) Consult with stakeholders following the draft decision
 - (vi) Make other modelling adjustments:
 - Update calculations of standard NCC with any relevant expenditure adjustments arising from the draft decision.
 - Update calculations of standard NCC with any relevant demand adjustments arising from the draft decision.
 - Review NCC calculations and include tax rates in the model only for the years the business expects to pay tax.
 - Update calculations of standard NCC with the Commission's draft decision on the WACC.
 - (vii) Re-submit a forecast of NCC revenue for each service for each year of the third regulatory period, following changes made in accordance with the above requirements.
 - (viii) The Commission requires City West Water to base its calculation of NCC on the prevailing or proposed 2013/14 water, sewerage and recycled water tariffs and to resubmit its standard NCC charges.
- (b) Given that the levels of standard NCC are still in the process of consultation with stakeholders, the Commission requires that City West Water resubmit its latest standard NCC proposal for the Commission's final decision.

- (c) Any revisions to NCC will need to be submitted to the Commission by 10 May 2013. This allows sufficient time to review and consult on City West Water's submission.

17. Miscellaneous charges

- (d) The Commission proposes not to approve the miscellaneous services fees and charges proposed by City West Water, subject to the businesses providing justification to its proposed price increase.
- (e) All businesses that proposed miscellaneous charges for developers are required to:
- (i) name all charges relating to developers
 - (ii) explain how these charges relate to NCCs
 - (iii) define the services that will be provided for these charges.

18. Adjusting Prices

For the third regulatory period, the Commission proposes to approve an uncertain and unforeseen events mechanism that sets out a process for a reopening of price determinations to account for events that were uncertain or unforeseen at the time of the price review, which the businesses could not control or effectively manage such as:

- unsustainable or unwarranted differences between actual and forecast demand level
- changes in legislative and other government imposed obligations
- catastrophic events (such as fire, earthquake or act of terrorism).

Key features of the mechanism are:

- A water business (by application to the Commission) or the Commission may initiate a reopening.
- Prices can either be raised or reduced as a result of an uncertain or unforeseen event.
- An adjustment to prices may be implemented by the Commission at any time within a regulatory period (and not only on 1 July in any year), or at the end

of the regulatory period.

- There will be no nominal thresholds for applications (based on differences between forecast and actual outcomes for expenditure, revenue and demand). However in applying to reopen a decision, the water business will need to demonstrate it does not have the financial resources or operational capacity to manage its exposure.
- The Commission proposes to reserve the discretion to limit the reopening of a determination to a single event, rather than the full suite of factors influencing business costs and revenues where:
 - i. the impact of an uncertain and unforeseen event on business costs or revenues is material, and
 - ii. the effects of which can be isolated with certainty

The Commission will only approve a mid-period price adjustment proposed by a water business, when it is satisfied:

- the event is clearly outside the business's control and not predictable with any confidence
- the business has exhausted all opportunities within its control to mitigate against the circumstances in which it finds itself, including demonstrable reprioritisation of its operating and capital expenditure programs
- customers are not unduly exposed to risk or price fluctuations
- the impact of the event is material, clearly observable and verifiable, and
- the net impact on costs or revenue of all changes that occurred during the period being considered is significant (except in cases where the Commission identifies a material event for which the effects can be isolated).

In determining whether a mid-period price adjustment is appropriate the Commission will focus on the business's ability to absorb the impacts of any event on costs or revenues, with particular emphasis on the business' viability ratios.

Adjusting prices for desalination costs

City West Water is required to resubmit its proposal for an adjustment factor for payments made for water ordered from the desalination plant. City West Water should apply d-factor adjustments on a cents per kilolitre basis and provide the Commission and customers a table of the prices that will apply in the instance of each incremental desalination water order.