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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
WESTERN WATER

APRIL 2013

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WESTERN 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, Western 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 15–19 and
 - (iii) any changes to tariff structure 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) updated demand forecasts for 2012-13 and any consequential amendments for the third regulatory period.
- (d) its proposed RAB, adopting the 2012-13 Determination forecasts as per the Commission's guidance paper.
- (e) in support of its proposed miscellaneous service fees and charges – more detailed definitions of its core miscellaneous services.
- (f) a proposal for how it would apply adjustment factors for desalination water orders and changes to desalination security payments.

In response to this draft decision, Western 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 17.

If a business does not submit a revised schedule of tariffs and/or the service standards and GSLs 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 and GSLs 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 Western Water's Water Plan (table 1).

Table 1 Approved service standards

<i>Service standard</i>	<i>5 year ave.</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)	14.2	17.9	17.9	17.9	17.9	17.9
Average time taken to attend bursts and leaks (priority 1) (minutes)	7.0	25	25	25	25	25

<i>Service standard</i>	<i>5 year ave.</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Average time taken to attend bursts and leaks (priority 2) (minutes)	19.8	25	25	25	25	25
Average time taken to attend bursts and leaks (priority 3) (minutes)	56.1	90	90	90	90	90
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	98.8	98	98	98	98	98
Planned water supply interruptions restored within 5 hours (per cent)	95.3	95	95	95	95	95
Average unplanned customer minutes off water supply (minutes)	14.9	12.7	12.7	12.7	12.7	12.7
Average planned customer minutes off water supply (minutes)	14	12.08	12.08	12.08	12.08	12.08
Average frequency of unplanned water supply interruptions (number)	0.16	0.16	0.16	0.16	0.16	0.16
Average frequency of planned water supply interruptions (number)	0.09	0.09	0.09	0.09	0.09	0.09
Average duration of unplanned water supply interruptions (minutes)	87.9	87.8	87.8	87.8	87.8	87.8
Average duration of planned water supply interruptions (minutes)	148.6	180	180	180	180	180
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	4.0	2.0	2.0	2.0	2.0	2.0
Unaccounted for water (per cent)	10.29	9.55	9.55	9.55	9.55	9.55
Sewerage						
Sewerage blockages (per 100km)	24.67	24.68	24.68	24.68	24.68	24.68
Average time to attend sewer spills and blockages (minutes)	23.30	24.21	24.21	24.21	24.21	24.21
Average time to rectify a sewer blockage (minutes)	89.28	92.33	92.33	92.33	92.33	92.33
Spills contained within 5 hours (per cent)	99.86	99.86	99.86	99.86	99.86	99.86

<i>Service standard</i>	<i>5 year ave.</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Customers receiving 3 sewer blockages in the year (number)	0.2	2.0	2.0	2.0	2.0	2.0
Customer Service						
Complaints to EWOV (per 1000 customers)	Na	1.0	1.0	1.0	1.0	1.0
Telephone calls answered within 30 seconds (per cent)	Na	94.4	94.4	94.4	94.4	94.4

Note Data rounded to two decimal places.

4. Guaranteed service level scheme

The Commission proposes to approve the GSL events and payments proposed by Western Water (table 2).

Table 2 **Proposed and approved GSL events and payment levels**

<i>Proposed level of service</i>	<i>Proposed payment (\$)</i>
Water	
Planned interruptions during peak hours (5-9am and 5-11pm)	50
Planned water supply interruption longer than notification given	50
Sewerage	
More than three sewer interruptions in 12 months	50
Sewer spills inside a house not contained within one hour of notification	500
Hardship	
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours (as defined by the ESC) 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	43.1	44.6	45.1	55.8	56.2
Return on existing assets	12.9	12.7	12.5	12.2	12.0
Return on new investments	0.1	0.5	1.4	2.9	5.0
Regulatory depreciation	4.2	4.3	4.5	4.9	5.7
Tax liability	3.1	3.5	3.4	3.4	4.3
Total	63.5	65.6	66.7	79.4	83.2

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2007 has been rolled forward to reflect approved capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2007-08 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>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Opening RAB	144.6	171.3	204.1	233.0	256.4
<i>Plus</i> Gross Capital expenditure	39.2	41.3	38.4	33.2	26.4
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	5.1	3.9	3.9	3.8	5.2
<i>Less</i> Proceeds from disposals	0.9	0.7	0.8	0.5	0.8
<i>Less</i> Regulatory depreciation	6.5	4.0	4.8	5.4	5.9
Closing RAB	171.3	204.1	233.0	256.4	270.9

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.

The Commission has adopted the following assumptions in relation to regulatory asset base over the regulatory period:

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	270.9	280.5	280.6	287.0	306.8	343.1
<i>Plus</i> Gross Capital expenditure	18.8	24.0	32.2	44.6	62.5	68.3
<i>Less</i> Government contributions	0.0	1.3	3.2	1.9	2.9	0.0
<i>Less</i> Customer contributions	4.7	17.6	17.6	17.6	17.6	17.6
<i>Less</i> Proceeds from disposals	0.9	0.8	0.8	0.8	0.8	0.8
<i>Less</i> Regulatory depreciation	6.2	4.2	4.3	4.5	4.9	5.7
Closing RAB	280.5	280.6	287.0	306.8	343.1	387.3

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.7 per cent for all water businesses. Table 6 outlines the individual components for the WACC.

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>γ</i>	<i>per cent</i>
0.679–1.023	0.65	6.0	3.03–4.53	60	0.5	4.7

8. Taxation

The Commission proposes to adjust Western Water's tax payment forecasts for the third regulatory period. The Commission has made the following assumptions about tax forecasts over the regulatory period:

Table 7 **Allowance for tax**
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Draft decision	1.1	1.6	1.6	1.7	2.7

9. Operating expenditure

The Commission has taken the following approach in assessing the total prescribed operating expenditure for the next regulatory period (table 11).

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 8)
- bulk water charges adjusted by the Commission (table 9) and
- regulatory charges (table 10).

The Commission has made no net adjustment to Western Water's proposed controllable operating expenditure forecast. Western Water's forecast met the Commission's productivity hurdle requirement.

Table 8 **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>
Business proposed controllable operating expenditure	35.0	35.7	36.3	37.4	37.9
Total recommended controllable operating expenditure	35.0	35.7	36.3	37.4	37.9

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 9 **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	6.5	8.2	8.9	15.3	22.7
Commission's estimate	5.7	6.5	6.4	16.1	16.0
Bulk charges adjustment	-0.8	-1.8	-2.5	0.8	-6.7

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 10 **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	2.34	2.28	2.22	2.16	2.10
Essential Services Commission	0.06	0.06	0.06	0.07	0.08
Department of Health	0.02	0.02	0.02	0.02	0.02
EPA Victoria	0.04	0.04	0.04	0.04	0.04
Draft decision - total regulatory charges	2.47	2.40	2.34	2.28	2.23

Table 11 **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	35.0	35.7	36.3	37.4	37.9
Estimated bulk charges	5.7	6.5	6.4	16.1	16.0
Total regulatory charges	2.5	2.4	2.3	2.3	2.2
Draft decision – total prescribed operating expenditure	43.1	44.6	45.1	55.8	56.2
Business proposed total prescribed operating expenditure ^a	44.1	46.5	47.6	55.1	62.9
Total prescribed operating expenditure adjustment	-1.0	-1.8	-2.6	0.7	-6.8

^aThis is the amount requested by Western Water in its Water Plan.

10. Capital expenditure

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

Table 12 **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	27.5	39.3	52.9	68.1	64.2
Draft decision – capital expenditure	24.0	32.2	44.6	62.5	68.3

The Commission's assumptions reflect the following adjustment to Western Water's proposed capital expenditure forecasts:

Table 13 **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>
Toolern stormwater infrastructure	-3.2	-7.1	-7.9	-0.5	0.0
Information Technology (IT) program - SCADA	-0.1	-0.1	-0.5	-0.5	-0.5
Sunbury additional water storage - Bald Hill tank	-0.2	0.2	0.0	-4.6	4.6
Total	-3.5	-7.1	-8.4	-5.6	4.1

(a) Toolern stormwater infrastructure – the proposed expenditure for this project has been removed from the capital expenditure forecast. The Commission requires Western Water to provide greater substantiation of meeting the following conditions if it wishes the Commission to reconsider allowing the proposed capital expenditure in the revenue requirement before its final decision in June 2013 (chapter 8 of volume I of the draft decision and section 6.3 of the PwC expenditure report):

- the business case, to be completed by Western Water in May 2013, demonstrates that the project is the least cost option for customers, and

- funding is secured from the Commonwealth Government.
- (b) IT program – SCADA – PwC does not believe that project need has been established based on the evidence provided. It also noted that at this stage, the benefits from this project appear quite speculative, and additional work should be undertaken to test its feasibility prior to the project proceeding (section 6.5 of PwC expenditure report).
- (c) Sunbury additional water storage – Bald Hill tank – proposed adjustments reflect PwC’s recommendation to defer the proposed expenditure by 1 year to allow Western Water to develop its options analysis and provide the results to the Commission. The Commission accepts PwC’s recommendation for this draft decision, but will consider removing the \$4.6 million requested for implementing the project if Western Water cannot confirm its selected option in time for the final decision (section 6.1 of PwC expenditure report).

Western Water has identified the following key capital projects to be undertaken during the regulatory period.

Table 14 Key capital projects

	<i>Expected completion date</i>
Sunbury additional water storage – Bald Hill tank	2017-18
Sunbury recycled water plant (RWP) upgrade	2017-18
Sewer spills prevention strategy	2013-14 to 2017-18
Surbiton Park RWP upgrade	2014-15
Bacchus Marsh RWP winter storage lagoon	2017-18
Melton Class A RWP upgrade	2016-17
Bacchus Marsh rising main	2017-18
Rockbank outfall sewer (rising main)	2013-14
Bacchus Marsh sewer rising main, Geelong Road	2017-18

11. Demand forecasts

The Commission has used the following assumptions about demand for various services over the regulatory period. Adjustments to residential water consumption reflect Intelligent Software Development’s alternate forecasts.

Table 15 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	54 013	56 488	59 209	62 152	65 317
Draft decision – connections	54 013	56 488	59 209	62 152	65 317
Non-residential					
Proposed connections	3 207	3 330	3 472	3 627	3 794
Draft decision – connections	3 207	3 330	3 472	3 627	3 794
Proposed – Total connections	57 219	59 818	62 681	65 779	69 110
Draft decision – total connections	57 219	59 818	62 681	65 779	69 110

Table 16 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	53 473	55 923	58 617	61 531	64 664
Draft decision – connections	53 473	55 923	58 617	61 531	64 664
Non-residential					
Proposed connections	2 661	2 764	2 882	3 010	3 149
Draft decision – connections	2 661	2 764	2 882	3 010	3 149
Proposed – Total connections	56 134	58 687	61 499	64 541	67 812
Draft decision – total connections	56 134	58 687	61 499	64 541	67 812

Table 17 Residential water consumption

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
ML					
Proposed average consumption (kL)	172	168	164	160	156
Draft decision – average consumption (kL)	189	186	183	180	176
Proposed total residential consumption	9 279	9 466	9 688	9 928	10 183
Draft decision – total residential consumption	10 225	10 529	10 829	11 156	11 515

Table 18 **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	1 615	1 636	1 657	1 678	1 699
Draft decision – non-residential consumption	1 615	1 636	1 657	1 678	1 699

Table 19 **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	10 895	11 103	11 345	11 606	11 882
Draft decision – total consumption	11 840	12 166	12 486	12 834	13 214

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

12. Form of price control

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

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

Where Western 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.

13. Retail water tariffs

The Commission proposes to approve Western Water's proposed retail water tariff structure.

14. Retail sewerage tariffs

The Commission proposes to approve Western Water's proposed retail sewerage tariff structure.

15. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariff structures proposed by Western Water.
- (b) The Commission requires Western 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.

16. Recycled water

- (a) The Commission proposes to approve Western 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 Western Water for third pipe customers.

17. New customer contributions

Table 20 **New customer contributions charges**
\$ per lot

	<i>\$ per lot</i>
Water	3 100 ^a
Sewerage	3 700
Recycled Water	2 400

^a NCC = \$1550 where recycled water is also provided.

- (a) The Commission is proposing to approve the manner in which Western 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.
- (b) Given that the levels of standard NCC are still in the process of consultation with stakeholders, the Commission requires that Western Water re-submit 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 the Western Water’s submission.

18. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Western Water, subject to the business submitting more detailed definitions of its core miscellaneous services.
- (b) 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.

19. 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

While Western Water did not propose to order significant quantities of bulk water from Melbourne Water over the third regulatory period, in response to this draft decision, it should propose how it would apply adjustment factors for desalination water orders and changes to desalination security payments.