



Level 2, 35 Spring St  
Melbourne 3000, Australia  
Telephone +61 3 9651 0222  
              +61 1300 664 969  
Facsimile +61 3 9651 3688

## 2009 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
SOUTH EAST WATER

APRIL 2009

**An appropriate citation for this paper is:**

Essential Services Commission 2009, *2009 Water Price Review Draft Decision Volume II: South East Water*, April.

## 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, South East Water should by 19 May 2009 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2009 that reflects:
  - (i) the revised revenue requirement set out in table 4
  - (ii) the revised demand forecasts set out in tables 13–17 and
  - (iii) any tariff structure changes suggested by the Commission.
- (b) the service standards to apply over the regulatory period consistent with any revisions suggested by the Commission set out in tables 1–2.

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 2009-10 to 2012-13 as part of its Final Determination.

### 3. Service standards

The Commission proposes to not approve the service standard targets proposed in South East Water's Water Plan except for:

- (a) Average time to attend bursts and leaks Priority 1 (minutes)
- (b) Average time to attend bursts and leaks Priority 2 (minutes)
- (c) Average time to attend bursts and leaks Priority 3 (minutes)
- (d) Unplanned water supply interruptions restored within 5 hours (per cent).

The Commission proposes to approve the remainder of the service standard targets at the three year average as shown in table 1.

**Table 1 Approved service standards**

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<b>Water</b>					
Unplanned water supply interruptions (per 100km)	29.6	29.6	29.6	29.6	29.6
Average time taken to attend bursts and leaks (priority 1) (minutes)	37.2	40	40	40	40
Average time taken to attend bursts and leaks (priority 2) (minutes)	110.5	120	120	120	120
Average time taken to attend bursts and leaks (priority 3) (minutes)	945.8	550	550	550	550
Unplanned water supply interruptions restored within 5 hours (per cent)	99.7	99.6	99.6	99.6	99.6
Planned water supply interruptions restored within 5 hours (per cent)	78.5	78.5	78.5	78.5	78.5
Average unplanned customer minutes off water supply (minutes)	17.2	17.2	17.2	17.2	17.2
Average planned customer minutes off water supply (minutes)	7.7	7.7	7.7	7.7	7.7
Average frequency of	0.20	0.20	0.20	0.20	0.20

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
unplanned water supply interruptions (number)					
Average frequency of planned water supply interruptions (number)	0.04	0.04	0.04	0.04	0.04
Average duration of unplanned water supply interruptions (minutes)	87.8	87.8	87.8	87.8	87.8
Average duration of planned water supply interruptions (minutes)	205.6	205.6	205.6	205.6	205.6
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	139	139	139	139	139
Unaccounted for water (per cent)	9.5	9.5	9.5	9.5	9.5
<b>Sewerage</b>					
Sewerage blockages (per 100km)	19.5	19.5	19.5	19.5	19.5
Average time to attend sewer spills and blockages (minutes)	45.9	45.9	45.9	45.9	45.9
Average time to rectify a sewer blockage (minutes)	161	161	161	161	161
Spills contained within 5 hours (per cent)	100	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	2.7	2.7	2.7	2.7	2.7
<b>Customer Service</b>					
Complaints to EWOV (per 1000 customers)	0.15	0.15	0.15	0.15	0.15
Telephone calls answered within 30 seconds (per cent)	97.2	97.2	97.2	97.2	97.2

### Minimum Flow Rates

	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>
Flow rate (litres per minute)	20.0	35.0	60.0	90.0	160.0

The Commission also notes that South East Water has proposed the additional service standards outlined in table 2. The Commission proposes to approve all additional service standards proposed by South East Water.

Table 2 **Additional service standards**

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
CO <sub>2</sub> emissions (net tonnes)	29 899	22 000	19 000	16 500	13 750
Recycled water (ML)	4 219	7 200	7 300	7 400	7 500
Biosolids reused/recycled (per cent)		105	105	105	105
Sewer backlog connections (number)	596	400	600	800	900
Compliance with environment discharge licence requirement (per cent)	100	100	100	100	100
Compliance with drinking water quality regulations	100	100	100	100	100
Demand by potable substitution schemes (ML)		300	900	1 000	1 100
Sewer odour complaints (per 1000 customers)	42	50	50	50	35
Sewer spills (per 100km)	5.7	7.5	7.5	7.5	7.5
Planned water supply interruptions (per 100km)	4.9	6.0	6.0	6.0	6.0
Account enquires answered within 30 seconds (per cent)	97.4	93	93	93	93
Systems faults calls answered within 30 seconds (per cent)	96.9	96	96	96	96

#### 4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels in table 3. The Commission proposes not to approve the payment levels proposed for all GSL events. These guaranteed service levels should be reflected in South East Water's Customer Charter.

Table 3 **Draft decision on GSL events and payment levels**

<i>Proposed GSL event</i>	<i>Proposed payment</i>
<b>Water</b>	
Unplanned interruptions not restored within five hours of notification	50
More than five unplanned interruptions in 12 months	50
<b>Sewerage</b>	
More than three interruptions in 12 months	50
Interruptions not restored within five hours of notification	50
Spills not contained within five hours of notification	1000
Spills in a house not contained within one hour of notification	1000

- (a) The Commission proposes to approve the GSL events proposed by South East Water.
- (b) The Commission proposes not to approve the GSL payments proposed by South East Water for all events. Payments for all events except sewer spills should increase from \$25 to \$50, and sewer spill payments should increase from \$500 to \$1000.
- (c) The Commission requires South East Water to develop an appropriate GSL event related to compliance with its hardship policies and programs, propose a payment amount for the event, and propose monitoring and reporting measures for the event.

## 5. Revenue requirement

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



Table 4 **Breakdown of revenue requirement implied by ESC draft decision**

\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Operating expenditure	332.9	366.9	439.1	516.7
Return on existing assets	87.6	86.1	84.7	83.2
Return on new investments	7.3	12.7	17.8	22.2
Regulatory depreciation	37.7	42.5	45.8	47.4
Tax liability	9.0	9.0	9.3	9.3
<b>Total</b>	<b>474.4</b>	<b>517.2</b>	<b>596.7</b>	<b>678.9</b>

## 6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect actual capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 5.

Table 5 **Updated regulatory asset base**

\$ million in January 2009 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	1 756.6	1 775.9	1 822.0
<i>Plus</i> Gross capital expenditure	65.9	96.1	105.1
<i>Less</i> Government contributions	0.0	0.0	1.4
<i>Less</i> Customer contributions	13.1	12.4	15.4
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	33.6	37.5	40.2
<b>Closing RAB</b>	<b>1 775.9</b>	<b>1 822.0</b>	<b>1 870.2</b>

The regulatory asset base as at 1 July 2008 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2012-13 period less any approved allowance for regulatory depreciation. These rolled forward values are shown in table 6.

Table 6 **Rolled forward regulatory asset base**  
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	1 870.2	1 933.9	2 018.7	2 100.9	2 168.1
<i>Plus</i> Gross capital expenditure	123.0	153.6	148.0	136.2	128.4
<i>Less</i> Government contributions	2.3	4.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	24.3	27.1	23.4	23.2	23.0
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	32.7	37.7	42.5	45.8	47.4
<b>Closing RAB</b>	<b>1 933.9</b>	<b>2 018.7</b>	<b>2 100.9</b>	<b>2 168.1</b>	<b>2 226.2</b>

## 7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.8 per cent for all metropolitan water businesses. The table below outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

Table 7 **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</i>	<i>Franking credit value</i>	<i>WACC (feasible range)</i>	<i>WACC (draft decision)</i>
<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>	<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>
1.508 - 1.755	0.65	6.00	2.0 - 2.7	60	0.5	4.3 – 4.9	4.8

## 8. Operating expenditure

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

Table 8 **Proposed and approved operating expenditure assumptions**

\$ million in January 2009 prices

	2009-10	2010-11	2011-12	2012-13
Proposed operating expenditure	343.1	398.7	463.2	537.3
Revisions and adjustments	-10.2	-31.8	-24.2	-20.6
<b>Draft decision – operating expenditure</b>	<b>332.9</b>	<b>366.9</b>	<b>439.1</b>	<b>516.7</b>

The Commission's assumptions reflect the following adjustments to South East Water's proposed operating expenditure forecasts:

Table 9 **Adjustments to operating expenditure**

\$ million in January 2009 prices

<i>Expenditure item</i>	2009-10	2010-11	2011-12	2012-13
Operating cost escalation	-0.61	-1.06	-1.52	-2.00
VCEC productivity	-1.00	-1.00	-0.50	0.00
Labour	-2.10	-2.13	-2.21	-2.44
Electricity	-0.93	-0.87	-0.80	-0.80
Vehicle operating costs	-0.11	-0.17	-0.14	-0.23
Chemicals	-0.03	-0.03	-0.04	-0.06
Billing and collections	-0.31	-0.30	-0.40	-0.50
Billing and collections – RNC	-1.27	-1.46	-1.67	-1.92
Water conservation	-0.85	-2.26	-2.23	-2.73
Brainwaves cup	-0.48	-0.48	-0.49	-0.49
Bulk Charges reduction	-2.60	-22.22	-14.38	-9.68
DHS licence fee	0.01	0.01	0.01	0.01
Environmental contribution	0.06	0.12	0.18	0.23
<b>Total</b>	<b>-10.20</b>	<b>-31.84</b>	<b>-24.19</b>	<b>-20.61</b>

- (a) Maintenance cost escalation reflects changes to the assumed cost escalation (see section 5.2.1 of Halcrow-Deloitte's report).
- (b) The Victorian Competition and Efficiency Commission recommended businesses achieve savings through shared services and bulk procurement. The allocation of savings is discussed in section 5.4.1 of Halcrow-Deloitte's report.
- (c) Government advice on CPI and expected wages growth resulted in the allowance for real labour growth rates decreasing from 2.5 to 1.5 per cent, as discussed in section 6.2.1 of Halcrow-Deloitte's expenditure report.

- (d) Halcrow-Deloitte reduced South East Water's forecast electricity from 2010-11 to 2012-13 (see section 6.2.2 of the report).
- (e) A recommended reduction in oil and fuel costs by Halcrow-Deloitte reduced the allocation for vehicle operating costs (see section 6.2.3 of the report).
- (f) In section 6.2.4 of the expenditure review, Halcrow-Deloitte recommended a reduction to South East Water's proposed chemical expenditure.
- (g) In its Water Plan, South East Water proposed increases in expenditure on billing and collections. Halcrow-Deloitte recommended decreases in expenditure for billing and collections (see section 6.2.6 of the report).
- (h) Bad debts were incorrectly allocated to operating expenditure in South East Water's proposed operating expenditure. These are included as revenue not collected in the Commission's pricing models.
- (i) Halcrow-Deloitte recommended that operating expenditure for water conservation be reduced (see section 6.2.7 of the report).
- (j) Halcrow-Deloitte recommended removal of South East Water's Brainwaves Cup expenditure from the operating expenditure for pricing purposes (see section 6.2.10 of the report).
- (k) The Commission adjusted bulk expenditure to be consistent with its draft decision for Melbourne Water.
- (l) Advice was received from the Department of Human Services on its licence fees and the Department of Sustainability and Environment on the environmental contribution for the regulatory period. Adjustments were made so operating expenditure reflected the Departments' advice (see the draft decision, section 4.7).

## 9. Capital expenditure

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

Table 10 **Proposed and approved capital expenditure assumptions**

\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	123.5	157.2	156.2	147.7	141.5
<b>Draft decision – capital expenditure</b>	<b>123.0</b>	<b>153.6</b>	<b>148.0</b>	<b>136.2</b>	<b>128.4</b>

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

Table 11 **Adjustments to capital expenditure**  
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Water main replacements	0.1	-0.3	-4.0	-3.3	-2.9
Sewer renewals - gravity	-0.2	-0.2	-0.2	-1.7	-1.7
Mt Martha STP - Growth upgrade	-0.4	-0.8	1.2	0.0	0.0
Capital cost escalation factor	0	-2.4	-5.2	-6.5	-8.5
<b>Total adjustment</b>	<b>-0.5</b>	<b>-3.7</b>	<b>-8.2</b>	<b>-11.5</b>	<b>-13.1</b>

- (a) Water main replacement – Halcrow–Deloitte recommended adjustments for a changed work program and a lower unit rate for water main renewals (see section 7.4.2 of the report).
- (b) Sewer renewals program (gravity main) – Halcrow–Deloitte recommended adjustments for a revised unit rate. (see section 7.4.4 of the report).
- (c) Mt Martha Sewage Treatment Plant Upgrade – Halcrow–Deloitte recommended that, due to a delay in the primary sludge thickener component of the project, some expenditure on the project should be delayed from 2009-10 to 2010-11 (see section 7.4.10 of the report).
- (d) Capital cost escalation reflects changes to the assumed cost escalation (see section 7.3 of the Halcrow-Deloitte report). Capital costs have been escalated by the CPI.

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

**Table 12 Key capital projects**

	<i>Expected completion date</i>
Sewer Backlog Strategy	2024-25
Water Main Replacements Program	ongoing
Dual Pipe Recycled Water	2010
Sewer Renewals Program – Gravity Mains	ongoing
Sewer Renewals Program – Pressure Mains	ongoing
Pakenham – Narre Warren Sewer Strategy	2010-11
Mt Martha Sewerage Treatment Plant – Class A	2012
Hastings Industrial Project	2010
Customer Meters Replacement	ongoing
Mt Martha Sewerage Treatment Plant – Growth Driver	2012

**10. Demand forecasts**

- (a) The Commission has made the following assumptions about demand for various services over the regulatory period.
- (b) The Commission has adjusted proposed demand forecasts where shaded or otherwise indicated.

Table 13 **Number of water connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	575 576	584 705	593 846	602 945
<b>Draft decision — connections</b>	<b>576 630</b>	<b>587 009</b>	<b>597 575</b>	<b>608 331</b>
<i>Non-residential</i>				
Proposed connections	49 503	50 526	51 549	52 568
<b>Draft decision — connections</b>	<b>49 594</b>	<b>50 725</b>	<b>51 873</b>	<b>53 038</b>
Proposed – total connections	625 079	635 231	645 395	655 513
<b>Draft decision — total connections</b>	<b>626 224</b>	<b>637 734</b>	<b>649 448</b>	<b>661 369</b>

Table 14 **Number of sewerage connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	546 858	555 905	565 036	574 300
<b>Draft decision – connections</b>	<b>547 859</b>	<b>558 095</b>	<b>568 584</b>	<b>579 430</b>
<i>Non-residential</i>				
Proposed connections	44 260	45 175	46 090	47 001
<b>Draft decision – connections</b>	<b>44 341</b>	<b>45 353</b>	<b>46 379</b>	<b>47 421</b>
Proposed – total connections	591 118	601 080	611 126	621 301
<b>Draft decision – total connections</b>	<b>592 200</b>	<b>603 448</b>	<b>614 963</b>	<b>626 851</b>

Table 15 **Residential water consumption**

ML	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed average consumption – Water Plan (kL)	149	157	162	159
Revised average consumption - February 2009 (kL)	140	147	150	151

<b>Draft decision – average consumption (kL)</b>	<b>145</b>	<b>157</b>	<b>154</b>	<b>159</b>
Proposed total residential consumption – Water Plan	85 735	91 858	96 493	95 962
Revised total residential consumption – Feb 2009	80 378	85 974	88 891	91 097
<b>Draft decision – total residential consumption</b>	<b>83 355</b>	<b>92 220</b>	<b>91 880</b>	<b>96 742</b>

Table 16 **Non-residential water consumption**  
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed non-residential consumption – Water Plan	29 879	33 355	35 700	36 737
Revised non-residential water consumption – February 2009	28 979	30 331	31 596	32 724
<b>Draft decision – non residential consumption</b>	<b>29 375</b>	<b>34 009</b>	<b>34 348</b>	<b>36 873</b>

Table 17 **Total water consumption**  
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed total consumption	115 613	125 213	132 194	132 699
Revised total water consumption – February 2009	109 357	116 304	120 488	123 821
<b>Draft decision – total consumption</b>	<b>112 730</b>	<b>126 229</b>	<b>126 228</b>	<b>133 615</b>

## 11. Form of price control

- (a) The Commission proposes to approve individual price caps for South East Water.
- (b) South East Water should submit a schedule of prices to apply from 1 July 2009, as well as a process by which tariffs can be adjusted on an annual basis that is consistent with the following adjustment mechanism.
- (c) South East Water may apply for an adjustment to its prices or tariff strategy at the time of the annual price review. It would have to demonstrate in its application to the Commission that it has clearly articulated a new tariff strategy (or explained how the proposed price changes are consistent with its existing tariff strategy), undertaken appropriate customer consultation and addressed customer impacts. The average annual price increase across the range of tariffs could not be greater than the average increase calculated



under a tariff basket approach. The Commission may then approve amended individual price caps for the remainder of the regulatory period.

## 12. Uncertain and unforeseen events mechanism

South East Water may apply to the Commission to adjust its prices either at the end of the regulatory period or during the regulatory period to reflect increased or decreased costs incurred by South East Water and/or increased or decreased revenue received by South East Water as a result of events that were uncertain or unforeseen at the time the Determination is made. Events that may be taken into account under this mechanism include:

- (a) Any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in table 18.

Table 18 **Approved licence fee assumptions<sup>a</sup>**  
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-2013</i>
Essential Services Commission	0.37	0.37	0.37	0.52
Environment Protection Authority	0.11	0.12	0.13	0.14
Department of Human Services	0.21	0.21	0.21	0.21

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (b) Any difference between assumed and actual environmental contribution levied by DSE. To avoid any doubt, the assumed environmental contribution payable for each year of the regulatory period are set out in table 19.

Table 19 **Environmental contribution<sup>a</sup>**  
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Environmental contribution	16.2	15.8	15.4	15.0

<sup>a</sup> Included in forecasts of business as usual operating expenditure.

- (c) Changes in the timing or scope of expenditure by South East Water on major capital projects.
- (d) A material difference between the forecast demand levels set out in tables 13–17 and actual demand levels for South East Water Water.
- (e) Changes in relevant legislation, licences, relevant taxes or the Statement of Obligations or the introduction of a national emissions trading scheme.

The Commission will not take into account matters that:

- (a) are or should be within South East Water's control;
- (b) were or should have been known, or could reasonably have been foreseen, by South East Water;
- (c) should be or should have been planned for or managed by South East Water; and/or
- (d) reflect inefficient expenditure by South East Water.

### **13. Retail water tariffs**

- (a) Although the water usage charges proposed by South East Water appear reasonable, the Commission proposes not to approve the business' proposal to increase all tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with the WIRO pricing principles.
- (b) South East Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing potable water services (see Volume I for more detail).

### **14. Retail sewerage tariffs**

- (a) The Commission proposes not to approve South East Water's proposal to increase fixed and volumetric sewerage tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with WIRO pricing principles.
- (b) South East Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing sewerage services(see Volume I for more detail).
- (c) The Commission suggests that South East Water consider amending its seasonal sewerage discharge indices in a similar way to that proposed by Yarra Valley Water for the forthcoming regulatory period.

### **15. Trade waste charges**

- (a) The Commission proposes to approve the following pricing principles proposed by South East Water for calculating non-scheduled trade waste charges:
  - (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
  - (ii) the total revenue received from each customer should be greater than the cost that would avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner

- (iii) the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the Commission
  - (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
  - (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination.
  - (vi) customers should be provided with full details of the manner in which prices have been calculated. Where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.
- (b) The Commission proposes to approve South East Water's proposed scheduled trade waste tariffs for 2009-10.
  - (c) The Commission proposes to require South East Water to review and amend its trade waste tariffs during the regulatory period, including introducing charges for inorganic total dissolved solids.
  - (d) In response to this draft decision, South East Water is required (in consultation with the other retailers and Melbourne Water) to identify when during the regulatory period a review of trade waste tariffs will be feasible.

## **16. Recycled water**

- (a) The Commission proposes to approve South East Water's proposed pricing principles on the basis that they are consistent with the following 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 South East Water for third pipe customers as it continues to be consistent with the Commission's pricing approach.
- (d) The Commission requires South East Water, during the coming regulatory period, to develop a pricing strategy to manage the demand impact of easing water restrictions.
- (e) In response to the draft decision, South East Water must provide its 'Application of Prices' schedule, including a clear explanation of the sewage discharge factors applied to recycled water customers and the volumes of water to which they are applied..

#### **17. Customer contributions**

- (a) The Commission proposes to approve South East Water's scheduled new customer contributions and pricing principles for developer charges for new customers.
- (b) The Commission proposes to approve separate pricing principles for South East Water for calculating new customer contributions in sewerage backlog areas.

#### **18. Miscellaneous charges**

- (a) The Commission proposes to approve South East Water's miscellaneous charges.