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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
GMMWATER

MARCH 2013

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GWMWATER

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, GWMWater should by 2 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 4
 - ii. the revised demand forecasts set out in tables 13-18 and
 - iii. any changes to tariff structure 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 and 2.
- (c) the New Customer Contribution Charges (NCC) proposal with specific actions required by the Commission.

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

3.1 Regional service standards

The below table summarises the targets GMMWater has proposed for core service standards for the third regulatory period, either in its Water Plan or in response to subsequent requests for information by the Commission.

Table 1 Proposed service standards

<i>Service standard</i>	<i>5yr Avg 2003-06</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)	29.38	30	30	30	30	30
Average time taken to attend bursts and leaks (priority 1) (minutes)	24.48	30	30	30	30	30
Average time taken to attend bursts and leaks (priority 2) (minutes)	26.33	40	40	40	40	40
Average time taken to attend bursts and leaks (priority 3) (minutes)	31.76	40	40	40	40	40
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	98.31	97	97	97	97	97
Planned water supply interruptions restored within 5 hours (per cent)	98.63	97	97	97	97	97
Average unplanned customer minutes off water supply (minutes)	15.93	20	20	20	20	20

Service standard

	<i>5yr Avg 2003-06</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Average planned customer minutes off water supply (minutes)	39.3	30	30	30	30	30
Average frequency of unplanned water supply interruptions (number)	0.19	0.2	0.2	0.2	0.2	0.2
Average frequency of planned water supply interruptions (number)	0.26	0.3	0.3	0.3	0.3	0.3
Average duration of unplanned water supply interruptions (minutes)	83.05	100	100	100	100	100
Average duration of planned water supply interruptions (minutes)	144.44	180	180	180	180	180
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	0	0	0	0	0	0
Unaccounted for water (per cent)	11.1	12	12	12	12	12
Sewerage						
Sewerage blockages (per 100km)	31.26	36	36	36	36	36
Average time to attend sewer spills and blockages (minutes)	21.54	30	30	30	30	30
Average time to rectify a sewer blockage (minutes)	113.09	130	130	130	130	130
Spills contained within 5 hours (per cent)	98.68	98	98	98	98	98
Customers receiving 3 sewer blockages in the year (number)	0	0	0	0	0	0
Customer Service						
Complaints to EWOV (per 1000 customers)	No audit data available	0.9	0.9	0.9	0.9	0.9
Telephone calls answered within 30 seconds (per cent)	No audit data available	80	80	80	80	80

Note Data rounded to two decimal places.

Where the proposed service standard target deviated from GWMWater’s actual five-year average performance or did not appear to make sense, the Commission sought further information from the business.

The Commission proposes to approve targets proposed for all service standards apart from those listed below. The targets for the following standards deviated from the five-year average and GWMWater did not provide a reason as to why they will not be able to maintain that level of service on average over the third regulatory period:

- (a) Average time taken to attend bursts and leaks (priority one) (minutes)
- (b) Average time taken to attend bursts and leaks (priority two) (minutes)
- (c) Average time taken to attend bursts and leaks (priority three) (minutes)
- (d) Average unplanned customer minutes off water supply (minutes)
- (e) Average duration of unplanned water supply interruptions (minutes)
- (f) Average time to attend sewer spills and blockages (minutes)
- (g) Average time to rectify a sewer blockage (minutes).

In response to this draft decision, GWMWater is required to either provide adequate reasoning for deviating from the five-year average in setting its targets for these standards or amend them to reflect the five-year average.

3.2 Rural service standards

The Commission proposes to approve each of the rural service standards proposed in GWMWater’s Water Plan.

Table 2 Approved service standards

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Pipeline Service Standards					
Number of pipeline bursts and leaks (per 100 km of pipeline)	1	1	1	1	1
Unavailability of stock and domestic supply systems for continuous periods in excess of 72 hours (%)	2.5%	2.5%	2.5%	2.5%	2.5%
Unaccounted for water (per cent)	10%	10%	10%	10%	10%
Bulk Water					
Annual compliance with storage operator obligations (per cent)	100%	100%	100%	100%	100%
Licensing/administration					

<i>Service standard</i>	<i>Draft decision – service standards</i>				
	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Applications for new groundwater licenses determined within 60 days (%)	100%	100%	100%	100%	100%
Applications for new surface diversion licenses determined within 30 days (%)	100%	100%	100%	100%	100%
Applications for new supply by agreement licenses determined within 60 days (%)	100%	100%	100%	100%	100%
Applications for renewal of groundwater licenses determined within 40 days (%)	100%	100%	100%	100%	100%
Applications for new surface diversion determined within 22 days (%)	100%	100%	100%	100%	100%
Processing temporary transfer of water entitlement volumes within 15 days (%)	100%	100%	100%	100%	100%
Processing of permanent transfer of surface diversion or groundwater licences within [60] days (%)	100%	100%	100%	100%	100%
Processing permanent transfer of water entitlement volumes within 60 days (%)	100%	100%	100%	100%	100%
Number of diversion licenses metered or assess for metering at 30 June (%)	100%	100%	100%	100%	100%
Volume of total surface water and groundwater entitlements metered at 30 June (%)	90%	90%	90%	90%	90%
Customer service					
Complaints to EWOV (per 1000 customers)	No audit data available	0.9	0.9	0.9	0.9
Telephone calls answered within 30 seconds	No audit data available	84%	84%	84%	84%

Note Data rounded to two decimal places.

4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels except as shaded or otherwise indicated in table 3. These guaranteed service levels should be reflected in GMMWater's Customer Charter.

Table 3 Proposed and approved GSL events and payment levels

<i>Proposed level of service</i>	<i>Proposed payment</i>
Unplanned water interruptions not restored within five hours of notification	\$50
Planned interruption longer than notification	\$50
Sewer interruption not restored within five hours of notification	\$50
Sewer spill within house, caused by failure of system, not contained within one hour	\$1000

The Commission proposes to approve the GSL events proposed by GMMWater.

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
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2011-2012</i>	<i>2017-18</i>
Operating expenditure	31.3	30.4	30.3	29.9	29.6
Return on existing assets	13.7	13.2	12.8	12.3	11.8
Return on new investments	0.7	1.8	2.6	3.1	3.4
Regulatory depreciation	9.5	10.4	11.2	11.6	12.0
Total	55.3	55.9	56.8	56.7	56.7

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2007 will be rolled forward to reflect approved actual capital expenditure 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 5.

Table 5 **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	103.0	22.8	213.4	273.2	287.3
<i>Plus</i> Gross Capital expenditure	263.5	262.0	72.1	24.9	33.0
<i>Less</i> Government contributions	338.1	65.5	0.2	2.1	3.3
<i>Less</i> Customer contributions	0.0	0.2	4.6	0.3	19.4
<i>Less</i> Proceeds from disposals	1.8	1.6	1.8	2.0	1.8
<i>Less</i> Regulatory depreciation	3.8	4.2	5.7	6.3	6.8
Closing RAB	22.8	213.4	273.2	287.3	288.9

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 6 **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	288.9	297.6	316.8	324.9	328.2	323.7
<i>Plus</i> Gross Capital expenditure	21.1	32.3	21.3	16.8	9.2	13.0
<i>Less</i> Government contributions	1.0	0.9	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	1.7	1.3	1.5	1.2	0.7	0.7
<i>Less</i> Proceeds from disposals	2.2	1.5	1.3	1.1	1.4	1.0
<i>Less</i> Regulatory depreciation	7.4	9.5	10.4	11.2	11.6	12.0
Closing RAB	297.6	316.8	324.9	328.2	323.7	323.0

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. The table below outlines the individual components for the WACC

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 (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. 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
\$m 2012-13

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed operating expenditure	32.8	32.0	31.9	31.8	31.6
Revisions and adjustments	-1.4	-1.6	-1.6	-2.0	-2.0
Draft decision – operating expenditure	31.3	30.4	30.3	29.9	29.6

The Commission's assumptions reflect the following adjustments to GWMWater's proposed operating expenditure forecasts:

Table 9 Adjustments to operating expenditure
\$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>
Labour	-0.47	-0.48	-0.49	-0.71	-0.72
Electricity	0.00	-0.07	-0.09	-0.13	-0.17
Defined benefits superannuation costs	0.14	0.13	0.13	0.13	0.12
Reallocation of decommissioning costs to capital expenditure	-1.00	-1.00	-1.00	-1.00	-1.00
Environmental contribution	-0.06	-0.11	-0.15	-0.19	-0.23
Licence fees	-0.05	-0.05	-0.05	-0.04	-0.03
Total	-1.44	-1.56	-1.64	-1.96	-2.04

- (a) Adjustments reflect changes to wage rates for the last two years of the next regulatory period (section 4.5 of Cardno's expenditure report).
- (b) Adjustments reflect changes to electricity prices (section 4.5 of Cardno's expenditure report)
- (c) Adjustments reflect recovery of \$1.4 million defined benefit superannuation payments made to Vision Super in 2012 (section 4.3 of Cardno's expenditure report).

- (d) The proposed \$1.0 million per year decommissioning costs of redundant assets will be treated as capital expenditure (section 4.4 of Cardno's expenditure report).
- (e) Adjustments reflect recent advice from the Department of Sustainability and Environment on environmental contributions for the next regulatory period (chapter 6 of volume I of this draft decision).
- (f) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority for their respective licence fees in the next regulatory period. Also includes Commission's adjustments of the ESC licence fees for the next period (chapter 6 of volume I of this draft decision).

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**
\$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	31.33	20.28	15.77	8.19	12.02
Draft decision – capital expenditure	32.33	21.28	16.77	9.19	13.02

The Commission's assumptions reflect the following adjustments to GWMWater's proposed capital expenditure forecasts:

Table 11 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>
Decommissioning of urban water and sewerage assets	1.00	1.00	1.00	1.00	1.00
Total ESC Adjustment	1.00	1.00	1.00	1.00	1.00

- (a) Decommissioning of urban water and sewerage assets – GWMWater proposed this as part of its operating expenditure for the next regulatory period. Cardno recommended that this expenditure be re-allocated as capital expenditure to provide a more level impact on customer bills and to be consistent with the allocation of expenditure for channel decommissioning associated with the Wimmera Mallee Pipeline (section 4.4 of Cardno's expenditure report).

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

Table 12 Key capital projects

	<i>Expected completion date</i>
Intelligent rural pipelines	2013-14
Irrigation network decommissioning	2014-15
Rupanyup sewerage scheme	2014-15
Upgrade of Donald wastewater and reuse system	2015-16

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 indicated.

Table 13 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	26 087	26 289	26 487	26 690	26 892
Draft decision – connections	26 087	26 289	26 487	26 690	26 892
Non-residential					
Proposed connections	4 997	5 029	5 070	5 104	5 141
Draft decision – connections	4 997	5 029	5 070	5 104	5 141
Proposed – total connections	31 083	31 318	31 557	31 794	32 033
Draft decision – total connections	31 083	31 318	31 557	31 794	32 033

Table 14 Number of sewerage connections

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed – total connections	24 474	24 917	25 125	25 335	25 543
Draft decision – total connections	24 474	24 917	25 125	25 335	25 543

Table 15 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 (kL)	201	201	152	201	201
Draft decision – average consumption (kL)	201	201	200	201	201
Proposed total residential consumption	5 251	5 292	4 030	5 372	5 413
Draft decision – total residential consumption	5 251	5 292	5 305	5 372	5 413

GMMWater's forecast consumption per residential connection forecast was revised for 2015-16 at Frontier Economics' advice. Frontier Economics disagreed with GMMWater's assumption of a 'wet' year in 2015-16 and recommended an average of the 2014-15 and the 2016-17 forecasts. GMMW agreed with this recommendation. The Commission proposes to approve GMMWater's revised residential volumes.

Table 16 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	2 779	2 804	2 826	2 861	2 909
Draft decision – non-residential consumption	2 779	2 804	2 826	2 861	2 909

Table 17 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	8 030	8 096	6 856	8 233	8 322
Draft decision – total consumption	8 030	8 096	8 131	8 233	8 322

Table 18 Non-residential volumetric sewage
KL

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed total consumption	813 064	817 718	-	-	-
Draft decision – total consumption	813 064	817 718	-	-	-

11. Form of price control

The Commission proposes to approve GMMWater's application for a revenue cap and proposed rebalancing constraint of ± 10 per cent.

12. Retail water tariffs

- (a) The Commission proposes to approve GWMWater's proposed retail water tariff structure.

13. Retail sewerage tariffs

- (a) The Commission proposes to approve GWMWater's proposed retail sewerage tariff structure.

14. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariffs proposed by GWMWater.
- (b) The Commission requires GWMWater to continue to include the Commission's trade waste pricing principles in its tariff schedules. GWMWater is required to use the pricing principles when determining trade waste charges for customers to whom scheduled prices do not apply.

15. Recycled water

- (a) The Commission is proposing to approve GWMWater's proposed pricing principles.
- (b) The Commission considers that GWMWater should set its recycled water prices according to a set of 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.
- (c) 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.

16. New Customer contributions

Subject to GMMWater amending its NCC proposal consistent with the specific actions required by the Commission described below, the Commission proposes to approve the manner in which GMMWater NCC charges are determined.

The Commission requires GMMWater to:

- a) Clearly describe the circumstances (i.e. eligibility criteria) under which NCC will be negotiated and confirm that it will apply the core pricing principles when such NCC are negotiated.
- b) Consult with other water businesses to develop a best practice negotiating framework.
- c) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- d) Consult with stakeholders following the draft decision.
- e) Make other modelling adjustments:
 - i. Update calculations of standard NCC with any expenditure adjustments arising from the draft decision
 - ii. Update calculations of standard NCC with any demand adjustments arising from the draft decision
 - iii. Review NCC calculations and only include tax rates in the model for the years the business expects to pay tax
 - iv. Update calculations of standard NCC with the Commission's draft decision on the WACC.
 - v. Resubmit a forecast of NCC revenue for each service for each year of the third regulatory period, following changes made in accordance with the above.

17. Rural charges

- (a) The Commission proposes to approve GMMWater's proposed rural tariff structures except for its proposed increase in its excess water use charge.

18. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by GMMWater Water.
- (b) In response to this draft decision, GMMWater, for its regional miscellaneous charges, is required to submit:
 - vi. definitions and proposed charges for connection fees, information fees and meter reading fees, if these are not already included in its core set of miscellaneous services.
 - vii. if proposing any miscellaneous charges for developers:
 - o the name all charges relating to developers
 - o explain how these charges relate to NCCs
 - o define the services that will be provided for these charges.

19. Reopening 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:

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

Key features of the mechanism are:

- (d) A water business (by application to the Commission) or the Commission may initiate a reopening.
- (e) Prices can either be raised or reduced as a result of an uncertain or unforeseen event.
- (f) 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.
- (g) 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.

- (h) 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:

- (i) the event is clearly outside the business's control and not predictable with any confidence
- (j) 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
- (k) customers are not unduly exposed to risk or price fluctuations
- (l) the impact of the event is material, clearly observable and verifiable, and
- (m) 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.

Pass through events

GMMWater did not propose any automatic pass through events for the third regulatory period.