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2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
LOWER MURRAY WATER

MARCH 2013

An appropriate citation for this paper is:

Essential Services Commission 2013-18, *2013 Water Price Review Draft Decision Volume II: Lower Murray Water*, March.

LOWER MURRAY WATER

1. Purpose of volume II of the draft decision

For Lower Murray Water (Urban) the Water Industry Regulatory Order requires the Commission 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 is required to resubmit a revised Water Plan or undertake such action as to ensure compliance.

For Lower Murray Water (Rural) the Commission is required under section 28 of the Water Charge (Infrastructure) Rules, after considering submissions put to it on a water business's application:

- (a) to prepare a draft approval or determination of the business's regulated charges for the first and subsequent years of the relevant regulatory period and
- (b) to publish it on its internet site including:
 - (i) the draft approval or determination
 - (ii) the reasons for its decisions
 - (iii) an invitation to interested parties to make submissions to the Commission in relation to the draft approval or determination.

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, Lower Murray Water 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 tables 4 and 5
 - (ii) the revised demand forecasts set out in tables 18 to 24 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 as 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

3.1 Regional urban service standards

The Commission proposes to approve each of the urban service standards proposed in Lower Murray Water's Water Plan.

Table 1 **Approved service standards**

<i>Service standard</i>	<i>Draft decision</i>					
	<i>5yr Avg 2008-13</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)	48.22	51.34	51.34	51.34	51.34	51.34
Average time taken to attend bursts and leaks (priority 1) (minutes)	17.49	20	20	20	20	20
Average time taken to attend bursts and leaks (priority 2) (minutes)	15.57	20	20	20	20	20
Average time taken to attend bursts and leaks (priority 3) (minutes)	13.88	20	20	20	20	20

<i>Service standard</i>	<i>Draft decision</i>					
	<i>5yr Avg 2008-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	99.63	99.48	99.48	99.48	99.48	99.48
Planned water supply interruptions restored within 5 hours (per cent)	99.29	100	100	98.19	100	100
Average unplanned customer minutes off water supply (minutes)	11.32	13.36	13.36	13.36	13.36	13.36
Average planned customer minutes off water supply (minutes)	36.27	3.11	3.11	191.99	3.11	3.11
Average frequency of planned water supply interruptions (number)	0.23	0.06	0.06	0.06	0.06	0.06
Average duration of unplanned water supply interruptions (minutes)	59.33	63.73	63.73	63.73	63.73	63.73
Average duration of planned water supply interruptions (minutes)	82.41	56.88	56.88	56.88	56.88	56.88
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	9.6	15	15	15	15	15
Unaccounted for water (per cent)	8.85	15	15	15	15	15
Sewerage						
Sewerage blockages (per 100km)	19.47	22.6	22.6	22.6	22.6	22.6
Average time to attend sewer spills and blockages (minutes)	20.38	18.01	18.01	18.01	18.01	18.01
Average time to rectify a sewer blockage (minutes)	100.99	1.66	1.66	1.66	1.66	1.66
Spills contained within 5 hours (per cent)	97.01	97	97	97	97	97
Customers receiving 3 sewer blockages in the year (number)	0.2	0	0	0	0	0

<i>Service standard</i>	<i>Draft decision</i>					
	<i>5yr Avg 2008-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Customer Service						
Complaints to EWOV (per 1000 customers)	No Audit Data Available	3	3	3	3	3
Telephone calls answered within 30 seconds (per cent)	No Audit Data Available	85	85	85	85	85

Note Data rounded to two decimal places.

3.2 Rural service standards

The Commission proposes to approve each of the rural service standards proposed in Lower Murray Water's Water Plan, except as indicated in the table below.

Table 2 Approved service standards

<i>Service standard</i>	<i>Draft decision</i>				
	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Irrigation					
Irrigation water orders delivered on day requested % (whole of business)	95	95	95	95	95
Number channel bursts and leaks (per 100km) - whole business	70	70	70	70	70
Number channel bursts and leaks (per 100km) - Merbein	135	135	135	135	135
Number channel bursts and leaks (per 100km) - Red Cliffs	65	65	65	65	65
Number channel bursts and leaks (per 100km) - Robinvale	30	30	30	30	30
Number channel bursts and leaks (per 100km) - Millewa	5	5	5	5	5
Number channel bursts and leaks (per 100km) - FMID Gravity & Pumped	120	120	120	120	120

<i>Service standard</i>	<i>Draft decision</i>				
	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Unaccounted for water (per cent) - Merbein	15.5	15.5	15.5	15.5	15.5
Unaccounted for water (per cent) - Red Cliffs	12	12	12	12	12
Unaccounted for water (per cent) - Robinvale	5	5	5	5	5
Unaccounted for water (per cent) - Millewa	88	88	88	88	88
Unaccounted for water (per cent) - FMID Gravity & Pumped	20	20	20	20	20
Licensing/Administration					
Applications for surface diversion, groundwater or supply-by agreement water use licences determined within 30 days (per cent)	90	90	90	90	90
Processing transfer of water use licences between LMW customers within 10 days (per cent)	90	90	90	90	90
Processing permanent transfer of water shares between LMW customers within 10 days (per cent)	85	85	85	85	85
Number of works licences metered or assessed for metering at 30 June (per cent)	95	95	95	95	95
Volume of total annual use limit metered at 30 June (per cent)	95	95	95	95	95
Customer service					
Complaints to EWOV (per 1000 customers)	No audit data available	1.3	1.3	1.3	1.3
Telephone calls answered within 60 seconds (per cent) - Operations Room	No audit data available	80	80	80	80

Note Data rounded to one decimal place.

4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels indicated in the table below. These guaranteed service levels should be reflected in Lower Murray Water's Customer Charter.

Table 3 **Approved GSL events and payment levels**

<i>Level of service</i>	<i>GSL payment</i>
More than 5 unplanned water supply interruptions in a year	\$75
More than 3 sewer blockages in a year	\$75
Priority 1 and 2 sewerage spills not contained within 5 hours	\$500

The Commission proposes to approve the GSL scheme proposed by Lower Murray Water.

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 the Commission draft decision – urban services**
\$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	18.7	18.8	19.2	18.8	18.9
Return on assets	6.3	6.1	5.8	5.6	5.3
Return on new investments	0.3	0.9	1.3	1.6	1.8
Regulatory depreciation	5.2	5.7	6.1	6.4	6.7
Non-prescribed revenue off-set	0.3	0.3	0.3	0.3	0.3
Total	30.3	31.2	32.1	31.9	32.3

Table 5 **Breakdown of revenue requirement implied by the Commission draft decision – rural services**
\$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	20.3	20.5	20.6	20.8	20.8
Return on assets	3.4	3.3	3.2	3.1	3.0
Return on new investments	0.4	1.0	1.3	1.3	1.4
Regulatory depreciation	2.2	2.5	2.5	2.5	2.5
Total	26.3	27.3	27.6	27.7	27.8

The Commission proposes to approve Lower Murray Water rural's revenue proposals subject to the required amendments set out in the chapters on operating and capital expenditure, and financing capital investments.

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 6.

Table 6 **Updated regulatory asset base – regional urban**
\$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	69.8	72.2	77.2	120.8	126.9
<i>Plus</i> Gross Capital expenditure	10.3	11.2	49.3	14.1	12.4
<i>Less</i> Government contributions	2.5	1.4	0.0	1.9	0.0
<i>Less</i> Customer contributions	1.8	1.1	1.6	1.6	1.4
<i>Less</i> Proceeds from disposals	0.4	0.5	0.4	0.6	0.6
<i>Less</i> Regulatory depreciation	3.3	3.2	3.8	3.9	4.2
Closing RAB	72.2	77.2	120.8	126.9	133.1

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 7 **Rolled forward regulatory asset base –regional urban**
\$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	133.1	137.4	145.9	150.4	152.3	150.2
<i>Plus</i> Gross Capital expenditure	10.9	15.9	12.5	10.2	6.5	8.9
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	1.6	1.6	1.6	1.6	1.6	1.6
<i>Less</i> Proceeds from disposals	0.6	0.6	0.6	0.6	0.6	0.6
<i>Less</i> Regulatory depreciation	4.4	5.2	5.7	6.1	6.4	6.7
Closing RAB	137.4	145.9	150.4	152.3	150.2	150.2

The same approach has also been undertaken for the rural side of the business, with these outcomes detailed in the tables below:

Table 8 **Updated regulatory asset base - rural**
\$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	9.2	31.4	44.7	61.2	64.4
<i>Plus</i> Gross Capital expenditure	25.4	26.3	20.5	5.9	7.6
<i>Less</i> Government contributions	12.0	4.2	1.1	0.0	0.2
<i>Less</i> Customer contributions	0.1	7.1	0.9	0.3	0.0
<i>Less</i> Proceeds from disposals	0.4	0.5	0.4	0.4	0.5
<i>Less</i> Regulatory depreciation	0.4	1.2	1.7	2.0	2.3
Closing RAB	31.4	44.7	61.2	64.4	68.9

Table 9 **Rolled forward regulatory asset base – rural**
\$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	68.9	73.4	88.6	94.9	94.6	94.1
<i>Plus</i> Gross Capital expenditure	7.0	17.8	9.1	2.5	2.3	2.4
<i>Less</i> Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Customer contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Proceeds from disposals	0.0	0.3	0.3	0.3	0.3	0.3
<i>Less</i> Regulatory depreciation	2.5	2.2	2.5	2.5	2.5	2.5
Closing RAB	73.4	88.6	94.9	94.6	94.1	93.6

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.

8. Operating expenditure

8.1 Regional urban

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

Table 10 **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	18.88	18.98	19.37	18.94	19.06
Revisions and adjustments	-0.16	-0.16	-0.16	-0.16	-0.15
Draft decision – operating expenditure	18.72	18.82	19.21	18.78	18.91

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

Table 11 **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>
Environmental Contribution	-0.06	-0.06	-0.06	-0.06	-0.06
Licence fees	-0.01	-0.01	-0.01	-0.01	0.00
Defined benefits	-0.09	-0.09	-0.09	-0.09	-0.10
Total	-0.16	-0.16	-0.16	-0.16	-0.15

- (a) Adjustments reflect recovery of \$0.9 million defined benefit superannuation payments made to Vision Super in 2012. Lower Murray Water is proposing to recover said payment over five years in the next regulatory period.
- (b) Adjustments based on recent advice from the Department of Sustainability and Environment on the environmental contributions for the next regulatory period (chapter 6 of volume I of this draft decision).
- (c) Adjustments based on recent advice from the Department of Human Services and Environment Protection Authority and the Commission's adjustments on ESC licence (chapter 6 of volume I of this draft decision).

8.2 Rural

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

Table 12 **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	20.3	20.5	20.6	20.8	20.8
Revisions and adjustments	0.0	0.0	0.0	0.0	0.0
Draft decision – operating expenditure	20.3	20.5	20.6	20.8	20.8

9. Capital expenditure

9.1 Regional urban

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

Table 13 **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	14.3	14.4	10.1	6.4	10.2
Revisions and adjustments	1.6	-1.9	0.1	0.1	-1.3
Draft decision – capital expenditure	15.9	12.5	10.2	6.5	8.9

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

Table 14 **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>
Capex adjustment	1.59	-1.9	0.1	0.1	-1.3
Total	1.59	-1.9	0.1	0.1	-1.3

- (a) Cardno recommended to increase the proposed capital expenditure for renewal of sewerage pipelines by \$0.1 million per year to account for sewerage manholes. For the Mildura water supply strategy, Cardno recommended to reduce the proposed expenditure by \$0.9 million with three projects being deferred until WP4, and to increase the cost estimates for the two pipeline projects because the cost estimate rates used were deemed inadequate (section 5.5 of Cardno's expenditure report).

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

Table 15 Key capital projects

	<i>Expected completion date</i>
Mildura water supply strategy	2013-14 to 2017-18
Water and sewerage main renewals	2013-14 to 2017-18
Water treatment plants quality improvements	2013-14 to 2017-18
Water treatment plants PLC replacements	2013-14 to 2017-18
Red Cliffs water treatment plant upgrade	2013-14 to 2017-18

9.2 Rural

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

Table 16 Proposed and approved capital expenditure assumptions
\$ million in January 2013 prices

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed capital expenditure	17.8	9.1	2.5	2.3	2.4
Revisions and adjustments	0.0	0.0	0.0	0.0	0.0
Draft decision – capital expenditure	17.8	9.1	2.5	2.3	2.4

Lower Murray Water has identified the following key capital projects to be undertaken during the regulatory period:

Table 17 Key capital projects

	<i>Expected completion date</i>
Mildura irrigation system essential replacements and overhauls	2013-14 to 2017-18
Merbein switchboard replacement and pump overhauls	2013-14 to 2017-18
Automatic channel control at Red Cliffs and Merbein	2013-14 to 2017-18
Red Cliffs switchboard replacement and pump overhauls	2013-14 to 2017-18
Irrigation meter replacement program	2013-14 to 2017-18
Irrigation pipeline and minor replacement	2013-14 to 2017-18

10. Demand forecasts

Regional urban

- (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 18 Number of water connections – urban

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	27 251	27 529	27 807	28 087	28 371
Draft decision – connections	27 271	27 573	27 878	28 187	28 499
Non-residential					
Proposed connections	7 243	7 299	7 354	7 410	7 465
Draft decision – connections	7 243	7 299	7 354	7 410	7 465
Total					
Proposed – total connections	34 494	34 828	35 161	35 497	35 836
Draft decision – total connections	34 514	34 872	35 232	35 597	35 964

Table 19 **Number of sewerage connections – urban**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Residential					
Proposed connections	24 892	25 170	25 448	25 728	26 012
Draft decision – connections	24 912	25 214	25 519	25 828	26 140
Non-residential					
Proposed connections	4 618	4 683	4 748	4 813	4 878
Draft decision – connections	4 628	4 693	4 758	4 823	4 888
Total					
Proposed connections	29 511	29 854	30 197	30 542	30 891
Draft decision – total connections	29 540	29 907	30 277	30 651	31 028

Frontier Economics' identified that Lower Murray Water had used Victoria in Future 2008 growth rates to forecast connections. Frontier Economics recommended Lower Murray Water use the latest 2012 growth rates and Lower Murray Water agreed with this revision. The Commission proposes to adopt Lower Murray Water's revised water and sewerage connections forecasts.

Table 20 **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)	482	481	479	477	476
Draft decision – average consumption (kL)	483	481	479	478	476
Proposed total residential consumption	13 142	13 229	13 317	13 405	13 495
Draft decision – total residential consumption	13 158	13 257	13 358	13 460	13 563

The Commission proposes to adjust residential and non-residential water volumes to reflect Frontier Economics' adjusted connections forecasts.

Table 21 **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	3 401	3 427	3 453	3 479	3 505
Draft decision – non-residential consumption	3 394	3 420	3 446	3 472	3 498

Table 22 **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	16 543	16 656	16 770	16 884	17 000
Draft decision – total consumption	16 552	16 677	16 804	16 932	17 061

Table 23 **Trade waste connections**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Proposed – connections	3 002	3 042	3 082	3 102	3 142
Draft decision – connections	3 002	3 042	3 082	3 122	3 162

Lower Murray Water made an error in their trade waste customer forecast for 2015-16 to 2016-17. Frontier Economics identified the error and increased the forecast customer numbers in consultation with Lower Murray Water. The Commission proposes to approve Lower Murray Water's revised trade waste customer numbers.

Rural

The Commission has not made any revision to the demand for rural services over the regulatory period.

Frontier Economics found that Lower Murray Water's rural demand forecasts were reasonable. The Commission proposes to accept Lower Murray Water's rural demand forecast.

11. Form of price control

Rural

- (a) The Commission proposes to approve Lower Murray Water's proposal to maintain a revenue cap.
- (b) The Commission proposes to require all rural water businesses to consult with customers before proposing a material tariff change to the Commission at the annual tariff approval process. The determinations will require water businesses to provide evidence of customer consultation (including customer consultative committees) and a statement about customer impacts and how the business will address those impacts.
- (c) The Commission proposes to approve the five year regulatory period proposed by Lower Murray Water.
- (d) The Commission requires Lower Murray Water rural to propose a rebalancing constraint on its tariffs.

Regional urban

- (e) The Commission proposes to approve price caps for Lower Murray Water for the first year of the regulatory period, and approve the business' proposal for a tariff basket for the remainder of the regulatory period. The Commission proposes to approve Lower Murray Water's proposed rebalancing constraint of 10 per cent.

12. Retail water tariffs

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

13. Retail sewerage tariffs

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

14. Trade waste charges

- (a) The Commission proposes to approve the trade waste tariffs proposed by Lower Murray Water.
- (b) The Commission requires Lower Murray Water to continue to include the Commission's trade waste pricing principles in its tariff schedules. Lower Murray Water 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 considers that Lower Murray Water 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.
- (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.

16. New Customer contributions

Table 24 **New customer contributions charges**^a
\$ 2012-13 per lot

	<i>0-750 square metres</i>	<i>Greater than 750 square metres</i>
Water	\$1 410	\$2 820
Sewerage	\$1 311	\$2 622

^a Lower Murray Water proposes to transition to this amount over two years. In 2013-14 the NCC will be 50 per cent of the amounts shown above

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

The Commission requires Lower Murray Water to:

- (a) Assess how they can improve the cost reflectivity of its NCC proposal and to present options on offering more location specific NCC. If the option is a uniform or combined NCC then the water business must demonstrate that there is little material difference between NCC calculated for specific locations or services.
- (b) Confirm that all NCC charges have been calculated in accordance the core pricing principles.
- (c) Improve the transparency of its NCC proposal by providing maps to show the boundaries around the areas (or towns) within which standard NCC apply. Or define any threshold that must be met in order for an NCC to be levied.
- (d) Clearly describe the circumstances (i.e. eligibility criteria) under which NCC will negotiated and confirm that it will apply the core pricing principles when such NCC are negotiated.
- (e) Consult with other water businesses to develop a best practice negotiating framework.
- (f) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- (g) Consult with stakeholders following the draft decision

- (h) 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 only for the years the business expects to pay tax
 - iv. Update calculations of standard NCC with the Commission's draft decision on the Weighted Average Cost of Capital (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.
- (i) Consult with stakeholders on appropriate transition arrangements.

17. Rural tariffs

- (a) The Commission proposes to approve Lower Murray Water's proposed tariff structures.
- (b) The Commission proposes to approve the groundwater tariffs proposed by Lower Murray Water.

18. Miscellaneous charges

Regional urban

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Lower Murray Water.
- (b) In response to this draft decision, Lower Murray Water Urban is required to submit:
 - (i) 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.
 - (ii) 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.

Rural

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Lower Murray Water.

19. Reopening prices

Regional urban

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.

Rural

Lower Murray Water (Rural) may apply for a mid period price adjustment consistent with the Water Charge (Infrastructure) Rules 2010 (WCIR). Under rule 40, the operator can apply for a variation of the approval or determination of its regulated charges for a regulatory period if an event (which the operator could not have reasonably foreseen) occurs during the regulatory period that:

- (a) materially and adversely affects the operator's water service infrastructure, or
- (b) otherwise materially and adversely affects the operator's business and
- (c) the operator could not reasonably have foreseen the event.