



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

2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
WESTERNPORT WATER

MARCH 2013

An appropriate citation for this paper is:

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

WESTERNPORT 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, Westernport 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 table 3
 - ii. the revised demand forecasts set out in tables 12 to 16 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 (NCCs) proposal with specific actions required by the Commission set out in section 15.

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

3. Service standards

The below table summarises the targets Westernport Water 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 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) | 34.79 | 40 | 40 | 35 | 35 | 35 |
| Average time taken to attend bursts and leaks (priority 1) (minutes) | 12.85 | 30 | 30 | 30 | 30 | 30 |
| Average time taken to attend bursts and leaks (priority 2) (minutes) | 68.51 | 100 | 100 | 90 | 90 | 90 |
| Average time taken to attend bursts and leaks (priority 3) (minutes) | 224.78 | 450 | 450 | 450 | 450 | 450 |
| Unplanned water supply interruptions restored within 5 hours (per cent) - proposed | 97.82 | 100 | 100 | 100 | 100 | 100 |
| Planned water supply interruptions restored within 5 hours (per cent) | 93.95 | 100 | 100 | 100 | 100 | 100 |
| Average unplanned customer minutes off water supply (minutes) | 63.05 | 60 | 60 | 60 | 60 | 60 |
| Average planned customer minutes off water supply (minutes) | 98.03 | 90 | 90 | 90 | 90 | 90 |

Service standard

| | <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> |
|--|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Average frequency of unplanned water supply interruptions (number) | 0.53 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Average frequency of planned water supply interruptions (number) | 0.54 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Average duration of unplanned water supply interruptions (minutes) | 114.72 | 120 | 120 | 120 | 120 | 120 |
| Average duration of planned water supply interruptions (minutes) | 179.07 | 120 | 120 | 120 | 120 | 120 |
| Number of customers experiencing 5 unplanned water supply interruptions in the year (number) | 0 | 1500 | 1500 | 1500 | 1500 | 1500 |
| Unaccounted for water (per cent) | 9.29 | 10 | 10 | 10 | 10 | 10 |
| Sewerage | | | | | | |
| Sewerage blockages (per 100km) | 6.4 | 12 | 12 | 10 | 10 | 10 |
| Average time to attend sewer spills and blockages (minutes) | 137.78 | 90 | 90 | 90 | 90 | 90 |
| Average time to rectify a sewer blockage (minutes) | 236.21 | 200 | 200 | 200 | 200 | 200 |
| Spills contained within 5 hours (per cent) | 90.71 | 100 | 100 | 100 | 100 | 100 |
| 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 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Telephone calls answered within 30 seconds (per cent) | No audit data available | 90 | 90 | 90 | 90 | 90 |

Note Data rounded to two decimal places.

Where the proposed service standard target deviated from Westernport Water's actual three 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 the target for 'Sewerage blockages (per 100 kilometres)'. The target proposed for this standard deviated from the five-year average and Westernport Water 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:

In response to this draft decision, Westernport Water is required to either provide adequate reasoning for deviating from the five-year average in setting this target or amend it to reflect the five-year average.

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 the businesses' Customer Charter.

Table 2 Approved GSL events and payment levels

| <i>Proposed level of service</i> | <i>Proposed payment</i> |
|---|-------------------------|
| Unplanned water interruption not restored within five hours of notification | \$50 |
| Sewage spills within a house not contained within one hour of notification | \$500 |
| Sewage spill not contained within five hours of notification | \$250 |

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 implied by ESC draft decision**
\$m 2012-13

| | <i>2013-14</i> | <i>2014-15</i> | <i>2015-16</i> | <i>2016-27</i> | <i>2017-18</i> |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Operating expenditure | 12.44 | 12.40 | 12.39 | 12.39 | 12.39 |
| Return on existing assets | 4.50 | 4.43 | 4.35 | 4.28 | 4.21 |
| Return on new investments | 0.15 | 0.36 | 0.48 | 0.67 | 0.89 |
| Regulatory depreciation | 1.66 | 1.84 | 2.03 | 2.22 | 2.31 |
| Non-prescribed revenue off-set | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Total | 18.73 | 19.00 | 19.24 | 19.53 | 19.78 |

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 the table below.

Table 4 **Updated regulatory asset base - 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 | 68.83 | 74.91 | 76.11 | 80.72 | 83.83 |
| <i>Plus</i> Gross Capital expenditure | 8.89 | 3.07 | 7.45 | 6.26 | 10.70 |
| <i>Less</i> Government contributions | 0.00 | 0.00 | 0.41 | 0.33 | 2.40 |
| <i>Less</i> Customer contributions | 0.47 | 0.26 | 0.37 | 0.60 | 0.65 |
| <i>Less</i> Proceeds from disposals | 0.16 | 0.03 | 0.19 | 0.13 | 0.06 |
| <i>Less</i> Regulatory depreciation | 2.17 | 1.59 | 1.88 | 2.09 | 2.25 |
| Closing RAB | 74.91 | 76.11 | 80.72 | 83.83 | 89.17 |

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 | 89.17 | 96.99 | 101.68 | 102.64 | 104.02 | 107.26 |
| <i>Plus</i> Gross Capital expenditure | 10.50 | 7.08 | 3.53 | 4.14 | 6.20 | 5.95 |
| <i>Less</i> Government contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Less</i> Customer contributions | 0.58 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 |
| <i>Less</i> Proceeds from disposals | 0.07 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 |
| <i>Less</i> Regulatory depreciation | 2.39 | 1.66 | 1.84 | 2.03 | 2.22 | 2.31 |
| Closing RAB | 96.62 | 101.68 | 102.64 | 104.02 | 107.26 | 110.17 |

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 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. Operating expenditure

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

Table 7 **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 | 13.69 | 12.42 | 12.47 | 12.52 | 12.60 |
| Revisions and adjustments | -1.25 | -0.03 | -0.08 | -0.13 | -0.20 |
| Draft decision – operating expenditure | 12.44 | 12.40 | 12.39 | 12.39 | 12.39 |

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

Table 8 **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> |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Electricity | -0.02 | -0.04 | -0.07 | -0.10 | -0.14 |
| Defined benefits superannuation costs | -0.60 | 0.06 | 0.06 | 0.06 | 0.06 |
| Chemical costs | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 |
| GSLs | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 |
| Candowie reservoir road movement | -0.60 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other items | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Environment contribution | -0.02 | -0.04 | -0.06 | -0.08 | -0.10 |
| Licence fees | -0.01 | -0.01 | -0.01 | -0.01 | -0.02 |
| Total | -1.25 | -0.03 | -0.08 | -0.13 | -0.20 |

- (a) Adjustments reflect changes to electricity prices (section 4.2.2 of Deloitte's expenditure report).
- (b) Defined benefits were adjusted to account for the requirement to make a payment of \$0.66 million to Vision Super by 2013 (section 4.2.3 of Deloitte's expenditure report).
- (c) Adjustments reflect changes in chemical usage as a result of changes in the volume of water supplied (section 4.2.4 of Deloitte's expenditure report).

- (d) Adjustments reflect recent submissions from Westernport Water (section 4.2.5 of Deloitte’s expenditure report).
- (e) Adjustments reflect Deloitte’s recommendation that the Candowie reservoir road expenditure be treated as capital expenditure and therefore removed this cost from operating expenditure forecast (section 4.2.7 of Deloitte’s expenditure report).
- (f) A once-off payment representing the cost of bringing Bill of Material data collection in-house from Thiess has been removed as this is considered BAU expenditure (section 4.2.7 of Deloitte’s expenditure report).
- (g) Adjustments reflect recent advice from the Department of Sustainability and Environment on the environment contributions for the next regulatory period (chapter 6 of volume I of this draft decision).
- (h) Adjustments reflect recent advice from the Department of Health and Environment Protection Authority regarding their respective licence fees for the next regulatory period. Also reflects the Commission’s adjustments on 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 9 **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 | 6.20 | 3.34 | 3.23 | 5.60 | 5.12 |
| Draft decision – capital expenditure | 7.08 | 3.53 | 4.14 | 6.20 | 5.95 |

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

Table 10 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> |
|---|----------------|----------------|----------------|----------------|----------------|
| Wastewater future-Cowes | 0.13 | 0.15 | 0.00 | 0.74 | 0.40 |
| Cowes wastewater treatment plant upgrade | 0.10 | 0.01 | 0.11 | 0.03 | 0.01 |
| Water main replacements | 0.05 | 0.11 | 0.09 | -0.20 | -0.20 |
| Candowie upgrade project | 0.60 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ian Bartlett water purification plant tertiary treatment – ultra violet | 0.00 | -0.07 | 0.71 | 0.00 | 0.00 |
| San Remo basin cover replacement | 0.00 | 0.00 | 0.00 | 0.03 | 0.62 |
| Total | 0.88 | 0.20 | 0.91 | 0.60 | 0.83 |

- (a) Wastewater future-Cowes – Deloitte recommended that the proposed program be accepted with Westernport Water's revised P50 cost estimates (section 5.3 of Deloitte's expenditure report).
- (b) Cowes wastewater treatment plant upgrade – Deloitte considered based on evidence provided and current licence conditions, the proposed upgrade does not appear justified. Deloitte recommended deferring it until augmentation requirements are more certain (section 5.4 of Deloitte's expenditure report).
- (c) Water main replacements – Deloitte recommended the nominal allowance in 2016-17 and 2017-18 as yet unidentified renewals/replacements be excluded from the forecast expenditure. It also recommended adopting Westernport Water's revised P50 forecast expenditure (section 5.7 of Deloitte's expenditure report).
- (d) Candowie upgrade project – Deloitte recommended increasing capital expenditure by \$0.6 million, which represents a re-allocation of operating expenditure to capital expenditure (section 5.8 of Deloitte's expenditure report).
- (e) Ian Bartlett water purification plant tertiary treatment-ultra violet – Deloitte recommended that the proposed program be accepted with Westernport Water's revised P50 cost estimates (section 5.5 of Deloitte's expenditure report).

- (f) San Remo basin cover replacement – Deloitte recommended that the proposed expenditure for the water renewals/replacement program be accepted with Westernport Water’s revised P50 cost estimates (section 5.6 of Deloitte’s expenditure report).

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

Table 11 Key capital projects

| | <i>Expected completion date</i> |
|---|---------------------------------|
| Wastewater future-Cowes | 2014-15, 2017-18 |
| Cowes wastewater treatment plant upgrade | 2013-14 to 2017-18 |
| Ian Bartlett water purification plant tertiary treatment-ultra violet | 2015-16 |
| San Remo basin cover replacement | 2017-18 |
| Water main replacements program | 2013-14 to 2017-18 |
| Candowie upgrade project | 2013-14 |

10. Demand forecasts

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

The Commission has adjusted proposed demand forecasts where indicated.

Table 12 Number of water connections

| | <i>2013-14</i> | <i>2014-15</i> | <i>2015-16</i> | <i>2016-17</i> | <i>2017-18</i> |
|---|----------------|----------------|----------------|----------------|----------------|
| Proposed – total connections | 15 862 | 16 166 | 16 478 | 16 797 | 17 121 |
| Draft decision – total connections | 15 899 | 16 240 | 16 592 | 16 952 | 17 319 |

Frontier Economics identified an unexplained step decline in Westernport Water's non-residential connections. Westernport Water noted it mistakenly excluded 32mm and 50mm meter sizes in its non-residential connections forecast. Frontier Economics recommended revising the forecast to include these connections. Westernport Water used the Victoria in Future 2012 population growth rate to forecast connections growth. Frontier Economics recommended using the ViF 2012 dwelling rate to revise Westernport Water's forecast water and sewerage connections. This slightly higher rate accounts for changing trends in household formation. Westernport Water agreed with this revision.

Therefore, the Commission proposes to approve Westernport Water's revised residential and non-residential connections forecasts.

Table 13 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 | 16 472 | 16 870 | 17 279 | 17 700 | 18 133 |
| Draft decision – total connections | 16 692 | 17 128 | 17 578 | 18 042 | 18 519 |

Table 14 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 total residential consumption | 1 044 | 1 055 | 1 065 | 1 076 | 1 087 |
| Draft decision – total residential consumption | 1 053 | 1 077 | 1 101 | 1 126 | 1 151 |

Average residential water consumption has been adjusted to reflect Frontier Economics' advice (see the Frontier Economics report. Westernport Water assumed all new connections would be non-permanent residents with a much lower consumption per connection. Frontier Economics rejected this assumption and recommended applying the business's current ratio of permanent and non-permanent customers.

Westernport Water assumed all new connections would be non-permanent residents with a much lower consumption per connection than permanent residents. Frontier Economics disagreed with this assumption and recommended applying the business's current ratio of permanent and non-permanent customers. Westernport Water agreed with this revision. The Commission proposes to approve Westernport Water's revised forecast residential volumes.

Table 15 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 | 579 | 585 | 590 | 596 | 602 |
| Draft decision – non-residential consumption | 579 | 585 | 590 | 596 | 602 |

The Commission proposes to approve Westernport Water's revised non-residential volumes to reflect higher connection numbers (see the Frontier Economics report).

Table 16 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 | 1 623 | 1 639 | 1 656 | 1 672 | 1 689 |
| Draft decision – total consumption | 1 632 | 1 661 | 1 691 | 1 722 | 1 753 |

The Commission proposes to approve adjustments to total water consumption reflect revisions by Westernport.

11. Form of price control

The Commission proposes to approve a hybrid form of price control, whereby:

- (a) it approves price caps for Westernport Water and
- (b) this businesses may propose to move to a tariff basket at the time of the annual price review within the period.

Where a business proposes to transfer to a hybrid form of price control during the next 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 (including customer consultative committees) and a statement about customer impacts and how the business will address those impacts.

12. Retail water tariffs

- (a) The Commission proposes to approve Westernport Water's proposed retail water tariff structure.
- (a) Westernport Water is proposing to restructure its three tier inclining block variable tariff to a single tier. Westernport Water should provide further information on how it will mitigate negative impacts on customers.

13. Retail sewerage tariffs

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

14. Recycled water

- (a) The Commission proposes to approve Westernport Water's proposed recycled water tariff structure for residential third pipe schemes.
- (b) The Commission proposes to approve Westernport Water's proposed scheduled charges for non-residential recycled water services.
- (c) The Commission is proposing to approve Westernport Water's proposed pricing principles on the basis that they are consistent with the principles below.

- (d) The Commission considers that Westernport 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. (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. (iii) include a variable component.
- (e) 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.

15. New Customer contributions

Table 17 **New customer contributions charges**
\$2012-13 per lot

| | |
|----------|-------------------|
| Water | 2500 ^a |
| Sewerage | 850 |

^a Combined water and recycled water charge

Subject to Westernport 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 Westernport Water's NCC charges are determined.

The Commission requires Westernport 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.

- vi. Gifted asset values in the calculation model are constant across the planning period. Confirm whether this correct.

16. Miscellaneous charges

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Westernport Water.
- (b) In response to this draft decision, Westernport Water 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.

17. Trade waste

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

18. 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

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