



# *Rural Price Review*

2013-14

## Background

Coliban Water sought approval for significant tariff reform in our 2013-18 Water Plan. A pivotal component was to only propose rural tariffs for 2013-14 in lieu of proposing tariffs to apply for the five year regulatory period. The ESC endorsed this approach, approving a five year price path for rural pricing, rural prices for 2013-14 and a Price Cap Hybrid form of price control. Rural prices were decreased by an average of three per cent (real) in 2013-14.

Under the Price Cap Hybrid form of price control Coliban Water is able to apply through the annual tariff approval process to have a revised schedule of tariffs. In keeping with our Water Plan commitment to rural customers, this submission seeks to revise rural prices based on the outcomes of a review of rural prices that Coliban Water has recently undertaken.

This submission recommends tariffs that are revenue neutral. That is, there is no intent to either increase or decrease the forecast revenue collected from rural customers.

## Developing a rural tariff strategy

During the consultation phase of the Water Plan process, Coliban Water undertook extensive consultation with rural customers and with their representatives - Rural Customer Advisory Group (Rural CAG). Much feedback related to how customers perceived the pricing and tariff structure as unfair. There were particular concerns regarding a lack of significant price differential between:

- Recycled and raw water
- Channel and rural pipeline customers
- Rostered channels and other channels (and even channels with different degrees of rostering)
- Shared and individual outlets
- Customers without private infrastructure and those that maintain private infrastructure
- Unmodernised channels and (future) modernised systems.

In the Water Plan, Coliban Water acknowledged that rural tariffs required reform, and that such reform be driven by customer feedback. It was appropriate that tariff structures be consistent with the future operating environment, with a need for distinct tariffs for a modernised system. Tariffs were developed for both unmodernised and modernised rural services with an emphasis on 'similar price for a similar service'. Furthermore, it was expected that tariffs would be developed with fairness and simplicity in mind, balanced with the need to send appropriate cost signals to customers.

### Unmodernised rural tariffs

The structure of rural tariffs remained largely unchanged in the decade prior to this regulatory period. The following unmodernised rural tariffs were proposed in the Water Plan and were subsequently approved by the ESC:

1. Access Charge – annual fee dependent upon whether the customer's access is via a pipeline, channel or direct from storage.
2. Infrastructure charge – per megalitre of licence volume regardless of seasonal allocation.
3. Volumetric charge – per megalitre of water used.

#### Access Charge

A customer charge to access the network sends the appropriate cost signal to customers that being a rural customer imposes a cost on Coliban Water. The amount that customers pay to access water depends upon their access arrangement – Pipeline, Channel or Storage. Pipeline customers are perceived as receiving a greater level of service relative to channel customers, whilst only a handful of customers are supplied by accessing our storages directly.

A proportion of the average price reduction approved in 2013-14 was facilitated through a reduction to the Channel Access charge. Given the associated cost considerations, and in light of continual concerns about the inequity of the channel price relative to pipeline price, this charge was reduced from \$698 in 2012-13 to \$445 in 2013-14.

## Infrastructure Charge

The rural Infrastructure Charge (previously known as the capacity charge) represents the cost related to providing system capacity to deliver the water licence volume held by an individual customer. Historically, the capacity charge was linked to seasonal water allocation creating perverse incentives for the corporation to attain revenue by maximising water allocation. This nuance was in contrast to most irrigation districts where fixed charges are shared amongst customers on an entitlement or a delivery share basis. It was critical that the capacity charge be reformed and is now payable per megalitre of water licence volume for all customers.

## Volumetric Charge

The volumetric charge reflects the marginal cost of providing rural water and is charged per megalitre delivered. This charge is the same, regardless of whether raw or recycled water is provided.

## Modernised rural tariffs

The Harcourt Rural Modernisation project is the largest individual capital project endorsed for inclusion in the current regulatory period, with works due for completion during 2014-15. Modernised rural services are distinctly different to current rural services due to the quality of access and service to be provided. As such, the modernised system is subject to modernised rural tariffs, whereby the general three part tariff structure is maintained. The costs incurred in providing modernised services are recovered through:

1. Access charge – The service received by customers accessing a reliable, pressurised rural service are subject to meter based pricing, consistent with the standard potable urban water access charges.
2. Infrastructure Charge – The principles of the modernised infrastructure charge are equivalent to the unmodernised infrastructure charge in that there are higher costs related to increased system capacity requirements, and the charge is payable per megalitre of water licence volume for all customers. The modernised infrastructure charge is higher, predominantly due to the capital cost of constructing the Harcourt Rural Modernisation project and the recovery of invested capital through the rural tariff.
3. Volumetric Charge – This charge is set at the same level of the unmodernised volumetric rate, as the marginal cost of providing any rural customer with water is unchanged.

## Rural Price Review 2013-14

Given the initial reforms to rural tariffs in 2013-14, the intent of the rural price review was to consult with customers on potential issues that were perceived as unresolved from the earlier Water Plan process. This feedback would inform potential reforms to rural tariffs where appropriate and considered relevant. Coliban Water commenced the rural review in October 2013.

Pricing for the Modernised Harcourt rural water system was derived from specific cost estimations and as such modernised price levels were considered finalised and approved in last year's ESC Final Decision. Modernised customers were not consulted on unmodernised tariffs, as unmodernised charges would no longer apply to Harcourt customers following the completion of the Harcourt system in 2014/15.

## Revising rural tariffs

It was evident from the review that customers were not in favour of a major overhaul to the current unmodernised rural tariff structure.

Feedback suggests that the majority of rural concerns are of an operational nature rather than tariff-related, and that customers were unwilling to pay more to receive a higher level of access (via increased channel rostering opportunities). There was also insufficient evidence to support differential pricing for the supply of either raw water or recycled water.

On the basis of customer research, there is clear support for a reduction in the level of the Channel Access charge for customers with a shared outlet. A shared outlet is one where customers jointly share access to the network, and currently each customer pays a separate channel access charge. In some cases, their ability to order water depends in part on their neighbours' willingness and ability to also order water at the same time. Customers supporting a reduction in Channel Access charges also expressed their willingness to accept a commensurate increase in other charges.

## Changes to unmodernised tariffs

The perception held by rural customers of the high cost of rural water services provided via channel access is an ongoing theme re-emphasised throughout the review. Although customers acknowledged the 2013-14 price decrease, the Channel Access charge is misaligned to the level of service received, and is currently more expensive than modernised rural (Harcourt) access charges for small or medium licence volumes.

The following reforms to unmodernised rural tariffs are proposed.

- Access Charge
  - Channel - Apply a 20% reduction for customers who only access one shared outlet, as these customers are perceived as receiving a significantly lower level of service. This reduction will mirror the approach of other Victorian rural water corporations who charge lower channel access fees where a customer has shared access.
  - Pipeline and Storage - No change
- Infrastructure Charge - Increase by 3.6% to facilitate the lower Channel Access
- Volumetric Charge - No change

Reducing the Channel Access charge for customers with shared access results in an overall revenue decrease of \$42,359 for this charge. It is proposed that the unmodernised Infrastructure Charge increase to \$153.55 per megalitre of licence volume (excluding CPI) to ensure that the overall revenue collected from rural customers remains unchanged compared to price changes approved in the ESC Determination.

For the remainder of the regulatory period, Coliban Water proposes that all unmodernised rural tariffs move in line with CPI as proposed in the 2013-18 Water Plan and supported in the ESC Final Decision.

## Changes to Modernised tariffs

No changes in price levels are proposed to modernised tariffs.

However, it is proposed to separate our modernised Infrastructure Charge into a headworks component and a network component, in order to provide certainty in the future charging of termination fees. As previously advised to customers, the termination fee protects customers remaining in the system by ensuring that customers terminating their access to the modernised system do not increase average costs attributable to remaining customers. The proposal to separate the modernised Infrastructure Charge has been discussed with the Harcourt Modernisation Steering Committee.

Coliban Water has made modernised customers aware on several occasions that termination fees will apply from 2013-14 where a customer chooses to terminate their access to the network.

This proposal will result in a marginal reduction in termination fee revenue, as the termination fee will be applicable to the network based component of the Infrastructure Charge only. It is not proposed to offset any loss of this revenue by increasing other charges.

The following reforms to Modernised rural tariffs are proposed.

- Meter-based Access Charge – No change, remains in line with urban potable water meter charges
- Infrastructure Charge - No overall change, however split the charge into a network component (approximately 90%) and a headworks component (approximately 10%).
- Volumetric Charge - No change

Coliban Water proposes that modernised infrastructure and volumetric charges move in line with CPI only for the remainder of the regulatory period, consistent with future movements in the unmodernised rural tariffs.

The proposed revised rural tariff schedule is outlined on the next page.

**Revised rural tariff schedule (2013-14 \$)**

Unmodernised Rural Tariffs			Prescribed price movements				
Tariff Category	Type	Charge	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Access Charges</b>	Pipeline	<i>per annum</i>	\$793.36	\$793.36	0.0%	0.0%	0.0%
	Channel	<i>per annum</i>	\$445.88	\$445.88	0.0%	0.0%	0.0%
	Channel – Single shared outlet	<i>per annum</i>	<i>n/a</i>	\$356.70	0.0%	0.0%	0.0%
	Storage	<i>per annum</i>	\$98.86	\$98.86	0.0%	0.0%	0.0%
<b>Variable Charges</b>	Volume	<i>per ML</i>	\$242.3364	\$242.3364	0.0%	0.0%	0.0%
	Excess usage	<i>per ML</i>	\$3,000.00	\$3,000.00	0.0%	0.0%	0.0%
<b>Infrastructure Charge</b>	Infrastructure	<i>per ML licence volume.</i>	\$148.15	\$153.55	0.0%	0.0%	0.0%
<b>Outlet Charges</b>	2-5 outlets	<i>per additional outlet</i>	\$25.52	\$25.52	0.0%	0.0%	0.0%
	6-10 outlets	<i>per additional outlet</i>	\$35.76	\$35.76	0.0%	0.0%	0.0%
	11+ outlets	<i>per additional outlet</i>	\$35.76	\$35.76	0.0%	0.0%	0.0%

Modernised Rural Tariffs			Prescribed price movements				
Tariff Category	Type	Charge	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Access Charge</b>	Meter based	<i>per annum</i>	<i>as per potable Urban Water Access Fees</i>				
<b>Variable Charge</b>	Volume	<i>per ML</i>	\$242.3364	\$242.3364	0.0%	0.0%	0.0%
	Excess usage	<i>per ML</i>	\$3,000.00	\$3,000.00	0.0%	0.0%	0.0%
<b>Infrastructure Charges</b>	Network component	<i>per ML licence volume.</i>	230.63	207.57	0.0%	0.0%	0.0%
	Headworks component	<i>per ML licence volume.</i>		23.06	0.0%	0.0%	0.0%
<b>Termination Fee</b>	<i>in accordance with ACCC principles</i>						

## Community consultation

Coliban Water sought extensive feedback during the rural review. Initial discussions were held with the Rural CAG to:

- inform them of the purpose of the price review.
- provide information on timeframes and regulatory expectations.
- gain preliminary understanding of potential opportunities for tariff reform.
- contribute to the development of a rural customer pricing survey.

Informal feedback from the Rural CAG in 2013 was that customers were generally accepting of the current structure and price path for rural services – the Water Plan proposed an overall three per cent real price decrease in 2013-14, with prices thereafter to increase by CPI through to 2018.

A survey of all rural customers commenced in November 2013. The customer research was well received with a positive response rate of 27%. The key feedback included:

- Most (85%) customers did not want to pay more to have water available more often.
- A high 76% of customers believe that shared outlets should attract a lower fee.
- In terms of the most “unfair” charge, customers were evenly split between the 34% who nominated the access charge and 37% who nominated the infrastructure charge.
  - A strong majority (70%) of customers who wanted a lower access fee were accepting of an equivalent rise in other charges.
  - A minority (42%) of customers who wanted a lower infrastructure charge were accepting of an equivalent rise in other charges.
- Recycled water customers had an overall satisfaction equivalent to raw water customers.
- Only 36% of customers believe recycled water should be priced at a lower level than raw water. Responses weighted by licence volume show the preferred approach being for prices to remain the same.

The research results, combined with earlier feedback, were internally workshopped to develop a draft pricing proposal. The draft proposal was then communicated by two means:

- All rural customers received a mail out in February 2014 which provided a snapshot of the key outcomes and proposed changes to rural tariffs. Customers were encouraged to attend one of the two February 2014 rural ‘drop in’ sessions to provide pricing feedback.
- The Rural CAG was presented the research outcomes and considered the proposed tariff changes at their February 2014 meeting.

Throughout the consultation process customers were informed that a pricing proposal would be submitted to the ESC for assessment in early March 2014 and that all tariffs would require approval and advertisement prior to coming into effect from 1 July 2014.

## Customer impacts

In line with customer feedback, only minor changes to the application of tariffs are proposed. There remains limited capacity for the proposed changes to significantly impact upon customers. The following table demonstrates customer billing impacts for representative customers, where approximately 70% of customers have a licence volume of 5ML or less.

**Estimated 2014-15 Charges (2013-14 \$)**

Licence volume	Access Type	2013-14	2014-15	Impact
1 ML	Pipeline	\$1,184	\$1,189	0.5%
1 ML	Channel	\$836	\$842	0.6%
1 ML	Channel - Shared	\$836	\$753	-10.0%
5 ML	Pipeline	\$2,746	\$2,773	1.0%
5 ML	Channel	\$2,398	\$2,425	1.1%
5 ML	Channel - Shared	\$2,398	\$2,336	-2.6%
10 ML	Pipeline	\$4,698	\$4,752	1.1%
10 ML	Channel	\$4,351	\$4,405	1.2%
10 ML	Channel - Shared	\$4,351	\$4,316	-0.8%

Coliban Water considers this one-off revision to tariffs to be relatively minor for the overwhelming majority of customers, therefore there is no requirement for specific transition.