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## 2013-18 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:  
WANNON WATER

MARCH 2013

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

# WANNON 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, Wannon 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. 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 table 1.

- (c) the guaranteed service levels (GSLs) to apply over the regulatory period consistent with any revisions set suggested by the Commission set out in table 2.
- (d) the New Customer Contribution Charges (NCCs) 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

The table below summarises the targets Wannon 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>
<b>Water</b>						
Unplanned water supply interruptions (per 100km)	7.54	9.2	9.2	9.2	9.2	9.2
Average time taken to attend bursts and leaks (priority 1) (minutes)	19.68	21	21	21	21	21
Average time taken to attend bursts and leaks (priority 2) (minutes)	28.51	40	40	40	40	40
Average time taken to attend bursts and leaks (priority 3) (minutes)	82.31	118	118	118	118	118
Unplanned water supply interruptions restored within 5 hours (per cent) - proposed	98.48	97	97	97	97	97

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*Service standard*

*5yr Avg 2013-14 2014-15 2015-16 2016-17 2017-18  
2008-13*

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Planned water supply interruptions restored within 5 hours (per cent)	96.63	93	93	93	93	93
Average unplanned customer minutes off water supply (minutes)	4.34	6.3	6.3	6.3	6.3	6.3
Average planned customer minutes off water supply (minutes)	1.92	3.8	3.8	3.8	3.8	3.8
Average frequency of unplanned water supply interruptions (number)	0.06	0.07	0.07	0.07	0.07	0.07
Average frequency of planned water supply interruptions (number)	0.02	0.03	0.03	0.03	0.03	0.03
Average duration of unplanned water supply interruptions (minutes)	74.49	91	91	91	91	91
Average duration of planned water supply interruptions (minutes)	132.07	166	166	166	166	166
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	0	0	0	0	0	0
Unaccounted for water (per cent)	15.45	14	14	14	14	14
<b>Sewerage</b>						
Sewerage blockages (per 100km)	11.24	22	22	22	22	22
Average time to attend sewer spills and blockages (minutes)	38.03	62	62	62	62	62
Average time to rectify a sewer blockage (minutes)	100.22	127	127	127	127	127
Spills contained within 5 hours (per cent)	99.84	99	99	99	99	99
Customers receiving 3 sewer blockages in the year (number)	0	0	0	0	0	0

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*Service standard*

*5yr Avg 2013-14 2014-15 2015-16 2016-17 2017-18  
2008-13*

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**Customer Service**

Complaints to EWOV (per 1000 customers)	No audit data available	1.2	1.2	1.2	1.2	1.2
Telephone calls answered within 30 seconds (per cent)	No audit data available	96	96	96	96	96

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**Note** Data rounded to two decimal places.

Where the proposed service standard target deviated from Wannon 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 those listed below. The targets for the following standards deviated from the five-year average and Wannon 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:

- (a) Average time taken to attend bursts and leaks (priority two) (minutes)
- (b) Average time taken to attend bursts and leaks (priority three) (minutes)
- (c) Unplanned water supply interruptions restored within five hours (per cent)
- (d) Planned water supply interruptions restored within five hours (per cent)
- (e) Average unplanned customer minutes off water supply (minutes)
- (f) Average planned customer minutes off water supply (minutes)
- (g) Average frequency of unplanned water supply interruptions (number per customer per year)
- (h) Average frequency of planned water supply interruptions (number per customer per year)
- (i) Average duration of unplanned water supply interruptions (minutes)
- (j) Average duration of planned water supply interruptions (minutes)
- (k) Sewerage blockages per 100 kilometres (number)
- (l) Average time to attend sewer spills and blockages (minutes)
- (m) Average time to rectify a sewer blockage (minutes).

In response to this draft decision, Wannon Water 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

#### 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 2. These guaranteed service levels should be reflected in Wannon Water's Customer Charter.

Table 2 **Proposed and approved GSL events and payment levels**

<i>Proposed level of service</i>	<i>Proposed payment</i>
More than five unplanned water supply interruptions to a property within 12 month period	\$50
Sewer spill within residential property not contained within one hour of notification.	\$500

#### 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>2011-2012</i>	<i>2017-18</i>
Operating expenditure	42.8	43.0	42.4	42.2	41.7
Return on existing assets	11.4	11.0	10.8	10.5	10.3
Return on new investments	0.4	1.3	2.1	2.8	3.6
Regulatory depreciation	7.2	7.7	8.1	8.4	8.2
<b>Total</b>	<b>61.8</b>	<b>63.0</b>	<b>63.4</b>	<b>63.9</b>	<b>63.7</b>

## 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 3.

Table 4            **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	127.3	150.3	173.7	211.7	224.5
<i>Plus</i> Gross Capital expenditure	33.9	32.1	45.2	23.2	22.2
<i>Less</i> Government contributions	1.2	0.7	0.5	0.7	0.6
<i>Less</i> Customer contributions	4.6	0.8	1.1	0.8	0.9
<i>Less</i> Proceeds from disposals	0.9	1.9	0.3	3.2	0.4
<i>Less</i> Regulatory depreciation	4.2	5.3	5.2	5.6	5.7
<b>Closing RAB</b>	<b>150.3</b>	<b>173.7</b>	<b>211.7</b>	<b>224.5</b>	<b>239.0</b>

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	239.0	245.9	256.8	269.0	277.9	290.5
<i>Plus</i> Gross Capital expenditure	14.1	21.0	21.8	18.9	22.9	18.4
<i>Less</i> Government contributions	0.0	0.1	0.0	0.1	0.0	0.0
<i>Less</i> Customer contributions	0.7	1.5	1.5	1.5	1.5	1.5
<i>Less</i> Proceeds from disposals	0.7	1.4	0.5	0.4	0.4	0.4
<i>Less</i> Regulatory depreciation	5.9	7.2	7.7	8.1	8.4	8.2
<b>Closing RAB</b>	<b>245.9</b>	<b>256.8</b>	<b>269.0</b>	<b>277.9</b>	<b>290.5</b>	<b>298.9</b>

## 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	44.50	43.41	42.95	42.98	42.71
Revisions and adjustments	-1.67	-0.44	-0.53	-0.76	-1.03
<b>Draft decision – operating expenditure</b>	<b>42.83</b>	<b>42.97</b>	<b>42.42</b>	<b>42.22</b>	<b>41.67</b>

The Commission's assumptions reflect the following adjustments to Wannon 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	-0.13	-0.14	-0.33	-0.55
Chemicals	-0.07	-0.11	-0.17	-0.22	-0.27
Hardship GSL	-0.02	-0.02	-0.02	-0.02	-0.02
Defined benefits	-1.31	0.14	0.14	0.13	0.13
Minor new initiatives	-0.20	-0.24	-0.23	-0.24	-0.24
Konongwootong operating activities	-0.03	-0.02	-0.03	-0.02	-0.02
Safe work compliance training	-0.03	-0.03	-0.03	-0.03	-0.03
Environment contribution	0.00	0.00	-0.01	-0.01	-0.01
Licence fees	-0.04	-0.04	-0.04	-0.03	-0.02
<b>Total</b>	<b>-1.67</b>	<b>-0.44</b>	<b>-0.53</b>	<b>-0.76</b>	<b>-1.03</b>

- (a) Adjustments reflect changes to electricity prices, updated electricity forecast model which included forecasts on a site-by-site basis, and expenditure being adjusted in real terms (section 4.2.2 of Deloitte's expenditure report).
- (b) Adjustments reflect allowance for small real increase in chemical prices in 2012-13 over base year prices for the commissioning of new water treatment facilities at Portland and Hamilton, but no real changes in chemical prices after that (section 4.2.3 of Deloitte's expenditure report).
- (c) Adjustments reflect Deloitte's recommendation that the assumptions around the number of site visits be based upon the average number of legal actions and restrictions over the past five years—(based on actual visits from July to November 2012 (section 4.2.4 of Deloitte's expenditure report).
- (d) Defined benefits were adjusted to account for the requirement to make a payment of \$1.45 million to Vision Super by 2013 (section 4.2.5 of Deloitte's expenditure report).
- (e) Allowances for minor new initiatives expenditure were restricted to projects that were defined as 'operating projects', all other projects were removed (section 4.3.2 of Deloitte's expenditure report).
- (f) Adjustments reflect a reduction on operating expenditure to account for revised estimates for the Konongwootong Master Plan Implementation (section 4.3.3 of Deloitte's expenditure report).
- (g) Adjustments reflect the removal of expenditure for the Safe Work compliance training; should be part of training budget within BAU expenditure (section 4.3.4 of Deloitte's expenditure report).
- (h) 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).
- (i) 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	20.89	25.20	21.64	22.87	18.44
<b>Draft decision – capital expenditure</b>	<b>21.00</b>	<b>21.85</b>	<b>18.88</b>	<b>22.87</b>	<b>18.44</b>

The Commission's assumptions reflect the following adjustments to Wannon 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>
Casterton water treatment plant install clarifier	0.00	-0.43	-2.76	0.00	0.00
Wyatt St bore construction	0.11	-2.92	0.00	0.00	0.00
<b>Total</b>	<b>0.11</b>	<b>-3.35</b>	<b>-2.76</b>	<b>0.00</b>	<b>0.00</b>

- (a) Casterton water treatment plant install clarifier – Deloitte recommended removing this expenditure from the forecast, given the documentation provided does not sufficiently justify the need or urgency of proposed works (section 5.4 of Deloitte's expenditure report).
- (b) Wyatt St bore construction – Deloitte considered that current supporting documentation does not present a clear case for whether the project is required as an emergency supply option. Deloitte recommended that a detailed and independent risk assessment be undertaken to determine whether the cost of the project can be justified given the reduction in supply risk that will occur. An allowance of 5 per cent of the proposed capital expenditure has been allowed for this investigation in the first year of the next regulatory period (section 5.6 of Deloitte's expenditure report).

Wannon 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>
Heywood, Hamilton and Cobden water reclamation plant irrigation works	2016-17 to 2017-18
Casterton water treatment plant install clarifier	2015-16
Curdie Vale bore construction	2013-14
Construct new bore at Wyatt St Portland	2013-14
Water tower and pump station in Wangoom Road and Wollaston Road Warrnambool	2016-17 and 2015-16, respectively
Portland and Port Fairy – sewer replacement/refurbishment	2013-14 to 2017-18

## 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 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>
Residential					
Proposed connections	35 333	35 718	36 115	36 501	36 878
<b>Draft decision – connections</b>	<b>35 333</b>	<b>35 718</b>	<b>36 115</b>	<b>36 501</b>	<b>36 878</b>
Non-residential					
Proposed connections	6 469	6 524	6 578	6 628	6 676
<b>Draft decision – connections</b>	<b>6 469</b>	<b>6 524</b>	<b>6 578</b>	<b>6 628</b>	<b>6 676</b>
Proposed – total connections	41 802	42 242	42 693	43 129	43 554
<b>Draft decision – total connections</b>	<b>41 802</b>	<b>42 242</b>	<b>42 693</b>	<b>43 129</b>	<b>43 554</b>

**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>
Residential					
Proposed connections	31 520	31 858	32 198	32 529	32 853
<b>Draft decision – connections</b>	<b>31 520</b>	<b>31 858</b>	<b>32 198</b>	<b>32 529</b>	<b>32 853</b>
Non-residential					
Proposed connections	3 725	3 764	3 802	3 840	3 878
<b>Draft decision – connections</b>	<b>3 725</b>	<b>3 764</b>	<b>3 802</b>	<b>3 840</b>	<b>3 878</b>
Proposed – total connections	35 246	35 621	36 000	36 370	36 731
<b>Draft decision – total connections</b>	<b>35 246</b>	<b>35 621</b>	<b>36 000</b>	<b>36 370</b>	<b>36 731</b>

**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 average consumption (kL)	142	138	138	138	138
<b>Draft decision – average consumption (kL)</b>	<b>142</b>	<b>138</b>	<b>138</b>	<b>138</b>	<b>138</b>
Proposed total residential consumption	5 032	4 934	4 989	5 040	5 093
<b>Draft decision – total residential consumption</b>	<b>5 032</b>	<b>4 934</b>	<b>4 989</b>	<b>5 040</b>	<b>5 093</b>

**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	6 505	6 537	6 569	6 605	6 641
<b>Draft decision – non-residential consumption</b>	<b>6 505</b>	<b>6 537</b>	<b>6 569</b>	<b>6 605</b>	<b>6 641</b>

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	11 537	11 471	11 558	11 645	11 734
<b>Draft decision – total consumption</b>	<b>11 537</b>	<b>11 471</b>	<b>11 558</b>	<b>11 645</b>	<b>11 734</b>

## 11. Form of price control

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

- (a) it approves price caps for Wannon 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 Wannon Water's proposed retail water tariff structure.

## 13. Retail sewerage tariffs

- (a) The Commission proposes to approve Wannon Water's proposed retail water tariff structure.
- (b) Wannon Water is proposing to reduce the number of geographic pricing zones from five to three for fixed sewerage tariffs. Wannon Water should provide further information for mitigating negative customer impacts and how it will inform customers of the change.

#### **14. Trade waste charges**

- (a) The Commission proposes to approve the trade waste tariffs proposed by Wannon Water.
- (b) The Commission requires Wannon Water to continue to include the Commission's trade waste pricing principles in its tariff schedules. Wannon 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 is proposing to approve Wannon Water's proposed pricing principles on the basis that they are consistent with the principles set out below.
- (b) The Commission considers that Wannon 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.
- (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

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

	<i>Category 1<sup>a</sup></i>	<i>Category 2<sup>b</sup></i>	<i>Category 3<sup>c</sup></i>	<i>Category 4<sup>d</sup></i>
Water	4 000	1 000	2 000	500
Sewerage	1 500	1 000	750	500

<sup>a</sup> Warrnambool, Allansford, Koroit, Portland, Hamilton and Port Fairy (>= 450sqm). <sup>b</sup> All other areas (>= 450sqm) <sup>c</sup> Warrnambool, Allansford, Koroit, Portland, Hamilton and Port Fairy (< 450sqm). <sup>d</sup> All other areas (< 450 sqm).

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

The Commission requires Wannon Water to:

- (a) Remove depreciation amounts from the calculation of the standard NCC.
- (b) Review the estimated North East Growth Corridor costs, and re-submit its NCC proposal in the event the NCC charges are different.
- (c) 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.
- (d) Confirm that all NCC charges have been calculated in accordance the core pricing principles.
- (e) 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.
- (f) 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.
- (g) Consult with other regional water businesses to develop a best practice negotiating framework.
- (h) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.
- (i) Consult with stakeholders following the draft decision

- (j) 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.
- (k) Consult with stakeholders on appropriate transition arrangements.

## **17. Miscellaneous charges**

- (a) The Commission proposes to approve the miscellaneous services fees and charges proposed by Wannon Water.
- (b) In response to this draft decision, Wannon 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 miscellaneous charges for developers:
    - a. name all charges relating to developers
    - b. explain how these charges relate to NCCs
    - c. define the services that will be provided for these charges.

## 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*

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