

Lower Murray Water
2013 Water Price Review
Response to ESC Draft Decision

May 2013

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1. Introduction

Lower Murray Water has reviewed the Essential Services Commission's (ESC) Urban and Rural Draft Decisions for Lower Murray Water (LMW), dated March 2013. This report summarises:

- Recommendations accepted
- Justification of other recommendations not accepted by LMW
- Changes since the draft decision

This report will provide acceptance of ESC recommendations and provide a reconciliation of expenditure not included in the draft decision, and will explain the adjustment of the expenditure. The additional operating and capital expenditure has arisen since LMW's submission in October and from LMW's review of the Cardno Report - Assessment of Expenditure Forecasts for Lower Murray Water. The remaining adjustments have also occurred since that report.

This report also reviews other recommendations made by the ESC and discusses those accepted and not accepted by LMW.

LMW's response will include for Urban and Rural:

- Key Outcomes and Service Levels
- Revenue Requirement
- Operating Expenditure
- Capital Expenditure
- Demand Forecasts
- Retail Water and Sewerage Tariffs
- New Customer Contributions
- Rural Tariffs
- Miscellaneous Charges

2. Key Outcomes and Service Standards

2.1 Urban Service Standards

The ESC approved each of the urban service standards proposed in LMW's Water Plan. LMW accepts the ESC's decision.

2.2 Rural Service Standards

The ESC approved each of the rural service standards proposed in LMW's Water Plan. LMW accepts the ESC's decision.

2.3 Guaranteed Service Levels

LMW will introduce Guaranteed Service Levels for the regulatory period 2014-2018.

The ESC proposes to approve each of the proposed guaranteed service levels.

LMW accepts the ESC's decision.

3. Revenue Requirement

3.1 Urban Revenue Requirement

LMW has adopted the following assumptions in relation to the revenue required for the urban business over the regulatory period. The assumptions include in part those from the ESC's draft decision and LMW's responses to the draft decision.

Table 1

Revenue requirement - Urban (\$m 1/1/13)	2013-14	2014-15	2015-16	2016-17	2017-18
Operating expenditure	19.27	19.38	19.79	19.37	19.51
Return on assets to 30/6/13	6.33	6.07	5.81	5.56	5.30
Regulatory depreciation of assets to 30/6/13	4.94	4.94	4.91	4.83	4.83
Return on new assets	0.35	0.95	1.39	1.66	1.88
Regulatory depreciation of new assets	0.31	0.84	1.26	1.59	1.90
Adjustments from last period	-	-	-	-	-
Benchmark tax liability	-	-	-	-	-
Total revenue requirement	31.20	32.18	33.16	33.01	33.43

3.2 Rural Revenue Requirement

LMW has adopted the following assumptions in relation to the revenue required for the rural business over the regulatory period. The assumptions include in part those from the ESC's draft decision and LMW's responses to the draft decision.

Table 2

Revenue requirement - Rural (\$m 1/1/13)	2013-14	2014-15	2015-16	2016-17	2017-18
Operating expenditure	21.12	21.03	21.17	21.31	21.33
Return on assets to 30/6/13	3.10	2.99	2.89	2.80	2.71
Return on new assets	0.41	1.02	1.27	1.34	1.40
Regulatory depreciation of assets to 30/6/13	1.98	1.87	1.72	1.58	1.49
Regulatory depreciation of new assets	0.24	0.60	0.79	0.92	1.05
Adjustments from last period	-	-	-	-	-
Benchmark tax liability	-	-	-	-	-
Total revenue requirement	26.85	27.51	27.84	27.96	27.99

3.3 Urban Regulatory Asset Base

LMW has updated its regulatory asset base to 30 June 2012 for the urban business as shown in Table 3 below reflecting capital expenditure net of customer contributions and disposals for the period less regulatory depreciation.

Table 3**Updated Regulatory Asset Base - Urban**

(\$m 1/1/13)	2007-08	2008-09	2009-10	2010-11	2011-12
Opening asset base	69.8	72.2	77.2	120.8	126.9
plus Gross capex	10.3	11.2	49.3	14.1	12.4
less Government contributions	2.5	1.4	0.0	1.9	0.0
less Customer contributions	1.8	1.1	1.6	1.6	1.4
less Proceeds from disposals	0.4	0.5	0.4	0.6	0.6
less Regulatory depreciation	3.3	3.2	3.8	3.9	4.2
Closing asset base	72.2	77.2	120.8	126.9	133.1

LMW has adopted the following assumptions in relation to the urban regulatory asset base over the regulatory period. These assumptions are described more fully in Section 5.

Table 4**Rolled Forward Regulatory Asset Base - Urban**

(\$m 1/1/13)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Opening asset base	133.1	137.4	146.8	152.0	154.3	152.6
plus Gross capex	10.9	15.9	12.5	10.2	6.5	8.9
less Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
less Customer contributions	1.6	0.7	0.9	1.1	1.2	1.2
less Proceeds from disposals	0.6	0.6	0.6	0.6	0.6	0.6
less Regulatory depreciation	4.4	5.2	5.8	6.2	6.4	6.7
Closing asset base	137.4	146.8	152.0	154.3	152.6	153.0

3.4 Rural Regulatory Asset Base

LMW has updated its regulatory asset base to 30 June 2012 for the rural business as shown in Table 5 below reflecting capital expenditure net of customer contributions and disposals for the period less regulatory depreciation.

In its draft decision the ESC adjusted LMW's regulatory asset base by adding the former First Mildura Irrigation Trust's (FMIT) onto the totals submitted in the October submission. However, LMW had already included FMIT's regulatory asset value, and thus the inclusion of FMIT's regulatory asset value by the ESC is doubling that value.

Table 5 below, excludes the ESC's adjustment to LMW's rural regulatory asset value.

Table 5**Updated Regulatory Asset Base - Rural**

(\$m 1/1/13)	2007-08	2008-09	2009-10	2010-11	2011-12
Opening asset base	9.2	21.8	35.6	52.6	56.4
plus Gross capex	25.4	26.3	20.5	5.9	7.6
less Government contributions	12.0	4.2	1.1	0.00	0.2
less Customer contributions	0.1	7.1	0.9	0.3	0.0
less Proceeds from disposals	0.4	0.5	0.4	0.4	0.5
less Regulatory depreciation	0.4	0.8	1.1	1.3	1.5
Closing asset base	21.8	35.6	52.6	56.4	61.8

LMW has adopted the following assumptions in relation to the rural regulatory asset base over the regulatory period. These assumptions are described more fully in Section 5.

Table 6

Rolled Forward Regulatory Asset Base - Rural

(\$m 1/1/13)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Opening asset base	61.8	67.0	82.3	88.6	88.3	87.8
plus Gross capex	7.0	17.8	9.1	2.5	2.3	2.4
less Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
less Customer contributions	0.0	0.0	0.0	0.0	0.0	0.0
less Proceeds from disposals	0.0	0.3	0.3	0.3	0.3	0.3
less Regulatory depreciation	1.7	2.2	2.5	2.5	2.5	2.5
Closing asset base	67.0	82.3	88.6	88.3	87.8	87.3

3.5 Weighted Average Cost of Capital (WACC)

LMW has adopted the ESC's weighted average cost of capital (WACC) of 4.7 per cent for the business.

4. Operating Expenditure

4.1 Urban Operating Expenditure

Lower Murray Water has made the following adjustments to urban operating expenditure over the regulatory period.

Table 7

(\$m 1/1/13)	2013-14	2014-15	2015-16	2016-17	2017-18
Operating Expenditure Summary					
Proposed operating expenditure	18.88	18.98	19.37	18.94	19.06
ESC Adjustments (LMW Accept)					
Licence Fees	-0.01	-0.01	-0.01	-0.01	-0.01
Environmental Contribution	-0.06	-0.06	-0.06	-0.06	-0.06
LMW Adjustments					
Increase in power	0.46	0.47	0.49	0.50	0.51
Total Adjustments	0.39	0.40	0.42	0.43	0.44
Revised BAU opex	19.27	19.38	19.79	19.37	19.50

4.1.1 ESC Adjustments

Licence Fees

The ESC adjusted licence fees for the Department of Human Services, Environment Protection Agency, and the ESC. The adjustments were based on recent advice from those agencies.

LMW accepts the ESC's adjustments to the licence fees.

Environmental Contribution

The Department of Sustainability and Environment (DSE) advised the ESC that the environmental contribution from 1 July 2013 has been adjusted. The amount will be held in constant nominal terms during the regulatory period.

LMW accepts the ESC's adjustments to the environmental contribution.

Defined Benefits Superannuation Costs

LMW received notification by Vision Super of an unfunded liability amount of \$3.084M. LMW was advised by Vision Superannuation that the debt can be paid as a lump sum or by equal instalments over a period of 15 years, or as a combination of the two options.

LMW has chosen to pay the debt over the 15 year period which is \$325,066 per annum. This amount is split between the urban and rural sides of the business as follows:

Table 8

(\$m 1/1/13)

	2013-14	2014-15	2015-16	2016-17	2017-18
Urban	0.141	0.137	0.133	0.130	0.127
Rural	0.127	0.124	0.121	0.117	0.114
Revised BAU opex	0.268	0.261	0.254	0.247	0.241

In its draft decision the ESC has assumed that LMW is trying to recover the debt over the 5 years of the regulatory period. LMW has included the yearly amount based on the 15 year period as advised by Vision Super.

LMW does not agree with the ESC's draft decision.

4.1.2 LMW Adjustments

Electricity Costs

Lower Murray Water is seeking an increase to the operating electricity expenditure in the water plan submitted to the Essential Services Commission. In Lower Murray Water's submission, it was highlighted that electricity expenditure was to be reviewed and any changes incorporated into our response to the ESC's draft decision due to unknown impacts to our electricity pricing path as a result of the carbon tax introduction and water demand.

Lower Murray Water is seeking an additional electricity expense over the five year regulatory period.

Over the past six years, Lower Murray Water has operated in a challenging environment due to the unparalleled climate conditions. The North West of Victoria experienced a long period of drought severely affecting the security of water supply which was followed by major flooding.

Now that conditions have reverted back to what could be called more 'normal' conditions over the past 18 months, Lower Murray Water has now had added time to evaluate the fallout of the past six years and the flow on effect to the ongoing business, in particular a clearer view of customers demand for water and the electricity cost of providing that volume of water for the next regulatory period.

In Lower Murray Water's submission, the demand for water in the urban business was 16,558ML in year one to 17,093ML in year five with \$9.0M of electricity costs. With the provision of added data, being the past 12 months of urban water usage and our electricity costs post carbon tax introduction, our water demand for our submission has remained unchanged from the ESC's draft decision however with additional electricity expenses of \$1.27M to treat and pump the water and sewerage. The additional expense reflects the increases in electricity prices throughout the past 12 months and is in line with our current retail supplier's pricing based on our future water demand. Lower Murray Water has assumed that now we are post the carbon tax introduction and retail electricity prices have been adjusted accordingly by electricity retailers, future price increases will be in line with inflation for the regulatory period.

4.2 Rural Operating Expenditure

Lower Murray Water has made the following adjustments to rural operating expenditure over the regulatory period.

Table 9

(\$m 1/1/13)

Operating Expenditure Summary

Proposed operating expenditure

	2013-14	2014-15	2015-16	2016-17	2017-18
Proposed operating expenditure	20.3	20.5	20.6	20.8	20.8

ESC Adjustments (LMW Accept)

No adjustments by ESC

LMW Adjustments

Increase in power

0.5 0.5 0.5 0.5 0.5

Millewa Air Scouring

0.3

Total Adjustments

0.8 0.5 0.5 0.5 0.5

Revised BAU operating expenditure

21.1 21.0 21.1 21.3 21.3

4.2.1 ESC Adjustments

The ESC accepted LMW's assumptions about operating expenditure and made no adjustments to LMW's proposed operating expenditure.

LMW accepts the ESC's draft decision.

4.2.2 LMW Adjustments

Electricity Costs

The relationship between electricity costs and usage is very close due to the topography of the land LMW's region.

LMW's pumped irrigation districts are in Victoria's arid North West region which receives 290mm of rainfall annually on average along with highest evapotranspiration rates within the state. The area's major crop is vines with some land planted to citrus and other fruit varieties, which are all permanent plantings. As the regions rainfall does not sustain these crops, they are dependent on the supply of irrigation water almost all year round but especially during their growing season which is the dry and hot months throughout summer.

The land established for farming in the pumped irrigation districts is much higher than the water source, being the Murray River. The main pumping stations situated on the banks of the Murray are required to lift the water in the order of 30 metres via rising mains before it enters into the district's delivery system. The lifting of this water is where the majority of the electricity costs are incurred where gravity mainly distributes the water throughout the system via channels and pipelines from this point. The main pump stations have the capacity to pump up to 650 ML per day which is utilised during peak irrigation periods. During the earlier years, where expansion of

the districts took place, relief pumping stations were constructed where required to enable pumping of water over inclines and to deliver water to areas of higher irrigated land.

The majority of delivery systems supply around the 3 to 10 metres head to the farm gate which was historically distributed on land via gravity feed irrigation systems utilising furrows. Most irrigators have now upgraded their on-farm systems to pumped pressurised sprinkler or drip systems.

LMW's Robinvale district was replaced in 2010-11 along with the Mildura 17th Street area in 2007-08 to a high pressurised irrigation system. The Robinvale main pumping station pumps in the range of 80-105 metres head with the 17th Street pumping station in the range of 50-70 metres head to deliver the irrigator with a minimum of 35 metres head at the farm gate. The irrigators supplied by these two systems do not require any on-farm pumping infrastructure as required in the past. The electricity cost in distributing the water on-farm is no longer the irrigator's own electricity connection and billed to them by their retail electricity provider but via LMW's pumping station costs incorporated into their water accounts.

In Lower Murray Water's WP3 submission, the demand for water in the four irrigation districts was 90,904ML in year one to 92,704ML in year five with \$13.24M of electricity costs. With the provision of added data, being the past 12 months of rural water usage, our electricity cost post carbon tax and the security of water allocations, our water demand for our response to the ESC's draft decision has increased to 101,351ML in year five with additional electricity expense of \$2.5M to pump the water. The volume of rural water that will be delivered in 2012-13 will be 121,500ML, an increase of 34,936ML on our original estimates. The climate conditions throughout this past year, whilst considered to be nearer to normal, have been dry with a very hot sustained spell throughout January. This coupled with the large amount of carry-over allocation water available for use by irrigators has resulted in higher water use than earlier predictions. The Victorian Minister for Water granted a 25% seasonal adjustment of annual use limit for the 2012-13 irrigation season to be applied to irrigator's licence conditions in response to the dry and high evapotranspiration rates experienced. The granting of additional seasonal adjustments to annual use limit is not anticipated during the next regulatory period.

The ongoing demand for irrigation water within the districts has been amended using this year's actual usage adjusted by the seasonal adjustment to the annual use limit, except for the Robinvale irrigation district (Refer Tables 12 & 13).

The majority of Robinvale irrigators grow table grapes which are serviced by a new high pressure system. The irrigation rates applied to the land in Robinvale now are higher than previous years mainly due to the increased availability of water from the new system and the irrigators introducing new technology by installing canopy cooling watering systems.

Millewa Air Scouring

LMW recently completed a Water Quality Improvement Project. As the existing distribution network currently delivers raw water, there is an accumulation of sediments and biofilm within the reticulation system. The introduction of the chemically settled water to the system will aid in the removal of such biofilms which in turn would result on poorer water quality to the customer base. The best outcome is to air scour the pipes following the introduction of clear water.

The cost of the air scouring of \$300K was not allowed for in LMW's WP3 submission as the works had not been scheduled. LMW has recently completed air scouring of its water mains in all LMW northern and southern urban water districts and has negotiated with the contractor to complete air scouring of the Millewa reticulation system.

Competitive rates have been attained, and the Millewa customer committee consulted on having additional opex and decided on the option to pay the \$300K over 2 water plan periods. The CSAC did ask for a cost comparison for the job to be done 'in house' by LMW which has just been completed and resulted in cost beyond that of the contractor.

5. Capital Expenditure

5.1 Urban Capital Expenditure

Lower Murray Water has made the following adjustments to urban capital expenditure forecasts over the regulatory period.

Table 10

(\$m 1/1/13)

Capital Expenditure BAU Summary

	2013-14	2014-15	2015-16	2016-17	2017-18
Proposed capital expenditure	14.3	14.4	10.1	6.4	10.2
ESC Adjustments (LMW Accept)					
Main Extension DN450 14 th St Sandilong/Koorlong	1.5	0.0	0.0	0.0	0.0
Main Extension DN450 14 th St Koorlong/Irymple	0.0	0.6	0.0	0.0	0.0
Main Extension DN600 14 th St Benetook/Sandilong	0.0	-2.6	0.0	0.0	0.0
Mildura West WTP Install bypass & 4 th pump	0.0	0.0	0.0	0.0	-0.4
Mildura West WTP Increase capacity	0.0	0.0	0.0	0.0	-1.0
Sewer Rehabilitation	0.1	0.1	0.1	0.1	0.1
LMW Adjustments					
No LMW adjustments					
Total Adjustments	1.6	-1.9	0.1	0.1	-1.3
Revised BAU capital expenditure	15.9	12.5	10.2	6.5	8.9

5.1.1 ESC Adjustments

Main Extension DN450 14th St Sandilong/Koorlong

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested this project should be costed using MSCL pipes not uPVC pipes as budgeted by LMW. The ESC accepted Cardno's recommendation to increase the cost of this project by \$1.5M to match Cardno's pipe unit rate for MSCL pipe.

LMW accepts the ESC's draft decision.

Main Extension DN450 14th St Koorlong/Irymple

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested this project should be costed using MSCL pipes not uPVC pipes as budgeted by LMW. The ESC accepted Cardno's recommendation to increase the cost of this project by \$0.6M to match Cardno's pipe unit rate for MSCL pipe.

LMW accepts the ESC's draft decision.

Main Extension DN600 14th St Benetook/Sandilong

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested this project should be delayed to WP4 as the LMW water supply strategy document indicates this. LMW advised Cardno the project has been moved forward to 2015/16 so it can be undertaken in conjunction with the adjacent 600DN water main along Fourteenth Ave, providing potential cost savings due to 'economies of scale'. Cardno stated the potential savings do not appear to be reflected in the cost estimates and there was no supportive business case type analysis provided to support moving the project forward. Cardno proposed that this project and expenditure be moved back to WP4. The ESC accepted Cardno's recommendation.

LMW accepts the ESC's draft decision.

Mildura West WTP Install bypass & 4th pump

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested this project should be delayed to WP4 as the LMW's water supply strategy document indicates this. Though the strategy document indicated the project should proceed in WP3, Cardno suggested there appears to be no reason it should not be deferred to 2020 (as part of WP4). Cardno proposed that this project and expenditure be moved back to WP4. The ESC accepted Cardno's recommendation.

LMW accepts the ESC's draft decision.

Mildura West WTP Increase capacity

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested this project should be delayed to WP4 as the LMW's water supply strategy document indicates this. The strategy document indicated the project should proceed in WP3. Cardno suggested there appeared to be no reason the construction works, and therefore the majority of the expenditure, should be deferred to take place in 2020 (as part of WP4). Cardno proposed that this project and expenditure be moved back to WP4. The ESC accepted Cardno's recommendation.

LMW accepts the ESC's draft decision.

Sewer Rehabilitation

Cardno's report "Assessment of expenditure forecasts for LMW Feb 2013" suggested LMW have not separately provided for renewals of manholes, advising that it would be covered under the \$0.9M annual allowance for sewer pipelines. Cardno recommended the forecasted expenditure for renewal of sewerage pipelines be increased from \$0.9M to \$1.0M pa to account for the allowance of \$0.1M pa for sewerage manholes. The ESC accepted Cardno's recommendation.

LMW accepts the ESC's draft decision.

5.1.2 LMW Adjustments

LMW have not made any additional adjustments to capital expenditure.

5.2 Rural Capital Expenditure

The ESC made no adjustments to LMW's rural capital expenditure proposed.

LMW accepts the ESC's draft decision.

6. Demand Forecasts

6.1 Urban Demand Forecasts

The ESC altered LMW's demand forecasting for its urban business over the regulatory period. The ESC adjusted residential water connections and therefore water consumption, and sewer connections per advice from Frontier Economics.

LMW used Victoria in Future's (VIF) 2008 forecasts for growth in numbers of households. Frontier Economics altered LMW's forecasts using the more recent VIF 2012 estimates.

LMW agrees with the ESC and accepts the adjustment to water connections, water usage and sewer connections for the regulatory period.

6.2 Rural Demand Forecasts

The ESC has made no adjustments to LMW's demand forecasting for its rural business over the regulatory period as recommended by Frontier Economics.

Since LMW's water plan submission in October, the Sunraysia region has had a dry summer. This weather could be considered more normal/typical than what has occurred over the past 5-6 years where the region experienced drought conditions then extreme rain events which has caused 'stressed' conditions for our rural customers. This year's growing and harvesting conditions have been good. Actual volumes of water used up until now have exceeded the total year's usage that was forecast in LMW's WP3 submission. Predicted usage for 2012/13 is as follows:

Table 11

	2013 Prediction ML
Mildura	37,658
Merbein	21,274
Red Cliffs	35,127
Robinvale	23,279
Mildura HP	4,181

The Victorian Minister for Water granted a 25% seasonal adjustment of annual use limit for the 2012-13 irrigation season to be applied to irrigator's licence conditions in response to the dry and high evapotranspiration rates experienced. The granting of additional seasonal adjustments to annual use limit is not anticipated during the next regulatory period. The 2013 prediction includes this additional allowance. LMW expects (with the exception of Robinvale) this usage less the additional 25% to be more normal for the next regulatory period. LMW forecasts the Robinvale district to remain at the levels predicted for 12/13. Robinvale irrigators have now used the new high pressure system for two full years. The irrigation rates applied to the land in Robinvale now

is higher than previous historical years mainly due to the increased availability of water through the new system and the irrigators introducing new technology by installing canopy cooling watering systems. Most of the Robinvale district is table grapes which require more water than wine grapes or dried fruit. With this in mind, LMW has increased its forecast usage as follows:

Table 12

	Increase per annum ML
Mildura	2,126
Merbein	1,019
Red Cliffs	1,102
Robinvale	4,279
Mildura HP	121

Table 13

Revised forecast usage per district

ML	2013-14	2014-15	2015-16	2016-17	2017-18
Mildura	30,126	30,626	31,126	31,126	31,126
Merbein	17,019	17,219	17,419	17,619	17,819
Red Cliffs	26,102	26,102	26,102	26,102	26,102
Robinvale	23,279	23,279	23,279	23,279	23,279
Mildura HP	3,025	3,025	3,025	3,025	3,025



7. Urban Tariffs

7.1 Urban Water Tariffs

In its draft decision, the ESC proposes to approve LMW's proposed tariff structure.

LMW accepts the ESC's draft decision.

7.2 Urban Sewerage Tariffs

The ESC proposes to approve LMW's proposed tariff structure.

LMW accepts the ESC's draft decision.

7.3 Urban Tariffs

The outcome of the ESC's draft decision has tariffs increasing by 1.45% (real) per annum. After inputting the change of increase in electricity costs and the revised New Customer Contribution charges, tariffs increase by 2.17% (real) per annum. An average residential customer bill (usage of 488 kL) is shown in Table 14 below.

Table 14

(\$ 1/1/13)	2013-14	2014-15	2015-16	2016-17	2017-18
Residential	882.89	902.06	921.65	941.67	962.12

8. New Customer Contributions

8.1 New Customer Contributions

In its draft decision, the ESC requested LMW and the water industry to carry out specific actions before the Commission approves LMW's New Customer Contributions (NCC).

The Commission required 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.

LMW Response:

LMW prior to the ESC regulation in 2007 had never levied an area specific developer charge.

One of the major factors for applying uniform developer charges prior to 2007 was the similarity in the provision of services across our region.

LMW provides urban water and or sewerage services to 15 cities and towns across our region, where water for these centres is sourced without exception from the river Murray which is a constant reliable supply. All of the towns are situated on generally flat terrain, which is reflected in the capital costs of providing sewerage infrastructure.

There are currently no location specific major capital works projects that would warrant additional charges being levied on a specific customers group. Any material difference between NCC calculated for site specific locations would be of an insignificant nature. It is LMW's opinion that the most balanced approach would be to levy a regional wide uniform NCC which will align with the uniform tariff structures applied to all urban customers.

- (b) Confirm that all NCC charges have been calculated in accordance the core pricing principles.

LMW Response:

A standard NCC will be levied upon the connection of new customers to LMW's infrastructure networks; this standard NCC charge has been calculated in accordance with the ESC 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.

LMW Response:

A standard NCC will be levied upon the connection of new customers to LMW's infrastructure networks. Attachment A and B contains maps depicting boundaries around the areas within which standard NCC apply.

- (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.

LMW Response:

Negotiated NCC will be calculated in accordance with the ESC pricing principles and will be applied where the Standard NCC is not applicable due to the nature and/or locality of the development, the timing of the development or where a requirement for augmentation of existing infrastructure is necessary to service a specific development.

- (e) Consult with other water businesses to develop a best practice negotiating framework.

LMW Response:

Water businesses have met to develop a best practising negotiating framework. All the water businesses agreed to this. The negotiating framework is in Appendix 1.

- (f) Consult with other regional water businesses to propose a common water industry timeframe to estimate capital costs.

LMW Response:

Water businesses have met to develop a common industry timeframe to estimate capital costs.

- (g) Consult with stakeholders following the draft decision

LMW Response:

LMW is currently undertaking a meeting with developers to go through the NCC framework and outcomes.

LMW has updated the ESC NCC model for adjustments from the draft decision (expenditure, demand, and the WACC), adjust tax rates in the model for years LMW expects to pay tax, and adjustments from additional expenditure as discussed in Section 4.1. The revised NCCs have been transitioned over three years.

The table below shows the revised NCC (Real \$1/1/13) for WP3:

Table 15

Service	Lot size	2014	2015	2016	2017	2018
Water	0-750 m ²	760.91	913.20	1,065.50	1,065.50	1,065.50
	>750 m ²	1,521.83	1,826.42	2,131.00	2,131.00	2,131.00
Sewer	0-750 m ²	1,055.91	1,503.20	1,950.50	1,950.50	1,950.50
	>750 m ²	1,841.83	2,466.42	3,091.00	3,091.00	3,091.00

9. Rural Tariffs

9.1 Rural Tariffs

The ESC proposes to approve LMW's proposed tariff structure for rural services; however the ESC does want LMW to suggest a rebalancing constraint on its tariffs.

LMW accepts the decision on proposed tariff structures and as a side constraint, LMW proposes to impose an upper constraint of CPI + 10% per annum on any individual regulated tariff.

As discussed in Section 4.2 LMW has made some adjustments to operating expenditure in relation to electricity and the Millewa air scouring, and in Section 6.2 adjustments to demand specifically usage.

The ESC also requested that LMW adjust its prices to reflect the approved maximum allowed revenue. This response accepts this request.

Table 16 shows the revised movement in the cost per ML expected for reference customers in each district. The reference customer is assumed to have 100 ML of storage entitlement and 100 ML pa usage (400 kL in the case of Millewa Urban, 4300 kL rural customers and 1000ML for Diversions customers). The calculation of bills excludes "pass through" charges such as water entitlement storage fees, spillable water, salinity fees and DSE water share fees.

Table 16

Cost per ML for Reference Customers (Money of the Day)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Average Annual Bill Increase
Mildura irrigation and drainage	107.21	114.33	119.70	125.16	131.87	139.01	146.32	4.9%
Merbein irrigation and drainage	93.59	98.19	101.29	104.51	108.23	111.99	115.71	3.1%
Red Cliffs irrigation and drainage	109.98	111.60	112.51	114.08	115.56	116.21	117.54	1.0%
Robinvale irrigation and drainage	175.13	182.54	190.05	198.86	208.24	217.96	227.00	4.3%
Mildura HPS	153.39	161.21	168.53	179.67	191.52	203.78	216.87	5.9%
Diversions (Irrigation)	1.83	1.88	2.23	2.66	3.18	3.79	4.49	5.7%
Bills Movement per Reference Customer								
Millewa Urban (Irrigation)	27	12	25	30	34	30	30	3.5%
Millewa Rural (Irrigation)	166	406	427	428	428	457	486	5.5%
Other stock and domestic (Irrigation)	N/A	40	35	38	38	38	38	2.4%

9.2 Casual User Fee - Mildura

A casual user is where an irrigator has no or reduced delivery share on a property that they have water delivered to.

A casual user fee is charged to such irrigators that have used water on their property in the irrigation season. It is a fee contributing towards the upkeep of the irrigation delivery system by the casual user. If this was not in place then the upkeep of the delivery system falls only on the customers holding delivery share.

The casual user fee is based on 12% of the irrigation district's delivery share unit charge in the year of use, multiplied by the volume used on the property. If a property has a reduced delivery share the casual user charge is reduced by the amount of the delivery share held. Irrigators that have multiple properties within in the same district that are not amalgamated are assessed for the casual user fee as though they are an amalgamated holding.

The other pumped districts of Merbein, Red Cliffs and Robinvale currently have a casual user fee. Mildura operated under its own Water Plan as submitted by the former First Mildura Irrigation Trust and this is the first opportunity to rationalise as Mildura now forms part of LMW's rural water business.

The casual user fee is currently set at the same rate as the delivery share fee.

10. Miscellaneous Charges

10.1 Miscellaneous Charges

The ESC proposes to approve LMW's urban and rural miscellaneous charges.

For urban miscellaneous charges, the ESC required definitions and proposed charges for connection fees, information fees and meter reading fees. LMW supplied definitions to the ESC on 13 February 2013, while the proposed charges were listed in Appendix D: Miscellaneous Charges of LMW's Urban Water Plan. Below are those definitions and proposed charges as requested in the draft decision:

Connection Fees: This is an administration fee for handling the administration of organising the connection, creating the property file etc.

Proposed Charge: \$127.60 per connection

Information Fees: Sec 158(i) of the Water Act 1989 states that any person may apply to Lower Murray Water for an Information Statement in relation to any land that is within a district of the Lower Murray Water or its area of interest.

These are requested as part of the sale of properties for information LMW has relating to a particular property. The fee includes one meter reading.

Proposed Charge: \$81.00 per statement

Meter Reading Fees: The fee is payable for any meter reading in addition to Lower Murray Water's normal four scheduled readings ie. Residential Tenancies and Solicitor readings.

The fee applies to Residential and Commercial/Industrial readings.

Proposed Charge: \$40.60 per read

10.2 Miscellaneous Charges - Developers

The ESC requested LMW to list proposed miscellaneous charges for developers.

The only miscellaneous charge for developers LMW proposes is a subdivision processing fee. This charge is applied to all referrals and is calculated on a per lot basis plus a fee for the overall plan. The fee is not related to NCCs.



Appendix 1



LOWER MURRAY WATER

NCC NEGOTIATING FRAMEWORK

1. Application of Negotiating Framework

This Negotiating Framework forms a part of Lower Murray Waters approved water plan for the 2013 price determination which applies to the 2013-18 regulatory period.

1.1 Purpose

This Negotiating Framework sets out procedural and information requirements relevant to services to which developer charges (New Customer Contributions) apply, as defined in the WIRO. New Customer Contributions (NCC) are levied when new connections are made to the water corporation's water and sewerage networks. The framework requires Lower Murray Water and any Connection Applicant to negotiate in good faith to agree on the price, standards and conditions of services to be provided. It also provides for transparent information to enable the Connection Applicant to understand the reasons for decisions made by Lower Murray Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in or imposed under the *Water Act 1989*, the *Planning & Environment Act 1987* (including under any planning scheme or permission), the *Subdivision Act 1988*, subordinate regulation under the described legislation or any other relevant legislation or instruments (the "Regulatory Instruments").

In the case of inconsistency between the Regulatory Instruments and this negotiating framework, the relevant Regulatory Instruments will prevail.

This Negotiating Framework does not alter the rights of a Connection Applicant to seek a review of a Lower Murray Waters decision by the Victorian Civil and Administrative Tribunal (VCAT).

1.2 Who this negotiating framework applies to

This Negotiating Framework applies to Lower Murray Water and to any property owner - generally a property developer - that is a Connection Applicant who requests connection to Lower Murray Waters works in accordance with section 145 of the *Water Act 1989* ("Application").

It also applies to Lower Murray Water in responding to such requests from a connection applicant.

1.3 No obligation to provide service, good faith obligation



Nothing in the negotiating framework imposes an obligation on Lower Murray Water to allow the Connection Applicant to connect to Lower Murray Water's works or to provide services to the Connection Applicant.

Lower Murray Water can refuse its consent, consent, or consent subject to any terms and conditions that Lower Murray Water thinks fit, as provided under section 145(3) of the Water Act 1989.

However, Lower Murray Water and the Connection Applicant must negotiate in good faith the price, terms and conditions for services sought by the Connection Applicant.

2. Timeframes

Lower Murray Water and the Connection Applicant will use all reasonable endeavours to achieve the following timeframes:

- (a) Agree the milestones, information requirements and any other relevant issues within fifteen [15] business days of Lower Murray Water's receipt of an Application. An Application, under Section 145 of the Water Act 1989, for connection means a servicing request made to Lower Murray Water, the applicable format for any such request will be provided to the applicant in writing
- (b) Respond to the Application giving details of the terms and conditions of the Offer to allow connection:
 - within forty five (45) business days where a Standardised NCC Charge applies; and
 - within one hundred and twenty (120) business days where a Negotiated NCC Charge applies.
- (c) Adhere to any timetable established for negotiations and progress negotiations in an expeditious manner; and
- (d) Finalise negotiations within one hundred and twenty (120) business days of the initial Application.

2.1 Commencing, progressing and finalising negotiations

Table 1 below provides an indicative timeframe regarding the process of NCC negotiations. As mentioned above, dependant on the location and specific requirements of the development, either a standardised or a negotiated NCC will be applicable. The timeframes for these two charges will differ. It is likely that a Negotiated NCC Charge will require additional design and modelling to be undertaken by Lower Murray Water and/or the Connection Applicant. The two timelines are presented below.

table 1 – Indicative timeframes for negotiating connection

Step	Actions	Timing Standardised Charge (Business from date)	NCC Days Application	Timing Negotiated Charge (Business from date)	NCC Days Application
1	Application (Section 145) for service requirements and costings of connection Application fee paid	Application date		Application date	
2	Negotiation Meeting Parties discuss: the nature of the services required; any additional information to be provided by the Connection Applicant; and notification and consultation with other persons potentially affected Parties agree to timeframes for negotiation and consultation and milestones if different to these indicative timeframes;	+ 15 (if required)		+ 15	
3	Connection Applicant provides additional information Connection Applicant provides additional information to Lower Murray Water if requested This includes: Original completed application; Additional information (if required);	20		35	
4	Lower Murray Water Investigation completed <ul style="list-style-type: none">Where required, Consultation with others potentially affected.Additional designs & modelling	35		90	
5	Offer Lower Murray Water makes offer, in accordance with relevant regulatory instruments, including: <ul style="list-style-type: none">terms and conditions of connection;NCC (ie developer charge) to apply; andsuch Offer will (unless otherwise specified) expire 12 months from being made. Will need to fix dot points	45		120	

3. Provision of information by Connection Applicant

The Connection Applicant must provide sufficient information to enable Lower Murray Water to assess the Application and determine the service requirements and costings for the development. The connection applicant will be notified in writing as to the nature of the information required by Lower Murray Water to complete this process.

The level of information required by Lower Murray Water and the detail of its response will vary depending on the complexity and size of the development. As stated above,



additional information may be sought by Lower Murray Water in the event of a Negotiated NCC Charge being sought.

4. Provision of information by Lower Murray Water

After consideration of servicing requests Lower Murray Water may provide an offer, via letter, draft agreement and/or notice (“Offer”). The Offer will include specific requirements for the particular development and also include various standard conditions and other information including charges and fees to achieve connection to Lower Murray Waters assets. This includes New Customer Contributions.

The Offer is provided by Lower Murray Water pursuant to the Regulatory Instruments.

5. Pricing Principles

Lower Murray Water’s charges will:

- (a) have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- (b) have regard to the incremental future revenues that will be earned from customers at that connection; and
- (c) be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

In setting charges, Lower Murray Water will also comply with:

- (a) the regulatory principles set out in clause 14 of the WIRO; and
- (b) any specific pricing principles approved by the Essential Services Commission as part of Lower Murray Water’s Water Plan.

6. Consultation with affected parties

If Lower Murray Water considers that persons other than the Connection Applicant may be affected by proposed connection services, then:

- (a) subject to legal confidentiality requirements, Lower Murray Water will share any necessary information with others potentially affected to assess impacts and
- (b) parties will allow sufficient time for reasonable consultation with affected parties to occur



7. Payment of Lower Murray Water's Costs

All developments of land requiring new or upgraded connection to Lower Murray Waters system will incur associated fees and charges payable to Lower Murray Water

Fees and charges levied by Lower Murray Water are subject to approval processes under the *Water Act 1989* and/or as approval by the ESC. Details about the fees and charges can be found on Lower Murray Water's Website.

Should the particular Application require a Negotiated NCC Charge, rather than the Standardised NCC Charge this will arise from the relevant negotiation, subject to the Regulatory Instruments in place at the time.

8. Termination of negotiations

The Connection Applicant may elect not to continue with its application for a service to which a developer charge applies, and may terminate the negotiations by giving Lower Murray Water written notice of its decision to do so.

Lower Murray Water may terminate a negotiation under this Negotiating Framework by giving the Connection Applicant written notice of its decision to do so where:

- (a) Lower Murray Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation in good faith; or
- (b) Lower Murray Water reasonably believes that the Connection Applicant and the particular development will not be able to receive a service from Lower Murray Water; or
- (c) an act of insolvency occurs in relation to the Connection Applicant; or
- (d) Lower Murray Water reasonably believes that the Connection Applicant has provided false or misleading information to Lower Murray Water.

9. Dispute resolution

In the event of a dispute between parties, Lower Murray Water will continue attempts to resolve the matter by negotiation.

After Lower Murray Water provides its Offer, if the Connection Applicant does not accept the Offer, generally the Connection Applicant has particular rights to seek a review in the Victorian Civil and Administrative Tribunal ("VCAT") of the terms and conditions of connection and the NCC charge applied. These VCAT review rights, including various time lines, rights and process are set out in the *Water Act 1989* and the *VCAT Act 1998*.



10. Giving notices

The address for correspondence and notices to Lower Murray Water is:
PO Box 1413 Mildura Vic 3502

A notice must be:

- (a) in writing and signed by a person duly authorised by the sender;
- (b) hand delivered or sent by prepaid post, facsimile or email to the recipient's address for Notices, as varied by any Notice given by the recipient to the sender; and
- (c) if given or received under any Regulatory Instruments or other statute of regulation, must be given under the requirements of that relevant instrument, or other statute or regulation.

11. Terms and abbreviations

Lower Murray Water – A water corporation established pursuant to Part 6 of the *Water Act 1989*.

Connection Applicant – The person making application to connect to the Lower Murray Water system pursuant to Section 145 of the *Water Act 1989*.

Standardised NCC Charge – This is the standardised charge for Connection Applicants wishing to connect to the Lower Murray Water System.

Negotiated NCC Charge – This charge, derived from the NCC principles developed by Lower Murray Water will apply where the Standardised NCC Charge is not applicable due to the nature and/or locality of the development or arising out of negotiation with the Connection Applicant.