



Level 2, 35 Spring St
Melbourne 3000, Australia
Telephone +61 3 9651 0222
 +61 1300 664 969
Facsimile +61 3 9651 3688

2009 WATER PRICE REVIEW

DRAFT DECISION VOLUME II:
YARRA VALLEY WATER

APRIL 2009

An appropriate citation for this paper is:

Essential Services Commission 2009, *2009 Water Price Review Draft Decision Volume II: Yarra Valley Water*, April.

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, Yarra Valley Water should by 19 May 2009 resubmit:

- (a) its proposed schedule of tariffs to apply for each year of the regulatory period commencing 1 July 2009 that reflects:
 - (i) the revised revenue requirement set out in table 4
 - (ii) the revised demand forecasts set out in tables 13–17 and
 - (iii) any tariff structure changes 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 1–2.

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 2009-10 to 2012-13 as part of its Final Determination.

3. Service standards

The Commission proposes to approve each of the service standards proposed in Yarra Valley Water's Water Plan.

Table 1 Approved service standards

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Water					
Unplanned water supply interruptions (per 100km)	63.1	63.1	63.1	63.1	63.1
Average time taken to attend bursts and leaks (priority 1) (minutes)	26	26	26	26	26
Average time taken to attend bursts and leaks (priority 2) (minutes)	38	38	38	38	38
Average time taken to attend bursts and leaks (priority 3) (minutes)	357.5	357.5	357.5	357.5	357.5
Unplanned water supply interruptions restored within 5 hours (per cent)	99.5	99.5	99.5	99.5	99.5
Planned water supply interruptions restored within 5 hours (per cent)	99.6	99.6	99.6	99.6	99.6
Average unplanned customer minutes off water supply (minutes)	24.9	25	25	25	25
Average planned customer minutes off water supply (minutes)	12.2	12	12	12	12
Average frequency of unplanned water supply interruptions (number)	0.28	0.28	0.28	0.28	0.28
Average frequency of planned water supply interruptions (number)	0.09	0.09	0.09	0.09	0.09
Average duration of unplanned water supply interruptions (minutes)	88.8	89	89	89	89

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Average duration of planned water supply interruptions (minutes)	140.6	141	141	141	141
Number of customers experiencing 5 unplanned water supply interruptions in the year (number)	416	416	416	416	416
Unaccounted for water (per cent)	13.6	13.6	13.6	13.6	13.6
Sewerage					
Sewerage blockages (per 100 km)	45.3	45.3	45.3	45.3	45.3
Average time to attend sewer spills and blockages (minutes)	50.6	51	51	51	51
Average time to rectify a sewer blockage (minutes)	246.9	249	249	249	249
Spills contained within 5 hours (per cent)	99.99	100	100	100	100
Customers receiving more than 3 sewer blockages in the year (number)	15	15	15	15	15
Customer Service					
Complaints to EWOV (per 1000 customers)	0.07	0.07	0.07	0.07	0.07
Telephone calls answered within 30 seconds (per cent)	87.9	87.9	87.9	87.9	87.9

Minimum Flow Rates

	<i>20mm</i>	<i>25mm</i>	<i>32mm</i>	<i>40mm</i>	<i>50mm</i>
Flow rate (litres per minute)	20.0	35.0	60.0	90.0	160.0

The Commission also notes that Yarra Valley Water has proposed the additional service standards outlined in table 2. The Commission proposes to approve all of its additional service standards, with the exception of those noted in table 2 as being inconsistent with the Commission's definitions. In addition, the Commission requires Yarra Valley Water to change the indicator of water conservation from total per capita water consumption to residential per capita water consumption.

Table 2 Additional service standards

<i>Service standard</i>	<i>3yr Avg 2005-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
CO ₂ emissions (net tonnes)	8 389	0	0	0	0
Recycled water (per cent)	15.7	27	27	27	27
Biosolids reused/recycled (per cent)	0	0	0	0	0
Sewer backlog connections (number)		147	147	147	147
Compliance with environment discharge licence requirement (per cent)		a	a	a	a
Compliance with drinking water quality regulations		a	a	a	a
Water quality complaints (per 1000 customers)	5.6	5.6	5.6	5.6	5.6
Non-revenue water (GL)	21.3	21.3	21.3	21.3	21.3

Note ^a: The indicator needs to be re-submitted to be consistent with the Commission's definition.

4. Guaranteed service level scheme

The Commission proposes to approve each of the proposed guaranteed service levels indicated in table 3. These guaranteed service levels should be reflected in Yarra Valley Water's Customer Charter.

Table 3 Draft decision on GSL events and payment levels

<i>Proposed GSL event</i>	<i>Proposed payment (\$)</i>
Water	
Unplanned interruptions not restored within four hours of notification	50
More than five unplanned interruptions in 12 months	50
Failure to notify of planned interruptions	50
Planned interruption during peak hours	50
Planned interruption longer than advised	50
Planned interruption longer than five hours	50
Sewerage	50
More than three interruptions in 12 months	50
Interruptions not restored within four hours of notification	50
Spills not contained within four hours of notification	1000
Spills in a house not contained within one hour of notification	1000

- (a) The Commission proposes to approve the GSL events and payment levels proposed by Yarra Valley Water.
- (b) The Commission requires Yarra Valley Water to develop an appropriate GSL event related to compliance with its hardship policies and programs, propose a payment amount for the event, and propose monitoring and reporting measures for the event.

5. Revenue requirement

The Commission has adopted the following assumptions in relation to the revenue required over the regulatory period.

Table 4 **Breakdown of revenue requirement implied by ESC draft decision**

\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Operating expenditure	342.1	368.7	444.0	515.0
Return on existing assets	101.9	99.8	98.0	96.2
Return on new investments	13.6	25.1	35.4	45.1
Regulatory depreciation	50.5	47.9	45.6	49.6
Tax liability	0.0	0.0	0.0	0.0
Total	508.0	541.4	623.0	706.0

6. Rolled forward regulatory asset base

The regulatory asset base as at 1 July 2005 has been rolled forward to reflect actual capital expenditures net of customer contributions (new customer and shareholder contributions) and disposals for the 2005-06 to 2007-08 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 5.

Table 5 **Updated regulatory asset base**

\$ million in January 2009 prices

	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Opening RAB	1 863.4	1 975.0	2 090.9
<i>Plus</i> Gross capital expenditure	170.3	178.8	164.4
<i>Less</i> Government contributions	0.0	0.0	0.0
<i>Less</i> Customer contributions	10.1	8.9	14.4
<i>Less</i> Proceeds from disposals	0.0	0.3	0.3
<i>Less</i> Regulatory depreciation	48.6	53.6	47.2
Closing RAB	1 975.0	2 090.9	2 193.5

The regulatory asset base as at 1 July 2008 will be rolled forward to reflect approved estimates of capital expenditure net of customer contributions (new customer and shareholder contributions) and disposals for the 2008-09 to 2012-13 period less any approved allowance for regulatory depreciation. The rolled forward values are shown in table 6.

Table 6 **Rolled forward regulatory asset base**
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	2 193.5	2 303.3	2 507.0	2 694.9	2 861.0
<i>Plus</i> Gross capital expenditure	175.3	269.2	252.5	226.9	233.4
<i>Less</i> Government contributions	0.2	0.16	1.8	0.0	0.0
<i>Less</i> Customer contributions	14.8	14.9	14.9	15.15	15.2
<i>Less</i> Proceeds from disposals	0.0	0.0	0.0	0.0	0.0
<i>Less</i> Regulatory depreciation	50.4	50.5	47.9	45.6	49.6
Closing RAB	2 303.3	2 507.0	2 694.9	2 861.0	3 029.6

7. Weighted average cost of capital

The Commission has adopted a weighted average cost of capital (WACC) of 4.8 per cent for all metropolitan water businesses. The table below outlines the individual components adopted by the Commission to calculate the WACC (including feasible ranges where relevant).

Table 7 **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</i>	<i>Franking credit value</i>	<i>WACC (feasible range)</i>	<i>WACC (draft decision)</i>
<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>	<i>(per cent)</i>		<i>(per cent)</i>	<i>(per cent)</i>
1.508 - 1.755	0.65	6.00	2.0 - 2.7	60	0.5	4.3 – 4.9	4.8

8. Operating expenditure

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

Table 8 **Proposed and approved operating expenditure assumptions**

\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed operating expenditure	347.8	400.2	462.6	536.7
Revisions and adjustments	-5.7	-31.5	-18.5	-21.7
Draft decision – operating expenditure	342.1	368.7	444.0	515.0

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

Table 9 **Adjustments to operating expenditure**

\$ million in January 2009 prices

<i>Expenditure item</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Labour	2.55	2.81	3.06	2.03
Electricity	0.00	0.00	-1.00	-1.12
Waste management	-0.06	-0.06	-0.14	-0.14
Chemicals	-0.12	-0.12	-0.12	-0.15
Billing and collections	-0.91	-1.39	-1.64	-1.79
Water conservation	2.09	0.00	-0.23	-0.46
Information technology	-2.41	-2.36	-2.36	-2.36
Land tax	-0.16	-0.17	-0.19	-0.20
GSL adjustment	0.14	0.13	0.12	0.11
Operations and maintenance	-0.27	-0.46	-0.67	-0.87
VCEC Productivity	-1.00	-1.00	-0.50	-0.00
Minor items	-0.80	-1.80	-0.84	-0.49
Reallocation from prescribed to non-prescribed	-1.55	-1.60	-1.65	-1.71
Bulk Charges reduction	-3.22	-25.48	-12.35	-14.52
Total	-5.71	-31.51	-18.51	-21.67

- (a) The Victorian Competition and Efficiency Commission recommended businesses achieve savings through shared services and bulk procurement. The allocation of savings is discussed in section 5.4.1 of Halcrow-Deloitte's expenditure review.
- (b) Government advice on CPI and expected wages growth resulted in the allowance for real labour growth rates increasing from 1.0 to 1.5 per cent, as discussed in section 6.2.1 of Halcrow-Deloitte's expenditure review.
- (c) Halcrow-Deloitte recommended a reduction in Yarra Valley Water's forecast electricity costs in 2011-12 and 2012-13 (see section 6.2.2 of the report).

- (d) Halcrow-Deloitte recommended that waste management expenditure should be decreased due to lower forecast fuel costs (see section 6.2.3 of the report).
- (e) In section 6.2.4 of the expenditure report, Halcrow-Deloitte recommended that Yarra Valley Water's proposed increase in expenditure on chemical costs not be approved.
- (f) In its Water Plan, Yarra Valley Water proposed increases in expenditure on billing and collections. Halcrow-Deloitte recommended decreases in expenditure for billing and collections (see section 6.2.6 of the report).
- (g) Halcrow-Deloitte recommended that operating expenditure for water conservation be reduced (see section 6.2.8 of the report).
- (h) Halcrow-Deloitte recommended a reduction in operating expenditure on information technology based on a revised forecast from Yarra Valley Water and some additional savings identified during the expenditure review (see section 6.2.9 of the report).
- (i) Following the draft expenditure report, Yarra Valley Water provided a revised forecast to Halcrow-Deloitte, which was accepted as reasonable (see section 6.2.10 of the report).
- (j) After submitting its Water Plan, Yarra Valley Water advised that it had incorrectly forecast guaranteed service level payments.
- (k) During the expenditure review, Yarra Valley Water provided information on changed operations and maintenance costs. The review of this information, (detailed in section 6.2.5 of the expenditure report) led to net reductions in operating expenditure.
- (l) Halcrow-Deloitte identified a number of minor items where Yarra Valley Water proposed additional expenditure over the period that were not considered to be sufficiently material or unique to suggest they could not be funded through business as usual expenditure (see section 6.2.11 of the report). The adjustment also includes an adjustment to reflect advice from the Department of Human Services on its licence fees and the Department of Sustainability and Environment on the environmental contribution for the regulatory period (see the draft decision, section 4.7).
- (m) Some operating expenditure for the billing functions undertaken on behalf of Melbourne Water was reallocated from prescribed to non-prescribed (see section 6.2.12 of Halcrow-Deloitte's report).
- (n) The Commission adjusted bulk expenditure to be consistent with its draft decision for Melbourne Water.

9. Capital expenditure

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

Table 10 Proposed and approved capital expenditure assumptions

\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed capital expenditure	234.5	276.9	231.0	215.2	189.4
Draft decision – capital expenditure	175.3	269.2	252.5	226.9	233.4

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

Table 11 Adjustments to capital expenditure

\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Shared distribution assets	18.9	19.7	6.7	4.8	15.7
Northern sewerage project	-14.0	-2.0	20.8	-0.1	0.1
Epping/Craigieburn – stage 1 & stage 2 (section 1)	-2.9	-12.8	-26.1	0.0	34.4
Epping/Craigieburn – stage 2 (sections 2 & 3)	-1.8	3.8	-7.1	-1.8	6.9
Water reticulation renewals program	-0.9	0.0	0.0	0.0	0.0
Property branch sewer renewals program	-1.9	0.0	0.0	0.0	0.0
High risk sewers planned rehabilitation	0.5	0.0	0.0	0.0	0.0
New office extension	0.0	-1.1	-0.6	-1.7	0.0
Customer water meter replacement	-0.2	0.0	0.0	0.0	0.0
Other water deferrals	-12.7	-24.6	18.6	4.2	-1.2
Other sewer deferrals	-44.4	9.4	9.2	6.2	-11.9
Total adjustment	-59.2	-7.8	21.5	11.6	44.0

- (a) Adjustment for capital costs of shared distribution assets that Yarra Valley water had not included in its Water Plan.
- (b) Northern sewerage project – Halcrow-Deloitte identified that construction dates have been altered and capital expenditure has been adjusted accordingly (see section 7.4.1 of the report).

- (c) Epping/Craigieburn – stage 1 & stage 2 (section 1) – Halcrow-Deloitte identified that the project has been deferred by one year and expenditure has been adjusted accordingly (see section 7.4.2 of the report).
- (d) Epping/Craigieburn –stage 2 (sections 2 & 3) – Halcrow-Deloitte noted that the cost estimates have been updated reflecting the commencement of construction (see section 7.4.3 of the report).
- (e) Water reticulation renewals program – Halcrow-Deloitte identified that capital expenditure has increased due to a proposed increase in the unit rate for renewals (see section 7.4.5 of the report).
- (f) Property branch sewer renewals program – Halcrow-Deloitte identified that a reduction in the unit rate for renewals has decreased due to efficiencies achieved by the contractor (see section 7.4.6 of the report).
- (g) High risk sewers planned rehabilitation – Halcrow-Deloitte identified that Yarra Valley Water have updated its forecast (see section 7.5.7 of the report).
- (h) New building – Yarra Valley Water has revised down the expenditure associated with the new office extension.
- (i) Customer water meter replacement – Halcrow-Deloitte identified that capital expenditure for this project has been revised to reflect actual costs (see section 7.4.10 of the report).
- (j) Other water deferrals and other sewer deferrals – Yarra Valley Water proposed a set of deferrals related to water and sewer main assets based on expected slower growth and a smoother work program.

Yarra Valley Water has identified the following key capital projects that it proposes to deliver during the regulatory period.

Table 12 Key capital projects

	<i>Expected completion date</i>
Northern Sewerage Project	2012-13
Epping/Craigieburn – Stage 1 & Stage 2 (Section 1)	2011
Epping/Craigieburn – Stage 2 (Sections 2 & 3)	2009
Sewer Reticulation Renewals Program	ongoing
Water Reticulation Renewals Program	ongoing
Property Branch Sewer Renewals Program	ongoing
High Risk Sewers Planned Rehabilitation	2012-13
New building	2011-12
RA0005 Wonga Park Sewer Backlog	2011-12
Customer Water Meter Replacement	ongoing

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 where shaded or otherwise indicated.

Table 13 **Number of water connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	597 300	605 400	613 400	621 500
Draft decision — connections	597 300	605 400	613 400	621 500
<i>Non-residential</i>				
Proposed connections	40 700	41 200	41 600	42 100
Draft decision — connections	40 700	41 200	41 600	42 100
Proposed – total connections	638 000	646 600	655 000	663 600
Draft decision — total connections	638 000	646 600	655 000	663 600

Table 14 **Number of sewerage connections**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
<i>Residential</i>				
Proposed connections	563 700	570 900	578 500	585 800
Draft decision – connections	563 700	570 900	578 500	585 800
<i>Non-residential</i>				
Proposed connections	37 300	37 700	38 200	38 600
Draft decision – connections	37 300	37 700	38 200	38 600
Proposed – total connections	601 000	608 600	616 700	624 400
Draft decision – total connections	601 000	608 600	616 700	624 400

Table 15 **Residential water consumption**
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed average consumption – Water Plan (kL)	158	163	165	164
Revised average consumption - February 2009 (kL)	149	157	159	161

Draft decision – average consumption (kL)	155	163	159	161
Proposed total residential consumption	94 199	98 645	101 360	101 909
Revised total consumption - February 2009 (kL)	88 950	94 826	97 715	100 268
Draft decision – total residential consumption	92 860	98 645	97 715	100 268

Table 16 **Non-residential water consumption**
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed non-residential consumption – Water Plan	26 207	26 594	26 772	27 341
Revised non-residential water consumption – February 2009	25 464	26 339	26 264	26 833
Draft decision – non residential consumption	25 464	26 339	26 264	26 833

Table 17 **Total water consumption**
ML

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Proposed total consumption	120 406	125 239	128 132	129 250
Revised total water consumption – February 2009	115 157	121 420	124 487	127 609
Draft decision – total consumption	118 324	124 984	123 979	127 101

11. Form of price control

- The Commission proposes to approve individual price caps for Yarra Valley Water.
- Yarra Valley Water should submit a schedule of prices to apply from 1 July 2009, as well as a process by which tariffs can be adjusted on an annual basis that is consistent with the following adjustment mechanism.
- Yarra Valley Water may apply for an adjustment to its prices or tariff strategy at the time of the annual price review. It would have to demonstrate in its application to the Commission that it has clearly articulated a new tariff strategy (or explained how the proposed price changes are consistent with its existing tariff strategy), undertaken appropriate customer consultation and

addressed customer impacts. The average annual price increase across the range of tariffs could not be greater than the average increase calculated under a tariff basket approach. The Commission may then approve amended individual price caps for the remainder of the regulatory period.

12. Uncertain and unforeseen events mechanism

Yarra Valley Water may apply to the Commission to adjust its prices either at the end of the regulatory period or during the regulatory period to reflect increased or decreased costs incurred by Yarra Valley Water and/or increased or decreased revenue received by Yarra Valley Water as a result of events that were uncertain or unforeseen at the time the Determination is made. Events that may be taken into account under this mechanism include:

- (a) Any difference between assumed and actual licence fees levied by the EPA, DHS and the ESC. To avoid any doubt, the assumed licence fees payable for each year of the regulatory period are set out in table 18.

Table 18 **Approved licence fee assumptions^a**
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-2013</i>
Essential Services Commission	0.40	0.40	0.40	0.56
Environment Protection Authority	0.13	0.13	0.13	0.13
Department of Human Services	0.22	0.22	0.22	0.22

^a Included in forecasts of business as usual operating expenditure.

- (b) Any difference between assumed and actual environmental contributions levied by DSE. To avoid any doubt, the assumed environmental contribution payable for each year of the regulatory period are set out in table 19.

Table 19 **Environmental contribution^a**
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Environmental contribution	17.1	16.7	16.3	15.9

^a Included in forecasts of business as usual operating expenditure.

- (c) Changes in the timing or scope of expenditure by Yarra Valley Water on major capital projects.
- (d) A material difference between the forecast demand levels set out in tables 13–17 and actual demand levels for Yarra Valley Water.

- (e) Changes in relevant legislation, licences, relevant taxes or the Statement of Obligations or the introduction of a national emissions trading scheme.

The Commission will not take into account matters that:

- (a) are or should be within Yarra Valley Water's control;
- (b) were or should have been known, or could reasonably have been foreseen, by Yarra Valley Water;
- (c) should be or should have been planned for or managed by Yarra Valley Water; and/or
- (d) reflect inefficient expenditure by Yarra Valley Water.

13. Retail water tariffs

- (a) Although the water usage charges proposed by Yarra Valley Water appear reasonable, the Commission proposes not to approve the business' proposal to increase all tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with the requirements of the WIRO.
- (b) Yarra Valley Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing potable water services (see Volume I for more detail).

14. Retail sewerage tariffs

- (a) The Commission proposes not to approve Yarra Valley Water's proposal to increase fixed and volumetric sewerage tariffs at the same rate for the forthcoming period on the basis that it is inconsistent with the WIRO pricing principles.
- (b) Yarra Valley Water is required to respond to this draft decision with pricing proposals that more closely reflect the underlying costs of providing sewerage services (see Volume I for more detail).
- (c) The Commission proposes to approve Yarra Valley Water's proposed amendment to its seasonal sewerage discharge indices to reflect the level of water restrictions in place at the time.

15. Trade waste charges

- (a) The Commission proposes to approve the following pricing principles proposed by Yarra Valley Water for calculating non-scheduled trade waste charges:
 - (i) volumetric and load based prices should, to the extent practicable, reflect the long run marginal cost (LRMC) of trade waste transfer, treatment and disposal
 - (ii) the total revenue received from each customer should be greater than the cost that would avoided from ceasing to serve that customer, and

- (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner
 - (iii) the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the Commission
 - (iv) prices should reflect reasonable assumptions regarding the volume and strength of trade waste produced by that customer
 - (v) depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission in this Determination.
 - (vi) customers should be provided with full details of the manner in which prices have been calculated. Where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.
- (b) The Commission proposes to approve Yarra Valley Water's proposed scheduled trade waste tariffs for 2009-10.
 - (c) The Commission proposes to require Yarra Valley Water to review and amend its trade waste tariffs during the regulatory period, including introducing charges for inorganic total dissolved solids.
 - (d) In response to this draft decision, Yarra Valley Water is required (in consultation with the other retailers and Melbourne Water) to identify when during the regulatory period a review of trade waste tariffs will be feasible.

16. Recycled water

- (a) The Commission proposes to approve Yarra Valley Water's proposed pricing principles on the basis that they are consistent with the following principles that ensure that prices:
 - (i) have regard to the price of any substitutes and customers' willingness to pay
 - (ii) cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand)
 - (iii) include a variable component.
- (b) Where a business does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:
 - (i) it has assessed the costs and benefits of pursuing the recycled water project
 - (ii) it has clearly identified the basis on which any revenue shortfall is to be recovered
 - (iii) if the revenue shortfall is to be recovered from non-recycled water customers, either that the project is required by 'specified obligations' or

that there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

- (c) The Commission proposes to approve the recycled water tariffs proposed by Yarra Valley Water for third pipe customers as they are consistent with the Commission's pricing principles.
- (d) The Commission requires Yarra Valley Water, during the coming regulatory period, to develop a pricing strategy to manage the demand impact of easing water restrictions.
- (e) In response to the draft decision, Yarra Valley Water must provide its 'Application of Prices' schedule, including a clear explanation of the sewage discharge factors applied to recycled water customers and the volumes of water to which they are applied.

17. Customer contributions

- (a) The Commission proposes to approve Yarra Valley Water's scheduled new customer contributions and existing pricing principles for developer charges for new customers.
- (b) The Commission proposes to approve separate pricing principles for Yarra Valley Water for calculating new customer contributions in sewerage backlog areas.
- (c) The Commission proposes not to approve the variations proposed by Yarra Valley Water regarding the sharing of reticulation costs between developers and discounts on potable water contributions for recycled water customers.

18. Miscellaneous charges

- (a) The Commission proposes to approve Yarra Valley Water's miscellaneous charges.