



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

2008 WATER PRICE REVIEW

FMIT DETERMINATION

1 JULY 2008 – 30 JUNE 2013

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1. General

1.1 Introduction

- (a) Clause 8 of the *WIRO* requires the Commission to either:
- (i) approve 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**; or
 - (ii) specify 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.
- (b) On 20 June 2008, the Commission made its decision under the *WIRO* in respect of:
- (i) the prices which First Mildura Irrigation Trust (trading as FMIT) (ABN 37 053 497 148) (**FMIT**) may charge for **prescribed services** during the **regulatory period**; and
 - (ii) the standards and conditions of service and supply which **FMIT** has included in its **Water Plan**.
- (c) This Determination is made by the Commission under section 33 of the **ESC Act**, pursuant to clause 8 of the *WIRO*.
- (d) The purpose and reasons for the making of this Determination are to:
- (i) give effect to the decision of the Commission referred to in clause 1.1(b)(i);
 - (ii) specify the prices which **FMIT** may charge for **prescribed services** during the **regulatory period** or the manner in which such prices are to be calculated or otherwise determined;
 - (iii) facilitate the achievement of the Commission's objectives in the **ESC Act** and the **WI Act**; and

- (iv) reflect the requirements in the *WIRO*.

1.2 Application

This Determination applies to *FMIT* and its successors and assigns in respect of the business carried on by *FMIT* at the date of this Determination.

1.3 Effective period

(a) Term

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette and 1 July 2008 and, subject to clause 1.3(b), has effect until the earlier of the date on which it is amended or revoked by a later determination or 30 June 2013.

(b) Next regulatory period

Subject to clause 2.3(b)(ii), if the Commission has not made a determination in respect of the prices to apply in the *next regulatory period* on or before 30 June 2013, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of *prescribed services* provided by *FMIT* between 1 July 2013 and the date on which the determination for the *next regulatory period* comes into effect.

1.4 Modification of time periods

The Commission may, by notice to *FMIT*, extend or reduce the time by which, or the period within which, *FMIT* or the Commission must comply with an obligation under this Determination.

1.5 Summary and structure

Clause 2 of this Determination specifies the prices which will apply to *prescribed services* during the *regulatory period* and sets out the procedure and formulae according to which prices may be adjusted during the *regulatory period* on an annual basis. Clauses 3 and 4 provides for the circumstances in which prices may be adjusted during the *regulatory period* otherwise than in accordance with clause 2.

1.6 Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1; and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

1.7 Annexure

- (a) For convenience, annexure A to this Determination summarises:
 - (i) the assumptions underpinning the prices to apply to ***FMIT*** during the ***regulatory period*** or the manner in which such prices are to be calculated or otherwise determined; and
 - (ii) the standards and conditions of services and supply additional to those specified in the ***Code*** which will be provided by ***FMIT*** pursuant to the decision referred to in clause 1.1(b)(ii).
- (b) For the avoidance of doubt, annexure A does not form part of this Determination.

2. Price control

2.1 General principles

Subject to this Determination:

(a) Scheduled prices

FMIT must not charge more than:

- (i) the scheduled prices in Schedule 2, during the first ***regulatory year***, and
- (ii) the amount determined in accordance with clause 2.3, during each subsequent ***regulatory year***,

in respect of those ***prescribed services*** to which the scheduled prices in Schedule 2 relate.

(b) Application principles

The application principles in Schedule 4 will apply to the prices charged by ***FMIT*** in respect of ***prescribed services*** during the ***regulatory period***.

(c) Pricing principles

During the **regulatory period**, **FMIT** must apply the pricing principles in Schedule 5 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 5 relate.

2.2 Ancillary matters

(a) New prices

If a **new price** is introduced under clause 2.3:

- (i) that **new price** is deemed to be included in Schedule 2 with effect from the start of the subsequent **regulatory year**, and
- (ii) any new application principle specified in respect of that **new price** is deemed to be included in Schedule 2 with effect from the start of the subsequent **regulatory year**.

(b) Contracts

Where **FMIT** has entered into a contract (a **relevant contract**) which relates to the provision of **prescribed services** prior to 1 July 2008, **FMIT** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in the **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 5 will apply for the remainder of the **regulatory period**.

(c) Dispute Resolution

Any question as to whether a price has been set in accordance with this Determination will be determined by the Commission on the basis of the Commission's interpretation of this Determination.

(d) Publication

FMIT must publish a schedule of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that is relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the schedule to its customers

on request. To the extent permissible under the *Trade Practices Act 1974* (Cth), the schedule must clearly indicate in respect of each price, the amount determined in accordance with this Determination, the amount of GST payable and the total price.

(e) **GST**

FMIT will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

2.3 Adjustment of prices

(a) **Adjustment**

Subject to Schedule 2, the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formulae in clause 2.3(b)(i) and the procedure in clause 2.3(c), and will apply to the prescribed services to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) **Formulae**

(i) Subject to Schedule 2, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formulae with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij} \leq cap_t$$

$$cap_t = rev_t + (cap_{t-1} - \sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-1}^{ij}) * cpi_t * (1 + wacc)$$

where **FMIT** has n tariff categories, which have up to m tariff components, and where:

p_t^{ij} is the proposed tariff component j of tariff i for **regulatory year** t

q_t^{ij} is the forecast quantity of tariff component j of tariff i for **regulatory year** t

cap_t is the revenue cap for **regulatory year** t calculated in accordance with the formula set out above

cap_{t-1} is the revenue cap for **regulatory year** t-1: for the second year of the **regulatory period**, cap_{t-1} is equal to rev_t for the first **regulatory year** as set out in Schedule 3. For subsequent **regulatory years**, cap_{t-1} is the amount calculated for **regulatory year** t-1 in accordance with the formula set out above

rev_t is the total revenue requirement for **regulatory year** t as set out in Schedule 3

p_{t-1}^{ij} is the actual tariff component j of tariff i for **regulatory year** t-1

q_{t-1}^{ij} is the estimate of the actual quantities of tariff component j of tariff i for **regulatory year** t-1

cpi_t for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the March quarter referred to above

$wacc$ is 5.8%, being the weighted average cost of capital

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or

before 30 June 2013, the regulatory requirement for **regulatory year t** “ rev_t ” will be set equal to “ $(rev_{t-1} * cpi_t)$ ” for the purpose of adjusting prices in accordance with the formulae in clause 2.3(b)(i) for **regulatory years** commencing on or after 1 July 2013 until the date on which this determination is amended or revoked by a later determination.

(c) Adjustment procedure

- (i) At least 40 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period**, **FMIT** must submit its proposed prices for the **prescribed services** referred to in clause 2.3(a) to apply in the subsequent **regulatory year** (the **revised prices**) to the Commission for approval, together with sufficient information to enable the Commission to assess whether the proposed prices comply with this Determination including:
 - (A) the forecast quantities for **regulatory year t** “ q_t^{ij} ” (referred to in the relevant formula in clause 2.3(b)(i));
 - (B) the estimate of actual quantities for **regulatory year t-1** “ q_{t-1}^{ij} ” (referred to in the relevant formula in clause 2.3(b)(i));
 - (C) information which explains the calculation of the items referred to in subparagraphs (A) and (B) above;
 - (D) information relating to any **new price** which **FMIT** proposes to introduce in **regulatory year t**; and
 - (E) any other information required by the Commission.
- (ii) The Commission will approve the **revised prices** if it considers that:
 - (A) the items referred to in clause 2.3(c)(i)(A) and (B) are reasonable;

- (B) the **revised prices** have been calculated in accordance with the formulae set out in clause 2.3(b)(i).
- (iii) The Commission will be deemed to have approved the **revised prices** if it has not provided notice under clause 2.3(c)(iv) to **FMIT** within 30 **business days** from the date of its receipt of the **revised prices**.
- (iv) If the Commission does not approve the **revised prices**, the Commission:
 - (A) will provide notice to **FMIT** (including a statement of its reasons);
 - (B) may request **FMIT** to provide any additional information specified by the Commission;
 - (C) will take any additional information provided by **FMIT** into account; and
 - (D) will determine the **revised prices**.
- (v) For the avoidance of doubt, any **new price** approved by the Commission under clause 2.3(c)(ii) or deemed to have been approved by the Commission under clause 2.3(c)(iii) will be a **revised price** for the purpose of clause 2.3(c).

2.4 Price changes during a billing period

(a) Application of this clause

This clause 2.4 applies where **FMIT** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

(b) Method of charging

FMIT must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change, but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

2.5 Reporting requirements

- (a) **FMIT** must make available to the Commission all information reasonably requested by the Commission from time to time for the purpose of enabling it to confirm that **FMIT** is complying with this Determination.
- (b) Without limiting clause 2.5(a), if, during the **regulatory period**, **FMIT** enters into a **new contract** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 4 relate, **FMIT** must, within 30 **business days** of the date of the **new contract**, provide the Commission with a notice specifying:
 - (i) details of the **new contract**, and
 - (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.
- (c) Without limiting clause 2.5(a), if **FMIT** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:
 - (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the Commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **FMIT** proposes to stop providing the **prescribed service**; and
 - (ii) in the case of a refusal to provide a **prescribed service** to a customer, or potential customer, **FMIT** must provide a notice to the Commission within 5 **business days** of the refusal, stating the nature of the **prescribed service** and the reason for the refusal.

3. Adjustments for uncertain or unforeseen events

3.1 General principle

- (a) **FMIT** may apply to the Commission for the amendment of this Determination and/or the adjustment of the **revenue requirements** in Schedule 3 to reflect increased or decreased costs incurred by

FMIT as a result of events which were uncertain or unforeseen at the time this Determination was made (an **uncertain events application**).

- (b) The Commission may take action under clause 3.3(b) in respect of an **uncertain events application** where the Commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making this Determination provided that the Commission is satisfied that such action takes into account the interests of customers.

3.2 Consideration by the Commission

(a) Examples of uncertain and unforeseen events

The matters that may, at the discretion of the Commission, be taken into account by the Commission under this clause 3 include:

- (i) actual licence fees or contributions payable by **FMIT** during a particular **regulatory year** during the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 24 of the *Environment Protection Act 1970* (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **FMIT** on major capital projects; and
- (iii) a change in or to any of the following:
 - (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 1970* (Vic);
 - (B) any licence issued pursuant to any of the Acts referred to in clause 4.2(a)(iii)(A);
 - (C) a **relevant tax**; or
 - (D) the Statement of Obligations,or the introduction of a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

(b) Exclusions

In considering an *uncertain events application*, the Commission will not take into account matters that:

- (i) are or should be within *FMIT's* control;
- (ii) were or should have been known by *FMIT* at the time the Determination was made;
- (iii) could reasonably have been foreseen by *FMIT*;
- (iv) should be or should have been planned for or managed by *FMIT*; and/or
- (v) reflect inefficient expenditure by *FMIT*.

(c) Dispute resolution

Any question as to whether a matter should be taken into account by the Commission under this clause 3 will be determined by the Commission in its absolute discretion.

3.3 Procedure

(a) Application process

- (i) An *uncertain events application* must be accompanied by a statement setting out:
 - (A) the details of the relevant uncertain or unforeseen event;
 - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the *regulatory period*;
 - (C) the basis for calculating the increase or decrease in operating and/or capital expenditure referred to in clause 3.3(a)(i)(B); and
 - (D) details of the proposed action to be taken by the Commission under clause 3.3(b).
- (ii) The Commission may identify an event or events which it considers has had or may have a material impact on *FMIT's* operating and/or capital expenditure and may decide to take action under clause 3.3(b) in the absence of an *uncertain events application* by *FMIT*.

- (iii) The Commission may request **FMIT** to provide any additional information specified by the Commission in connection with an **uncertain events application**.

(b) Action by the Commission

If the Commission is satisfied of the matters set out in clause 3.1(b) in respect of an **uncertain events application**, the Commission may, in its absolute discretion:

- (i) amend this Determination or adjust the **revenue requirements** in Schedule 3 with effect from **regulatory year t** at the same time prices are adjusted pursuant to clause 2.3; or
- (ii) take the **uncertain events application** into account in making its determination in respect of the prices which **FMIT** may charge for **prescribed services** in the **next regulatory period**.

4. Other adjustments during regulatory period

Where the Commission is satisfied that:

- (a) there is a manifest and material error in this Determination;
- (b) any information on which this Determination was based was false or misleading in a material respect; or
- (c) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

the Commission may decide to amend this Determination and/or specify a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

Schedule 1

Definitions and Interpretation

A. Definitions

business day means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

Code means the *Rural Water Customer Service Code* made under the *WI Act*.

developer charges has the meaning given in the *WIRO*.

ESC Act means the *Essential Services Commission Act 2001* (Vic).

GST has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

miscellaneous services means services that are provided in direct connection with **prescribed services**, prices of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 5.

new contract means any contract for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period**.

new price means a new price in respect of a **prescribed service** to which the scheduled prices in Schedule 2 relate.

next regulatory period means the period commencing on 1 July 2013 and ending on a date specified by the Commission.

prescribed services has the meaning given in the *WIRO* and includes **miscellaneous services**.

regulated entity has the meaning given in the *WIRO*.

regulatory period means the period commencing on 1 July 2008 and ending on 30 June 2013.

regulatory year means each period of twelve months commencing on 1 July and ending on 30 June.

relevant contract means a contract which relates to the provision of **prescribed services**

relevant tax means any tax imposed by or payable directly or indirectly to any authority of the Commonwealth of Australia (including **GST**) but excluding:

- (a) the licence fees referred to in clause 3.2 of this Determination;
- (b) penalties and interest for late payment of any tax; or
- (c) any tax that replaces any of the taxes referred to in (a) and (b), where tax includes any rate, duty, charge or other like or analogous impost.

Water Plan has the meaning given in the **WIRO**.

WI Act means the *Water Industry Act 1994* (Vic).

WIRO means the Water Industry Regulatory Order 2003 as at 30 June 2008.

B. Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to, this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.

- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.
- (i) The symbol ' Σ ' requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.
- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
 - (i) **regulatory year 't'** is the **regulatory year** in respect of which the calculation is being made;
 - (ii) **regulatory year 't-1'** is the **regulatory year** immediately preceding **regulatory year 't'**.

Schedule 2

PRICES

This schedule should be read in conjunction with Schedule 3 and Schedule 4. Prices for services marked with an asterisk are not subject to the adjustments pursuant to clause 2.3 of this Determination.

<i>Tariff and Price Component</i>	<i>Unit</i>	<i>Price (1 July 2008)</i>
1.1 Irrigation - Mildura		
Customer Charge	Cust	167.17
Service Point Charge	Point	146.90
Auxillary Supply	Point	111.44
Bulk Water Charge	ML WR	6.17
Bulk Water Charge - Murray LR	ML WR	2.78
Delivery Capacity Charge	ML/14 days	436.65
Delivery Capacity Charge - Mildura South	ML/14 days	522.76
Water Share Fee	Share	8.43
Metered Use	ML	42.55
Metered Use - Casual Rate	ML	217.81
High Pressure Levy - Mildura South	ML	35.46
Excess Water Charge	ML	2026.20
1.2 Drainage - Mildura		
Drainage Fees	ML	6.05
1.3 Stock & Domestic		
Customer Charge	Cust	167.17
Service Point Charge - Pressurised	Point	217.81
Service Point Charge - Gravity	Point	146.90
Bulk Water Charge	ML WR	6.17
Bulk Water Charge - Murray LR	ML WR	2.78
Delivery Capacity Charge	Connection	104.79
Delivery Capacity Charge - Mildura South	Connection	125.47
Water Share Fee	Share	8.43
Metered Use	ML	85.10
High Pressure Levy - Mildura South	ML	35.46
Excess Water Charge	ML	2026.20
1.4 Miscellaneous Fees and Charges		Actual cost

Schedule 3

Calculation of revenue requirements for each regulatory year

This schedule should be read in conjunction with clause 2.3 and Schedule 2.

Revenue requirements for regulatory years

<i>Regulatory year</i>	<i>Calculation of revenue requirements</i>
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Where t = 2008-09,	$rev_t = \$6.689 \text{ million}$
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Where t = 2009-10,	$rev_t = \$6.691 \text{ million} * cpir_t$
--------------------	--

Where t = 2010-11,	$rev_t = \$6.693 \text{ million} * cpir_t$
--------------------	--

Where t = 2011-12,	$rev_t = \$6.693 \text{ million} * cpir_t$
--------------------	--

Where t = 2012-13,	$rev_t = \$6.693 \text{ million} * cpir_t$
--------------------	--

where

$cpir_t$ for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter 2008

Schedule 4

Application of prices

4.1 Garden supplies

In cases of unmetered garden supply customers, **FMIT** will assume a use of 2ML per annum.

4.2 Infrastructure maintenance charge

This charge applies to land that is water righted and forms part of **FMIT's** district, where the water entitlement has been reduced to below 6.096 ML per ha and **FMIT** continues to maintain infrastructure. Once demonstrated change of land use exists (eg Council issues compliance for an approved plan of sub-division), customers may exit the rating system and no ongoing rates apply.

4.3 Water transfer fees

Water transfer fees are set in accordance with Water (Permanent Transfer of Water Right) Regulation 2001.

Schedule 5

Pricing principles

5.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where **FMIT** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to **FMIT** or pursuant to other Government policies that apply to **FMIT** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

5.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost (LRMC) of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be 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;
- 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;

- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the volume and strength of trade waste anticipated to be produced by that customer);
- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the Commission;
- 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.

5.3 Pricing principles for customer contributions

Schedule 2 sets out **developer charges** for new customers.

The scheduled charge applies on a per lot basis, and may be levied on any connection of a new customer that is, or can be, individually metered.

When connecting to **FMIT's** water and sewerage network, the developer must provide the reticulation assets that are required to service their development and connect to **FMIT's** network.

Reticulation assets are infrastructure assets that are explicitly provided in relation to prescribed services for one development and are not required to be upsized to support other future developments. A water main that is 150mm or less in diameter and a sewerage main that is 225mm or less in diameter, and all associated assets that relate to these sized assets are generally considered to be reticulation assets although there may be some situations where these sizes are inappropriate.

Shared distribution assets are infrastructure assets that are generally provided in relation to prescribed services for more than one development and do not include:

- reticulation assets; or
- headworks and tailworks.

If a developer is required to provide reticulation assets that exceed the requirements of their development in a material respect, the developer can only be required to contribute to the costs of the reticulation assets an amount that reflects the requirements of their development.

The balance of the costs of the reticulation assets in such a case is to be recovered from future developers.

At any time during the regulatory period, **FMIT** may seek the Commission's approval to levy a charge greater than the scheduled charge that will cover the costs associated with bringing forward the provision of shared distribution assets.

The Commission will approve the proposed charge where it is satisfied that it has been calculated on the basis of:

- the development-specific capital costs associated with connecting a customer or group of customers. For the avoidance of doubt, development-specific capital costs do not include any costs associated with:
 - assets in place prior to the development;
 - shared network assets; or
 - headworks, tailworks and treatment plants.
- where relevant, the financing costs that may be attributable to bringing forward the timing of the provision of shared assets required to connect to the existing network.

The brought forward financing costs associated with developments requiring the construction of shared network assets are to be calculated on the basis of the extent to which the assets being constructed form part of a logical extension to **FMIT's** existing water and sewerage networks:

- Where the shared assets could be reasonably considered to form part of a logically sequenced network expansion and could reasonably be expected to be required by **FMIT** within a short to medium term planning horizon, no bring forward **developer charge** is to apply (scheduled charge applies).
- Where the shared assets do not form part of a logically sequenced network expansion, but could reasonably be expected to have been required by **FMIT** in respect of a long term planning horizon, then a non-scheduled **developer charge** equivalent to 40 per cent of the as constructed cost of the shared assets will apply.
- Where the shared assets do not form part of a logically sequenced network expansion, and could not reasonably be expected to have been required by **FMIT** in respect of a long term planning horizon, then a non-scheduled **developer charge** equivalent to 70 per cent of the as constructed cost of the shared assets will apply.

5.4 Pricing principles for developer charges for existing property owners

At any time during the regulatory period, **FMIT** must seek the Commission's approval where it proposes to levy a **developer charge** to apply to existing property owners connecting to water and/or sewerage services. This charge must not be greater than:

- the full efficient cost of installing the local reticulation mains; and
- any cap as specified by the Minister for Water in accordance with the requirements of the Statement of Obligations.

5.5 Pricing principles for miscellaneous services not included in Schedule 2

Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

5.6 Guidelines

FMIT must comply with any guidelines issued by the Commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 4 relates.

5.7 Pricing principles for termination fees

FMIT may apply termination fees to irrigation customers who surrender delivery entitlements during the **regulatory period**.

Any termination fee levied by *FMIT* must be calculated and applied in accordance with Schedule E Protocol (Access, Exit and Termination Fees) of the Murray-Darling Basin Agreement.

**The Common Seal of the
Essential Services Commission**
was affixed to this Determination
with the authority of the
Commission.



Date: 25th June, 2008

A handwritten signature in cursive script, appearing to read "G. Wilson".

Greg Wilson
Chairperson

Annexure A

Table 1 **Weighted average cost of capital**
(per cent)

<i>Post tax WACC</i>	<i>Implied pre-tax WACC</i>
5.8	5.8

Table 2 **Benchmark revenue requirement**
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	5.06	5.01	5.06	5.08	5.11
Return on existing assts	0.46	0.44	0.41	0.39	0.37
Return on new investments	0.00	0.05	0.20	0.30	0.28
Regulatory depreciation	0.41	0.45	0.59	0.68	0.68
1st period adjustments	0.34	0.00	0.00	0.00	0.00
Total	6.27	5.95	6.26	6.45	6.44

Table 3 **Updated regulatory asset base**
\$ million in January 2007 prices

	2004-05	2005-06	2006-07	2007-08
Opening RAB	0.00	0.19	4.17	6.66
<i>Plus</i> Gross capital expenditure	0.20	4.00	2.52	1.54
<i>Less</i> Government contributions	0.00	0.00	0.00	0.00
<i>Less</i> Customer contributions	0.00	0.00	0.00	0.00
<i>Less</i> Proceeds from disposals	0.00	0.00	0.00	0.00
<i>Less</i> Regulatory depreciation	0.01	0.02	0.03	0.04
Closing RAB	0.19	4.17	6.66	8.16

Table 4 **Rolled forward regulated asset base**
\$ 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>
Opening RAB	8.16	7.80	9.07	12.15	11.52
<i>Plus</i> Gross Capital expenditure	0.05	1.72	3.67	0.05	0.05
<i>Less</i> Government contributions	0.00	0.00	0.00	0.00	0.00
<i>Less</i> Customer contributions	0.00	0.00	0.00	0.00	0.00
<i>Less</i> Proceeds from disposals	0.00	0.00	0.00	0.00	0.00
<i>Less</i> Regulatory depreciation	0.41	0.45	0.59	0.68	0.68
Closing RAB	7.80	9.07	12.15	11.52	10.88

Table 5 **Approved licence fee and environmental contribution assumptions**
\$ 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>
Essential Services					
Commission licence fee	0.005	0.005	0.005	0.005	0.005
Environmental contribution	0.094	0.091	0.088	0.086	0.084

Table 6 **Key capital projects**

	<i>Expected completion date</i>
K East Pipelines	2009-10
K West	2009-10
T South	2009-10
E Pipelines	2009-10
L South Sub-Area	2010-11
Benetook Pumps	2009-10
Drainage pump replacement	2012-13