

Appendix A

Assumptions

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KEY ASSUMPTIONS

1. Customer growth is as per the review conducted by Montgomery Watson Harza Australia that incorporates results from the DSE report 'Urban Development Plan 2006' and combines these with the Victorian in the Future (VIF) 2004 numbers. In particular this review focuses on the large exceptional growth occurring in the Sunbury, Bulla, Diggers Rest & Melton, Rockbank regions. On average growth is predicted to be approximately 3.27% pa. Over the period of the Water Plan the average rate is assumed to vary from as low as 3.18% to a high of 3.66%. Refer section 6 on Demand for further detail. Water usage is marginally different whereby growth is not the only influencing factor.
2. The Rising Block Tariffs structure was first introduced on 1st November 2004. It is proposed that volumetric tariff increase by approximately CPI+34.6% p.a. in the first year, to realign each Block, decreasing to CPI + 11.0% p.a in the last year of the regulatory period. It is proposed that the water fixed tariff for service access increase by CPI+17.0% p.a. in the first year, decreasing to CPI + 11.5 % p.a. in the last year of the regulatory period. Wastewater tariff increase is proposed to remain constant at CPI + 3.0% p.a. over the regulatory period.

Water Pricing Structure (assume CPI 2.5%pa)

	All Districts 2007/08	All Districts 2008/09	All Districts 2009/10	All Districts 2010/11	All Districts 2011/12	All Districts 2012/13
Volume tariff for residential						
0-53kl	83.35c/kl	98.00c/kl	113.51c/kl	130.31c/kl	149.59c/kl	170.20c/kl
53-106kl	97.80c/kl	130.00c/kl	150.57c/kl	172.86c/kl	198.44c/kl	225.78c/kl
>106kl	144.49c/kl	260.00c/kl	301.15c/kl	345.71c/kl	396.88c/kl	451.55c/kl
Volume tariff for non-residential	92.23c/kl	130.00c/kl	150.57c/kl	172.86c/kl	198.44c/kl	225.78c/kl
Service access (residential)	\$135.32	\$ 162.28	\$ 189.63	\$ 219.64	\$ 253.27	\$ 289.45
Service access (non-residential)	\$135.32	\$ 162.28	\$ 189.63	\$ 219.64	\$ 253.27	\$ 289.45

Wastewater Pricing Structure (assumes CPI 2.5% pa)

	All Districts 2007/08	All Districts 2008/09	All Districts 2009/10	All Districts 2010/11	All Districts 2011/12	All Districts 2012/13
Service access (residential & non-residential)	\$389.12	\$ 410.81	\$ 433.72	\$ 457.90	\$ 483.42	\$ 510.37

3. Under Rising Block Tariffs the price elasticity of demand are assumed to be as follows giving rise to an average reduction in demand of 3.4%.

Consumption Blocks	% Price Change	Price Elasticity	% Change in Demand
0 to 53	-2.6	0	0
53 to 106	14.3	-0.1	-1.4
>106	68.8	-0.1	-6.9

4. Current charging regime from Southern Rural Water is assumed to remain. The charge is 100% fixed with an annual increases for CPI.
5. The Plan assumes water restrictions continue throughout the Water Plan period. The following restrictions are assumed to apply for the period of the Water Plan;
- 2008/09 - Stage 3
2009/10 - Stage 2
2010/11 - Stage 2
2011/12 - Stage 1
2012/13 - Permanent Water Saving Rules (PWSR)
6. A total of 11,250ML will be supplied from Melbourne Water for Sunbury, Melton, Bacchus Marsh and the Gisborne area.
7. All figures are presented in real 1/1/07 dollars
8. Interest rates on surplus funds to be 5.5%.
9. Inflation is assumed to be 2.5% p.a. for the period of the Water Plan.
10. Strategies in the CRSWS and White Paper include initiatives to reduce water use by 25% by 2015 and 30% by 2020. These strategies are included in demand forecasting volumes as part of Western Water's WSDS.
11. Payments to Government, by way of TER or dividends are 65% of previous year's profit excluding developer's contributions. The tax rate is 30%.
12. Employee costs are assumed to rise in accordance with the EBA by 4% p.a. in real terms. This increase is assumed to be offset by efficiency gains of equivalent value plus a 1.5% productivity factor has been applied to all controllable expenditure. This together with improved IT and staff performance covers business growth.

13. Depreciation for new works and developer contributed assets to be included at an average straight line 2.07% per annum, in line with effective average accounting lives.
14. New funds borrowed as necessary at rates of 6.25% p.a. These rates include a TCV levy of 0.115%. It is assumed that the Financial Accommodation Levy is 0.85% being current "BBB" rating, where total borrowings exceed \$5M. It is estimated that Western Water will increase borrowings to \$101M in this regulatory period.
15. New Customer Contributions (NCC) cash and non cash are based on 2006/07 actuals forecast for to arrive at a base amount for 2007/08 and increased by growth rates applied throughout the business. NCC are assumed at \$1,100 per lot per service as per the Victorian Water Industry submission. Thereafter this charge will increase annually by CPI. All non-cash contributions are assumed to increase by CPI.
16. Assume achieve 100% recycled water by 2013.
17. Bulk Entitlements (BE)

The Plan includes the purchase or acquisition of an additional 7,340ML of bulk entitlements, of which 5,040ML consists of new entitlements, and 2,300ML is the exchange of entitlements from local storages, being replaced with additional supplies from the Melbourne supply system. The cost of purchasing new BE is estimated at \$1,500 per ML. The Plan currently includes the following treatment of BE respectively:

CRSWS Reference	Action	Cost (\$1,500 ML)
Action 4.26	By 2009 purchase 40ML additional entitlements on market from Pykes Creek Reservoir for Myrning	\$60,000
Action 4.23	By 2009 purchase additional 5,000ML water rights from Melbourne	Nil Assumes rights acquired as per existing entitlements. Additional bulk water operating costs expected to cover any major augmentations to the Melbourne system.
Action 4.29a	By 2010 transfer 2050ML from Rosslynne Reservoir entitlements to the environment after water is purchased from Melbourne system	Nil Assumes exchange of entitlements at no net cost to Western Water.
Action 4.29c	By 2010 transfer 250ML from Baringo Creek entitlement to the environment after water is secured from the Melbourne system	Nil Assumes exchange of entitlements at no net cost to Western Water.
	Total	\$60,000

A sensitivity analysis was conducted on the possible purchase of 5,000ML of water rights for Action 4.23 above. Purchasing this BE would incur a (non deductible) expense of \$7.5M in 2009/10 of the regulatory period. This increase in revenue requirement would lead to a further 4% real increase in annual tariffs.