

Regulator releases Draft Decision on Melbourne Water's 2016 price submission

11 March 2016

Water

Victoria's independent economic regulator, the Essential Services Commission (the Commission), has today released its Draft Decision on Melbourne Water's price submission for 1 July 2016 to 30 June 2021.

Melbourne Water's price proposal, submitted to the Commission late last year, included significant savings from its efforts to operate the business more efficiently. In reviewing the price submission, the Commission identified additional savings.

"The Essential Services Commission proposes a revenue figure 1.2 per cent lower than sought by Melbourne Water. We found additional operational savings of \$112 million and savings on capital expenditure of \$356 million," Commission Chair Dr Ron Ben-David said.

As part of its draft decision, the Commission has accepted Melbourne Water's proposal to spread a proportion of its desalination security costs over a longer period. This has the effect of reducing customer bills. Desalination security costs are unrelated to costs arising from water orders from the desalination plant.

"We propose to approve Melbourne Water's initiative to reduce the impact on customers of the desalination security payments but we have invited them to consider whether additional reductions are possible in light of the greater savings we have identified in our draft report," said Dr Ben-David.

The overall impact of the Commission's draft decision would be to lower Melbourne Water's wholesale prices.

"On average the wholesale price of water will fall. The exact impact on households and businesses will depend on how Melbourne Water responds to our draft decision. While some of the savings have been incorporated into the efficiency rebates already appearing on customers' water bills, on average we would expect household bills to fall by around \$30 as a result of this decision," Dr Ben-David said.

The Commission's draft decision does not cover the recent announcement of a water order from the desalination plant. The costs associated with the water order will automatically pass through to customers.

"The water order will add around \$10-\$13 to an average annual household bill. The recent water order will only affect customers' water usage charges so the less water a customer uses, the less they pay," Dr Ben-David said.

The Commission has supported Melbourne Water's proposal to leave residential waterways and drainage charges unchanged but has expressed concerns with the significant reforms proposed to non-residential waterways charges.

"Some of the proposed changes to the non-residential waterways charge lie outside the Commission's powers to approve, so we have invited Melbourne Water to submit a revised proposal," Dr Ben-David said.

Dr Ben-David said the Draft Decision was made after analysing Melbourne Water's proposal and reports from expert consultants, as well as by listening to concerns raised by customers during public consultation.

"This decision will allow Melbourne Water to continue to provide safe and reliable water and sewerage services to Melbourne," he said.

Melbourne Water must now incorporate the changes outlined in this Draft Decision and resubmit a revised tariff and price proposal to the Commission by late April.

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