

### The Essential Services Commission

The Commission is the independent economic regulator of the Victorian water industry. We periodically assess prices put forward by water businesses in a three to five year Water Plan.

### Commission review of Water Plans

Last year the metropolitan water businesses submitted to the Commission their Water Plans for the third regulatory period commencing 1 July 2013. These Water Plans set out the forecast business costs and the prices that each business proposed to charge their customers to recover those costs. In authorising revenue and prices for the water businesses, the Commission assessed the revenue required to operate the businesses and to meet obligations from the Minister of Water and other regulatory bodies.

### Revenue requirement – draft decision

The metropolitan water businesses proposed prices that vary depending on service and location. There is significant variation among the revenue requirements proposed by the metro water businesses.

In their Water Plans, the businesses identified their revenue requirements for the third regulatory period (2013-18). These revenue forecasts reflect their expected operating expenditure, a return on assets (existing and new assets) and regulatory depreciation (return of assets). Melbourne Water sought revenue totalling \$8.6 billion. The Commission proposes to allow revenue of \$8.1 billion, this is \$488.9 million (or 5.7 per cent) lower than Melbourne Water's proposal. For the purpose of this draft decision, the Commission has used the cost recovery profile submitted by Melbourne Water for desalination security payments. The Commission has requested that Melbourne Water resubmit its proposed cost recovery for the desalination payments.

The four water retailers covered in this draft decision (City West Water, South East Water, Yarra Valley Water and Western Water) sought combined revenues totalling \$13.1 billion over the next five years. The Commission's draft decision results in a lower revenue for the retailers of \$12.3 billion. This is \$793.6 million (or 6.1 per cent) lower than that proposed by the businesses. This downward adjustment to the water businesses proposed revenue reflects the Commission's assessment of the efficient costs of delivering services.

The major areas of adjustments to the businesses' costs the Commission proposes to make include: lower financing costs; operating expenditure reductions, e.g., labour, energy, revisions to regulatory and other costs, productivity improvements; reduced or deferred capital programs and Melbourne Water's revised estimates for desalination costs in February 2013.

By way of comparison, in the last price review, the Commission approved \$5.5 billion for Melbourne Water and \$8.6 billion for the four water retail businesses. Each business's proposed revenue requirement and the Commission's draft decision are shown in tables 1 and table 2.

**Table 1. Revenue requirement – proposed and draft decision (\$m 2012-13)**

	Melbourne Water	
	Proposed	Draft Decision
Operating expenditure	5052.3	4850.7
Return on assets	2185.7	1984.3
Return on new investments	299.4	245.2
Regulatory depreciation	951.2	944.8
Tax liability	123.3	98.0
<b>Total</b>	<b>8611.9</b>	<b>8123.0</b>

**Table 2. Revenue requirement – proposed and draft decision (\$m 2012-13)**

	City West Water		South East Water		Yarra Valley Water		Western Water	
	Proposed	Draft Decision	Proposed	Draft Decision	Proposed	Draft Decision	Proposed	Draft Decision
Operating expenditure	2428.5	2297.1	3444.7	3265.3	3573.2	3413.8	256.3	244.8
Return on assets	373.7	316.8	654.5	587.7	789.0	727.0	67.7	62.4
Return on new investments	85.1	59.2	129.1	118.1	127.1	115.2	20.5	9.9
Regulatory depreciation	232.5	223.0	288.6	283.6	413.6	412.8	26.5	23.5
Tax liability	37.3	30.1	43.7	28.7	33.6	29.1	34.1	17.7
<b>Total</b>	<b>3157.2</b>	<b>2926.1</b>	<b>4560.5</b>	<b>4283.4</b>	<b>4936.6</b>	<b>4697.8</b>	<b>405.1</b>	<b>358.4</b>

### How to get involved

We invite the public to comment on our draft decision until 20 May 2013. Public forums will be held in April and May. Written submissions can be sent by email to [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au) or posted to Water Price Review, Essential Services Commission, Level 37, 2 Lonsdale Street, Melbourne 3000. More information, including material from past price reviews can be found on the Commission's website [www.esc.vic.gov.au](http://www.esc.vic.gov.au).