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Background

Essential Services Commission Western Water draft decision
Background

The Essential Services Commission of Victoria is undertaking a review of the maximum prices Western Water can charge for its water and sewerage services for the regulatory period from 1 July 2018 to 30 June 2020.

We must make a price determination which determines the maximum prices (or the manner in which prices are to be calculated, determined or otherwise regulated) that Western Water may charge for prescribed services during a regulatory period.

In November 2016 we provided guidance to inform Western Water’s price submission. We did not receive Western Water’s price submission by the due date of 29 September 2017.

In October 2017, Western Water requested we consider alternative arrangements for its price review. It sought our support for:

- a shorter pricing period of two years
- prices to be held at current levels, plus an allowance for inflation.

This would allow Western Water, including recently appointed board members, to assess its capacity to address the challenge of servicing an unprecedented level of growth across its region, while providing affordable and value-adding services to its customers, before committing to longer term prices. Western Water’s letter noted that its engagement highlighted the importance of providing bills that are affordable and equitable, and that its initial modelling showed prices would have to increase to a level that may not be affordable in the medium and longer term.

Our response to Western Water noted that we are open to a two year pricing period from 1 July 2018 for the reasons set out in its letter of 20 October 2017, given:

- The unique circumstances facing Western Water in coming years.
- Western Water’s price modelling.
- Western Water’s commitment to undertake an assessment of its capacity and resilience to address challenges, before committing to a longer term service, revenue and price path.

---

Our objectives as set out in the *Essential Services Commission Act 2001* (Vic), the *Water Industry Act 1994* (Vic), and the Water Industry Regulatory Order 2014, in particular, the long-term interests of Western Water’s customers.

Our letter also explained that as Western Water’s price submission will likely vary from the requirements of our existing guidance, we will issue new guidance to inform its price submission.

In January 2018, we issued new guidance for Western Water’s price review. The guidance set a two year regulatory period for Western Water from 1 July 2018 to 30 June 2020.

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The November 2016 guidance remains the applicable guidance for the other water corporations it was issued to.
Summary

In March 2018, Western Water provided a submission to us proposing prices for a two year period starting 1 July 2018

This draft decision sets out our preliminary views on Western Water’s price submission.\(^5\)\(^6\)

We invite interested parties to comment on our preliminary views in this draft decision before we make a final decision and issue a price determination in June 2018. Details on how to make a submission on our draft decision are provided in Chapter 3.

Western Water has committed to improve outcomes for customers

We consider our draft decision approves a revenue requirement that will allow Western Water to deliver on its customer service commitments, government policy, and obligations monitored by Environment Protection Authority Victoria and Department of Health and Human Services.\(^7\)

Some of the ways Western Water plans to improve outcomes for customers are by:

- supporting service reliability and growth by upgrading water and sewerage assets
- progressively rolling out new SMS alerts for customer service interruptions, and making greater use of e-billing
- providing ongoing support for customers experiencing financial difficulty
- limiting price increases to inflation.

Our draft decision accepts Western Water’s proposed prices

Western Water has proposed that prices increase by inflation only over the two year period from 1 July 2018. The focus of our review was to verify that Western Water’s forecast revenue did not exceed the calculated revenue requirement derived from our assessment of efficient costs.

Our draft decision establishes a notional revenue requirement of $165.2 million over two years, based on the expenditure forecasts provided by Western Water.

\(^5\) Clause 16 of the Water Industry Regulatory Order 2014 requires us to issue a draft decision.

\(^6\) Western Water’s price submission is available on our website at [www.esc.vic.gov.au](http://www.esc.vic.gov.au)

\(^7\) The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services. Along with forecast demand, it is an input to calculating the prices to be charged by a water corporation.
Western Water has proposed to maintain its existing tariff structures and prices for the two year period, while retaining the existing $100 rebate for residential water customers. This proposal, along with Western Water's proposed demand forecasts, will deliver forecast revenue of $160.5 million, which is less than our notional revenue requirement.

We have some reservations about a number of the key assumptions Western Water has made in its submission to derive its proposed revenue. In particular, its assumptions for operating expenditure efficiency (4.0 per cent per year – the highest proposed by any water corporation in this review) and whether this is achievable. Western Water has also assumed considerably reduced demand forecasts. Our views on these matters are set out in Chapter 2.

We also do not agree with Western Water’s proposed approach to significantly lower its regulatory depreciation for the two year period, providing for the shortfall to be recovered in the future. Western Water has not provided any information about whether it intends to recover the shortfall and, if so, how. Deferring recovery of depreciation in this way effectively places further pressure on future prices. Accordingly, we have used Western Water’s long-standing approach to calculating depreciation for the purposes of establishing the notional revenue requirement.

Given that Western Water’s forecast revenue does not exceed our established notional revenue requirement, we propose to approve Western Water’s proposed revenue and committed price path (of inflation only) for the two year period from 1 July 2018, while it undertakes its further business review to better address future costs. We consider Western Water’s proposal to effectively extend the current pricing structures for two years while it undertakes its review is in the long term interests of its customers, consistent with the requirements of our guidance.

**Tariff structures and the form of price control will remain the same**

We propose to accept Western Water’s proposed price cap form of price control. This means its maximum prices are fixed subject to updates for inflation and the cost of debt, and any other price adjustments we approve in our price determination. Western Water currently uses a price cap.

We have also accepted Western Water’s proposed tariff structures, which remain unchanged from those currently in place.

For residential water tariffs, Western Water proposed a fixed service charge and a variable component that depends on water use. For residential sewerage, Western Water proposed a fixed service charge. Our assessment of the form of price control and tariff structures is set out on pages 24 to 26.
1. Our role and approach to water pricing

We are Victoria’s independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO) which is made under the Water Industry Act 1994 (Vic) (WI Act) and sits within the broader context of the Essential Services Commission Act 2001 (Vic) (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 19 water corporations operating in Victoria.

We are reviewing the prices 17 water corporations propose to charge customers from 1 July 2018

Our review of the prices proposed by the water corporations covers the prescribed services listed in the WIRO. The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water corporations.

In March 2018, Western Water provided a submission to us proposing prices for a two year period starting 1 July 2018. Our task is to assess the price submission against the legal framework that governs our role, and make a price determination that takes effect from 1 July 2018. The price determination will specify the maximum prices Western Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that explains the reasons for our price determination.

We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory factors we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act. In reaching this draft decision we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

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9 The prescribed services are listed at clause 7(b) of the WIRO.
• the matters specified in our guidance
• the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
• the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

A separate document lists the specific objectives and the various matters the commission must have regard to when making a price determination and provides a guide to where the commission has done so in this draft decision.

In January 2018, we issued guidance to Western Water to inform its price submission. The guidance set out how we will assess Western Water’s submission against the matters we must consider under clause 11 of the WIRO.

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Western Water’s proposed prices.

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.

The 2018 price review is the first we’ve undertaken under our new water pricing approach

In 2014, the Victorian Government reviewed and revised the WIRO. The changes allowed us more flexibility to decide on the pricing approach we use in Victoria’s water sector. In April 2015 we released a consultation paper to start reviewing our pricing approach.

Over 2015, we held a series of workshops and hosted a conference (in November) to hear from stakeholders and explore alternative ways to approach water pricing.

In May 2016, we released a position paper setting out our proposed new pricing approach, and invited submissions. We met with each water corporation and other interested parties to help

Our role and approach to water pricing

Essential Services Commission Western Water draft decision
inform their submissions. Submissions were supportive of the overall proposal, in particular the
greater focus on customer engagement and value.

We finalised our new approach to water pricing in October 2016.\textsuperscript{16}

In November 2016, we issued guidance for the 2018 water price review, which set out how price
submissions should be prepared in accordance with our new approach, including our new PREMO
self-assessment incentive mechanism.\textsuperscript{17}

Given Western Water's unique circumstances in seeking a two year period with prices increasing
by inflation only, our separate guidance prepared for Western Water states that it is not required to
self-assess and give itself a PREMO rating.\textsuperscript{18} Rather we will set Western Water's return on equity
at 4.5 per cent, which reflects the rate of return a 'Standard' corporation would receive under the
PREMO incentive mechanism.\textsuperscript{19}

Our consultation on the pricing approach informed the guidance we issued Western Water in
January 2018, which informs Western Water's price submission for the 2018 water price review.

\textsuperscript{16} For more detail on the new water pricing approach see: Essential Services Commission 2016, \textit{Water Pricing


\textsuperscript{19} Under the PREMO incentive mechanism, return on equity is linked to a water corporation's level of ambition – ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. However, this mechanism does not apply to Western Water in this instance. More information on the PREMO mechanism is available in Essential Services Commission 2016, \textit{2018 Water Price Review, Guidance paper}, November.
2. Our assessment of Western Water’s price submission

Our guidance included a number of matters Western Water must address in its price submission. Our guidance also noted Western Water’s intention for prices to be held at current levels with an allowance for inflation from 1 July 2018 to 30 June 2020.

Our preliminary assessment of these matters is provided in this chapter. We have made our draft decision on Western Water’s price submission after considering: Western Water’s price submission, its responses to our queries, and written submissions from interested parties (a list of submissions is provided in Appendix A).

Any reports, submissions, or correspondence provided to us which are material to our consideration of Western Water’s price submission are available on our website (to the extent the material is not confidential).

Western Water’s price submission generally provided information in accordance with our guidance. Western Water also provided evidence that its engagement sought to capture the main priorities and concerns of customers, and that it has taken this feedback into account (see the customer engagement section on page 6).

Western Water has proposed that prices increase by inflation over the two year period from 1 July 2018. The focus of our review was to verify that Western Water’s forecast revenue did not exceed the calculated revenue requirement derived from our assessment of efficient costs. Providing this criteria was met, we would approve Western Water’s proposed prices.

Western Water must submit a response to our draft decision and provide an updated financial model by 28 May 2018 (via email to water@esc.vic.gov.au). The response will be published on our website. We also invite other interested parties to make a submission.

We intend to make a price determination for Western Water in June 2018.
All financial values referred to in this chapter are in $2017-18.

**Regulatory period**

Western Water proposed a two year regulatory period. Our draft decision accepts Western Water’s proposal as it is consistent with our guidance, which set the term of Western Water’s regulatory period as 1 July 2018 to 30 June 2020.\(^{20}\)

**Customer engagement**

Our guidance required Western Water to engage with customers to inform its price submission.

The engagement by Western Water:

- took place between December 2014 and August 2017
- used a range of methods including online and face-to-face surveys, workshops, focus groups, deliberative forums and developer forums
- sought views from community representatives, business groups, traditional owners, and a community engagement reference group established by the corporation
- covered matters such as water quality, customer service and satisfaction, guaranteed service levels and focus areas for future service improvement.

More detail on Western Water’s engagement is available in its price submission.\(^{21}\)

Evidence that Western Water’s engagement influenced its proposals includes:

- adjusting service targets to reflect feedback from customers about their service priorities
- limiting price increases in response to customer feedback that affordability is a key issue
- increasing on-line functionality in response to feedback from customers about self-serve tools.

The influence of Western Water’s engagement on its proposals supports the objectives in our pricing framework relating to efficiency and the interests of consumers.\(^ {22}\)

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\(^{21}\) Western Water’s price submission is available on our website at [www.esc.vic.gov.au](http://www.esc.vic.gov.au)

\(^{22}\) See for example, WIRO clauses 8(b)(i), 8(b)(ii), 8(b)(iii), 11(d)(iii), and ESC Act Sections 8(1), 8A(1)(a).
Outcomes

The outcomes Western Water proposes to deliver over the two-year period starting 1 July 2018 are:

- fair and affordable charges for all customers
- reliable, safe services to existing and new customers
- innovative approaches to addressing customer needs
- care of the environment, and
- sustainable contribution to the community and regional liveability.

Western Water proposed measures and targets that it will use to report on performance against each outcome. These are set out at page 11 of its price submission. Western Water has committed to report on its performance annually to its customers via its website and bill inserts.

We will engage with Western Water to finalise the measures and targets used to assess performance against its outcomes, and how it will report this publicly. Performance against these measures will inform our assessment during future price reviews.

Guaranteed service levels

Guaranteed service levels (GSLs) define a water corporation’s commitment to deliver a specified level of service. For each GSL, a water corporation commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.

Western Water’s proposed GSLs are set out on page 15 of its price submission. It has made no changes to the hardship GSL, and proposed to increase the rebate on three GSLs relating to service interruptions from $50 to $100. We note that Western Water’s proposed GSLs were informed by the results of customer surveys and the discussion in its focus groups.

We propose to accept Western Water’s proposed GSLs as they were developed in consultation with its customers. Final GSLs will be subject to our consideration of any feedback following the release of this draft decision.

23 Justification for Western Water’s proposed GSLs is set out in its price submission available at www.esc.vic.gov.au.
Revenue requirement

The revenue requirement is the forecast amount a water corporation needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including Environment Protection Authority Victoria and the Department of Health and Human Services. Along with forecast demand, it is an input to calculating prices.\textsuperscript{24}

Western Water proposed a revenue requirement of $160.8 million over a two year period starting 1 July 2018. However, Western Water proposed a price path of inflation increases only and to maintain the $100 annual rebate for customers paying the variable water charge. This resulted in net forecast tariff revenue of $160.5 million, slightly below the calculated revenue requirement.

Our assessment of Western Water’s price submission establishes a notional revenue requirement of $165.2 million, using the building block approach outlined in our guidance (Table 2.1). This is higher than Western Water’s proposal, with our adjustments shown in Table 2.2. The main adjustment between the two figures relates to a higher assumption for regulatory depreciation as discussed from page 22.

Because Western Water’s tariff revenue figure is lower than our calculated notional revenue requirement, our draft decision adopts Western Water’s figure of $160.5 million as the revenue requirement over the two years from 1 July 2018 (Table 2.1).

We note that the difference between our notional revenue requirement and the draft decision revenue requirement represents revenue that will be foregone by Western Water, alleviating pressure on future prices, which we note was the original concern that led Western Water to seek a two year price decision.

Our draft decision on the revenue requirement is set out at Table 2.1.

\textsuperscript{24} We met with officers of the Department of Environment, Land, Water and Planning, Department of Health and Human Services, and Environment Protection Authority Victoria, to discuss their expectations of Western Water in the regulatory period from 1 July 2018. We had regard to their views in our draft decision.
Table 2.1  Draft decision – revenue requirement

$ million 2017-18

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>2019-20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenditure</td>
<td>55.4</td>
<td>55.8</td>
<td>111.2</td>
</tr>
<tr>
<td>Return on assets</td>
<td>18.8</td>
<td>20.7</td>
<td>39.6</td>
</tr>
<tr>
<td>Regulatory depreciation</td>
<td>6.5</td>
<td>8.0</td>
<td>14.5</td>
</tr>
<tr>
<td>Non-prescribed revenue offset</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>of revenue requirement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Notional revenue requirement</strong></td>
<td>80.7</td>
<td>84.4</td>
<td>165.2</td>
</tr>
<tr>
<td>Foregone revenue</td>
<td>-0.9</td>
<td>-3.7</td>
<td>-4.6</td>
</tr>
<tr>
<td><strong>Draft decision – revenue requirement</strong></td>
<td>79.8</td>
<td>80.7</td>
<td>160.5</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

Our final decision will be based on the latest available information. Accordingly, as well as responding to our draft decision and providing an updated price schedule, Western Water must update its revenue requirement and prices to reflect our April 2018 updates to estimates for the cost of debt and inflation.

There may be changes in laws or government policy before we make a price determination. If any such changes occur between the draft decision and the price determination, and impact on the revenue requirement, Western Water should update its price submission and also provide us with an updated financial model. Any updates will be publicly available on our website.
Table 2.2  Adjustments to notional revenue requirement

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>2019-20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed revenue requirement</td>
<td>78.5</td>
<td>82.3</td>
<td>160.8</td>
</tr>
<tr>
<td>Operating expenditure</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.1</td>
<td>0.01</td>
<td>0.1</td>
</tr>
<tr>
<td>Regulatory depreciation</td>
<td>2.0</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>2.2</td>
<td>2.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Notional revenue requirement</td>
<td>80.7</td>
<td>84.4</td>
<td>165.2</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

### Operating expenditure

Operating expenditure is an input to the revenue requirement. Western Water’s forecast operating expenditure is provided at pages 23 to 29 of its price submission.

We assess both:

- controllable costs – those that can be directly or indirectly influenced by a water corporation’s decisions
- non-controllable costs – those that cannot be directly or indirectly influenced by a water corporation’s decisions.

For controllable operating expenditure, our assessment process first confirms an efficient baseline, based on the last year of actual costs prior to our price review (that is, 2016-17). We then consider the forecast costs relative to this baseline, including the proposed efficiency improvement rate and forecast growth, and any proposed cost changes relative to the baseline.

For non-controllable expenditure (including bulk water and sewerage services, government charges and licence fees) we confirm the proposed forecasts, with reference to the relevant regulatory body where appropriate.

Table 2.3 sets out our draft decision on Western Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement (Table 2.1). Details of our assessment and
reasons for our proposed adjustments to Western Water’s proposal follow, with a summary of our adjustments shown at Table 2.4.

The benchmark operating expenditure that we propose to adopt for Western Water does not represent the amount that Western Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain services over the regulatory period.

Table 2.3  Draft decision – operating expenditure
$ million 2017-18

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>2019-20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Controllable costs</strong></td>
<td>41.0</td>
<td>41.2</td>
<td>82.2</td>
</tr>
<tr>
<td><strong>Non-controllable costs</strong></td>
<td>14.4</td>
<td>14.5</td>
<td>29.0</td>
</tr>
<tr>
<td>Bulk services(^a)</td>
<td>11.3</td>
<td>11.5</td>
<td>22.7</td>
</tr>
<tr>
<td>Environmental contribution(^b)</td>
<td>3.0</td>
<td>2.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Licence fees - ESC(^c)</td>
<td>0.048</td>
<td>0.048</td>
<td>0.095</td>
</tr>
<tr>
<td>Licence fees - DHHS(^c)</td>
<td>0.026</td>
<td>0.026</td>
<td>0.053</td>
</tr>
<tr>
<td>Licence fees - EPA(^c)</td>
<td>0.051</td>
<td>0.051</td>
<td>0.102</td>
</tr>
<tr>
<td><strong>Draft decision – operating expenditure</strong></td>
<td>55.4</td>
<td>55.8</td>
<td>111.2</td>
</tr>
</tbody>
</table>

\(^a\) Bulk services covers the supply of bulk water and sewerage services
\(^b\) The Environmental Contribution collects funds from water corporations under the WI Act
\(^c\) Licence fees are paid to cover costs incurred by Department of Health and Human Services, Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water corporation
Note: Numbers have been rounded

Western Water proposed a total forecast controllable operating expenditure of $82.0 million over a two year regulatory period. For the reasons set out below, we propose to increase this by $0.2 million to establish a benchmark controllable operating expenditure of $82.2 million.
Correction to its price submission:

- During our initial assessment of Western Water’s price submission and financial template, we identified incorrect figures had been provided for the 2016-17 baseline year operating expenditure breakdown, which Western Water subsequently corrected. This increased the 2016-17 baseline year total controllable operating expenditure by $0.1 million, resulting in a small increase from $40.4 million to $40.5 million, and a corresponding increase of $0.2 million to the total controllable operating expenditure forecast for the two year period.

Baseline controllable operating expenditure:

- Western Water proposed adjustments to its corrected actual 2016-17 baseline year controllable operating expenditure to remove $1.6 million of non-recurring costs, including consulting expenses, contractor expenses, price submission expenses and other expenses. The resultant figure of $38.9 million is 5.0 per cent lower than the benchmark of $40.8 million allowed for 2016-17 in the previous price determination. We consider this reflects an efficient baseline cost to forecast annual operating expenditure.

Efficiency improvement:

- Western Water’s proposed efficiency improvement rate on controllable operating costs is 4.0 per cent per year for the two year period. This is high compared to the current period (where it proposed 2 per cent, exceeding our mandated 1 per cent efficiency rate), and is the highest rate proposed by any water corporation (although we note Western Water’s efficiency rate only applies for two years, where other water corporations’ efficiency rates apply for five or eight years). Given Western Water’s request for a two year regulatory period to allow it to address cost pressures arising from its unprecedented customer growth, we are surprised it has proposed such a high efficiency improvement rate.

- The efficiency rate is slightly lower than Western Water’s average forecast connection growth rate of 4.2 per cent per year, giving a slightly increasing annual growth-adjusted baseline operating cost.

Proposed cost changes:

- Western Water has sought additional operating expenditure of $2.1 million (2.7 per cent) above the growth-adjusted baseline, comprising:
  - $1.3 million of additional IT costs for the move to cloud hosting services for key administrative software applications, and for increased licence fees for its customer billing software due to customer growth.
  - $0.5 million for additional general corporate expenditure, including increased office rental costs.
– $0.3 million for preparing its next price submission (lower than the $0.5 million removed from the baseline for preparing its current price submission).

- We consider these requested additional costs above the baseline are reasonable new costs to Western Water. We also note that Western Water has proposed to absorb within its growth and efficiency adjusted baseline: increases in electricity prices and consumption, labour costs above inflation, and increases in water treatment and chemical costs.

Western Water’s forecast establishes a benchmark controllable operating expenditure allowance of $41.0 million for 2018-19, which will form the base year for its next price submission. Our assessment of this next submission will compare actual expenditure against this benchmark.

We consider Western Water’s approach to forecasting its operating expenditure is consistent with the requirements of our guidance, and we are satisfied that its proposed forecast, with the $0.2 million adjustment arising from the baseline year correction, represents efficient controllable operating expenditure. Western Water’s proposed forecast will result in a decline (in real terms) in controllable operating expenditure per connection relative to the baseline year, falling well below the average for urban water corporations in our review (Figure 2.1).

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For non-controllable operating expenditure, we have adjusted Western Water’s forecasts where required based on the latest information received from the relevant regulatory authorities on their licence fees and the environmental contribution. The values we have adopted for our draft decision are set out in Table 2.3 above.

For the environment contribution, we have used the 2018-19 to 2019-20 values provided by the Department of Environment, Land, Water and Planning.

We have assumed the licence fees for the Department of Health and Human Services, the Environment Protection Authority Victoria and the Essential Services Commission remain flat in real terms across the period.26

We have verified Western Water’s forecast external bulk water charges against Melbourne Water’s current price determination and those proposed in Southern Rural Water’s price submission.

We have increased Western Water’s forecast non-controllable operating expenditure by $0.078 million across the 2018–20 period, resulting from our adjustments to:

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26 The Department of Health and Human Services and the EPA Victoria provided their latest 2016-17 licence fees for making our draft decision. We have also based our forecast on our 2016-17 commission licence fee.
Our assessment

Essential Services Commission Western Water draft decision

• reduce the Environment Protection Authority Victoria licence fee by $0.002 million per year (a total decrease of $0.005 million)
• set our commission licence fee at $0.048 million per year (in total, a $0.031 million reduction)
• increase the external bulk water charges by $0.114 million in total for the two year period

Overall, non-controllable operating expenditure will increase by $1.4 million from 2017-18 to 2018-19, due primarily to the increase in the environment contribution from $2.4 million to $3.0 million and the increase in external bulk charges from $10.5 million to $11.3 million.

Prior to making our final decision, we will adjust Western Water’s forecast non-controllable operating expenditure for the latest inflation, and any concurrent changes we make to Southern Rural Water’s bulk charges in our final decision and price determination.

Table 2.4 sets out our proposed adjustments to both controllable and non-controllable operating expenditure.

Table 2.4 Adjustments to operating expenditure

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>2019-20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed total operating expenditure</td>
<td>55.3</td>
<td>55.6</td>
<td>110.9</td>
</tr>
<tr>
<td>Model corrections</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Total adjustments to controllable costs</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Licence fees</td>
<td>-0.035</td>
<td>-0.001</td>
<td>-0.036</td>
</tr>
<tr>
<td>Bulk water charges</td>
<td>0.036</td>
<td>0.077</td>
<td>0.114</td>
</tr>
<tr>
<td>Total adjustments to non-controllable costs</td>
<td>0.002</td>
<td>0.076</td>
<td>0.078</td>
</tr>
<tr>
<td>Draft decision – total operating expenditure</td>
<td>55.4</td>
<td>55.8</td>
<td>111.2</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded
Regulatory asset base

The regulatory asset base is used to estimate the return on assets and regulatory depreciation in the revenue requirement. Our guidance required Western Water to propose its:

- closing regulatory asset base at 30 June 2017
- forecast regulatory asset base for each year of the regulatory period from 1 July 2018.

Closing regulatory asset base

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period to 30 June 2017. This helps to ensure prices reflect the actual net expenditure of a water corporation.\(^{27}\)

We compared Western Water's actual net capital expenditure for 2012-13 to 2016-17 with the forecast used to approve maximum prices for the period from 1 July 2013. We undertake a prudency and efficiency review where a water corporation's net capital expenditure is more than 10 per cent above the forecast used to approve maximum prices for the period from 1 July 2013. We believe this approach is reasonable given capital expenditure can be ‘lumpy’ in nature.

Western Water proposed $127.2 million net capital expenditure over the period from 2012-13 to 2016-17. However, Western Water’s submission showed incorrect expenditure (2016-17) and contributions (2013-14, 2015-16, and 2016-17) data, which increased net capital expenditure to $134.2 million after correction. This corrected figure is 17.9 per cent lower than the forecast used to approve maximum prices for the period from 1 July 2013. This is well below the 10 per cent threshold identified above, so we have not undertaken a prudency and efficiency review of its past net capital expenditure.

Other than this correction for past net capital expenditure, Western Water calculated its closing regulatory asset base in accordance with the requirements of our guidance. For these reasons, our draft decision proposes to approve a closing regulatory asset base for 30 June 2017 of $403.6 million.

Table 2.5 sets out our draft decision on Western Water's regulatory asset base at 30 June 2017.

\(^{27}\) Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflects revenue earned from new connections made to the water corporation's water, sewerage or recycled water networks.
Table 2.5  Closing regulatory asset base

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Opening RAB 1 July</td>
<td>299.7</td>
<td>312.5</td>
<td>323.3</td>
<td>330.2</td>
<td>353.2</td>
</tr>
<tr>
<td>Plus gross capital expenditure</td>
<td>26.2</td>
<td>21.0</td>
<td>18.4</td>
<td>36.8</td>
<td>71.0</td>
</tr>
<tr>
<td>Less government contributions</td>
<td>0.0</td>
<td>2.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Less customer contributions</td>
<td>6.2</td>
<td>3.0</td>
<td>6.1</td>
<td>7.9</td>
<td>14.0</td>
</tr>
<tr>
<td>Less proceeds from disposals</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Less regulatory depreciation</td>
<td>6.8</td>
<td>4.7</td>
<td>5.0</td>
<td>5.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Closing RAB 30 June</td>
<td>312.5</td>
<td>323.3</td>
<td>330.2</td>
<td>353.2</td>
<td>403.6</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

Forecast regulatory asset base

The forecast regulatory asset base is calculated having regard to the closing asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Table 2.6 sets out our draft decision on Western Water’s proposed forecast regulatory asset base from 1 July 2018. Later sections provide an overview of our assessment of the components of the forecast regulatory asset base.

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28 Our guidance required Western Water to provide an estimate of the components of its regulatory asset base for 2017-18. This is so we can assess the opening asset base for 1 July 2018. Our guidance noted that where the 2017-18 forecasts for net capital expenditure (gross capital expenditure less government and customer contributions) is lower than the forecast benchmark for that year in its 2013 price determination, the lower amount must be used (otherwise the 2013 determination forecast applies). The estimates for 2017-18 will be confirmed at the price review following the 2018 water price review.
Table 2.6  Forecast regulatory asset base
$ million 2017-18

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
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<tr>
<td>Opening RAB 1 July</td>
<td>403.6</td>
<td>452.6</td>
<td>496.3</td>
</tr>
<tr>
<td>Plus gross capital expenditure</td>
<td>70.4</td>
<td>58.8</td>
<td>72.3</td>
</tr>
<tr>
<td>Less government contributions</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Less customer contributions</td>
<td>13.9</td>
<td>8.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Less proceeds from disposals</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Less regulatory depreciation</td>
<td>7.2</td>
<td>6.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Closing RAB 30 June</td>
<td>452.6</td>
<td>496.3</td>
<td>549.0</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

Capital expenditure

Capital expenditure is an input to estimating the regulatory asset base. Western Water’s forecast capital expenditure and supporting information is provided at pages 30 to 32 and 54 to 62 of its price submission. This is summarised in Figure 2.2, for the current 2013–18 period, and as proposed by the water corporation for the 2018–20 period.
Western Water proposed a total gross capital expenditure of $131.1 million over the two year regulatory period. For the reasons set out below, we have accepted the forecast capital expenditure proposed by Western Water for our draft decision on its revenue requirement.

- As shown in Figure 2.2, Western Water’s annual capital expenditure has risen from approximately $20 million in 2013-14 to an average of about $70 million for the final two years of the current regulatory period (2016-17 and 2017-18). This large step change reflects the significant investment in new infrastructure to support the unprecedented growth across Western Water’s region. Western Water’s proposed 2018–20 forecast for gross capital expenditure of about $131 million is $10 million (7.3 per cent) lower than the expenditure in the preceding two years.

- Western Water’s capital expenditure for 2018–20 is predominantly driven by growth related projects, which total $96.6 million or 73.7 per cent of the total capital expenditure forecast. Western Water’s top five major capital projects form close to half of its forecast growth budget. Western Water noted it had developed its capital program to achieve the optimal balance between investment, ongoing operational expenditure and maintaining reliability. Renewals and improvement investment has been tailored to accommodate the large growth investment required.

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Over the current 2013–18 regulatory period, Western Water is expected to deliver two of its planned major projects, with another two projects delayed but expected to be finished in 2018-19. Due to slower than expected growth, a further two projects were cancelled, one project was delayed and one project was deferred. Western Water noted in its submission that even though there was slower growth in some areas, this was offset by faster growth in others. We consider that Western Water’s top five major projects for 2018–20 are deliverable within their proposed timeframes, as some projects are already underway and the two year period provides greater certainty on timing, scope and costs of projects. In its price submission, Western Water advised it had developed flexible servicing solutions, enabling it to adapt to sequencing changes for land development across its region.

We requested selected documents from Western Water as a representative sample to demonstrate its asset management processes and justification for its capital expenditure program. Based on the sample of documents reviewed, these demonstrate that Western Water has a reasonable approach for developing and managing its capital program. Western Water has used its P50 cost estimates (or slightly lower) from its business cases for its price submission, consistent with our guidance.

Western Water noted that lower priority projects have been excluded from its price submission, reflecting alignment with corporate objectives, business risk and value for money. Western Water has not identified any specific projects or associated costs that have been excluded at this time. This approach is consistent with our guidance for managing uncertain expenditure so that customers are not asked to bear the cost should the project scope or timing change. We note that Western Water will need to demonstrate the prudency and efficiency of any additional costs if they are indeed incurred during the 2018–20 period, if seeking to include them in the regulatory asset base.

We received a late submission that suggested Western Water had underestimated the capital expenditure forecasts for the Aintree pump station and development of the Woodlea precinct. We will explore the points raised in this submission with Western Water prior to making our final decision.

Our draft decision for gross capital expenditure is to accept Western Water's proposed benchmark as set out in Table 2.6.

The benchmark that we adopt for Western Water does not represent the amount that the water corporation is required to spend or allocate to particular capital projects. Rather, it represents

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assumptions about the overall level of capital expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Western Water determines how to best manage the allocation of its revenue and priority of its capital expenditure within a regulatory period.

**Revenue from customer contributions**

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.\(^{32}\)

We compared Western Water’s forecast for customer contributions with past outcomes, and its forecasts for growth in customer connections.\(^{33}\) We consider Western Water’s forecast contributions are reasonable, having regard to past trends and its growth forecasts.

Our draft decision proposes to accept Western Water’s forecasts for customer contributions (see Table 2.6).

**Cost of debt**

Our guidance required Western Water to use estimates of the cost of debt provided by the commission to estimate its revenue requirement. Western Water used the cost of debt values we specified to calculate its revenue requirement. For this reason, our draft decision accepts the cost of debt proposed by Western Water, as set out in Table 2.7.

<table>
<thead>
<tr>
<th>Table 2.7</th>
<th>Trailing average cost of debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of debt (nominal)</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

From 2016, we accepted a ten-year trailing average approach to estimating the benchmark cost of debt, changing from an on-the-day approach. The trailing average approach better aligns the actual cost of debt for an efficient business to the regulated benchmark, compared with an on-the-
We consider the ten year trailing average approach helps to minimise risk to water corporations and provides better incentives for long-term investment.

**Return on equity**

Consistent with our guidance, Western Water was not required to self-assess and give itself a PREMO rating. We will set Western Water’s return on equity at 4.5 per cent per annum (in real terms, after tax). This is similar to the rate allowed for Western Water at its most recent price review (2013), and reflects the rate of return a ‘Standard’ business would receive under the PREMO incentive mechanism. It is also similar to the range of rates set in recent regulatory decisions for the water sector.

**Regulatory depreciation**

Regulatory depreciation is an input to calculating the regulatory asset base. Regulatory depreciation allows a water corporation to recover the cost of investing in assets.

In the past, most water corporations have adopted a straight line depreciation profile. For a particular asset, this means the amount for regulatory depreciation will be the same each year, over the assumed asset life. We noted in our guidance that we prefer straight line depreciation.

We typically allow a water corporation some flexibility to either defer or bring forward the recovery of regulatory depreciation to better reflect asset utilisation, or to smooth prices over the longer term. However, as stated in our guidance, we expect that any proposal to defer or bring forward depreciation in the price submission must be justified.

In its price submission, Western Water proposed lower depreciation to lower its revenue requirement, consistent with its proposed price path for the two year period. Its proposed regulatory depreciation for existing assets is equivalent to a rate of 0.8 per cent per year of its opening regulatory asset base at 1 July 2018. In comparison, the calculated straight line depreciation rate for the current period is equivalent to 1.5 per cent per year.

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34 For more detail on the trailing average and on the day approaches to the cost of debt, see Essential Services Commission 2016, *Water pricing framework and approach*, op. cit., p. 27.

35 Under the PREMO incentive mechanism, return on equity is linked to a water corporation’s level of ambition – ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. However, this mechanism does not apply to Western Water in this instance. More information on the PREMO mechanism is available in Essential Services Commission 2016, *Guidance paper*, November.


37 Ibid.

Western Water’s proposal to recover less depreciation now results in a revenue shortfall to be recovered in the future. Western Water has not provided any information about whether it intends to recover this shortfall and, if so, how. Deferring recovery of depreciation in this way effectively places further pressure on future prices, which we note was the original concern that led Western Water to seek a two year price decision.

Western Water has not provided reasonable justification for taking this approach to customising forecast depreciation to align its revenue requirement with its proposed price path. We propose not to accept its forecast regulatory depreciation.

For our draft decision, we have removed $60 million of capital expenditure from the 2017-18 RAB forecast, which represents assets which are not yet operational. This produces an equivalent forecast straight line depreciation rate of 1.3 per cent on the 1 July 2018 opening RAB (Table 2.6). We have used this rate to calculate Western Water’s forecast depreciation on its existing assets (Table 2.8).

<table>
<thead>
<tr>
<th>Table 2.8 Draft decision – regulatory depreciation</th>
<th>$ million 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Water’s proposed regulatory depreciation</td>
<td>$4.5 $6.0 $10.5</td>
</tr>
<tr>
<td>Adjustment reflecting our revised approach</td>
<td>$2.0 $2.0 $4.0</td>
</tr>
<tr>
<td>Draft decision – regulatory depreciation</td>
<td>$6.5 $8.0 $14.5</td>
</tr>
</tbody>
</table>

Note: Numbers have been rounded

**Tax allowance**

The tax allowance is an input into the revenue requirement. Western Water’s tax allowance is set out in table 18 on page 34 of its price submission, and is also included in its financial model.  

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39 In our guidance, we note that businesses can only earn depreciation once assets become operational. Western Water informed us that it had over $60 million of work-in-progress (not currently operational) assets as of 30 June 2017. We have taken this into account to calculate its regulatory depreciation.

40 For the period from 2018-19 to 2019-20, Western Water proposed tax allowance of zero.
Western Water has proposed no allowance for tax in its revenue requirement. Our draft decision is to accept the forecast as it was calculated consistently with the method required by our guidance.\footnote{41}

**Demand**

Along with the revenue requirement, demand forecasts are an input to calculating prices. Western Water’s demand forecasts are set out at pages 35 to 39 and 53 of its price submission, and are also included in its financial model.

In its price submission Western Water proposed to reduce average residential consumption from 185 litres per day in 2015-16 to 155 litres per day by 2021-22 and based its residential connections forecasts on the latest Victoria In Future population growth forecasts issued by the Victorian Government.

Western Water noted that its forecast is based on the assumption of significant increases in water saving initiatives and smaller block sizes for new households, with more efficient appliances.

We consider that the forecast reductions are optimistic, considering historical average consumption over the third regulatory period was reasonably steady at around 180 litres per day. However, as we are approving a two year pricing period, we propose to monitor actual demand during this period to inform Western Water’s next price review.\footnote{42} For the purpose of our draft decision, we have adopted Western Water’s demand forecasts.

**Form of price control**

Western Water proposed a price cap form of price control. It currently uses a price cap.

Our draft decision is to accept Western Water’s proposed form of price control.

A price cap provides customers with price certainty, and means a water corporation is managing demand risk on behalf of its customers. We consider demand risk is more efficiently managed by a water corporation, rather than its customers.\footnote{43}


\footnote{42} In its 2020 submission Western Water will need to demonstrate that its demand forecasts: represent the best available estimates derived from an appropriate forecasting methodology; and reflect assumptions on the key drivers of demand that are well explained and reasonable.

\footnote{43} We note our determinations will allow water corporations flexibility to apply to change from a price cap to a weighted average price cap or tariff basket within a regulatory period.
**Tariff structures**

Western Water’s proposed tariffs are set out at pages 41 to 44 of its price submission. Western Water proposed to maintain its existing tariff structures. We expected Western Water to propose to continue with its current tariff structures – given its plan to undertake a business review.

Western Water proposed:

- For residential water customers, a two part tariff with a fixed service charge and a variable usage component with a three-tier inclining block, where price increases in the second and third block.
- For non-residential water customers, a two part tariff with a fixed service charge and a variable usage component that depends on water used.
- For residential and non-residential sewerage services, a fixed service charge only.

We received four submissions from Western Water customers, three of which wished to remain anonymous. Two submissions expressed concern that Western Water customers are not charged a variable component as part of the residential sewerage charge.\(^{44,45}\) We consider the variable charge for sewage transfer is difficult for customers to understand, and does not reflect the marginal cost of residential sewage treatment.

One submission suggested that Western Water’s current three-tier inclining block for residential water use unreasonably impacts large properties.\(^{46}\) As noted earlier (page iv), Western Water sought a two year price period, during which time it will consult with customers on tariff restructures, and consider it in developing their next price submission.

**Unique services**

We confirmed with Western Water that its proposed tariffs for recycled water, trade waste and miscellaneous services are calculated in accordance with the pricing principles referenced in our guidance.

**Price and bill levels**

Consistent with our guidance, Western Water has proposed to hold prices at current levels with an allowance for inflation from 1 July 2018 to 30 June 2020.

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From 2014-15, Western Water’s residential customers receiving a bill with water usage charges received an annual rebate of $100. The rebate reflects the outcomes of a government efficiency review, and was to end after 2017-18. However, in seeking a two-year continuance of its existing prices, Western Water proposed to continue to provide the rebate to customers. Our approval of Western Water’s proposed prices is underpinned by its commitment to provide the $100 rebate.

Draft decision on tariff structures

For the reasons set out above, and given the corporation proposed to continue with its existing tariff structures, our draft decision accepts Western Water’s proposed tariff structures as set out from pages 41 to 44 of its price submission.

We propose to approve Western Water’s proposed price increase of inflation only.

Prior to our final decision and price determination, Western Water must provide an update to inflation estimates, which we will provide in late April 2018, and changes to its forecast bulk water charges, arising from changes to Melbourne Water’s prices.

Adjusting prices

Western Water proposed to continue with its existing price adjustment mechanism as set out on page 45 of its price submission.

Our draft decision accepts Western Water’s proposal on its existing mechanisms. We have approved them on the basis that they are consistent with efficiency objectives, and reflect a continuation of current arrangements.

Western Water has not included adjustments to reflect movements in the cost of debt, as set out in our guidance. We requested further information from Western Water. In response, it noted that it will accept a method set by the commission to adjust prices to reflect movements in the cost of debt.

New customer contribution charges

New customer contributions (or developer charges) are levied by water corporations when a new connection is made to its water, sewerage or recycled water networks. New customer contributions can be either standard or negotiated. Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known, while negotiated charges allow water businesses and developers to negotiate a site-specific arrangement.

Western Water’s proposed charges for new customer contributions are set out at page 46 of its price submission. Western Water proposed to continue applying separate standard charges for infill and greenfield connections, with infill being charged at 50 per cent of the standard greenfield
Western Water proposed to transition its existing standard connection charges, over the next two regulatory periods, to a level that reflects the costs the corporation is facing for construction of major new infrastructure to service the high growth occurring in the region.

For standard charges in 2018-19, Western Water proposed a nominal increase (inclusive of inflation) of 13.5 per cent on the 2017-18 charge. Western Water proposed an additional nominal increase in 2019-20 of 20.4 per cent on the proposed charge for 2018-19.

<table>
<thead>
<tr>
<th></th>
<th>Proposed NCC’s per lot</th>
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<tbody>
<tr>
<td></td>
<td>$ Nominal</td>
</tr>
<tr>
<td></td>
<td>Current level</td>
</tr>
<tr>
<td>Greenfield charge</td>
<td>4,316</td>
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<tr>
<td>Infill charge</td>
<td>2,158</td>
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</tbody>
</table>

For negotiated new customer contributions, Western Water proposed to continue to calculate a charge in accordance with the requirements of our new customer contribution pricing principles.

We received a submission from Woodlea on 23 April 2018 which raised several points regarding Western Water’s proposed new customer contributions:

- It questioned Western Water’s forecasts for the number of new lots (see page 46 of Western Water’s price submission). We have reviewed Western Water’s forecasts for the number of new lots, and consider they are consistent with the requirements of our guidance. Specifically, we consider they are consistent with the latest Victoria in Future forecasts for population growth.
- It recommended that the level of Western Water’s customer contribution charges should be brought into line with the Melbourne metropolitan retailers. Our new customer contribution...
principles require water corporations to develop charges that have regard for the estimated incremental costs of a new connection. This estimate varies across water corporations, depending on factors such as the number of customer connections, forecast investment in infrastructure, and offsetting revenue received from new connections. Accordingly, new customer contribution charges will likely be different for each water corporation.

- It stated Western Water is no longer providing recycled water to new developments. We require Western Water address this point as part of its response to our draft decision.

An anonymous submission received by the commission stated that developers should be charged for the full cost of connecting new developments.\(^5^2\) We acknowledge the significant forecast growth and associated costs faced by Western Water, and agree with the need for a shift to a more cost-reflective new customer contribution charge.

However, material provided to the commission by Western Water showed little evidence of consultation with developers about its proposed changes to new customer contribution charges over the two years from 1 July 2018, including developers' views on the timing of the transition to a higher charge.

We seek further submissions from developers on Western Water's proposed transition and proposed increase to charges in 2018-19 and 2019-20. We will consider feedback in our assessment of Western Water's proposal prior to making our final decision.

**Financial position**

In approving prices, we must have regard to the financial viability of the water industry.\(^5^3\) We interpret the financial viability requirements under the *Essential Services Commission Act 2001* (Vic) and the Water Industry Regulatory Order (2014) to mean that the prices we approve should provide a high level of certainty that each water corporation can generate sufficient cash flow to deliver on service commitments, including financing costs arising from investments to meet service expectations.

Western Water’s price submission and the supporting financial model provided estimates for key indicators of financial performance. These estimates were based on Western Water’s assumptions about revenue and expenditure. Our draft decision proposes adjustments to revenue and expenditure. We have reviewed the key indicators of financial performance based on our draft decision. Under our draft decision, we consider Western Water will generate sufficient cash flow to

\(^{52}\) Anonymous 2018, *Submission*, 10 April.

\(^{53}\) WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).
deliver on service commitments, including financing costs arising from investments to meet service expectations.
3. We invite feedback on our draft decision

We invite feedback from stakeholders on our draft decision before we make a final decision and price determination. Our final decision and price determination will be made in June 2018.

Stakeholders may comment on any aspect of our draft decision, including the information we have relied upon in our assessment (such as Western Water’s price submission). Feedback may also cover:

- additional matters or issues we should consider before making our final decision
- whether our draft decision on Western Water’s price submission has adequate regard to the matters in clause 11 of the WIRO and our guidance.

How to provide feedback:

**Provide written comments or submissions**

Written comments or submissions in response to this draft decision are due on 28 May 2018.

We require submissions by this date so we have time to fully consider submissions for our final decision. Comments or submissions received after this date may not be afforded the same weight as submissions received by the due date.


Alternatively, you may send comments and submissions by mail to:

**2018 Water Price Review**

Essential Services Commission

Level 37, 2 Lonsdale Street

Melbourne VIC 3000

We usually make all comments and submissions publicly available in the interests of transparency. If you wish part or all of your submission to be private, please discuss with commission staff.

If you cannot access documents related to our price review, please contact us to make alternative arrangements (phone (03) 9032 1300).
Next steps

Indicative dates are provided below. To keep up-to-date, visit our website at www.esc.vic.gov.au/waterpricereview.

- 28 May 2018 – closing date for submissions on our draft decision.
- June 2018 – release of final decision and price determination.
## APPENDIX A – submissions received

<table>
<thead>
<tr>
<th>Name or organisation</th>
<th>Date received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymous</td>
<td>28 March 2018</td>
</tr>
<tr>
<td>Anonymous</td>
<td>10 April 2018</td>
</tr>
<tr>
<td>Ray Thompson</td>
<td>12 April 2018</td>
</tr>
<tr>
<td>Anonymous</td>
<td>15 April 2018</td>
</tr>
<tr>
<td>Woodlea – real estate developer</td>
<td>23 April 2018</td>
</tr>
</tbody>
</table>