

The Essential Services Commission

The Essential Services Commission is the independent economic regulator of the Victorian Water Industry. The ESC periodically assesses prices put forward by water businesses in a three to five year Water Plan.

ESC Review of Water Plans

Last year Melbourne's water businesses submitted Water Plans which set out the costs facing the businesses over the next four years and the prices they proposed charging customers over that period. Having assessed those proposals the Commission has made a Draft Decision. The Decision includes re-estimates of the costs to manage and develop the metropolitan water network.

A significant operating cost for the three retail businesses are the bulk supply and treatment charges they pay to Melbourne Water. Any changes to Melbourne Water's costs will affect the bulk charges incurred by the retailers.

Capital expenditure

The Commission reviewed capital expenditure forecasts for 2008/09 as well as the four years of the pricing period.

The businesses forecast \$5.2 billion in capital works over the five years. This covers augmentation projects, renewals, growth and conservation initiatives. Independent consultants were employed to provide advice to the Commission on the deliverability, timing and reasonableness of the projects proposed. Their reports are publicly available through the ESC website.

The Commission questioned some of the underlying cost assumptions in the proposals and altered the timing of some projects in its Draft Decision.

Overall, the ESC reduced capital expenditure forecasts by \$85.7 million.

Operating expenditure

The aim of the Commission is to approve a prudent and efficient level of operating expenditure for the pricing period, ensuring that the business has the revenue to run their business as well as meet obligations from the Minister of Water and regulatory bodies.

Independent consultants were engaged to assist the Commission in assessing the appropriateness of the forecasts contained in the Water Plans. In its most significant change, the Commission set a number of input costs to rise at CPI over the period. The businesses' water plans assumed the cost of inputs for such as steel, labour and oil, would run well above CPI. The Commission reassessed these forecasts to reflect changes in market conditions since the Plans were made. The Commission has proposed a 3% reduction in operating costs for Melbourne Water and a 4.5% decrease for the retailers.

Next stage of the process

Businesses will provide their views on the Commission's recommendations and analysis in response to the Draft Decision.

How to get involved

The Commission's Draft Decision is open for consultation until 19 May. A stakeholder forum to gather feedback will be held in mid-May. More information, including material from past price reviews can be found on the Commission's website www.esc.vic.gov.au. Customers and interested parties are encouraged to participate in the price review by making submissions. Written submissions can be sent by email to water@esc.vic.gov.au or posted to Water Price Review, Essential Services Commission, 2/35 Spring Street, Melbourne 3000.

Capital Expenditure 2005-06 to 2012-13 (\$M Jan 2009)

