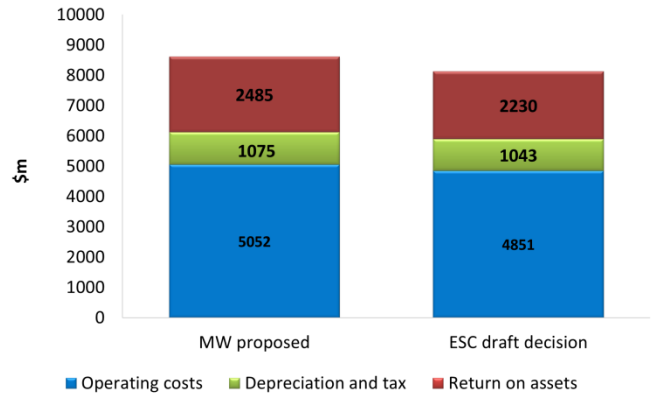


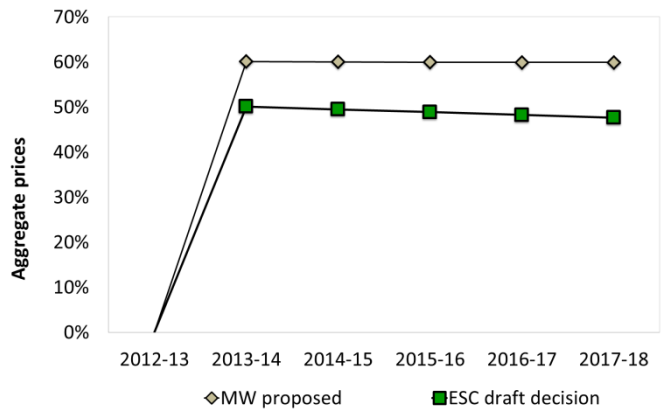
Breakdown of costs**

The ESC's draft decision proposes a reduction of Melbourne Water's costs of 5.7% (or \$489 million) over the five years from 2013-14.



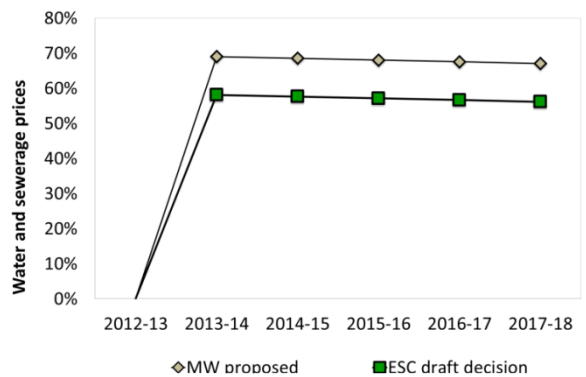
Aggregate prices**

The ESC's draft decision proposes a reduction in average prices of 12.3% in each of the five years from 2013-14.



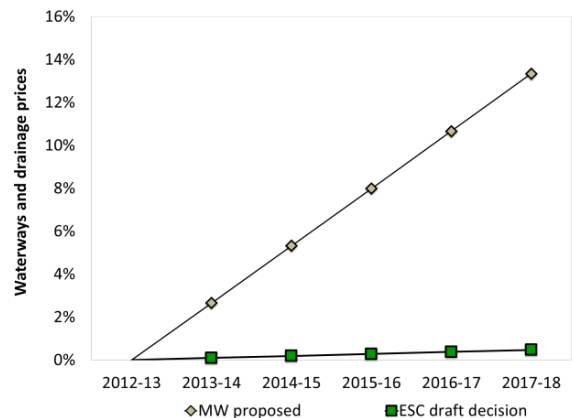
'Water and sewerage' prices**

The ESC's draft decision proposes a reduction in prices of 10.7% in each of the five years from 2013-14.



'Waterways and drainage' prices**

The ESC's draft decision proposes a reduction in average prices of 13.6% in each of the five years from 2013-14.



All numbers presented here are in 2012-13 dollars and do not include future inflation. For further details on this business' pricing decision please visit www.esc.vic.gov.au.
** All comparisons are against businesses' Water Plan proposals.

Key Draft Decision Outcomes

Expenditure

Operating Expenditure

- The preliminary approved operating expenditure by the Commission is \$4.9 billion.
- This is \$201.6 million (4.0 per cent) lower than the proposed expenditure of \$5.1 billion.

Capital Expenditure

- Melbourne Water proposed capital expenditure of \$2.5 billion.
- The Commission's draft decision approved capital expenditure of \$2.4 billion.
- This is \$48 million lower (2 per cent) than the proposed expenditure by the water business.

Victorian Desalination Plant

- The proposals from Melbourne Water and the water retailers in relation to the treatment of costs relating to the Victorian desalination plant is a significant driver of the proposed price increases in the next regulatory period.
- Melbourne Water has proposed that it will pass through in full (via its bulk charges) the security payment it incurs in each year of the regulatory period. In turn, the water retailers have proposed that they recover these costs directly and in full from customers.
- While this arrangement means that the amount recovered from end use customers reflects Melbourne Water's security payment obligations, it does not necessarily take into account whether the stream of costs borne by customers matches the stream of benefits they receive.
- The security payments reflect a 27 year contractual payment profile, after which Melbourne Water will take ownership of the plant. It is expected to have a further 23 year operating life. In other words, the proposed arrangements imply that customer over the next 27 years will pay for a facility that will provide benefits for at least 50 years.
- The Commission is not satisfied that the proposed prices take into account the interests of customers (including low income and vulnerable customers) or provide appropriate incentives and signals to retailers and end-use customers.
- Further, the Commission is not satisfied that Melbourne Water has undertaken adequate consultation with the metropolitan retailers or end-use customers. The Commission is concerned that the metropolitan retailers have not made adequate representation on behalf of, or in the interests of, their customers.
- The Commission requires Melbourne Water to resubmit its proposal for the recovery of its desalination security costs, including an assessment of other available options. The Commission encourages all relevant parties to work together in developing a response to this draft decision.