

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 approving revenue and prices for the water businesses, we assessed the revenue required to operate the businesses and to meet obligations from the Minister for Water and other regulatory bodies.

Revenue requirement – final 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 metropolitan 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).

In our final decision, we have approved Melbourne Water's total revenue requirement of \$4.8 billion for its three year regulatory period (Table 1). The four other water businesses covered in this final 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. Our final decision results in a lower revenue for the water businesses of \$12.1 billion, which is \$1 billion (or 7.6 per cent) lower than that proposed by the businesses. This downward adjustment to the water businesses proposed revenue reflects our assessment of the efficient costs of delivering services.

The major areas of adjustments to the businesses' costs that we have made included: lower financing costs; operating expenditure reductions, e.g., labour, energy, revisions to regulatory and other costs, productivity improvements; reduced or deferred capital programs. By way of comparison, in the last price review, the Commission approved \$8.6 billion for the four water retail businesses.

Overall, the main driver of the reduced revenue requirement for the businesses from the draft decision to the final decision is the impact of changed assumptions regarding the weighted average cost of capital (WACC), and therefore the cost of financing the businesses' proposed capital programs. Table 2 compares each businesses proposed revenue requirement with our final decision.

Table 1. Melbourne Water's Revenue Requirement 2013-14 to 2015-16 – Final Decision (\$2012-13)

	2013-14	2014-15	2015-16	Total	2016-17	2017-18
Final Decision (\$m)	1563.3	1599.1	1623.6	4786.0	1618.9	1643.0

Note: Melbourne Water charges the three retailers (and a lesser extent Western Water), for services to recover its revenue requirement.

Table 2. Metropolitan Water Businesses’ Revenue Requirement – Final Decision (\$2012-13)

Water Business	Proposed	Final decision	Difference	
			\$m	per cent
City West Water	3157.2	2917.5	-239.7	-7.6
South East Water	4560.5	4210.1	-350.4	-7.7
Yarra Valley Water	4936.6	4569.7	-366.9	-7.4
Western Water	405.1	368.4	36.7	-9.1
Total revenue requirement	13059.3	12065.7	-993.6	-7.6

The metropolitan retailers charge end-use customers for services to recover their revenue requirements. In turn, the retailers (including Western Water) pay Melbourne Water for bulk water and sewerage services.

For more information

More information, including material from past price reviews can be found on the Commission’s website www.esc.vic.gov.au.
