

OVERVIEW OF FINAL DECISION ON WATER PRICES

October 2007

- Sixteen Victorian water businesses submitted Water Plans to the Essential Services Commission.
- Water Plans outlined the prices that each business sought to deliver water, sewerage and other related services over the five year pricing period commencing 1 July 2008.
- Average real price increases proposed by businesses ranged between **0.3** and **17.2** per cent each year.

March 2008

- The Commission released its Draft Decision.
- Draft Decision reflected detailed assessment of Water Plans against a number of principles and set out the Commission's position in relation to the businesses' pricing proposals.
- Average real price increases proposed by the Commission ranged between **1.1** and **17.4** per cent each year.

June 2008

- The Commission released its Final Decision.
- Final Decision followed further consideration of businesses' revised pricing proposals submitted in response to the Draft Decision and comments made in public submissions.
- Average real price increases will be between **0.9** and **14.9** per cent each year over the next five years.

The following table compares the Final Decision price outcomes with those initially proposed by the businesses and those released in the Draft Decision.

Comparison of equivalent* average annual real price increases: 2008-09 to 2012-13 (%)

Water Business	Business Proposal	Draft Decision	Final Decision
Urban Businesses			
Barwon Water	10.6	11.5	9.5
Central Highlands Water	11.3	10.9	10.1
Coliban Water	13.1	12.8	12.8
East Gippsland Water	5.4	7.3	6.8
Gippsland Water	17.2	17.4	14.9
Goulburn Valley Water	5.9	8.3	7.7
GWMWater	5.9	7.3	6.6
Lower Murray (urban)	4.1	4.8	4.3
North East Water	8.4	8.5	9.4
South Gippsland Water	4.3	5.9	4.9
Wannon Water	6.1	5.9	6.6
Western Water	10.9	10.0	8.8
Westernport Water	4.7	5.6	4.9
Rural Businesses			
FMIT	6.5	7.7	10.7
Goulburn-Murray	2.2	2.5	1.1
Lower Murray (rural)	0.3	1.1	0.9
Southern Rural	n/a	n/a	6.8

* Actual increases may vary per annum, as some businesses have opted for different price adjustments each year.

Why are water prices increasing?

The key driver behind the water price increases is infrastructure investment. A record level of \$2.5 billion will be spent on capital expenditure across Victoria's urban water systems, including major new supply pipelines, sewerage schemes and wastewater treatment over the next five years.

Fact Sheet 3 provides an overview of the key infrastructure projects and outcomes to be delivered over this period.

Why will average price increases be generally in line with those proposed by businesses?

A number of factors have resulted in prices being broadly in line with those initially proposed by the businesses in their Water Plans namely:

- A slightly higher rate of return on assets that reflects recent financial market conditions. Businesses will earn a return of 5.8 per cent compared to initial proposals of 5.1 per cent.
- Adjustments to the businesses' capital and operating expenditure forecasts. These adjustments reflect the Commission's assessment of whether expenditure proposals are efficient and whether projects are feasible within the five year timeframe.

Why will price increases generally be lower than those proposed in the Draft Decision?

- Changes in financial market conditions since the Draft Decision have resulted in the rate of return on assets being decreased slightly from 6.1 to 5.8 per cent.
- Reduction in capital expenditure following the assessment of further information provided by businesses justifying their expenditure proposals.
- Revisions in forecast demand have resulted in changes to expenditure and the prices required to recover revenue over the regulatory period.

The exceptions are Coliban Water, FMIT, North East Water, and Wannon Water.