

Western Water final decision

2020 Water Price Review

10 June 2020

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Summary

We have made a final decision on the maximum prices Western Water may charge for the three-year period starting 1 July 2020

In March 2020, we released our draft decision on Western Water's price submission.¹ Our draft decision proposed not to accept Western Water's proposed prices. Our assessment of Western Water's price submission found it did not have adequate regard to the matters specified in clause 11 of the Water Industry Regulatory Order (WIRO) or comply with our guidance in many instances. The draft decision invited interested parties to make further submissions.

Western Water responded to our draft decision in April 2020.² We consider its response materially addressed the issues raised in our draft decision, and we acknowledge Western Water has been able to do so in a short time frame, while managing its response to the coronavirus pandemic. Western Water also noted it had considered the impact of the coronavirus and, in particular, how the pandemic had affected its customers.

We received no other submissions in response to our draft decision.

We have made a price determination for Western Water.³ The price determination sets out the maximum prices Western Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the three-year period from 1 July 2020 (2020–23). This final decision paper sets out our supporting reasons and analysis.

Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision accepts the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

¹ Clause 16 of the Water Industry Regulatory Order 2014 requires us to issue a draft decision. Western Water's price submission and our draft decision are available at www.esc.vic.gov.au/waterpricereview.

² Western Water 2020, Draft Decision Response, April. The response is available on our website at www.esc.vic.gov.au/waterpricereview.

³ Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water corporation may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission 2020, Western Water Determination: 1 July 2020 – 30 June 2023, June.

On average, Western Water’s prices will remain steady in 2020-21 and then increase by around four per cent in each of the following two years

A summary of approved maximum prices for major services delivered by Western Water is set out on page 29. The estimated typical bills for residential customer groups under our final decision are provided in Table A. In 2020-21, the estimated typical annual bill for a residential customer will remain steady (in real \$2020-21 terms).

**Table A Estimated typical water and sewerage bills
\$ 2020-21**

Customer group	Average consumption (kL p.a.)	2019-20 annual bill	2020-21 annual bill	2021-22 annual bill	2022-23 annual bill
Residential (owner occupier)	180	\$1,041**	\$1,041	\$1,083	\$1,127
Residential (tenant)*	180	\$249	\$249	\$284	\$321

Notes: *Tenant bill includes rebates of \$105.51 (2019-20 and 2020-21), \$90.44 (2021-22) and \$75.37 (2022-23);

**2019-20 owner occupier bill includes a rebate of \$105.51.

Numbers have been rounded

Western Water’s price increases are driven by the need to invest in new infrastructure to accommodate the significant population growth in its region, and to maintain water and sewerage services for all customers. Western Water’s response to our draft decision notes that it has focused on minimising price increases in the first year, in response to the coronavirus pandemic. When making this decision, we have considered the interests of consumers, including low income and vulnerable customers.⁴ We consider that Western Water’s decision to minimise price increases in the first year of its three-year regulatory period (2020-21) because of the coronavirus pandemic is in the interests of consumers, particularly low income and vulnerable customers.

Our final decision will allow Western Water to invest in key services

Our final decision approves a revenue requirement of \$301.9 million over the three-year period starting 1 July 2020. This is \$11.2 million above the \$290.7 million revenue requirement in our draft decision, and mainly reflects increases in the benchmarks adopted for return on assets and regulatory depreciation (and to a lesser extent operating expenditure), partly offset by a reduction

⁴ Noting this is a principle we must have regard to under the WIRO, clause 11(d)(iii).

in the forecast tax allowance. The increase in return on assets was mainly due to an update to the inflation assumptions we have made since the release of our draft decision.

Our final decision will allow Western Water to deliver on its customer service commitments, government policy, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health and Human Services. Informed by its customer engagement, some of the other key outcomes Western Water will seek to deliver include:

- fair and affordable charges
- reliable, safe services
- innovative approaches to addressing customer needs
- care for the environment
- sustainable contributions to the community and regional liveability.

Tariff structures will generally remain the same

Our final decision approves Western Water's tariff proposals set out in its response to our draft decision. For tariffs relating to the residential water service, we have approved a fixed component and a variable component that depends on water used. We have approved Western Water's proposal to increase the price (by just under two per cent per year) for the third tier of its inclining block tariff which applies to the variable tariff component for residential customers – this is consistent with customers' preferences to promote water conservation. For the residential sewerage service, customers will continue to be charged a fixed component only.

We have also approved Western Water's proposal (in its response to our draft decision) to charge residential and non-residential customers a uniform price for the fixed tariff component of its water and sewerage services (for equivalent services).

We have lowered the return on equity

We did not consider Western Water's price submission met the requirements set out in our guidance, and therefore did not qualify to receive a return on equity of 4.5 per cent, equivalent to a 'Standard' rated water corporation. Our draft decision noted Western Water's performance on the Management and Risk elements of PREMO was well below expectations for a 'Standard' price submission. Our draft decision proposed to set the return on equity at 3.9 per cent (in real terms, after tax), which is the minimum return for a water corporation established for our 2018 water price review.

We consider Western Water's response to our draft decision has addressed the concerns we raised with regard to not meeting the Risk element requirements, relating in particular to its tariff proposal, expenditure forecasts and demand forecasts.

However, the return on equity for our final decision will remain at the reduced value of 3.9 per cent, reflecting our expectation under the PREMO framework for a water corporation to put its best proposal forward in the first instance.

Our PREMO rating is an assessment of the water corporation's price submission. It is not an assessment of the water corporation itself.

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 (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 three water corporations propose to charge customers from 1 July 2020

We are reviewing prices for two urban water corporations (South Gippsland Water and Western Water) and one rural water corporation (Goulburn-Murray Water).⁵

Our review of the prices proposed by the two urban water corporations covers the prescribed services listed in the WIRO.⁶ We consider that the prescribed services provided by Western Water which comprise a retail water service, a retail sewerage service, a trade waste service, services to which developer charges apply, and a retail recycled water service as defined in the WIRO, are each a single service encompassing different price components to which different tariffs apply.

In November 2019, Western Water provided a submission to us proposing prices for a three-year period starting 1 July 2020. Our task is to assess the price submission against the legal framework and make a price determination that takes effect from 1 July 2020.

Our price determination outlines the maximum prices Western Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. This final decision paper 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 making a price determination we have regard to each of the matters required by clause 11 of the WIRO, including:

⁵ Goulburn-Murray Water's price submission is assessed against the Commonwealth Government's Water Charge (Infrastructure) Rules (WCIR) as well as against the WIRO.

⁶ The prescribed services are listed at clause 7(b) of the WIRO.

- 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 section 8 of the ESC Act and section 4C of the WI Act. We are also required to place emphasis on matters relating to efficiency set out in section 8A of the ESC Act.
- the matters specified in our guidance⁷
- 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.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so in this final decision.

In December 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.⁸

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.⁹

The power for water corporations to impose fees is set out in the Water Act 1989 (Water Act). Provisions in the Water Act also govern the manner in which water corporations may impose fees, and it is for each water corporation to ensure that it complies with them.¹⁰

PREMO and Western Water's 2020 water price review

In 2018 we conducted our first price review under a new pricing approach called PREMO. The PREMO pricing approach ties water corporations' performance on each of the PREMO elements

⁷ Essential Services Commission 2018, Western Water's 2020 water price review, final guidance paper, December.

⁸ This is a requirement of the WIRO, clause 14(b).

⁹ This is provided for under the WIRO, clause 14(b)(i).

¹⁰ See Part 13, Division 5 of the Water Act 1989 (Vic).

(Performance, Risk, Engagement, Management and Outcomes) to their return on equity. This incentive mechanism places customers at the centre by encouraging greater focus on customer engagement and value.¹¹

At the 2018 price review, Western Water received a decision setting prices for a two-year period and was required to submit a new price submission for a new three-year period from 1 July 2020 to 30 June 2023.¹²

In December 2018 we issued new guidance to Western Water for its 2020 price review. While still following PREMO, this guidance specified that Western Water is not required to self-assess and give itself a PREMO rating.¹³ Rather we said we would 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, if its price submission met the requirements of our guidance.¹⁴

Our consultation on the pricing approach informed the guidance we issued Western Water in December 2018, which informs Western Water's price submission for the 2020 water price review.

¹¹ For more detail on the PREMO water pricing approach see: Essential Services Commission 2016, Water Pricing Framework and Approach: Implementing PREMO from 2018, October.

¹² Our decision to set a two-year period is explained in our final decision paper from the 2018 price review. See Essential Service Commission 2018, Western Water final decision: 2018 Water Price Review, 19 June, p. 5.

¹³ Essential Services Commission 2018, final guidance paper, op. cit., p. 2.

¹⁴ 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, 2018 Water Price Review, Guidance paper, November.

2. Our assessment of Western Water's price submission

We have made our price determination for Western Water after considering Western Water's price submission, its responses to our queries and our draft decision, and written submissions from interested parties.

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 content is not confidential.

In-person consultation on our draft decision was cancelled due to social distancing regulations imposed by the Federal and Victorian Governments in response to the COVID-19 pandemic. Instead of holding an in-person public forum, the commission held a virtual public forum on Engage Victoria's website. The virtual forum was an avenue for stakeholders to ask the commission questions and for the commission to provide feedback in a timely manner. The commission also invited written submissions to its draft decision.

Other than Western Water's response, we received no other submissions in response to our draft decision.

Our guidance included a number of matters Western Water must address in its price submission. Our draft decision noted that we considered Western Water's price submission did not have adequate regard to the matters specified in clause 11 of the WIRO, or comply with our guidance in many instances. Our draft decision identified where, in our opinion, Western Water's price submission does not comply with clause 11 or meet the requirements of our guidance.

Consequently, our draft decision did not accept many of the proposals in Western Water's price submission, and we did not accept its proposed tariff structures or prices. We required Western Water to re-submit its proposed prices, along with appropriate supporting evidence consistent with our guidance and the WIRO. Our final decision is set out below.

All financial values referred to in this chapter are in \$2019-20, unless indicated otherwise.

Regulatory period

Our guidance set a regulatory period of three years, from 2020-21 to 2022-23.¹⁵ Western Water's price submission is consistent with this requirement. Accordingly, our final decision sets the term for Western Water's regulatory period as 1 July 2020 to 30 June 2023.

Final decision on regulatory period

We have set the term for Western Water's regulatory period as 1 July 2020 to 30 June 2023.

Customer engagement

Our guidance required Western Water to engage with customers to inform its price submission. The engagement by Western Water:

- built on its engagement for the 2018 price submission
- used a range of methods including online and face-to-face surveys, in-depth interviews, workshops with interest groups, focus groups, developer forums and deliberative forums
- sought views from community representatives including advocates of vulnerable customers, business groups, traditional owners, and a community engagement reference group established by the corporation
- covered matters such as residential tariffs, customer willingness to pay for a real price increase, 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.¹⁶

Western Water provided evidence that its engagement influenced the proposals in its price submission in relation to service standards and guaranteed service levels. We discussed these matters in our draft decision. We consider the insights from Western Water's engagement also informed its response to our draft decision, including its revised tariff proposals (see pages 26 to 29).

We consider the influence of Western Water's engagement on its proposals supports the objectives in our pricing framework relating to efficiency and interests of consumers.¹⁷

¹⁵ Essential Services Commission 2018, final guidance paper, op. cit., p. 11.

¹⁶ Western Water 2019, Price Submission 2020-23 – Western Water, 15 November.

¹⁷ 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

Western Water retained the outcomes it committed to in its 2018 price submission, however it has reviewed and updated the associated measures and targets. These outcomes it proposes to continue to deliver for the next regulatory period starting 1 July 2020 are to:

- have fair and affordable charges
- provide reliable, safe services
- provide innovative approaches to addressing customer needs
- care for the environment
- provide sustainable contributions to the community and regional liveability.

More details on Western Water's proposed outcomes, measures and targets are provided on pages 17 to 19 of its 2020 price submission.

Our draft decision considered that Western Water's proposed set of outcomes and the revised measures and targets are consistent with the guidance.

We received no submissions in response to our draft decision that cause us to change our view on Western Water's proposed outcomes. We will engage with Western Water to ensure it captures its proposed changes to its outcomes commitments when it prepares its summary outcomes report for the 2019-20 reporting year. Its performance will inform our assessment during future price reviews as part of the Performance element of PREMO assessments.¹⁸

Service standards

Western Water submitted a list of service standards relating to reliability and attending faults that it will include in its customer charter. These service standards and Western Water's specified targets until 2023 are set out in Appendix C.

We note that Western Water has maintained the services standards and targets approved as part of the 2018 water price review. We accept the argument for maintaining these service levels as the service standards and targets were informed by its engagement. This approach aligns with our expectation that water corporations consider customer preferences.

¹⁸ Note that we do not approve proposed outcomes and their targets. These are regulated and monitored as part of the Performance assessments undertaken under PREMO.

Final decision on service standards

Approved service standards relating to reliability and attending faults are set out in Appendix C and form part of the manner in which Western Water's services are regulated.

We will revise the customer service code for urban water businesses to reflect this final decision on the service standards and targets.¹⁹

Guaranteed service levels

Guaranteed service levels define a water corporation's commitment to deliver a specified level of service. For each guaranteed service level, 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. We expect water corporations to include a guaranteed service level schedule in their customer charter.

Western Water's proposed guaranteed service levels are set out on page 21 of its price submission.

In our draft decision we noted that Western Water reviewed its guaranteed service levels via customer surveys and a poll. We considered the proposed guaranteed service levels were objectively defined and easily understandable and reflect the most important aspects of service delivery identified by customers, as required by our guidance. No other new considerations were raised in response to our draft decision.

For the reasons set out above, our final decision approves Western Water's proposed guaranteed service levels.

Final decision on guaranteed service levels

Western Water's approved guaranteed service levels are set out in Appendix D.

Western Water's commitment to guaranteed service level payments should these service levels not be met, forms part of the manner in which Western Water's services are regulated.

We will revise the customer service code for urban water businesses to reflect this final decision on guaranteed service levels.²⁰

¹⁹ Essential Services Commission 2018, Customer service code: urban water businesses, August.

²⁰ Essential Services Commission 2018, Customer service code: urban water businesses, August.

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.²¹

Our draft decision adopted a revenue requirement of \$290.7 million over a three-year period starting 1 July 2020. Our final decision approves a higher revenue requirement of \$301.9 million. This reflects our final decision on each element of the revenue requirement, as set out in Table 2.1.

The increase for our final decision is mainly due to increases in regulatory depreciation and the return on assets (impacted by a reduction to the forecast inflation).²² These increases were partly offset by a reduction in the benchmark for the tax allowance. Adjustments to the revenue requirement since our draft decision are set out at Table 2.2, with the reasons explained in the following sections.

Final decision on revenue requirement

Western Water's approved revenue requirement is \$301.9 million, as set out at Table 2.1.

²¹ We received input from 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 2020. We had regard to their views in our draft decision. It is the water corporation's responsibility to ensure it has priced accordingly to meet all its legislative and regulatory obligations and requirements during the pricing period.

²² We have estimated a forecast inflation of 1.7 per cent based on the midpoint of the 'Reserve Bank of Australia (RBA) geometric' and 'bond breakeven' inflation rates to reflect the latest economic outlook. The 'RBA geometric' inflation rate is the RBA forecast consumer price index inflation rate one and two years ahead and the midpoint of the RBA target inflation band of two to three per cent from three to 10 years ahead. The 'bond breakeven' inflation rate is implied by the difference between the yields on 10-year nominal and indexed (inflation-linked) Commonwealth Government Securities.

Table 2.1 Final decision revenue requirement
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Operating expenditure	61.4	63.1	64.2	188.7
Return on assets	21.1	23.2	25.7	69.9
Regulatory depreciation	13.0	13.4	15.2	41.6
Non-prescribed revenue offset of revenue requirement	-0.1	-0.1	-0.1	-0.2
Tax allowance	1.3	0.5	0.0	1.9
Final decision revenue requirement	96.7	100.2	105.0	301.9

Note: numbers have been rounded.

Table 2.2 Adjustments to draft decision revenue requirement
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Draft decision 'notional' revenue requirement	93.9	96.7	100.1	290.7
– Operating expenditure	1.0	0.8	0.7	2.5
– Return on assets	2.2	2.3	2.4	6.9
– Regulatory depreciation	5.7	4.5	4.0	14.2
– Non-prescribed revenue offset of revenue requirement	0.002	0.002	0.002	0.005
– Tax allowance	-6.1	-4.1	-2.2	-12.4
– Total adjustments	2.8	3.5	4.9	11.2
Final decision revenue requirement	96.7	100.2	105.0	301.9

Note: numbers have been rounded.

Operating expenditure

Operating expenditure is an input to the revenue requirement. Operating expenditure reflects recurrent costs that can be fully allocated to a single year (such as labour or maintenance). This contrasts with capital expenditure which is up-front costs for assets that are used over many years (such as water meters or treatment plants).

Our assessment

Our draft decision

Our draft decision proposed to adopt a \$186.2 million benchmark for Western Water's forecast controllable operating costs for the 2020–23 period.²³ This was \$5.9 million lower than proposed by Western Water. In summary, our draft decision proposed the following adjustments to Western Water's forecasts:

- \$2.0 million in cost variations for IT software should be removed.
- \$0.53 million of additional labour costs to cover wage increases above the Victorian Government wages policies should be removed.
- Corporate costs should be reduced by \$2.4 million. There was little explanation for why Western Water's corporate costs were forecast to increase significantly above the net growth-efficiency factor over the regulatory period.
- Expenditure across a number of other cost variations proposed by Western Water should be reduced by \$0.8 million.

We forecasted \$48.5 million for Western Water's non-controllable operating costs for the 2020–23 period.²⁴ We noted in our draft decision that we would update this forecast for our final decision, and also adjust for the latest inflation and external bulk charges data.

Western Water's response to our draft decision

Western Water did not accept our proposed changes to its labour, IT and corporate costs in its response to our draft decision, and provided further information on these costs. Western Water accepted all other adjustments to operating expenditure that we made in our draft decision.

Labour

In its response to our draft decision, Western Water did not reduce its labour costs.

At the expiry of its current enterprise bargaining agreement, Western Water intends to make a wage growth offer to its employees of three per cent per year. Western Water has also included an additional one per cent on top of this for end of salary band progressions and performance payments. This brings the proposed wage increases to an equivalent of four per cent, which is two percentage points higher than the amount mandated by the Victorian Government's wages policy.

²³ Controllable costs are those that can be directly or indirectly influenced by a water corporation's decisions.

²⁴ Non-controllable costs are those that cannot be directly or indirectly influenced by a water corporation's decisions.

Western Water submitted that the wage increase is in line with the VPS wages policy, and the proposed increase in labour costs above the VPS wages policy growth rate of two per cent would be funded through cost saving measures.

Western Water also submitted that it had not sought a cost variation for the wage increases above the Victorian Government's wages policy.

Information technology

In response to our draft decision Western Water reviewed IT cost variations and proposed to reduce the variation sought from \$2.03 million to \$0.96 million. This decrease in the proposed variation to a large extent reflects expenditures that, after review, were identified as being part of base year expenditures. Western Water also provided further information on the expenditures included as part of the proposed variation. The IT cost variation was not for a single large IT transformation project; rather it reflected a number of smaller software purchases.

Corporate costs

Western water did not accept our draft decision to reduce its corporate costs. Western Water submitted that the increase in corporate costs was due largely to its operating expenditure cost variations.

Final decision

After reviewing the further information provided by Western Water, we have accepted its forecast corporate costs, but rejected its forecasts for wage growth and IT costs.

Labour

Our final decision is to uphold our draft decision to remove \$0.53 million from Western Water's proposed operating for wage growth.

In our draft decision, we reduced the amount included in Western Water's operating expenditure for wage growth because Western Water had not demonstrated that a wage increase above two per cent reflected efficient expenditures.

The Victorian Government's wage policy is to limit wage increases to two per cent per annum. In addition to this as part of its review of Western Water's expenditures, Deloitte observed that wage growth of four per cent per annum is excessive compared to wage growth observed across the Australian economy.

In its response to our draft decision, Western Water did not provide any evidence to explain the discrepancy between its forecast wage growth and wage growth across the Australian economy.

After receiving Western Water’s proposal we asked why wage growth above two per cent is reasonable given that COVID-19 is expected to lead to significantly lower wage growth. Western Water stated wage increases above two per cent were required to bargain for other measures that would lead to cost efficiencies such as fewer additional FTE’s and lower overtime expenditure.

We do not consider that a forecast wage increase above two per cent would reflect efficient costs given the current economic conditions. Wage growth and inflation in Australia are likely to be below two per cent during the period 2020–23. As a result, we consider a wage increase of two per cent per annum is likely to be generous.

IT costs

In our draft decision, we did not accept Western Water’s IT cost variation for an additional \$2.0 million. We noted over recent years Western Water’s IT expenditures have increased significantly and from the IT cost information provided by Western Water it was not clear what costs were part of the variation and what were already included in baseline expenditure.

In response to our draft decision, Western Water reviewed its IT costs and reduced the proposed variation by 47 per cent. It also identified that the remaining projects were not part of baseline operating expenditure. Western Water’s updated IT cost variation was made up of six smaller projects. The updated IT cost variation accounts for less than 0.7 per cent of Western Water’s controllable operating expenditure.

None of the projects in the IT cost variation, with the possible exception of the VendorPanel subscription (\$30,000 over the 2020–23 period), appear to be driven by new or increased regulatory or legislative requirements. The most significant project (the Land Development System) is largely driven by growth. The remainder of the projects are relatively minor in nature, with only one other project (Technology One – Finance One) involving more than \$60,000 of expenditure over the regulatory period.

As these expenditures are either immaterial costs, or largely driven by growth and therefore included in the growth allowance, we do not consider an operating expenditure forecast including a cost variation for these items would reflect efficient expenditure. Our final decision upholds our draft decision to exclude the proposed additional IT costs.

Corporate costs

In our draft decision we made a variation to reduce corporate costs by \$2.4 million because Western Water did not provide enough information to show the efficiency of the large increase in corporate expenditure we observed in the forecasts for the 2020–23 period.

In response to our draft decision, Western Water provided further information on the breakdown of the forecast increase in corporate costs. In particular, Western Water provided evidence that once

cost variations are accounted for, its increase in corporate costs is roughly in line with its net growth-efficiency factor.

On consideration of this new information our final decision is to reinstate the \$2.4 million we removed in our draft decision, consistent with Western Water's initial price submission.

Non-controllable operating expenditure

For non-controllable operating expenditure, we have revised our draft decision forecasts where required based on the latest March 2020 inflation and external bulk charges information. We have revised our forecast environmental contribution from our draft decision and made no changes to forecast licence fees or external bulk charges.²⁵

Based on the latest inflation data, we have revised the forecast environmental contribution which results in a total increase to non-controllable operating expenditure of \$0.11 million across the 2020–23 period.

Final decision benchmarks

We have adopted the benchmark for operating expenditure set out in Table 2.3 for the purpose of making our final decision on Western Water's revenue requirement (Table 2.1). We consider our final decision for Western Water's forecast operating expenditure is consistent with the requirements of the Water Industry Regulatory Order 2014 (WIRO) and the criteria for prudent and efficient expenditure outlined in our guidance.²⁶ Table 2.4 sets out the adjustments to the benchmarks for operating expenditure comparing our final decision to the draft decision.

The benchmark operating expenditure that we have adopted 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 provide services over the regulatory period.

Final decision on operating expenditure

Our final decision adopts the operating expenditure set out at Table 2.3.

²⁵ For the environmental contribution, we have used the 2018-19 value provided by the Department of Environment, Land, Water and Planning and assumed that this will remain flat in nominal terms (decline in real terms) across the 2020–23 regulatory period.

²⁶ Essential Services Commission 2018, final guidance paper, op. cit., p. 21.

Table 2.3 Final decision – operating expenditure
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Controllable costs	45.3	47.1	47.6	140.0
Non-controllable costs	16.0	16.0	16.6	48.6
Bulk services ^a	12.9	12.9	13.5	39.3
Environmental contribution ^b	3.0	3.0	2.9	8.9
Licence fees – ESC ^c	0.039	0.039	0.058	0.135
Licence fees – DHHS ^c	0.027	0.027	0.027	0.081
Licence fees – EPA ^c	0.054	0.054	0.053	0.161
Final decision – total operating expenditure	61.4	63.1	64.2	188.7

^a Bulk services covers the supply of bulk water and sewerage services

^b The Environmental Contribution collects funds from water corporations under the *Water Industry Act 1994* (Vic)

^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.

Table 2.4 Adjustments to operating expenditure
\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Draft decision – total operating expenditure	60.3	62.3	63.5	186.2
Corporate cost adjustment	1.02	0.75	0.62	2.40
Updates to controllable costs	1.02	0.75	0.62	2.40
Environmental contribution	0.02	0.04	0.05	0.11
Updates to non-controllable costs	0.02	0.04	0.05	0.11
Final decision – total operating expenditure	61.4	63.1	64.2	188.7

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 2019
- forecast regulatory asset base for each year of the regulatory period from 1 July 2020.

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 2019. This helps to ensure prices reflect the actual net expenditure of a water corporation.²⁷

Our draft decision approved Western Water’s proposed closing regulatory asset base for 30 June 2019 of \$501.7 million, as it was calculated in accordance with the requirements of our guidance.

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.

No new considerations were presented in submissions received following the draft decision which caused us to change our views on the closing regulatory asset base. Our final decision approves a closing regulatory asset base at 30 June 2019 of \$501.7 million (Table 2.5).

Final decision on closing regulatory asset base

Our final decision approves a closing regulatory asset base for 30 June 2019 of \$501.7 million.

Table 2.5 Closing regulatory asset base
\$ million 2019-20

	2017-18	2018-19
Opening RAB 1 July	416.8	458.4
Plus gross capital expenditure	64.8	71.0
Less government contributions	0.0	0.0
Less customer contributions	15.2	20.4
Less proceeds from disposals	0.5	0.5
Less regulatory depreciation	7.4	6.7
Closing RAB 30 June	458.4	501.7

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 final decision on Western Water's forecast regulatory asset base from 1 July 2020. Each element of the forecast regulatory asset base is discussed below.

Final decision on forecast regulatory asset base

Our final decision approves a forecast regulatory asset base as set out at Table 2.6.

Table 2.6 Forecast regulatory asset base
\$ million 2019-20

	2019-20	2020-21	2021-22	2022-23
Opening RAB 1 July	501.7	539.5	593.1	654.8
Plus gross capital expenditure	74.7	90.3	93.7	98.3
Less government contributions	0.0	0.0	0.0	0.0
Less customer contributions	27.8	23.0	17.7	12.5
Less proceeds from disposals	0.8	0.8	0.8	0.8
Less regulatory depreciation	8.3	13.0	13.4	15.2
Closing RAB 30 June	539.5	593.1	654.8	724.5

Note: numbers have been rounded.

Capital expenditure

Capital expenditure is an input to estimating the regulatory asset base. In our draft decision we proposed to reduce Western Water’s gross capital expenditure forecast of \$283.8 million for the 2018–23 period to \$278.8 million.

This reduction was based on recommendations made to us by Deloitte Access Economics. We engaged Deloitte to provide expert advice to inform our assessment of capital expenditure. Deloitte’s assessment report is available on our website.²⁸

Deloitte reviewed Western Water’s five largest capital expenditure projects and programs and recommended we make adjustments to two:

- the Melton Recycled Water Plant additional on-site recycled water storage
- the Sewer Spill Prevention Strategy – sewer relining program.

Western Water’s response to our draft decision

In its response to our draft decision, Western Water accepted our adjustment to its Sewer Spill Prevention Strategy, but submitted that the originally proposed budget for the Melton Recycled Water Plant storage project represented prudent and efficient expenditure. Western Water provided further information demonstrating the prudence of the project.

²⁸ Deloitte Access Economics 2020, Expenditure review – Western Water, February.

No other submissions were made on capital expenditure following our draft decision.

Final decision

In our draft decision we reduced the allowance for Western Water's Melton Recycled Water Plant storage project on the basis that a recycled water storage of a similar size, as part of the same irrigation network project, would be constructed at significantly lower cost. We reduced Western Water's capital expenditure to reflect the cost Western Water would incur if it built the storage at the other site (Balliang).

In its response to our draft decision, Western Water submitted that the storage at Balliang would not be a suitable replacement. When the Western Irrigation Network was approved, planning had already commenced on the Melton recycled water storage. This meant the Melton storage could be completed in time to comply with EPA licence conditions by June 2022. The same could not be said for the Balliang storage because planning, land purchases, and approvals had not yet started.

Additional information provided by Western Water demonstrated that if work had been stopped on the Melton storage and started on the Balliang storage when the Western Irrigation Network was approved, Western Water would not have been able to comply with EPA licence conditions on discharge of recycled water by June 2022.

Accordingly, we have adopted the gross capital expenditure benchmark proposed in our draft decision, amended to include the initial proposed amount for the Melton Recycled Water Plant storage project, for our final decision (Table 2.7). We consider this benchmark is consistent with our guidance and WIRO principles, and is used to calculate our final decision on Western Water's forecast regulatory asset base (Table 2.6) and its revenue requirement (Table 2.1).²⁹

Final decision on capital expenditure

Our final decision adopts the capital expenditure forecasts set out at Table 2.7.

²⁹ Essential Services Commission 2016, Guidance Paper, op. cit., p. 35; WIRO clause 8(b).

Table 2.7 Final decision – Gross capital expenditure

\$ million 2019-20

	2020-21	2021-22	2022-23	Total
Draft decision – gross capital expenditure	89.1	92.5	97.1	278.8
Melton Recycled Water Plant storage project	1.2	1.2	1.2	3.5
Total adjustments to gross capital expenditure	1.2	1.2	1.2	3.5
Final decision – gross capital expenditure	90.3	93.7	98.3	282.3

Note: numbers have been rounded.

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 projects. Rather, it represents assumptions about the overall level of 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 expenditure within a regulatory period.

Western Water’s price submission did not specifically set out how it has addressed uncertainty in its capital expenditure forecasting. We reiterate that Western Water will need to demonstrate the prudence and efficiency of additional costs incurred during the 2020–23 period if seeking to include them in the regulatory asset base.

Revenue from customer contributions

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.³⁰

Our draft decision proposed not to approve Western Water’s forecast revenue from new customer contributions because we did not accept Western Water’s proposed new customer contribution charges. We also considered that Western Water did not justify its treatment of tax on gifted assets and incremental financing charges associated with the construction of capital assets that have been brought forward.

³⁰ Revenue from new customer contributions reflects revenue raised from new connections made to a water corporation’s water, sewerage or recycled water networks.

In response to our draft decision, Western Water provided additional information about the breakdown of its forecasts of new customer contributions revenue and to support its approach to the treatment of the tax on gifted assets. Western Water proposed that tax payable due to gifted assets would be funded via higher customer charges over a longer timeframe. Western Water also proposed to directly charge developers for the incremental financing costs of brought forward growth capital expenditure. As a result, those incremental financing costs would be netted out of net capital expenditure and therefore not recovered from all customers.

We consider that this approach is based on reasonable assumptions and is consistent with our guidance and the WIRO pricing principle that prices should provide signals about the efficient costs of providing services, while avoiding price shocks where possible.

Final decision on revenue from customer contributions

Our final decision adopts the benchmark revenue from customer contributions proposed by Western Water as set out in Table 2.6.

Cost of debt

Our draft decision proposed to adopt the cost of debt estimate for 2019-20 proposed by Western Water.³¹ While it calculated the cost of debt in a different manner to that required by our guidance, we accepted this approach, noting we would update the cost of debt estimate for 2019-20 in any case with updated data on bond yields, consistent with our guidance.³²

No submissions responding to our draft decision raised matters that caused us to change our view on the cost of debt. We have updated the cost of debt estimate to reflect the updated data on bond yields. We have adopted the benchmark cost of debt as set out in Table 2.8.

³¹ Western Water proposed a revised 2019-20 cost of debt estimate, different to the values specified in our guidance. Western Water had effectively proposed a more up-to-date forecast in its price submission than the value specified in our guidance.

³² We received data on the actual trailing average cost of debt for 2019-20 from Treasury Corporation Victoria in April 2020 and we updated the 2019-20 estimates for our final decision.

Table 2.8 Final decision – Trailing average cost of debt

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Cost of debt (nominal)	7.0%	6.3%	5.3%	7.1%	5.4%	5.3%	4.9%	4.5%	4.6%	3.3%

Note: numbers have been rounded.

Return on equity

Our guidance specified that Western Water was not required to self-assess and give its price submission a PREMO rating. We said we would set Western Water’s return on equity at 4.5 per cent, consistent with a ‘Standard’ rated price submission, provided we were satisfied it had met the requirements of our guidance.³³

For the reasons set out in our draft decision, we were not satisfied that Western Water’s price submission met the requirements of our guidance. We did not consider Western Water’s price submission reflected the minimum requirements established in our guidance for a ‘Standard’ PREMO rating and proposed to adopt a return on equity of 3.9 per cent (in real terms, after tax).

We consider our approach to the return on equity is consistent with our requirements under the WIRO, and in particular, that our estimate provides Western Water with an incentive to invest efficiently, and that our approach has regard to the financial viability of the water industry.

Western Water’s response to our draft decision accepted the reduced return on equity of 3.9 per cent. We received no other submissions on the return on equity, and as such our final decision adopts a benchmark return on equity of 3.9 per cent.

Final decision on return on equity

Our final decision adopts a benchmark return on equity of 3.9 per cent.

Tax allowance

The tax allowance is an input into the revenue requirement. Our draft decision did not accept Western Water’s forecast tax allowance, as we considered it did not meet the requirements of our

³³ Essential Services Commission 2018, final guidance paper, op. cit., p. 2 and p. 31.

guidance. We required Western Water to clarify its proposals relating to the tax allowance, demonstrating how it has considered the requirements of our guidance and resubmit its forecasts.

In response to our draft decision, Western Water provided additional information to support its approach to the tax allowance. Western Water proposed that tax payable due to gifted assets would be excluded from its tax forecasts, instead of being immediately reflected in higher customer charges. It explained it would instead fund the tax payments via increased debt. We note that its proposed approach would allow tax payments to be reflected in prices over a longer timeframe.

Western Water considered its proposal takes into account the interests of low income and vulnerable customers by reducing its revenue requirement by an estimated \$13 million over the three years from 1 July 2020. It also noted that the cost of tax on gifted assets does not reflect a cost of supply to existing customers and as such, its proposed approach ensures prices are aligned with the efficient cost of supplying services to all customers.

We agree with Western Water's supporting reasons, as set out above. Accordingly, we have adopted Western Water's approach to the tax allowance.

Final decision on tax allowance

Our final decision adopts Western Water's forecast tax allowance as set out in Table 2.1.

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.

Our draft decision did not accept Western Water's proposed regulatory depreciation because we were informed by Western Water during the very late stages of our draft decision process that it had incorrectly calculated the regulatory depreciation in its price submission.

We requested Western Water provide us with a revised depreciation schedule based on a straight-line approach, in accordance with our guidance.

In response to our draft decision, Western Water provided updated regulatory depreciation figures, and a depreciation reconciliation workbook to support its calculation. We verified that Western Water calculated depreciation using a straight-line approach, consistent with the requirements of our draft decision. As such, our final decision adopts Western Water's revised forecast for regulatory depreciation, set out in Table 2.1.

Final decision on regulatory depreciation

Our final decision adopts Western Water’s forecast regulatory depreciation as set out in Table 2.1.

Demand

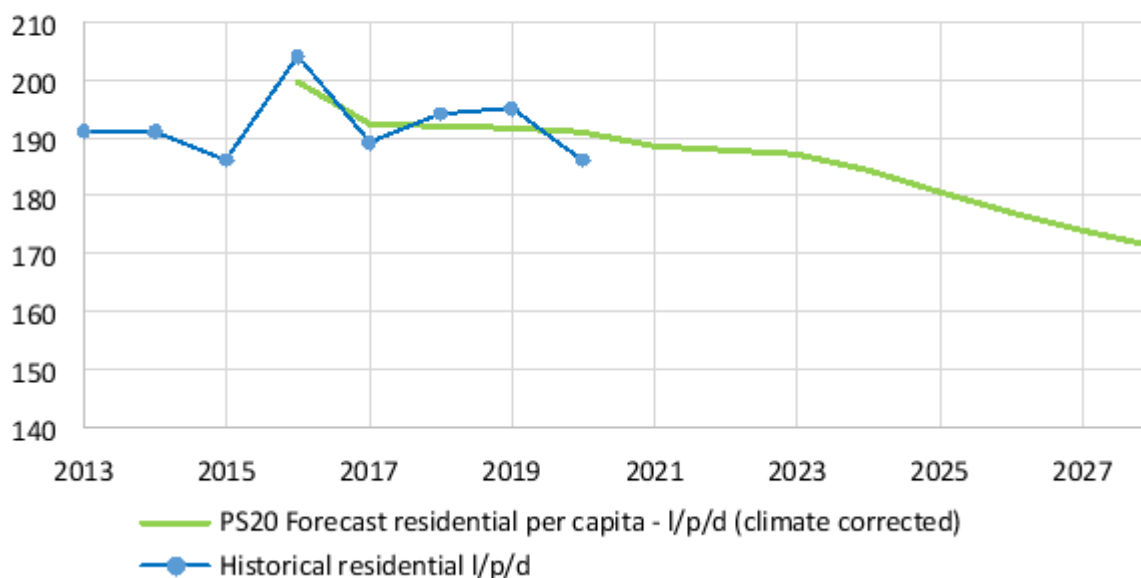
Our draft decision proposed to accept Western Water’s proposed water and sewerage connection growth forecasts, as they were calculated in a manner consistent with our guidance.

However, we proposed to not accept Western Water’s forecasts for per capita water consumption. Our draft decision noted Western Water had not demonstrated its consumption forecasts represent the best available estimates or were based on reasonable assumptions, as required by our guidance.

In its response to our draft decision, Western Water provided updated water consumption outcomes for 2019-20, as shown in Figure 2.1 below. Actual year to date consumption (the blue trend line) has fallen below the forecast (green trend line) generated by Western Water’s model, reversing recent trends of increasing consumption due to drier summer periods in recent years. Western Water also provided further evidence that the 2015-16 year was abnormally dry, producing a spike in per capita water usage that year.

Figure 2.1 Per capita water use – actual and forecast

Litres/person/day



Western Water also provided further justification for its forecast longer-term decline in per capita water consumption. We are satisfied with the reasoning and assumptions behind the forecast outlook, noting the forecast decline across the 2020–23 period is relatively small.

We consider Western Water has addressed the issues we raised in our draft decision to support its proposed demand forecast, and that its forecasts have been estimated in a manner consistent with the requirements of our guidance.

Final decision on demand

Our final decision adopts Western Water’s demand forecasts. Western Water’s price determination includes the benchmark demand forecasts adopted for our final decision.

Form of price control

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

In our draft decision, we noted that we would normally approve a price cap if put forward by a water corporation, particularly when it reflects a continuation of current arrangements. However, noting our draft decision on demand, we suggested Western Water should consider proposing a revenue cap form of price control.³⁴

Western Water’s response to our draft decision proposed to retain the current price cap form of price control. It considered it had addressed our concerns around demand forecasting, and noted there were no indications that customers were concerned with accepting risk on changes in demand. Further, it considered that a price cap supports its customers’ preference for price certainty and smoothed pricing, incentivises efficient water use by customers, and provides simpler messaging for customers.

No other new considerations on the form of price control were raised in response to our draft decision.

We accept Western Water’s reasons for staying with a price cap, and our final decision approves Western Water’s proposed price cap form of price control.

However, we note that since our draft decision the impact of COVID-19 has extended further across communities and the economy. As noted by Western Water in its response to our draft

³⁴ A revenue cap allows a water business to collect a pre-determined revenue amount, where any variances in demand from forecast can be offset by a change in customer prices.

decision, the current uncertain economic environment makes it difficult to forecast the impacts on customers and on the corporation.

We consider it appropriate that Western Water has some flexibility to adjust its tariffs from the path set out in its determination, particularly given the current environment. Accordingly, our determination for Western Water allows it to apply to us to change to a tariff basket form of price control within its regulatory period.³⁵ A tariff basket provides flexibility for a water corporation to adjust tariffs annually from their previously determined path (within certain constraints). An application by Western Water to change to a tariff basket would require consultation with its customers.

Final decision on form of price control

Our final decision approves a price cap form of price control.

Tariffs

Western Water's price submission proposed multiple adjustments to its tariff structures. This included changes to the structure of its fixed tariff component for its retail water service and retail sewerage service, where it proposed to charge different amounts for residential vacant landowners and landlords, and owner-occupiers.

In our draft decision, we proposed not to approve Western Water's proposed changes to the structure of its fixed tariff component for both its retail water service and retail sewerage service for three reasons:

- Western Water had not demonstrated how its proposals better satisfy the requirements in clause 11 of the WIRO; in particular demonstrating why vacant landowners should pay more than owner-occupiers for the same service
- its proposal did not provide signals to customers about the efficient cost of providing a retail water service and a retail sewerage service
- its proposal did not enable customers to easily understand the prices charged for prescribed services.

³⁵ We note our current determinations for other water businesses with a price cap form of price control allow them to apply to change from a price cap to a weighted average price cap or tariff basket within a regulatory period.

In response to our draft decision Western Water revised its proposal, which incorporates:

- a uniform fixed tariff component for both its retail water service and retail sewerage service, across all residential and non-residential customers
- a reduction in both the residential and non-residential fixed tariff component in relation to its retail water service and retail sewerage service by \$103.25 in year one (2020-21)
- an increase in both the residential and non-residential fixed tariff component in relation to its retail water service and retail sewerage service by about three per cent in years two and three (2021-22 and 2022-23)
- a two-part residential and non-residential tariff structure consistent with customers' preferences.

Western Water also retained its proposal to increase the third tier of the variable tariff component of its retail water service in relation to residential customers by 1.95 per cent per annum, to provide a signal to customers about the marginal cost of water and encourage more efficient water consumption. This was supported by customers.

In addition, after release of the latest inflation rate by the Reserve Bank of Australia in March 2020, our final decision includes an upward revision to the revenue requirement by approximately \$5 million.³⁶ Western Water proposes to recover this additional revenue by increasing variable charges consistent with its earlier customer feedback. Consequently, Western Water proposes to increase tier one, two, and three water charges by approximately six per cent per annum commencing from 2021-22.³⁷

However, recognising that a higher variable water usage price can adversely affect some customer groups, including large families (which may also be vulnerable or low income customers), Western Water proposed to more widely promote its large family discount alongside other customer support such as its hardship program, payment plans, concessions, leak allowances, as well as the utility relief grant scheme.

Western Water proposed no changes to other existing tariff structures.

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 in our guidance. Western Water's proposal retains the current charges on trade waste and Class A recycled water.

³⁶ Reserve Bank of Australia 2020, Statistical tables, accessed 1 June 2020, <https://www.rba.gov.au/statistics/tables/>.

³⁷ This includes the 1.95 per cent price increase on tier three proposed by Western Water in its price submission.

Our assessment

We note the changes proposed by Western Water seek to address the impact of the removal of the efficiency rebate, which is currently paid to customers against the variable component of their water bill. We acknowledge the complexity of unwinding the efficiency rebate while avoiding a price shock and maintaining tariff uniformity.

We consider Western Water's revised proposal satisfies clause 11 of the WIRO, as required by our guidance, because:

- it provides signals to customers about the efficient cost of providing water and sewerage services
- the two-part tariff structure for its retail water service and retail sewerage service will promote efficient water use, and provide customers a signal about the costs of their water use
- it enables customers to easily understand the prices charged by maintaining the existing tariff structure
- Western Water has payment options and assistance for customers experiencing difficulty paying bills, including vulnerable and low-income customers.

Final decision on tariffs

For the reasons set out above, our final decision approves Western Water's proposed prices and the different price components and tariffs that make up these prices.

For its retail water service, Western Water proposed, and we approve, a price for residential and non-residential customers made up of a fixed component which comprises price components applying to different water supply pipe sizes, and to which a large relevant fixed charge or tariff is applied, and a variable component (varies according to the volume of water used) which comprises price components applying to different blocks of water used per day, and to which a much smaller relevant fixed charge or tariff is applied per unit of water used.

For its retail sewerage service, Western Water proposed, and we approve, a price for residential and non-residential customers which is made up of a fixed component only, and which comprises price components applying to different sewerage discharge pipe sizes to which a relevant fixed charge or tariff is applied.

Our price determination for Western Water sets out the maximum prices it may charge for the three-year period from 1 July 2020 (or the manner in which its prices are to be calculated, determined, or otherwise regulated for each tariff). Approved maximum prices for water and sewerage services applying to most residential and non-residential customers are set out in Tables 2.9 and 2.10 (in \$2020-21, which takes into account the latest inflation and cost of debt data).

Final decision on tariffs

Our final decision approves the tariffs as set out at Tables 2.9 and 2.10. A full list of approved prices is set out in Western Water's price determination.

Table 2.9 Final decision – water prices
\$ 2020-21

	2020-21	2021-22	2022-23
Residential			
Variable (\$/kL)			
1st tier	1.8987	2.0082	2.1241
2nd tier	2.5192	2.6645	2.8183
3rd tier	3.9366	4.1885	4.4566
Fixed (\$/year) – owner occupiers	207.81	214.43	221.18
Fixed (\$/year) – vacant landholders and landlords	207.81	214.43	221.18
Non-residential			
Variable (\$/kL)	2.5192	2.6645	2.8183
Fixed (\$/year)	207.81	214.43	221.18

Note: numbers have been rounded down.

Table 2.10 Final decision – sewerage prices
\$ 2020-21

	2020-21	2021-22	2022-23
Residential			
Fixed (\$/year) – owner occupiers	478.86	494.13	509.69
Fixed (\$/year) – vacant landholders and landlords	478.86	494.13	509.69
Non-residential			
Fixed (\$/year)	478.86	494.13	509.69

Note: numbers have been rounded down.

Our assessment

Adjusting prices

Our draft decision accepted Western Water's proposal to:

- continue its existing uncertain and unforeseen events mechanism³⁸
- pass-through Melbourne Water's bulk water charges (including price and changes in cost of debt for Melbourne Water).

We approved these mechanisms because they reflect a continuation of current arrangements, and they are consistent with the efficiency objectives in the WIRO.³⁹

No submissions responding to our draft decision raised matters that caused us to change our view on these adjustment mechanisms. We consider it appropriate to maintain the views we expressed in our draft decision and as such, our final decision accepts Western Water's proposed adjustment mechanisms noted above.

Our draft decision did not accept Western Water's proposed cost of debt annual adjustment mechanism because:

- Western Water did not demonstrate that its proposed mechanism better satisfies the requirements of the WIRO than the existing approach⁴⁰
- the proposed mechanism is complex and not transparent, and we considered it would be difficult to understand the way in which prices would be calculated.⁴¹

Western Water's response to our draft decision proposed instead to continue with the cost of debt mechanism specified in our guidance, rather than the alternative approach proposed in its price submission. Our final decision approves Western Water's approach as outlined in its response to our draft decision, as it is consistent with the requirements of our guidance, reflects a continuation of current arrangements, and is consistent with the efficiency objectives in the WIRO.⁴²

³⁸ This includes adjustment for regulatory, legislation or ministerial directive changes as well as exposure to natural disaster or extreme weather events that result in a material impact to Western Water.

³⁹ WIRO clauses 8(b)(i)(ii) and (iii); Essential Services Commission 2018, final guidance paper, op. cit., pp. 38-39.

⁴⁰ Consistent with clause 11(b) of the WIRO, the commission has had regard to the ESC Act which involves considering the efficiency in the industry and incentives for long term investment (section 8A(1)(a)) and the return on assets in the regulated industry (section 33(3)(c)).

⁴¹ See WIRO, clause 11(d)(i).

⁴² WIRO clauses 8(b)(i)(ii) and (iii); Essential Services Commission 2018, final guidance paper, op. cit., pp. 38-39.

Our assessment

Final decision on adjusting prices

Our final decision approves Western Water's proposed:

- existing uncertain and unforeseen events mechanism
- pass-through of Melbourne Water's bulk water charges (including price and changes in cost of debt for Melbourne Water)
- cost of debt annual adjustment mechanism.

New customer contribution charges

New customer contribution 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 corporations and developers to negotiate a site-specific arrangement.

For negotiated new customer contributions, we proposed to accept Western Water's proposal to continue to calculate charges in accordance with the requirements of our new customer contribution pricing principles.

However, our draft decision did not accept Western Water's proposed new customer contributions charges for standard connections. Our view was that there was a lack of consistency between inputs in the pricing model and the new customer contributions model, and Western Water did not provide sufficient justification for some assumptions used for the purpose of calculating incremental costs associated with new connections. Our draft decision required Western Water to resubmit its standard new customer contributions model to address the issues identified in the draft decision.

In response to our draft decision, Western Water resubmitted its modelling of standard charges, and retained its proposal to increase charges for greenfield connections annually by five per cent and to keep charges for infill connections flat in real terms. We have reviewed the revised model, and the approach to calculating incremental costs and revenue, and we consider they comply with the requirements of our guidance, ensuring that the proposed standard new customer contribution charges have sufficient regard to the incremental costs and revenues attributed to new customer connections. The new customer contribution model was also sufficiently justified by Western Water as being consistent with the pricing model.

Our final decision approves Western Water’s proposed new customer contribution charges, including its method of calculating negotiated contribution charges, as they are consistent with the requirements of our guidance.

Our price determination for Western Water sets out the approved new customer contribution charges for the three-year period from 1 July 2020 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). Western Water should update and publish any development servicing plans and negotiation protocols to assist developers understand the underlying assumptions of its new customer contribution charges.⁴³

Final decision on new customer contribution charges

Our final decision adopts Western Water’s proposed new customer contribution charges, as set out in Western Water’s price determination.

Financial position

In approving prices, we must have regard to the financial viability of the water industry.⁴⁴ 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.

We assess a water corporation’s forecast financial position using four key indicators.⁴⁵ Our assessment takes into account our proposed adjustments to revenue and costs, including our final decision on the return on equity.

The outcomes of this assessment are shown at Table 2.11. We note that interest cover remains above the minimum bound we use to assess financial viability. This indicates Western Water will have sufficient cash flow to meet its debt repayment obligations and cover recurrent operating costs. Gearing is expected to rise slightly above our upper bound in 2021-22 and 2022-23.⁴⁶ The increase in gearing, and values for FFO/Net debt and internal financing, are consistent with a

⁴³ Essential Services Commission 2013, *New Customer Contributions: Explanatory Note*, December, pp. 9-11.

⁴⁴ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

⁴⁵ Essential Services Commission 2018, *Guidance – Western Water 2020*, op. cit., p. 41.

⁴⁶ Net Debt / Regulatory Asset Value (Gearing) measures the debt component of the regulatory capital structure.

business undergoing rapid growth and corresponding high capital investment such as Western Water.⁴⁷

Given forecasts for interest cover, we consider our final decision will provide sufficient cash flow for Western Water to meet its service commitments, and cover financing costs over the next three-year period.

Table 2.11 Final decision – financial performance indicators

	Commission threshold	2020-21	2021-22	2022-23
FFO interest cover (times)	> 1.5 times	2.02	2.12	2.16
Net Debt / RAV (Gearing) (%)	< 70 per cent	66.9%	70.7%	72.7%
FFO / Net debt (%)	> 10 per cent	5.3%	5.4%	5.5%
Internal financing ratio (%)	> 35 per cent	29.9%	31.6%	31.9%

Note: FFO refers to 'funds from operations' and RAV refers to the 'regulatory asset value' (which is the same as regulated asset base)

⁴⁷ FFO / Net debt measures the extent to which the serviceability of debt is improving, remaining stable, or declining. Internal financing ratio measures the extent to which an entity has cash remaining to finance a prudent portion of capital expenditure after making dividends.

3. PREMO rating

PREMO is an incentive mechanism that links the return on equity to a water corporation's level of ambition in delivering value to its customers.

Western Water was not required to give its price submission a PREMO rating for this regulatory period. Our guidance outlined minimum requirements for meeting a 'Standard' PREMO rating.⁴⁸ If we assessed that Western Water's price submission met the requirements for a 'Standard' rating, we would set the return on equity at 4.5 per cent (which reflects the rate of return a 'Standard' price submission would receive under PREMO). But if we assessed the price submission did not meet the minimum requirements, then we may specify a lower return on equity.

Our draft decision noted Western Water's price submission did not meet the minimum requirements for a 'Standard' rated price submission under PREMO. Accordingly, our draft decision adopted a lower return on equity for Western Water of 3.9 per cent. The reasoning for this adjustment is set out in chapter 3 of our draft decision.

Western Water's response to our draft decision accepted our proposed return on equity of 3.9 per cent. We note that Western Water asked us to reassess our consideration of the 'Risk' element of its proposals, given the updated information in its response to our draft decision. We consider Western Water's response to our draft decision materially addressed the deficiencies we noted in our draft decision in relation to the Risk element of PREMO.

⁴⁸ Essential Services Commission 2018, final guidance paper, op. cit., p. 2.

Appendix A: Submissions received

Apart from Western Water's required response, we received no other submissions in response to our draft decision on Western Water's price submission.

Appendix B: Our consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Western Water.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission's guidance.⁴⁹ We have had regard to the matters specified in our guidance in making our price determination. Our draft and final decisions provide further information on where we have considered our guidance, and Western Water's compliance with our guidance, in making our price determination.

Note: all page numbers referenced below refer to our final decision for Western Water.

⁴⁹ Essential Services Commission 2018, final guidance paper, op. cit.

Economic efficiency and viability matters

WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our draft decision has therefore had regard to the extent that Western Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).
- Our assessment of financial viability (pages 32 to 33).

WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).

- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

Additionally, our pricing approach allows a water corporation to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water corporation has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water corporations to pursue efficiency improvements.

ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long term investment’.

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water corporation promotes efficiency in the water industry.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

We have had regard to incentives for long term investment by adopting:

- A ten-year trailing average approach to estimating the benchmark cost of debt (see pages 21 to 22).
- A regulatory rate of return that we consider will enable Western Water to recover costs associated with its investment in services.⁵⁰

ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water corporation can maintain an investment grade credit

⁵⁰ The regulatory rate of return is comprised of the cost of debt and the return on equity.

rating. Further, prices should enable each corporation to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter on pages 9 to 10 and pages 32 to 33.

ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.

In preparing our draft decision, we have had regard to the extent Western Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

Industry specific matters

ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.

Our pricing approach allows each water corporation to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water corporation is consistent with taking into account the particular circumstances of the water industry.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

We have had regard to the prescribed services listed in the WIRO in making our decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Western Water to deliver services that are covered by the prescribed services listed in the WIRO.

ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.

Our draft decision provides for Western Water to generate a return on assets through:

- Our consideration of the regulatory asset base (pages 16 to 21).
- Our consideration of the cost of debt (pages 21 to 22).
- Our consideration of the return on equity (page 22).

ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia⁵¹
- operating and capital expenditure costs per connection throughout Australia⁵²
- tariff structures applied by water corporations throughout Australia⁵³
- the regulatory rate of return set by other regulators.⁵⁴

We are not aware of any international benchmarks that are relevant to our decision.

WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.

Our pricing approach allows each water corporation to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).

⁵¹ Bureau of Meteorology 2018, National performance report 2017-18; urban water utilities, part A, February.

⁵² *ibid.*

⁵³ Includes Icon Water, Sydney Water, Hunter Water, Gosford City Council, Wyong Shire Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁵⁴ Essential Services Commission of South Australia 2018, SA Water Our Plan 2020–24, December; Independent Pricing and Regulatory Tribunal 2019, WACC biannual update, August.

- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

Our price review also considers the views of stakeholders affected by Western Water's proposals, including through submissions and public meetings.

Customer matters

ESC Act section 8(1) requires us to have regard to the fact that the 'objective of the Commission is to promote the long term interests of Victorian consumers'.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long term interests of Victorian consumers.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).
- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

ESC Act Section 8(2) requires us to 'have regard to the price, quality and reliability of essential services' in seeking to achieve the objective in section 8(1) of the ESC Act.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following sections of our draft decision involved consideration of this factor:

- Our consideration of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our consideration of demand (pages 24 to 25).
- Our consideration of tariffs (pages 26 to 29).

In terms of the quality and reliability of services, the following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our consideration of outcomes (page 7).

WIRO Clause 11(d)(i) requires us to have regard to whether Western Water’s prices ‘enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated’.

We consider that the following matters are relevant when considering whether Western Water’s prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water corporation’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water corporations explain them to customers.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of the form of price control and tariffs (pages 25 to 29).

WIRO Clause 11(d)(ii) requires us to have regard to whether Western Water’s prices ‘provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible’.

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (page 6).
- Our assessment of the revenue requirement (pages 9 to 10)
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

WIRO Clause 11(d)(iii) requires us to have regard to whether Western Water’s prices ‘take into account the interests of customers of the regulated entity, including low income and vulnerable customers’.

In considering the above factor, we had regard to:

- Western Water’s customer engagement, noting that affordability was one of the major priorities identified by its customers (page 6).

- Western Water’s proposed tariff structure and our views on its compliance with various matters in the WIRO and our guidance (pages 26 to 29).
- Western Water’s range of payment options and advice for customers experiencing difficulty paying bills. We consider these options and advice provide avenues for low income and vulnerable customers to seek assistance.

Health, safety, environmental and social obligations

ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.

Our draft decision proposes to approve a revenue requirement that will enable Western Water to deliver on its legal and regulatory obligations.

The following sections of our draft decision involved consideration of this factor:

- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of the form of price control (pages 25 to 26).

WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.

Our draft decision proposes to approve a revenue requirement that will enable Western Water to deliver on its health, safety, environmental sustainability and social obligations.

The following sections of our draft decision involved consideration of this factor:

- Our assessment of the revenue requirement (pages 9 to 10).
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).
- Our assessment of tariffs (pages 26 to 29).

Other matters

ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.

In relation to the above, Western Water does not face any competition in the delivery of its prescribed services within its region. Our draft decision takes this into account through our

consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business's customer engagement.

The following sections of our draft decision involved consideration of this factor:

- Our assessment of engagement (page 6)
- Our assessment of outcomes (page 7)
- Our assessment of efficient operating expenditure (pages 10 to 16) and capital expenditure (pages 18 to 20).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water corporations. Our PREMO water pricing approach provides incentives for a water corporation to provide its 'best offer' to customers in its price submission. This is described in further detail in a report we released in 2016.⁵⁵

ESC Act section 8A(1)(e) requires us to have regard to the 'benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities'.

We have had regard to benefits and costs of regulation by:

- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁵⁶

A benchmarking study found that the cost of the commission's price reviews in the past has been lower than those of regulators in other Australian jurisdictions (after being normalised for revenue covered by price decisions).⁵⁷

ESC Act section 8A(1)(f) requires us to have regard to 'consistency in regulation between States and on a national basis'.

⁵⁵ Essential Services Commission 2016, Water Pricing Framework and Approach, Implementing PREMO from 2018, October, pp. 11–13.

⁵⁶ Essential Services Commission 2018, final guidance paper, op. cit., p. 4.

⁵⁷ Essential Services Commission 2014, Information paper for the Independent Review of the Economic Regulatory Framework, April.

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water corporation's revenue requirement
- allows water corporations to implement various forms of price control, including price caps and revenue caps
- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

WI Act section 4C(a) requires us to 'ensure that the costs of regulation do not exceed the benefits'.

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water corporations may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water corporations and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water corporations. Our guidance noted that much of the information required in price submissions should be readily available to water corporations as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁵⁸

⁵⁸ Essential Services Commission 2018, final guidance paper, op. cit., p. 4.

Appendix C: Approved service standards

We have approved the following standards and conditions of service and supply and associated targets for Western Water.

Western Water's approved service standards

Service Standard	2020-21	2021-22	2022-23
Water			
Number of customers experiencing more than five unplanned water supply interruptions in the year (number)	0	0	0
Average time taken to attend bursts and leaks (priority 1) (minutes)	30	30	30
Average time taken to attend bursts and leaks (priority 2) (minutes)	60	60	60
Average time taken to attend bursts and leaks (priority 3) (minutes)	1440	1440	1440
Average duration of unplanned water supply interruptions (minutes)	126	126	126
Average duration of planned water supply interruptions (minutes)	240	240	240
Sewerage			
Customers receiving more than three sewer blockages in the year (number)	0	0	0
Average time to attend sewer spills (minutes)	30	30	30
Average time to attend sewer blockages (minutes)	60	60	60
Average time to rectify a sewer blockage (minutes)	47	47	47
Spills contained within five hours (per cent)	100	100	100

Note: Numbers have been rounded

Appendix D: Approved GSL schemes

We have approved the following service level obligations and corresponding amounts of payment for failure to attain the stated obligation as the guaranteed service level (GSL) scheme for Western Water.

In accordance with clause 13 of our Customer Service Code: Urban Water Businesses, Western Water must ensure that any payment is made to a customer as soon as practical after a customer becomes entitled to the GSL payment.

Western Water is not required to make a payment where the failure to meet the service level is due to the action or inaction of the customer or a third party. For the avoidance of doubt, third party does not include any person or firm acting on behalf of Western Water.

Western Water's approved GSL scheme

Approved service level obligation	Approved payment (\$)
Planned water supply interruption during peak hours (i.e. 5am-9am; 5pm-11pm)	\$100
Planned water supply interruption longer than notification given	\$100
More than three sewer interruptions in 12 months	\$100
More than five water supply interruptions in 12 months	\$100
Sewerage spill inside the house, not stopped within one hour of notification	\$500
Restricting or commencing legal action prior to taking reasonable endeavours (as defined by the Essential Services Commission) to contact the customer about help available if they are experiencing difficulties paying	\$300