2028 Water Price Review Guidance

Engagement summary

This engagement summary outlines what we asked, what we heard and what we have done in response to feedback on our *2028 Water Price Review: Draft guidance*.

We have updated our guidance to water businesses

Sixteen Victorian water businesses are currently preparing for the 2028 Water Price Review. These businesses must provide the Essential Services Commission (commission) with price submissions outlining the prices they propose to charge customers, and the service levels customers can expect to receive, by September 2027.

We are required to issue price review guidance to water businesses under clause 13 of the WIRO. This guidance helps water businesses prepare their price submissions, outlines our approach to the price review and sets out the information water businesses must include in their submissions to us.

Consultation on the draft guidance

On 20 July 2026 we published a draft of our guidance paper on Engage Victoria and our website.

Interested parties had until 14 August 2026 to give us their feedback via a questionnaire or making their own submission. We received 27 submissions, including:

- 6 questionnaire responses via Engage Victoria
- 15 submissions uploaded via Engage Victoria
- 6 submissions via email.

You can download the submissions we received from the Engage Victoria page (except for the confidential submissions).

How we have addressed your feedback

We have updated the guidance in response to your feedback. The final version of the guidance is available on Engage Victoria and our website. Changes include:

- updating Appendix F with more detail on how our efficiency benefit sharing scheme (EBSS) will work, and why we have designed it in the manner proposed

- updating the price review timeline to confirm we will make our final decisions on 8 June 2028
- adding more detail on how we calculate the Return on Equity (RoE)
- adding clearer explanation of the level of detail we expect businesses to include in their long-term expenditure forecasts
- updating our engagement principles, assessment criteria and the supporting information we require businesses to provide
- updating the section on engagement with First Nations people to make our expectations of businesses clearer
- updating the PREMO assessment tool (Appendix E of the guidance).

Background information

The commission issues guidance to water businesses, which sets out our approach to the price review, and the information businesses must include in their price submissions.

In developing the draft guidance, we considered the findings from the farrierswier reviews following the 2023 and 2024 price reviews and our own engagement with the sector. Since the last price review we have worked closely with the water sector. We reviewed the financial viability indicators, updated the New Customer Contribution (NCC) Framework, and developed tools and processes to improve transparency and help businesses with reporting, monitoring and long-term planning.

We also released a Directions Paper[1] that committed to earlier timeframes and set out our focus areas and future work program. The outcomes of these initiatives have been included in the guidance. We will also run future workshops to help people better understand our regulatory requirements and expectations.

How we engaged

Between 20 July and 14 August 2026, we sought feedback on our draft guidance for the 2028 Water Price Review via a range of channels, to ensure accessibility for all interested parties, including water businesses, community organisations, and customers.

Key feedback channels included:

- Online questionnaire and submissions via Engage Victoria, the Victorian Government's online consultation platform.
- Submissions via email.
- Online industry forum on 30 July 2026.

[1] Essential Services Commission 2026, *Directions paper: Preparing for the 2028 Price Review*, 1 April.

Number of participants

- Over 550 unique visitors accessed the Engage Victoria page between 20 July and 14 August 2026.
- 81 people attended the online industry forum in July to discuss the draft guidance.

Number of submissions received

- We received 27 written submissions, with seven submissions from individual consumers and 20 submissions from the following organisations/groups:
  - Barwon Water
  - Central Highlands Water
  - Coliban Water
  - Concerned Waterways Alliance
  - East Gippsland Water
  - Friends of the Gippsland Lakes
  - Gippsland Water
  - GMW Concerns (made 2 submissions)
  - Goulburn Murray Water
  - Greater Western Water
  - GWMWater
  - Lower Murray Water
  - Melbourne Water
  - South East Water
  - Tingwall
  - VicWater
  - Wannon Water
  - Water Services Association of Australia (WSAA)
  - Yarra Valley Water.

Your feedback and how we responded

We asked eight consultation questions via Engage Victoria. We also accepted general feedback on our draft guidance.

Some submissions addressed the consultation questions and others provided general feedback.

The summary below covers key feedback themes and our response. We have also included a table at the end of document that summarises the feedback for each consultation question.

Submissions were generally supportive of the draft guidance and our consultation process

Overall, submissions were supportive of the updates in the draft guidance. For example, Gippsland Water noted its support for the direction of the draft guidance, while Lower Murray Water

acknowledged the draft guidance contained several positive changes including updates to sections on engagement and fast-tracking.

Submissions from multiple water businesses noted their continued support for our PREMO water pricing framework, while Central Highlands Water noted its appreciation for how we engaged with the water sector to develop the draft guidance. GWM Water noted its ongoing commitment to delivering value to its customers and community and acknowledged the role PREMO plays in challenging it to deliver that value.

You asked for more detail on how the efficiency benefit sharing scheme will work

Most submissions provided feedback on our proposal to introduce an efficiency benefit sharing scheme (EBSS). Both East Gippsland Water and GWMWater suggested that a financial incentive mechanism was unnecessary. Several other submissions were non-committal or supportive of the EBSS in principle but asked us for more information on how it will work in practice. Common questions raised about how the EBSS will work included:

- How does the EBSS fit in with existing incentives in the PREMO framework, and is there a risk of double/penalties rewards?
- How were the thresholds for penalties and rewards determined?
- How will the commission define and apply ‘carve outs’ (allowances for expenditure due to factors outside of a business’s control)?

In their submissions, water businesses consistently asked the commission to consult further before introducing the EBSS, while South East Water suggested we prepare a technical paper to better explain how the mechanism will work.

Friends of the Gippsland Lakes expressed support for the introduction of an EBSS to curb operating expenditure over-runs, while raising concerns the carve outs we identified focused more on reactive costs rather than proactive ones.

Our response: We have updated the guidance to include more information about how the EBSS will work

We are committed to introducing an incentive mechanism in the upcoming regulatory period. We believe that an EBSS will provide water businesses with an incentive to better control operating costs and pursue operating efficiencies that will ultimately benefit their customers. These kind of incentive schemes are used by regulators for both privately and publicly owned businesses. For example, the Independent Pricing and Regulatory Tribunal of New South Wales’s (IPART) EBSS applies to publicly owned water businesses as part of its 3C’s Framework. The Australian Energy Regulator (AER) applies an EBSS to privately and publicly owned energy distribution and transmission businesses.

The EBSS should reinforce the incentive businesses already have under PREMO to submit robust and well-articulated proposals that they anticipate they can meet. The intent of the EBSS is to create a continuous incentive for efficient expenditure throughout the period, such that the 'best offer' a business puts forward in its price submissions is sustained.

In response to feedback from water businesses wanting to know more about how our proposed EBSS will work we have updated Appendix F in our final guidance to address issues raised by providing:

- more details on how the mechanism will work
- worked examples to show how the EBSS will apply in practice
- information to address other issues raised during the consultation, including the nature of carve-outs, threshold levels and whether businesses at different points on the efficiency frontier will be treated differently under the EBSS mechanism.

We will continue to engage with water businesses on the application of the EBSS beyond our updates to the guidance. We are happy to respond to questions about the mechanism and clarify how it may work ahead of it being introduced.

Some of you raised concerns about the incentives created by the framework

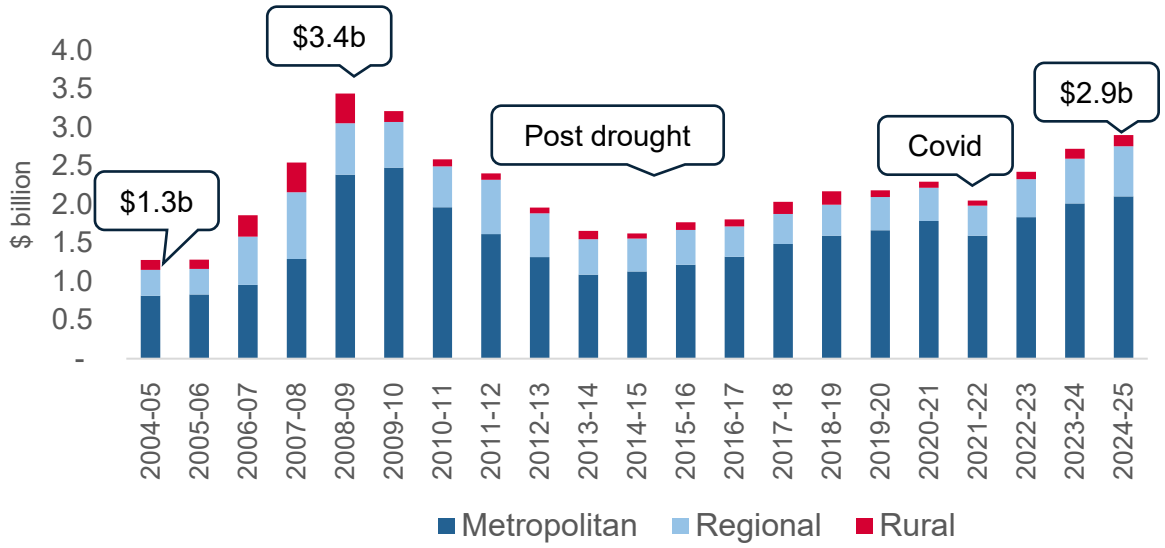
The Water Services Association of Australia (WSAA) raised concerns that our guidance and the PREMO framework may put too much emphasis on keeping prices low in the short-term. It argued that the incentive framework rewards short-term outcomes over long-term investment and intergenerational equity. It also noted that water businesses are facing increases in operating and capital costs driven by population growth, asset renewal, climate resilience investments and rising service expectations.

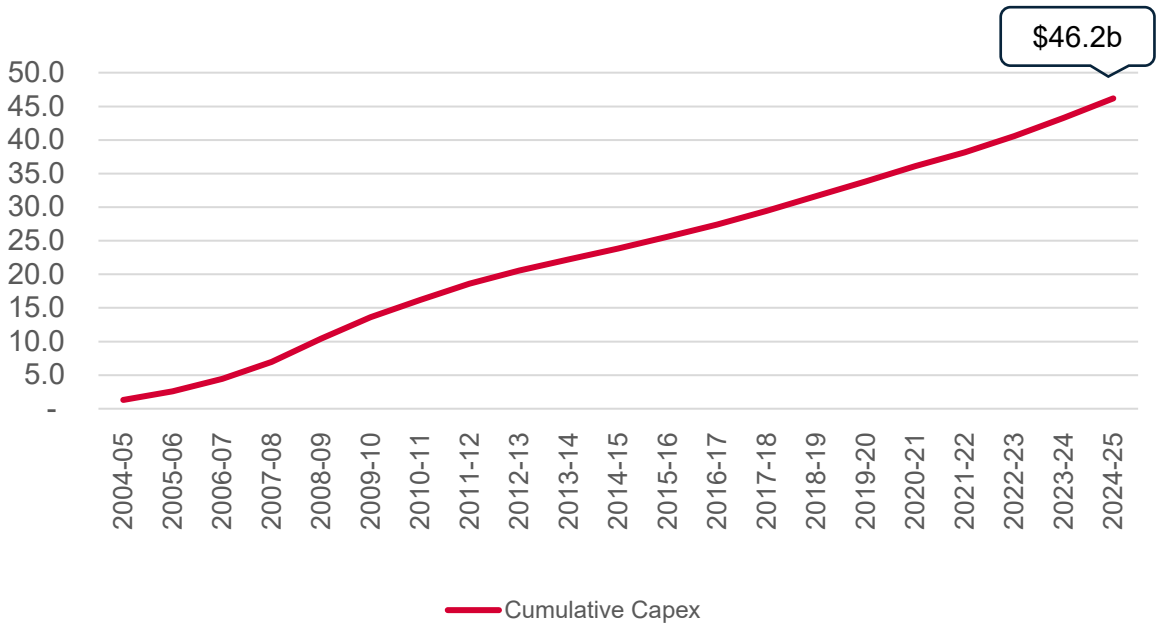
Our response: We think the guidance and the framework already address these issues

We think that the guidance and the framework do recognise the challenges facing water businesses. The guidance asks businesses to take a longer-term view, while recognising that our assessment of a business's proposals necessarily focuses on the regulatory period. Businesses should show that their proposals are informed by, and consistent with, long-term plans and strategies. They also need to clearly set out where and why expenditure needs to take place in the present to help support future delivery.

Historically, we have accepted increased expenditure where businesses have been able to show it was appropriate and in the long-term interests of consumers. Since economic regulation of the water sector began, annual capital expenditure across the sector has grown in real terms from $1.3 billion to $2.9 billion between 2004-05 and 2024-25. This equates to $46 billion (in $2026) in cumulative capital expenditure over this period (see Figure 1).

Figure 1 Water sector gross capital expenditure
2004-05 to 2024-25 ($2026)



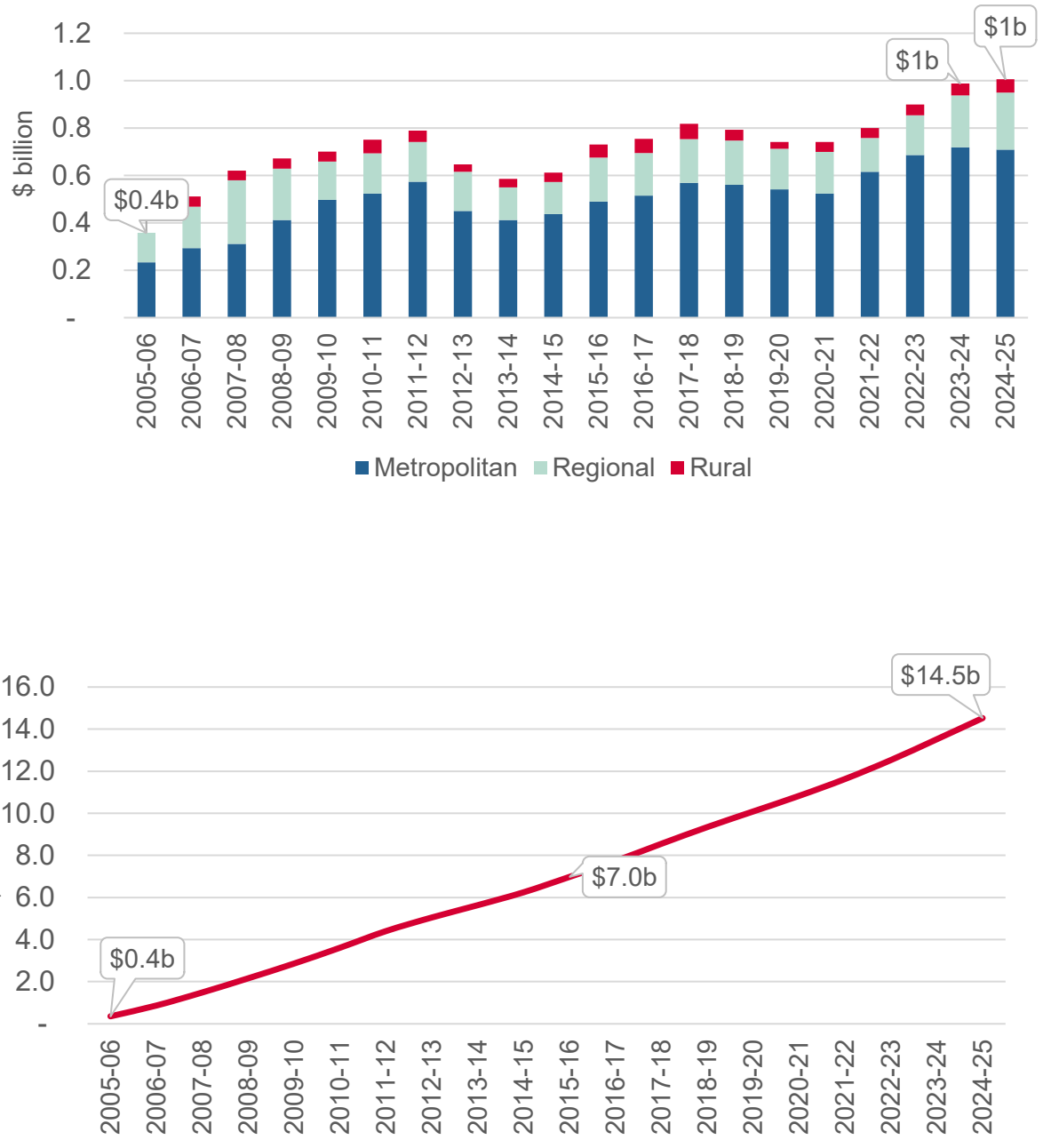


Note: Metropolitan includes merged entities of City West Water and Western Water

Source: Source: ESC Regulatory Accounting Statements and ESC Pricing Models

Over that same period, annual spending on renewals has grown from $0.4 billion to $1.0 billion (in real terms) between 2005-06 and 2024-25. This equates to $14.5 billion (in $2026) in cumulative renewal spend over this period (see Figure 2), or about one-third of total capital spending. We expect this trend to continue and looked to address concerns by placing greater focus on asset management and long-term planning in our guidance.

Figure 2 Water sector gross capital expenditure on renewals
2004-05 to 2024-25 ($2026)



Note: Metropolitan includes merged entities of City West Water and Western Water

Source: ESC Regulatory Accounting Statements

In terms of concerns on intergenerational equity, and who pays for new infrastructure, the regulatory pricing model ensures costs are appropriately recovered from customers over the life of the asset. For annually recurring operating expenditure, the costs are fully recovered through

prices in the year in which they are incurred. However, capital expenditure for investment in longer-lived assets is recovered differently, effectively recovering an inflation-adjusted share of the investment cost each year the asset is forecast to be in service. For example, for an asset with a forecast 50-year regulatory asset life, one fiftieth of the cost of the asset is recovered each year for 50 years. Capital investment is largely debt funded, and the pricing model allows for a return of the capital invested and the annual borrowing costs to be recovered through annual prices. In this way, the large up-front costs of capital investment can be recovered progressively over the life of the assets, ensuring both current and future customers contribute their fair share.

You asked for more transparency on our financial modelling

Submissions from some water businesses asked for more transparency on how we calculated the return on equity (RoE). For example, Yarra Valley Water asked us to prepare a discussion paper on our approach to calculating the RoE, while Barwon Water asked for more consultation.

Several submissions also noted that our proposed RoE was lower than other regulators and some explicitly sought a higher RoE, with several expressing concern that our proposed RoE could endanger viability for some water businesses.

Related to this feedback, some submissions, such as those from VicWater, WSAA and South East Water, also requested a review of forecast inflation and/or the tax allowance. Our inflation approach which follows the conventional approach used by regulators is set out in the guidance. Our most recent forecast inflation rate for the North East Water and Melbourne Water price reviews was 2.9 per cent.

Several water businesses suggested that we should reconsider our approach to calculating the tax allowance, specifically the value of 0.5 for imputation credits (gamma).

South East Water and VicWater argued that the shareholder for Victorian water businesses (the Victorian Government) cannot benefit from imputation credits. These submissions suggested that gamma should therefore be set at zero, which would increase the tax allowance and hence the overall revenue requirement.

Our response: We have kept our proposed return on equity (RoE) in the final guidance, but will review our parameter assumptions in 2027

In response to feedback, we have provided more information on our RoE of 4.1 per cent for a business with a ‘Standard’ PREMO rating.

While we consider the RoE remains appropriate at this time, we will review the RoE input parameters (but not our overall RoE methodology) again in May 2027 (before price submissions are due), to confirm that the long-term inputs and resulting RoE remain appropriate and sustainable. This review will involve considering updated long term and short-term estimates of inflation, the nominal risk-free rate and market risk premium in light of market movements and having regard to other regulatory decisions.

Under PREMO, we have consistently taken a long-term approach when setting financial assumptions and benchmarks. This includes the RoE. A long-term RoE is desirable for several reasons:

- it offers more stable and predictable returns for businesses
- it provides price stability for customers
- a stable RoE makes it easier for water businesses, customers and the commission to understand the implications for revenue and prices
- it is consistent with the commission's objective of promoting the long-term interests of Victorian consumers, having regard to price, quality, reliability and safety of essential services.

We adopted this long-term approach when establishing the PREMO framework, reflecting our 'simplicity' objective. Since then, businesses have received a stable RoE, rather than one reflecting the fluctuating market conditions of the day. The RoE of 4.1 per cent we set for a 'Standard' rated business for the 2023 determination was above both short-term rates and the RoE adopted by other regulators at the time, which benefitted businesses in the current regulatory period.

Essential Services Commission of South Australia's (ESCOSA) decision on SA Water's prices provides a comparison point. ESCOSA uses short-term parameters in its RoE calculations. In its 2020 decision it adopted a real RoE of 2.8 per cent, well below our 2021 estimate of 4.1 per cent.

Similarly, the RoE for a 'Standard' rated business in our 2018 determination was at levels at or above those of other regulators at the time.

The parameters we have used to decide the RoE are set out in Table 1.

The long-term parameter values set out in Table 1 generate a return on equity of 4.0 per cent. However, having regard to the benefits of consistency and noting that long term rates are currently below short-term rates, we propose to adopt the same return on equity as for our 2023, 2024 and 2026 price reviews, which is 4.1 per cent for a 'Standard' rated business.

While the proposed RoE of 4.1 per cent is slightly lower than the long-term RoE recently used by other regulators[2] and below short-term market conditions – 10 year bonds are now at their highest rate for 15 years – we do not think a further adjustment is needed. We have reached this decision on the basis that it is:

- consistent with the existing RoE, providing revenue and pricing stability
- above the estimated 10-year trailing cost of debt and therefore ensures revenue sufficiency for water businesses.

[2] For example, the long-term RoE calculated by IPART in its June 2026 Final Decision on water prices for Central Coast Council was 4.2 per cent.

Notably, the RoE of 4.1 per cent is for a 'Standard' rated business. Under PREMO, businesses with ratings above 'Standard' can earn a RoE of 4.5 per cent ('Advanced') or 4.9 per cent ('Leading'). Across the last two major price reviews (2023 and 2018), 40 per cent of businesses have received an 'Advanced' or 'Leading' rating.[3]

Table 1: Parameter inputs for return on equity calculation

Parameter	Value	Comments
Nominal risk free rate	3.37%	Taken as the midpoint of the Reserve Bank of Australia (RBA's) F2 monthly 10-year bonds for 20 years from June 2006 to May 2026.
Long term market risk premium (MRP)	6.0%	We have consistently adopted an MRP of 6.0 per cent in our decisions. This value is in line with that adopted by other regulators in regulatory decisions which tend to range from 5.9 per cent to 6.1 per cent. We note that in its August 2026 update on WACC the IPART has estimated the current market risk premium at 5.7 per cent.
Equity beta	0.6	This is the same equity beta that we adopted for the 2023 and 2026 price determinations. It is lower than that adopted for 2026 water price decisions by IPART in respect of Central Coast Council (0.7), the Office of the Tasmanian Economic Regulator (OTER) in respect of TasWater (0.65) and by the ESCOSA for its 2024 decision in n relation to SA Water (0.67). However, we note it is now higher than that proposed by the AER for the energy sector (0.55).[4] Arguments can be made for a lower beta for water businesses compared to energy businesses – water has a lower elasticity of demand than energy, and water businesses are less subject to the risks (including the risks of asset stranding) associated with a rapidly changing energy market.
Long-term Inflation	2.9%	We estimate expected inflation based on the simple average of the 'RBA geometric' and 'bond breakeven' inflation rates. We use a five-year average for both. This is the same inflation rate we used for our 2026 determinations for North East Water and Melbourne Water.

In terms of business viability, any plausible changes to the RoE are unlikely to 'move the dial' significantly. A 0.4 per cent increase in the RoE is equivalent to around a 1 per cent increase in

[3] We also understand that some businesses advised they did not seek a higher PREMO rating in the 2023 review because the higher equity would increase prices.

[4] See AER 29 May 2026, *Draft 2026 Rate of Return Instrument Explanatory Statement*, available at Draft 2026 Rate of Return Instrument | Australian Energy Regulator (AER).

customer prices. An increase of this size is unlikely to address situations where a business is facing genuine challenges to its viability.[5]

Importantly, as discussed in Section 3.23 of the Water Price Review Guidance, we undertake a financeability (financial viability) test as part of the price determination process. This involves calculating a number of notional and actual financial ratios to ensure that businesses remain financially viable as a result of the pricing determination.

In its submission on the draft guidance, the WSAA suggested that some water businesses were in a weak financial position and that some of our guideline values, and use of notional tests were not appropriate. For example, the submission argued that our Debt to RAB benchmark of 80 per cent was out of line with other regulators which use a value of 70 per cent. The WSAA also sought more transparency on viability issues, including proposing an annual consolidated report on financeability.

The financial ratios we use were updated based on a comprehensive 2024 report by NERA Economic Consulting, [6] which considered the ratios applied by rating agencies and other regulators.

The actual test derives the ratios based on the 'business's actual data' and the notional test derives the ratios based on a 'notional efficient business', which may have different inputs (like the level of gearing or cost of debt) to the business. As NERA put it:

> A notional test would allow the ESC to determine whether they have set a fair price control, and the actual test would allow the ESC to determine whether the actual firm can remain financially viable given their price control and any deviations the actual business makes from the regulatory assumptions. In other words, a notional test would allow the ESC to determine whether they need to reassess their price control while an actual test would allow the ESC to determine whether the firm or its owners need to change their financial policy to remedy a financeability concern.

We disagree with the WSAA's view that notional ratios only have relevance if utilities have access to equity injections and note that most other regulators also use notional tests as well as actual tests. We propose to continue doing so.

Specifically in respect of the Debt to RAB benchmark, NERA suggested we should increase it from 70 per cent to 80 or 85 per cent on the basis that 70 per cent appeared conservative for an

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5 More broadly, we note that the return on equity (and return on debt) components are typically a much smaller part of the revenue requirement for Victorian water businesses and hence have a more limited impact on business viability, than for other Australian water businesses. There are a number of reasons for this including closed water catchments and low cost wastewater treatment in Melbourne, largely gravity-based systems in regional Victoria, and the line-in-the-sand approach to setting initial regulatory asset values.

6: NERA Economic Consulting, Assessment of Financial Viability Indicators for the Victorian Water Sector, 1 May 2024.

investment grade credit rating. We elected to use 80 per cent. While this is higher than the 70 per cent adopted by IPART, we note that when IPART reviewed this ratio in 2018, its consultants recommended a ratio of 80-85 per cent but IPART ultimately chose a 'cautious approach'.[7]

We are confident in our methods for assessing financial viability and ensuring that our price determinations do not compromise financial viability. Our notional and actual tests, which are consistent with maintaining an investment grade credit rating, were used in the 2026 North East Water and Melbourne Water reviews. We note that Victorian water businesses are generally comfortably placed within the ratios for an investment grade entity, however the guidance asks businesses to provide independent credit ratings as part of the review process if they have viability concerns.

If the financial ratios or credit ratings suggest a business's viability is at risk, we can make a 'safety net' adjustment to prices.

In relation to the WSAA's suggestion that we prepare an annual consolidated report on financeability, we do not propose to do so at this stage given the strong focus on assessing financial viability through the price review process. We also note that businesses concerned about financial viability during a regulatory period can apply to re-open and vary their price determination.[8]

We will add a tool to our regulatory accounting template to help businesses monitor their own performance against the ratios we use in our actual financeability test.

Our response: We have kept our approach to the tax allowance (gamma) in our final guidance

Including a dividend imputation factor in the tax allowance supports competitive neutrality and is consistently adopted by Australian regulators. It is a benchmark assumption which is applied across all regulated industries, regardless of the circumstances of the individual owners of regulated businesses, including whether they can benefit from dividend imputation credits or not. One reason for this approach is that if ownership of a regulated entity was to change, it is unreasonable for customers to pay higher (or lower) prices simply because of this change.

An example of the widespread nature of the application of gamma was when we were accredited by the Australian Competition and Consumer Commission (ACCC) to review prices for (the Victorian Government-owned) Goulburn-Murray Water's infrastructure charges under the *Water Charge (Infrastructure) Rules 2010*. One of the conditions was that when estimating the tax

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7 See IPART, *Review of our financeability test*, 2018, available at Final Report - Review of our financeability test - November 2018.

8 See: water-guideline-guideline3-2025-varying-a-price-determination-20250930.pdf.

building block, we were required to *multiply the annual estimated corporate income tax bill of the operator by an imputation factor (gamma)*.[9]

The value of gamma is extremely difficult to measure empirically but we have consistently used 0.5 across our water regulatory decisions. Other regulators use different but similar estimates, for example:

- the AER currently uses 0.57 (although it proposes to move to 0.58)
- ESCOSA adopts 0.5 for SA Water
- IPART uses 0.25 for its regulated water entities in New South Wales.

It is important to note that most Victorian water businesses are not in a tax-paying position. For businesses in a non-paying tax position, the tax allowance is zero, meaning gamma is irrelevant to the tax calculation. For, those businesses that do pay tax, the tax allowance reflects several benchmark assumptions. In addition to gamma, these include an assumed average tax rate of 30 per cent and debt level equivalent to 60 per cent of the regulatory asset base (RAB). The tax allowance is in addition to the RoE.

These benchmark assumptions will be different from actual business experience. For example, most Victorian water businesses have debt levels of much less than 60 per cent of the RAB, although some do have debt levels above 60 per cent Further, the assumed average tax rate of 30 per cent represents an upper bound and a business's actual average tax will usually be lower than this. This means that the benchmark tax assumptions used to derive the revenue requirement and prices will always be different from a business's actual tax obligations.

We do not propose to change our approach to gamma and will continue to adopt a value of 0.5 in the 2028 price review. Where analysis demonstrates that a business's financial viability is at risk, including but not limited to the result of differences between actual and benchmark tax payments, we will make 'safety net' adjustment to prices.

You asked for more detail on operating expenditure step changes and financial forecasts

Several submissions, including from VicWater and the WSAA, asked that we define the materiality threshold that will apply when water businesses propose further changes to their forecast operating expenditure to reflect future cost increases not covered by the baseline allowance.

Other submissions from water businesses, including Central Highlands Water and Wannon Water, welcomed the stronger emphasis on long-term planning but noted that our move to require water businesses to provide 15 years of forecast expenditure would present practical challenges,

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[9] Application by ESC for accreditation under the Water Charge (Infrastructure Rules) Final Decision by the ACCC on 17 February 2021. This document is available at: ACCC Final decision on accreditation of ESCV under WCIR

particularly for the accuracy of operating expenditure forecasts. Water businesses asked for further guidance on the level of detail expected for forecasts towards the end of the 15-year period.

Our response: We have not defined a materiality threshold in our final guidance

We have not defined a materiality threshold in our final guidance, as we consider the baseline allowance (including any accepted increases to the previous benchmark) plus the growth allowance and annual adjustments for inflation, should provide for almost all a business's controllable operating expenditure needs. Our reasons for this are set out in the guidance paper. We have also reset our expectations for realistic efficiency improvement rates in our PREMO assessment tool (as set out in Appendix E of the guidance).

Water businesses can propose step changes to reflect material future cost increases not covered by these allowances. However, we would not expect businesses to propose a significant number of step changes reflecting relatively minor cost increases.

We do not think it is appropriate to specify a materiality threshold given the varying circumstances of water businesses. Whether a materiality threshold is appropriate will depend on the specific business and what they are proposing to do.

Our response: We have added more on the level of detail required in 15-year forecasts in our final guidance

In our final guidance we have kept the new requirement for businesses to provide a 15-year forward look. This longer outlook will help to address previous feedback from the water sector about the commission being overly focused on the short-term. It also signals our expectation that water businesses demonstrate they are thinking longer-term and not just about the current regulatory period.

We consider this requirement to be a test of planning, before it is a test of accuracy. In line with this, we have updated the final guidance to be clear about the level of detail we expect to see in price submissions to assist water businesses. We note that North East Water and Coliban Water presented on their approach to long-term planning at an online industry forum we held in May this year. We consider that what these businesses presented is a good example of the approach we expect other water businesses to take.

For the 15-year outlook, we expect forecasts for years 1 to 5 to be robust and detailed, given these directly inform the prices we are approving from 1 July 2028. For years 10 to 15, businesses should use the best available information to reflect expected trends and any known material changes.

You wanted more clarity on expectations for engagement with Traditional Owners

Submissions welcomed the increased focus on engagement with Traditional Owners and were supportive of the updates we made to our draft guidance. However, we heard consistent feedback,

including in submissions from Central Highlands Water and Goulburn-Murray Water, that water businesses wanted the final guidance to be clearer on our expectations for engagement with Traditional Owners.

Submissions from Coliban Water and the WSAA asked how our guidance aligned with wider government policy and whether it creates new obligations beyond current government frameworks.

East Gippsland Water's submission included support for the recognition of Traditional Owners as rights holders rather than stakeholders but requested more detail on how this distinction might be reflected in practice in engagement activities. In its submission, Tingwall raised that we could improve our final guidance by more clearly separating out how we expect water businesses to engage with Traditional Owners versus how they engage with First Nations customers.

Submissions from Coliban Water, VicWater and the WSAA also raised concerns about the capacity of Traditional Owner groups to engage, suggesting engagement requirements in the draft guidance could unintentionally burden Traditional Owner groups. Both VicWater and the WSAA raised concerns with First Nations cultural safety.

As part of wider conversations during this consultation period, some water businesses also asked for clearer guidance about our expectations for engagement where there is no Registered Aboriginal Party in their service area for them to engage with, or where they cannot fully achieve engagement objectives in a single regulatory period.

Our response: We have updated our final guidance to make our expectations clearer

We have updated the guidance in response to this feedback, including changes to the main document as well as adding new, detailed examples in the PREMO assessment tool (Appendix E).

Since we published the draft guidance, we have also released our First Nations Self-Determination Framework.[10] This framework sets out the wider policy context relevant to both the water sector and the commission, as well setting out the commission's approach to enhancing regulatory inclusion through our existing frameworks.

We agree that the availability and capacity of Traditional Owner groups to engage, as well as cultural safety, are important for water businesses to consider when planning and delivering their engagement. We consider these issues are already addressed in the engagement principles. However, to make this clearer, we have updated Section 3.3 of the guidance and the PREMO assessment tool. These changes reinforce our expectations that businesses' engagement practices must be accessible and inclusive, as well as our expectations on how water businesses communicate engagement outcomes to the wider community. We have also made clear our

[10] Essential Services Commission 2026, *First Nations Self-Determination Framework: Enabling First Nations-led outcomes at the commission*, 21 July.

expectations that businesses must make best efforts to engage, which applies where there is no registered Traditional Owner group.

In response to feedback seeking clearer guidance on how engagement with First Nations consumers differs from Traditional Owner groups, we have expanded the engagement section of the guidance and the related section of the PREMO assessment tool. This includes two new sections specific to First Nations customers and one for Traditional Owner groups that are based on current industry practice, examples shared in our recent consultation, or examples identified in past price reviews.

Some of you made suggestions about expectations for strengthened water business engagement

Six submissions provided feedback specific to customer engagement, including supporting the commission's continued focus on customer and community engagement, and recognising engagement as an important part of the pricing framework.

The submission by Concerned Waterways Alliance included the observation that existing water business engagement was not well suited to participant organisations whose interests extend beyond a single water service area. It considered that the guidance could address this by including stronger messages about the need to engage beyond the customer base on environmental matters.

Friends of the Gippsland Lakes raised various concerns around the quality of information and engagement methods water businesses use. This included where information provided, or engagement methods used by businesses were insufficient, or being misapplied such that customer or community views could be misrepresented in the engagement outcomes. The submission described willingness-to-pay studies that do not also account for household income, with the consequence that the results do not distinguish between the preferences of those who can absorb increases from those who cannot. The submission also cautions against using ranking tools to engage on policy obligations such as environmental water.

To address these concerns both Friends of the Gippsland Lakes and the Concerned Waterways Alliance proposed the guidance be updated to strengthen disclosure requirements so the commission can better assess the quality of information put forward by water businesses pricing proposals. Friends of the Gippsland Lakes suggested further gains could be made if disclosure occurred earlier in the engagement process, at a time when correction by the water business remained possible.

A submission by Tingwall supported the commission's overall approach to engagement, but also made suggestions to support the clarity of the guidance, and to further advance water business engagement. This included where we could do more to promote the exploration of customer and community values – noting this is an area where customers are uniquely placed to contribute. The submission:

- Outlined benefits of clarifying the guidance to promote stronger integration of price submission engagement with other relevant engagement programs.
- Sought stronger expectations on water business information transparency when engaging on fixed or future prices, to ensure customers are fully informed of the starting point of a customer bill when sharing views of service level changes.
- Provided feedback about engaging with young and future customers, suggesting more could be done to elicit longer-term views, consistent with the planning horizon and challenges facing water businesses.

Tingwall also encouraged the commission to consider how the guidance could do more to address the consequences of systematic disadvantage, including by doing more to advance the fairness and equity outcomes identified in the commission's *Getting to Fair: Advancing Equity* strategy. It also identified the opportunity for water business engagement to do more to highlight with its wider customer base the needs and perspectives of First Nations people and for customers who experience vulnerability.

In addition to its feedback on engagement practice, the Tingwall submission suggested we clarify our engagement expectations in the areas of tariffs and New Customer Contributions, noting that terms such as 'consultation' have defined meanings when used in a public participation context.

Our response: We have updated our final guidance to make our expectations clearer

We agree with many of the issues raised in submissions and have responded to this feedback with various changes to the body of the guidance and with detailed examples in the PREMO assessment tool). This includes multiple updates to improve the clarity and consistency of our expectations for:

- engagement transparency
- consideration of wider community interests
- equitable outcomes for consumers, aligned with our *Getting to Fair: Advancing Equity* strategy
- longer-term focus.

For example, in response to the feedback from Friends of the Gippsland Lakes and the Concerned Waterways Alliance we have made various updates on who we expect water businesses to engage with on matters of wider community interest. We have also included into the PREMO assessment tool examples of 'Advanced' and 'Leading' practice drawn from past pricing decisions.

In relation to feedback from Tingwall as well as Friends of the Gippsland Lakes and the Concerned Waterways Alliance on the importance of information and outcome transparency, we have made several updates to the supporting information requirements. We have also included into the PREMO assessment tool past examples of 'Advanced' and 'Leading' engagement design and information transparency.

Since we published the draft guidance, we have also released our *Getting to Fair: Advancing Equity* strategy. This framework sets out the commission's approach to the structural and system-led factors that create, reinforce or exacerbate inequitable outcomes over time. In the guidance we have made various updates to further promote accessible and inclusive engagement, and to promote water businesses consideration of equitable distribution of benefits and costs in price and service outcomes.

We have made extensive updates to the PREMO assessment tool to reflect engagement practices from past pricing decisions that have been assessed as 'Standard', 'Advanced' and 'Leading' practice. We have also made various updates to the engagement terminology in the guidance, consistent with our expectations on the level of public participation.

You raised concerns with the earlier lodgement date

Multiple water businesses raised concerns with the 13 September 2027 due date for price submissions outlined in our draft guidance. Businesses asked why we had brought the due date forward from the end-September deadline used in prior price reviews.

In its submission, VicWater noted that an earlier submission date may disrupt businesses' project planning and engagement activities, as well as place pressure on executives and boards to complete reviews and sign-off on submissions.

Businesses including Barwon Water, Coliban Water and Wannon Water asked that we return to a late-September due date for submissions. South East Water and Yarra Valley Water asked that we commit to earlier release of our final decisions on price submissions, if the submission date is brought forward for businesses.

Our response: We have kept the proposed timing for the 2028 price review process but have committed to making our final decisions earlier

While we acknowledge the impacts of an earlier submission date on water businesses, we have kept the 13 September 2027 due date for submissions in our final guidance.

The earlier due date is in line with the farrierswier review of the 2023 and 2024 water price reviews, which identified several benefits from changing the overall timing of the price review process.[11] This included allowing businesses and the commission to:

- Make better use of fast tracking – we expect some businesses to be fast tracked. For these businesses, we expect to be able to release our draft decisions in December 2027 and final decisions in early May 2028.

[11] Farrier Swier Consulting 2024, Review of the 2023 Victorian water price reviews: How effectively did the 2023 water price review process and outcomes deliver on the objectives of PREMO? August.

- Have a more structured process in place to deal with price submissions that don't meet our requirements.

In response to feedback from water businesses and to do our bit to support the earlier due date, we have also brought the following timelines forward for the Water Pricing Review 2028 process:

- Water Price Review 2028 guidance published more than five weeks earlier than the 2023 price review guidance, to help businesses meet the earlier due date.
- We will publish our final water pricing decisions by Thursday, 8 June 2028, which is more than a fortnight earlier than our decision date for the 2023 price reviews.

Other feedback themes

Unmetered domestic and stock diverter customers

We received several submissions from unmetered domestic and stock diverter customers of Goulburn-Murray Water. These customers suggested that the commission issue specific guidance for each water business, including Goulburn-Murray Water. They also suggested that water businesses should have to provide detailed information on their diversion tariffs, and that unmetered domestic and stock diverter customers should be treated separately from other types of customers.

We have not added anything further specific to diverter customers in our final guidance. Consistent with our 2024 price decision, the guidance requires Goulburn-Murray Water to address how it has improved the collection of data to ensure diversion tariffs for small scale diverters are cost reflective.

The provision of this information in Goulburn Murray Water's pricing submission should address the concerns that these submissions have raised. We will continue to engage with Goulburn-Murray Water on our expectations as it prepares its price submission. Goulburn Murray Water has indicated to us that it is working on how to better explain the basis for these charges, how they are described and how they are cost reflective. .

Environmental sustainability

Submissions from Friends of the Gippsland Lakes and the Concerned Waterways Alliance suggested we make several updates to our final guidance to better address environmental sustainability and water conservation.

These submissions had a focus on water use by large load customers, particularly data centres. They suggested that water businesses should have to undertake comprehensive forecasting of water demand associated with large loads. They also suggested we require water businesses to publicly disclose the impact of large loads on water sources, and that households be protected from paying for augmentation costs associated with large load customers.

Concerned Waterways Alliance also suggested that environmental outcomes be incorporated into tariffs, and that water businesses should have to report on their environmental functions.

We agree that businesses should be transparent about the costs and impacts associated with large load customers. Our proposed pricing principles look to address this transparency. We also expect water businesses to have full cost recovery from large load customers. Our draft guidance already addressed these issues, so we have not made further updates to our final guidance. However, we recognise that this a rapidly developing space and this is the first time our guidance has included specific requirements for large loads. We also note that the Department of Energy Environment and Climate Action has released an Industry Water Connection Guide.[12] We will continue to monitor developments in this area. We are supportive of transparency and reporting on the impacts of data centres, but these issues go beyond our pricing role. We will continue to engage with government on these issues.

Our existing guidance incorporates conservation signalling within tariffs. We expect water businesses to review and test their current tariffs, and any significant tariff changes, against long run marginal cost. Businesses are generally setting tariffs above long run marginal cost due to customer preferences for greater emphasis on variable tariffs

New Customer Contributions

Comments were favourable on the work we have done on New Customer Contributions. Some submission requested the release of the model, user guide and case studies, which we have now done.

[12] Industry water connection guide

Summary of feedback by consultation question

The following table summarises the feedback we received that relates directly to the eight consultation questions we asked.

We asked	You said
Is our explanation of how we assess eligibility for fast tracking helpful? What other information might help?	• The updated guidance is clear. • Disagree with the criteria for fast-tracking because it favours businesses not proposing major changes. • Water businesses' environmental performance should be part of the criteria for fast-tracking. • Case studies or examples of fast-tracked submissions would make the guidance clearer.
What do you think about the commission's proposal to publicly report on water businesses' expenditure? What measures do you think we should track and report on?	• Supportive of the proposal to publicly report on expenditure. • The commission should try to align with other reporting required by government as much as possible. • The commission should track and report on performance against benchmarks for controllable opex, major project spending and expenditure on asset renewals. • The commission should also include outcomes reporting and reporting on customer sentiment.
What are your views on the commission's plan to introduce a financial incentive mechanism for operational expenditure to reward efficiencies and discourage over-spending?	• Support the idea in principle but would like more detail on how it will work in practice. • Unclear what benefits the efficiency benefit sharing scheme (EBSS) offers compared to existing incentive mechanisms already part of the PREMO water pricing framework. • The EBBS will introduce significant complexity. • The commission should hold workshops or publish a technical paper explaining how the EBSS will work. • Concerned the EBSS will lead to businesses being overly risk averse. • The commission should provide more detail on how the EBSS will interact with existing incentives in the PREMO framework. • Regional and rural businesses should be treated differently from metropolitan businesses. • The commission should provide more detail on how carve outs will be defined and treated. • The commission should better define controllable versus non-controllable operating expenditure. • The EBSS should exclude avoided-cost demand-side expenditure from the penalty calculation. • The EBSS should be prevented from having negative environmental consequences.

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We asked	You said
What do you think about the proposed updates to the Customer Engagement section of the draft guidance? Are the principles and assessment criteria clear?	• Updates to the engagement section are clear. • Businesses should have to disclose engagement instruments used, their method for sampling and disaggregate willingness-to-pay data by people's capacity to pay. • Businesses should have to meaningfully engage with environmental and community stakeholders. • The draft guidance should include a clear expectation for engagement on unavoidable price increases. • The guidance should include more on expectations for engagement with people experiencing vulnerability, people living with a disability, and young and future customers. • The final guidance should note that effective engagement can differ depending on the context of the water business.
Is it clear what the commission expects of water businesses with regards to engagement with First Nations people, particularly Traditional Owners? Is there other information we should include?	• The engagement expectations for Traditional Owners could be clearer. • The commission should clarify how the expectations in the guidance align with obligations in other government frameworks. • The final guidance should more clearly separate out expectations for engagement with Traditional Owners from First Nations people more broadly. • Traditional Owners have advised water businesses they have limited capacity to engage. • The commission should further clarify the difference between rights holders and stakeholders and what this means for engagement. • The commission should clarify how water businesses are expected to test Traditional Owner rights and priorities with the broader customer case. • Recognition that consultation with their broader customer base on Traditional Owner priorities risks negative reaction that puts cultural safety at risk.
Do you have any feedback on the updated guidance on New Customer Contributions? Do you think it clearly sets out the commission's expectation for how New Customer Contributions should be treated in price submissions?	• Support the commission's New Customer Contribution (NCC) framework. • Business customers should not pay less than residential customers. • The proposed updates appear onerous for water businesses with limited resources or little growth in their service area. • The release of the commission's NCC case study manual will help implementation.

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We asked	You said
Are the pricing principles for large and/or complex connections clear and practical to apply? Is there anything you think we should consider changing?	• The principles would benefit from being more specific. • More detail on how risk will be allocated and the commission's expectations for customer-specific infrastructure would be helpful. • Case studies and testing with affected customers would help implementation. • Businesses should have to disclose recycled-water reallocation and uncommitted large-load demand. • Households should be protected from paying for large-load augmentation costs. • There should be comprehensive large load demand forecasting and increased disclosure of the impact of large loads on water sources. • The commission should confirm if the same principles apply to large and/or complex connections as New Customer Contributions (NCCs).
Is there anything else you think we should consider before we finalise the guidance paper?	**Submission dates** • The earlier submission date will affect businesses' preparation of price submissions. • The commission should consider extending the date for submissions to end-September 2027. • The commission should commit to earlier final decisions if it keeps the mid-September submission date for businesses. **Transparency on financial inputs** • The commission should consult further with water businesses to explain how it calculates return on equity (RoE) and cost of debt. • The commission should confirm that the proposed RoE reflects the prevailing market cost of equity. • The commission should review RoE ahead of the next regulatory period. • The commission should reconsider its benchmark approach to calculating the tax allowance. • The commission should clarify its proposed approach to the debt deflator. **Materiality threshold** • The commission should define the materiality thresholds that will apply to opex step changes. • The commission should provide more clarity on how it will treat uncontrollable increases to operating expenditure.

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We asked	You said
Is there anything else you think we should consider before we finalise the guidance paper? (continued)	**15**-year forecasts • 15-year expenditure is difficult to reliably forecast. • The commission should give further guidance on the level of detail expected for long-term forecasts. **Dive**rter customers • The commission should issue specific guidance for each water business, including Goulburn Murray Water. • Businesses should have to provide detail on diversion tariffs. • Businesses should treat unmetered domestic and stock diverter customers separately from other customer types. • Regulatory periods should be shortened to three years. • Businesses should be required to give small customer groups the same consideration as larger customer groups. **Environmental issues** • Environmental outcomes should be part of tariff and pricing. • Water businesses should have to report on environmental functions. • The commission should make environmental outcomes part of the PREMO assessment. • Water resource management responsibilities should be made into explicit service commitments. • The commission should require large load tariffs and contracts to recognise increased risks such as drought. • Large load customers should have to account for environmental offsets, trade waste and discharge impacts. **Mandatory outcome measures** • The commission should consult further on inclusion of output measures relating to safe drinking water and EPA licences. • Safe drinking water is better considered a core service obligation, rather than a customer outcome. • There should be flexibility to remove measures that have become obsolete, duplicative or are no longer meaningful to customers. **PREMO assessment tool** • When will the commission update the assessment tool, and what level of change can businesses expect? • Earlier updates to the tool have set the bar high. • The commission should update the tool to make the quality of least-cost options analysis assessable.