

27/02/2026

Marcus Crudden
Executive Director, Price Monitoring and Regulation
Essential Services Commission
Level 8, 570 Bourke Street
MELBOURNE VIC 3000

Dear Marcus,

Re: Addendum to Melbourne Water's 2026 Price Submission – large and complex connections

Melbourne Water's 2026 Price Submission proposed to formalise pricing principles for situations when large and/or complex customer connections are proposed for water, sewerage or recycled water networks that may require Melbourne Water to build or bring forward works.

As this issue is still emerging and policy settings continue to evolve, specific implementation mechanisms were not defined in the submission.

We attach here an addendum to our 2026 Price Submission that outlines consultation undertaken since submission and Melbourne Water's proposed pricing principles for further consultation through the review process.

We note that the principles may require review during implementation of the Commission's 2026 new customer contributions framework for water corporations, and during the 2031 price review.

If you have any questions, please contact [REDACTED], Head of Pricing Submission at [REDACTED] or on [REDACTED]

Yours sincerely

[REDACTED]

Dr Nerina Di Lorenzo

Managing Director

Cc: Water Corporations , DEECA

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Addendum to Melbourne Water's 2026 Price Submission

In section 11.3 of Melbourne Water's 2026 Price Submission, Melbourne Water proposed to introduce a new mechanism to collect upfront contributions and cost-recovery fees for large and/or complex connections either to connected water corporations or directly to Melbourne Water.

Since the submission, policy has been clarified and large scale applications have been received by water corporations. Melbourne Water has further consulted and developed this proposal.

Consultation on this proposal

Melbourne Water has consulted with connected water corporations through workshops and with the Department of Energy, Environment and Climate Action (DEECA) through regular discussions, and has assessed the statutory and regulatory requirements to ensure alignment with the *Water Act 1989* (Vic), the Commission's *NCC Framework* (22 January 2026), and the Victorian Government's *AI Mission Statement* (30 January 2026).

The workshops with water corporations explored:

- Whether there was merit in Melbourne Water exploring a capital contributions scheme for bulk water and sewerage services. There was consensus to move forward noting applications are happening now.
- The statutory and regulatory underpinnings of capital contributions and the different powers of Melbourne Water as a bulk service provider compared to retailer-distributor powers and those of vertically integrated regional businesses. Section 264(1) of the *Water Act 1989* (Vic) allows Melbourne Water to '*set charges for anything it does in the performance of its functions*'. This is less specific than the 'owner finance' provisions in the Act which enable water corporates to recover contributions from properties owners and apply to Melbourne Water when exercising its waterways management functions under Part 10 of the Act.
- Potential options and timings for scheme design. There was consensus that new 'large' entrants should contribute to connection costs, including an element payable to Melbourne Water.
- Practical implementation matters, including development of policies, procedures and agreements.

Melbourne Water has also developed proposed ongoing charges and principles that would apply if an applicant sought to undertake sewer mining activities from Melbourne Water's assets. Further engagement and consultation on this work will continue ahead of implementation.

Melbourne Water's proposal

Our proposal seeks to provide clarity for developers and customers that may require Melbourne Water to build or bring forward works, and balance the costs and benefits of growth by allocating them between new and existing customers. It comprises:

- back-to-back arrangements between Melbourne Water and connected water corporations so that all costs that are incurred as a result of the connection are recovered
- miscellaneous fees to recover:
 - investigation and application costs
 - ongoing fixed, usage and reservation costs
 - disconnection costs
 - any other up-front or ongoing operating costs incurred by Melbourne Water to service the new connection
- a capital contribution, which:
 - is calculated for each application
 - recovers the costs of constructing – or bringing forward – infrastructure required for the new connection
 - is charged:
 - > to the water corporation to which an applicant seeks to connect and subsequently passed through to the applicant via a negotiated new customer contribution;
 - > or in the case of a direct connection to Melbourne Water's works, from the applicant.

The capital contribution and its pass-through to applicants via water corporations would be governed by:

- section 264(1) of the *Water Act 1989* (Vic) which allows Melbourne Water to 'set charges for anything it does in the performance of its functions'
- relevant provisions in Melbourne Water's and each water corporation's Connections Policy and Negotiating Framework.

Further work

Melbourne Water will continue to work with the water corporations, DEECA and the Commission on implementation in the next regulatory period consistent with the Commission's NCC Framework. This will include:

- **Connection Policies:** Development of a connection policy that clearly outlines when a referral is needed to Melbourne Water that may result in contribution for upgrades or bring-forward of bulk assets. We will work closely with connected water corporations to ensure consistency with connected water corporations' policies.

- **Detailed pricing principles:** Melbourne Water will continue to work with water corporations on detailed pricing principles and the charging framework.
- **Negotiating Framework:** Preparation of a negotiating framework that would outline the steps and processes which Melbourne Water would take and how it would fit in the water corporations' negotiating framework. This would include dispute resolution processes.
- **Tripartite Agreements:** Development of a standard tripartite agreement to be used as a template for future connections that would be subject to a contribution for bulk assets managed by Melbourne Water.

Implications for revenue, expenditure and demand forecasts in PS26

Melbourne Water has not incorporated any forecast expenditure or revenue associated with the forecast demand from large or complex connections in its 2026 Price Submission. Any revenue would be treated in the regulatory framework consistent with other contributions and tariff revenue. For example, cost recovery of capital expenditure through upfront charges would offset the regulatory asset base, capital expenditure would be added to the regulatory asset base and annual revenue would be forecast into offsetting the revenue requirement.

We note that this is an emerging area and our desktop studies of global data centres show high variability in water efficiency. As such, the future water use of this industry is subject to significant influence from state policy, including through the Government's *Sustainable Data Centre Road Map*.

Proposed pricing principles

Melbourne Water has drafted two sets of pricing principles for inclusion in our future policies. These are:

- Pricing principles for special and other charges for large and/or complex connections to water, sewerage and recycled water services (Attachment 1). The pricing principles set the principles to calculate special charge (i.e. upfront contribution) and the other charges (investigation, ongoing and disconnection), as well as connections policy development, negotiation framework and dispute resolution provisions.
- Pricing principles for sewer mining (Attachment 2). The pricing principles set the principles to calculate prices for sewer mining activities for the purpose of on-selling water, sewage and/or recycled water, and may discharge back into the source sewer.

Attachment 1: Pricing principles for special and other charges for large and/or complex connections to water, sewerage and recycled water services

The following principles relate to **special charges** and **other charges payable** for large and/or complex connections to water, sewerage or recycled water services, that Melbourne Water sets under section 264(1) of the *Water Act 1989 (Vic)*¹.

Core pricing principles

Special charges will be calculated by applying the following pricing principles. **Special charges** will have regard to:

- incremental infrastructure and associated costs in one or more of Melbourne Water's statutory cost categories attributable to the given connection, which must be greater than the avoidable cost of not servicing the connection and less than the standalone cost of servicing that connection (incremental cost)
- incremental future benefits that will be earned by Melbourne Water from customers at that connection.

Notes:

1. Given that **special charges** are to be based on the net incremental cost of connection (i.e. incremental costs net of incremental benefits), in this context, the costs referred to in the efficient pricing bound are the net costs, specifically the avoidable net cost of connection and standalone net cost of connection.

2. Where the connection arrangement requires assets to be gifted, the value of gifted assets will be excluded for the purpose of calculating net costs.

2. Where the connection arrangement requires assets to be delivered by one or more Water Corporations other than Melbourne Water, the incremental costs and benefits and gifted assets attributable to those other Water Corporations will be excluded for the purpose of calculating Melbourne Water's **special charge**.

3. Incremental costs may include incremental financing costs associated with constructing an asset sooner than planned.

4. The Water Corporations are those that have a bulk supply agreement with Melbourne Water, which includes the following plus any other water corporation that enters into a bulk supply agreement with Melbourne Water:

- Barwon Water

¹ Section 264(1) of the *Water Act 1989 (Vic)* provides that 'An Authority may, by by-law or otherwise, set charges for anything it does in the performance of its functions, including any function delegated to it.'

- Gippsland Water
- Greater Western Water
- South East Water
- South Gippsland Water
- Westernport Water
- Yarra Valley Water

Incremental financing costs

Incremental financing costs (IFC) should be calculated using this formula:

$$\text{IFC} = \left(1 - \left(\frac{1}{(1+r)^n}\right)\right) \times \text{cost of capital being provided sooner than planned}$$

Where:

- r estimated pre-tax regulatory rate of return
- n the number of years the asset is required sooner than planned

Application

Special charges for Melbourne Water apply to Water Corporations, or to the applicant in the case of a direct connection, in relation to the connection of a new customer, or increase in the capacity of an existing connection, to Melbourne Water's works or the Water Corporations' works:

- that is separately titled or is, or can be, individually metered, or is connected directly to Melbourne Water's works^{2,3}
- where the new connection is not Standard⁴ under the Water Corporations' own NCC frameworks
- where the requirements of the new connection are sufficiently large or complex such that infrastructure is required to be provided by Melbourne Water.

Large or complex connections

Large or complex connections are those that:

- have an instantaneous peak, annual demand, or trade waste load significantly higher or different to those of residential, domestic or light commercial use as set out in the connections policies of Melbourne Water and/or the Water Corporations; or
- require Melbourne Water to construct works to service the connection directly or indirectly via the Water Corporation's networks; or

² Connections to Melbourne Water's works are generally not approved by Melbourne Water, but may be considered where there is no adverse impact to operations and where they do not result in inefficient bypass.

³ Works has the same meaning as per the *Water Act 1989* (Vic).

⁴ Standard connections are where infrastructure requirements and growth rates are relatively well known and are documented in a connected water corporation's Development Servicing Plan. Standard connections are common across a defined group of connections within a clearly specified area and any specified criteria for connection characteristics as defined by the connected water corporation.

- require Melbourne Water to construct works earlier and/or at a greater capacity than planned.

Direct connections to Melbourne Water's works

Direct connection to Melbourne Water's works, outside of its treatment plants could occur when a Water Corporation cannot meet the needs of the applicant and when the arrangement would not result in inefficient bypass.

A direct connection to Melbourne Water's works includes one or more of:

- a connection to Melbourne Water's bulk water works for the purposes of water supply;
- a connection directly to Melbourne Water's bulk sewerage works for the purposes of sewage or trade waste disposal; or
- a connection to Melbourne Water's bulk sewerage system for the purpose of treating sewage to produce recycled water, or
- a connection directly to Melbourne Water's recycled water works for the purposes of water supply, where approved; or
- properties or entities connecting directly to Melbourne Water's recycled water works for the purposes of further treating the recycled water prior to use, where approved.

Direct connections include entities that utilise Melbourne Water's services on premises, and entities that seek to on-sell water, sewerage or recycled water services to other properties or entities.

Connections Policy

Melbourne Water will maintain and publish a **Connections Policy** which outlines the circumstances under which Melbourne Water will consider direct connections to its services, thresholds for Melbourne Water special charges, interactions with the Water Corporations' connections policies, bulk supply agreements and billing arrangements as well as other charges payable to Melbourne Water, negotiating frameworks and dispute resolution arrangements.

Other charges payable

Other charges payable to Melbourne Water include application investigations, ongoing charges and disconnection charges.

Investigations

Prices for investigations and to process applications will be set in accordance with *Pricing principles for miscellaneous services not included in Schedule 2*⁵ and include but are not limited to:

- Technical assessments (including preliminary technical assessments)
- Investigations and feasibility studies
- Site visits
- Internal or external reports including engineering, environment, legal and planning reviews
- Detailed design
- Administrative processing, and
- Any other direct or indirect cost associated with the investigation or application to connect

Ongoing charges

Prices for ongoing charges payable to Melbourne Water via the Water Corporations or, in the case of any direct connection, the large and/or complex customer, will include fixed charges⁶, usage charges, and reservation charges⁷ and will be set in accordance with Melbourne Water's cost allocation methodology.

Ongoing charges are applicable to the connection unless the property has disconnected.

Disconnection charges

Disconnection charges apply when a large and/or complex customer that has connected to a water corporation, or Melbourne Water's water, sewerage or recycled water services:

- removes the physical connections to the water corporation and/or Melbourne Water; and
- has paid a connection contribution charge to Melbourne Water via its the water corporation.

Disconnection charges must be set to have regard to works constructed to serve the large and/or complex customer, the forecast utilisation of the works constructed by the wider customer base, and consider any contribution made by the large and/or complex customer.

⁵ Schedule 4.5 in the Melbourne Water Determination 1 July 2021 to 30 June 2026.

⁶ Fixed charges may include annual service charges that reflect any ongoing metering, monitoring and other costs incurred directly or indirectly by Melbourne Water with the connection.

⁷ Reservation charges may apply if the new connection requires supplementary and/or intermittent back-up supply.

Dispute resolution

In the event of a dispute between parties, Melbourne Water, and where relevant, the Water Corporation, will continue attempts to resolve the matter by negotiation.

After Melbourne Water provides its Offer, or a Water Corporation provides its Offer incorporating Melbourne Water's costs, if the Connection Applicant does not accept the Offer, the Connection Applicant has particular rights to seek a review in VCAT of the terms and conditions of connection and the costs applied. These VCAT review rights, including various time lines, rights and process are set out in the *Water Act 1989 (Vic)* and the *Victorian Civil and Administrative Tribunal Act 1998 (Vic)*.

Attachment 2: Pricing principles for sewer mining

Sewer mining is the practice of extracting sewage from a sewer and treating the sewage to recover a desired resource (e.g. recycled water). Sewer mining may also involve management of waste byproducts (e.g. by way of disposal back to the source sewer, or another sewer).

Sewer mining pricing principles apply when a sewer mine connected to the works of a Water Corporation⁸ and is sufficiently large or complex so as to alter the planning for and/or operations of Melbourne Water's works, or if a sewer mine directly connects to Melbourne Water's works. Direct connection to Melbourne Water's works for the purpose of sewer mining can only occur when there is not an alternative water corporation that can meet the needs of the applicant and when the arrangement would not result in inefficient bypass.

Prices for sewer mining under a tripartite agreement with the relevant water corporation must be set to have regard to:

- **connection costs** – costs to Melbourne Water to allow a sewer miner to construct physical infrastructure and access the sewer, including feasibility studies of works to be undertaken by Melbourne Water. **Disconnection costs** would be incurred by the operator when a sewer mining operation ceased.
- **monitoring costs** – costs incurred monitoring and managing the composition of sewage extractions from, and discharges into, the sewerage system. Monitoring would have to ensure that technical, operational and safety requirements were met and that acceptance standards for trade waste discharges by sewer miners were complied with.
- **metering costs** – costs incurred measuring the quantities and qualities of sewage extracted and trade waste returned to the sewer by the sewer miner, for monitoring and billing purposes. Costs would include installing, maintaining and reading meters and the costs of developing a protocol for measuring sewage volumes.
- **administrative costs** – costs incurred to reach agreement with a sewer miner on terms and conditions, to finalise a contract, and to monitor performance under the contract. This would include billing costs. There may be additional costs to revise or develop maintenance and emergency plans that take the sewer mining operation into account.
- **extraction costs** and **benefits** – costs and benefits that reflect reasonable assumptions regarding the sewer miner's extraction. This would include costs that may be avoided or deferred (either capital or operating costs) by Melbourne Water by reduction in sewage volumes and loads at the treatment plant, and costs incurred by Melbourne Water to make the connection available.

⁸ Water corporation refers to a water corporation that has works connected to Melbourne Water's works

- **discharge costs** – costs associated with discharging waste into the sewer if directly discharging into Melbourne Water works. These prices must be set consistent with *Pricing Principles where scheduled prices do not apply*⁹.

⁹ Schedule 4.2 in the Melbourne Water Determination 1 July 2021 to 30 June 2026.