



# North East Water Draft Decision

2026 Water Price Review

2 April 2026



## Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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# Summary

## **Our draft decision considers North East Water’s proposed prices for a 5-year period starting 1 July 2026.**

This draft decision sets out our preliminary view of North East Water’s price submission.<sup>1</sup> Our draft decision should be read together with North East Water’s price submission.

We invite interested parties to comment on this draft decision before we make a final decision and issue a price determination in June 2026.

You can provide feedback via Engage Victoria: <https://engage.vic.gov.au/water-price-review-2026>.

## **North East Water has committed to delivering outcomes that reflect customer priorities**

North East Water plans to deliver the following outcomes for its customers:<sup>2</sup>

1. Fair prices: fair prices, value for money and increased customer support
2. Sustainable practices: minimise our impact on the environment and contribute to sustainable environmental health
3. Reliable systems: clean, safe water and more resilient systems
4. Responsive services: timely responses and a seamless customer experience
5. Local community: local community and local partnerships to achieve positive outcomes for customers.

Among its initiatives to deliver on its commitments, North East Water will:

- lower the variable component of its water tariff relative to the fixed component
- double the financial support it offers through its customer support program
- improve access to its customer support program through an awareness campaign
- partner with Traditional Owner and First Nations communities on environmental water projects.<sup>3</sup>

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<sup>1</sup> Clause 16 of the Water Industry Regulatory Order 2014 requires the Essential Services Commission to issue a draft decision; North East Water’s price submission is available on our website at [www.esc.vic.gov.au](http://www.esc.vic.gov.au).

<sup>2</sup> North East Water 2025, *Price submission 2026–31*, October, p. 65.

<sup>3</sup> North East Water 2025, *Price submission 2026–31*, October, p. 68.

It will also invest in wastewater treatment plant capacity and compliance, greenhouse gas emissions reduction, system renewals and upgrades, a digital metering trial, and new infrastructure.

## **Our draft decision is to adopt a lower revenue requirement than that proposed by North East Water**

Our draft decision adopts a revenue requirement that will allow North East Water to deliver on its customer service commitments, government policy, and legal obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

Our draft decision is to adopt a revenue requirement of \$490.7 million for North East Water over a 5-year period starting 1 July 2026 (see chapter 4).<sup>4</sup> This figure is \$15.7 million or 3.1 per cent lower than proposed by North East Water, mainly reflecting our adjustments to North East Water's operating expenditure and regulatory depreciation forecasts. We propose to accept North East Water's forecast capital expenditure.

## **Bills will increase under North East Water's proposal**

North East Water proposed that the typical annual water and sewerage bill would increase by around 5.5 per cent (before inflation) per year for a residential owner-occupier currently paying \$1,097, and by around 2.1 per cent (before inflation) per year for a residential tenant currently paying \$509. The lower revenue requirement we have proposed in our draft decision means North East Water will need to reconsider its maximum prices, with any changes flowing through to customer bills.

We acknowledge this proposed increase is one of the highest proposed by a water business in recent years. Our preliminary view is that North East Water has justified the expenditure increases behind its price rises as necessary to support regional growth and deliver its customers' expectations. We also note that North East Water currently has the second lowest typical customer bills for residential owner-occupiers, and its proposed tariff rebalancing will produce a lower price rise for its tenant customers.

We do not approve prices for each tariff at the draft decision stage of a price review. North East Water will need to update its prices to reflect our draft decision on its revenue requirement and our updates to inflation and cost of debt estimates prior to our final decision.

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<sup>4</sup> The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health. Along with forecast demand, it is an input to calculating the prices to be charged by a water business.

Our draft decision also provides an opportunity for North East Water to provide further information on the elements of our draft decision that differ from what it proposed in its price submission.

In June 2026, we will determine prices for North East Water in 2026-27 dollar terms. This means we will add the annual change in the March Quarter 2026 consumer price index (published by the Australian Bureau of Statistics) to its 2026-27 prices, which will also flow through to customer bills.

## **North East Water proposed to rebalance its water tariff structures**

North East Water proposed changes to its water tariff structures to better support tenants, large households and small businesses. For residential and non-residential water services, North East Water proposed:

- a two-part tariff with a fixed service charge and a variable usage charge
- to rebalance the tariff gradually over the 2026–31 regulatory period, increasing the fixed component to 35 per cent of a typical bill and reducing the variable component to 65 per cent.

For residential and non-residential sewerage services, North East Water proposed a fixed service charge only. It also proposed to maintain the existing location-based tariff loadings applicable to both water and sewerage fixed service charges over the next regulatory period.

North East Water proposed to retain its current tariff structure for trade waste services but proposed some changes to its miscellaneous charges to better align them with costs.

Our draft decision is to accept North East Water's proposed tariff structures as they generally meet the criteria in our guidance and are generally supported by customers (see section 5.3).<sup>5</sup>

Our draft decision is to accept North East Water's proposed price cap form of price control for reasons set out in section 5.2, including that it is the same as its current approach and is consistent with the requirements of our guidance. This means North East Water's maximum prices set out in its determination will be subject to updates for inflation and cost of debt, and any other price adjustments we approve in our price determination. Adopting a price cap form of price control means the business (and not its customers) bears demand and revenue risk.

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<sup>5</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024. This guidance is available on our website.

## **Our draft decision is to not accept North East Water’s proposed standard new customer contributions**

Our draft decision is to not accept North East Water’s proposed standard new customer contributions because we are not satisfied that they have been calculated in a manner consistent with our guidance.

North East Water must respond to our draft decision and address the matters outlined in section 5.4.9.

Our draft decision is to accept North East Water’s negotiated new customer contributions framework.

## **Our draft decision rates North East Water’s price submission as ‘Standard’ under the PREMO framework**

Our draft decision is to rate North East Water’s price submission as ‘Standard’ under the PREMO framework (Table A). This is the same as the business’s self-rating of its price submission.

Key factors supporting this PREMO rating for North East Water’s price submission include:

- It met most of its outcome commitments in the current regulatory period and maintained service levels despite the impacts of the pandemic, bushfires and three consecutive years of La Niña.
- Its proposed outcome commitments for the next regulatory period were refined in consultation with its customers and align with customer priorities.
- It proposed a well justified, prudent, and efficient capital expenditure program, further complemented by a strategic approach to project scheduling, ensuring alignment with North East Water’s long-term master planning.
- Its engagement program provided its customers with a high level of influence on its proposals, with 20 out of 22 recommendations from its deliberative panel adopted in its price submission. This was reflected in submissions and support letters from interested parties.
- It regularly ranked in the top third of the sector in our quarterly customer perception survey since 2022.
- It proposed to exclude \$37 million of uncertain expenditure from its forecasts, helping to ensure customers only pay for projects that actually proceed as planned.
- It proposed to continue with a price cap form of price control for major services, which means the business bears demand and revenue risk rather than its customers.
- It proposed an additional Guaranteed Service Level relating to the containment of sewer spills.
- It proposed doubling the financial support it offers through its customer support program.

See section 1.4 and chapter 7 for an explanation of the PREMO framework.

Our PREMO (Performance, Risk, Engagement, Management and Outcomes) rating is an assessment of the water business’s price submission, including whether commitments for the current regulatory period have been delivered, and its ambition to deliver outcomes that are valued by its customers over the next regulatory period.

It is not an assessment of the water business itself.

**Table A** Draft decision – PREMO rating

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
North East Water’s self-rating	Standard	Standard	Standard	Advanced	Standard	Advanced
Commission’s preliminary rating	Standard	Standard	Standard	Advanced	Standard	Advanced

## We invite feedback on our draft decision

We invite feedback from stakeholders on our draft decision before we make a final decision and price determination. We expect to release our final decision and price determination in June 2026.

Stakeholders may comment on any aspect of our draft decision, including:

- The information we have relied upon in our assessment (such as North East Water’s price submission).
- Additional matters or issues we should consider before making our final decision.
- Whether our draft decision on North East Water’s price submission has adequate regard to the matters in clause 11 of the Water Industry Regulatory Order 2014 and our guidance.<sup>6</sup>

## How to provide feedback and stay up to date

You can stay up to date with our review via the dedicated Engage Victoria website:

<https://engage.vic.gov.au/water-price-review-2026>

<sup>6</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024. This guidance is available on our website.

You can provide feedback by:

- taking part in a public forum
- providing written comments or submissions.

### **Public forum**

We plan to hold a public forum in Wodonga (and online) on 27 April 2026. The forum will provide an opportunity for interested parties to discuss key features of our draft decision. Details of the public forum will be published on the Engage Victoria website.

### **Provide written comments or submissions**

Written comments or submissions in response to this draft decision will be due by 1 May 2026.

We require submissions by this date so that we have time to fully consider submissions for our final decision. Comments or submissions received after this date may not be afforded the same weight as submissions received by the due date.

We would prefer to receive comments and submissions via Engage Victoria.

Alternatively, you may send comments and submissions by mail to:

2026 Water Price Review  
Essential Services Commission  
Level 8, 570 Bourke Street  
Melbourne VIC 3000

### **Submission and privacy statement**

We encourage transparency in our review processes. It is our policy to publish all submissions to the 2026 Water Price Review on our website unless the submitter has requested confidentiality. When we publish a submission, we will also include some details about the submitter (your name, but not your address) unless the submitter has requested not to be identified.

### **Next steps**

<b>Activity</b>	<b>Date</b>
Public forum	27 April 2026
Closing date for submissions on our draft decision	1 May 2026
Release of our final decision and price determination	June 2026

# 1. Our role and approach to water pricing

## 1.1 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* (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 the service standards of the 18 water businesses operating in Victoria.

## 1.2 We are reviewing North East Water's proposed prices

We are reviewing the prices North East Water proposed to charge customers for prescribed services from 1 July 2026. North East Water's prescribed services include retail water and sewerage services.<sup>7</sup>

North East Water provided a submission to us proposing prices for a 5-year period starting 1 July 2026. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2026. The price determination will specify the maximum prices North East Water may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We will also issue a final decision that explains the reasons for our price determination.

## 1.3 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 reaching this draft decision, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- 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 sections 8 and 8A of the ESC Act and section 4C of the WI Act.
- The matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that we consider relevant.

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<sup>7</sup> The prescribed services are listed at cl. 7(b) of the Water Industry Regulatory Order 2014.

- The matters specified in our guidance.<sup>8</sup>
- 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 draft decision. Table 1.1 summarises the matters we must have regard to and groups them into themes.

### 1.3.1 Commission guidance and approval process

In November 2024, we issued guidance to North East Water to inform its price submission. The guidance sets out how we would assess North East Water's submission against the matters we must consider under clause 11 of the WIRO. It also outlines our expectation that North East Water would comply with certain requirements and specified information that North East Water must provide to us when submitting its price submission.<sup>9</sup>

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 North East Water's proposed prices.<sup>10</sup>

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.<sup>11</sup>

#### We first publish a draft decision

Consistent with clause 16 of the WIRO, we publish this draft decision setting out our reasons before making our final decision on North East Water's proposals. This allows the business to respond to our preliminary views and provide further information to support its initial proposals or to amend its proposals in accordance with our draft decision and any requirements we specify. The draft decision also allows submissions from customers and other interested parties to inform our final decision.

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<sup>8</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024.

<sup>9</sup> Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

<sup>10</sup> This is a requirement of the Water Industry Regulatory Order 2014, cl. 14(b).

<sup>11</sup> This is provided for under the Water Industry Regulatory Order 2014, cl. 14(b)(i).

**Table 1.1 Matters businesses and the commission must have regard to**

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> <li>• promotion of efficient use of prescribed services by customers [cl. 8(b)(i), WIRO]</li> <li>• promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl. 8(b)(ii), WIRO]</li> <li>• provision to regulated entities of incentives to pursue efficiency improvements [cl. 8(b)(iii), WIRO]</li> <li>• efficiency in the industry and incentives for long-term investment [s. 8A(1)(a), ESC Act]</li> <li>• 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 [s. 33(3)(b), ESC Act]</li> <li>• financial viability of the industry [s. 8A(b)(1), ESC Act]</li> </ul>	<ul style="list-style-type: none"> <li>• particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act]</li> <li>• return on assets in the regulated industry [s. 33(3)(c), ESC Act]</li> <li>• ensure that regulatory decision-making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act]</li> </ul>	<ul style="list-style-type: none"> <li>• in performing its functions and exercising its powers, the objective of the commission is to promote the long-term interests of Victorian consumers without derogating from that objective. The commission must, in seeking to achieve the objective, have regard to the price, quality and reliability of essential services [s. 8, ESC Act]</li> <li>• enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl. 11(d)(i), WIRO]</li> <li>• provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl. 11(d)(ii), WIRO]</li> <li>• take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl. 11(d)(iii), WIRO]</li> </ul>

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Table 1.1 (continued)

Benchmarking	Health, safety, social and environmental obligations	Other
<ul style="list-style-type: none"> <li>any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act]</li> </ul>	<ul style="list-style-type: none"> <li>the relevant health, safety, environmental and social legislation applying to the industry [s. 8A(1)(d), ESC Act]</li> <li>to ensure that regulatory decision-making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s. 4C(c), WI Act]</li> </ul>	<ul style="list-style-type: none"> <li>the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s. 8A(1)(c), ESC Act]</li> <li>consistency in regulation between states and on a national basis [s. 8A(1)(f), ESC Act]</li> <li>the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); (ii) regulated entities [s. 8A(1)(e), ESC Act]</li> <li>wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]</li> </ul>

**Note:** References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the *Essential Services Commission Act 2001* (ESC Act), and the *Water Industry Act 1994* (WI Act).

## 1.4 PREMO

PREMO stands for Performance, Risk, Engagement, Management and Outcomes (see Box 1.1).

### Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- **Performance**  
Have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- **Risk**  
Has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- **Engagement**  
How effective was the business's customer engagement to inform its price submission?
- **Management**  
Is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- **Outcomes**  
Do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

The purpose of the PREMO framework is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives via the rating of price submissions as 'Leading' (the highest available rating), 'Advanced', 'Standard' or 'Basic'. The rating depends on the level of ambition expressed by a water business in its price submission and its performance against commitments made in the previous price review. Financial incentives are provided by linking the return on equity to the overall PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and take these into account in forming its proposals, as outlined in its price submission. These should be evidenced in price submissions by linking the outcomes proposed with findings from a business's engagement.

Our guidance specifies the way in which we expected North East Water to assess its price submissions by reference to the PREMO elements.

PREMO links the return on equity allowed in the revenue requirement to the value proposed to be delivered by a water business to its customers. Under PREMO, a higher level of ambition in terms of delivering customer value – and delivery on that ambition – results in a higher return on equity.

For North East Water’s 2026 price review, its ambition in terms of delivering customer value is being assessed against all five elements of PREMO – Performance, Risk, Engagement, Management and Outcomes. It is the first time the Performance element has been included for North East Water. This assesses the business’s performance against its outcomes and proposals from the previous price review (which for North East Water was in 2018). We did not assess the Performance element in 2018 because it was the first time that we had applied the PREMO framework and so we did not have a set of previously approved outcomes to inform our assessment.

Taking into account all five elements of PREMO, a water business must self-assess and propose an overall rating for its price submission as ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. Its proposed return on equity will then reflect its proposed PREMO rating. A ‘Leading’ submission has the highest return on equity, and a ‘Basic’ submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the water business’s justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.<sup>12</sup>

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<sup>12</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 46–51.

## 2. Our assessment of North East Water's price submission

We have made our draft decision on North East Water's price submission after considering:

- North East Water's price submission
- North East Water's presentation made directly to commissioners
- North East Water's responses to our queries
- our consultant's report
- written submissions from interested parties (a list of submissions is provided in Appendix A).

Any reports, submissions or correspondence provided to us that are material to our consideration of North East Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included matters North East Water must address in its price submission. North East Water's price submission addressed each of these matters. Our preliminary assessment of these matters is provided in this draft decision.

We found North East Water's price submission provided evidence that its engagement sought to capture the main priorities and concerns of customers, and that it has taken this feedback into account when developing its proposals (see section 3.1 on customer engagement).

Unless otherwise noted, all financial values referred to in this draft decision are in 2025-26 dollars, which means inflation is excluded from forecast numbers.

North East Water must submit a response to our draft decision and provide an updated financial model by 1 May 2026 (via email to [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)). The response will be published on our website. We also invite other interested parties to make a submission.

We will make a price determination for North East Water in June 2026.

### 2.1 Draft decision outline

This *North East Water Draft Decision* is structured around the steps we take to arrive at our price determination:

- Determine the regulatory period (section 2.2).
- Confirm the customer outcomes and service levels that North East Water has committed to over the regulatory period (chapter 3).

- Establish North East Water’s revenue requirement using a building block methodology (chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (chapter 5).

Chapter 6 outlines our consideration of North East Water’s financial position, which we have also had regard to.

Chapter 7 outlines our assessment of North East Water’s price submission under the PREMO framework.

## 2.2 Regulatory period

Our draft decision is to approve a regulatory period of 5 years from 1 July 2026.

We are required to set the term of the regulatory period over which a water business’s price determination will apply.<sup>13</sup> Our guidance proposed that we set a 5-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.<sup>14</sup>

In its price submission, North East Water noted it had taken on more risk at its 2018 price review by proposing an 8-year regulatory period, to provide longer price certainty to its customers. However, significant unforeseen changes have occurred across those 8 years, producing a revenue shortfall and leading to the relatively large price rises proposed for the 2026–31 regulatory period. North East Water has critically reviewed the length of the regulatory period and has proposed to return to a 5-year period, which it considers will better protect its customers from price shocks due to any material changes in input costs that can occur over a longer period.<sup>15</sup>

Our draft decision is to approve North East Water’s proposed 5-year regulatory period as it is consistent with our guidance.

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<sup>13</sup> This is a requirement of the Water Industry Regulatory Order 2014, cl. 9.

<sup>14</sup> For detail on the reasons for using 5 years as the default regulatory period, see Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 19.

<sup>15</sup> North East Water 2025, *Price submission 2026–31*, October, p. 79.

## 3. Customer outcomes

The customer outcomes North East Water plans to deliver over the regulatory period are a key component of its price submission. The outcomes confirm its commitments to customers, underpin its revenue requirement, and feed into its PREMO assessment.

This chapter:

- Examines North East Water’s engagement with its customers in preparing its price submission (section 3.1).
- Reviews whether North East Water has delivered on the outcomes it committed to for the current regulatory period (2018–26) (section 3.2.1).
- Examines the customer outcomes North East Water is committing to for the next regulatory period (section 3.2.2) and the measures and targets it will use to report on its performance (section 3.2.3).
- Outlines North East Water’s service standards (section 3.3).
- Outlines North East Water’s proposed Guaranteed Service Levels (section 3.4).

### 3.1 Customer engagement

Our guidance required North East Water to engage with customers to inform its price submission. Our guidance also identified principles to guide North East Water on its engagement.<sup>16</sup>

#### North East Water’s engagement

We consider North East Water’s customer engagement aligned with our engagement principles in several ways:

- The engagement activities have been ongoing since the last pricing decision in 2018. Over this time, North East Water has continued consumer research as well as re-tested whether priorities from the last price submission were still valued by its customers. From 2023 it established advisory groups and stakeholder relationships that have helped shape the six-stage engagement approach it used for this price submission.
- A wide range of online and in-person methods were used to support effective participation, including digital platforms, focus groups, workshops, pop-up kiosks and a 6-day deliberative forum.

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<sup>16</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 21–22.

- North East Water engaged with a diverse range of customer groups across its service area, including people experiencing vulnerability, customer support agencies, First Nations customers, a Traditional Owner group, land developers, business groups and all seven regional councils.
- The engagement program was inclusive and used various measures to make it accessible to different customer groups. These measures included translating materials to different languages, using accessible technology, and supporting engagement participants with travel or childcare. It met with customers experiencing vulnerability and First Nations customers to tailor the engagement and ensure it was respectful of individual circumstances.
- It engaged on matters that influence services and prices, such as the mix of fixed and variable tariffs, investment in growth, service levels for water and sewerage, support for vulnerable customers and customer experience. This was reflected in submissions and support letters from interested parties.<sup>17</sup>

See North East Water’s price submission for more details about its engagement.<sup>18</sup>

### **North East Water’s engagement influenced its price submission**

The actions North East Water proposed to take in response to customer feedback provide evidence that its engagement influenced its proposals. For example, in its price submission, North East Water proposed:

- Implementing in full 20 of 22 recommendations put forward by the deliberative forum including rebalancing water and sewerage tariffs to reduce variable charges and increase fixed charges.<sup>19</sup>
- An infrastructure program to improve water and sewerage services, support growth corridors, protect the environment and prepare for climate change. This proposal was shaped by customer, council and developer feedback.<sup>20</sup>
- Expanding funding for customer support and hardship programs by doubling the annual support fund, in response to strong feedback from customer support agencies and customers with experiences of hardship about the need for increased assistance.<sup>21</sup>

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<sup>17</sup> North East Water attached 14 letters of support to its price submission. North East Water 2025, *Price submission 2026–31*, October, pp. 195–217.

<sup>18</sup> North East Water’s price submission is available on our website at [www.esc.vic.gov.au/water-price-reviews](http://www.esc.vic.gov.au/water-price-reviews).

<sup>19</sup> North East Water 2025, *Price submission 2026–31*, October, pp. 59–61.

<sup>20</sup> North East Water 2025, *Price submission 2026–31*, October, pp. 156, 178 and 179.

<sup>21</sup> North East Water 2025, *Price submission 2026–31*, October, p. 12.

- Updating its service standards on response and rectification times for bursts and leaks. This followed feedback from the deliberative forum that longer response times would allow for better planning of repairs, improved rectification times and better customer outcomes.<sup>22</sup>

North East Water's customer engagement has influenced its proposed actions and price submission. This supports our pricing framework objectives relating to efficiency and the interests of customers.

### **North East Water's engagement was robust and inclusive**

North East Water strengthened its engagement processes by involving two customer advisory groups with the experience and perspectives needed to challenge, test and validate how engagement was carried out. The Customer and Community Advisory Group and the Critical Friends Group brought together customers, community support services, local government, First Nations people, and representatives of the development community. Feedback from these groups helped to ensure engagement was inclusive, accessible and focused on issues that mattered the most to customers.<sup>23</sup> Their involvement and endorsement ensured customer priorities on tariffs, hardship support, service levels and investment were reflected in the business's decision-making.

North East Water showed accountability to customers experiencing vulnerability by hearing directly from them and from the agencies supporting them (including faith-based agencies, housing services, ethnic community groups, and family support services). This engagement occurred at both an operational and board level. The insights shaped how North East Water has proposed to address affordability pressures arising from the proposed price increases.<sup>24</sup> Financial Counselling Victoria acknowledged that North East Water had undertaken significant customer engagement, including with people experiencing vulnerability and consumer advocates.<sup>25</sup>

North East Water demonstrated a sensitive and appropriate approach to engaging First Nations customers by prioritising direct conversations and elevating First Nations voices in decision-making. This included one-on-one discussions and giving First Nations feedback visibility in the materials provided to the deliberative forum. Three organisations supported the inclusive engagement approach undertaken.<sup>26</sup> While only one of the two registered Traditional Owner

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<sup>22</sup> North East Water 2025, *Price submission 2026–31*, October, p. 73.

<sup>23</sup> North East Water 2025, *Price submission 2026–31*, October, p. 175.

<sup>24</sup> North East Water 2025, *Price submission 2026–31*, October, p. 55.

<sup>25</sup> Financial Counselling Victoria, *Submission to the Essential Services Commission 2026 Water Price Review*, 12 December 2025, p. 1.

<sup>26</sup> North East Water included letters of support in its price submission from Taungurung Land and Waters Council, Duduroa Dhargal Aboriginal Corporation and the Albury-Wodonga Aboriginal Health Service. These letters expressed satisfaction with North East Water's engagement and the way feedback was incorporated. North East Water 2025, *Price submission 2026–31*, October, pp. 209–13.

groups chose to participate, we expect the business to continue to explore culturally appropriate ways to support participation from all Traditional Owner groups who hold rights and interests in relation to land and waterways.

### **North East Water will need to re-engage on its new customer contributions proposal**

North East Water's new customer contributions engagement was well received. Interested parties supported the proposal that emerged from the process. Submissions and support letters from developers, Business Wodonga and Indigo Shire Council welcomed the regular meetings and the clear explanations provided.<sup>27</sup> However, we note that North East Water did not consult specifically on the new customer contributions ultimately proposed and that it did not engage with its broader customer base on the pricing impact of its proposed new customer contributions. Because our draft decision is to not accept the standard new customer contributions proposed by North East Water, we expect North East Water to re-engage with interested parties, providing them with a reasonable opportunity to review and respond to the new customer contributions it proposes in response to our draft decision.

See section 5.4 for further details on our new customer contributions draft decision.

### **Our preliminary view on North East Water's engagement**

Our preliminary view is that North East Water has designed and delivered a robust and inclusive engagement program that was appropriate in the context of its proposed real price increases over the next regulatory period.

We consider that North East Water's engagement achieved the level of influence on the price submission that it set out to achieve. This is confirmed by the positive feedback received from its Customer and Community Advisory Group and Critical Friends Group, as well as support expressed by local business and community groups, all seven local councils, Taungurung Land and Waters Council and Duduroa Dhargal Aboriginal Corporation.

On this basis, our preliminary view is that we agree with North East Water's self-rating of 'Advanced' for its price submission engagement.

We note however, that the Commission intends to release updated guidance for future price reviews setting out additional matters that water businesses will need to demonstrate in relation to First Nations rights and interests consistent with the principle of self-determination. This may impact how we assess an 'Advanced' rating on engagement in the future.

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<sup>27</sup> Naughtin Development Group and Nordcon Land expressed satisfaction with the engagement program, noting the transparency and openness of the process for developers. Naughtin Development Group, *Letter of Support – North East Water – 2026–31 Price Submission*, 11 December 2025, pp. 1–2; Nordcon Land, *Submission to the Essential Services Commission 2026 North East Water Price Review*, 11 November 2025, pp. 1–2.

See chapter 7 for more information about our assessment of North East Water’s price submission under the PREMO framework.

## 3.2 Outcomes

### 3.2.1 Performance against outcome commitments 2018–26

As part of our 2018 Water Price Review, North East Water established a set of outcomes it would deliver to its customers over the following 8 years. These planned outcomes were reflected in the prices we approved for the period 1 July 2018 to 30 June 2026. Progress against these outcome commitments can indicate whether customers got what they paid for.

North East Water’s price submission should account for its actual performance against its outcome commitments for the period 1 July 2018 to 30 June 2026.

We consider North East Water accounted for its annual performance for each measure in its price submission. Table 3.1 lists North East Water’s outcome commitments and includes its annual performance results as reported in its price submission, and the overall annual and period-to-date ratings published in our *Outcomes Report 2024-25*.<sup>28</sup> The information in this table informs our assessment under the Performance element of the PREMO framework, which is discussed in chapter 7.

North East Water reported it has achieved or exceeded 58 of its 91 discrete targets for its 13 performance measures over the first 7 years of the current (2018–26) regulatory period. It rated a further 13 targets (14 per cent) as amber ‘close to achieving target’ and 20 targets (22 per cent) as red ‘failed to meet target’ in the period to date.

North East Water reported on its outcomes performance to customers every 6 months through a variety of platforms. This exceeded our minimum requirements to report performance annually on the business’s website. Through this reporting, it demonstrated transparency and accountability, acknowledged underperformance, and proactively worked with its customers to make improvements and address issues.

In its price submission, North East Water stated that overall it had met its performance targets for outcomes 1, 2, 3 and 5 (as shown in Table 3.1) and largely met its ‘efficient systems’ and

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<sup>28</sup> Essential Services Commission 2025, [Outcomes Report 2024-25: Performance of Victoria’s water businesses against their own commitments to customers](#), 15 October. North East Water self-rated its overall annual performance as amber ‘mostly met’ for each year of the period from 2018-19 through 2024-25. While it did not provide an overall period-to-date self-rating in its 2024-25 outcomes reporting to us, we consider an amber rating for every year must produce an overall amber period-to-date rating, as shown in our Outcomes Report and in Table 3.1.

‘sustainable region’ outcome.<sup>29</sup> This is consistent with an overall rating of amber ‘mostly met’. North East Water also pointed out that it has regularly rated in the top third of the sector in the commission’s quarterly water business customer perception surveys since 2022.<sup>30</sup>

**Table 3.1 Business self-assessment of performance against outcome commitments**

Outcome	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Period to date
1. Affordable prices	Green	Green	Green	Green	Green	Green	Green	Green
2. Reliable services	Green	Amber	Green	Green	Green	Green	Amber	Green
3. Responsive services	Green	Green	Green	Green	Green	Green	Amber	Green
4. Efficient systems	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
5. Local focus	Amber	Amber	Amber	Green	Green	Green	Green	Green
6. Sustainable region	Amber	Amber	Amber	Red	Red	Red	Amber	Amber
<b>Overall rating</b>	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber

**Notes:** Green = achieved target; Amber = close to achieving target; Red = failed to meet target. The rating in the ‘period to date’ column is North East Water’s self-assessment of its performance across the first 7 years of the 2018–26 regulatory period. North East Water’s performance against outcome commitments in the final year (2025-26) of the current regulatory period will be published in late 2026 in our outcomes report for 2025-26.

Source: North East Water 2025, *Price submission 2026–31*, October, p. 20; Essential Services Commission, *North East Water’s outcomes performance 2024-25*, October 2025.

<sup>29</sup> We note North East Water self-rated outcome 3 ‘responsive services’ as amber (close to achieving target) for its period-to-date rating in its 2024-25 outcomes reporting, which is not consistent with the green (achieved target) rating in its price submission.

<sup>30</sup> See <https://www.esc.vic.gov.au/how-customers-rate-their-water-business> for more information and quarterly water business customer perception survey results.

## North East Water's performance fell short in some areas

North East Water did not meet any of its annual targets for its 'non-revenue water losses' measure, which is one of only two measures under its 'efficient systems' outcome. It stated that its water reticulation systems in Mount Beauty and Bright were impacted by high pressure and disturbed soil, and that it took time for North East Water to identify the origins of the leaks that occurred in those areas.<sup>31</sup> To address this underperformance, North East Water installed zoned metering to identify system losses and developed an action plan to focus its efforts in identified high-water-loss towns.

While North East Water stated that it largely met its 'sustainable region' outcome, it did not meet its Environment Protection Authority licence compliance targets of 100 per cent compliance across all 7 years of the current regulatory period. It instead achieved an average of 90 per cent compliance due to non-compliant discharges from several wastewater treatment plants. North East Water acknowledged that these targets were stretch targets that it aimed to achieve by the end of the current regulatory period. It commented that staged investment projects at its Bright, Myrtleford and Wangaratta treatment plants significantly improved discharged wastewater quality.<sup>32</sup> However, it did not reach full compliance due to 3 consecutive years of La Niña weather conditions, the commencement of the *Environment Protection Act 2017*, and increased knowledge about groundwater impacts from its wastewater treatment plant sites. To address this underperformance, North East Water has planned major capital projects at its Beechworth, Bright and Rutherglen wastewater treatment plants, aiming to achieve full compliance during the 2026–31 regulatory period.

## Our preliminary view on outcome commitments in the current regulatory period

Our preliminary view is that we agree with North East Water's self-assessment that it has met most of its outcome commitments for the period to date, consistent with its overall rating of amber.

### 3.2.2 Outcome commitments for 2026–31

North East Water engaged with its customers to refine its outcomes for the period from 1 July 2026 to 30 June 2031. It proposed to deliver the following five outcomes:<sup>33</sup>

1. Fair prices: fair prices, value for money and increased customer support
2. Sustainable practices: minimise our impact on the environment and contribute to sustainable environmental health

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<sup>31</sup> North East Water 2025, *Price submission 2026–31*, October, p. 23.

<sup>32</sup> North East Water 2025, *Price submission 2026–31*, October, p. 23.

<sup>33</sup> North East Water 2025, *Price submission 2026–31*, October, p. 65.

3. Reliable systems: clean, safe water and more resilient systems
4. Responsive services: timely responses and a seamless customer experience
5. Local community: local community and local partnerships to achieve positive outcomes for customers

These outcomes largely correspond with the outcomes from the current period. However, North East Water dropped its 'efficient systems' outcome from its current set of outcomes, stating it did not resonate with customers and will be effectively captured within its 'reliable systems' and 'responsive services' outcomes.

### **North East Water's proposals to deliver on its outcomes**

Among its initiatives to deliver on its outcomes for the next regulatory period, North East Water proposed to:

- lower the variable component of its water tariff relative to the fixed component
- double the financial support it offers through its customer support program
- improve access to its customer support program through an awareness campaign
- partner with Traditional Owner and First Nations communities on environmental water projects.<sup>34</sup>

It will also invest in wastewater treatment plant capacity and compliance, greenhouse gas emissions reduction (including wind, solar, biogas production, and biochar and carbon sequestration), system renewals and upgrades, a digital metering trial, and new infrastructure.

Financial Counselling Victoria provided feedback on North East Water's approach to supporting customers experiencing financial disadvantage.<sup>35</sup> It urged North East Water to consider incorporating accessible communications and a systemic approach to resolving hardship within its customer care program. We encourage North East Water to take this feedback on board and explore ways it can further assist customers experiencing hardship.

See section 5.3.3 for further details about how North East Water proposes to address the interests of low income and vulnerable customers.

### **3.2.3 Our assessment of measures and targets**

North East Water proposed a set of 17 measures and annual targets for each measure that it will use to report on performance across its 5 outcomes. (See pages 65 to 72 of its price submission.)

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<sup>34</sup> North East Water 2025, *Price submission 2026–31*, October, p. 68.

<sup>35</sup> Financial Counselling Australia, *Submission to the Essential Services Commission 2026 Water Price Review*, 12 December 2025, pp. 1–2.

We have assessed North East Water's proposed measures against our guidance criteria. The proposed output measures for each outcome must be:

- relevant to, or be a reasonable proxy for, the delivery of the outcome they represent
- measurable
- clearly defined and unambiguous
- easy for customers to understand.

They must also have performance targets listed for each year of the regulatory period.

North East Water provided evidence that demonstrates its measures and targets were developed in consultation with customers. Most customers consulted agreed the proposed measures and targets adequately reflect the outcomes they represent.

Generally, we consider North East Water's proposed measures and targets are clear and well presented, and will provide a sound basis to track performance and delivery against each outcome, subject to some minor wording clarifications. We are working with North East Water to finalise its measures and targets to ensure its final set meets our guidance requirements.

We consider North East Water has set high performance targets, including many stretch targets, and overall, its proposals represent an improvement in customer outcomes.

North East Water will continue to report its performance to customers twice yearly through its website and social media. It will also report its performance annually to its customer panel and quarterly to its board.

On the basis of the above, we are satisfied that North East Water's proposed outcomes, measures and targets are consistent with its self-assessment of its price submission as 'Advanced' for the Outcomes element of the PREMO framework. (See chapter 7 for further details.)

### **3.3 Service standards related to service reliability and faults**

A service standard allows a water business to specify a level of service a typical customer can expect to receive. A common set of service standards applicable to all urban water businesses is listed under clause 18.2 of the *Water Industry Standard – Urban Customer Service*. Each water business must specify its own target service level against each of these service standards. Rather than performance measures, these service standards and corresponding service levels are the minimum level of service customers can expect to receive. A price review provides a water business with an opportunity to review the target for each of its service standards in consultation with its customers.

North East Water's proposed service levels for each of its service standards can be found on page 73 of its price submission.

North East Water proposed revisions to some of its service levels for the 2026–31 regulatory period in line with customer feedback. North East Water proposed to:

- lower its service level (increase the time) for average burst, leak, and blockage response times in response to customer feedback it received from its deliberative forum that increasing response times would allow for better planning which would then improve rectification response times
- gradually increase its service level (reduce the time) for the average duration of unplanned water supply interruptions.

Our preliminary assessment is that the service levels proposed by North East Water comply with the requirements of the Water Industry Standard.

Service standards are approved in our Water Industry Standards. Accordingly, in early 2026-27, we will update the *Water Industry Standard – Urban Customer Service* to reflect the service standards for North East Water that we publish in our final decision.

### **3.4 Guaranteed Service Levels**

Our draft decision is to accept North East Water’s proposed Guaranteed Service Levels.

Guaranteed Service Levels define a water business’s commitment to deliver a specified level of service. For each Guaranteed Service Level, typically a water business commits to a payment or a rebate on bills to those customers who have received a level of service below the guaranteed level.

North East Water’s proposed Guaranteed Service Levels are set out on page 74 of its price submission.

Customer feedback through North East Water’s engagement program confirmed its three existing Guaranteed Service Levels remained relevant. Accordingly, North East Water proposed to retain its current Guaranteed Service Levels and increase its Guaranteed Service Level payments to reflect inflation since 2018. North East Water also proposed to add a new Guaranteed Service Level, supported by its deliberative forum, to contain sewer spills (caused by an asset failure and reportable to the EPA) within 5 hours of notification.<sup>36</sup>

Our draft decision is to accept North East Water’s proposed Guaranteed Service Levels, on the basis they were agreed with customers during its engagement. Final Guaranteed Service Levels

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<sup>36</sup> North East Water proposed making a donation of up to \$5,000 to a community catchment project in the impacted community if it does not meet this Guaranteed Service Level.

and associated payment amounts will be subject to our consideration of any feedback following the release of our draft decision.

Guaranteed Service Levels are approved in our Water Industry Standards. Accordingly, in early 2026-27, we will update the *Water Industry Standard – Urban Customer Service* to reflect the Guaranteed Service Levels for North East Water that we publish in our final decision.

## 4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on its customer service commitments, government policy, and legal obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.<sup>37</sup> Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our preliminary assessment of North East Water's revenue requirement based on the following steps:

- Establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (section 4.1).
- Establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (section 4.2).
- Roll forward the regulatory asset base (section 4.3).
- Apply a rate of return to the regulatory asset base, calculated using:
  - a benchmark cost of debt estimated using a 10-year trailing average approach (section 4.4.1)
  - a benchmark return on equity value determined by North East Water's PREMO rating (section 4.4.2).
- Establish a return of capital through a regulatory depreciation allowance (section 4.5).
- Establish a benchmark tax allowance (section 4.6).

Our draft decision is to adopt a revenue requirement of \$490.7 million for the 2026–31 regulatory period, which is \$15.8 million (3.1 per cent) lower than that proposed by North East Water.

North East Water proposed a revenue requirement of \$506.5 million over a 5-year period starting 1 July 2026. Our draft decision is to adopt a revenue requirement of \$490.7 million (see Table 4.1), which reflects our preliminary assessment of each element of the revenue requirement, including forecast operating and capital expenditure.

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<sup>37</sup> We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of North East Water in the regulatory period from 1 July 2026. We had regard to their views in arriving at our draft decision.

**Table 4.1 Draft decision – revenue requirement**  
\$ million 2025-26

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Operating expenditure	57.6	57.7	57.7	58.5	58.3	289.8
Return on assets	14.8	15.9	17.0	18.0	19.8	85.6
Regulatory depreciation	20.2	21.6	23.1	24.3	26.2	115.4
Tax allowance	-	-	-	-	-	-
<b>Draft decision – revenue requirement</b>	<b>92.6</b>	<b>95.2</b>	<b>97.9</b>	<b>100.8</b>	<b>104.3</b>	<b>490.7</b>

**Note:** Numbers have been rounded.

Table 4.2 summarises how our draft decision on North East Water’s revenue requirement (row F) differs to the revenue requirement proposed by North East Water in its price submission (row A). Where our draft decision differs from North East Water’s price submission in relation to a component of the revenue requirement, the adjustments we propose are shown in rows B to E of Table 4.2.

**Table 4.2 Our proposed adjustments to North East Water’s proposed revenue requirement**  
\$ million 2025-26

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
<b>A. North East Water’s proposed revenue requirement</b>	<b>95.5</b>	<b>98.8</b>	<b>100.8</b>	<b>103.8</b>	<b>107.5</b>	<b>506.5</b>
B. Operating expenditure	-3.21	-3.86	-3.26	-3.27	-3.45	-17.05
C. Return on assets	-0.00	-0.01	-0.02	-0.03	-0.04	-0.11
D. Regulatory depreciation	0.29	0.29	0.29	0.29	0.29	1.45
E. Tax allowance	-	-	-	-	-	-
<b>F. Draft decision – revenue requirement (A+B+C+D+E)</b>	<b>92.6</b>	<b>95.2</b>	<b>97.9</b>	<b>100.8</b>	<b>104.3</b>	<b>490.7</b>

**Notes:** Our proposed adjustments are the differences between our draft decision and what North East Water proposed in its price submission. Row A shows the total revenue requirement proposed by North East Water in its price submission. We have arrived at our draft decision (row F) by proposing the relevant adjustments to the components of the revenue requirement shown in rows B to E. Numbers have been rounded.

Our main adjustments relate to North East Water’s operating expenditure and regulatory depreciation forecasts. The adjustments to operating expenditure are further explained in section 4.1. The adjustment to regulatory depreciation is to correct an error in the way North East

Water had calculated its forecast regulatory asset base and depreciation, which is further explained in sections 4.3.2 and 4.5. However, while we have adopted the updated figures for the purposes of our draft decision, we require North East Water to respond to our draft decision on its regulatory depreciation (see section 4.5) and this figure may change in our final decision.

Our final decision on North East Water's revenue requirement will be based on the latest available information. Following the release of the Australian Bureau of Statistics March Quarter 2026 consumer price index, we will provide updated estimates of the cost of debt and inflation. Accordingly, as well as responding to our draft decision and providing an updated price schedule, North East Water must use these updated estimates when calculating the revenue requirement in response to our draft decision.

There may be changes in laws or government policy before we make a price determination. If any such changes occur between the draft decision and the price determination that impact on its forecast expenditure and the revenue requirement, North East Water should update its price submission and provide us with an updated financial model. It also should notify us of any material changes that impact its forecast expenditure, revenue requirement or prices (including demand). Any updates to its price submission or financial model will be made publicly available on our website.

## 4.1 Operating expenditure

Our draft decision is to adopt a forecast operating expenditure of \$289.8 million as the operating expenditure benchmark for the 2026–31 regulatory period. This is \$17.1 million (5.6 per cent) lower than proposed by North East Water.

Operating expenditure is a component of the revenue requirement. North East Water's price submission (pages 91 to 105) provides further details on its forecast operating expenditure.

We assess:

- Controllable operating expenditure: all costs that can be directly or indirectly influenced by a water business's decisions.
- Non-controllable operating expenditure: all costs that cannot be directly or indirectly influenced by a water business's decisions.

We engaged FTI Consulting to provide expert advice to inform our assessment of controllable operating expenditure. Our consultant's report is available on our website.<sup>38</sup>

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<sup>38</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February.

Table 4.3 sets out our draft decision on North East Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

**Table 4.3 Draft decision – operating expenditure**  
\$ million 2025-26

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
<b>Controllable operating expenditure</b>	<b>53.68</b>	<b>53.83</b>	<b>53.91</b>	<b>54.77</b>	<b>54.67</b>	<b>270.87</b>
<b>Non-controllable operating expenditure</b>	<b>3.93</b>	<b>3.87</b>	<b>3.79</b>	<b>3.71</b>	<b>3.63</b>	<b>18.93</b>
Bulk services	0.46	0.46	0.46	0.46	0.46	2.31
Environmental contribution	3.10	3.02	2.93	2.85	2.77	14.67
Licence fees – Essential Services Commission	0.09	0.12	0.12	0.12	0.12	0.55
Licence fees – Department of Health	0.03	0.03	0.03	0.03	0.03	0.17
Licence fees – Environment Protection Authority Victoria	0.17	0.17	0.17	0.17	0.17	0.83
<b>Draft decision – operating expenditure</b>	<b>57.62</b>	<b>57.71</b>	<b>57.70</b>	<b>58.48</b>	<b>58.30</b>	<b>289.79</b>

**Notes:** Numbers have been rounded. Bulk services covers the supply of bulk water and sewerage services. Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. Licence fees are paid to cover costs incurred by the Department of Health, the Environment Protection Authority Victoria and the Essential Services Commission in their regulatory activities related to the water business.

#### 4.1.1 Our proposed adjustments to North East Water’s operating expenditure

Table 4.4 summarises how our draft decision on North East Water’s operating expenditure (row D) and its two components differ from the operating expenditure proposed by North East Water in its price submission (row A). Rows B and C of the table summarise our proposed adjustments to North East Water’s proposed controllable and non-controllable operating expenditure.

Details of our assessment and reasons for our proposed adjustments to North East Water’s proposal are included below in section 4.1.2 (controllable operating expenditure) and section 4.1.3 (non-controllable operating expenditure).

We consider the operating expenditure proposed in our draft decision reflects the expenditure that a prudent service provider would incur when acting efficiently to achieve the lowest cost in delivering the outcomes specified in North East Water’s price submission.

**Table 4.4 Our proposed adjustments to North East Water's proposed operating expenditure**

\$ million 2025-26

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
<b>A. North East Water's proposed total operating expenditure</b>	<b>60.83</b>	<b>61.56</b>	<b>60.95</b>	<b>61.75</b>	<b>61.75</b>	<b>306.85</b>
<b>B. Our total proposed adjustments to controllable operating expenditure (B1 + B2)</b>	<b>-3.24</b>	<b>-3.91</b>	<b>-3.32</b>	<b>-3.33</b>	<b>-3.51</b>	<b>-17.31</b>
<b>B1 Total baseline adjustments</b>	<b>4.97</b>	<b>4.97</b>	<b>4.97</b>	<b>4.97</b>	<b>4.97</b>	<b>24.87</b>
B1.1 Regulatory accounts alignment	-0.50	-0.50	-0.50	-0.50	-0.50	-2.49
B1.2 Electricity – reinstate in base	5.30	5.30	5.30	5.30	5.30	26.48
B1.3 Hardship – reinstate in base	0.18	0.18	0.18	0.18	0.18	0.88
<b>B2 Total step change adjustments</b>	<b>-8.22</b>	<b>-8.89</b>	<b>-8.29</b>	<b>-8.31</b>	<b>-8.49</b>	<b>-42.20</b>
B2.1 Electricity – return to base 'balancing item'	-5.30	-5.30	-5.30	-5.30	-5.30	-26.48
B2.2 Hardship – return to base 'balancing item'	-0.18	-0.18	-0.18	-0.18	-0.18	-0.88
B2.3 Labour	-0.98	-1.45	-1.45	-1.54	-1.54	-6.95
B2.4 West Wodonga Wastewater Treatment Plant	-0.28	-0.28	-0.28	-0.28	-0.28	-1.38
B2.5 Operations and maintenance	-0.46	-0.48	-0.51	-0.54	-0.54	-2.53
B2.6 Step changes below materiality threshold	-1.03	-1.20	-0.58	-0.48	-0.65	-3.94
<b>C. Our total proposed adjustments to non-controllable operating expenditure (C1 + C2)</b>	<b>0.03</b>	<b>0.06</b>	<b>0.06</b>	<b>0.06</b>	<b>0.06</b>	<b>0.26</b>
C1 Updated external water bulk charges (Goulburn-Murray Water)	0.01	0.01	0.01	0.01	0.01	0.04
C2 Updated licence fees – Essential Services Commission	0.02	0.05	0.05	0.05	0.05	0.22
<b>D. Draft decision – total operating expenditure (D = A + B + C)</b>	<b>57.62</b>	<b>57.71</b>	<b>57.70</b>	<b>58.48</b>	<b>58.30</b>	<b>289.79</b>

**Notes:** Our proposed adjustments are the differences between our draft decision and what North East Water proposed in its price submission. Row A shows the total operating expenditure proposed by North East Water in its price submission. We have arrived at our draft decision (row D) by proposing the relevant adjustments to controllable operating expenditure and non-controllable operating expenditure shown in rows B and C (and itemised in rows B1.1 to B2.6 and rows C1 and C2). Numbers have been rounded.

Revenue requirement

The operating expenditure adopted in our draft decision for North East Water does not represent the amount that North East Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently and to maintain services over the regulatory period.

#### 4.1.2 Controllable operating expenditure

Our draft decision is to adopt a forecast controllable operating expenditure of \$270.9 million for the 2026–31 regulatory period, which is \$17.3 million lower than proposed by North East Water.

North East Water proposed a total forecast controllable operating expenditure of \$288.2 million over a 5-year regulatory period. Our draft decision is to adopt a forecast controllable operating expenditure of \$270.9 million for the reasons set out below.

North East Water's forecast controllable operating expenditure for the period from 1 July 2026 is estimated through a series of steps:

- Establish a controllable operating expenditure baseline – the baseline comprises the efficient recurring costs from the last full year of data (2024-25) after non-controllable expenditure and one-off (non-recurring) items are removed or normally occurring items are added in.
- Apply a growth rate for operating expenditure for the regulatory period – assumed by North East Water to be 1.46 per cent per year on average.
- Apply an annual cost efficiency improvement rate – assumed by North East Water to be 1.46 per cent per year on average.
- Make adjustments for additional costs or cost savings expected in future years.

#### Baseline controllable operating expenditure

North East Water proposed a controllable operating expenditure baseline of \$48.9 million, after removing \$8.7 million in non-recurring operating expenditure that occurred in 2024-25. North East Water's proposed baseline was \$2.3 million (or 5.0 per cent) higher than the benchmark figure of \$46.6 million of controllable operating expenditure for 2024-25 used for our 2018 price determination.

#### *North East Water's proposal did not align with its regulatory accounts*

Following North East Water's lodgement of its price submission, we identified a discrepancy between its price submission and the total prescribed operating expenditure in its 2024-25 regulatory accounts. North East Water provided a revised financial model, lowering its operating expenditure baseline by \$0.5 million to align with its regulatory accounts. Based on these revised

figures, North East Water's controllable operating expenditure baseline of \$48.4 million, after removing \$8.7 million in non-recurring operating expenditure that occurred in 2024-25, was \$1.9 million (or 4 per cent) higher than the benchmark figure of \$46.6 million.

However, the \$8.7 million in operating expenditure that North East Water proposed to remove from its baseline included all energy costs (\$5.3 million) and additional hardship support costs (\$0.2 million) incurred in 2024-25. North East Water proposed this approach to avoid its electricity forecast being impacted by its proposed growth rate of 1.46 per cent. Its independent electricity cost forecast has an inbuilt growth rate of 1 per cent.<sup>39</sup> It also removed its increased hardship assistance expenditure where it had exceeded its budget. North East Water repropose all its forecast electricity costs and increased hardship assistance (\$0.2 million) as cost step changes above its baseline.

We disagree with this approach as electricity represents a large, ongoing cost reflected in North East Water's operating expenditure benchmark set at the 2018 price review. Its increased hardship expenditure, given its step change proposal, also reflects a recurrent cost. Both of these cost items should remain in the baseline operating expenditure figure for direct comparison with the business's baseline year benchmark. Our expenditure consultant also considered these costs were recurrent and reinstated them in the baseline to allow a full analysis of the material changes in North East Water's actual costs against the benchmark.

Therefore, we propose to reinstate the electricity costs (\$5.3 million) and hardship support costs (\$0.2 million) back into the baseline. After making this adjustment, North East Water's baseline expenditure of \$53.9 million was \$7.3 million (or 16 per cent) higher than the benchmark figure. We consider this is a more accurate representation of North East Water's actual expenditure performance against its 2018 price review benchmark. The following discussion of North East Water's baseline expenditure relates to the adjusted baseline figure of \$53.9 million.

#### *Higher labour and electricity costs have increased baseline expenditure*

North East Water stated that most of the \$7.3 million overspend was driven by additional labour and electricity costs (\$7.22 million combined).<sup>40</sup> Our consultant found that North East Water clearly explained and substantiated the reasons it had exceeded its controllable operating expenditure benchmark, but noted North East Water did not meet its benchmark in any year of the 2018–26

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<sup>39</sup> North East Water 2025, *Price submission 2026–31*, October, p. 95.

<sup>40</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. ix.

regulatory period.<sup>41</sup> This means the business has carried its increased costs until this price review, where it has proposed to include them in its forecast benchmarks.

Our expenditure consultant verified the increase in North East Water's baseline expenditure as recurrent, prudent and efficient. Our consultant found that North East Water:

- clearly explained the increased labour costs in the baseline, including why new positions were required
- had robust governance processes for its workforce planning
- adequately substantiated the increased baseline electricity costs, which were driven by delays in commissioning the West Wodonga Wastewater Treatment Plant and solar field.<sup>42</sup>

Our consultant also verified North East Water's increased software licensing and direct water costs. It did not recommend any further changes to North East Water's proposed baseline, after reinstating electricity and hardship support costs back into the baseline.

#### *Our draft decision on baseline controllable operating expenditure*

We reviewed North East Water's proposal and the advice from our expenditure consultant. Given the above, we consider the adjusted figure of \$53.9 million reflects an efficient recurring baseline to forecast annual operating expenditure for the purpose of our draft decision.

We note our draft decision accepts North East Water's proposal to double the funding to support its customers experiencing financial hardship, especially in light of its proposed price increases. This forms a core part of its Customer Care Fair Practice Plan, and will provide bill relief to more than 1000 customers experiencing financial difficulty each year and help thousands more apply their concession to their water bill. It includes an additional staff resource to ensure the funds can reach customers in need of support. The program was well-supported by customers during the engagement process, and North East Water has proposed two outcome measures under its 'Fair Prices' outcome to demonstrate the success of its customer support program.

#### **Efficiency improvement and growth rates**

North East Water proposed an annual growth rate of 1.46 per cent to its controllable operating expenditure baseline, which is the same as its forecast customer connections growth rate.<sup>43</sup> This

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<sup>41</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 6.

<sup>42</sup> These delays meant North East Water had to purchase more electricity from the grid compared to its forecast, and excess solar was exported back to the grid at a low spot market rate.

<sup>43</sup> North East Water 2025, *Price submission 2026–31*, October, p. 83.

effectively provides North East Water with an additional growth allowance of \$12.0 million in controllable operating expenditure over the next regulatory period.<sup>44</sup>

North East Water also proposed an average efficiency improvement rate on its controllable operating expenditure of 1.46 per cent per year, matching its proposed growth rate and effectively committing to offset all cost increases covered by the growth allowance.<sup>45</sup> North East Water took the same approach in its 2018 price submission, setting an efficiency rate of 1.2 per cent to completely offset its forecast operating expenditure growth rate of 1.2 per cent.

Our consultant considered North East Water's growth rate is likely overstated as water businesses usually have some level of fixed operating costs that are not likely to increase at the same rate as customer connections.<sup>46</sup> Given this, our consultant advised that we not accept proposed additional expenditure items associated with growth on the basis these costs are already funded via North East Water's proposed growth allowance (see cost adjustments section below).

To find and deliver efficiencies, North East Water stated it has embedded a program called 'Project \$1m' in its baseline operating expenditure forecasts. This program aims to achieve cost savings of \$1 million per year. North East Water pointed to a new internal program to continuously review its operating expenditure against the benchmark over the regulatory period.<sup>47</sup>

Our consultant considered North East Water's proposed efficiency rate to be ambitious (which is to be encouraged under PREMO) but noted this high rate was inconsistent with the business's proposal to add 15 cost items to its baseline forecast. As many of these proposed additional costs are minor in comparison to North East Water's proposed operating expenditure benchmarks, our consultant recommended their removal on the basis such costs would be absorbed by a business proposing an ambitious efficiency rate.<sup>48</sup>

#### *Our draft decision on growth and efficiency rates*

The proposed growth and efficiency rates of 1.46 per cent are higher than North East Water's growth and efficiency rates for the current regulatory period, which were both 1.2 per cent per year.

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<sup>44</sup> \$12.0 million after resetting baseline operating expenditure to include electricity and hardship support costs. FTI Consulting cites a growth allowance of \$15.4 million on page 37 of its report, but this includes the figure for 2025-26.

<sup>45</sup> North East Water 2025, *Price submission 2026–31*, October, p. 96.

<sup>46</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 38.

<sup>47</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 38.

<sup>48</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 39.

An efficiency rate of 1.46 per cent is higher than the efficiency rates proposed by 11 of the other 17 Victorian water businesses in their last price reviews.

However, given North East Water's proposal to effectively absorb growth costs by matching the efficiency rate to its growth rate, we consider this net effect represents good value to customers. On this basis, our draft decision is to accept the growth and efficiency rates proposed by North East Water.

### **Cost adjustments**

North East Water proposed additional operating expenditure above the growth-adjusted annual baseline forecast. Its 16 proposed cost step changes are:

- Energy (\$21.5 million)
- Labour (\$8.6 million)
- West Wodonga Wastewater Treatment Plant (\$3.1 million)
- Digital and Business Transformation (\$3.0 million)
- Operations maintenance services (\$2.5 million)
- Customer hardship assistance (\$1.0 million)
- Chemicals – Wastewater (\$0.8 million)
- Infrastructure planning and assets (\$0.7 million)
- Price submission preparation (\$0.6 million)
- Infrastructure strategy and liveability (\$0.6 million)
- Water sampling and analysis (\$0.5 million)
- Enterprise programs and procurement (\$0.5 million)
- Regional headquarters maintenance (\$0.5 million)
- Operational vehicle running costs (\$0.3 million)
- Chemicals – Water (\$0.1 million)
- Insurance (-\$0.8 million)

The above costs represent an additional \$43.5 million in operating expenditure over the regulatory period, or an average of \$8.7 million per year.

As described above, we reinstated these energy and customer hardship assistance recurring costs (totalling \$5.5 million) back into the 2024-25 baseline, providing an additional \$27.4 million in the baseline allowance across the 2026–31 regulatory period. Accordingly, we have removed the corresponding step change costs of \$22.5 million from the forecast, along with an additional \$4.9 million to balance the inclusion of \$27.4 million in the baseline allowance. This ensures the

forecast reflects the original amounts proposed by North East Water for its electricity and hardship costs.<sup>49</sup>

After removing these two step-change items totalling \$22.5 million, North East Water's remaining proposed step changes total \$21.0 million in additional operating expenditure over the regulatory period.

*We assessed the additional cost items against the criteria in our guidance*

In proposing additional operating expenditure above the growth-adjusted annual baseline forecast, our guidance states North East Water's price submission must demonstrate:<sup>50</sup>

- why any proposed cost increases are not covered within the growth allowance, or by inflation, or absorbed within the stated net efficiency improvement rate
- how proposed cost changes relate to the proposed customer outcomes and the associated outputs and deliverables
- that proposed costs associated with new or revised regulatory obligations and policy requirements are prudent and efficient.

Our consultant reviewed each of North East Water's proposed variations above the baseline, assessing whether step changes were prudent, efficient and consistent with our guidance. This involved asking for further information where step changes were not clearly explained and substantiated.

*Our consultant also reviewed the proposed additional cost items*

Based on its assessment, our consultant recommended removing \$15.4 million from North East Water's proposed forecast. In particular, our consultant recommended removing cost increases that are:

- driven by growth, which it considered are already covered by the growth allowance claimed by North East Water
- below a 'materiality threshold' of 0.5 per cent of total controllable operating expenditure, which it considered were not consistent with the high efficiency improvement rate proposed by the business.<sup>51</sup>

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<sup>49</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, pp. 24, 32–33. North East Water is forecasting a decrease in annual electricity costs compared to its baseline year as it commissions its Wodonga biogas heat and power generator.

<sup>50</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 34–35.

<sup>51</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 21.

Our consultant focused its assessment on material step change increases of more than 0.5 per cent of total baseline controllable operating expenditure over the 2026–31 regulatory period. It considered this a reasonable threshold, as step changes below this amount should be able to be absorbed or mitigated by a prudent business operating efficiently from within its benchmark allowance, which includes the proposed growth rate. For North East Water, this materiality threshold equates to \$1.35 million across the regulatory period for each proposed step change.

Our consultant's recommended adjustments and its reasons are set out below:

- Reduce the proposed additional labour allowance from \$8.61 million to \$1.67 million, reflecting 15 of the 19 additional FTE positions proposed:
  - Four positions were attributable to growth-driven upgrades at the West Wodonga Wastewater Treatment Plant following capital investment, and should be funded by North East Water's growth allowance.
  - Eleven positions were proposed to better meet current obligations and could not be directly linked to increased obligations or other relevant criteria that would justify a step change in costs.
- Reduce the proposed West Wodonga Wastewater Treatment Plant step change by 45 per cent from \$3.1 million to \$1.7 million. North East Water indicated 45 per cent of the capital investment for the plant upgrade work is growth related, and our consultant considered a corresponding proportion of the increased operating costs should therefore be covered by the growth allowance.
- Remove the proposed operations maintenance services step change (\$2.5 million) because North East Water's compliance obligations remain unchanged, noting the business's switch to its preventive maintenance model has already occurred during the current period and the associated costs should be in the baseline allowance.
- Remove all other proposed step changes that are below its materiality threshold of 0.5 per cent of the total baseline controllable operating expenditure. FTI Consulting reasoned these step change costs (a total of \$4.5 million across the next regulatory period) should be absorbed by a business proposing an ambitious 1.46 per cent efficiency rate.

#### *Our draft decision on cost adjustments*

We have considered the advice from our expenditure consultant and North East Water's proposal. We consider it is inconsistent for North East Water to propose 15 additional cost step increases above its growth-adjusted baseline allowance, many of them relatively minor, while also proposing a high efficiency improvement rate.

Having already proposed to adopt a significantly higher baseline allowance than the benchmark established at its 2018 price review, and with its relatively high growth allowance, our preliminary view is that there is limited justification for North East Water to ask customers to fund numerous additions while committing to deliver large efficiency gains. The approach raises questions about the extent to which the proposed efficiency improvements are reflected in the overall cost profile.

On this basis, our draft decision is to:

- remove proposed increases that are already funded through the growth allowance derived from the 1.46 per cent annual expenditure growth rate
- remove proposed increases that have not been clearly justified by North East Water as being costs related to new obligations that are not already in the baseline allowance
- remove a total of \$3.9 million of additional expenditure for items below a materiality threshold of 0.5 per cent of total controllable operating expenditure, except for the \$0.6 million North East Water proposed for the preparation of its next price submission.

By proposing to remove the expenditure items below the materiality threshold, we are not saying that North East Water should not incur expenditure on these items. We are saying that the business should be able to fund them from its higher baseline expenditure allowance without the need for additional expenditure adjustments.

We note North East Water appropriately removed the cost of preparing its price submission from its 2024-25 baseline as a non-recurring item and proposed it as a one-off additional cost item ahead of its next price review. We have also allowed other water businesses to include the costs associated with preparing price submissions in forecasts approved in our 2023 and 2024 price reviews.

Accordingly, our draft decision is to remove \$14.8 million from North East Water's proposed \$21.0 million in additional operating expenditure above the growth-adjusted baseline, after moving the electricity and hardship support costs back into the baseline (see Table 4.3).

## **Submissions**

The Water Services Association of Australia made a submission that supported North East Water's proposed increase in operating expenditure. It noted North East Water's proposal presented operating cost outcomes at the lower end of what the association has observed across the industry.<sup>52</sup> We note that our draft decision accepts the majority of North East Water's proposed operating costs, including its substantial increase in baseline year costs.

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<sup>52</sup> Water Services Association of Australia, *Water in transition: WSAA submission to Essential Services Commission on North East Water's price review*, 11 December 2025, p. 6.

## **Our draft decision on controllable operating expenditure**

Our preliminary view is that, except for the issues identified above, North East Water's approach to forecasting its controllable operating expenditure is generally consistent with the requirements of our guidance. We are satisfied that the majority of its proposed forecast represents efficient controllable operating expenditure, after removing \$14.8 million in proposed step change adjustments.

Our draft decision is to adopt \$270.9 million as North East Water's controllable operating expenditure benchmark for the 2026–31 regulatory period. This is \$17.3 million lower than North East Water's proposed expenditure forecast.

### **4.1.3 Non-controllable operating expenditure**

Our process for establishing non-controllable operating expenditure involves:

- Obtaining the most recent information from the relevant regulatory authorities on their licence fees and the environmental contribution.
- Adjusting the forecasts proposed by North East Water where required.

Table 4.3 shows the values we have adopted for our draft decision.

North East Water proposed \$18.67 million (an average of \$3.7 million per year) in non-controllable operating expenditure over the 2026–31 regulatory period. This is an average annual decrease of \$1.0 million compared to the 2018–26 regulatory period (\$4.7 million per year on average), due to forecast decreases in external bulk water purchases from Goulburn-Murray Water and in the real value of the environmental contribution.

Our guidance sets out our approach for businesses to forecast their non-controllable operating expenditure. We consider businesses should forecast licence fees for the Department of Health, the Environment Protection Authority Victoria and the Essential Services Commission to remain flat in real terms (where scheduled charges are not available), and for the environmental contribution to remain flat in nominal terms (decline in real terms) across the 2026–31 regulatory period.<sup>53</sup>

North East Water followed this approach in its price submission.

## **We propose minor changes to North East Water's forecast bulk water charges and licence fees**

Since lodging its price submission with us, we identified that North East Water's proposed bulk water charges paid to Goulburn-Murray Water were not consistent with the actual charges we

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<sup>53</sup> The environmental contribution is set as a flat nominal value in 4-year tranches. The nominal value must be deflated by our forecast inflation to produce a real value, which is then subject to the annual inflation adjustments.

approved. North East Water provided a revised financial model with updated figures that increased its non-controllable operating expenditure by \$0.035 million to a total of \$18.7 million over the next regulatory period. We have verified that North East Water's revised forecast bulk charges are consistent with Goulburn-Murray Water's 2024 price determination.

We have also updated North East Water's Essential Services Commission licence fees to reflect the current schedule of licence fees (which are in nominal dollars) and deflated them into 2025-26 dollars to express them in real terms.<sup>54</sup> This has resulted in an increase of \$0.22 million to North East Water's non-controllable operating expenditure.

### **Our draft decision on non-controllable operating expenditure**

Our draft decision is to adopt a total of \$18.93 million in non-controllable operating expenditure over the 5-year regulatory period, which is \$0.26 million higher than proposed by North East Water in its price submission.

Prior to making our final decision, we will update the forecast licence fee and environmental contribution values with the relevant regulatory bodies and adjust where necessary for the latest inflation data.<sup>55</sup>

## **4.2 Capital expenditure**

Our draft decision is to accept North East Water's proposed forecast capital expenditure of \$279.7 million as the capital expenditure benchmark for the 2026–31 regulatory period.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. North East Water's forecast capital expenditure and supporting information is provided on pages 107 to 129 of its price submission. Figure 4.1 shows North East Water's actual gross capital expenditure for 2017-18 and the first 7 years (2018-19 to 2024-25) of the current regulatory period, and forecast gross capital expenditure from 2025-26 to 2030-31. The first 8 years of actual expenditure shown in Figure 4.1 (2017-18 to 2024-25) totalling \$318.3 million is relevant to the calculation of the closing regulatory asset base discussed in section 4.3.1.

In assessing North East Water's capital expenditure forecasts we consider the prudence and efficiency of expenditure consistent with the requirements set out in our guidance. We engaged

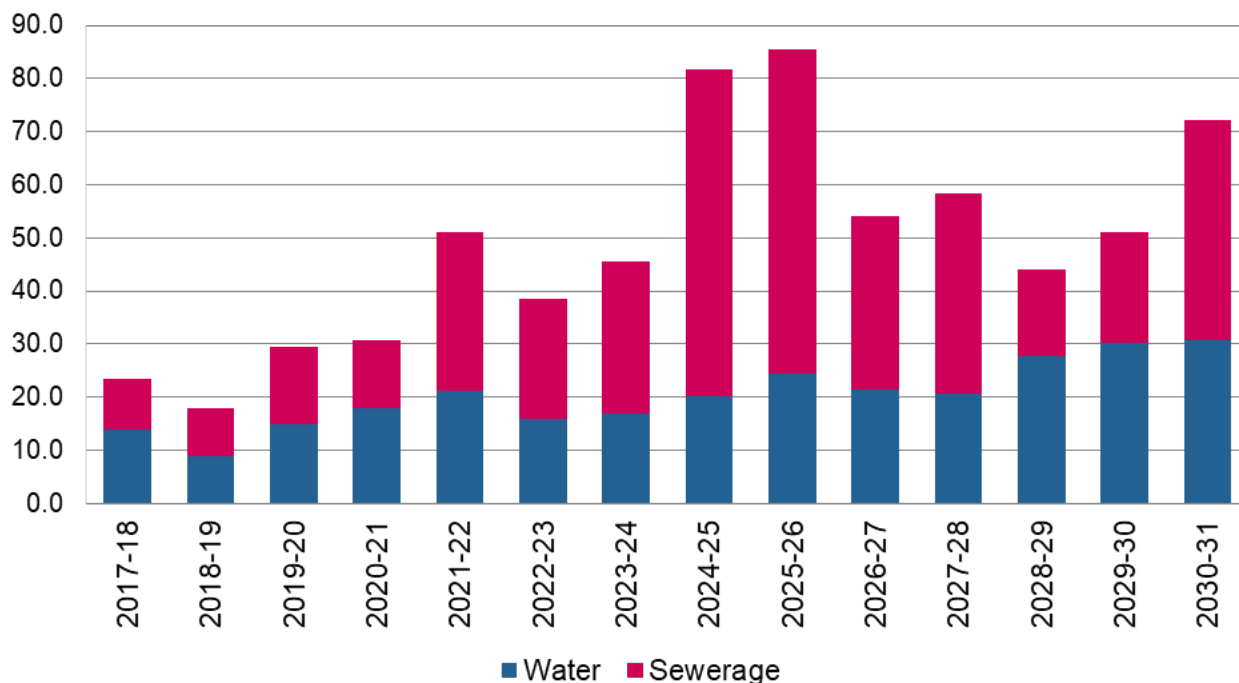
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<sup>54</sup> The licence fee schedule for 2023-24 to 2027-28 for each relevant Victorian water business was published in the Victorian Government Gazette No. G 39 on Thursday 28 September 2023 in nominal terms. We have adopted the scheduled licence fees for 2026-27 and 2027-28, deflated from nominal to real values. We have then held the annual value for 2027-28 constant in real terms across the last 3 years of North East Water's regulatory period.

<sup>55</sup> The Department of Energy, Environment and Climate Action published the environmental contribution values to apply to each water business for a 4-year period from 1 July 2024 to 30 June 2028. Our final decision will include the latest values for Melbourne Water, holding the 2027-28 value as the forecast value from 2028 to 2031.

FTI Consulting to provide expert advice to inform our assessment of North East Water’s capital expenditure and its report is available on our website.<sup>56</sup>

**Figure 4.1 Gross capital expenditure by service category**  
\$ million 2025-26



**Note:** This graph shows actual figures for 2017-18 to 2024-25, and North East Water’s forecasts for 2025-26 to 2030-31.

#### 4.2.1 Actual capital expenditure

The PREMO framework involves reviewing a business’s actual performance over the current regulatory period against the proposals and commitments it made to its customers in its previous price submission. This includes a comparison of its actual capital expenditure against the expenditure benchmarks we approved for the current regulatory period.

#### North East Water has exceeded its capital expenditure benchmark

Based on its latest forecast for 2025-26 expenditure, North East Water will incur \$380.2 million in actual gross capital expenditure over the 8 years from 2018-19 to 2025-26. This is \$200.3 million (or 111 per cent) above the \$179.9 million benchmark we set in its 2018 price review. In net terms (meaning once any customer contributions or asset disposals are accounted for), North East Water has exceeded the benchmark used to approve maximum prices in the current regulatory period by \$184.9 million, or 115 per cent.

<sup>56</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February.

In its price submission, North East Water set out a number of reasons for its significantly increased expenditure relative to the benchmark set for the current regulatory period:<sup>57</sup>

- increased development applications and growth in the region
- increased regulatory obligations related to drinking water quality and environmental compliance
- a significant increase in scope for its Wodonga Wastewater Treatment Plant upgrade project to accommodate additional trade waste loads, including mandated emissions reduction initiatives, adding \$66 million to the overall project cost
- implementation of a new customer billing system that was foreshadowed but not included in expenditure forecasts in the 2018 price review (\$19 million)
- increased asset renewal expenditure to address ageing asset base risk profiles that were identified through improvements in asset management practices
- \$60.5 million of ‘uncertain’ capital expenditure that was excluded from its forecast at its 2018 price review, but was actually delivered during the period
- higher project delivery costs driven by increased unit costs relating to construction, materials and labour (post-COVID-19 pandemic cost rises have outpaced inflation).

### **There was some variation in the capital projects North East Water delivered**

North East Water recorded some variance in its delivery of the top 10 major capital projects that were included in its 2018 price determination.<sup>58</sup> Of these 10 projects, 5 have been completed and 1 has been partially delivered, while 3 have been deferred and 1 delayed (scheduled for completion in 2025-26). North East Water reported these variations arose from changes in priorities over the regulatory period, consistent with its master planning. Where key projects were deferred to future regulatory periods, it invested in other more critical infrastructure priorities in those cities/towns. In most cases this resulted in higher levels of investment than originally committed.

We note that at its mid-period review conducted in 2021, North East Water foreshadowed significant changes to its capital investment needs across the remaining 5 years of the regulatory period.<sup>59</sup> It also noted there was clear customer support for North East Water to:

- move forward on infrastructure in anticipation of continued growth

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<sup>57</sup> North East Water 2025, *Price submission 2026–31*, October, pp. 34–43.

<sup>58</sup> North East Water 2025, *Price submission 2026–31*, October, pp. 42–43.

<sup>59</sup> In adopting an 8-year regulatory period from 1 July 2018, North East Water committed to conducting a mid-period review to confirm that continuing with the longer period was still appropriate and in the interests of its customers. If not, it would prepare a price submission and seek a new price determination from 1 July 2023 with the other 14 water businesses. Following its mid-period review in 2021, North East Water concluded it would continue on the 8-year price path. The commission was satisfied with North East Water’s review process and the review’s conclusion, and supported continuing under the current price determination.

- increase security of supply and maintain service levels.<sup>60</sup>

Throughout the regulatory period, North East Water kept us, and its customers, informed via regular performance reporting and progress updates.

### **North East Water proposed to capitalise some operating expenditure costs**

North East Water also proposed to capitalise costs relating to two major expense items incurred during the period – its updated billing system project (\$16.2 million) and its long-term capital expenditure master planning (\$9.8 million) – on the basis these investments will deliver benefits to customers over an extended period of time. North East Water proposed to recover costs for both these investments over 10 years.<sup>61</sup> We are satisfied this proposal meets our guidance criteria for capitalisation of statutory operating expenditure items for regulatory pricing, and we accept the inclusion of these amounts in North East Water’s capital expenditure during the current period.<sup>62</sup> However, we consider 10 years is too short a period to recover these significant master planning costs. Rather, the average asset life used to calculate the regulatory depreciation would be more appropriate, given the long-term nature of this planning. North East Water should update this in its response to our draft decision.

### **North East Water explained its increase in capital expenditure**

Given the significant increase in expenditure above the approved benchmarks, our expenditure consultant reviewed the capital expenditure delivered in the current regulatory period and the reasoning for variances put forward by North East Water. Our consultant found that the increased level of expenditure compared to the benchmark was well justified and explained by North East Water. Based on the information provided by North East Water, our consultant considered the actual capital expenditure incurred from 2017-18 to 2024-25 has been prudent and efficient. (FTI Consulting’s findings are set out in its report).<sup>63</sup>

We have considered North East Water’s price submission and our expenditure consultant’s view. Our preliminary view is to accept the \$318.3 million in actual gross capital expenditure North East Water incurred from 2017-18 to 2024-25 is appropriate for the purpose of calculating its closing regulatory asset base at 30 June 2025 (see section 4.3.1).

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<sup>60</sup> North East Water 2025, *Price submission 2026–31*, October, p. 26.

<sup>61</sup> North East Water 2025, *Price submission 2026–31*, October, p. 34.

<sup>62</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 35–36.

<sup>63</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February, p. 53.

Our consultant also found North East Water’s updated forecast of \$85.4 million for 2025-26 was reasonable and well justified. However, North East Water proposed to not include this higher amount in its forecast regulatory asset base (and therefore prices from 1 July 2026). Instead it proposed to only include \$14 million, which is the approved benchmark for 2025-26 in our 2018 price review.<sup>64</sup> While we accept North East Water’s approach for our draft decision, we note this proposal effectively defers the recovery of over \$70 million of verified prudent and efficient costs into the following regulatory period, impacting prices from 1 July 2031.<sup>65</sup>

#### **4.2.2 Forecast capital expenditure**

We have reviewed North East Water’s proposed forecast capital expenditure and our consultant’s findings. Our draft decision is to accept the forecast of \$279.7 million proposed by North East Water as our benchmark for the 2026–31 regulatory period.

This proposed forecast represents an increase in average annual capital expenditure of \$8.4 million (18 per cent) compared to the current period, from \$47.5 million to \$55.9 million. The main drivers of the increased expenditure are environmental and drinking water quality compliance obligations (43 per cent) and growth (36 per cent).

#### **Our consultant reviewed North East Water’s capital expenditure program**

Our expenditure consultant requested a representative sample of documents from North East Water to demonstrate its asset management processes and justification for its increased capital expenditure program. This included North East Water’s:

- strategic asset management plan
- capital program governance and assurance framework
- project risk categorisation procedure.

Based on the documents reviewed, and its workshop with the business, our consultant found that North East Water took a robust risk-based approach to developing its overall capital expenditure program and individual projects.<sup>66</sup> This included the development of the projects’ scope, timing and associated cost estimates, which all align with the business’s long-term planning.

North East Water provided evidence that its business cases were supported by robust planning processes. Our consultant noted that North East Water’s supporting documentation:

- was detailed and appropriately costed

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<sup>64</sup> North East Water 2025, *Price submission 2026–31*, October, p. 34.

<sup>65</sup> This is because this expenditure will not be reflected in the regulatory asset base until the following regulatory period.

<sup>66</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February, p. 58.

- provided strong and robust justification for major projects and proposed program objectives
- was based on a strong, risk-based assessment approach to prioritise and appropriately target the expenditure proposed.

### **North East Water’s proposals stem from robust master planning**

In response to a significant increase in regional migration in 2020-21, North East Water undertook a comprehensive master planning process to optimise and appropriately prioritise investment decisions across all service systems. Our consultant found the master planning documents were comprehensive and provided an important and robust basis for infrastructure investment planning, and a high level of confidence that the forecast capital expenditure for the 2026–31 regulatory period is prudent and efficient.<sup>67</sup>

Our expenditure consultant reviewed business cases and supporting documentation for all of North East Water’s top 10 major projects, which represent 59 per cent of the proposed capital expenditure. Our consultant found the majority of North East Water’s proposed capital expenditure relating to these projects was prudent and efficient, and only recommended two minor adjustments:<sup>68</sup>

- A reduction of \$1.0 million from the \$10.1 million forecast for the Yarrawonga Clear Water Storage Construction, Water Treatment Plant Renewal and Ultraviolet Installation project. This recommended reduction relates to the contingency allowance for the ultraviolet upgrade works component of the project, which our consultant considered had been set too high given the project was still at an early stage of development.
- Removal of \$2.5 million of the forecast \$5.8 million in the 2026–31 regulatory period for the Benalla Wastewater Treatment Plant Upgrade project. Our consultant recommended moving \$2.5 million of this project to the 2031–36 regulatory period as it is reasonable to expect delays in implementation given the project is only at the preliminary development stage.

Our expenditure consultant also reviewed several major capital programs included in North East Water’s forecast and considered them to be well prioritised and appropriately targeted based on asset and service level risk.<sup>69</sup> Our consultant considered these forecasts were prudent and efficient and did not recommend any adjustment to these programs.

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<sup>67</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February, p. 51 and pp. 58–59.

<sup>68</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February, pp. 62–63.

<sup>69</sup> FTI Consulting 2026, *Review of North East Water’s expenditure forecasts – 2026 Water Price Review*, February, p. 64.

Other than the two minor adjustments recommended above, our consultant considered North East Water's proposals were well developed and provided a high level of confidence that its forecast capital expenditure program is prudent, efficient and deliverable.

### **North East Water appears capable of delivering its proposed capital expenditure**

The Water Services Association of Australia supported North East Water's proposed increase in capital expenditure. It noted North East Water's proposal aligns with general upward trends in water industry capital investment across Australia to address ageing assets, future growth expectations and the changing climate.<sup>70</sup>

Our preliminary view is that the planned capital expenditure program appears to be achievable. North East Water has delivered similar levels of capital expenditure and improved its project delivery over the current regulatory period.

### **North East Water has excluded project costs where the timing is uncertain**

North East Water indicated to our consultant that it has excluded \$37 million of uncertain project costs from its forecast capital program for the 2026–31 regulatory period where there is uncertainty in timing of the capital expenditure.<sup>71</sup> At the 2031 price review, North East Water can propose to include additional capital expenditure incurred (above its benchmark) over the 2026–31 period in its regulatory asset base. However, it will need to demonstrate the prudence and efficiency of the expenditure, and that it was incurred in the period.

Deviations from forecast capital expenditure during the 2026–31 regulatory period will form a key part of our assessment of the Performance element of PREMO at the next price review.

### **Our draft decision on forecast capital expenditure**

We have reviewed North East Water's proposal and the advice from our consultant. For the reasons outlined above, we consider North East Water's approach to forecasting its capital expenditure is consistent with the requirements of our guidance and the principles in the Water Industry Regulatory Order 2014.<sup>72</sup> While the minor adjustments recommended by our consultant would transfer more of the uncertainty risk associated with the two projects from customers back to

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<sup>70</sup> Water Services Association of Australia, *Water in transition: WSAA submission to Essential Services Commission on North East Water's price review*, 11 December 2025.

<sup>71</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, p. 55.

<sup>72</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 36-41.

the business, we have considered the need for these adjustments in the context of North East Water's overall capital expenditure proposal. Matters we have considered include the business's:

- proposal to carry more than \$70 million of expenditure to be incurred in 2025-26 through to the next price review in 2031
- robust investment planning process, which was well supported by long-term master plans
- demonstrated delivery capability.

Our preliminary view is that the minor adjustments to forecast expenditure recommended by our consultant, if adopted, would have a negligible impact on the value received by customers.

Therefore, our draft decision is to accept North East Water's proposed forecast of \$279.7 million as the capital expenditure benchmark for the 2026–31 regulatory period (see Table 4.6).

The benchmark we propose to adopt for North East Water does not represent the amount that North East Water 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. North East Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

### **4.3 Regulatory asset base**

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.<sup>73</sup> The regulatory asset base is used to estimate the return on assets (discussed in section 4.4), and regulatory depreciation (discussed in section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required North East Water to propose:

- The closing value of its regulatory asset base at 30 June 2025 (using actual data).
- The opening value of its regulatory asset base at 1 July 2026 (calculated according to the criteria outlined in the guidance).
- The forecast value of its regulatory asset base for each year of the regulatory period (2026-27 to 2030-31), in accordance with the prudence criteria outlined in the guidance.

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<sup>73</sup> These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

### 4.3.1 Closing regulatory asset base

Our draft decision is to accept North East Water's proposed closing regulatory asset base for 30 June 2025 of \$516.4 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2024-25.<sup>74</sup> This helps to ensure prices reflect the actual net expenditure of a water business.<sup>75</sup>

North East Water's proposed closing regulatory asset base at 30 June 2025 is on page 138 of its price submission.

We compared North East Water's actual net capital expenditure for 2017-18 to 2024-25 with the forecast used to approve maximum prices for the period from 1 July 2018. Typically, if a water business's net capital expenditure was more than 10 per cent above the forecast, we consider the business's justification for the additional expenditure before including it in the closing regulatory asset base. We consider this approach is reasonable given capital expenditure can be 'lumpy' in nature.

North East Water's net capital expenditure over the period from 2017-18 to 2024-25 was \$285.1 million. This is \$122.4 million or 75.2 per cent higher than the benchmark used to approve maximum prices during the 2018 Water Price Review.

#### **Our draft decision on North East Water's closing regulatory asset base**

As noted in section 4.2.1, our expenditure consultant reviewed the capital expenditure delivered in the current regulatory period and the reasoning put forward by North East Water for variances from the benchmark.

We have reviewed the information provided by North East Water and the recommendations of our expenditure consultant. Our draft decision is to accept North East Water's proposed closing regulatory asset base for 30 June 2025 of \$516.4 million as it meets the requirements of our guidance. Table 4.5 sets out our draft decision on North East Water's closing regulatory asset base at 30 June 2025.

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<sup>74</sup> See section 4.2 for a discussion of North East Water's capital expenditure. We calculate the closing regulatory asset base using the actual expenditure incurred in the last year of the previous regulatory period, and each completed year in the current regulatory period – that is 2017-18 and 2018-19 through 2024-25. This is different to the current period benchmark spanning 2018-19 to 2025-26. The current year, 2025-26, is included in the *forecast* regulatory asset base for this price review, and the *actual* expenditure incurred in 2025-26 will be included in the closing regulatory asset base at the next price review.

<sup>75</sup> Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

**Table 4.5 Draft decision – closing regulatory asset base (RAB)**  
\$ million 2025-26

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Opening RAB 1 July</b>	<b>336.8</b>	<b>344.7</b>	<b>346.7</b>	<b>360.4</b>	<b>373.4</b>	<b>407.6</b>	<b>427.9</b>	<b>454.2</b>
Plus gross capital expenditure	23.4	17.9	29.6	30.8	50.9	38.5	45.5	81.6
Less government contributions	-	-	-	0.4	0.3	0.2	1.0	1.4
Less customer contributions	2.7	3.3	3.2	4.4	3.4	4.4	4.1	4.4
Less proceeds from disposals	0.6	0.8	0.7	0.5	0.2	0.2	0.5	0.0
Less regulatory depreciation	12.1	11.8	12.0	12.4	12.9	13.4	13.6	13.7
<b>Closing RAB 30 June</b>	<b>344.7</b>	<b>346.7</b>	<b>360.4</b>	<b>373.4</b>	<b>407.6</b>	<b>427.9</b>	<b>454.2</b>	<b>516.4</b>

**Note:** Numbers have been rounded.

### 4.3.2 Forecast regulatory asset base

Our draft decision is to not accept North East Water’s proposed forecast regulatory asset base.

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, regulatory depreciation, government and customer contributions, and asset disposals.

Our preliminary assessment, and that of our consultant, found that North East Water has demonstrated prudence and efficiency in its forecast of capital expenditure for the next regulatory period (see section 4.2.2). North East Water has proposed the previous benchmark figure of \$14 million for gross capital expenditure in 2025-26, rather than its updated forecast of \$85.4 million (see section 4.2.1).

However, after we received North East Water’s price submission, it revised its financial model to correct an error and provided updated forecasts for the regulatory asset base and regulatory

depreciation (see section 4.5).

Further, we require North East Water to provide additional information in response to our draft decision on its forecast regulatory depreciation. This will inform our final decision. (see section 4.5).

For this reason, our draft decision is to not accept North East Water's updated forecast regulatory asset base. However, for the purposes of calculating the revenue requirement in our draft decision, we have adopted North East Water's updated forecasts for the regulatory asset base and regulatory depreciation, as shown in Table 4.6.<sup>76</sup>

Our assessments of the components of the forecast regulatory asset base are outlined in different sections of this draft decision as follows:

- section 4.2 (capital expenditure)
- section 4.3.2 (customer contributions)
- section 4.5 (regulatory depreciation).

**Table 4.6 Draft decision – forecast regulatory asset base (RAB)**  
\$ million 2025-26

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Opening RAB 1 July</b>	<b>516.4</b>	<b>512.6</b>	<b>540.7</b>	<b>569.4</b>	<b>585.1</b>	<b>606.8</b>
Plus gross capital expenditure	14.0	54.1	58.3	44.1	51.0	72.2
Less government contributions	-	1.0	3.1	0.4	-	-
Less customer contributions	3.5	4.3	4.4	4.4	4.5	4.6
Less proceeds from disposals	0.5	0.5	0.5	0.5	0.5	0.5
Less regulatory depreciation	13.7	20.2	21.6	23.1	24.3	26.2
<b>Closing RAB 30 June</b>	<b>512.6</b>	<b>540.7</b>	<b>569.4</b>	<b>585.1</b>	<b>606.8</b>	<b>647.7</b>

**Note:** Numbers have been rounded.

<sup>76</sup> Our guidance required North East Water to provide an updated estimate of the components of its regulatory asset base for 2025-26. This was so we could calculate the opening regulatory asset base for 1 July 2026. Our guidance noted that where the gross capital expenditure forecast differs from the benchmark for 2025-26, North East Water should adopt the lower amount. Where forecast new customer contributions are higher than the benchmark for 2025-26 North East Water must use the higher amount. We require North East Water to provide its most recent estimate of its year-to-date actuals in its response to our draft decision. The estimates for 2025-26 will be confirmed at the next price review following the 2026 Water Price Review. Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 42.

## Customer contributions

Our draft decision is to not accept North East Water's forecasts for revenue from customer contributions.

North East Water's forecast customer contributions are the amounts of revenue the business expects to generate through its new customer contribution charges in each financial year.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.<sup>77</sup>

New customer contribution charges are a key input to revenue from customer contributions. Since our draft decision is to not accept North East Water's proposed new customer contribution charges (section 5.4), our draft decision is to not accept North East Water's forecasts for revenue from customer contributions.

For the purposes of calculating the regulatory asset base and revenue requirement in our draft decision, we have adopted North East Water's proposed customer contributions forecast based on its financial model. However, North East Water must update and justify its customer contribution forecasts in response to our draft decision.

### 4.4 Rate of return

In establishing the return on assets component of North East Water's revenue requirement, we have applied a rate of return to North East Water's regulatory asset base. The rate of return is calculated using a benchmark cost of debt (discussed in section 4.4.1) and a benchmark return on equity value (discussed in section 4.4.2).

#### 4.4.1 Cost of debt

Our draft decision is to accept the cost of debt proposed by North East Water for the purpose of calculating the revenue requirement for our draft decision. We will update the 2025-26 nominal cost of debt prior to our final decision.

Our guidance required North East Water to use estimates of the cost of debt provided by the commission to estimate its revenue requirement. North East Water used the nominal cost of debt values we specified, as set out in Table 4.7, to calculate its revenue requirement. For this reason, our draft decision is to accept the cost of debt proposed by North East Water for the purpose of

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<sup>77</sup> Revenue from new customer contributions reflects revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

calculating the revenue requirement for our draft decision. We will update the 2025-26 nominal cost of debt following the release of the Australian Bureau of Statistics March Quarter 2026 consumer price index and we will require North East Water to use the updated figure when calculating the revenue requirement in response to our draft decision.

In our financial model, we use an estimate of forecast inflation to convert the nominal cost of debt to the real cost of debt. We estimated the forecast inflation at 2.9 per cent for North East Water’s price submission model. We will update the forecast inflation before our final decision, after the release of the Australian Bureau of Statistics March Quarter 2026 consumer price index.<sup>78</sup>

**Table 4.7 Draft decision – cost of debt**

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Cost of debt (nominal)	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%	6.53%	5.84%	5.84%

**Notes:** Numbers have been rounded. The 2025-26 figure is an estimated cost of debt – we will update this figure before making our final decision and price determination.

#### 4.4.2 Return on equity

Our draft decision is to adopt a return on equity of 4.1 per cent, which reflects our agreement with North East Water’s self-rating of its price submission under the PREMO framework.

Under our PREMO incentive mechanism, the return on equity we adopt to calculate the revenue requirement is linked to the PREMO rating of a business’s price submission. As outlined in our guidance, the return on equity we adopt depends on a water business’s self-rating of its price submission and whether we agree with that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business’s self-rating and our rating.<sup>79</sup> We consider that the values in our matrix reflect the medium-term real rates of return.

<sup>78</sup> In November 2025, the Australian Bureau of Statistics updated its consumer price index methodology from a quarterly data series to a monthly data series to determine the official annual inflation rate. The consumer price index is applied in our forecast methodology as an input to our inflation estimates. The Australian Bureau of Statistics has confirmed that it will continue to publish the quarterly consumer price index.

<sup>79</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 46–48.

North East Water rated its price submission as 'Standard'. Based on this PREMO self-rating, North East Water proposed a return on equity of 4.1 per cent per year. This reflects the maximum return rate allowed in our guidance for a price submission rated as 'Standard'.<sup>80</sup>

As outlined in chapter 7, our draft decision is to agree with North East Water's overall PREMO self-rating of its price submission and therefore to adopt its proposed return on equity.

## 4.5 Regulatory depreciation

Our draft decision is to not accept North East Water's proposed forecast regulatory depreciation.

Regulatory depreciation is a component of North East Water's revenue requirement and is also an input to calculating the regulatory asset base. North East Water's forecast regulatory depreciation was calculated using a straight-line depreciation profile. We noted in our guidance that we prefer this approach.<sup>81</sup>

### North East Water revised its regulatory depreciation forecasts to correct an error

North East Water's proposed depreciation for the next regulatory period was \$113.9 million. However, after we received North East Water's price submission, an issue was found that had affected the calculation of its regulatory depreciation and forecast regulatory asset base. North East Water provided a revised financial model that corrected the error and increased its forecast regulatory depreciation for the 2026–31 regulatory period to \$115.4 million. This updated figure was calculated in a manner that is consistent with our guidance.

### North East Water's average asset life is shorter than we expected

We also note that North East Water's average asset life of 29.5 years is lower than the average asset life in the water industry. Based on the final decision models from our 2023 and 2024 price reviews, the average asset life of water businesses in regional Victoria is around 50 years.

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<sup>80</sup> We will continue to monitor market conditions and may amend the return on equity matrix values to reflect any changes to the medium-term outlook prior to releasing our final decision. We have had regard to the return on equity adopted by interstate regulators in the following publications: Independent Pricing and Regulatory Tribunal NSW, *Final Report – Review of prices for WaterNSW-Rural Valleys from 1 July 2025*, June 2025; Independent Pricing and Regulatory Tribunal NSW, *Final Report – Sydney Water prices 2025-2030*, September 2025; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2024 – 30 June 2028*, SA Water Regulatory Determination, 1 July 2024; Queensland Competition Authority, *Final report – Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority, *Final report – Rural irrigation price review 2025–29*, Seqwater, January 2025; Office of the Tasmanian Economic Regulator, *Final report – Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

<sup>81</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 43.

Between 2018-19 and 2025-26, North East Water had a significant level of capital expenditure and delivered large projects that included the expansion or upgrade of its treatment plants (see section 4.2.1). These kinds of assets typically have long lives, and we would expect that the average asset life of North East Water's asset base would increase as a result. However, the average asset life it proposed in its 2026 price submission is similar to that proposed in its 2018 price submission.

All other things being equal, using a shorter asset life means that the recovery of depreciation through prices is accelerated, which means prices in the short term:

- are higher than if a longer asset life was adopted
- don't reflect how the assets are used over the course of their lives.

### **Our draft decision on North East Water's regulatory depreciation**

On this basis, our preliminary view is that North East Water's approach means that today's customers may pay more than an efficient cost of providing services while future customers may pay less. Therefore, our draft decision is to not accept its revised forecasts of regulatory depreciation.

However, for the purposes of calculating the forecast regulatory asset base and revenue requirement in our draft decision, we have adopted North East Water's updated forecasts of regulatory depreciation as shown in section 4.3.2 (Table 4.6).

In response to our draft decision, North East Water must provide more information to justify its approach to regulatory depreciation based on the straight-line depreciation method and the assumptions applied to calculating its asset lives. North East Water can also propose and justify an alternative approach consistent with our guidance.

## **4.6 Tax allowance**

Our draft decision is to accept North East Water's proposed forecast of no tax allowance in its revenue requirement for the 2026–31 regulatory period.

The tax allowance is a component of the revenue requirement that allows businesses to recoup the amount of tax they are liable to pay under the National Tax Equivalent Regime.<sup>82</sup>

North East Water indicated it had \$15 million of tax losses at 30 June 2025 and therefore did not propose any tax allowance in its revenue requirement during the 2026–31 regulatory period. In its

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<sup>82</sup> Water businesses are subject to the National Tax Equivalent Regime, which means relevant taxation laws are applied as if the businesses were subject to these laws. Australian Taxation Office, *Manual for the National Tax Equivalent Regime*, Version 13, July 2025.

price submission it proposed to absorb any tax that may become payable during the regulatory period and not pass this on to its customers.<sup>83</sup>

Our draft decision is to accept North East Water's forecast as it is consistent with the approach set out in our guidance.

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<sup>83</sup> North East Water 2025, *Price submission 2026–31*, October, p. 84.

## 5. Demand, tariffs and prices

Once North East Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

### 5.1 Demand

Our draft decision is to accept North East Water's demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

North East Water's demand forecasts are set out on pages 130 to 135 of its price submission and are also included in its financial model.

Our guidance required North East Water's proposed demand forecasts to represent the best available estimates using an appropriate forecasting methodology. Assumptions about the drivers of demand over the regulatory period must be well explained, reasonable and based on the latest data and evidence available.<sup>84</sup>

Our draft decision is to accept North East Water's demand forecasts for the purpose of approving maximum prices, because they were developed consistently with the requirements of our guidance based on the information available at the time.<sup>85</sup> Although North East Water did not base its demand forecasts on the Victoria in Future estimates provided by the Victorian Government, we consider that North East Water's connections growth forecast is:

- clearly explained
- based on credible underlying assumptions
- in line with historical trends.

However, since North East Water lodged its price submission, updated Victorian Government population and dwelling growth estimates have been made available to water businesses. In its response to our draft decision, North East Water must demonstrate how it has considered these updated estimates and whether any changes to its assumptions and forecasts are required. Any updates to its forecasts must be clearly identified, justified and included in its financial model submitted in response to our draft decision.

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<sup>84</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 53.

<sup>85</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 53–54.

## 5.2 Form of price control

Our draft decision is to accept North East Water’s proposed price cap form of price control.

Our guidance stated we would have regard to whether a business proposed to continue its existing form of price control or introduce a new form of price control.<sup>86</sup>

North East Water proposed a price cap form of price control for all tariffs as set out on page 143 of its price submission. This is the same as its current approach.

Our draft decision is to accept the proposed price cap form of price control because:

- it is a continuation of North East Water’s current approach, which we have previously approved
- it provides sufficient and stable revenue for North East Water to cover the forecast efficient expenditure of delivering services and complying with any health, safety and environmental obligations
- it is easy for customers to understand and provides them with price certainty
- North East Water can more efficiently manage demand risk on behalf of its customers
- it is easy to verify whether prices are compliant on an annual basis
- it is otherwise consistent with the requirements of our guidance.

## 5.3 Tariff structures and prices

Our draft decision is to accept North East Water’s proposed tariff structures.

North East Water’s proposed tariffs are set out on pages 146 to 150 and 161 to 166 of its price submission.

North East Water proposed changes to its water and sewerage tariff structures over the next regulatory period to better support tenants, large households and small businesses in its service region.

Our draft decision considers proposals related to tariff structures, price paths, and any submissions by interested parties on tariff structures and the level of prices or bills. We do not approve prices for each tariff at the draft decision stage of a price review. Prices will need to be updated by North East Water to reflect our draft decision on its revenue requirement and our updates to inflation and cost of debt estimates prior to our final decision.

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<sup>86</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 54–55.

### 5.3.1 Tariff structures

We provided North East Water with a large degree of discretion to decide on individual tariff structures.<sup>87</sup> This recognises that:

- water businesses are often best placed to consider the interests of customers in designing tariffs
- existing tariff structures have been developed over time to deal with a variety of local circumstances.

#### **North East Water proposed to rebalance its fixed and variable water charges**

North East Water proposed changes to its water tariff structures over the next regulatory period to better support tenants, large households and small businesses in its service region. For residential and non-residential water services, North East Water proposed:

- a two-part tariff with a fixed service charge and a variable usage charge
- to rebalance its fixed and variable charges gradually over the 2026–31 regulatory period.

This will be achieved by increasing the fixed component of customer bills and reducing the variable component that depends on water use.

North East Water advised us that the proposed tariff rebalancing would result in a 65:35 split in revenue coming from variable and fixed charges respectively, which is consistent with its current tariff strategy. The balance between fixed and variable charges had moved away from this target in the current regulatory period because successive reductions in the cost of debt from 2018 to 2022 were applied to its fixed service charges only.<sup>88</sup> This resulted in a lower fixed revenue component.

The deliberative forum and interested parties that engaged in North East Water's consultation process supported the proposed tariff rebalancing.<sup>89</sup>

For residential and non-residential sewerage services, North East Water proposed a fixed service charge only. This is the same as its current approach.

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<sup>87</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 55-56.

<sup>88</sup> From year 2 of a regulatory period, prices are adjusted each year to reflect approved adjustments set out in a water business's determination, including adjustments for the cost of debt.

<sup>89</sup> North East Water 2025, *Deliberation Outcomes Report April 2025*, pp. 25–27; Letters of support from Duduroa Dhargal Aboriginal Corporation, Albury Wodonga Aboriginal Health Service, Gateway Health and Business Wodonga included in North East Water's price submission, North East Water 2025, *Price submission 2026–31*, October, pp. 195–217; Naughtin Development Group, *Letter of Support – North East Water – 2026–31 Price Submission*, 11 December 2025.

North East Water also proposed to maintain its existing location-based tariff loadings applicable to its water and sewerage fixed service charges to promote cost-reflective pricing across all towns in its service region.<sup>90</sup>

### **Our draft decision on North East Water's tariff structures**

Our preliminary view is that North East Water's proposed two-part tariff structure for water services will promote efficient water use by sending a signal to customers about the costs of their water use. It is also easy for customers to understand and provides them some control over their bills. This approach is commonly applied in other states and territories.<sup>91</sup> Similarly, we consider the single fixed charge that North East Water proposed for its sewerage services is also easy for customers to understand and sends signals about the efficient cost of delivering those services. We note that the deliberative forum recommended that North East Water should clearly communicate its tariff loadings to customers for improved transparency.<sup>92</sup>

We note that the proposal to increase the fixed water service charge would shift some demand risk from the business to its customers. However, North East Water's typical bill would continue to have the highest variable component among regional Victorian water businesses. This proposed change is intended to protect tenants and large households against the proposed price increase.

In addition, we have confirmed that North East Water's proposed variable usage charge is set above its long-run marginal cost estimate. This ensures customers continue to receive efficient price signals that encourage efficient water use.

We consider North East Water's proposal will promote efficiency, cost-reflectivity, and affordability for tenants and large households, including low-income and vulnerable customers in its service region.

Our draft decision is to accept North East Water's proposed changes to its tariff structures for water and sewerage services on the basis that they meet the criteria in our guidance and are generally supported by its customers.

### **5.3.2 Prices**

North East Water's proposed prices for water and sewerage services are set out on pages 146 to 148 of its price submission.

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<sup>90</sup> North East Water applies loadings to its water and sewerage tariffs to reflect the additional costs of servicing different towns.

<sup>91</sup> Examples include Sydney Water, Hunter Water, SA Water, Unity Water, Icon Water, Power and Water Corporation, TasWater, Central Coast Council and Urban Utilities.

<sup>92</sup> North East Water 2025, *Price submission 2026–31*, October, p. 185.

Overall, under North East Water's proposal, prices will increase over the next regulatory period:

- Variable water usage charges for all customers except major customers would increase by 2.1 per cent (before inflation) per year.
- Fixed water service charges for most residential and non-residential customers who use a 20-millimetre meter would, on average, increase by about 8.8 per cent (before inflation) per year.
- Fixed sewerage service charges for the majority of residential and non-residential customers who live in large towns would, on average, increase by about 8.7 per cent (before inflation) per year.

The above price paths reflect the combined result of North East Water's proposed price increases of 5.25 per cent (before inflation) per year and implementation of the deliberative forum's recommendation to rebalance water tariffs. As discussed in section 5.3.1, this tariff strategy enables North East Water to increase its reliance on fixed charges and gives tenants and large households greater control over their bills.

### **North East Water's proposed price increases are generally supported**

The deliberative forum and local councils who participated in North East Water's consultation process were generally supportive of the proposed price increases to enable infrastructure investment over the next 5 years.<sup>93</sup> A submission we received from the Water Services Association of Australia (WSAA) also strongly supported North East Water's price increases noting that they are aligned with the general trends observed across Victorian water businesses.<sup>94</sup>

While some interested parties expressed disappointment or concern around the affordability impacts of the proposed price increases, they acknowledged the price increases were necessary given the infrastructure needed.<sup>95</sup> They also noted North East Water's proposed increase in support for low income and vulnerable customers and that prices will remain comparable to other water businesses.

On balance, we consider North East Water's proposal is supported by its customers.

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<sup>93</sup> North East Water 2025, *Deliberation Outcomes Report*, April, pp. 25–27. Refer also to letters of support from City of Wodonga, Alpine Shire Council, Moira Shire Council and Towong Shire Council included in North East Water's price submission. North East Water 2025, *Price submission 2026–31*, October, pp. 203–205 and 207–208.

<sup>94</sup> Water Services Association of Australia, *Water in transition: WSAA submission to Essential Services Commission on North East Water's price review*, 11 December 2025.

<sup>95</sup> Letter of support from Indigo Shire Council included in North East Water, *Price Submission 2026-2031*, October 2025, pp. 198–200; Naughtin Development Group, *Letter of Support – North East Water 2026-2031 Price Submission*, 11 December 2025.

## **We will update North East Water's prices before our final decision**

In June 2026, we will determine prices for North East Water in \$2026-27 terms. This means the annual change in the March Quarter 2026 consumer price index (published by the Australian Bureau of Statistics) will be added to its 2026-27 prices, which will also flow through to customer bills.

North East Water's prices will also be affected by our draft decision on the revenue requirement, which is outlined in chapter 4. In response to our draft decision, North East Water will need to propose updated prices that reflect our draft decision and any updates to its revenue requirement.

### **5.3.3 Addressing the interests of low income and vulnerable customers**

In making our price determination, we must have regard to whether North East Water's prices take into account the interests of customers, including low income and vulnerable customers.<sup>96</sup>

There is evidence that North East Water has sought to address the interests of low income and vulnerable customers because it proposed:

- keeping its average customer bill on par with, or below, the Victorian regional average bill over the next regulatory period
- rebalancing its tariff structure to gradually reduce the ratio of usage-based variable charges on customer bills to improve affordability of water services, particularly in consideration of the cost-of-living pressures faced by tenants, large families and small businesses
- doubling the financial support available through its customer support program from \$200,000 to \$400,000 a year (to a total of \$2 million over 5 years) to help over 1,000 customers annually
- improving awareness and understanding of, and ease of access to, its customer support initiatives through a targeted education and communication program
- implementing the new Customer Care Fair Practice Plan including a safety-by-design program to ensure its services are safe, inclusive and accessible to all customers, particularly those experiencing financial hardship or at risk of domestic and family violence
- engaging regularly with customers with lived experience of hardship and customer support agencies to discuss opportunities to improve support for customers experiencing vulnerability
- collaborating with Traditional Owners and First Nations communities to explore opportunities to provide bill relief for First Nations customers, including through cultural water allocations
- promoting tap water as a safe and less-expensive alternative to bottled water to help migrant communities save money and reduce environmental impacts.

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<sup>96</sup> Water Industry Regulatory Order 2014, cl. 11(d)(iii).

As noted in section 3.1, North East Water's price submission was informed by engagement that was inclusive for customers more likely to experience vulnerability. This included engagement with young people, elderly people, renters, newly arrived customers, customers living with a disability, customers experiencing financial hardship and Traditional Owners and First Nations customers.

#### **5.3.4 Trade waste and miscellaneous services**

North East Water confirmed that its proposed tariffs for trade waste and miscellaneous services are calculated in accordance with the pricing principles referenced in our guidance. (See pages 148 to 150 of its price submission.)

For trade waste services, it proposed to maintain the current tariff structure under which:

- commercial customers pay a fixed charge for each pre-treatment device on their site
- industrial customers pay volume and load-based charges for all waste discharged from their site.

North East Water proposed an annual increase of 5.25 per cent (before inflation) for trade waste charges. This proposed increase reflects the uplift in North East Water's proposed sewerage expenditure, and aligns with its proposed sewerage price path.

#### **North East Water reviewed its miscellaneous charges**

Following a review of its miscellaneous charges to better align them with costs, North East Water proposed:

- consolidating fire service tapping fees and water tapping fees for all meter sizes into a single group for simplicity and consistency with other water businesses
- material increases to several non-core miscellaneous charges, including the build over easement application fee, sewerage disconnection fee and water tapping fees to make them cost reflective
- introducing new charges for work undertaken on asbestos cement mains (when installing a water connection), to reflect the cost of additional safety and compliance requirements.

North East Water proposed to adjust the majority of its miscellaneous charges annually for inflation only.

We did not receive any submissions from customers about North East Water's proposed trade waste and miscellaneous services tariffs.

Our draft decision is to accept North East Water's proposed tariffs for trade waste and miscellaneous services on the basis that they are consistent with the criteria in our guidance and are generally supported by its customers.

## 5.4 New customer contributions

Our draft decision is to not accept North East Water's proposed uniform standard new customer contributions.

New customer contributions are charged by a water business when a new connection is made to its water, sewerage or recycled water networks. New customer contributions can be either standard or negotiated. We approve standard new customer contributions and the negotiation framework for negotiated new customer contributions. We do not approve negotiated new customer contributions charges, but these must comply with the binding new customer contributions pricing principles and be agreed in accordance with a water business's approved negotiating framework.

Standard charges typically apply in areas where infrastructure requirements and growth rates are relatively well known and are designated by the water business. Negotiated charges allow water businesses and developers to negotiate a site-specific arrangement where standard charges would not be fair and reasonable or where a new connection is outside the business's designated areas for standard charges. Negotiated new customer contributions may be agreed in any circumstances, including where a standard charge is applicable.

### 5.4.1 North East Water's proposed standard new customer contributions

North East Water's proposed standard new customer contributions are set out on pages 152 to 157 of its price submission. North East Water proposed applying a uniform new customer contribution across its service area using the net incremental cost approach to estimate the charge.<sup>97</sup>

North East Water proposed to:

- increase its standard new customer contribution for sewer services across its entire service district from \$2,482 per lot in 2025-26 to \$4,017 from 2026-27 to 2030-31
- remove its current standard new customer contribution for water services of \$1,064 and have a standard new customer contribution of \$0 for water services from 2026-27.

Table 5.1 compares North East Water's current and proposed standard new customer contributions.

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<sup>97</sup> The net incremental cost approach applies the incremental revenue less incremental cost to estimate the new customer contribution.

**Table 5.1 North East Water’s current and proposed standard new customer contributions**  
\$ 2025-26

Service connection	Current 2025-26	Proposed 2026-27	2027-28	2028-29	2029-30	2030-31
Water	\$1,063.77	\$0	\$0	\$0	\$0	\$0
Sewer	\$2,482.11	\$4,017.39	\$4,017.39	\$4,017.39	\$4,017.39	\$4,017.39
<b>Total</b>	<b>\$3,545.88</b>	<b>\$4,017.39</b>	<b>\$4,017.39</b>	<b>\$4,017.39</b>	<b>\$4,017.39</b>	<b>\$4,017.39</b>

North East Water’s proposed approach is based on consultation with developers, observations of our 2018 price review assessment and our assessment of other businesses’ proposals during the 2023 Water Price Review.

We assessed North East Water’s proposed new customer contributions against our guidance, which includes pricing principles for setting both standard and negotiated new customer contributions.<sup>98</sup> New customer contributions must:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection
- have regard to the incremental future revenues that will be earned from customers at that connection
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

Based on information provided by North East Water, we are not satisfied that its approach to calculating its standard new customer contributions complies with our guidance requirements.

Our draft decision is to not accept North East Water’s proposed standard new customer contributions (see the reasons below). Section 5.4.10 outlines the information we require from North East Water in response to our draft decision for us to assess whether its proposal, or any alternative it proposes, meets the requirements of our guidance.

### 5.4.2 Fair and reasonable costs

Section 268(3) of the *Water Act 1989* requires any new customer contribution to be assessed by the business as fair and reasonable, taking into account the benefit to the connecting property relative to other properties.

Based on the information provided by North East Water, we are not satisfied that the proposed new customer contributions reflect incremental infrastructure and associated costs or incremental

<sup>98</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 63.

future revenues. We are also not satisfied that the proposed charges are greater than the avoidable costs and less than the standalone costs of providing the services.

Our preliminary view is that:

- North East Water has not provided any policy documentation or clear methodology on how the incremental costs arising from capital and operating expenditure for water and sewer upgrades have been allocated to growth.
- Incremental future revenues have not been identified.
- Costs appear to relate predominantly to capital investments in Wangaratta and Wodonga but charges are applied uniformly across North East Water's entire service area.
- Costs in towns such as Yarrowonga, Benalla and Tangambalanga are materially lower than reflected in the proposed new customer contribution.

### **5.4.3 Principle 1 – Incremental infrastructure and associated costs (sunk and ongoing costs)**

The first pricing principle in our guidance requires that new customer contributions have regard to incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection.<sup>99</sup>

Our expenditure consultant and commission staff reviewed the allocation of incremental growth capital and operating costs to North East Water's new customer contributions.<sup>100</sup> We found:

- North East Water did not have an explicit cost allocation policy and instead applied a subjective allocation methodology.
- The process North East Water used to allocate both incremental capital expenditure (including sunk costs) and incremental operating expenditure was not appropriate. The process used is likely to have overestimated the proportion of expenditure that should be allocated to new customers, resulting in the proposed new customer contributions being higher than efficient costs.
- North East Water used 'remaining asset life' as a proxy for 'capacity available for future customers'. This is inappropriate because this relates more to asset condition than the impact of future customers.

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<sup>99</sup> 'Statutory cost categories' means costs for works imposed under Division 6 of Part 13 of the *Water Act 1989*. In practical terms, this means costs associated with works that a water business must undertake under the Act when providing or upgrading infrastructure for a property connection — for example: extensions of water mains or sewerage pipes, upgrading pressure or pumping systems, or other network works required to connect a new property or development.

<sup>100</sup> FTI Consulting 2026, *Review of North East Water's expenditure forecasts – 2026 Water Price Review*, February, pp. 66–68, and commission staff analysis of sunk costs and operating expenditure.

Our preliminary view is that we consider North East Water's proposed standard new customer contributions do not satisfy our pricing principle of having regard to the incremental infrastructure and associated costs attributable to a given connection.<sup>101</sup> This is based on our analysis of North East Water's sunk costs and operating expenses and our consultant's findings.

In response to our draft decision, North East Water must demonstrate how it has appropriately allocated its incremental growth capital and operating expenditure in calculating its new customer contributions.

#### **5.4.4 Principle 2 – Incremental future revenues that will be earned from customers in connection points**

The second pricing principle requires that new customer contributions must have regard to the incremental future revenues that will be earned from customers at the relevant connection.

We reviewed North East Water's proposed new customer contributions model and requested further information. After reviewing the model and information provided, we could not verify the incremental revenues North East Water was allocating to its proposed new customer contributions.

In response to our draft decision, North East Water must demonstrate it has had appropriate regard to the incremental future revenues that will be earned from customers at the relevant connections.

#### **5.4.5 Principle 3 – Avoidable costs of connection and standalone costs of connection**

The third pricing principle specifies that new customer contributions must be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

North East Water noted in response to a request for further information that it tested this principle using the costs associated with its proposed uniform charge for its entire service area.

As noted above, we consider North East Water has not had adequate regard to the incremental infrastructure and associated costs attributable to a given connection. Our review of cost allocation found that the costs of connection underlying the proposed uniform charge appear to relate to costs predominantly invested in infrastructure upgrades in Wangaratta and Wodonga. Meanwhile, in other towns such as Yarrawonga, Benalla and Tangambalanga, the relevant infrastructure investments and associated connection costs appear much lower. Despite this variance, North East Water has proposed to apply a uniform new customer contribution across its entire service area.

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<sup>101</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 63.

Given the above, and that we cannot verify that incremental growth infrastructure costs have been appropriately allocated (principle 1 above), we cannot verify that North East Water's proposed uniform standard new customer contribution has met this third principle.

In response to our draft decision, North East Water must:

- demonstrate how its proposed single uniform charge meets this principle for customers across its service area
- specify the locations, and any other relevant criteria, for which its standard new customer contributions apply.

#### **5.4.6 Engagement and transparency**

Our guidance required North East Water to show evidence of consultation with developers and how their views have informed its proposed new customer contributions.<sup>102</sup> We reviewed North East Water's consultation with developers, including the material provided at developer forums. Our preliminary view is that while North East Water received feedback from developers that supported a uniform standard new customer contribution, this consultation appears to have been based on modelling and new customer contributions that were materially different to those proposed in North East Water's price submission.<sup>103</sup>

On this basis, we consider that North East Water was unable to demonstrate how the views of developers informed its proposed charges, as required by our guidance. We also note that North East Water did not engage with its broader customer base on the pricing impact of its proposed new customer contributions. We expect North East Water to re-engage with interested parties, providing them with a reasonable opportunity to review and respond to the new customer contributions it proposes in response to our draft decision.

#### **5.4.7 Modelling – conversion of customer numbers and inputs into present value**

North East Water amended the model we provided to calculate new customer contributions, including converting inputs and customer numbers into present values. The reason for, and impact of, these changes is unclear, but it appears to result in a higher new customer contribution than if it had used our default model. North East Water should provide further explanation of why these changes are necessary.

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<sup>102</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 63.

<sup>103</sup> North East Water's proposed charges were based on a net incremental cost methodology while the charges it consulted on were based on an average incremental cost approach. North East Water 2025, *Price submission 2026-31*, October, p. 156.

### 5.4.8 Submissions

We received two submissions supporting a uniform standard new customer contribution for the entire region serviced by North East Water.<sup>104</sup> One of these submissions stated 'while there is some logic in a user pay system for new customer contributions it is likely to have some perverse outcomes by capping development in smaller areas'.<sup>105</sup> The legislative framework requires new customer contributions to reflect a causer pays principle, in that customers needing new or expanded infrastructure contribute to the costs of providing that infrastructure.

We received one submission which raised concerns that growth within the next regulatory period is not fully serviced and funded by North East Water's forecasts. North East Water has confirmed via a response to a request for information that all assets required to service immediate recognised growth are funded and included in North East Water's capital expenditure plans. The submission also questioned why a standard new customer contribution should apply in some small towns when there is no capital expenditure included for these small towns.<sup>106</sup> We note that connection applicants have the option of negotiating new customer contributions where they consider the standard new customer contribution would not be appropriate.

### 5.4.9 Next steps – responding to this draft decision

In response to our draft decision to not approve its proposed new customer contributions, North East Water must:

- Demonstrate how growth-related costs have been appropriately attributed between new customer contributions and the broader customer base.
- Demonstrate that it had appropriate regard to the incremental future revenues it will earn from customers at the relevant connections.
- Explain how the proposed new customer contributions consider the costs to the business of servicing different growth areas.
- Demonstrate that its proposed new customer contribution is greater than the avoidable cost of that connection and less than the standalone cost of that connection.
- Specify the eligibility criteria for its standard new customer contributions, including location or other relevant criteria.

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<sup>104</sup> Nordcon Land, *Submission to the Essential Services Commission 2026 North East Water Price Review*, 11 November 2025, p. 2; Naughtin Development Group, *Letter of Support – North East Water – 2026–31 Price Submission*, 11 December 2025, p. 1.

<sup>105</sup> Nordcon Land, *Submission to the Essential Services Commission 2026 North East Water Price Review*, 11 November 2025, p. 2.

<sup>106</sup> JMP Developments, *Submission to the Essential Services Commission 2026 North East Water Price Review*, 24 November 2025, pp. 3–6.

- Justify its new customer contributions model assumptions, including the conversion of inputs and customer numbers into present values.
- Demonstrate how it has tested its proposal with interested parties.

#### **5.4.10 Negotiated new customer contributions framework**

Our draft decision is to accept North East Water's negotiated new customer contribution framework.

We have reviewed North East Water's proposed negotiated new customer contribution framework. Our draft decision is to accept North East Water's proposed framework for negotiated new customer contributions because it complies with the requirements for new customer contributions outlined in our guidance.

North East Water, or a connection applicant, can invoke the negotiating framework to agree on a new customer contribution for the relevant connection. This is so, even in circumstances where a standard new customer contribution may apply.

### **5.5 Adjusting prices**

Our draft decision is to accept North East Water's proposed price adjustment mechanisms, subject to the inclusion of a bulk water adjustment mechanism that North East Water may propose in response to our draft decision.

North East Water proposed to continue with the mechanisms for adjusting prices that it adopted in the current regulatory period (see page 141 of its price submission). These mechanisms enable adjustments to reflect:

- annual movements in the trailing average cost of debt
- events that are uncertain or unforeseen at the time of this price review.

Our preliminary view is to accept North East Water's proposed price adjustment mechanisms on the basis that they satisfy the criteria in our guidance and are a continuation of existing arrangements.

However, we note North East Water did not propose a price adjustment mechanism to account for annual changes to Goulburn-Murray Water's bulk water charges. The absence of such a mechanism exposes the business to revenue risk and may make it harder to pass-through savings from lower bulk water costs to customers during the regulatory period. We have approved similar mechanisms for other water businesses. While such a mechanism may lead to an increase in approved prices, these are maximums and the business may choose to charge less.

In responding to our draft decision, we require North East Water to specify a mechanism to reflect annual updates to bulk water prices including the tariffs to which the pass-through should apply, in line with other businesses.

## 6. Financial position

We have reviewed key indicators of North East Water's financial performance. Our preliminary view is that North East Water will generate sufficient cash flow from the revenue requirement adopted in our draft decision to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.<sup>107</sup> We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the *Water Industry Regulatory Order 2014* to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments. This includes financing costs arising from investments to meet service expectations.

We provided North East Water with a financial model template to help our assessment of its financial position in the context of the prices proposed in its price submission. This template calculated estimates for key financial indicators based on North East Water's assumptions about revenue and expenditure in its price submission. As our draft decision requires North East Water to make some adjustments to its revenue and expenditure forecasts, we have recalculated these financial indicators based on the revenue and expenditure forecasts in our draft decision. We have then compared the results with the benchmarks we set for each indicator in our guidance to assess North East Water's financeability under our draft decision.<sup>108</sup>

For the 2026 Water Price Review, we have applied both actual and notional tests for each of the indicators, as shown in Tables 6.1 and 6.2:

- Table 6.1 calculates the indicators based on North East Water's assumptions. This is an actual test of whether North East Water would raise sufficient funds to remain financeable throughout the regulatory period – based on both North East Water's proposal and our draft decision.
- Table 6.2 calculates the indicators based on a 'notional efficient business', which may have different inputs (like the level of gearing or cost of debt) to North East Water. This notional test allows us to assess whether an efficient business would raise sufficient funds to remain financeable throughout the regulatory period – based on both North East Water's proposal and our draft decision.

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<sup>107</sup> *Water Industry Regulatory Order 2014*, cl. 8(b)(ii) and *Essential Services Commission Act 2001*, s. 8A(1)(b).

<sup>108</sup> See our guidance for more information about the financial indicators, including descriptions and definitions. *Essential Services Commission, 2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 65–66.

**Table 6.1 Actual financial indicator scores calculated from North East Water’s proposal and our draft decision compared to our benchmarks**

		2026-27	2027-28	2028-29	2029-30	2030-31
<b>Funds from operations interest cover (times)</b>	<b>Commission benchmark</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>
	North East Water’s proposal	4.1	4.3	4.8	5.4	6.0
	Draft decision	4.5	4.8	5.4	6.2	7.0
<b>Funds from operations / Net debt</b>	<b>Commission benchmark</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>
	North East Water’s proposal	13.8%	14.6%	19.2%	22.7%	23.7%
	Draft decision	15.4%	16.4%	17.9%	20.7%	24.0%
<b>Net debt / Regulatory asset value (Gearing)</b>	<b>Commission benchmark</b>	<b>&lt;80%</b>	<b>&lt;80%</b>	<b>&lt;80%</b>	<b>&lt;80%</b>	<b>&lt;80%</b>
	North East Water’s proposal	34.2%	36.3%	38.2%	36.1%	33.5 %
	Draft decision	34.1%	35.8%	37.2%	35.8%	34.0%
<b>Retained cash flow / Net debt</b>	<b>Commission benchmark</b>	<b>&gt;4%</b>	<b>&gt;4%</b>	<b>&gt;4%</b>	<b>&gt;4%</b>	<b>&gt;4%</b>
	North East Water’s proposal	13.8%	14.6%	19.2%	22.7%	23.7%
	Draft decision	15.4%	16.4%	17.9%	20.7%	24.0%
<b>Internal financing ratio</b>	<b>Commission benchmark</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>
	North East Water’s proposal	51.0%	58.1%	107.7%	105.2%	73.9%
	Draft decision	56.8%	64.1%	97.8%	95.1%	75.7%

**Notes:** Funds from operations interest cover measures the extent of the cash flow buffer a water business has to meet its debt obligations. Funds from operations/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. Gearing measures how much of the water business’s operations is funded by debt versus equity. Retained cash flow is calculated by subtracting dividends from funds from operations. Retained cash flow/Net debt measures the extent to which the serviceability of debt is improving, remaining stable, or declining once cash extracted from the business is considered. The indicator scores for ‘Funds from operations interest cover’ under North East Water’s proposal have been taken from a revised financial model that was submitted by North East Water after an error was detected in the model it submitted on 1 October.

**Table 6.2 Notional financial indicator scores calculated from North East Water’s proposal and our draft decision, compared to our benchmarks**

		2026-27	2027-28	2028-29	2029-30	2030-31
<b>Funds from operations interest cover (times)</b>	<b>Commission benchmark</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>	<b>&gt;1.5</b>
	North East Water’s proposal	2.1	2.2	2.4	2.6	2.7
	Draft decision	2.3	2.4	2.6	2.8	2.9
<b>Funds from operations / Net debt</b>	<b>Commission benchmark</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>	<b>&gt;6%</b>
	North East Water’s proposal	5.2%	6.1%	7.4%	8.5%	9.3%
	Draft decision	6.3%	7.2%	8.4%	9.4%	10.2%
<b>Internal financing ratio</b>	<b>Commission benchmark</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>	<b>&gt;35%</b>
	North East Water’s proposal	34.0%	40.0%	65.6%	65.1%	51.9%
	Draft decision	40.5%	47.5%	73.8%	72.1%	57.0%

**Notes:** Funds from operations interest cover measures the extent of the cash flow buffer a water business has to meet its debt obligations. Funds from operations/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.

As noted in our guidance, the two primary financial indicators we look at in our assessment are ‘Funds from operations interest cover’ and ‘Funds from operations divided by Net debt’. Using both the actual and notional tests, these two key indicators are forecast to remain well above the benchmarks we set in our guidance throughout the regulatory period. This indicates that, based on the assumptions underpinning our draft decision, North East Water would remain financeable.

We will recalculate each of the financial indicators based on updated information and undertake a further assessment of North East Water’s financeability before making our final decision.

Businesses are primarily responsible for managing their financial performance. If there is a material change in circumstances and deviation from the assumptions underpinning the forecasts during the regulatory period, we expect North East Water will explore avenues to address any concerns about its financeability. While a financial viability adjustment to its maximum prices can be made during the regulatory period, this should be seen as a last resort safeguard available in the pricing framework.

## 7. PREMO rating

We use the PREMO water pricing framework – Performance, Risk, Engagement, Management and Outcomes – to review pricing proposals. PREMO is an incentive mechanism that links the return on equity used to calculate a water business’s revenue requirement to that business’s level of ambition expressed in its price submission and its delivery on commitments made as part of its last price review. Our guidance required North East Water to self-assess and rate its price submission for each element of the PREMO mechanism and arrive at an overall self-rating.<sup>109</sup> We required North East Water to self-rate its price submission as either ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’, with ‘Leading’ being the most ambitious and ‘Basic’ the least.

The assessment tool included in our guidance directed North East Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We also assessed and rated North East Water’s price submission. As outlined in our guidance, the combination of North East Water’s self-rating and our preliminary rating has determined the return on equity we have adopted to calculate North East Water’s revenue requirement in our draft decision.

For future price reviews, we intend to update our guidance in relation to First Nations rights and interests, consistent with the principle of self-determination. We plan to include additional matters that water businesses will need to demonstrate across the different elements of the PREMO framework. This may impact how we assess whether a price submission has met our expectations for achieving ‘Standard’, ‘Advanced’ or ‘Leading’ PREMO ratings in the future.

### 7.1 Our PREMO assessment of North East Water’s price submission

Our draft decision is to rate North East Water’s price submission overall as ‘Standard’ under PREMO, which is the same as North East Water’s self-rating.

Our draft decision is to rate each of the five PREMO elements as shown in Table 7.1 and in agreement with North East Water’s self-rating.

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<sup>109</sup> This is the first price review for North East Water where the rating has been based on all five elements of PREMO. In our 2018 price review, our PREMO assessment was against only four of the elements – Risk, Engagement, Management and Outcomes.

North East Water’s self-rating for each of the PREMO elements and its overall self-rating are shown in Table 7.1. This table also includes our preliminary ratings following our assessment of North East Water’s price submission.

**Table 7.1 Draft decision – PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
North East Water’s self-rating	Standard	Standard	Standard	Advanced	Standard	Advanced
Commission’s preliminary rating	Standard	Standard	Standard	Advanced	Standard	Advanced

Our preliminary view is that we agree with North East Water’s overall PREMO self-rating of its price submission as ‘Standard’. This is reflected in our draft decision on North East Water’s return on equity (see section 4.4.2). We have formed this preliminary view after reviewing North East Water’s self-rating for each of the five PREMO elements, with a summary of our assessment provided below.

### 7.1.1 Performance

For its 2026 price review, North East Water’s rating for the Performance element of PREMO is considered relative to its overall PREMO rating of ‘Advanced’ at its most recent price review in 2018. Its rating must consider delivery against its commitments across the current regulatory period, including meeting its outcomes targets, customer sentiment, and performance against expenditure benchmarks set at the previous price review.<sup>110</sup>

As noted in section 3.2, we agree with North East Water’s self-assessment that it has met most of its outcome commitments for the period to date. It also showed ownership of shortfalls in its performance, providing reasoning and its response to the shortfalls in its annual reporting to us, and in its twice-yearly reporting to customers.

In terms of customer perceptions, North East Water’s results on the commission’s survey of customer sentiment – covering measures of overall satisfaction, value for money, trust, and reputation in the community – improved across the regulatory period and were regularly ranked in the top third of water businesses since 2022.

<sup>110</sup> As set out in Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, pp. 80–81, with guiding questions included on page 49.

North East Water's controllable operating expenditure in 2024-25 was \$7.3 million or 16 per cent above the benchmark of \$46.6 million set at the 2018 price review. As noted in section 4.1.2, the higher than benchmark expenditure reflects a number of different drivers, including:

- cost increases resulting from the COVID-19 pandemic
- significant customer growth above forecast across the 8-year regulatory period
- increased electricity costs from delays in implementing self-generation projects.

North East Water noted it maintained its service levels through the pandemic, bushfires, 3 years of La Niña climate conditions, and more recently pre-drought conditions.

North East Water's capital expenditure for the current regulatory period was more than double the benchmark adopted at the 2018 review. This largely reflects:

- a significant increase in scope for the Wodonga Wastewater Treatment Plant upgrade
- upgrades of other treatment plants to maintain compliance
- increased development applications and regional growth
- implementation of a new customer billing system
- \$60 million of 'uncertain' capital expenditure excluded from the 2018 benchmarks that was incurred during the regulatory period.

Higher project delivery costs post-pandemic also contributed to the capital expenditure increase. However, our assessment found North East Water's expenditure across the current period was prudent and efficient (see section 4.2.1).

There was also significant variation in North East Water's delivery of major projects, including deferred and delayed projects as well as re-prioritisation following North East Water's master planning process (see section 4.2.1). Although North East Water was able to demonstrate that these variances were necessary, and that other alternative projects were delivered, we note that what was committed to customers is different to what was delivered.

By self-rating 'Standard' against the overall 'Advanced' PREMO rating of its 2018 price submission, we consider North East Water has effectively acknowledged that its performance delivery over the current regulatory period has varied from the commitments and expectations set in the 2018 price review.

Our draft decision is to agree with North East Water's self-rating of its price submission as 'Standard' for the Performance element of PREMO.

### **7.1.2 Risk**

The Risk element of PREMO is assessed against guiding questions focused on the appropriate allocation of risk (so that customers don't pay more than they need to), and the business's

proposed Guaranteed Service Level scheme (including that it provides incentives for the business to deliver valued services efficiently).

In support of the self-rating of its price submission as 'Standard' for the Risk element of PREMO, North East Water provided an overview of key regulatory risk categories and the allocation of these risks between the business and its customers, based on its internal risk management framework.<sup>111</sup>

Key factors we identified that support North East Water's self-rating include:

- A robust risk-based approach to developing its overall capital expenditure program and individual projects aligned with North East Water's long-term asset planning. Project scheduling has been well considered and appears deliverable.
- It proposed to exclude \$37 million of uncertain expenditure from its capital forecasts, and to only roll-in to its asset base \$14 million of the anticipated \$85 million capital spend in 2025-26 (thus deferring recovery of more than \$70 million until the next price review).
- Maintaining a price cap form of price control for major services, which means the business (and not its customers) bears demand and revenue risk.
- Its customer growth and demand forecasts are higher than the Victoria in Future forecasts – the business has used its own specific growth projections across its region and carries the risk of a revenue shortfall if actual growth is lower than projected.
- It proposed a new Guaranteed Service Level for the containment of sewer spills within 5 hours of notification (caused by an asset failure and reportable to the Environment Protection Authority Victoria).
- North East Water's risk management policies and procedures are consistent with the Risk Management Standard AS/NZS 31000.

In its price submission, North East Water showed how it had considered the length of its proposed regulatory period in relation to risk. It noted it had taken on more risk at its 2018 price review by proposing an 8-year regulatory period to provide longer price certainty to its customers. However, significant unforeseen changes have taken place across those 8 years, including:

- the COVID-19 pandemic
- shifts in customer growth patterns across its region
- climate variation
- material changes in scope for major capital projects.

North East Water noted these changes have produced a revenue shortfall that has led to the large price rises it has proposed for the next regulatory period. North East Water has critically reviewed

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<sup>111</sup> North East Water 2025, *Price submission 2026–31*, October, pp. 78–84.

the length of the regulatory period and has opted to return to a 5-year period. It considers this will better protect its customers from future price shocks due to any material changes in input costs that can occur over a longer period.

Our draft decision is to agree with North East Water's self-rating of its price submission as 'Standard' for the Risk element of PREMO.

### 7.1.3 Engagement

The Engagement element of PREMO is assessed against guiding questions such as the form, timing, and nature of matters engaged on by the water business, and the influence of engagement on the business's proposals. We also consider the extent to which a business has undertaken inclusive engagement, including with First Nations peoples and those experiencing vulnerability.

Our draft decision is to agree with North East Water's self-rating of its price submission as 'Advanced' for the Engagement element of PREMO on the basis of the overall quality of its engagement program and the level of influence it afforded its stakeholders (see section 3.1).

North East Water designed inclusive engagement methods and provided extensive opportunities for its customers to participate. It used a range of methods to engage, including a 6-day deliberative forum. It engaged with a diverse range of customer groups across its service area, including people experiencing vulnerability, customer support agencies, First Nations customers, a Traditional Owner group, land developers, business groups and all seven regional councils.

Throughout its engagement, North East Water provided clear and appropriate information to participants.

North East Water demonstrated how customer feedback directly shaped its proposals and how the business aligned customer preferences with key investments.<sup>112</sup> It provided reasonable justification where customer preferences were not implemented – only 2 of 22 recommendations from its deliberative forum were not fully adopted in its proposals.

However, we note that although North East Water's new customer contributions engagement was well received and interested parties supported the proposal that emerged, the business did not consult specifically on the new customer contributions ultimately proposed in its price submission. We also note that North East Water's engagement focused on developers and that it did not engage with its broader customer base on the pricing impact of its proposed new customer contributions (see section 5.4).

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<sup>112</sup> North East Water attached 14 letters of support to its price submission. North East Water 2025, *Price submission 2026–31*, October, pp. 195–217.

On balance, given the overall quality and influence of its engagement program, our draft decision is to agree with North East Water's self-rating of its price submission as 'Advanced' for the Engagement element of PREMO.

#### 7.1.4 Management

The Management element of PREMO is assessed against guiding questions that cover matters such as:

- The efficiency of proposed expenditure and prices.
- The quality of the business's price submission and supporting information to justify its proposals.
- Evidence of senior-level ownership and commitment to the proposals contained in the price submission.

A key requirement for a 'Standard' price submission rating for the Management element of PREMO is that proposed expenditure changes can be clearly justified by the business as prudent and efficient. Consistent with our draft decision on its forecast operating and capital expenditure, our preliminary view is that North East Water was able to sufficiently justify that elements of its forecasts were prudent and efficient.

Our preliminary view is that North East Water's approach to forecasting its capital expenditure was robust and risk-based and was aligned to its recently completed long-term master planning. This gives us a high degree of confidence in North East Water's forecasts and its ability to deliver its proposed program. North East Water's high-quality capital planning process is reflected in our draft decision to adopt its forecast capital expenditure as proposed.

North East Water proposed an operating expenditure efficiency improvement rate that matched its proposed expenditure growth rate, effectively committing to absorb growth costs incurred over the regulatory period. However, we note that North East Water proposed 15 additional cost step changes to its annual baseline forecasts when some of these costs should be covered by its growth allowance or are immaterial and could be funded from its higher baseline expenditure allowance. Our draft decision is to accept only \$6.2 million of the \$21 million in proposed step changes.<sup>113</sup>

North East Water's price submission was generally well-presented and clearly linked the outcomes of its engagement to planned outcomes and expenditure. While the financial model North East Water provided with its price submission needed some minor corrections to reflect its approved

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<sup>113</sup> North East Water also proposed \$22.5 million in step changes related to energy costs and hardship support. While our draft decision is to not accept these as cost step changes, we have reinstated these in North East Water's 2024-25 baseline.

regulatory accounts, it was complete and consistent with its price submission. North East Water's Board also attested to the accuracy of the information contained in its price submission, as required by our guidance.

In assessing North East Water's PREMO rating for management, we have also considered our preliminary view that its proposed standard new customer contributions are not consistent with the requirements set out in our guidance. North East Water must address this in its response to our draft decision (see section 5.4).

On balance, our draft decision is to agree with North East Water's self-rating of its price submission as 'Standard' for the Management element of PREMO.

### 7.1.5 Outcomes

The Outcomes element of PREMO is assessed against guiding questions focused on:

- whether the proposed outcomes align with customer priorities and expenditure forecasts
- whether the proposed outcomes are measurable
- the processes established to measure performance and report to customers.

North East Water proposed five outcomes that largely correspond with its outcomes from the current period. It dropped its 'efficient systems' outcome from its current set of outcomes because it did not resonate with customers and will be captured within its 'reliable systems' and 'responsive services' outcomes. North East Water proposed 17 measures (each with annual targets) to demonstrate delivery of its outcomes commitments, up from its current 13 measures.

Among its initiatives to deliver on its outcomes for the next regulatory period, North East Water proposed to:

- lower the variable component of its water tariff relative to the fixed component
- double the financial support it offers through its customer support program
- improve access to its customer support program through an awareness campaign
- partner with Traditional Owner and First Nations communities on environmental water projects.

It will also invest in wastewater treatment plant capacity and compliance, greenhouse gas emissions reduction, system renewals and upgrades, a digital metering trial, and new infrastructure.

As noted in section 3.2, our preliminary view is that North East Water has provided evidence that demonstrates its outcome measures and targets were developed in consultation with its customers, and align with customer priorities.

Generally, we consider North East Water's measures provide a sound basis to track performance and delivery against each outcome, subject to some minor wording clarifications. We are working

with North East Water to ensure its final set of measures is consistent with our guidance. Our preliminary view is that North East Water has set high performance targets, including many stretch targets, and overall, its proposals represent an improvement in customer outcomes.

North East Water will continue to report on its performance to customers twice yearly through its website and social media. It will also report its performance annually to its customer panel and quarterly to its board.

We note that North East Water has proposed average price increases of 5 per cent per year (before inflation), which is one of the highest price rises proposed since PREMO was introduced for the 2018 price reviews. However, our draft decision accepts the additional expenditure incurred across the current regulatory period and most of North East Water's proposed expenditure forecasts, confirming the prudence and efficiency of the business's spending and forecasts. Our preliminary view is that North East Water has justified the expenditure increases behind its price rises as necessary to support regional growth and deliver its customers' expectations. We also note that North East Water currently has the second lowest typical customer bills for residential owner-occupiers, and its proposed tariff rebalancing will produce a lower price rise for its tenant customers.

On balance, we consider North East Water's proposal represents good value for its customers. Our draft decision is to agree with North East Water's self-rating of its price submission as 'Advanced' for the Outcomes element of PREMO.

## Appendix A – Submissions received

Name or organisation	Date received
The Aquatic Diviners and Dowser's Guild of Victoria	10 October 2025
Nordcon Land	11 November 2025
JMP Developments	24 November 2025
Anonymous	9 December 2025
Water Services Association of Australia	11 December 2025
Naughtin Development Group	11 December 2025
Financial Counselling Victoria	12 December 2025

We also received one confidential submission from a stakeholder requesting their submission not be published.

## Appendix B – Commission’s 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).

The following sections describe how we apply the mandatory factors and where we have done so in our draft decision for North East 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.<sup>114</sup> We have had regard to the matters specified in our guidance in reaching our preliminary view. Our draft decision provides further information on where we have considered our guidance, and North East Water’s compliance with our guidance, in reaching our preliminary view.

Note: all chapter and section numbers referenced below refer to our draft decision for North East Water.

### **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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (section 3.1).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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<sup>114</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024.

**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 North East Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

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

- Our consideration of customer engagement (section 3.1).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).
- Our assessment of financial viability (chapter 6).

**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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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

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

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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

- A 10-year trailing average approach to estimating the benchmark cost of debt (see section 4.4.1).
- A regulatory rate of return that we consider will enable North East Water to recover borrowing costs associated with its investment in services, and generate a return on assets.<sup>115</sup>

**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 business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in chapter 6.

**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 North East 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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (section 3.1).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).

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<sup>115</sup> The regulatory rate of return is comprised of the cost of debt and the return on equity.

- Our assessment of tariffs (section 5.3).

## **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 business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

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

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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 North East 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 North East Water to generate a return on assets through:

- Our consideration of the regulatory asset base (section 4.3).
- Our consideration of the cost of debt (section 4.4.1).
- Our consideration of the return on equity (section 4.4.2).

**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 Australia<sup>116</sup>
- operating and capital expenditure per connection throughout Australia<sup>117</sup>
- tariff structures applied by water businesses throughout Australia<sup>118</sup>
- the regulatory rate of return set by other regulators.<sup>119</sup>

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 business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

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

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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

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<sup>116</sup> Bureau of Meteorology, *National performance report 2022-23; urban water utilities, Part A*, March 2024.

<sup>117</sup> Bureau of Meteorology, *National performance report 2022-23; urban water utilities, Part A*, March 2024.

<sup>118</sup> Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corporation, Urban Utilities, Unity Water, SA Water and TasWater.

<sup>119</sup> Independent Pricing and Regulatory Tribunal NSW, *Final Report – Review of prices for WaterNSW-Rural Valleys from 1 July 2025 – June 2025*; Independent Pricing and Regulatory Tribunal NSW, *Final Report – Sydney Water prices 2025-2030*, September 2025; Essential Services Commission of South Australia, *SA Water’s water and sewerage retail services: 1 July 2024 – 30 June 2028*, SA Water Regulatory Determination, 1 July 2024; Queensland Competition Authority, *Final report – Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority, *Final report – Rural irrigation price review 2025–29*, Seqwater, January 2025; Office of the Tasmanian Economic Regulator, *Final report – Investigation into TasWater’s prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

## **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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

**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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our consideration of demand (section 5.1).
- Our consideration of tariffs (section 5.3).

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 (section 3.1).
- Our consideration of outcomes (section 3.2).

**WIRO clause 11(d)(i) requires us to have regard to whether North East 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 North East 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 business’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

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

- Our consideration of tariffs and the form of price control (section 5.2 and section 5.3).

**WIRO clause 11(d)(ii) requires us to have regard to whether North East 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 chapters and sections of our draft decision involved consideration of this factor:

- Our consideration of customer engagement (section 3.1).
- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

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

We consider that customer value established through prices and customer outcomes, as well as tariff structures, assistance available to customers having difficulty paying bills is relevant to this objective.

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

- Our consideration of customer engagement (section 3.1).
- Our consideration of outcomes (section 3.2).
- Our consideration of guaranteed service levels (section 3.4).
- Our assessment of tariff structure and prices (chapter 5).

## **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 North East Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

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

- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of the form of price control (section 5.2).

**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 North East Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

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

- Our assessment of the revenue requirement (chapter 4).
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).
- Our assessment of tariffs (section 5.3).

## 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, North East 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 (section 3.1)
- Our assessment of outcomes (section 3.2)
- Our assessment of efficient operating expenditure (section 4.1) and capital expenditure (section 4.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.<sup>120</sup>

**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 businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>121</sup>

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<sup>120</sup> Essential Services Commission, *Water Pricing Framework and Approach, Implementing PREMO from 2018*, October 2016, pp. 11–13.

<sup>121</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 2.

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

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

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses 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:

- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income customers and customers experiencing vulnerability), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>122</sup>

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<sup>122</sup> Essential Services Commission, *2026 North East Water price review: Guidance paper*, 19 November 2024, p. 2.