

# Price Review 2013

## GREATER METROPOLITAN WATER BUSINESSES

# ESC Draft Pricing Decision

Dr Ron Ben-David

Chairperson

23 April 2013

# Greater Metropolitan Water Businesses covered by this Draft Decision

Melbourne Water

City West Water

South East Water

Yarra Valley Water

Western Water

# Role of the ESC

- Independent economic regulator
  - Promote long-term interests of Victorian consumers
  - Make binding determinations on revenues/prices
- Guided by legislative framework with principles that require prices to be fair & reasonable
  - Raise sustainable revenue for water businesses and meet costs
  - Provide signals about sustainable water use and locational costs to service new developments
  - Take into account interests of customers

# Water Plans

- Water Plans submitted October 2012
  - After consulting customers, EPA, DoH, DSE and ESC
- Water Plans contained
  - Outcomes (e.g. service standards)
  - Projects or programs to achieve outcomes
  - Expenditure to deliver projects or programs
  - Prices to deliver required services/outcomes
  - Other

# Assessment of Water Plans

## Key issues

- Ensuring businesses pursue improvements in service delivery and operational efficiency
- Efficiency benefits shared between customers and water businesses
- Businesses engaging with customers to better understand expectations and willingness to pay for different service offerings
- Keeping price increases as low as possible
- Financial viability of businesses

# Desalination Costs

- Desalination costs main driver of price increases
- Melbourne Water proposed to pass through full annual desalination costs as they arise in its prices to retailers
- We are concerned by this proposal
- Discussed shortly

# Draft Decision Outcomes

- Costs and Revenues
- Prices \*
- Bills
- Tariffs and Charges
- Desalination Costs

\* All prices exclude inflation

# Melbourne Water: Revenue

Total 2013-14 to 2017-18 (\$2012-13)

	Last five years (\$m)	2013-18			
		Proposed by Business (\$m)	Draft Decision (\$m)	Difference (\$m) (%)	
<b>MW</b>	<b>\$5,494</b>	<b>\$8,612</b>	<b>\$8,123</b>	<b>-\$489</b>	<b>-5.7</b>

# Melbourne Water: Prices\*

(% increase)

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	Proposed by business	Draft Decision	Difference
<b>Water &amp; sewerage</b>	<b>65.7</b>	<b>55.0</b>	-10.7
<b>Waterways &amp; drainage</b>	<b>14.1</b>	<b>0.5</b>	-13.6

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\* Based on a weighted average of Melbourne Water's suite of charges

# Retailer Revenues

Total 2013-14 to 2017-18 (\$2012-13)

	Last five years (\$m)	2013-18			
		Proposed by business (\$m)	Draft Decision (\$m)	Difference (\$m) (%)	
City West Water	1,996	3,157	2,926	-231	-7.3
South East Water	3,067	4,560	4,284	-277	-6.1
Yarra Valley Water	3,247	4,937	4,698	-239	-4.8
Western Water	324	405	358	-47	-11.5
<b>Total businesses</b>	<b>8,634</b>	<b>13,059</b>	<b>12,266</b>	<b>-794</b>	<b>-6.1</b>

# Retailer Prices\*

(% increase)

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	Proposed by business	Draft Decision	Difference
City West Water	31.7	20.6	-11.1
South East Water	34.9	24.8	-10.1
Yarra Valley Water	35.8	25.8	-10.1
Western Water	35.6	5.9	-29.8

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\* Based on a weighted average of each retailer's suite of tariffs

# Illustrative annual residential bills

## Owner-Occupiers

Shown in \$2012-13 prices (i.e. before inflation)

	Current bill	Bills based on businesses' proposals		Bills based on draft decision	
	2012-13	2013-14	2017-18	2013-14	2017-18
City West Water	844	1 085	1 085	989	989
South East Water	858	1 160	1 160	1 071	1 071
Yarra Valley Water	970	1 301	1 301	1 204	1 204
Western Water	991	1 053	1 356	998	1 033

**Note:** Bills are calculated using each business's average owner-occupier water use.

Bills are based on average consumption of: CWW (149kl per annum), SEW (148kl per annum), YVW (161kl per annum), WW (189kl per annum).

Bills shown for Yarra Valley Water are indicative because it has proposed a revenue cap form of control, prices may vary slightly during the regulatory period.

## Illustrative annual residential bills Tenant bills

Shown in \$2012-13 prices (i.e. before inflation)

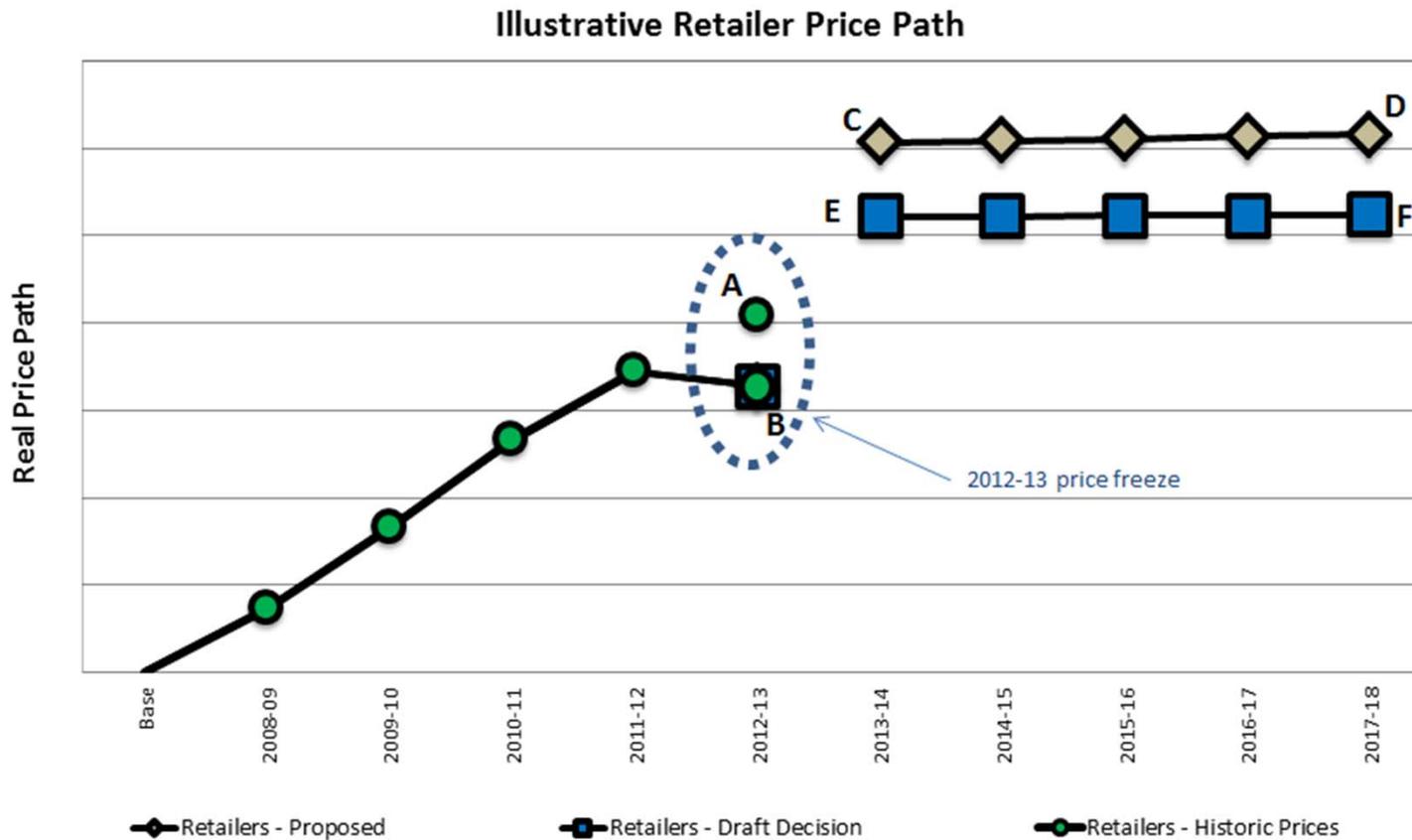
	Current bill 2012-13	Bills based on businesses' proposals		Bills based on draft decision	
		2013-14	2017-18	2013-14	2017-18
City West Water	457	595	595	542	542
South East Water	440	618	618	571	571
Yarra Valley Water	528	727	727	672	672
Western Water	280	305	436	289	328

**Note:** Bills are calculated using each business's average owner-occupier water use.

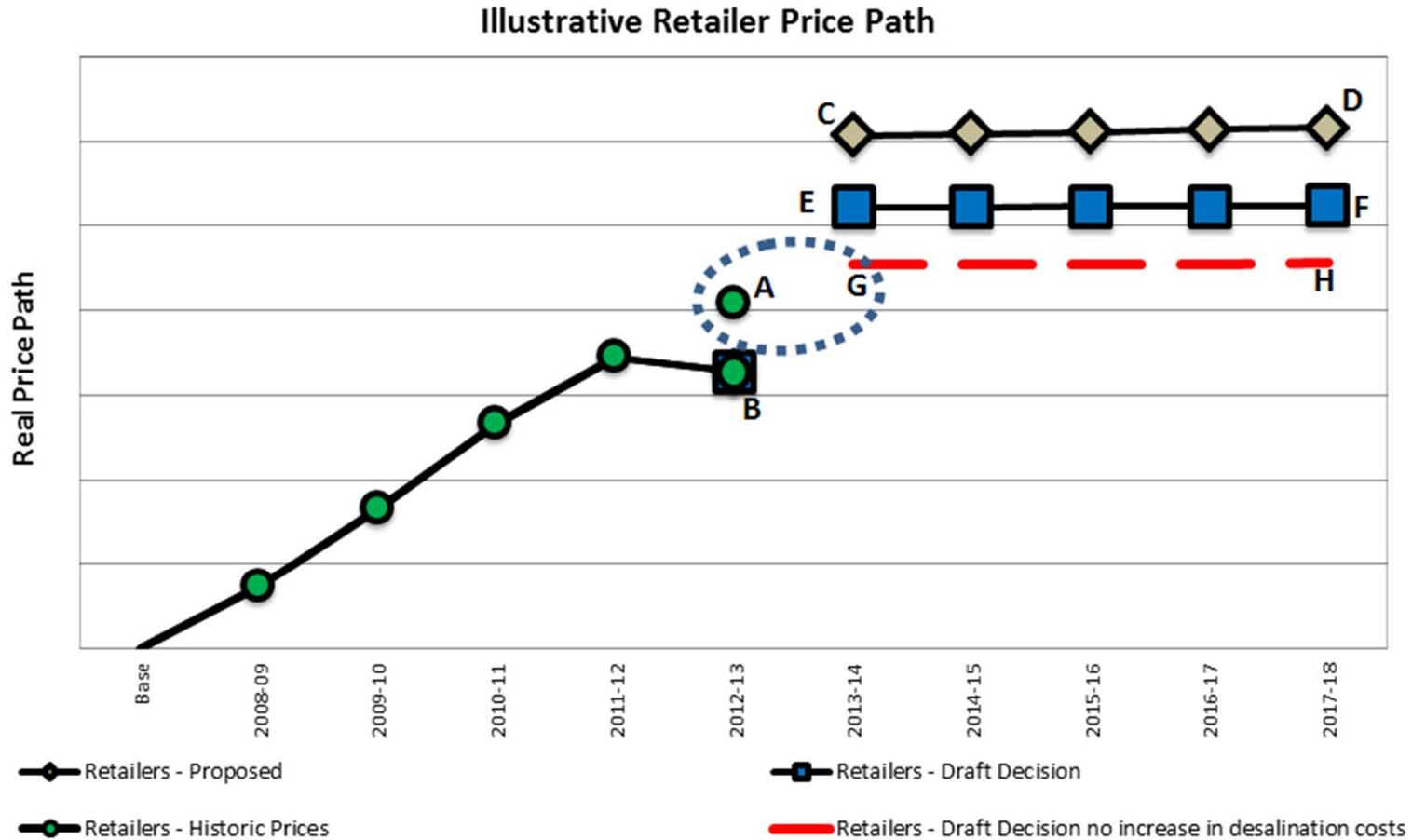
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# Illustrative Price Path (CWW, SEW, YVW)



# Illustrative Price Path (CWW, SEW, YVW)



# Identified cost savings

- Required productivity improvement
- Lower financing costs
- Reduced capital works
- Disallowed operating expenditure
- Labour efficiency gains

# Variable proportion of bill

	Water Component	Total Bill
City West Water	<b>60</b> per cent	<b>55</b> per cent
South East Water	<b>75</b> per cent	<b>53</b> per cent
Yarra Valley Water	<b>70</b> per cent	<b>56</b> per cent
Western Water	<b>53</b> per cent	<b>30</b> per cent

Note : (1) Inclining block tariffs retained by businesses  
(2) YVW to trial variable only bills

# Customer Support

- Range of existing programs
  - water retailers (eg flexible payment options)
  - Victorian Government (eg concessions)
  - Commonwealth Government (eg utilities allowance)
- Commission proposes to allow an additional \$5million in 2013-14 for metropolitan retailers to assist low income and vulnerable customers
- Commission to monitor implementation and report in its annual performance report

# Desalination Costs - Background

- Victorian Desalination Plant
  - Delivered through a public private partnership
  - Contract ending 2039 (27 years)
  - Estimated to operate for at least 50 years
- Melbourne Water is responsible for meeting the financial obligations of the desalination plant
  - Annual security payment (irrespective of usage)
  - Usage charge depending on the amount of water ordered
- Melbourne Water proposed to recover its annual security payments in same year they arise

# Desalination Costs - Issues

- The Commission is not satisfied that Melbourne Water has adequately supported its claim that it must fully pass through its desalination costs as they arise
- There are important trade-offs to be considered (eg lower prices vs price stability)
- It is important that the water industry, the community and business groups understand and assess the consequences of the available options
- Draft decision outlines our analysis of some of the options and highlights the need for further examination of the benefits and risks associated with other options (Chapter 21)

# Desalination Costs – Next Steps

- For the purposes of this draft decision, we have used Melbourne Water's proposed desalination costs (i.e. to calculate revenue requirements and prices)

However...

- Commission is not satisfied that the proposed prices take into account the interests of customers or provide appropriate incentives and signals to retailers and their customers
- The Commission requests Melbourne Water to resubmit its proposal for the recovery of desalination costs and encourages all relevant parties to work together to develop a response to our draft decision

# Consultant Reports

- *Review of Metropolitan Melbourne's water companies' proposed expenditure: Final findings (PwC)*
- *Metropolitan Water and Sewerage Demand Review 2013 (Frontier Economics)*
- *New Customer Contributions - Review Capital and Operating Expenditure: Expenditure Assessment Report - metropolitan water businesses (SKM)*
- *Estimating a Debt Risk Premium (PwC)*
- *Desalination Capitalisation Scenarios (Deloitte)*
- *Recovery of Desalination Security Charges (NERA & Farrier Swier)*

All available on ESC website : [www.esc.vic.gov.au](http://www.esc.vic.gov.au)

# Further Consultations

- Commission seeking comments
  - written submissions due by 20 May 2013
- Public meetings
  - 30 April (12.30pm) - The Windsor, Spring St, Melbourne
  - 30 April (6pm) - Goonawarra Golf Club, Sunbury
  - 1 May (6pm) - Frankston RSL, 183 Cranbourne Rd, Frankston
- Final Decision: end June 2013
- New prices take effect 1 July 2013

# Questions and comments

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