

MELBOURNE WATER

SUMMARY OF 2013-18 WATER PLAN

Melbourne Water provides bulk water and wastewater and recycled water services to retail water businesses, including the three Metropolitan Melbourne retailers and other regional water businesses. It also provides waterways and drainage services to the greater Melbourne area.

KEY OUTCOMES

- Large rises in the price for wholesale water and sewerage services (over 60 per cent).
- Major projects include the Western Treatment Plant Capacity Augmentation, which involves the construction of additional Activated Sludge Processing capacity to cater for growth, and the St Albans-Werribee Pipeline Stage 2 to cater for growth in the western suburbs.
- Drainage and waterways charges will increase by 2.7 per cent annually (real).

PROPOSED PRICING STRUCTURES

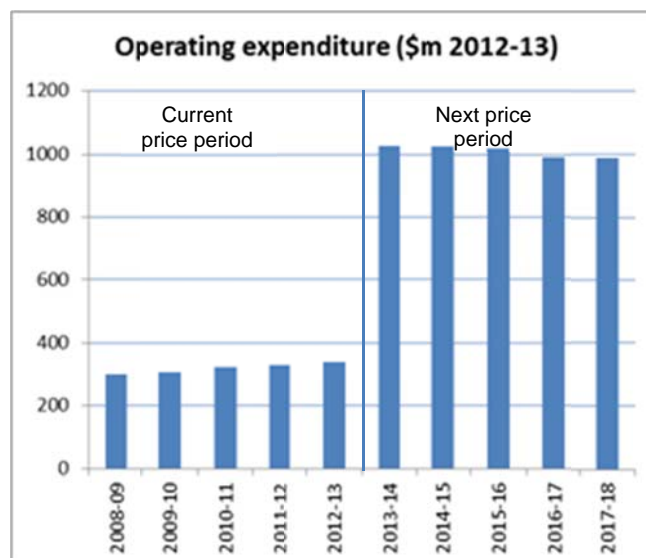
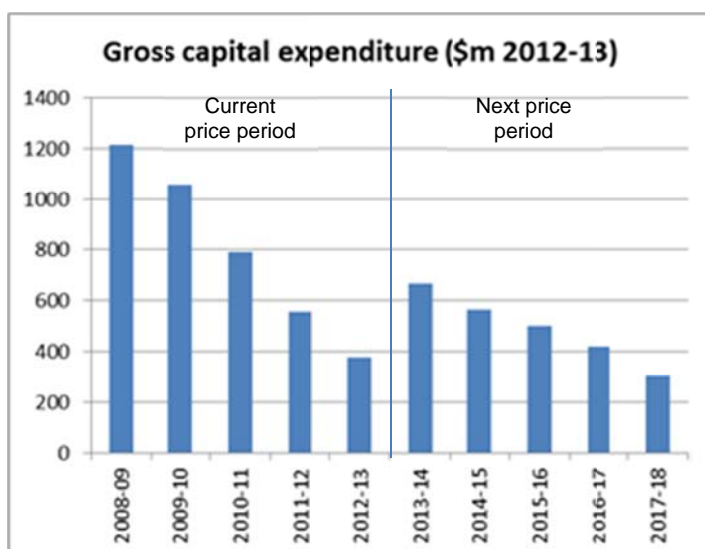
- Bulk water charges - proposes to maintain current system of separate bulk water headworks and transfer prices, with each having a variable and fixed component. There is one variable headworks price for all water retailers. There are different variable transfer prices for each water retailer based on the costs of the transfer network in the various supply areas.
- Bulk sewerage charges - proposes to maintain its current sewerage pricing structure. There are separate variable sewerage prices for its Eastern and Western sewerage systems. Melbourne Water also has separate variable prices for the major trade waste parameters for the Eastern and Western systems.
- Waterways and drainage charges - proposes to maintain its current charges with minor exceptions. Customers are either charged a flat, occupancy-based fee, or one based on property value depending on property type (residential or non-residential) and location (inside or outside the Urban Growth Boundary (UGB)). Melbourne Water proposes to lift farm exemptions and use the UGB as extended from 2010.
- Developer charges - Melbourne Water proposes to continue the current pricing principles and methodology for setting developer charges in Development Service Schemes.
- Recycled water charges - proposes a volumetric charge only. It recovers revenue shortfalls through wholesale sewerage prices on a 'polluter pays' basis.
- Trade Waste -flat fee for applications and minor trade, and waste differentiated by four types of customer risk ranking. There is also a variable tariff.

KEY PROJECTS FROM THE WATER PLAN

	Reason	Forecast cost (\$m 2012-13)
WTP Treatment Capacity Augmentation	Construction of additional Activated Sludge Processing capacity to cater for growth.	187.5
Allocation – Flood Mitigation	Flood protection measures reduce currently known intolerable flood risks by a further 10 per cent by 2018.	105.7
St Albans – Werribee Pipeline Stage 2	Construction of a major transfer main to cater for growth in the western suburbs.	96.0
Allocation – ETP Mechanical and Electrical renewals 2013-2018	Delivery of Melbourne Water's mechanical and electrical renewal program at Eastern Treatment Plant	78.8
Preston – Water Mains Renewals	The renewed water mains will provide water transfer capacity to a large area of inner Melbourne south of Preston.	46.5

PROPOSED EXPENDITURE

- Total **capital expenditure** forecast is \$2.5b, down from \$4.0b estimated capital expenditure for the current price period. Total **operating expenditure** forecast is \$5.1b, around 150 per cent higher than the estimated \$2b for the current regulatory period. Larger operating expenditure for Melbourne Water is primarily driven by desalination-related costs.



BREAKDOWN OF PROPOSED REVENUE (\$M 2012-13)

	2013-14	2014-15	2015-16	2016-17	2017-18
Operating expenditure	1 026.91	1 025.29	1 021.44	992.03	986.62
Return on assets	467.28	487.35	502.07	512.05	516.28
Depreciation	152.16	174.13	194.23	210.38	220.33
Tax Liability	15.53	21.08	24.88	29.11	32.73
TOTAL	1 661.88	1 707.85	1 742.62	1 743.56	1 755.96

CUSTOMER CONSULTATION

- Water and sewerage demand forecasts in the 2013 Water Plan have been developed by the water retailers in consultation with Melbourne Water.
- Consultation on all waterways and drainage price proposals occurred via:
 - customer consultation on water and sewerage obligations
 - strategy development discussions,
 - consultation with a representative number of waterways and drainage customers,
 - direct mail of impacted customers,
 - surveys and targeted discussions with committees (including customer committees) and reference groups.

ISSUES IDENTIFIED BY THE COMMISSION FOR FURTHER INVESTIGATION

- Large increases in operating expenditure.
- Large increases in IT costs.
- Alternative price paths.
- Potential capitalisation of desalination payments.
- Rises in energy and labour costs.
- High capital expenditure in 2013-14.
- Dealing with future under or over recovery of fixed desalination payments.
- Separate price changes for water and sewerage required.

More information: View Melbourne Water's Water Plan at www.esc.vic.gov.au