

26 October 2012

Dr Ron Ben-David
Chairperson
Essential Services Commission
35 Spring Street
MELBOURNE VIC 3000

Dear Ron

Return of Additional Desalination Payments

I am responding to your paper "Essential Services Commission 2012, *Opinion report – Return of Additional Desalination Payments, September*" on returning unrequired monies collected for the Victorian Desalination Plant (VDP) of behalf of City West Water, Melbourne Water, South East Water, Western Water and Yarra Valley Water. We concur that:

- We will make no financial gain as a result of collecting unrequired desalination monies and will;
 - calculate the amount to be returned based on the payments received from customers (since July 2011);
 - calculate interest amounts on a monthly basis; and
 - apply an interest rate of 7%.
- Due to the uncertainty associated with the timing of the completion of the VDP, it is not appropriate at this stage to return additional funds to customers on top of funds that are currently being returned via the price freeze.

- Any additional amount to be returned will vary widely depending on the VDP's costs and completion date.

The VDP contract has specific procedures that need to be undertaken after the desalination plant has achieved Reliability Testing Finalisation (RTF) i.e. completion of commissioning. AquaSure has to formally notify the State once it believes it has achieved RTF. The Independent Reviewer and Environmental Auditor then has up to 10 business days to inspect the works and issue a certificate that AquaSure has successfully achieved RTF. AquaSure must then issue an invoice within 20 business days of the end of the month, and the State has a further 20 business days to verify and pay for the production and other costs incurred pre RTF. Although it is unlikely, overall it could be up to 50 business days before the full final pre RTF costs are known. The post RTF costs are well understood and are expected to be a pro rata of the costs table as released by the Premier and Minister for Water on 28 February 2011.

- We will put in place systems so that an additional return to customers can occur as soon as practical.

Finally to ensure the businesses make no financial gain from the unrequired monies collected for the VDP, any outstanding amounts owed to customers should be returned in the first bill of 2013/14, after taking into account the amounts returned via the price freeze, interest owed, and any additional amounts returned in 2012/13.

Yours sincerely



Tony Kelly
Managing Director

For and on behalf of
Shaun Cox, Managing Director, Melbourne Water
Kevin Hutchings, Managing Director, South East Water
Anne Barker, Managing Director, City West Water
Neil Brennan, Managing Director, Western Water