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MELBOURNE WATER SPECIAL DRAINAGE AREAS

2011-12 PRICES

DECISION PAPER

JUNE 2011

1.1 Summary of Decision

The Commission approved the 2011-12 prices for Melbourne Water's Special Drainage Areas as outlined below:

1. No price increase for Koo Wee Rup – Longwarry Flood Protection District.
2. Price rise of 7.9 per cent (plus CPI) for Patterson Lakes – Quiet Lakes. This approved increase is 3.1 per cent lower than the 11 per cent proposed in Melbourne Water's submission.
3. Price rise of 9.8 per cent (plus CPI) for Patterson Lakes – Tidal Waterways. This approved increase is 3.2 per cent lower than the 13 per cent proposed in Melbourne Water's submission.

(Refer to Appendix 1 for further details).

This decision paper provides an outline of the process undertaken by the Commission in making this decision.

1.2 Background

Melbourne Water is owned by the Victorian Government and established under Section 85 of the *Water Act 1989*.

Melbourne Water applies special drainage prices to properties in the Koo Wee Rup – Longwarry Flood Protection District and Patterson Lakes (including Quiet Lakes and Tidal Waterways areas). Part 13 Division 5 Section 259 of the *Water Act 1989* gives Melbourne Water the power to levy these charges.

On 30 March 2011, Melbourne Water submitted its 2011-12 price proposal for these special drainage areas.

The Commission is required to assess Melbourne Water's submission in accordance to Schedule 4.4 'Special Drainage Area Pricing Principles' of the Commission's *2008 Melbourne Water Determination*.¹

Melbourne Water's pricing submission was published on the Commission's website on 4 April 2011 and public submissions were invited until 4 May 2011. The Commission has considered all submissions, comments and information received during the consultation process in reaching its decision.

¹ Essential Services Commission (2008a) *2008 Water Price Review Final Decision: Melbourne Water Determination – Metropolitan Drainage Services and Diversion Services* available at the Commission's website at www.esc.vic.gov.au.

2.1 Proposed Prices

Melbourne Water's 2011-12 price proposal comprised increases of:

- 11 per cent (plus CPI) for Quiet Lakes; and
- 13 per cent (plus CPI) for Tidal Waterways.

No price increases were proposed for the Koo Wee Rup – Longwarry Flood Protection District.²

2.1.1 Quiet Lakes Proposal

The increase of 11 per cent (plus CPI) for Quiet Lakes for 2011-12 was attributed to the transition to cost recovery due to the ceasing of cross subsidies from Tidal Waterways, along with the introduction of a low cost water quality improvement program to reduce the likelihood of algal blooms.³ This follows a 11 per cent (plus CPI) price rise in the previous year.

To obtain full cost recovery by 2022-23 (end of the 2018-9 to 2022-23 regulatory period), Melbourne Water indicated that annual price increases of 20 per cent (plus CPI) would be required.⁴ Noting in its submission that this increase would be 'unsustainable', Melbourne Water proposed a price path which would limit the annual increase to 11 per cent (plus CPI).⁵ According to its submission, Melbourne Water will absorb the resulting revenue shortfall of \$1.9 million (in current terms) over the period to 2022-23.⁶

2.1.2 Tidal Waterways Proposal

A price increase of 13 percent (plus CPI) was proposed for Tidal Waterways for 2011-12.⁷ This follows an increase of 18 per cent (plus CPI) in 2010-11.

The Commission notes the removal of the Tidal Gates Replacement capital expenditure from the cost base since the prior year's review. Melbourne Water has taken over the contribution to the Tidal Gates Replacement project, with plans to

² Melbourne Water (2011a) *2011-12 Price Review – Melbourne Water's Special Drainage Areas* available at the Commission's website at www.esc.vic.gov.au.

³ Ibid. p 5

⁴ Ibid. p 6

⁵ Ibid. p 6

⁶ Ibid. p 6

⁷ Ibid. p 5

recover this through the general rate base on the basis of the public benefits provided.⁸

The cost base for the 2011-12 proposal comprised Tidal Waterways operating costs, and costs associated with capital expenditure encompassing retaining wall replacement, jetty replacement, dredging and foreshore works.

According to Melbourne Water, full cost recovery by 2022-23 would require annual increases of 26 per cent (plus CPI).⁹ However, Melbourne Water had revised this to annual increases of 13 per cent (plus CPI), acknowledging in its proposal that yearly increases of 26 per cent (plus CPI) was not a viable option.¹⁰ Melbourne Water would absorb the total revenue shortfall of \$7.5 million in current terms (excluding the Tidal Gates Project) over the next 12 years.¹¹

2.1.3 Koo Wee Rup – Longwarry Flood Protection District Proposal

No price increase was proposed for Koo Wee Rup – Longwarry Flood Protection District as a result of over-recovery of revenue dating back to 1999.¹²

Rather than address the over-recovery through future price reductions, the Koo Wee Rup – Longwarry Flood Mitigation Advisory Committee preferred to resolve this by having Melbourne Water increase its expenditure for the area without increasing prices for the area.¹³ Under this arrangement, Melbourne Water would fund the difference between the revenue (capped at 2010 prices) and expenditure for future periods until the over-recovered funds are expended.

Melbourne Water estimated the surplus fund at around \$4 million and is currently negotiating with the Koo Wee Rup – Longwarry Flood Mitigation Advisory Committee on the programs with which to apply the funds. Details of the proposed projects will be submitted to the Commission as part of the next water plan.

2.2 Public Submissions

Key issues identified from received submissions are as follows:

- Operational expenses – concerns that operational expenses, such as maintenance, may not have been efficiently expended, with maintenance issues cited by residents across all three areas.
- Capital expenditure – the appropriateness and funding of specific capital expenditure projects around the Tidal Waterways area.
- Residents Advisory Committee – questions around the selection process of the committees and the manner by which they operate.

⁸ Ibid. p 4

⁹ Ibid. p 4

¹⁰ Ibid. p 4

¹¹ Ibid. p 4

¹² Ibid. p 7

¹³ Ibid. p 7

The Commission has considered all matters raised in the submissions as part of its review. Public submissions are available at the Commission's website at www.esc.vic.gov.au.

A few submissions brought up issues beyond the Commission's scope. A summary of these topics is provided at Section 2.3.

The Commission would like to thank all interested parties who submitted their views for the Commission's consideration.

2.3 Other Issues

Outline of issues raised which are outside the Commission's jurisdiction:

- Legislative – the legislative basis for the special drainage area charges were raised in some submissions. The charges are pursuant to Part 13 Division 5 Section 259 of the *Water Act 1989*, which is administered by the Department of Sustainability and Environment (DSE).
- Alternative funding sources – several submissions suggested alternative funding arrangements for the charges including payment by local council. Matters regarding funding decisions are not within the scope of the Commission's responsibilities.
- Methodology used in rates setting – some submissions queried the methodology used in calculating the current precept rates such as the use of Net Annual Value or Site Value. Melbourne Water is currently investigating the use of more cost reflective pricing which will be submitted to the Commission as part of the next water plan (Water Plan 3). This issue will be examined by the Commission when it reviews Water Plan 3.

3.1 The Review Process

According to the Commission's *2008 Melbourne Water Determination*, Melbourne Water is required to meet certain administrative, pricing and consultation criteria in the establishment of prices for 2009-10 to 2012-13 for the Koo Wee Rup – Longwarry Flood Protection District and Patterson Lakes areas including the requirement to:

- Consult with the respective customer committees in each special drainage area on the prices to apply in subsequent regulatory years of this regulatory period.
- Not propose prices that seek to recover more than the efficient level of expenditure that is directly related to those activities.
- Submit the proposed prices, detailed expenditure forecasts and proposed activities/service levels to the Commission for approval at least 30 business days prior to the commencement of the regulatory year.
- Separately record the actual costs and revenue associated with each of the special drainage areas, which the Commission will review as part of its regulatory accounting and audit process.¹⁴

An outline of the Commission's review process has been provided in the following sections.

¹⁴ This is performed as part of the Commission's regulatory accounting review process, which is separate to the current review.

4.1 Customer Committee Consultations

The Commission assessed the consultation process conducted by Melbourne Water with customer committees in each of the special drainage areas including the provision of information on:

- Proposed activities for the forthcoming year.
- Information on expenditure related to those activities.
- Proposed price and estimated revenue.
- Expected prices in subsequent regulatory years.

In response to concerns raised in submissions to the Commission regarding the selection process of advisory committee members and how the committees operate, these aspects were also investigated during the review.

Commission's Assessment

Overall, Melbourne Water satisfies the 2008 determination's requirements on the consultation process for the 2011-12 regulatory period. Nevertheless, the Commission notes the discrepancy between Melbourne Water's representation to the Quiet Lakes Subcommittee that Melbourne Water 'will absorb...the economic return and depreciation on the proposed Capex to improve water quality in the Quiet Lakes until 2022/23'¹⁵ and the Quiet Lakes pricing model submitted to the Commission, which showed depreciation and return on investment included in the area's prices.

Melbourne Water's incorporation of depreciation and return on capital investment was consistent with pricing guidelines under the *Water Industry Regulatory Order 1994* (refer to Section 5) requiring the recovery of capital expenditure. Nevertheless, the Commission recommends that Melbourne Water clarifies the matter of funding of the water quality improvement capital expenditure with the Quiet Lakes Subcommittee.

The selection of the advisory committees by Melbourne Water was consistent with Section 122C of the *Water Act 1989*. In addition, Section 24 of Melbourne Water's *Statement of Obligations* requires the water authority to establish one or more consultative committee(s), but does not prescribe a manner by which this has to occur or operate.

¹⁵ Melbourne Water (Feb 2011) *PLAC – 2011/12 Proposed Prices for Patterson Lakes Special Drainage Area*

4.1.1 Summary

Requirement – Schedule 4 *2008 Melbourne Water Determination*

Consult with the respective customer committees in each special drainage area on the prices to apply in subsequent regulatory years of this regulatory period.

Commission's Assessment

Overall, Melbourne Water satisfies the determination's requirements on the consultation process for the 2011-12 regulatory period, although the Commission recommends that Melbourne Water clarifies the matter of funding of the water quality improvement capital expenditure with the Quiet Lakes Subcommittee.

5.1 Cost Recovery of Efficient Level of Expenditure

The *Water Industry Regulatory Order 1994* (WIRO) Clause 14 'Regulatory Principles' requires the Commission to apply four fundamental principles requiring prices to:

- Provide for a sustainable revenue stream which allows for a rate of return on investments to augment existing assets or construct new assets.
- Not reflect monopoly rents and or inefficient expenditure.
- Recover operational costs.
- Recover capital expenditure.

In other words, the Commission must be satisfied that the proposed prices will generate sufficient revenue to cover the operating and capital expenditure, enabling the business to receive a reasonable return on assets, without allowing monopoly profits.

Independent consulting firm Strategic Economics Consulting Group (SECG) was engaged to assist the Commission with this price review process.

An overview of the review is provided in the following sections.

5.2 Sustainable Revenue Stream

The Commission must ensure that the water business is earning sufficient revenue to encourage long term investment, after taking operating and capital expenditures into account.

For this to occur, Melbourne Water has to recover its efficient cost of operating, while earning a return on its regulatory asset base (adjusted annually for capital expenditure and disposals, net of depreciation).

Quiet Lakes

Expenditure on Quiet Lakes had historically been cross subsidised by funds from Tidal Waterways. This arrangement ended in 2008. Consequently, there is an expectation that prices for Quiet Lakes would have to increase to 'catch up' with expenditure in this area.

Total expenditure for Quiet Lakes since 2008 was estimated at \$0.527 million with revenue approximating \$0.312 million.

Melbourne Water projected total operating costs for 2011-12 at \$0.285 million, which included a new water quality improvement initiative estimated at \$0.085 million.¹⁶

According to Melbourne Water, cost recovery in the near term (current or next regulatory period) would require annual price rises of 95 per cent and above. This was recognised by Melbourne Water to be unsustainable.

Melbourne Water has been working with the Quiet Lakes Subcommittee to implement a longer term transition arrangement to recover costs by 2022-23.¹⁷ Melbourne Water held that this would require annual price rises of 20 per cent per annum.¹⁸

Cognisant of community views, Melbourne Water capped the increase at 11 per cent (plus CPI) per annum. Melbourne Water's proposal stated that the residual cost of \$1.9 million (current terms) would be absorbed by Melbourne Water over the next twelve years.¹⁹

The proposed price increase of 11 per cent (plus CPI) for 2011-12 is consistent with this price path. Table 14 of the proposal showed Melbourne Water's expected revenue for 2011-12 at \$0.132 million with anticipated expenditure at \$0.298 million that year. Under its transition plan, Melbourne Water will fund the revenue shortfall of \$0.166 million in 2011-12.²⁰

Tidal Waterways

Melbourne Water expected asset renewals to exert upward pressures on prices for the Tidal Waterways area.²¹ The price impact of the renewals should be limited to the rate of return on investment and associated depreciation.

According to the price model submitted by Melbourne Water in support of its proposal, cost recovery by 2022-23 would require annual price increases of 26 per cent (plus CPI).²²

¹⁶ The Commission notes that:

- Total projected cost included capital expenditure related costs.
- The Quiet Lakes prices did not include the \$0.085 million planned expenditure in Melbourne Water's pricing model as submitted to the Commission.

¹⁷ This signifies the end of the second water plan period. The Commission considers cost recovery by that time to be reasonable.

¹⁸ Melbourne Water (2011a) p 6

¹⁹ Melbourne Water's revenue shortfall totalled \$1.6 million (in current terms) from 2011-12 to 2022-23 according to the Commission's calculations.

²⁰ Melbourne Water (2011a) p 17. The Commission notes that these numbers vary from the pricing model submitted to the Commission which showed figures for 2011-12 consisting of: Expected revenue of \$0.136 million, planned expenditure of \$0.205 million and a revenue shortfall of \$0.069 million. Most of the difference can be explained by \$0.085 million in new water quality initiatives which has not been included as a cost in the pricing model submitted to the Commission. Melbourne Water's pricing model has not incorporated this \$0.085 million planned expenditure in the Quiet Lakes prices.

²¹ Ibid. p 4

²² Ibid. p 4

In recognition of community views, Melbourne Water limited the increases to 13 per cent (plus CPI) per annum. This was achieved through the removal of the area's contribution to the Tidal Gates capital expenditure, in recognition of the project's public benefit characteristics.²³ In line with this, Melbourne Water proposed to fund the revenue short fall of \$7.5 million (in current terms) through to 2022-23.²⁴ This proposal has been determined in consultation with the Patterson Lakes Advisory Committee.

Addendum

Melbourne Water submitted an addendum during the price review process containing revised Tidal Waterways capital expenditure related costs.²⁵ As a result of these changes, the price path for cost recovery by 2022-23 increased to 13.9 per cent, with a total revenue deficiency of \$8.7 million (in current terms) from 2011-12 to 2022-23.

According to the Commission's calculations (and the basis of the Commission's decision), limiting the annual price rises to 13 per cent (plus CPI) increases the revenue short fall to be funded by Melbourne Water to \$9.6 million in current terms.

Koo Wee Rup – Longwarry Flood Protection District

Revenue had generally exceeded expenditure for the Koo Wee Rup – Longwarry Flood Protection District.

Melbourne Water had been over-recovering the cost of carrier drain maintenance by approximately \$4.0 million in total since 1999.

Rather than reducing prices for future periods, the Koo Wee Rup – Longwarry Flood Mitigation Advisory Committee preferred Melbourne Water to expend the surplus funds by increasing its maintenance expenditure for the area.²⁶ Melbourne Water is also currently looking to fund capital expenditure projects with the over-recovery.

Melbourne Water has proposed a 0 per cent increase (inclusive of CPI) for Koo Wee Rup – Longwarry Flood Protection District for 2011-12.²⁷ Estimated revenue projected for 2011-12 totalled \$1.0 million, with planned total expenditure at \$1.2 million. The net expenditure of \$0.2 million reflects the additional maintenance work to be funded by Melbourne Water to achieve a zero price increase for 2011-12.²⁸

5.3 Inefficient Expenditure

Melbourne Water must satisfy the Commission that the proposed 2011-12 prices do not reflect monopoly profits or inefficient spending. The Commission assessed

²³ Ibid. p 4

²⁴ Ibid. p 4

²⁵ Melbourne Water (2011b) *Proposed Addendum* available at the Commission's website at www.esc.vic.gov.au.

²⁶ Melbourne Water (2011a) p 7

²⁷ Ibid. p 7

²⁸ Ibid. p 18

this by reviewing the proposed prices against operational and capital expenditure with advice from SECG.

In response to concerns regarding expenditure and associated water quality standard requirements expressed in several submissions, the Commission requested that SECG examine the operational expenditure for each of the areas, which included an assessment of the revenue allocation process.

In light of the under-spending which occurred in Koo Wee Rup – Longwarry Flood Protection District, SECG was also directed to review the pattern of historical spending for each of the areas since 2008.

In particular, SECG performed a revenue and expenditure review to investigate the:

- Appropriateness of the planned spending for the three areas with regard to service standards in accordance with Melbourne Water's regulatory or legislative requirements.
- Robustness of the estimates (with adequate supporting analysis and systems).
- Reasonableness of proposed expenditure as compared to typical rates experienced in the industry.
- Pattern of actual expenditure for each of the areas from 2008 having regard to expected services standards, productivity improvements, trends in input prices and any other relevant factors.
- Ring fencing of revenue and operational expenditure for each of these areas.

The Commission had undertaken a detailed capital expenditure investigation during the 2010-11 price approval process assisted by independent consultant Halcrow Pacific Pty Ltd.²⁹

A capital expenditure review for the Tidal Waterways was performed as part of the current review. As capital expenditures proposed for the Quiet Lakes area were still in the proposal stage at the time of Melbourne Water's submission,³⁰ the Commission will review Quiet Lake's capital expenditure when their exact mix and extent of activities are finalised.

SECG's findings have been summarised in 'Strategic Economics Consulting Group (2011) *Melbourne Water Special Drainage Areas 2011-12 Price Review – Final Report*', which is available on the Commission's website at www.esc.vic.gov.au.

5.3.1 Planned Operating Expenditure

Quiet Lakes

Planned expenditure for this area was largely similar to spending in 2010-11 except for an additional \$0.085 million (in current terms) allocated towards new

²⁹ Halcrow Pacific Pty Ltd (2009) *2009 Review of Melbourne Water Patterson Lakes Tidal Waterways – Tidal Gates Project* available at the Commission's website at www.esc.vic.gov.au.

³⁰ Melbourne Water (2011a) p 16

initiatives to improve water quality standards.³¹ Operational spending of \$0.285 million has been projected for Quiet Lakes for 2011-12.³²

Tidal Waterways

Anticipated outlay for this area remained largely unchanged from the prior year, with an extra \$0.02 million to be expended for 'civil assets monitoring'. Projected spending for the next regulatory period totalled \$0.469 million.³³

Koo Wee Rup – Longwarry Flood Protection District

Spending for this area had been unexpectedly high in 2010-11 as a result of the general maintenance and repair works required after the February 2011 floods.³⁴ Operating expenditure of \$1.022 million has been predicted for 2011-12 with a forecast return to average weather conditions.³⁵

Melbourne Water will contribute an additional \$0.199 million in maintenance work to be recouped from the historical over-recovery. Planned expenditure of \$1.220 million has been allocated for Koo Wee Rup – Longwarry Flood Protection District in 2011-12.³⁶

Commission's Assessment

SECG concluded that 'proposed expenditure for 2011-12 generally reflected the previously approved expenditure for 2010-11 and on review was determined to be appropriate and reasonable'.³⁷

On the basis of SECG's advice, the Commission considered Melbourne Water's proposed expenditure for the special drainage areas to be:

- Appropriate, and reasonable.

5.3.2 Actual Operating Expenditure

The Commission expanded its usual review process to investigate actual operational expenditure. This was undertaken in response to submissions which indicated possible inefficient operational expenditure, as illustrated by maintenance issues cited in some submissions.

The review undertaken by SECG involved examining the processes and controls around operational and maintenance spending. This included verifying the actual operating spending reported in Melbourne Water's proposal to Melbourne Water's financial system.³⁸

³¹ Note \$0.085 million excluded from Quiet Lakes prices – refer to footnote 20.

³² Ibid. p 14

³³ Ibid. p 13

³⁴ Ibid. p 11

³⁵ Ibid. p 14-15

³⁶ Ibid. p 15

³⁷ SECG (2011) p 1

³⁸ Ibid. 1, 8-9

To ensure that appropriate ring fencing has been established, the revenue and cost allocation processes were examined to ensure that customers were only charged for works undertaken in their respective areas.³⁹

Commission's Assessment

SECG concluded that 'Melbourne Water has in place the appropriate measures to report actual expenditure and the appropriate controls to ensure that only expenditure related to the special areas is reported and allocated and therefore used to determine the special area charges'.⁴⁰

The review also deemed that Melbourne Water has sufficient information to correctly calculate revenue received from the special area customers.⁴¹

Based on SECG's findings, the Commission is satisfied that:

- Processes and checks have been put in place to ensure the correct accounting for expenditure.
- Appropriate ring fencing of revenue and costs have been applied.

5.3.3 Capital Expenditure

The WIRO requires that prices allow Melbourne Water to recover its capital expenditure through:

- Earning a rate of return on the capital assets, and
- Regulatory depreciation.

Rate of Return on Capital Assets

According to the WIRO, Melbourne Water is expected to recover a rate of return on assets as at 1 July 2004 and on all capital investments made since. The efficient rate of return for Melbourne Water should be represented by the weighted average cost of capital (WACC) of 5.8 per cent, as stipulated in the Commission's 2008 *Water Price Review*.⁴²

Regulatory Depreciation

Water prices should include a regulatory depreciation charge to depict capital expenditure depreciation. The purpose of this is to return to investors the value of capital that has been invested over the life of the relevant asset.

The Commission recognises regulatory depreciation from the year in which the expenditure is incurred and straight line depreciation has generally been accepted.

³⁹ Ibid. p 1, 8-9

⁴⁰ Ibid. p 1

⁴¹ Ibid. p 1

⁴² Essential Services Commission (2008b) *2008 Water Price Review – Melbourne Water's Drainage and Waterways Water Plan 2008-2013* available at the Commission's website at www.esc.vic.gov.au.

Quiet Lakes

Melbourne Water has proposed capital works totalling \$2.99 million (in current terms) for the area over the period 2011-12 to 2017-18. This included planned expenditure on civil works, silt removal, solar bee, bore pump and macrophytes management.⁴³

Tidal Waterways

Melbourne Water has removed costs associated with the Tidal Gates Replacement Project from its capital expenditure cost base. Melbourne Water's capital expenditure cost base included existing jetty replacement works, as well as spending on dredging as part of the jetty renewal program, foreshore works (starting 2011-12) and costs associated with replacement of retaining wall (commencing 2013-14).⁴⁴

The Commission engaged SECG to review the appropriateness and nature of these proposed works in response to submissions challenging their inclusion in the Tidal Waterways charges.

Koo Wee Rup – Longwarry Flood Protection District

No capital expenditure was proposed for this area in 2011-12. Melbourne Water will submit its proposed capital expenditure for this area as part of its next water plan.⁴⁵

Commission's Assessment

Quiet Lakes

The Commission notes that capital expenditure costs comprising depreciation and return on new investments have been included in the prices for Quiet Lakes. At the time of Melbourne Water's submission, the capital expenditure programs were still at the proposal stage. The Commission plans to review the new capital expenditure upon finalisation of the exact mix and extent of activities.⁴⁶

The Commission acknowledges the submissions complaining that the water quality does not permit swimming in this area. Section 189 of the *Water Act 1989* does not require Melbourne Water to provide water quality of a standard suitable for primary contact recreation. Melbourne Water's *Statement of Obligations* under the *Water Industry Act 1994* requires Melbourne Water to report on the impact of Blue-Green Algal Blooms on water quality to the Department of Human Services (DHS) and the Department of Sustainability and Environment (DSE). The administration of the *Water Act 1989* is beyond the scope of the Commission's responsibilities.

⁴³ Melbourne Water (2011 a) p 16

⁴⁴ Ibid. p 16

⁴⁵ Ibid. p 16

⁴⁶ Ibid. P 16

Tidal Waterways

Melbourne Water has removed the capital expenditure relating to the Tidal Gates project from the Tidal Waterways cost base due to the public good nature of this project.

SECG's general opinion is that the benefits of the capital expenditure projects included in the Tidal Waterways cost base largely accrue to the residents of that area. Further, the requirement for such expenditure was considered to be unlikely if not for the presence of the development.⁴⁷ On the basis of SECG's advice, the Commission is satisfied with the incorporation of the proposed capital works in the Tidal Waterways capital expenditure cost base.

In regard to the calculations used in the cost base, the Commission accepts that the approved WACC of 5.8 per cent had been applied, and that depreciation had been undertaken in a reasonable manner.⁴⁸

5.4 Summary

Requirement – Schedule 4 *2008 Melbourne Water Determination*

Not propose prices that seek to recover more than the efficient level of expenditure that is directly related to those activities.

Commission's Assessment

Melbourne Water satisfies the determination's requirement that proposed prices do not recover more than the efficient level of directly related expenditure for the 2011-12 regulatory period.

⁴⁷ SECG (2011) Op. Cit. p 11

⁴⁸ Ibid. p 8

6.1 Regulatory Due Date

Melbourne Water is required to submit its proposed prices, detailed expenditure forecasts and proposed activities/service levels to the Commission for approval at least 30 business days prior to 1 July 2011.

Melbourne Water's 30 March 2011 submission satisfies this condition.

6.1.1 Summary

Requirement – Schedule 4 2008 Melbourne Water Determination

Submit its proposed prices, detailed expenditure forecasts and proposed activities/service levels to the Commission for approval at least 30 business days prior to the commencement of the regulatory year.

Commission's Assessment

Melbourne Water satisfies the determination's requirement that it submits its proposed prices, detailed expenditure forecasts and proposed activities/service levels to the Commission for approval at least 30 business days prior to 1 July 2011.

7.1 Decision

Melbourne Water's submitted prices for the Commissions approval are tabled below:

Table 2 – Melbourne Water's Proposed Prices for 2011-12

Koo Wee Rup – Longwarry Flood Protection District		
Division A (higher flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	3.6494 cents
Division B (lower flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	2.0274 cents
Patterson Lakes		
Quiet Lakes Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.5410 cents
Tidal Waterways Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.6830 cents

¹ NAV – Net Annual Value as at 1990

² SV – Site Value

The Commission notes the proposed prices for Quiet Lakes and Tidal Waterways to be less than 11 per cent (plus CPI) and 13 per cent (plus CPI) proposed in Melbourne Water's submission.

The price rises for the proposed prices as calculated by the Commission are below:

- Quiet Lakes – 7.9 per cent (plus CPI) (that is 3.1 per cent lower than the 11 per cent proposed in Melbourne Water's submission).
- Tidal Waterways – 9.8 per cent (plus CPI) (that is 3.2 per cent lower than the 13 per cent proposed in Melbourne Water's submission).

The Commission has assessed Melbourne Water's submission in accordance to Schedule 4.4 'Special Drainage Area pricing Principles' of the *2008 Melbourne Water Determination*.

Melbourne Water's Special Drainage Areas 2011-12 Price Proposal satisfies the administrative, pricing and consultative criteria set out in Schedule 4.4 of this determination. The proposed prices are approved accordingly.

7.1.1 Summary

Decision

The Commission has approved the proposed 2011-12 prices for Melbourne Water's Special Drainage Areas as set out at Appendix 1.

APPENDIX 1 | APPROVED PRICES

A1 Melbourne Water's Special Drainage Areas Approved Prices

The approved prices for Melbourne Water's Special Drainage Areas are tabled below:

Table 3 - Approved 2011-12 Prices

Koo Wee Rup – Longwarry Flood Protection District		
Division A (higher flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	3.6494 cents
Division B (lower flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	2.0274 cents
Patterson Lakes		
Quiet Lakes Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.5410 cents (plus CPI)
Tidal Waterways Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.6830 cents (plus CPI)

¹ NAV – Net Annual Value as at 1990

² SV – Site Value

Table 4 - Approved 2011-12 Prices (CPI Adjusted)

Koo Wee Rup – Longwarry Flood Protection District		
Division A (higher flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	3.6494 cents
Division B (lower flood impact exposure)	Minimum Fee per annum	56.4000 dollars
	Rate in NAV ¹ per annum	2.0274 cents
Patterson Lakes		
Quiet Lakes Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.5590 cents
Tidal Waterways Properties	Minimum Fee per annum	0.0000 dollars
	Rate in SV ² per annum	0.7058 cents

¹ NAV – Net Annual Value as at 1990

² SV – Site Value