

## The Essential Services Commission

The Essential Services Commission (ESC) is the independent economic regulator of the Victorian Water Industry. Under a process set out by the state Government, the ESC periodically assesses prices put forward by water businesses in a three to five year Water Plan.

## Metropolitan water industry

Water businesses in Victoria are Government owned enterprises. While they are responsible for their own day-to-day management, they are subject to pricing regulation from the ESC. The Department of Sustainability and Environment and the Minister for Water make policy decisions affecting the water businesses. As the shareholder, the Treasury is responsible for the financial health of the businesses.

## 5 Year Water Plans

In 2007 Metropolitan businesses prepared Water Plans for the five years commencing 1 July 2008. Before the plans were submitted to the ESC, the Government intervened and proposed that the ESC review of Water Plans be delayed for a year, while a review of the industry was undertaken. The Government was concerned with the inconsistency and magnitude of price rises in the plans.

## Victorian Competition and Efficiency Commission (VCEC) Review

The Premier asked VCEC to report on options to improve the efficiency of the metropolitan water sector and recommendations to ensure that supplies could be managed within the Government's expectations of acceptable price increases. The findings of the VCEC review informed the businesses in the preparation of their revised 4 year Water Plans.

## Bill Doubling

When the Premier suspended the metropolitan price review and announced the VCEC review he also forecast that prices would "approximately double by 2012". This prediction was based on proposed costs for several large projects such as the desalination plant and the North-South pipeline. Consistent with this forecast, the Commission was asked to approve a 14.8% price increase for all tariffs for the 2008-09 year.

| Cumulative 5 yr price change* | Original 5 year Plan | Revised 4 year Plan* | ESC Draft Decision* |
|-------------------------------|----------------------|----------------------|---------------------|
| City West                     | 140%                 | 87%                  | 70%                 |
| South East                    | 99%                  | 95%                  | 76%                 |
| Yarra Valley                  | 169%                 | 97%                  | 84%                 |

\* Fact Sheet 1 and the Draft Decision illustrate the price change over the four years of the review period

Following the VCEC review, the businesses submitted Water Plans for the four years commencing 1 July 2009. The plans worked within the Government's expectation that prices should no more than double over the 5 years commencing 1 July 2008.

## ESC Review of Water Plans

The ESC's draft decision identifies a number of savings and efficiencies that would lead to price increases that are lower than those proposed in the four year water plans.

## Further information on bill doubling

The doubling of prices only applies to the water and sewerage charges. Drainage charges and the Parks Victoria charge were not included in the Premier's forecast doubling.

The doubling is in real terms, meaning that CPI is applied on top of each year's approved price rise.

## History of the Metropolitan Price review

