



18/08/2020

RM/20/13124

Mr Michael Wandmaker
Managing Director
Melbourne Water
990 La Trobe Street
Docklands VIC 3008

Dear Michael,

Additional guidance issued by the Essential Services Commission to Melbourne Water

In November 2019, we released guidance for Melbourne Water's 2021 price review in accordance with the Water Industry Regulatory Order 2014 (WIRO). I acknowledge the challenges facing Melbourne Water in preparing a price submission at the current time, and understand you are working through the implications of coronavirus and its impacts for your price submission.

We consider that it is appropriate that your submission considers the possible impacts of coronavirus.¹ For this reason, and to provide clarity about our expectations, we are issuing Melbourne Water additional guidance for its 2021 water price review.² This operates in addition to the guidance we issued Melbourne Water in November 2019.³

Attachment 1 discusses the areas we expect Melbourne Water to address the impact of the coronavirus in its price submission. This list is not exhaustive and may not cover all the areas that Melbourne Water may need to review given the scale and complexity of the business.

¹ WIRO, cl 13(a) (vi)

² WIRO, cl 13(b)

³ Essential Services Commission 2019, Melbourne Water's 2021 water price review: Guidance paper, 13 November

I am also revising the submission lodgment deadline to Friday 9 November 2020⁴ to allow Melbourne Water to meet the additional information and customer consultation requirements outlined in this additional guidance (Attachment 2).

This follows our consultation with your staff on the nature of our proposed additions to our guidance and the extra time that may be needed to enable Melbourne Water to address the additional guidance at meetings on 31 July and 4 August 2020, which also included review of the additional guidance paper with your staff. We note that Melbourne Water staff communicated that it did not have any concerns with the additional guidance.

Should you have any questions or comments regarding this additional guidance, please do not hesitate to contact me on 0407 318 847, or Marcus Crudden, Director – Price Monitoring and Regulation on 0404 996 391.

Yours sincerely



Kate Symons
Chairperson

⁴ WIRO, cl 13(a)(ii)

Attachment 1

This is guidance issued by the commission to Melbourne Water in addition to the guidance issued on 13 November 2019⁵ and operates in addition to that guidance pursuant to clause 13(b) of the Water Industry Regulatory Order 2014 (WIRO). The table below identifies areas where the commission expects Melbourne Water to address the impact of the coronavirus in its price submission. This list is not exhaustive and may not cover all the areas that Melbourne Water may need to review given the scale and complexity of the business.

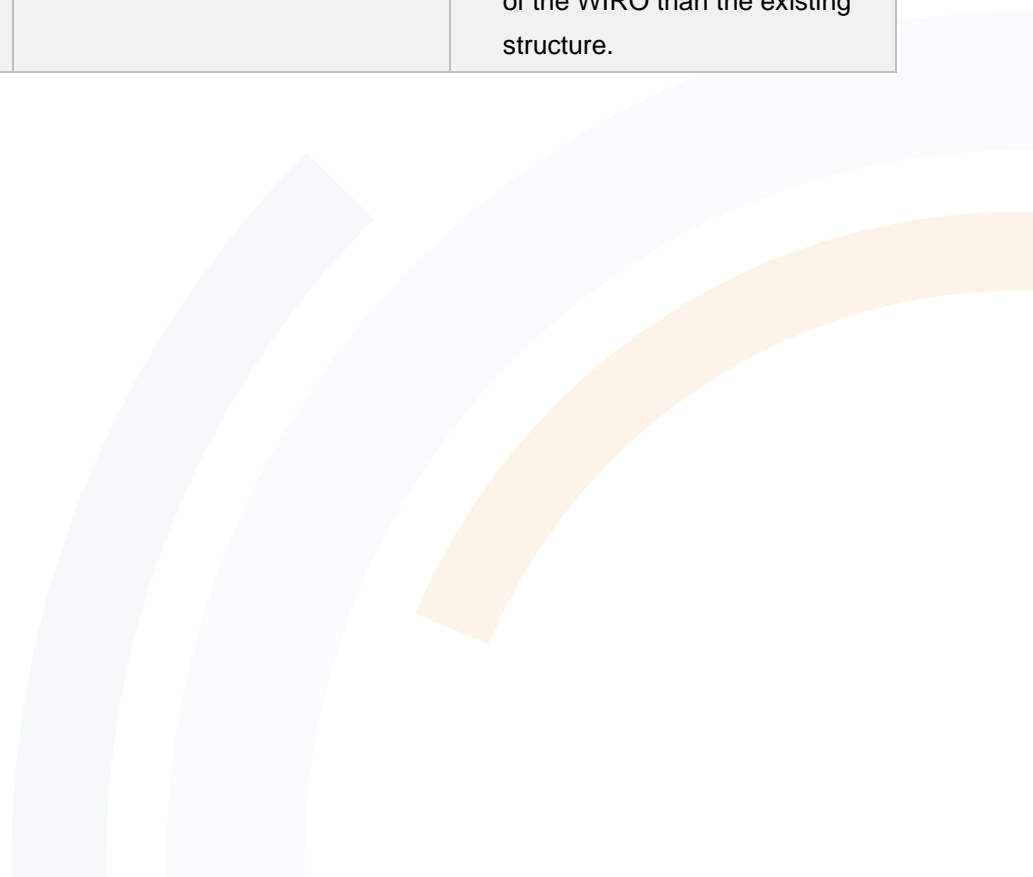
Additional matters that Melbourne Water must have regard to

Topic	Reference to Section in guidance ⁵	Specific consideration
<ul style="list-style-type: none">• PREMO rating	<ul style="list-style-type: none">• Section 3.12	<ul style="list-style-type: none">• We expect Melbourne Water's supporting information on each of the elements of its PREMO rating will take into account where relevant the impact of the coronavirus.
<ul style="list-style-type: none">• Managing risk	<ul style="list-style-type: none">• Section 3.1• Attachment 4: Types of risk and regulatory risk mitigation tools	<ul style="list-style-type: none">• We expect Melbourne Water to outline and provide supporting information about how the uncertainty arising from the coronavirus is impacting the range of risks outlined in Attachment 4 of the guidance released in 2019, including the assumptions underlying the identified risks and how Melbourne Water intends to manage those risks.
<ul style="list-style-type: none">• Customer engagement	<ul style="list-style-type: none">• Section 3.3	We expect Melbourne Water to have considered whether the consumer preferences that informed the development of their price submission remain valid given the coronavirus.

⁵ Essential Services Commission 2019, Melbourne Water's 2021 water price review: Guidance paper, 13 November

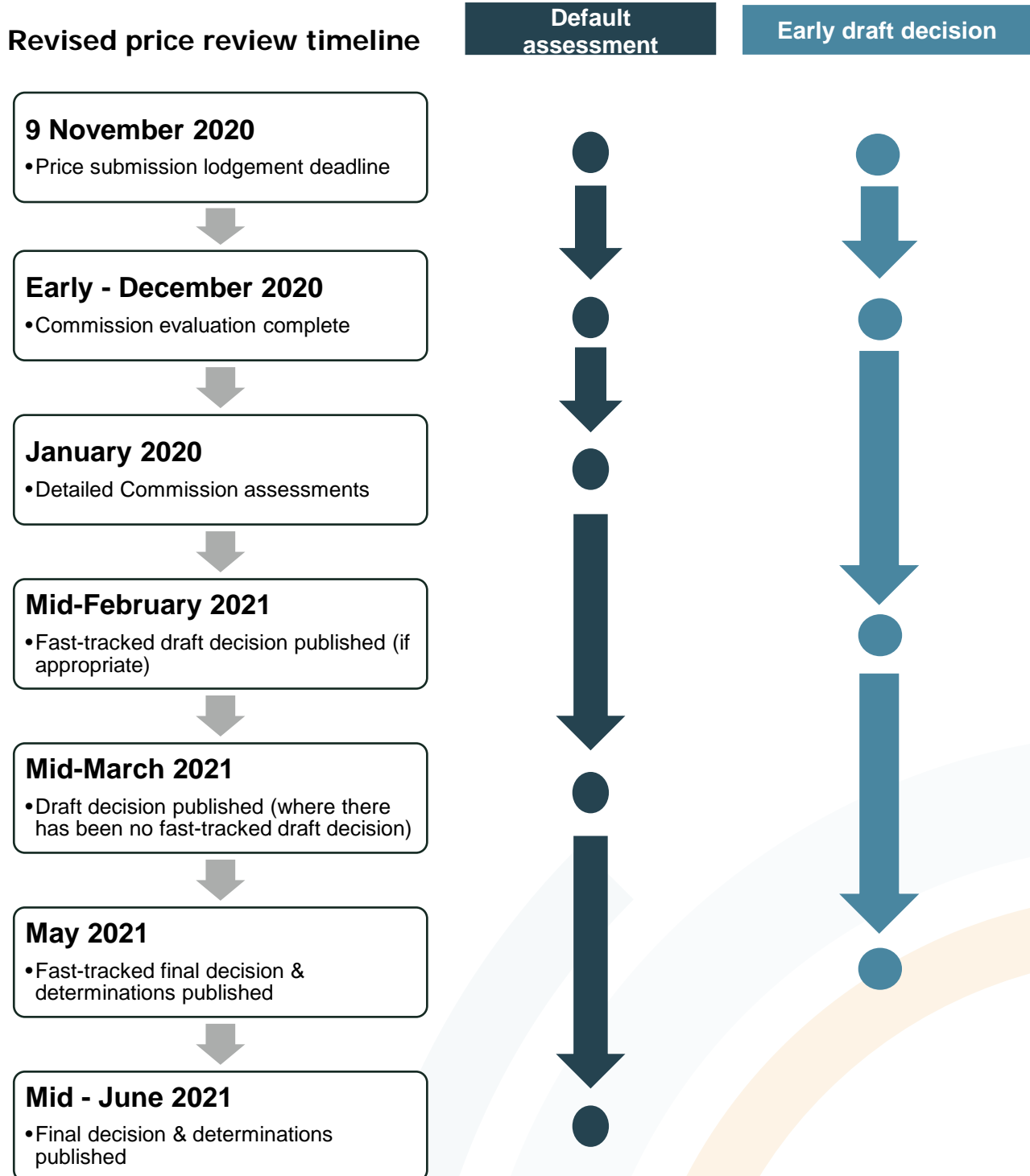
<ul style="list-style-type: none"> • Forecast operating expenditure 	<ul style="list-style-type: none"> • Section 3.5 	<ul style="list-style-type: none"> • We expect Melbourne Water to clearly demonstrate the extent the coronavirus has impacted the 2019-20 baseline controllable operating expenditure and any anticipated variation in forecast operating expenditure due to the coronavirus.
<ul style="list-style-type: none"> • Forecast capital expenditure 	<ul style="list-style-type: none"> • Section 3.6 	<ul style="list-style-type: none"> • Where applicable, we expect Melbourne Water to highlight any key assumptions which underpin the capital expenditure forecasts that may be subject to risks or uncertainties related to the coronavirus and how such risks have been addressed. • The price submission must demonstrate how Melbourne Water has addressed and proposes to manage the increased uncertainty associated with growth forecasting and capital project planning in its capital expenditure forecast. • Where willingness to pay studies have been used in capital project justification, Melbourne Water must ensure that such results reflect potential changes in customer value and preferences as a result of the coronavirus.
<ul style="list-style-type: none"> • Demand 	<ul style="list-style-type: none"> • Section 3.15 	<ul style="list-style-type: none"> • We expect Melbourne Water to provide supporting information on how the proposed demand forecasts have accounted for the impact of coronavirus on growth forecasts and customers' demand and economic activity in the next

		regulatory period. It may include assumptions around the magnitude and duration of the impact on demand.
<ul style="list-style-type: none"> • Prices and tariff structures 	<ul style="list-style-type: none"> • Section 3.17 	<ul style="list-style-type: none"> • In undertaking any tariff reforms, we expect Melbourne Water to address customer affordability issues resulting from the coronavirus pandemic and ensure that proposed prices and tariff structures are consistent with hardship principles. • This may require Melbourne Water to revisit previous customer engagement outcomes to reflect any changes in the views and preferences of end-use customers and water retailers. Where changes in tariff structures are proposed, Melbourne Water will need to demonstrate that the amended tariff structure better satisfies the requirements in clause 11 of the WIRO than the existing structure.



Attachment 2

The commission is amending the date by which Melbourne Water is to deliver its price submission from 9 October 2020 to 9 November 2020⁶. Other key milestones remain largely unchanged.



⁶ WIRO, cl 13(a)(vii)