

The Essential Services Commission

We are the independent economic regulator of the Victorian water industry. The Commission periodically assesses prices put forward by water businesses in a three to five year Water Plan.

ESC review of Water Plans

Last year, all regional water businesses submitted to the Commission their Water Plans for the third regulatory period (2013-18). Their Water Plans set out the costs they will be facing and the prices they proposed to charge customers over the next regulatory period to recover those costs. In authorising prices for the water businesses, the Commission assessed whether the proposed operating and capital expenditure forecasts were prudent and efficient, and assessed the required revenue to operate the businesses and to meet obligations from the Minister of Water and other regulatory bodies. The Commission engaged two consultants, Deloitte and Cardno, to assist with the assessment of regional and rural businesses' proposed expenditure.

Operating expenditure – draft decision

Total operating expenditure is a significant component of water businesses' total revenue requirements, ranging from 52 per cent to 68 per cent for regional water businesses for the next regulatory period. The regional water businesses forecast total operating expenditure of \$2.56 billion for the next regulatory period, approximately \$252 million (or 11 per cent) higher than that of the second regulatory period. All regional businesses proposed an increase in operating expenditure except Lower Murray Water. Goulburn Valley Water and Wannon Water forecast the largest percentage increases at 18 per cent each. Figure 1 compares the regional water businesses' total actual and forecast operating expenditure.

The regional water businesses identified the key drivers of proposed increases to operating expenditure as:

- higher labour, energy and (for some businesses) chemical costs
- defined benefits superannuation payments due to a shortfall in the funds
- increase in the environmental contribution from 2013-14 and
- additional expenditure associated with new facilities such as treatment plants.

Our draft decision for the third regulatory period approved total operating expenditure of \$2.48 billion, \$83.7 million (or 3.3 per cent) lower than the regional water businesses' proposals. Figure 2 compares our draft decision with the businesses' proposals. This is subject to consultation and may change with our final decision.

Capital expenditure – draft decision

Capital expenditure is another key component of the water businesses' revenue requirements. It increased significantly in the second regulatory period (2008-2013) reflecting the significant investment in new forms of water supply in response to the drought. For the third regulatory period, businesses forecast capital expenditure of \$1.5 billion, \$938 million (or 39 per cent) lower than that of the second regulatory period. Only South Gippsland Water and Goulburn Valley Water proposed increases in capital expenditure for the next regulatory period. Figure 3 compares the regional water businesses' total actual and forecast capital expenditure.

The regional water businesses identified the key drivers of proposed increases to capital expenditure as renewing infrastructure to maintain or improved service, compliance with government standards, projects to meet forecast growth and the extension of water and sewerage networks into unserved country towns.

Our draft decision approved total capital expenditure is \$1.36 billion, \$120 million (or 8.1 per cent) lower than the businesses' proposal for the third regulatory period. Figure 4 compares our draft decision with the businesses' proposed capital expenditure for the next regulatory period.

Examples of the water businesses' key capital projects and programs are highlighted on the next page. For most businesses, a small group of projects account for a significant proportion of their total capital expenditure. We will continue to monitor the delivery of key projects through the next regulatory period, via our annual water performance reporting.

Renewals/replacements/refurbishments

The Commission's draft decision provides for water businesses' proposed renewals, replacements and refurbishments capital projects and programs. These are undertaken to improve or maintain existing levels of service, to reduce corporate operating costs and to address operational and safety concerns. Examples of key projects or programs for which expenditure has been allowed are:

- Barwon Water: Sewer and water mains replacement program, Blackrock water reclamation plant hydraulic capacity project.
- Central Highlands Water: Sewer and water main renewal program.
- Coliban Water: Sewer and water mains renewal program.
- East Gippsland Water: Bairnsdale wastewater treatment plant upgrade, SCADA upgrade and support project.
- Gippsland Water: Regional outfall system renewal program, water and wastewater reticulation system renewals program.
- Goulburn Valley Water: Water mains replacement program.
- GWMWater: Donald wastewater treatment plant and reuse system upgrade.
- Lower Murray Water: Water and sewerage main renewals, water treatment plants programmable logic controller replacements.
- North East Water: Sewer and water mains replacement program, water above ground asset replacements program.
- South Gippsland: Vehicle replacement, Reticulation sewer replacement & rehabilitation, water renewals & replacement.
- Wannon Water: Portland and Port Fairy sewer replacement/refurbishment project.
- Westernport Water: San Remo basin cover replacement, water mains replacement.

Compliance

The Commission's draft decision provides for capital expenditure to meet the obligations imposed by the Victorian Government, including technical regulators like the Department of Health and EPA Victoria. Examples of key projects for which expenditure has been allowed are:

- Central Highlands Water: Reservoir and dam upgrade works, Ballarat South wastewater treatment plant augmentation works.
- Coliban Water: Echuca and Cohuna water treatment plant upgrades, Cohuna water reclamation plant refurbishment.

- East Gippsland Water: Wastewater lagoon desludge, Bairnsdale bridge sewer pump station new rising main.
- Goulburn Valley Water: Mansfield wastewater management facility additional winter storage, Marysville new water treatment plant.
- GWMWater: Rupanyup sewerage scheme, irrigation network decommissioning.
- North East Water: Bright water treatment plant storage expansion and temporary treatment plant, Yackandandah reclaimed water management, upgrades to water and wastewater treatment facilities.
- South Gippsland Water: improvements to Leongatha and Foster wastewater treatment plants, environmental obligations.
- Wannon Water: Heywood, Hamilton and Cobden water reclamation plant irrigation works.
- Westernport Water: Cowes wastewater treatment plant upgrade, water purification plant tertiary treatment project.

Growth

The Commission's draft decision allows for capital expenditure to meet forecast customer growth and increases in demand for some of the water businesses' service areas. Examples of key projects for which expenditure has been allowed are:

- Barwon Water: Inverleigh low level feeder main, Apollo Bay water supply expansion.
- Central Highlands Water: Ballarat West urban growth zone infrastructure project.
- East Gippsland Water: Sarsfield and Wy Yung clearwater storage augmentation, Paynesville main supply pipeline (stage 2).
- Gippsland Water: Shared assets wastewater program, Warragul-Hazel Creek trunk sewer (stage 3).
- Goulburn Valley Water: Shepparton and Numurkah water treatment plant upgrades.
- GWMWater: Wimmera-Mallee pipeline augmentation.
- Lower Murray Water: Mildura water supply strategy.
- North East Water: Bright off-stream storage.
- South Gippsland Water: Northern towns supply connection works (Lance Creek to Korumburra and Korumburra to Poowong), Wonthaggi sewerage system upgrades.
- Wannon Water: Water tower and pump station in Wangoom Road and Wollaston Road Warrnambool.
- Westernport Water: augmentation of Cowes sewerage system.

Where to get details of the Commission's expenditure assessment

We publicly released our draft decision for regional water businesses on 26 March 2013. This draft decision also contains our findings and draft decision on forecast expenditure. Further details are also contained in Deloitte and Cardno's expenditure review reports which have been released together with the draft decision.

Next stage of the process

Businesses will provide their views on the Commission's recommendations and analysis in response to the draft decision.

How to get involved

We invite the public to comment on our draft decision until 2 May 2013. Public forums will be held around the state to gather your feedback in April and May. Written submissions can be sent by email to water@esc.vic.gov.au or posted to Water Price Review, Essential Services Commission, Level 37, 2 Lonsdale Street, Melbourne 3000. More information, including material from past price reviews can be found on the website www.esc.vic.gov.au.

Figure 1 Total Regional Operating Expenditure 2008 to 2018 (\$m 2012-13)

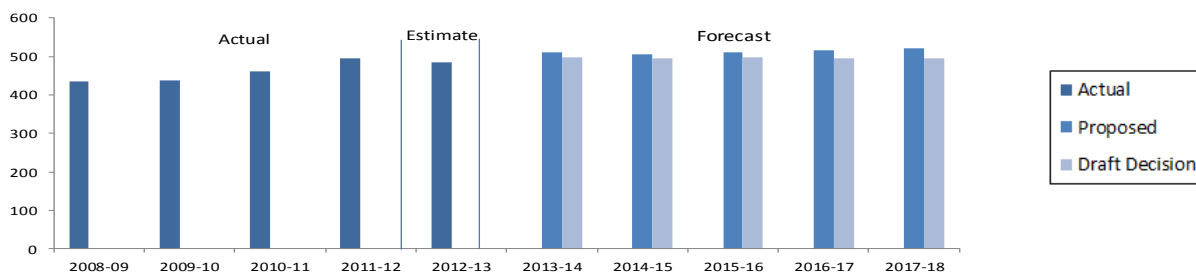


Figure 2 Businesses’ Operating Expenditure for 3rd Regulatory Period (\$m 2012-13)

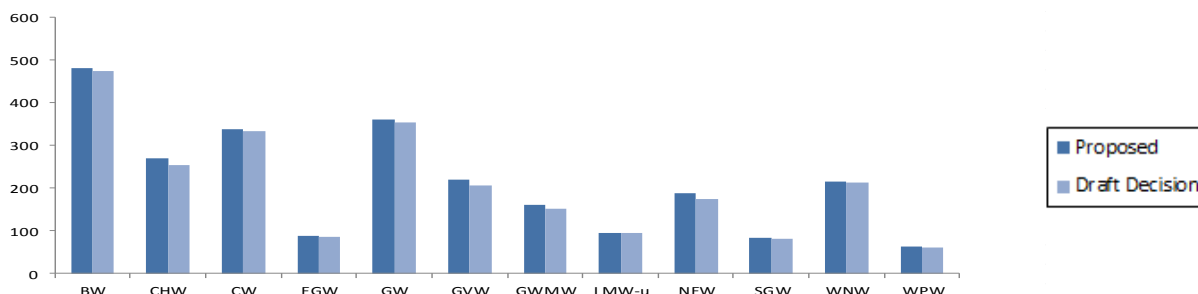


Figure 3 Total Regional Capital Expenditure 2008 to 2018 (\$m 2012-13)

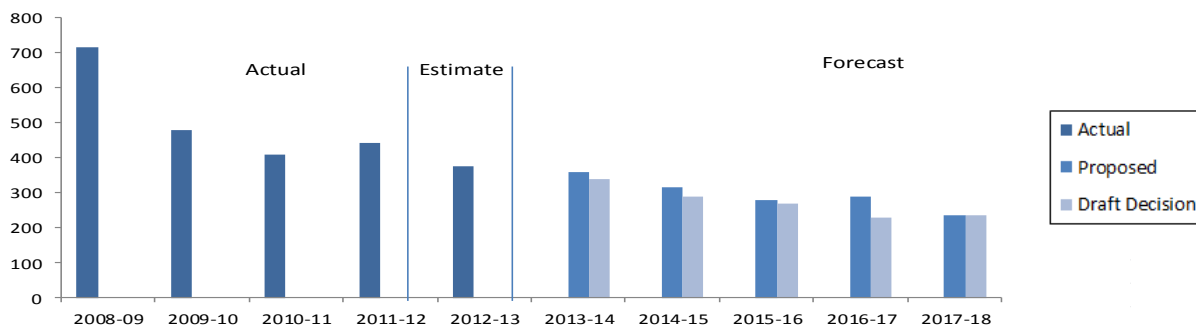
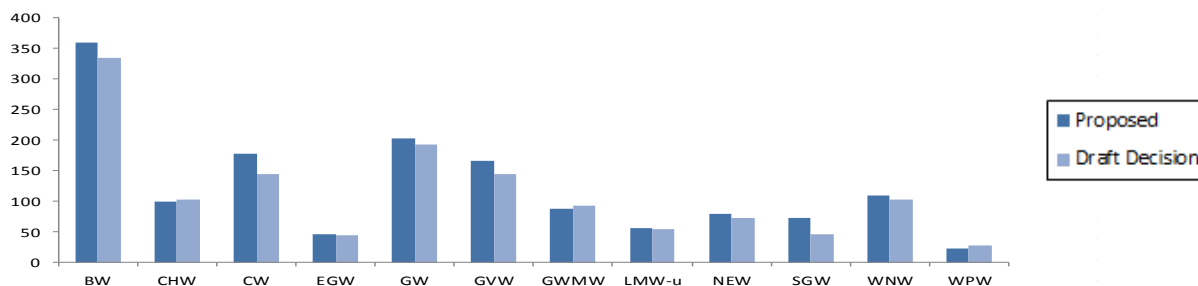


Figure 4 Businesses’ Capital Expenditure for 3rd Regulatory Period (\$m 2012-13)



BW Barwon Water, **CHW** Central Highlands Water, **CW** Coliban Water, **EGW** East Gippsland Water, **GW** Gippsland Water, **GVW** Goulburn Valley Water, **GMMW** Grampians Wimmera Mallee Water, **LMW-U** Lower Murray Water (Urban), **NEW** North East Water, **SGW** South Gippsland Water, **WNW** Wannon Water and **WPW** Westernport Water.