



Level 2, 35 Spring St
Melbourne 3000, Australia
Telephone +61 3 9651 0222
 +61 1300 664 969
Facsimile +61 3 9651 3688

METROPOLITAN MELBOURNE WATER PRICE REVIEW 2009

MELBOURNE WATER DETERMINATION – SERVICES
OTHER THAN METROPOLITAN DRAINAGE AND
DIVERSION SERVICES

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MELBOURNE WATER – SERVICES OTHER THAN METROPOLITAN DRAINAGE SERVICES AND DIVERSION SERVICES

1. General

1.1 Introduction

- (a) Clause 8 of the **WIRO** requires the Commission to either:
 - (i) approve the prices which a **regulated entity** may charge for **prescribed services** or the manner in which such prices are to be calculated or otherwise determined, as set out in the **regulated entity's Water Plan**; or
 - (ii) specify the prices which a **regulated entity** may charge for **prescribed services** or the manner in which such prices are to be calculated or otherwise determined.
- (b) On 24 June 2008, the Commission made its decision under the **WIRO** in respect of:
 - (i) the prices which Melbourne Water Corporation (trading as Melbourne Water) (ABN 81 945 386 953) (**Melbourne Water**) may charge for **prescribed services** other than **metropolitan drainage services** and **diversion services** during the **regulatory period**; and
 - (ii) the standards and conditions of service and supply which **Melbourne Water** has included in its **Water Plan**.
- (c) This Determination is made by the Commission under section 33 of the **ESC Act**, pursuant to clause 8 of the **WIRO**.
- (d) The purpose and reasons for the making of this Determination are to:
 - (i) give effect to the decision of the Commission referred to in clause 1.1(b)(i);
 - (ii) specify the prices which **Melbourne Water** may charge for **prescribed services** other than **metropolitan drainage**

services and *diversion services* during the *regulatory period* or the manner in which such prices are to be calculated or otherwise determined;

- (iii) facilitate the achievement of the Commission's objectives in the *ESC Act* and the *WI Act*; and
- (iv) reflect the requirements in the *WIRO*.

1.2 Application

This Determination applies to *Melbourne Water* and its successors and assigns in respect of the business carried on by *Melbourne Water* at the date of this Determination.

1.3 Effective period

(a) Term

This Determination takes effect on the later of the date on which notice of its making is published in the Government Gazette and 1 July 2009 and, subject to clause 1.3(b), has effect until the earlier of the date on which it is amended or revoked by a later determination or 30 June 2013.

(b) Next regulatory period

Subject to clause 2.3(b)(ii), if the Commission has not made a determination in respect of the prices to apply in the *next regulatory period* on or before 30 June 2013, the prices or the manner in which such prices are to be calculated or otherwise determined as set out in this Determination will continue to apply in respect of *prescribed services* other than *metropolitan drainage services* and *diversion services* provided by *Melbourne Water* between 1 July 2013 and the date on which the determination for the *next regulatory period* comes into effect.

1.4 Modification of time periods

The Commission may, by notice to *Melbourne Water*, extend or reduce the time by which, or the period within which, *Melbourne Water* or the Commission must comply with an obligation under this Determination.

1.5 Summary and structure

Clause 2 of this Determination specifies the prices which will apply to *prescribed services* other than *metropolitan drainage services* and

diversion services during the **regulatory period** and sets out the procedure and formula according to which prices may be adjusted during the **regulatory period** on an annual basis. Clauses 3, 4 and 5 provide for the circumstances in which prices may be adjusted during the **regulatory period** otherwise than in accordance with clause 2.

1.6 Definitions and interpretation

In this Determination, unless the contrary intention appears:

- (a) words and phrases in bold italics have the meanings given to them in part A of Schedule 1 (or, where only used within a clause, the meaning given upon their first use); and
- (b) the rules of interpretation in part B of Schedule 1 will apply.

1.7 Annexure

- (a) For convenience, annexure A to this Determination summarises:
 - (i) the assumptions underpinning the prices to apply to **Melbourne Water** during the **regulatory period** or the manner in which such prices are to be calculated or otherwise determined; and
 - (ii) the standards and conditions of services and supply which have been approved by the Commission in respect of **Melbourne Water** pursuant to the decision referred to in clause 1.1(b)(ii).
- (b) For the avoidance of doubt, annexure A does not form part of this Determination.

2. Price control

2.1 General principles

Subject to this Determination:

(a) Scheduled prices

Melbourne Water must not charge more than:

- (i) the scheduled prices in Schedule 2, during the first **regulatory year**, and
- (ii) the amount determined in accordance with clause 2.3, during each subsequent **regulatory year**,

in respect of those **prescribed services** to which the scheduled prices in Schedule 2 relate, in accordance with Schedule 3.

(b) Application principles

The application principles in Schedule 3 will apply to the prices charged by **Melbourne Water** in respect of **prescribed services** during the **regulatory period**.

(c) Pricing principles

During the **regulatory period**, **Melbourne Water** must apply the pricing principles in Schedule 3 when determining the prices to apply to the **prescribed services** to which the pricing principles in Schedule 3 relate.

2.2 Operational matters

(a) Contracts

Where **Melbourne Water** has entered into a **relevant contract** which relates to the provision of **prescribed services** prior to 1 July 2009, **Melbourne Water** may charge the prices for **prescribed services** which are set out in that **relevant contract** until its expiration, termination or a periodic review of the prices set out in the contract. Once a **relevant contract** has expired or been terminated or the prices in a **relevant contract** have been subject to a periodic review, the scheduled prices in Schedule 2 (as adjusted in accordance with this Determination) or the prices determined in accordance with the pricing principles in Schedule 3 will apply for the remainder of the **regulatory period**.

(b) Dispute Resolution

Any question as to whether a price has been set in accordance with this Determination will be determined by the Commission on the basis of the Commission's interpretation of this Determination.

(c) Publication

Melbourne Water must publish a list of its current prices and pricing principles for **prescribed services**, and all relevant supporting information that is relied upon to apply the prices or pricing principles, on its website at all times during the **regulatory period** and must provide a written copy of the list to its customers on request. To the extent permissible under the *Trade Practices Act 1974* (Cth), the list must clearly indicate in respect of each

price, the amount determined in accordance with this Determination, the amount of GST payable and the total price.

(d) GST

Melbourne Water will not be considered to be in contravention of this Determination if a price charged by it for a **prescribed service** exceeds the amount applying under this Determination only by reason of the levying of a charge on account of **GST**.

2.3 Annual adjustment of prices

(a) Adjustment

Subject to Schedule 2, the scheduled prices in Schedule 2 will be adjusted in each subsequent **regulatory year** in the **regulatory period** in accordance with the formula in clause 2.3(b)(i) and the procedure in clause 2.3(c), and will apply to the **prescribed services** to which the scheduled prices in Schedule 2 relate in that **regulatory year**.

(b) Formula

- (i) Subject to Schedule 2, each price for the **prescribed services** referred to in clause 2.3(a) will be adjusted in accordance with the following formula with effect from the beginning of each subsequent **regulatory year** in the **regulatory period**:

$$P_t = P_{t-1} * CPI_t * (1 + PPM_t)$$

where:

P_t is the price component for **regulatory year t**

P_{t-1} is the price component for **regulatory year t-1**

CPI_t for the particular **regulatory year** is:

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March quarter immediately preceding the start of the relevant **regulatory year**

divided by

the Consumer Price Index: All Groups Index for the Eight Capital Cities as published by the Australian Bureau of Statistics for the March

quarter immediately preceding the March quarter referred to above

PPM_t is the prescribed price movement for the price component for **regulatory year** t determined in accordance with Schedule 2.

- (ii) If the Commission has not made a determination in respect of the prices to apply in the **next regulatory period** on or before 30 June 2013, PPM_t will be set equal to zero for the purpose of adjusting prices in accordance with the formula in clause 2.3(b)(i) for **regulatory years** commencing on or after 1 July 2013 until the date on which this determination is amended or revoked by a later determination.

(c) Adjustment procedure

- (i) At least 30 **business days** prior to the commencement of each subsequent **regulatory year** in the **regulatory period, Melbourne Water** must submit its calculation of maximum prices for the **prescribed services** referred to in clause 2.3(a) to apply in that subsequent **regulatory year** (the **revised scheduled prices**) to the Commission for approval, together with sufficient information to enable the Commission to assess whether those maximum prices comply with this Determination.
- (ii) The Commission will approve the **revised scheduled prices** if it considers that they have been calculated in accordance with the formula set out in clause 2.3(b)(i).
- (iii) The Commission will be deemed to have approved the **revised schedule prices** if it has not provided notice under clause 2.3(c)(iv) to **Melbourne Water** within 20 **business days** from the date of its receipt of the submitted calculation of the **revised scheduled prices**.
- (iv) If the Commission does not approve the **revised scheduled prices**, the Commission:
 - (A) will provide notice to **Melbourne Water** (including a statement of its reasons);
 - (B) may request **Melbourne Water** to provide any additional information specified by the Commission;

- (C) will take any additional information provided by **Melbourne Water** into account; and
- (D) will determine the **revised scheduled prices**.

2.4 Price changes during a billing period

(a) Application of this clause

This clause 2.4 applies where **Melbourne Water** issues an invoice in respect of a billing period during which a change to any price for a **prescribed service** comes into effect in accordance with this Determination.

(b) Method of charging

Melbourne Water must not charge the prices determined in accordance with this Determination in respect of any part of a billing period prior to the effective date of the change, but may charge for **prescribed services** in respect of the periods before and after the effective date of the change at the prices applicable for each of those periods on a pro-rata basis.

2.5 Reporting requirements

- (a) **Melbourne Water** must make available to the Commission all information reasonably requested by the Commission from time to time for the purpose of enabling it to confirm that **Melbourne Water** is complying with this Determination.
- (b) Without limiting clause 2.5(a), if, during the **regulatory period**, **Melbourne Water** enters into a **new contract** which relates to the provision of a **prescribed service** to which the pricing principles in Schedule 3 relate, **Melbourne Water** must, within 30 **business days** of the date of the **new contract**, provide the Commission with a notice specifying:
 - (i) details of the **new contract**, and
 - (ii) information which demonstrates the way in which the prices in the **new contract** reflect the relevant pricing principles.

- (c) Without limiting clause 2.5(a), if **Melbourne Water** proposes to stop providing a **prescribed service** or refuses to provide a **prescribed service** to a customer, or potential customer, during the **regulatory period**, it must:
- (i) in the case of a proposal to stop providing a **prescribed service**, provide a notice to the Commission stating the nature of the **prescribed service** which it proposes to stop providing and the reason why it proposes to stop providing the **prescribed service**. This notice must be provided at least 30 **business days** prior to the date upon which **Melbourne Water** proposes to stop providing the **prescribed service**; and
 - (ii) in the case of a refusal to provide a **prescribed service** to a customer, or potential customer, **Melbourne Water** must provide a notice to the Commission within 5 **business days** of the refusal, stating the nature of the **prescribed service** and the reason for the refusal.

3. Amendment of Schedule 2

- (a) **Amendment proposals**
- (i) **Melbourne Water** may apply to the Commission in accordance with this clause 3 for the amendment of the prescribed price movements and/or price components included in Schedule 2 for the following **regulatory year** (the **relevant regulatory year**) and all subsequent **regulatory years** remaining in the **regulatory period** (the **revised tariff schedule**).
 - (ii) The average price movement for the **relevant regulatory year** and for each subsequent **regulatory year** in the **regulatory period** determined in accordance with the **revised tariff schedule** must not exceed the average price movement that would otherwise have applied under this Determination as calculated in accordance with the following formula.

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m ap_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}, i = 1, \dots, n; j = 1 \dots m$$

where **Melbourne Water** has n tariff categories, which each have up to m tariff components, and where, for each **regulatory year** t for which the calculation is undertaken:

p_{t-1}^{ij} is the tariff charged in **regulatory year** $t-1$ for component j of tariff i

p_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is not applied

ap_t^{ij} is the proposed tariff for component j of tariff i determined in accordance with Schedule 2 where the **revised tariff schedule** is applied

q_{t-2}^{ij} is the quantity of component j of tariff i that was sold in **regulatory year** $t-2$, or, if an actual quantity is not available, either an estimate of the quantity of component j of tariff i that would have been sold in **regulatory year** $t-2$ or a forecast of the quantity of component j of tariff i that is expected to be sold in **regulatory year** $t-2$

(b) Amendment procedure

(i) An application by **Melbourne Water** under this clause 3 must be received by the Commission at least 80 **business days** prior to the commencement of the **relevant regulatory year** and must be accompanied by the following information:

(A) (1) a clearly articulated new tariff strategy that is consistent with the regulatory

principles in clause 14(1)(a) of the **WIRO** (the **revised tariff strategy**); or

(2) an explanation of how the **revised tariff schedule** is consistent with the tariff strategy for **Melbourne Water** approved by the Commission in connection with this Determination,

(the **relevant tariff strategy**);

- (B) a **revised tariff schedule** that specifies proposed prices for the **relevant regulatory year** and prescribed price movements for each subsequent **regulatory year** in the **regulatory period** that is consistent with the **relevant tariff strategy**;
 - (C) a statement setting out evidence demonstrating that **Melbourne Water** has provided information to its customers explaining the **revised tariff schedule** and how it relates to the **relevant tariff strategy** and has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
 - (D) a statement setting out the customer impacts resulting from the **revised tariff strategy** and actions proposed by **Melbourne Water** to address these customer impacts; and
 - (E) an explanation of the calculation of the relevant quantities “ q_{t-2}^{ij} ”.
- (ii) The Commission **Melbourne West Water** under this clause 3 if it is satisfied that:
- (A) **Melbourne Water** has complied with clause 3(b)(i)(A);
 - (B) the average price movements calculated in accordance with the **revised tariff schedule** comply with the formula in clause 3(a)(ii);
 - (C) the **revised tariff schedule** is consistent with the **relevant tariff strategy**;

- (D) **Melbourne Water** has consulted effectively with its customers on the **revised tariff strategy** (if clause 3(b)(i)(A)(1) applies) and the **revised tariff schedule**;
 - (E) **Melbourne Water** has effectively addressed customer impacts resulting from the **revised tariff schedule**; and
 - (F) the basis for calculating the relevant quantities “ q_{t-2}^{ij} ” is reasonable.
- (iii) In determining whether it will approve the **revised tariff schedule**, the Commission may request **Melbourne Water** to provide any additional information specified by the Commission and/or to resubmit any of the matters in clause 3(b)(i)(A)-(E).
 - (iv) For the avoidance of doubt, the Commission will be deemed to have not approved a **revised tariff schedule** if it has not provided notice to **Melbourne Water** within 40 **business days** from the date of its receipt of **Melbourne Water’s** application under this clause 3.
 - (v) An approved **revised tariff schedule** will be taken to amend Schedule 2 to the extent of any inconsistency.

4. Uncertain or unforeseen events

4.1 General principle

- (a) **Melbourne Water** may apply to the Commission for the amendment of this Determination and/or the adjustment of the scheduled prices in Schedule 2 to reflect increased or decreased costs incurred by **Melbourne Water** and/or increased or decreased revenue received by **Melbourne Water** as a result of events which were uncertain or unforeseen at the time this Determination was made (an **uncertain events application**).
- (b) The Commission may take action under clause 4.3(b) in respect of an **uncertain events application** where the Commission is satisfied that such action is necessary or desirable to take account of events that were uncertain or unforeseen at the time of making

this Determination provided that the Commission is satisfied that such action takes into account the interests of customers.

4.2 Consideration by the Commission

(a) Examples of uncertain and unforeseen events

The matters that may, at the discretion of the Commission, be taken into account by the Commission under this clause 4 include:

- (i) actual licence fees or contributions payable by **Melbourne Water** during a particular **regulatory year** during the **regulatory period** under section 51 of the *Safe Drinking Water Act 2003* (Vic), section 24 of the *Environment Protection Act 1970* (Vic) and section 4H(2) of the **WI Act** which differ from the forecast licence fees or contributions set out in annexure A for that **regulatory year**;
- (ii) changes in the timing or scope of expenditure by **Melbourne Water** on major projects;
- (iii) instances where the Commission is satisfied that there is a material difference between the forecast demand levels set out in annexure A and actual demand levels for **Melbourne Water** in one or more **regulatory years** during the **regulatory period**; and
- (iv) a change in or to any of the following:
 - (A) the **WI Act**, the *Water Act 1989* (Vic), the *Safe Drinking Water Act 2003* (Vic), the *State Owned Enterprises Act 1992* (Vic) and the *Environment Protection Act 1970* (Vic) or regulations made under any of them;
 - (B) any licence issued pursuant to any of the Acts referred to in clause 4.2(a)(iv)(A);
 - (C) a **relevant tax**; or
 - (D) the Statement of Obligations, or
 - (E) the introduction of a national emissions trading scheme or other scheme relating to the reduction of greenhouse gas emissions.

(b) Exclusions

In considering an *uncertain events application*, the Commission will not take into account matters that:

- (i) are or should be within *Melbourne Water's* control;
- (ii) were or should have been known by *Melbourne Water* at the time the Determination was made;
- (iii) could reasonably have been foreseen by *Melbourne Water*;
- (iv) should be or should have been planned for or managed by *Melbourne Water*, and/or
- (v) reflect inefficient expenditure by *Melbourne Water*.

(c) Dispute resolution

Any question as to whether a matter should be taken into account by the Commission under this clause 4 will be determined by the Commission in its absolute discretion.

4.3 Procedure

(a) Application process

- (i) An *uncertain events application* must be accompanied by a statement setting out:
 - (A) the details of the relevant uncertain or unforeseen event;
 - (B) the amount and timing of any increase or decrease in operating and/or capital expenditure associated with the relevant event during the *regulatory period* and/or the amount and timing of any increase or decrease in revenue associated with the relevant event during the *regulatory period*;
 - (C) the basis for calculating the increase or decrease in operating and/or capital expenditure and/or revenue referred to in clause 4.3(a)(i)(B); and
 - (D) details of the proposed action to be taken by the Commission under clause 4.3(b).
- (ii) The Commission may identify an event or events which it considers has had or may have a material impact on

Melbourne Water's operating and/or capital expenditure and/or revenue and may decide to take action under clause 4.3(b) in the absence of an **uncertain events application** by **Melbourne Water**.

- (iii) The Commission may request **Melbourne Water** to provide any additional information specified by the Commission in connection with an **uncertain events application**.

(b) Action by the Commission

If the Commission is satisfied about the matters set out in clause 4.1(b) in respect of an **uncertain events application**, the Commission may, in its absolute discretion:

- (i) amend this Determination or adjust the scheduled prices in Schedule 2 with effect from **regulatory year** t at the same time as prices are adjusted pursuant to clause 2.3; or
- (ii) take the **uncertain events application** into account in making its determination in respect of the prices which **Melbourne Water** may charge for **prescribed services** in the **next regulatory period**.

5. Material error and unintended consequences

Where the Commission is satisfied that:

- (a) there is a manifest and material error in this Determination;
- (b) any information on which this Determination was based was false or misleading in a material respect; or
- (c) such amendment or adjustment is necessary or desirable to avoid an unintended consequence of this Determination,

the Commission may decide to amend this Determination and/or specify a price adjustment, provided that it is satisfied that such amendment and/or price adjustment takes into account the interests of customers.

Schedule 1 – Definitions and Interpretation

A. Definitions

business day means a day on which banks are open for general banking business in Melbourne, not being a Saturday or a Sunday.

diversion services has the meaning given in the *WIRO*.

ESC Act means the *Essential Services Commission Act 2001* (Vic).

GST has the meaning given in section 195-1 of the *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

metropolitan drainage services has the meaning given in the *WIRO*.

miscellaneous services means services that are provided in direct connection with **prescribed services**, prices in respect of which are either included in Schedule 2 or determined in accordance with the relevant pricing principles in Schedule 3.

new contract means any contract for **prescribed services** which is renewed, renegotiated or entered into during the **regulatory period**.

next regulatory period means the period commencing on 1 July 2013 and ending on a date specified by the Commission.

prescribed services has the meaning given in the *WIRO* and may include **miscellaneous services**.

regulated entity has the meaning given in the *WIRO*.

regulatory period means the period commencing on 1 July 2009 and ending on 30 June 2013.

regulatory year means each period of twelve months commencing on 1 July and ending on 30 June.

relevant contract means a contract which relates to the provision of **prescribed services**.

relevant tax means any tax imposed by or payable directly or indirectly to any authority of the Commonwealth of Australia (including **GST**) but excluding:

- (a) the licence fees referred to in clause 4.2 of this Determination;
- (b) penalties and interest for late payment of any tax; or

- (c) any tax that replaces any of the taxes referred to in (a) and (b), where tax includes any rate, duty, charge or other like or analogous impost.

Water Plan has the meaning given in the **WIRO**.

WI Act means the *Water Industry Act 1994* (Vic).

WIRO means the Water Industry Regulatory Order 2003 as at 30 June 2008.

B. Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or schedule is a reference to a clause of or schedule to, this document.
- (e) A reference to a determination, agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.
- (i) The symbol ' Σ ' requires a summation to be performed over the range of variables specified in respect of the algebraic terms specified.

- (j) All data which is utilised in calculations made under this Determination will be utilised to the accuracy, in terms of the number of decimal places, to which it is given.
- (k) A fixed price, charge or fee determined in accordance with this Determination is to be rounded down and specified to two decimal places.
- (l) A volumetric price, charge or fee determined in accordance with this Determination is to be rounded down and specified to four decimal places.
- (m) When a calculation is required under this document:
 - (i) **regulatory year 't'** is the **regulatory year** in respect of which the calculation is being made;
 - (ii) **regulatory year 't-1'** is the **regulatory year** immediately preceding **regulatory year 't'**;
 - (iii) **regulatory year 't-2'** is the **regulatory year** immediately preceding **regulatory year 't-1'**.

Schedule 2 – Prices for prescribed services other than metropolitan drainage services and diversion services

This schedule should be read in conjunction with Schedule 3 and Schedule 4. Variable water, wastewater and trade waste charges are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places.

<i>Tariff and Price Component</i>	<i>Price (1 July 2009)</i>	<i>PPM Year 1</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>
1.1 Storage operator and bulk water service charges - headworks (per month)				
City West Water	1,735,321.66	15.20%	27.57%	27.57%
South East Water	2,359,534.84	15.20%	27.57%	27.57%
Yarra Valley Water	2,631,579.24	15.20%	27.57%	27.57%
Western Water	163,258.19	24.11%	24.10%	24.10%
Gippsland Water	97.34	16.00%	16.00%	16.00%
Storage operator and bulk water service charges - transfer (per month)				
City West Water	473,294.97	15.20%	27.57%	27.57%
South East Water	880,400.95	15.20%	27.57%	27.57%
Yarra Valley Water	1,255,324.37	15.20%	27.57%	27.57%
Western Water	81,959.55	24.11%	24.10%	24.10%
Gippsland Water	685.49	16.00%	16.00%	16.00%
1.2 Storage operator and bulk water usage charges - headworks (per ML)				
City West Water	471.34	15.20%	27.57%	27.57%
South East Water	471.34	15.20%	27.57%	27.57%
Yarra Valley Water	471.34	15.20%	27.57%	27.57%
Western Water	471.34	15.20%	27.57%	27.57%
Gippsland Water	97.34	16.00%	16.00%	16.00%
Storage operator and bulk water usage charges - transfer (per ML)				
City West Water	136.27	15.20%	27.57%	27.57%
South East Water	115.78	15.20%	27.57%	27.57%
Yarra Valley Water	92.21	15.20%	27.57%	27.57%
Western Water	91.19	24.11%	24.10%	24.10%

<i>Tariff and Price Component</i>	<i>Price (1 July 2009)</i>	<i>PPM Year 1</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>
1.3 Bulk sewerage service charges (per month)				
City West Water	3,629,170.66	15.20%	27.57%	27.57%
South East Water	5,509,922.44	15.20%	27.57%	27.57%
Yarra Valley Water	6,050,092.93	15.20%	27.57%	27.57%
1.4 Bulk sewerage usage charges – Volume (per ML)				
Eastern system	291.00	15.20%	27.57%	27.57%
Western system	181.36	15.20%	27.57%	27.57%
1.5 Bulk sewerage usage charges - Load, Major trade waste (per tonne)				
Biochemical oxygen demand – eastern system	350.43	15.20%	27.57%	27.57%
Biochemical oxygen demand – western system	10.24	15.20%	27.57%	27.57%
Suspended solids – eastern system	193.66	15.20%	27.57%	27.57%
Suspended solids – western system	2.05	15.20%	27.57%	27.57%
Total kjeldahl nitrogen - eastern system	724.43	15.20%	27.57%	27.57%
Total kjeldahl nitrogen - western system	171.11	15.20%	27.57%	27.57%
Organic total dissolved solids - eastern system	18.44	18.20%	18.20%	18.20%
Inorganic total dissolved solids - western system	18.44	18.20%	18.20%	18.20%

Schedule 3 – Pricing principles

3.1 Recycled water pricing principles

Recycled water prices should be set so as to:

- have regard to the price of any substitutes and customers' willingness to pay;
- cover the full cost of providing the service (with the exception of services related to specified obligations or maintaining balance of supply and demand); and
- include a variable component.

Where **Melbourne Water** does not propose to fully recover the costs associated with recycled water, it must demonstrate to the Commission that:

- it has assessed the costs and benefits of pursuing the recycled water project;
- it has clearly identified the basis on which any revenue shortfall is to be recovered; and
- if the revenue shortfall is to be recovered from non-recycled water customers, either the project is required under the Statement of Obligations which applies to **Melbourne Water** or pursuant to other Government policies that apply to **Melbourne Water** or there has been consultation with the affected customers about their willingness to pay for the benefits of increased recycling.

3.2 Pricing principles where scheduled prices do not apply

Where the prices set out in Schedule 2 do not apply because the nature of the service provided to a particular customer (including, in the case of trade waste customers, the volume or load of waste treated) is unique, prices must be set as follows:

- variable prices (including, in the case of trade waste customers, load-based charges) should reflect the long run marginal cost (LRMC) of providing services (including, in the case of trade waste customers, trade waste transfer, treatment and disposal);
- the total revenue received from each customer should be greater than the cost that would be avoided from ceasing to serve that customer, and (subject to meeting avoidable cost) less than the stand alone cost of providing the service to the customer in the most efficient manner;
- the methodology used to allocate common and fixed costs to that customer should be clearly articulated and be consistent with any guidance provided by the Commission;
- prices should reflect reasonable assumptions regarding the customer's demand for services (including, in the case of trade waste customers, the

volume and strength of trade waste anticipated to be produced by that customer);

- depreciation rates and rates of return used to determine prices should be consistent with those adopted by the Commission for the purposes of making this Determination;
- customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any Determination made by the Commission;
- where applying these principles results in significant changes to prices or tariff structures, arrangements for phasing in the changes may be considered and any transitional arrangements should be clearly articulated.

3.3 Pricing principles for miscellaneous services not included in Schedule 2

Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost;
- direct marginal internal costs, including labour, materials and transport costs; and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

3.4 Guidelines

Melbourne Water must comply with any guidelines issued by the Commission from time to time which relate to the setting of prices for **prescribed services** to which Schedule 3 relates.

**The Common Seal of the
Essential Services Commission**
was affixed to this Determination
with the authority of the
Commission.

Date: 26 June, 2009



A handwritten signature in black ink, appearing to be 'R. Ben-David', written over a horizontal line.

Dr Ron Ben-David
Chairperson

Annexure A

Table 1 **Service standards**

<i>Service standard</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Water				
Aggregated water pressure compliance with Bulk Service Arrangements at interface points (per cent)	99.6	99.6	99.6	99.6
Aggregated water quality compliance with Bulk Service Arrangements at interface points (per cent)				
Micro-biological standards (<i>E.coli</i>)	100	100	100	100
Disinfection by-products (Trihalomethanes and chloracetic acids)	100	100	100	100
Aesthetic standards (turbidity)	91.5	91.5	91.5	91.5
Aesthetic standards (aluminium)	100	100	100	100
Leakage (percentage of water supplied)	<1	<1	<1	<1
Sewerage				
Sewer spills and overflows (number)				
System failure	0	0	0	0
Hydraulic deficiency				0 ^a
Odour complaints ^b	10	10	10	10

Note Data rounded to one decimal place. ^a Melbourne Water will pursue a progressive target towards zero spills over the period. ^b Relates to odour complaints in the sewerage transfer system. Melbourne Water proposed no offensive odours beyond the boundaries of the Western Treatment Plant and the Eastern Treatment Plant.

Table 2 **Weighted average cost of capital**
(per cent)

<i>Post tax WACC</i>	<i>Implied pre-tax WACC</i>
5.1	5.4

Table 3 **Benchmark revenue requirement**
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	196.34	201.36	405.66	613.45
Return on existing assts	219.73	214.28	210.06	205.84
Return on new investments	67.61	105.74	126.62	134.74
Regulatory depreciation	90.41	100.54	108.53	116.95
Tax liability	18.32	19.38	22.40	23.60
Total	592.40	641.31	873.28	1,094.58

Table 4 **Updated regulatory asset base**
\$ million in January 2009 prices

	2004-05	2005-06	2006-07	2007-08
Opening RAB	3 922.56	3 990.45	4 053.84	4 162.21
<i>Plus</i> Gross capital expenditure	139.34	139.38	187.28	373.53
<i>Less</i> Government contributions	0.00	0.00	0.00	0.00
<i>Less</i> Customer contributions	0.00	0.00	0.00	0.00
<i>Less</i> Proceeds from disposals	1.96	3.87	4.50	1.06
<i>Less</i> Regulatory depreciation	69.48	72.13	74.41	77.37
Closing RAB	3 990.45	4 053.84	4 162.21	4 457.31

Table 5 **Rolled forward regulated asset base**
\$ million in January 2009 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	4 457.31	5 233.02	6 034.97	6 515.00	6 688.04
<i>Plus</i> Gross capital expenditure	860.49	946.58	580.60	287.62	97.15
<i>Less</i> Government contributions	0.00	0.00	0.00	0.00	0.00
<i>Less</i> Customer contributions	0.00	0.00	0.00	0.00	0.00
<i>Less</i> Proceeds from disposals	2.23	54.23	0.02	6.05	0.02
<i>Less</i> Regulatory depreciation	82.54	90.41	100.54	108.53	116.95
Closing RAB	5 233.02	6 034.97	6 515.00	6 688.04	6 668.21

Table 6 **Approved licence fee and environmental contribution assumptions**
\$ million in January 2009 prices

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Essential Services Commission licence fee	0.35	0.35	0.35	0.53
Environment Protection Authority licence fee	0.89	0.89	0.89	0.89
Department of Human Services licence fee	0.18	0.18	0.18	0.18
Environmental contribution	0.0	0.0	0.0	0.0

Table 7 **Bulk water and sewerage volumes**

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Water volumes				
City West Water	94 682	97 874	98 931	98 144
South East Water	124 634	135 357	137 217	145 130
Yarra Valley Water	138 991	143 710	144 168	147 574
Total	358 308	376 941	380 317	390 847
Sewerage volumes				
City West Water	61 887	64 179	65 400	64 980
South East Water	93 635	104 065	105 360	109 995
Yarra Valley Water	96 248	96 615	99 893	100 906
Total	251 769	264 859	270 653	275 882

Note: Sewerage volumes for City West Water and Yarra Valley Water do not include trade waste volumes.

Table 8 **Key capital projects**

	<i>Expected completion date</i>
Sugarloaf pipeline	2009-10
Eastern Treatment Plant – Tertiary treatment	2012-13
Northern Sewerage Project	2011-12
Melbourne main sewer	2011-12
Western Treatment Plant – Wet weather upgrade	2011-12
Werribee Aqueduct	2009-10
Sludge handling at Winneke Treatment Plant	2010-11
Desalination interconnection works	2010-11