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2008 WATER PRICE REVIEW

MELBOURNE WATER DETERMINATION –
METROPOLITAN DRAINAGE SERVICES AND
DIVERSION SERVICES

1 JULY 2008 – 30 JUNE 2013

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MELBOURNE WATER – 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 20 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 81 945 386 943) (**Melbourne Water**) may charge for **metropolitan drainage services** and **diversion services** during the **regulatory period**; and
 - (ii) the standards and conditions of service and supply in respect of **metropolitan drainage services** and **diversion services** 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 **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 2008 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 **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 **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; 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 in respect of **metropolitan drainage services** and **diversion services** 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 in respect of **metropolitan drainage services** and **diversion services** additional to those specified in the **Code** which will be provided by **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 **metropolitan drainage services** and **diversion services** to which the scheduled prices in Schedule 2 relate.

(b) Application principles

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

(c) Pricing principles

During the **regulatory period**, **Melbourne Water** must apply the pricing principles in Schedule 4 when determining the prices to apply to the **metropolitan drainage services** and **diversion services** to which the pricing principles in Schedule 4 relate.

2.2 Ancillary matters

(a) Contracts

Where **Melbourne Water** has entered into a contract (a **relevant contract**) which relates to the provision of **metropolitan drainage services** and **diversion services** prior to 1 July 2008, **Melbourne Water** may charge the prices for **metropolitan drainage services** and **diversion 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 4 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 schedule of its current prices and pricing principles for **metropolitan drainage services** and **diversion 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 schedule to its customers on request. To the extent permissible under the *Trade Practices Act 1974* (Cth), the schedule 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 **metropolitan drainage service** or **diversion service** exceeds the amount determined in accordance with clause 2 only by reason of the levying of a charge on account of **GST**.

2.3 Annual adjustment of prices

(a) **Adjustment**

(i) 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 **metropolitan drainage services** and **diversion 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 **metropolitan drainage services** and **diversion 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 proposed prices for the **metropolitan drainage services** and **diversion services** referred to in clause 2.3(a) to apply in that subsequent **regulatory year** (the **revised prices**) to the Commission for approval, together with sufficient information to enable the Commission to assess whether the proposed prices comply with this Determination.
- (ii) The Commission will approve the **revised 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 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 **revised prices**.

- (iv) If the Commission does not approve the **revised 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 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 **metropolitan drainage service** or **diversion 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 **metropolitan drainage services** and **diversion 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 **metropolitan drainage service** or **diversion service** to which the pricing principles in Schedule 4 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 **metropolitan drainage service** or **diversion service** or refuses to provide a **metropolitan drainage service** and **diversion service** to a customer, or potential customer, during the **regulatory period**, it must:
- (i) in the case of a proposal to stop providing a **metropolitan drainage service** or **diversion service**, provide a notice to the Commission stating the nature of the **metropolitan drainage service** or **diversion service** which it proposes to stop providing and the reason why it proposes to stop providing the service. This notice must be provided at least 30 **business days** prior to the date upon which **Melbourne Water** proposes to stop providing the service; and
 - (ii) in the case of a refusal to provide a **metropolitan drainage service** or **diversion 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 service and the reason for the refusal.

3. Amendment of Schedule 2

(a) **Amendment**

- (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(i)(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 schedule** 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 may approve the **revised tariff schedule** submitted by **Melbourne 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) 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.

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 capital 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);
- (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 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 of 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. Other adjustments during regulatory period

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.

Code means the *Customer Service Code Metropolitan Retail and Regional Water Businesses* made under the **WI Act**.

developer charge has the meaning given in the **WIRO**.

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 4.

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 includes **miscellaneous services**.

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

regulatory period means the period commencing on 1 July 2008 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

This schedule should be read in conjunction with Schedule 3 and Schedule 4.

Rates in \$NAV are rounded down to 4 decimal places. All other charges are rounded down to 2 decimal places

Prices for services marked with an asterisk are not subject to the adjustments pursuant to clause 2.3 of this Determination.

<i>Tariff and Price Component</i>	<i>Price (1 July 2008)</i>	<i>PPM Year 1</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>	<i>PPM Year 4</i>
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1.1 Waterways and drainage charge – All properties located within the area designated as the Urban Growth Boundary , except those indicated in 1.2

Residential					
- Minimum fee (\$ per annum)	62.08	5.5%	5.5%	5.5%	5.5%
- Rate in \$ NAV (cents per annum)	0.8252	0.0%	0.0%	0.0%	0.0%
Non-residential					
- Minimum fee (\$ per annum)	81.38	2.1%	2.1%	2.1%	2.1%
- Rate in \$ NAV (cents per annum)	0.8664	2.1%	2.1%	2.1%	2.1%

1.2 Waterways and drainage charge – All properties included in the waterway management district as a result of extending Melbourne Water’s service area in November 2005 (including all properties within the Shire of Mornington Peninsula), except those indicated in 1.3

Residential					
- Minimum fee (\$ per annum)	62.08	5.5%	5.5%	5.5%	5.5%
Non-residential					
- Minimum fee (\$ per annum)	81.38	2.1%	2.1%	2.1%	2.1%

<i>Tariff and Price Component</i>	<i>Price (1 July 2008)</i>	<i>PPM Year 1</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>	<i>PPM Year 4</i>
1.3 Waterways charge – All properties located outside the area designated as the Urban Growth Boundary (\$ per annum), except those indicated in 1.4					
- Minimum fee (\$ per annum)	38.89	2.1%	2.1%	2.1%	2.1%
1.4 Special drainage area charge - All properties in the following parts of the area of the former Dandenong Valley and Western Port Authority as at 5 November 1991, which up to 1997, were subject to a special drainage and river improvement rate					
Koo Wee Rup - Longwarry Flood Protection District					
Division A					
- Minimum fee (\$ per annum)	56.40	See schedule 4	See schedule 4	See schedule 4	See schedule 4
- Rate in \$ NAV (cents per annum)	3.6000	See schedule 4	See schedule 4	See schedule 4	See schedule 4
Division B					
- Minimum fee (\$ per annum)	56.40	See schedule 4	See schedule 4	See schedule 4	See schedule 4
- Rate in \$ NAV (cents per annum)	2.0000	See schedule 4	See schedule 4	See schedule 4	See schedule 4
Extra fees at Patterson Lakes					
Tidal Waterways properties					
- Minimum fee (\$ per annum)	0.00	See schedule 4	See schedule 4	See schedule 4	See schedule 4
- Rate in \$ NAV (cents per annum)	0.4269	See schedule 4	See schedule 4	See schedule 4	See schedule 4
Quiet Lakes properties					
- Minimum fee (\$ per annum)	0.00	See schedule 4	See schedule 4	See schedule 4	See schedule 4
- Rate in \$ NAV (cents per annum)	0.3513	See schedule 4	See schedule 4	See schedule 4	See schedule 4
1.5 Miscellaneous services					
Property information statements					
- City West Water	4.60	0.00	0.00	0.00	0.00
- South East Water	4.60	0.00	0.00	0.00	0.00
- Yarra Valley Water	4.60	0.00	0.00	0.00	0.00

<i>Tariff and Price Component</i>	<i>Price (1 July 2008)</i>	<i>PPM Year 1</i>	<i>PPM Year 2</i>	<i>PPM Year 3</i>	<i>PPM Year 4</i>
Provision of flood level information	38.00	0.00	0.00	0.00	0.00
Provision of hydrological data					
- Storm frequency analysis for selected storm events	127.00	0.00	0.00	0.00	0.00
- Standard fee: One type of daily data from maximum of two stations	79.00	0.00	0.00	0.00	0.00
- Standard fee: One type of hourly data from a single station	79.00	0.00	0.00	0.00	0.00
- Provision of one type of 6 minute data from a single station for a period of up to 5 years	79.00	0.00	0.00	0.00	0.00
- Other requests (per hour)	127.00	0.00	0.00	0.00	0.00
Application fee for construction over Melbourne Water easements or underground pipe (\$)	165.00	0.00	0.00	0.00	0.00
Storm water connections/other authorities works (\$ per connection)					
- Application fee	122.00	0.00	0.00	0.00	0.00
- Inspection fee	336.00	0.00	0.00	0.00	0.00
Flood feasibility study (\$ per half day)					
- Flood feasibility study	650.00	0.00	0.00	0.00	0.00
Non-core miscellaneous services	Actual cost	na	na	na	na

<i>Tariff and Price Component</i>	<i>Price (1 July 2008)</i>	<i>Price (1 July 2009)</i>	<i>Price (1 July 2010)</i>	<i>Price (1 July 2011)</i>	<i>Price (1 July 2012)</i>
1.6 Diversion charges unregulated waterways (prices expressed in nominal terms)*					
Licence service fee – All months (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – On-stream winter-fill (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Off-stream winter-fill (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Licensed farm dam (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Non-consumptive (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Power generation (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Stormwater (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Plus fee per kilowatt (\$)	17.60	18.20	18.80	19.40	20.00
Charge \$ per ML – All months	14.34	17.13	20.47	24.46	29.23
Charge \$ per ML – On–stream winter-fill	7.23	8.64	10.32	12.33	14.74
Charge \$ per ML – Off–stream winter-fill	7.23	8.64	10.32	12.33	14.74
Charge \$ per ML – Licensed farm dam	7.23	8.64	10.32	12.33	14.74
Charge \$ per ML – Non-consumptive	1.31	1.46	1.60	1.75	1.90
Charge \$ per ML – Stormwater	14.34	17.13	20.47	24.46	29.23
Diversion/stormwater licence application fee (\$)	336.60	383.20	429.80	476.40	523.00
Works/construction licence application fee (\$)	565.00	590.00	615.00	640.00	665.00
Dam operating licence (\$ per annum)	65.60	68.20	70.80	73.40	76.00
Transfer of ownership (including temporary) (\$)	97.00	104.00	111.00	118.00	125.00
Transfer of ownership with dam sharing agreement (\$)	195.00	210.00	225.00	240.00	255.00
Resource assessment fee for downstream trade/transfer (\$)	336.60	383.20	429.80	476.40	523.00
Resource assessment fee for upstream or cross catchment trade/transfer (\$)	619.20	658.40	697.60	736.80	776.00
Licence renewal fee following failure to renew (Domestic and stock) (\$)	91.20	92.40	93.60	94.80	96.00

<i>Tariff and Price Component</i>	<i>Price (1 July 2008)</i>	<i>Price (1 July 2009)</i>	<i>Price (1 July 2010)</i>	<i>Price (1 July 2011)</i>	<i>Price (1 July 2012)</i>
Licence renewal fee following failure to renew (all other licences) (\$)	182.40	184.80	187.20	189.60	192.00
Reissue after Melbourne Water cancellation or breach of conditions (\$)	614.40	728.80	843.20	957.60	1,072.00
1.7 Diversion charges regulated waterways (prices expressed in nominal terms)*					
Licence service fee – All months (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Licence service fee – Off-stream winter-fill (\$ per annum)	192.00	207.00	220.00	235.00	250.00
Charge \$ per ML – All months	43.25	46.77	50.85	55.60	61.15
Charge \$ per ML – Off-stream winter-fill	7.23	8.64	10.32	12.33	14.74
Diversion licence application fee (\$)	336.60	383.20	429.80	476.40	523.00
Works/construction licence application fee (\$)	565.00	590.00	615.00	640.00	665.00
Transfer of ownership along Maribyrnong River (includes temporary) (\$)	97.00	104.00	111.00	118.00	125.00
Licence renewal fee following failure to renew (Domestic and Stock) (\$)	91.20	92.40	93.60	94.80	96.00
Licence renewal fee following failure to renew (all other licences) (\$)	182.40	184.80	187.20	189.60	192.00
Reissue after Melbourne Water cancellation or breach of conditions (\$)	614.40	728.80	843.20	957.60	1,072.00

Schedule 3

Application of prices

3.1 Waterways and drainage charges

Waterways and drainage charges are applied to all rateable properties (as defined in the Local Government Act (1989)) located within Melbourne Water's existing and extended service areas.

Charges in the existing service areas are based on 1990 property values and are subject to a minimum fee. The relevant property value is Net Annual Value (NAV), as determined for the purposes of the Local Government Act (1989), multiplied by the valuation equalisation factor applying to the area in which the property is located. The valuation equalisation factor is determined by the Valuer General and represents the level of value prevailing in property areas as at 30 June 1990. In Patterson Lakes, the relevant property value for the extra fees paid by customers is Site Value (SV), as determined for the purposes of the Local Government Act (1989).

The minimum fee will be applied to all new residential properties that come into existence in the existing service areas from 1 July 2008 and are included under tariff 1.1, Schedule 2.

In the extended areas, the minimum fee will be applied to all residential and non-residential properties in respect of each separate occupancy, as defined in the Local Government Act (1989), and included under tariff 1.2, Schedule 2.

A 'residential property' means:

- A property used or intended to be used primarily as a residence or residences
- In the case of vacant land, land zoned for residential purposes.

A minimum fee reflecting only waterway management costs will be applied to properties located outside the Urban Growth Boundary (in both the existing and extended service areas) except those included under tariff 1.4, Schedule 2.

3.2 Miscellaneous fees and charges

Property information statements – provided consistent with section 158 of the Water Act 1989.

Provision of flood level information – provision of a flood level certificate in PDF format within 10 days of receiving a request under section 264 of the Water Act 1989.

Provision of hydrological data – stream flow, levels, storm intensity and rainfall in hardcopy or digital format within 10 days of receiving a request.

*Application fee for construction over **Melbourne Water** easements or underground pipe* – costs of processing development proposals that involve construction over **Melbourne Water** easements.

Storm water connections – **Melbourne Water** requires all new stormwater connections to be made to the local council system. Where this is not possible a stormwater connection application must be made to **Melbourne Water** under section 145 of the Water Act 1989.

Flood feasibility study – **Melbourne Water's** assistance in determining the most appropriate drainage works that would be required to service a development.

Schedule 4

Pricing principles

4.1 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.

4.2 Developer charges, drainage schemes

Consistent with principles for defining a drainage scheme agreed with the development industry, **developer charges** will be calculated by:

- identifying future capital expenditure for each year of the expected life of the scheme;

- identifying forecast developable hectares for each year using an estimate of development density;
- applying a pre-tax real discount rate (consistent with that determined by the Commission) to convert future cash flows into present value terms;
- setting the **developer charge** such that the present value of future income equals the present value of future costs, where future income is equal to the developable hectares in each year multiplied by the **developer charge**;
- reviewing the financial assumptions relating to each scheme on an annual basis and reviewing engineering specifications every five years.

4.3 Developer charges, stormwater quality

- The stormwater quality charges comprise a Scheme Stormwater Quality Charge and a General Stormwater Quality Charge and reflect the nitrogen discharged by the scheme relative to the minimum standard.
- The Scheme Stormwater Quality Charge is scheme-specific and recovers the cost of scheme-related stormwater quality initiatives.
- The General Stormwater Quality Charge is equal to the average cost for nitrogen removal as identified by Melbourne Water's regional stormwater quality improvement program.
- Both charges are applied to the mass of nitrogen discharged, relative to the required minimum standard.
- Where a development does not meet the minimum standard, stormwater quality charges will apply. Where on-site stormwater treatment is undertaken, the developer will receive an offset of up to the full amount of their Stormwater Quality Charges.
- Charges for Greenfield Schemes will be based on on-site works undertaken by the developer, the General Stormwater Quality Charge and Scheme Stormwater Quality Charges.
- Charges for redevelopment schemes and non-scheme area developments will be based on on-site works and the General Stormwater Quality Charge.

4.4 Special drainage area pricing principles

- a) The principles in 4.4(b) apply to the establishment of prices for 2009-10 to 2012-13 in the following parts of the former Dandenong Valley and Western Port Authority as at 5 November 1991, which up to 1997, were subject to a special drainage and river improvement rate:
 - Koo Wee Rup - Longwarry Flood Protection District;
 - Patterson Lakes (including Tidal Waterways and Quiet Lakes area);
- b) In proposing prices to apply to customers in the above areas in 2009-10 to 2012-13 Melbourne Water must:

- consult with the respective customer committees in each special drainage area on the prices to apply in subsequent regulatory years of this regulatory period. In doing so, it must provide members of the committees with details of:
 - the activities proposed to be undertaken over the forthcoming year;
 - detailed forecasts of the efficient level of expenditure that is directly related to those activities; and
 - proposed prices and estimated revenue for each special drainage area;
- 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; and
- 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 processes.

4.5 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.

4.6 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 4 relates.

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



Date: 25th June, 2008

A handwritten signature in black ink, appearing to read "G. Wilson".

Greg Wilson
Chairperson

Annexure A

Table 1 **Additional service standards**
Regional River Health Strategy Targets

<i>Activity</i>	<i>5 year target</i>
Number of rivers with negotiated environmental flow regimes	12
Number of rivers with improvements made to environmental flow regimes	17
Area of streamside land under management agreements	10km ²
Length of streamside land revegetated	1 026 km
Number of fish barriers removed	31
Length of riparian land subject to weed management	2 042 km
Number of plans developed for rivers and creeks of high social value	15
Rivers where heritage values are protected or improved	34
Number of plans developed for rivers and creeks of high environmental value	11
Number of investigations to fill data gaps in rivers or creeks	55
Number of sites subject to bed and bank stabilisation	55
Number of Index of River Condition (IRC) reaches with instream habitat reinstated	12

Table 2 **Additional service standards**
Customer Charter Service Targets

<i>Activity</i>	<i>5 year target</i>
Applications for surface diversion licences determined within 60 days	90%
Permanent transfer of surface diversion licences processed within 30 days	90%
Temporary trade of water entitlement volumes processed within 60 days	90%
Permanent trade of water entitlement volumes processed within 60 days	90%

Table 3 **Additional service standards**
Waterways Water Quality Strategy Targets

<i>Target area</i>	<i>5 year target</i>
Planning for improved water quality	
Develop a draft Better Bays and Waterways Plan	2008
Percentage of programs implemented from the Better Bays and Waterways Plan assigned to Melbourne Water	100%
New or revised State Government requirements for all industrial, commercial and residential development to meet best practice water quality objectives	2013
Equipping agencies, communities and industry to manage water quality	
Develop and commence implementation of a land management program to manage run-off in rural areas	2009
Number of training modules delivered under the Clearwater program per year with assistance from Melbourne Water	10
Percentage of local governments with improved performance in delivering sustainable urban water management (as measured by the Council Needs Analysis)	70%
Number of guidelines and/or tools prepared to assist in the application of best practice stormwater management	6
Number of rain gardens built in the community with support from Melbourne Water	10 000
Targeted water quality works	
Number of pollution load hotspots addressed	8
Percentage of actions implemented from local governments Stormwater Management Plans assigned to Melbourne Water	30%
Percentage of local governments that have committed to water sensitive urban design implementation targets for pollutant loads, flow and effective imperviousness	50%
Reduction of nitrogen loads in stormwater by 2010	100 tonnes
Annual reduction in nitrogen loads through the establishment of wetlands for the period 2010 to 2013	2 tonnes
Monitoring, investigations and research	
Percentage of health risk assessments completed for major rivers and creeks with a high level of recreational activity	100%
Number of new monitoring programs to fill knowledge gaps for toxicants and pesticides	2
Completion date for delivering faecal investigations program	2013

Table 4 **Weighted average cost of capital**
(per cent)

<i>Post tax WACC</i>	<i>Implied pre-tax WACC</i>
5.8	5.8

Table 5 **Benchmark revenue requirement (drainage and waterways)**
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-2012</i>	<i>2012-13</i>
Operating expenditure	88.7	88.4	91.3	92.5	92.8
Return on existing assets	49.5	48.6	47.8	47.0	46.1
Return on new investments	2.0	6.4	10.9	14.7	18.2
Regulatory depreciation	15.4	17.1	18.6	20.1	21.7
Adjustments from previous regulatory period	4.4	4.4	4.4	4.4	4.4
Tax liability	3.9	4.3	4.6	4.8	4.9
Total	163.9	169.2	177.6	183.5	188.1

Table 6 **Implied rolled forward regulated asset value (drainage and waterways)**
\$ million in January 2007 prices

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Opening RAB	860.8	913.7	985.5	1038.3	1089.4
<i>Plus</i> Gross capital expenditure	105.7	132.6	118.0	121.4	111.8
<i>Less</i> Government contributions	37.3	43.7	46.5	50.2	51.1
<i>Less</i> Customer contributions	-	-	-	-	-
<i>Less</i> Proceeds from disposals	-	-	-	-	-
<i>Less</i> Regulatory depreciation	15.4	17.1	18.6	20.1	21.7
Closing RAB	913.7	985.5	1038.3	1089.4	1128.3

Table 7 **Demand forecasts**

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Customer numbers (extended area)					
Residential	118,262	123,588	128,706	133,475	138,089
Non-residential	5,194	5,428	5,652	5,862	6,064
Rural	54,120	56,558	58,900	61,083	63,194
Total	177,576	185,574	193,258	200,420	207,347
Customer numbers (existing area)					
Residential	1,369,498	1,391,667	1,414,052	1,435,945	1,476,779
Non-residential	120,282	122,166	124,026	125,884	127,736
Rural	50,951	51,605	52,273	52,941	53,611
Total	1,540,731	1,565,438	1,590,351	1,614,770	1,658,126
Total customer numbers	1,718,307	1,751,012	1,783,609	1,815,190	1,865,473