

The Essential Services Commission

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

ESC review of Water Plans

Last year the rural water businesses submitted to the Commission their Water Plans for the third pricing period commencing, 1 July 2013. These Water Plans set out the forecast business costs and the prices that each business proposed to charge their customers to recover those costs. In approving revenue and prices for the water businesses, we assessed the revenue required to operate the businesses and to meet obligations from the Minister for Water and other regulatory bodies.

Revenue requirement – final decision

We reviewed the businesses' revenue proposals, and adjusted the revenue requirement estimates over the third regulatory period to reflect our view of the efficient level of expenditure and the efficient costs of financing assets. Our final decision slightly reduced revenue requirements compared with those proposed by the businesses in their Water Plans, with the exception of Lower Murray Water (rural).

We proposed an increase in Lower Murray Water (rural)'s revenue requirement (\$137.8 million), that is around \$0.4 million higher than the proposed by \$137.4 million for the third regulatory period. The decrease in the revenue requirement for the other businesses generally reflects downward adjustments to most businesses' forecasts of capital expenditure and operating expenditure, including:

- downward adjustments to licence fees to be consistent with Commission estimates
- downward adjustments to environmental contributions to be consistent with Department of Sustainability and Environment (DSE) estimates and
- the impact of changed assumptions about the weighted average cost of capital (WACC) and, therefore, the cost of financing the businesses' proposed capital programs. The Commission updated the WACC to reflect current market conditions.

Table 1 shows the revenues proposed in businesses' Water Plans.

For more information

More information, including material from past price reviews can be found on the Commission's website www.esc.vic.gov.au.

Table 1. Revenue requirement – proposed and final decision (\$m 2012-13)

	2013-14	2014-15	2015-16	2016-17	2017-18	Total WP3
Goulburn-Murray Water*						
Proposed revenue in the Water Plan	119.2	125.1	126.8	na	na	371.1
Final Decision	116.0	122.7	123.5	na	na	362.2
Revenue from proposed prices	118.8	118.6	118.8	na	na	356.2
Lower Murray Water Rural						
Proposed revenue Water Plan	26.4	27.4	27.8	27.9	27.9	137.4
Final Decision	26.8	27.5	27.8	27.9	27.9	137.8**
Southern Rural Water						
Proposed revenue Water Plan	28.2	28.5	28.9	28.9	28.7	143.2
Final Decision	27.7	27.5	27.8	28.1	28.0	139.1

*GMW's price runs for three years from 1 July 2013 to reflect proposed new expenditure and updated defined benefit superannuation costs.

** The allowed revenue in the final decision is higher because of revised volume estimates which have increased allowed pumping costs.