

SUMMARY OF METROPOLITAN BUSINESSES' WATER PLANS

On 5 November 2008, Melbourne's bulk water supplier – Melbourne Water – and the three retail water businesses submitted Water Plans to the Essential Services Commission. The plans include forecast costs, delivery volumes, prices and service levels for the four years commencing 1 July 2009. A sizeable capital works program, real increases in operating expenditure and restricted volumes underpin rising prices through the period.

Prices in the Water Plans are set to meet a total revenue requirement made up of forecast costs for the period. The Commission analyses and assesses the proposals put forward, testing the reasonableness of the forecast costs and prices. Prices are highly dependent on the relationship between costs and volumes.

The Essential Services Commission commenced its review of the Water Plans with the release of an Issues Paper on 12 December 2008. A Draft Decision is scheduled for April 2009. Further information on the price review is available from the Commission's website www.esc.vic.gov.au

Revenue Requirement 2008-09 to 2012-13

(\$million in January 2009 prices)

	<i>Melbourne</i>	<i>City West</i>	<i>South East</i>	<i>Yarra Valley</i>	<i>Total</i>
Operating expenditure	1 840	1 147	1 742	1 747	6 476
Return on assets	1 667	318	534	651	3 170
Regulatory depreciation	386	82	131	131	729
Benchmark tax liability and adjustments	115	24	35	0	174
Total revenue requirement	4 008	1 571	2 442	2 529	10 550

Source: Businesses' Water Plans

- Prices are structured to recover the total revenue requirement over the regulatory period
- The Commission will be scrutinising all aspects of the businesses' revenue requirement

Estimated residential water and sewerage bill 2008-09 to 2012-13

(\$ in January 2009 prices)

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
City West Water	568	671	751	841	925
South East Water	566	667	774	867	963
Yarra Valley Water	585	725	838	921	1 004

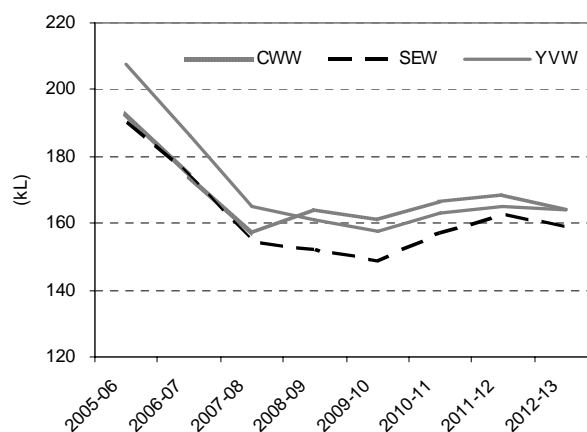
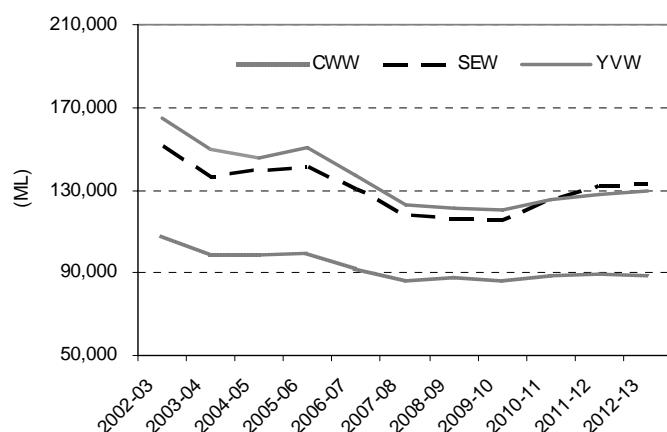
Note: Bills based on consumption of 165kL per annum. Does not include drainage and waterways, or Parks Victoria charges.

- No changes to tariff structure have been put forward over the period

Historical and forecast demand

Total sales volumes

Average annual household use



Source: Businesses' Water Plans

- Ongoing uncertainty about climate conditions and water availability is driving a conservative estimates of demand
- All retailers forecast a gradual easing of restrictions to Stage 1 in 2011-12 and permanent water saving measures in 2012-13 as augmentation projects come into commission
- Household consumption later in the period is forecast to remain below historical periods under similar levels of restriction

Historical and forecast operating expenditure

(\$million in January 2009 prices)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Melbourne Water	206	226	282	285	292	307	514	727
Operating Expenditure (excluding Melbourne Water's bulk charges)								
City West Water	77	82	84	90	91	94	97	99
South East Water	112	119	127	129	139	140	141	144
Yarra Valley Water	110	118	122	126	129	130	131	131

Source: Businesses' Water Plans

- Retailers pay bulk charges to Melbourne Water for the services it provides. The bulk charges are driven by Melbourne Water's costs which are subject to the Commission's review and largely uncontrollable by the retailers. These costs have been excluded from the following table for comparison purposes.
- Melbourne Water's forecasts increase in the last two years of the period as the desalination plant is brought into service
- Retailers forecast increased expenditure on recycled water projects, environmental initiatives and network extensions
- Growth in customer numbers over the period contributes to rising operating costs

Historical and forecast capital program

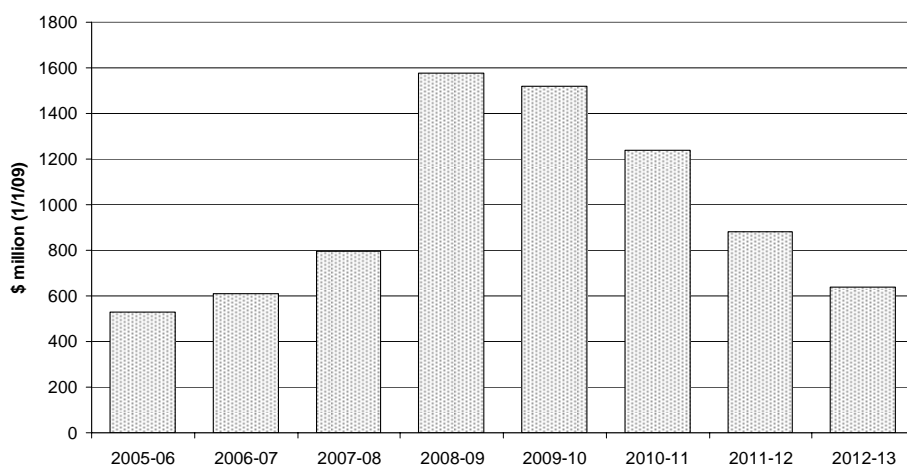
(\$million in January 2009 prices)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Melbourne Water	221	268	451	1 129	947	690	407	246
City West Water	71	69	76	90	140	160	109	61
South East Water	65	93	103	123	157	156	148	142
Yarra Valley Water	170	179	164	234	277	231	215	189
All businesses	526	609	794	1 577	1 521	1 237	879	639

Source: Businesses' Water Plans

- A total capital program of \$4.3 billion is forecast over the four years to 2012-13
- The program represents a significant increase in spending compared with the last three years

Capital expenditure – All businesses



Key capital expenditure projects

	<i>Proposed capital expenditure project/program</i>	<i>2008-09</i>	<i>Regulatory period</i>	<i>Total</i>
Melbourne Water	Sugarloaf pipeline	479	522	1 011 ^a
	Northern sewer project	87	192	279
	Tarago reservoir recommissioning ^b	75	-	75
	Eastern Treatment Plan tertiary treatment	9	294	303
	Melbourne main sewer augmentation	40	135	175
City West Water	West Werribee dual pipe	1	73	74
	Altona recycled water project	1	58	59
South East Water	Dual pipe recycled water	2	43	45
	Pakenham–Narre Warren Sewer	15	28	43
Yarra Valley Water	Northern Sewer project	47	113	160
	Epping-Craigieburn Sewer Project Stage 1	2	64	66
	Epping branch sewer – Section 1	2	43	45

^a Includes \$10 million of expenditure to occur in third regulatory period. ^b Project is forecast to be completed in 2008-09.