

Pricing

Sean Crees, General Manager, Corporate Services
22 to 26 September 2014

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City West Water

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Economic regulation

- The ESC is the independent economic regulator for the water sector and is responsible for regulating:
 - prices, and
 - service standards
- The sources of the ESC's regulatory power are:
 - The Essential Services Commission Act 2001
 - The Part 1A of the Water Industry Act 1994
 - The Water Industry Regulatory Order 2012

The Water Industry Regulatory Order (WIRO)

- Provides the framework for economic regulation
- Specifies which services are regulated (prices & standards)
- References the SoO for **procedural requirements**
- Specifies **regulatory principles** for use in price reviews
- Establishes powers to set standards of service in a Customer Service Code
- Establishes the ESC function of monitoring and reporting annually on performance

WIRO – regulatory principles

The **regulatory principles** in the WIRO require that the ESC be satisfied that Water Plan proposed prices:

- provide a sustainable revenue stream
- do not reflect monopoly rents or inefficient expenditure
- recover operating costs, return any capital invested and provide a rate of return on assets
- provide customers with incentives / signals about sustainable water use
- provide water businesses with incentives to pursue efficiency
- where appropriate, provide customers with choice and innovation in relation to service provision
- provide an adjustment mechanism to minimize under/over recovery of funds relating to the desalination plant
- have regard to the interests of low income customers

The Statement of Obligations (SoO)

- The SoO is issued by the Minister for Water and specifies obligations of a Corporation in relation to performing its functions and exercising its powers
- Part 2 of the SoO establishes an obligation to prepare and deliver a water plan to the ESC, including:
 - **Timing:** *i.e.* deliver to the ESC by a date its specifies
 - **Procedural requirements:** *e.g.* consultation with customers, state agencies, the Minister and the Treasurer
 - **Content:** *e.g.* proposed services and outcomes, revenue requirement, prices, compliance with regulatory obligations

Statement of Obligations (Water Act principles)

- (a) the need to ensure that **water resources are conserved** and properly managed for sustainable use and for the **benefit of present and future** generations
- (b) the need to encourage and facilitate **community involvement** in the making and implementation of arrangements relating to the use, conservation and management of water resources
- (c) the need to integrate both long term and short term **economic, environmental, social and equitable considerations**
- (d) the need for the **conservation of biological diversity and ecological integrity** to be a fundamental consideration
- (e) if there are threats of serious or irreversible environmental damage, **lack of full scientific certainty** as to measures to address the threat should not be used as a reason for postponing such measures

The price review process

- The ESC conducts periodic price reviews and sets prices for 5 year regulatory periods
- Water business consults with customers prior to finalising the water plan
- ESC determines whether the water plan complies with the WIRO principles
- ESC consults with customers before issuing a draft decision
- Further consultation before ESC determines prices

Contents of the Water Plan (1)

- Water Plan sets out:
 - What we will deliver (outcomes)
 - How we will deliver (projects and programs)
 - What it will cost (revenue requirement)
 - How we charge customers (tariffs and prices)
- Outcomes include:
 - Safe and reliable drinking water supply
 - Safe and reliable sewerage services
 - Integrated water supply for growth areas

These outcomes are measured by KPIs

Contents of the Water Plan (2)

- Projects and programs include:
 - Major water and sewerage works
 - Alternative water projects
 - Asset management plans
 - Customer services
- Revenue requirement is made up of:



- Prices will:
 - Collectively recover the revenue requirement from forecast demand
 - Individually send appropriate price signals

How prices are determined

Revenue requirement

Prices

=

Forecast demand for services:

- Customer numbers (service charges)
- Water sales (kL),
- Recycled water sales (kL)
- Sewer disposal (kL)
- Trade waste (loads)

Water Plan 3 – outcomes for CWW

- ESC set maximum prices to apply in 2013-14
- The 2013-14 price increase for the average household was 21.2%
 - Desalination costs comprise approximately 80% of the increase
- Subsequent annual price increases will be limited to inflation \pm changes in desalination costs:
 - Desalination plant water orders (50-150GL/year)
 - Desalination contract cost changes (e.g. refinancing)

Service standards – Water Plan 3

- Provide the same level of service at lower cost
- ESC targets based on 5 year average
- Will also provide CWW targets
 - Based on 10 year average
- Continue with current GSL scheme

WP3 Commitments – Water Efficiency

- CWW made public Water Plan commitment to continue to invest water efficiency and business resource efficiency
- We surveyed customers on their willingness to pay for water efficiency - \$3m:
 - Most customers thought CWW should maintain, if not increase, water efficiency programs (78% residential and 85% non-residential customers)
- ESC gave us \$2.4m per annum in prices 2013-18

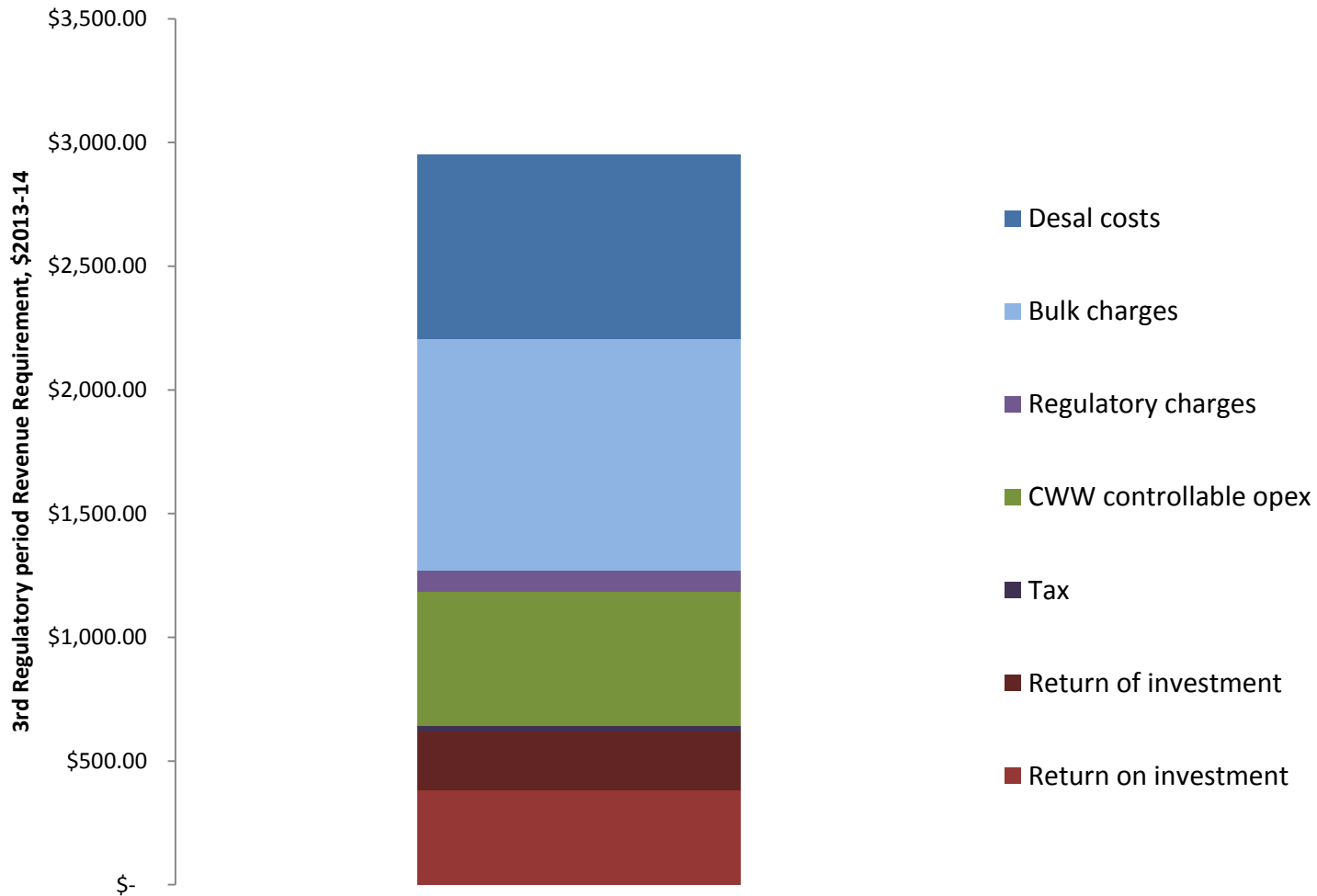
WP3 Commitments – Alternative Water

- CWW made public Water Plan commitment to invest in integrated supply for our growth areas (purple pipes)
- This is consistent with our SoO to be a willing provider of fit for purpose water and is consistent with Government policy on integrated water cycle management
- The ESC approved CWWs purple pipe expenditure and corresponding developer charges

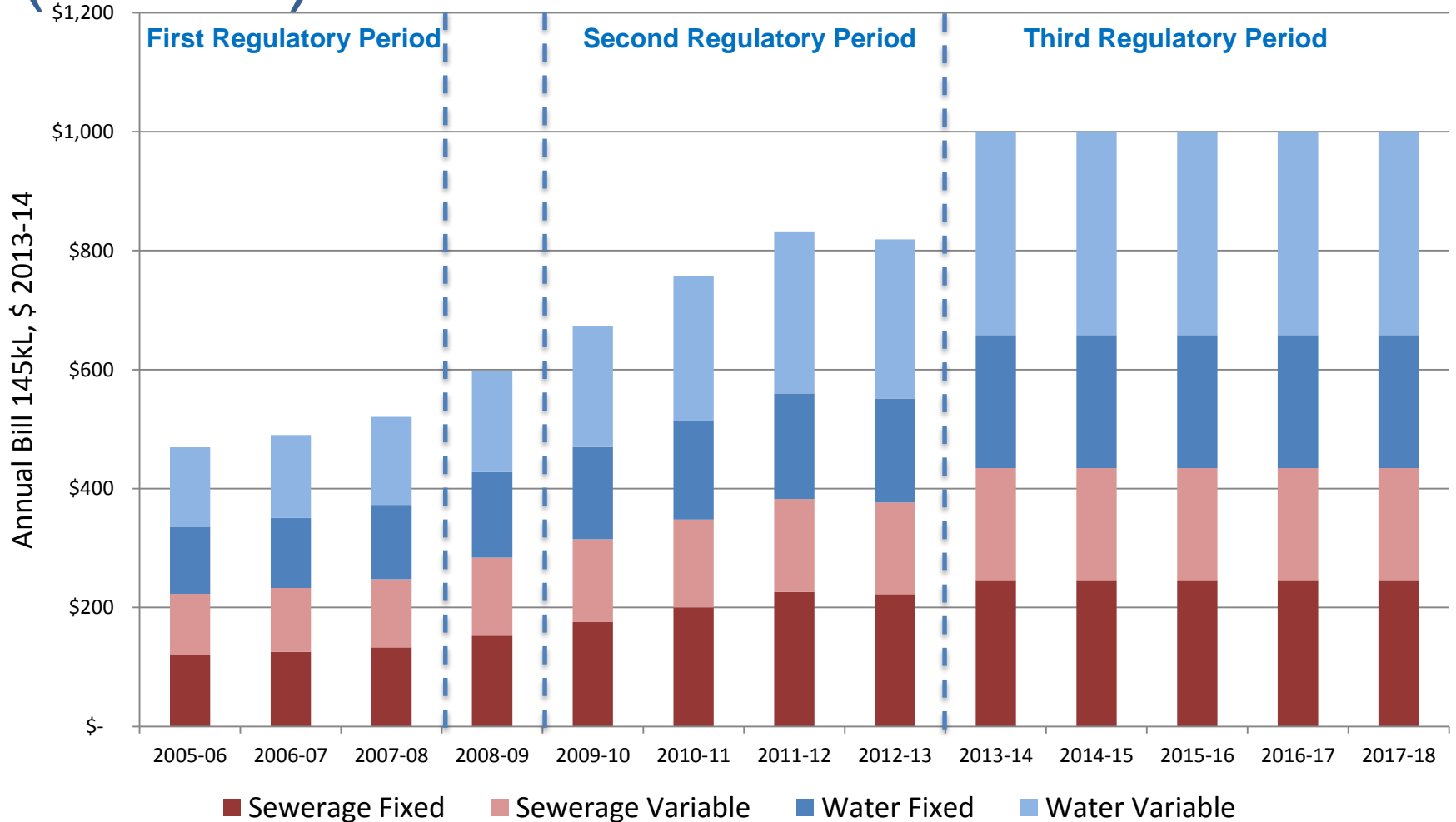
What our customers tell us – Alternative Water Tariffs

- CWW surveyed customers on how we should charge for recycled water.
 - Many respondents considered recycled water to be a good or great idea.
 - Customers supported CWW's proposed recycled water tariff structures
- The ESC approved CWW's recycled water tariff proposals

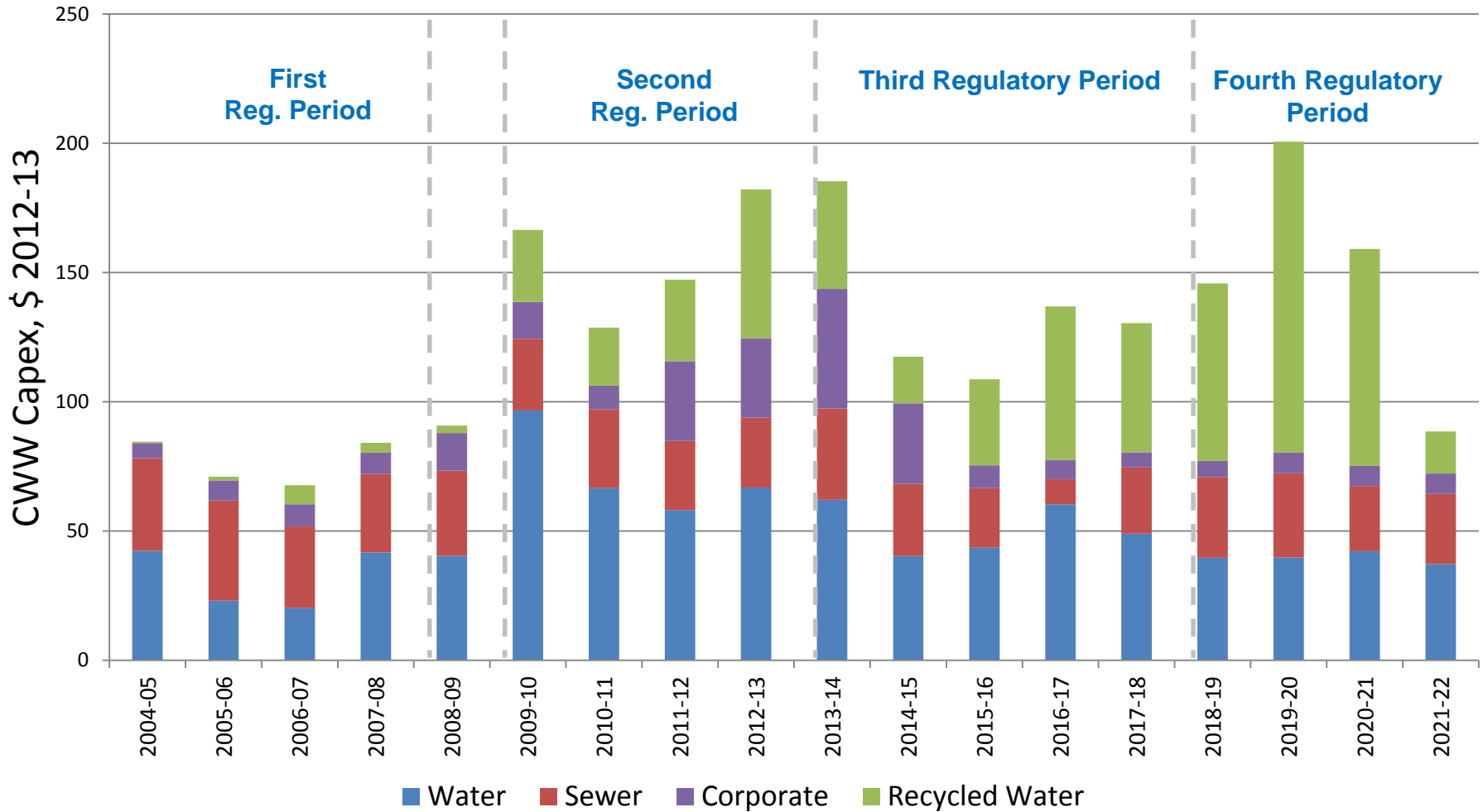
Revenue Requirement



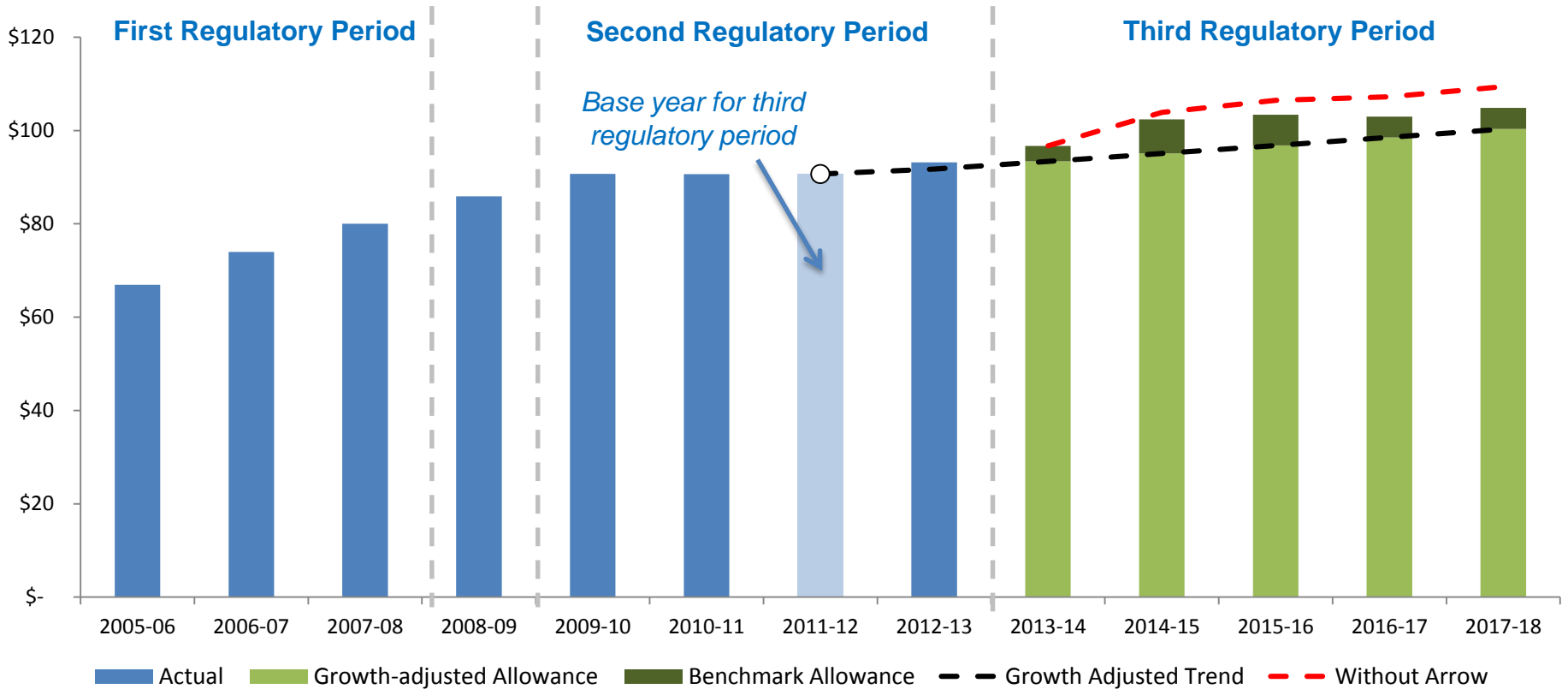
CWW annual household bills (145kL)



Forecast Capex

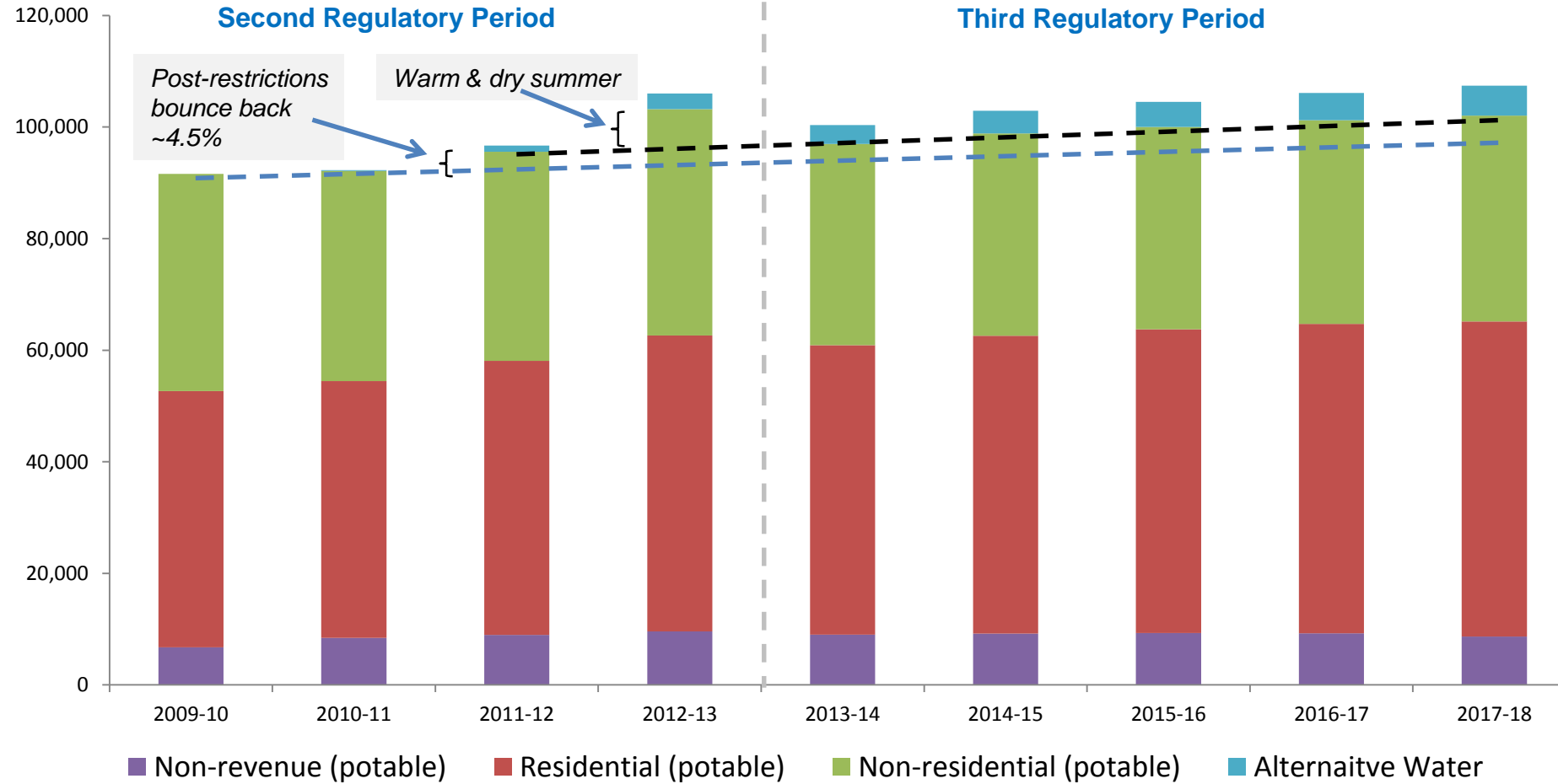


Forecast Opex

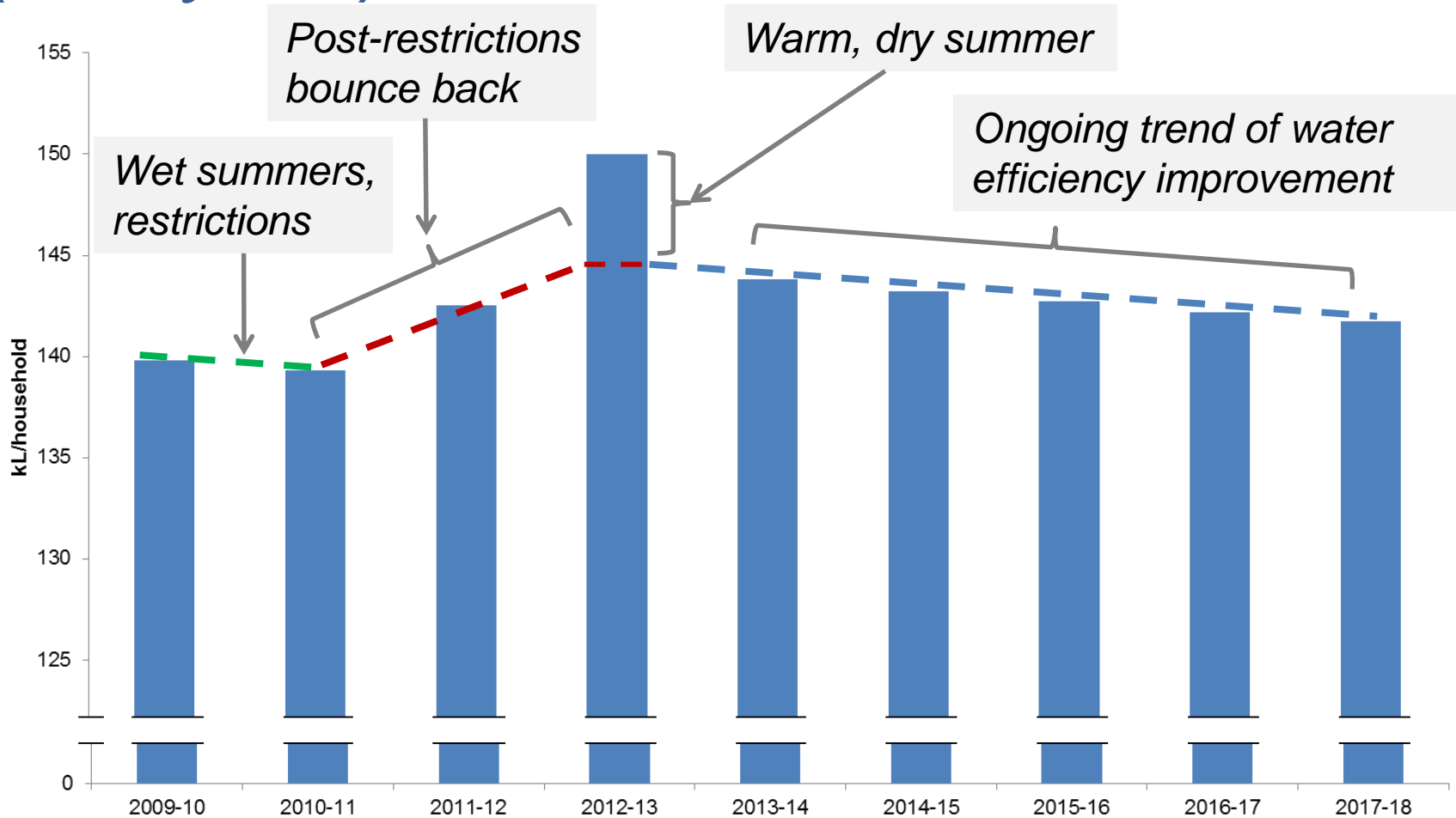


Above trend are alternative water, carbon tax, office relocation, less Arrow

Demand Forecast (ML / year)



Average household consumption (kL / year)



Fairer Water Bills Initiative

- In January 2014 the Minister for Water announced the *Fairer Water Bills* initiative
- “... a major efficiency program for the urban water sector to drive down household water bills from 2014/15.”
- CWW and the other Melbourne water corporations identified efficiency savings that resulted in a reduction in annual household bills of \$100 per annum for the next four years