



Melbourne Water 2026 Price Submission



'We Will Walk Country Together' Artist: Gerard Black © 2023

Aboriginal Acknowledgement

Melbourne Water respectfully acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Owners and custodians of the land and water on which all Australians rely. We pay our respects to Bunurong, Gunaikurnai, Wadawurrung, Wurundjeri Woi-wurrung and Taungurung peoples, their Elders past, present and future, as Traditional Owners and the custodians of the land and water on which we rely and operate.

We acknowledge and respect the continued cultural, social, economic and spiritual connections of all Aboriginal Victorians. We also acknowledge the broader Aboriginal and Torres Strait Islander community and their connections with lands and waters and recognise and value their inherent responsibility to care for and protect them for thousands of generations.

Melbourne Water acknowledges Aboriginal Victorians as Traditional Owners and, in the spirit of reconciliation, we remain committed to developing partnerships with Traditional Owners to ensure meaningful, ongoing contributions to the future of land and water management.

About this document

This document is a key component of Melbourne Water's 2026 Price Submission ('Price Submission', 'the submission', PS26) and is prepared for the purposes of the Essential Services Commission's 2026 Melbourne Water Price Review. The Price Submission has been prepared considering the requirements of the *Water Industry Regulatory Order 2014* (WIRO) and specific guidance issued by the Essential Services Commission (ESC): *2026 Melbourne Water price review: Guidance paper* (the Guidance Paper).

The submission is made up of:

- **A submission document:** consistent with the Guidance Paper, the submission document is prepared with the ESC as its target audience and focusses on matters with a material impact on the prices customers pay and the service they receive. It describes how we have addressed the requirements of the WIRO and the Guidance Paper. The submission document further sets out the context of our:
 - submission preparation
 - performance in the current regulatory period
 - customer and community involvement in the development of our proposal
 - the Outcomes we propose to deliver
 - customers' influence in shaping the commitments we have made as a result of their involvement
 - overview of the key inputs to pricing, including:
 - > our proposed expenditures to deliver our Outcomes
 - > forecast demands for our services
 - > tariffs
 - > prices and price controls we propose for the next regulatory period
 - > self-assessment of our submission under the PREMO framework.
- **A Financial Model:** prepared consistent with the Financial Model Template provided by the ESC to Melbourne Water. The submission document should be read in conjunction with the Financial Model.
- **Supporting Documentation:** to support a clear and succinct Price Submission, Melbourne Water has set some information outside the main Submission Document in a range of supporting documentation. These are cross-referenced throughout and can be provided to support the submission on request, including:
 - an engagement supplement
 - a demand supplement
 - business cases
 - program summaries
 - studies relied upon in forming Melbourne Water's proposal.

Consistent with the Guidance Paper, all dollars are in real 2025-26 terms (\$real 2025-26).

Relationship to the Waterways and Drainage Investment Plan

Prices and service levels for Melbourne Water's metropolitan waterways and drainage services are set out in the submission consistent with regulation by the ESC per the WIRO and the Guidance Paper for the 2026 Price Review. Separately, under the Victorian Government's *Statement of Obligations*, Melbourne Water must prepare a Waterways and Drainage Investment Plan (WDIP) for the Minister for Water. The WDIP will be finalised for the Minister following the 2026 Price Review.

Price Submission on a page



What we heard from customers

Provision of clean, safe and reliable services is the top priority for all groups.

Other key concerns and values include: affordability, healthy waterways (including as part of Caring for Country), management of flooding and drainage, support to customers that need it, and a desire for a more collaborative and transparent approach to our services.

Collaboration and transparency are key outcomes particularly sought by the water corporations, Traditional Owner partners and end-use customers. We have reflected this with a new, stand-alone Outcome on collaboration and relationship building.



Simplified customer Outcomes



Safe and reliable bulk water supplies for now and the long term



Environmentally sustainable and reliable bulk sewerage services



Healthy, resilient waterways



Urban drainage and flood resilience



A valued partner in water cycle services



Investing to deliver our Outcomes

We're proposing \$7.9 billion of prudent, efficient and deliverable capital investment to ensure clean, safe, and reliable water, sewerage, and drainage services – focused on meeting the needs of growth and our obligations while maintaining affordable water bills, including:

- investing \$2.9 billion so our water services remain safe and reliable, including \$250 million for water security readiness for the next large-scale water supply and its integration
- providing an environmentally sustainable and reliable sewerage system by investing \$2.7 billion
- \$2.2 billion to support waterway health and manage our flood and drainage systems.



Modest bill impacts

The investments in our submission will result in these bill impacts on the typical household, year-on-year - relative to inflation:

	25-26	26-27	27-28	28-29	29-30	30-31
GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%
SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%
YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%
BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%
WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%
GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%

Impacts are indicative only and exclude any proposed changes through water corporation 2028 submissions. Waterways and drainage charges will not increase by more than inflation.



Improving outcomes for water corporations

Our proposal sets out our commitments to:

- have simpler customer Outcomes that clearly link to our services and explain their costs
- long-term collaborative planning
- modernise our legacy Bulk Supply Agreements, including updating criteria for asset ownership
- reform our bulk water tariffs to be fairer, including revenue risk sharing through higher volumetric charges
- provide Guaranteed Service Levels for water quality
- we are proposing a 'Standard' rating for our submission.



Improving outcomes for our community

Households experiencing vulnerability

We are building on water corporations' extensive support for households experiencing vulnerability with Melbourne Water's first hardship package, including providing: payment difficulty support, water efficient appliances for customers experiencing hardship, and working with community sector organisations.

Traditional Owners

We are committed to earlier and deeper collaboration with Traditional Owner partners which will ensure projects are delivered faster and with more benefits for the broader community.

Message from Melbourne Water's Board of Directors

On behalf of the Board of Directors, we are pleased to present Melbourne Water's 2026 Price Submission. This submission is our best offer, shaped by a focussed, disciplined and whole-of-organisation effort to deliver value for customers. It is underpinned by our genuine desire to treat customers fairly, whether they are customers of today or of the future.

We aspire to put customers at the heart of all we do. This proposal was co-created with customers and informed by what we heard is of most importance. It builds on collaborative planning with bulk service customers and insights from several years of dedicated forums.

Customers and community expect reliable, resilient services now and over the long term, and trust us to invest wisely.

To balance current cost-of-living pressures while investing for the future we are proposing to:

- simplify our Outcomes to focus on what matters most to customers
- invest to maintain service levels and meet statutory and regulatory obligations
- take on more pricing risk
- drive efficiency across our operations and investments.

Over the current regulatory period we have:

- performed well against our Outcome commitments despite sector-wide challenges
- progressively increased capital delivery and plan to maintain the rate of increase
- met all core bulk water and bulk sewer service obligations
- maintained good customer satisfaction, strengthened collaboration with water corporations and improved how we measure relationship health.

The sector continues to face rising costs, which means prices must increase to maintain service quality. At our Eastern Treatment Plant, higher-than-expected loads have impacted operations and recycled water availability. Expedited investment is needed to maintain safe operations and meet Environmental Protection Agency and recycled water customer requirements.

We remain committed to climate action and achieving net zero emissions by 2029-30 and to secure our long-term water supply. Our water supply system is increasingly vulnerable to climate variability and quality incidents. In a severe drought, storages could fall to critical levels within three years. The *Water Security Plan* estimates by 2030 Victoria could need an extra 95 gigalitres of water per year – with Melbourne's population nearly doubling since the desalination project was announced. We will work with the Victorian Government to investigate and develop the next large-scale water supply and interconnecting infrastructure.

We must also prepare for more frequent and intense flooding. In 2022, record rainfall in the Maribyrnong catchment led to major flooding and significant impacts on our operations. We're updating flood models and identifying mitigation options, with investment in preferred options expected in our 2031 Price Submission. We will also work with partners to provide new housing developments with adequate drainage and flood protection.

Melbourne needs more housing, which requires timely water, sewerage and drainage connections. We are working with developers and partners to expedite approvals and infrastructure. We have committed to application turn-around times and have begun publicly reporting on these.

Climate change and urbanisation are stressing waterway health. Hotter, drier conditions are reducing flows with impacts on environmental, biodiversity and social values. More intense rainfall events result in damaging stormwater runoff. Without change, waterway health will decline. We are shifting to a co-delivery model with partners to help slow this decline.

We are extending our Guaranteed Service Levels to all connected water corporations and committing to a new rebate in the case of microbiological contamination of drinking water.

In response water corporation requests, we are reforming water tariffs by significantly increasing the volumetric portion – sharing risk, improving price signals and more fairly distributing costs of water security underpinned by desalination. We will also complete the transition of waterways and drainage charges to flat rates, preparing for future reforms.

While prices will rise, impacts will vary across our services and locations. Based on clear feedback from customers, we are considering both Melbourne Water's charges and projected impacts of water corporation 2028 Price Submissions to propose a smoothed price path.

We are committed to supporting customers that are struggling with affordability. In partnership with water corporations, we will amplify existing hardship programs, introduce a new waterways and drainage hardship grant, fund efficiency programs for vulnerable customers and deliver a sector uplift program.

We believe our 2026 Price Submission is fair and in the best long-term interests of our community. We have worked hard to strike a balance between community expectations for our services and bills. We are taking on more price-related risk than ever before and expect to deliver more than currently 'priced in' - remaining agile to adapt as needed during the period.



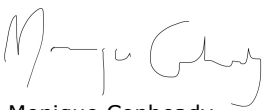
We sincerely thank everyone who contributed to our engagement program. Your insights have shaped this proposal and will continue to guide our work over the next five years and beyond.

Board attestation statement

The Directors of Melbourne Water, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge and for the purpose of proposing prices for the Essential Services Commission's 2026 Melbourne Water Price Review:

- information and documentation provided in the 2026 Price Submission and relied upon to support Melbourne Water's Price Submission is reasonably based, complete and accurate in all material respects
- financial and demand forecasts are Melbourne Water's best estimates, and supporting information is available to justify the assumptions and methodologies used
- the 2026 Price Submission satisfies the requirements of the 2026 Melbourne Water Price Review Guidance Paper issued by the Essential Services Commission in all material respects.

On behalf of the Board

 Dr Nerina Di Lorenzo Managing Director	 Greg Wilson Chair	 Monique Conheady Deputy Chair
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Who is Melbourne Water

Melbourne Water delivers essential water, sewerage, waterways and drainage services to Greater Melbourne — services that are vital to the region's economy, environment and liveability. We plan and build infrastructure in line with long-term strategies, and operate systems that supply drinking water, treat sewage, and manage waterways and major drainage across the Port Phillip and Western Port regions. Our integrated approach also includes flood management and the creation of valued community spaces.

We play a central role in making Melbourne one of the world's most liveable cities. Our services are used by everyone who lives, works or visits the region. We provide bulk drinking water and sewerage services to water corporations, who then supply households and businesses. We also deliver waterways and drainage services directly across Melbourne. Our costs account for around 50 per cent of an end-use customer's water bill, so we engage broadly across our customer base. Water corporations influence decisions related to bulk services, end-use customers have greater influence over waterways and drainage services, and developers have the strongest influence on urban development program decisions.

Ultimately, the 2.3 million households and businesses across Greater Melbourne (2024–25 estimate) are the end users of our services, paying for them through their local water corporation.

Delivering high-quality and valued services requires collaboration with a wide range of stakeholders, including local governments, community groups, the Victorian Government and industry bodies. These partnerships are essential to maximising the value we deliver to our customers across Melbourne.

Melbourne Water's operating region



Executive summary

Melbourne Water is Victoria's largest water corporation with responsibility for providing bulk water, bulk sewerage services, floodplain management and drainage and waterways management services in the Port Phillip and Western Port regions. We ensure that the Greater Melbourne community has access to safe and secure water supplies, that sewage is treated to protect the region's health and environment, and that waterways (rivers, creeks, wetlands and estuaries) and major drainage systems (including floodplains) are well managed.

Melbourne Water is pleased to provide its 2026 Price Submission to the ESC. This Price Submission presents our plans and prudent, efficient and deliverable expenditure proposals for the five-year period from 1 July 2026 to 30 June 2031.

The submission builds on our performance and gains made across the current 2021–26 regulatory period. In this period, including COVID-19, Melbourne Water met or exceeded its targets related to the provision of its core water, sewerage and waterways and drainage services – services that our customers and communities tell us are the most important aspect of our performance.

Our performance aligned with the conservative forecasts in our 2021 Price Submission. Population growth was double what we anticipated, so we had to treat 14 per cent more sewage than expected. This unexpected growth has contributed to an 11 per cent rise in our baseline 2024-25 controllable operating expenditure, compared to the benchmark.

Additionally, the 2022 floods and the resulting significant response, including participation in flood enquiries, were also unexpected events that increased operating costs. We also required more resources than originally forecast to meet our increasing cyber and physical infrastructure security obligations during the regulatory period.

Despite these challenges and consequently a slow program delivery, we have successfully delivered the capital expenditure benchmark, consistent with our 2021 Price Submission prices.

However, we faced challenges when meeting our stretch targets in customer satisfaction. As the submission outlines, we have been working proactively with our customers to improve performance, including our response times and application processing for developers. We have also increased and formalised our joint planning processes for the water corporations we serve, including through the Managing Directors Accord. We recognise this is an ongoing process and developing our 2026 Price Submission in collaboration with our customers and community has made an important contribution to this work.

Our plans have been shaped by engaging with our community

Figure I: Melbourne Water's community stakeholder groups

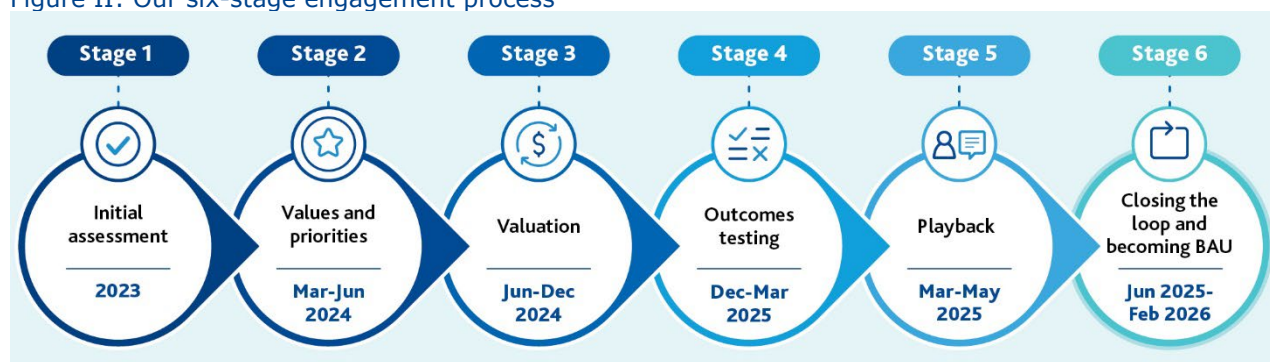


Over the past two years, Melbourne Water has worked with our customers, community and stakeholder groups more closely than ever before to test and agree on our plans.

Our six-stage engagement process was tailored and targeted to our distinct stakeholder groups. We collected primary information on community and customer expectations through representative surveys and assisted with prioritisation and plans via a highly collaborative process involving deliberative forums with key representatives and customer groups. This process built a shared understanding of our performance, the key challenges to meet over coming decades, and the Outcomes our community and customers want us to prioritise. We also engaged on how best to balance competing priorities and associated expenditures.

Our six-stage engagement process (shown in Figure II) was a multi-stage and multi-channel approach that enabled us to reach diverse customer groups and ensured their voices were included in the process. It gave us the time needed to listen and understand what was most important, to iterate and extend our engagement approach, and to meaningfully discuss the most significant matters that impact prices and service outcomes for our customers.

Figure II: Our six-stage engagement process



Compared to previous submissions, we have worked to improve our engagement process by undertaking the following activities:

- **Better understanding of customer views:** We gathered more extensive information through additional surveys, including willingness to pay analysis, that aligned to regulatory expectations. Additionally, more extensive one-on-one engagement was undertaken with our key community stakeholder groups.
- **Releasing a draft proposal for public comment:** For the first time we released a public draft of our key Outcomes and proposed bill levels to seek feedback from our community on a holistic package, well in advance of finalising our Submission.
- **Increasing the engagement focus on 'closing the loop':** Additional time and resources were dedicated to closing the loop on key aspects of the proposal with our community stakeholder groups, including reaching agreements on Outcomes and the aspects of our plans that would have the greatest impact on them.

Understanding key challenges and priorities

We worked to build a common understanding of the key drivers of expenditure that have informed the priorities for this proposal. There was a strong message from our community that maintaining service delivery at the high standards they expect to ensure clean, safe, reliable and resilient services is most important to them. Melbourne Water shared and engaged honestly on the key challenges facing the provision of services that are driving expenditures.

Our challenges

Growing population

- By 2032, more than six million people will live in Melbourne. This will double by 2070.
- More growth means more demand for services, which has already exceeded our expectations.
- Population growth is over 2 per cent per annum (June 2026 forecast) in the current regulatory period (compared to the growth allowance of 1 per cent per annum).
- Sewage treatment volumes are higher than expected. The Eastern Treatment Plant treated 20 per cent more sewage from 2021 to 2025 than forecast.
- More land and housing development is required to meet community housing supply expectations.

A changing climate

- Our climate is drier and more variable.
- Environmental extremes create surges in capacity needs for our systems, placing pressures on all assets and our ability to manage the impacts on our community, including flooding and reduced water quality returned to the environment.
- A variable and changing climate impacts the natural systems and waterways we manage, creating community concerns, including Traditional Owners, to protect the environment and care for Country.

Household and business costs

- Melbourne Water is exposed to similar cost pressures as households and the broader economy.
- Our cost of doing business has increased, including supply chains, materials and construction.
- Costs to ensure our resilience of physical and cyber assets under the *Security of Critical Infrastructure Act* have also increased.
- The cost of meeting our challenges must be balanced with the concerns of the community that our costs are efficient. The most vulnerable in the community must also be supported when these efficient costs translate to their water bills.

Ageing Assets

- Ageing assets require renewal and expansion to manage risks and meet growing demands.
- Sewage treatment and sewerage transfer assets are most urgent to support reliability of our core service delivery.

Our networks are more interconnected

- Our customers expect high levels of service from our physical and digital connections.
- We are reinvigorating collaborative long-term planning and technology systems to share information to help make long-term decisions.

What we heard from our customers and communities

Common priorities

Clean, safe and reliable services - top priority for all groups

Waterway health - important to community, including as part of Caring for Country

Manage flooding and drainage - vital as it has large community impacts

Equity – provide hardship support to customers that need it

Collaborative and transparent - strong desire for collaborative service delivery, and transparency on performance and spending

Partner and stakeholder priorities

Traditional Owners - strengthening collaboration is key

Water corporations - key concerns are infrastructure delivery and service reliability, Guaranteed Service Levels (GSL), collaborative planning, and a greater demand risk sharing via variable tariffs

Community support - support hardship programs, but provide transparency of bill impacts for all customers

Developers - seeking improved and more transparent services

Diversifiers - support compliance and enforcement activities

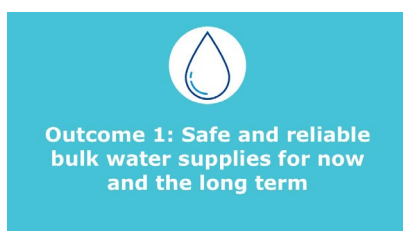
Environmental groups - vegetation for the environment should be a highest priority

Our engagement results are reflected in simplified Outcomes and clearly linked to our proposed expenditures

Together with our customers, we developed a set of five simplified customer Outcomes. These reflect the clear message that a continued focus on securing Melbourne Water's core services is needed, particularly given the challenge of population and demand growth, ageing assets and a changing climate.

Outside of our core services, there was a desire that Melbourne Water become a stronger and more collaborative partner, including with water corporations, Traditional Owners, and community sector organisations.

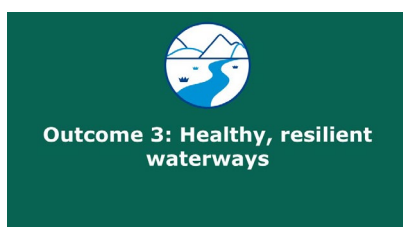
Our simplified Outcomes



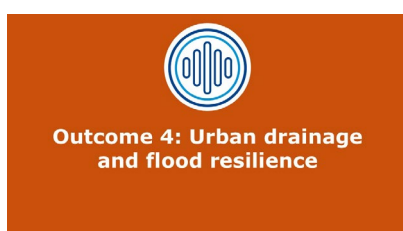
Ensuring our **bulk water supply is safe and reliable now and into the future** by providing safe drinking water, reliable service and long-term water security.



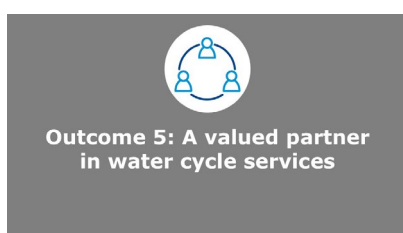
Ensuring our **bulk sewerage services are environmentally sustainable and reliable** using sustainable treatment processes and investing for the future to remain resilient to population growth and climate change.



Ensuring our **waterways remain healthy and resilient to change**, including from the impacts of urbanisation and climate change, by maintaining healthy waterways and managing land and vegetation along the waterways.



Supporting delivery of **new drainage infrastructure** and providing **flood information to improve resilience and manage risk to people, property and public places**. **Supporting developers** to plan for and effectively deliver infrastructure necessary for housing development and working with local authorities to manage stormwater.



Building relationships, including with the water corporations, Traditional Owners, local councils, industry and community organisations.

Melbourne Water needs significant investment to deliver these customer Outcomes

The 2026-31 regulatory period continues a program of significant and sustained increased investment required to meet the Outcomes sought by our community. In particular, this investment is needed to maintain safe and secure services, which is the highest priority of our customers and communities.

Our extensive technical analysis and recent experience demonstrates that delays in renewing and expanding our asset capacity will have direct consequences for both customers and the environment. The timing is critical as we optimise by extending the life of assets as far as possible before renewal. However, deferral of essential investment leads to a cycle of reactive spending, as the following examples demonstrate:

- **Water security:** As the population across our region grows and the climate changes, our water supply system is becoming less resilient. Our modelling shows that under extreme dry conditions, such as those seen in the Millennium Drought, water storages can drop from the high zone to the critical water use only zone in as little as three years. This would place millions of customers on water restrictions and cause widespread costs across the economy. We are working with the Victorian Government, consistent with The *Water Security Plan*, to identify and develop additional large scale water supplies for the region for delivery in future regulatory periods.
- **Sewage treatment capacity:** The Eastern Treatment Plant (ETP) processes approximately 40 per cent of Melbourne's total wastewater. Recently, higher than expected customer sewage loads and higher rainfall have exceeded the capacity of the plant. Due to capacity constraints, ETP cannot always treat effluent to its normal high quality tertiary standards and there were times we had to seek permission to discharge to the environment at a lower level of treatment. In 2022-23, ETP operated at a reduced tertiary standard for 17 per cent of the year, there was an emergency tertiary bypass for 11 per cent of the year and an emergency discharge to Port Phillip Bay for several days. Investment in this critical asset is needed to address increasing threats to customers and the environment and ensure safe and secure core service delivery.

Our proposed capital works program totals \$7,856 million (including desalination capitalisation) across our services for the 2026-31 regulatory period.

We have conducted comprehensive business case analysis, prioritised expenditure, and tested our delivery capacity to develop a prudent, efficient and deliverable capital works program. This program totals \$7,856 million (including desal capitalisation)¹ across our services for the 2026-31 period. We have engaged extensively with the water corporations and our community to shape and agree on this program of work.

During the current regulatory period, we have expanded our capital delivery capacity to allow us to ramp up delivery of more capital expenditure than was included in our 2021 Price Submission. This sustained expansion will continue into the 2026-31 regulatory period to support the proposed capital program set out in the submission.

The actions proposed in the submission allow us to confidently deliver what we recognise is a much higher volume of work. These actions include:

- setting realistic delivery timelines based on actual past project lead times and outcomes
- applying increased internal resourcing to project planning, project scheduling and project management (including through re-prioritisation of internal resourcing)
- expanding our construction contractor capacity and involving contractors in early planning to secure resourcing.

Benefits we expect to deliver

The submission includes a broad range of actions and investment to deliver benefits to customers. We have structured these actions around our Outcomes.

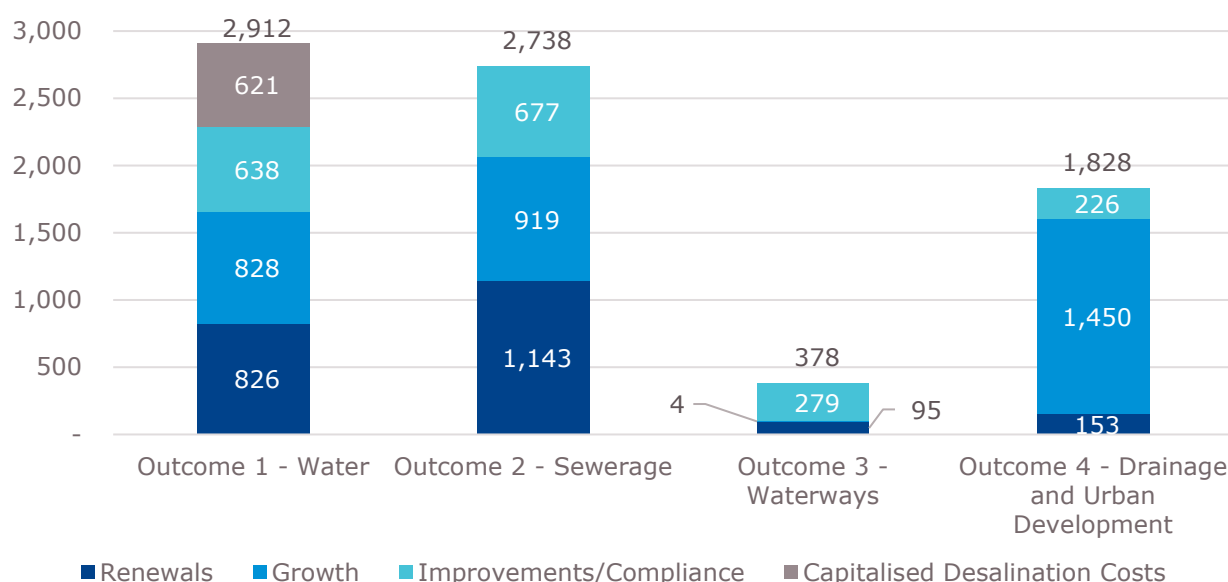
¹ Including partial capitalisation of contract cost payment for Victorian Desalination Project

Delivering agreed Outcomes

The majority of our capital expenditure is tied to Outcomes 1 to 4, which each relate to delivering safe and reliable core services.

Figure III shows the capital expenditure needed for growth, renewals and compliance expenditure to deliver on Outcomes 1 to 4.

Figure III: Capex by outcome and driver (\$millions, real 2025-26)



Delivering for the water corporations

We collaborate continuously with our water corporation customers to ensure that the water and sewerage solutions across Greater Melbourne are optimised and coordinated to deliver lowest community cost outcomes. This is achieved through ongoing formalised forums spanning all layers of our corporations including Managing Directors, General Managers, regulatory managers, system planners and operators. Deep collaboration was also achieved in developing the submission through dedicated forums.

As a result of collaboration with the water corporations during the submission process, the following initiatives and their expected benefits have been agreed:

- commitment to ongoing collaborative planning and agreed deliverables over the next regulatory period
- commitment to reset our Bulk Supply Agreements and to update them more often, so they better reflect commitments we make, for example via our price submissions
- alignment of the capital program with water corporations on agreed customer Outcomes, made through close engagement with each corporation
- agreement on significant shared priorities, including preparing for investments in water security, and servicing growth in Melbourne's north and west
- tariff reforms that reflect a fair compromise across all connected water corporations, including that Melbourne Water shares more volume risk through higher volumetric tariffs
- introduction of a water quality GSL
- strengthened support for customers experiencing vulnerability, through amplification of water corporations' hardship programs.

Doing more to manage risk on behalf of customers

Melbourne Water is accepting additional risks on behalf of customers, including financial and revenue risk associated with the capital expenditure program and increasing our exposure to demand, performance and revenue risk.

Melbourne Water also proposes an operating expenditure efficiency rate of 2 per cent per annum to help offset rising prices. This outperforms the average rate of an 'Advanced' rated business at the 2023 water price review (of approximately 1.8 per cent per annum).

Continuous improvement of waterways and drainage services

Melbourne Water has engaged extensively with customers and community to understand their priorities for the waterways, flood and drainage function. We saw clear community support for improved results across these services – beyond what we are currently able to deliver. Therefore, we propose to maintain base year expenditures with targeted uplifts when we have new obligations. We will be placing an additional focus on those services with dedicated performance Outcomes and more specific measures for waterways (Outcome 3) and flood and drainage (Outcome 4). We will work to further improve our delivery capacity over the period, including through preparation of a new *Healthy Waterways Strategy* and the WDIP.

A major focus for our drainage function is to ensure we continue to build on improved levels of service achieved over the current regulatory period.

Commitment to Traditional Owners and First Nations people

Melbourne Water will continue to partner with Traditional Owners to apply a Caring for Country approach to the land and waterways that we manage. We will also provide funding support for the self-determination journeys of these communities.

Delivering more for customers experiencing vulnerability

Our engagement with end users showed that community members understand that investment is needed to deliver on their priorities for safe, reliable and resilient services, and that this necessarily translates to bill increases. The community asked us to do all we could to minimise bill increases and to consider geographic, intergenerational and social equity – particularly in the face of prevailing cost-of-living and cost-of-housing pressures.

Therefore, we have proposed three interventions:

1. Melbourne Water will take on more price risk, particularly in relation to our capital program.
2. We will maintain flat prices in the first year of the regulatory period as we continue to ramp up our capital program.
3. We will put forward a program of activities to extend our partners' work to support customers experiencing vulnerability. This program will help expand and support the programs of work already provided by metro water corporations, such as supporting customers experiencing vulnerability in the community sector and providing resources for the water corporations' customer care and hardship support teams.

Nominated PREMO rating is 'Standard' overall

Overall, Melbourne Water's submission represents our best offer to customers, and we have self-rated as 'Standard'.

Table I: PREMO assessment - overall

PREMO element	Our rating	Summary
Performance	Standard	<p>Melbourne Water met or exceeded all targets related to the provision of its core water, sewerage and waterways and drainage services in the 2021-26 period, which customers and community tell us are the most important aspect of our performance. This was achieved while servicing a significantly higher population and meeting greater demand than forecast in the 2021 Price Submission (set conservatively in the COVID-19 context).</p> <p>As well as meeting population growth, Melbourne Water was required to respond to the October 2022 flood event, which involved a significant response effort.</p> <p>These external drivers unavoidably increased our operating expenditure beyond the 2021 Price Submission benchmark and contributed to delays to the capital program and some of our more ambitious waterways and drainage programs. Despite these challenges, our actual 2021-26 capital expenditure is forecast to be in line with the benchmark allowance and provides significant confidence in our ability to deliver an expanded capital program in the forthcoming 2026-31 period.</p> <p>Our own customer survey work shows that we have maintained strong satisfaction and reputation with our key customer cohorts over the regulatory period. While we did not reach the stretch customer satisfaction targets with the methodology we set for ourselves, we have already worked proactively with our customers to address this in the 2026-31 period.</p>
Risk	Standard	<p>Through engagement with the water corporations and our broader customer community, Melbourne Water has undertaken a significant assessment of risks that may impact on customer prices or services, the appropriate allocation of risk and risk appetite.</p> <p>We have accepted additional risks on behalf of customers, including financial and revenue risks associated with the capital expenditure program, providing an uplift in deliverability risk management capability to ensure that customers receive what they pay for, increasing our exposure to demand and revenue risk through higher volumetric prices and backing our commitment to Outcome 1 through a new back-to-back water quality Guaranteed Service Level (GSL) payment.</p>
Engagement	Standard	<p>We have sought customer views early and often and have reflected their views into our proposal. For the first time, we published a draft price submission (known as 'Public Playback') and asked for feedback, generating a metro-wide conversation on our pricing proposal. We have also segmented our engagement program to target the following customer cohorts to influence our final submission:</p> <ul style="list-style-type: none"> • water corporations • end-use customers, including customers experiencing vulnerability • Traditional Owners

PREMO element	Our rating	Summary
		<ul style="list-style-type: none"> • direct service customers • community sector organisations • developers. <p>Our engagements have been open and accessible. We have put particular effort into reaching those who may experience barriers to participation.</p> <p>Our customers led our submission, with the water corporations having significant influence over key decisions, including GSLs (rebate amount and conditions), price paths, investments, planning and Outcomes. End-use customers have also influenced our decision-making, with customer values, priorities and expectations helping guide our decisions and ensuring our proposed investments are aligned to our Outcomes.</p>
Management	Standard	<p>Melbourne Water has been an 'open book' with customers, community and stakeholders in the development of the submission, reinforced by strong executive and Board oversight. The submission reflects prudent and efficient expenditure, including an operating expenditure efficiency target consistent with businesses achieving an 'Advanced' rating under PREMO.</p> <p>We have undertaken robust cost benefit analysis and risk-based planning to confirm the prudence and efficiency of the proposed capital program. The program has been refined to ensure its deliverability. It is ambitious, but our analysis and recent experience demonstrates that further delays in renewing and expanding our asset capacity will have direct consequences for both customers and the environment. Ongoing deferral of essential investment leads to a cycle of reactive spending that becomes increasingly difficult to manage, ultimately driving up project costs and heightening the risk of major adverse events.</p> <p>We continue to manage additional obligations and increasing costs across our supply chain. We have managed these risks across the current regulatory period and will continue to manage these across the next regulatory period.</p>
Outcomes	Standard	<p>We have simplified our Outcomes, focusing on what is most important to customers, with a clearer line of sight to each of our core services. Our new Outcomes reflect the service levels and focus areas we heard are priorities for each service, and include improved performance targets and commitments that reflect customer expectations and price-service trade-offs. We will also continue to report clearly on our Outcomes through ongoing forums.</p>
Overall	Standard	<p>We largely met our Performance commitments in the 2021 Price Submission, and this proposal meets the requirements of a Standard submission considering Risk, Management, Engagement and Outcomes.</p>

Revenue requirement

Melbourne Water is proposing the following annual average changes in revenue requirement over the 2026–31 period:

- + 1.1 per cent for bulk water
- + 3.9 per cent for bulk sewer
- + 0.5 per cent for waterways and drainage.

Modest bill impacts

With significant population growth forecast over the 2026-31 regulatory period, our proposal results in only modest increases to end customer bills above inflation.

Melbourne Water's forecast impacts to average household bills (excluding inflation) are flat in 2026-27, followed by average annual increases of up to 1.5 per cent above inflation each year from 2027-28 to 2030-31 (or up to \$17 for a typical household in metropolitan Melbourne).

Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk and sewerage costs. Consistent with their determinations, each individual water corporation has discretion on how changes are passed onto end-users.

Table II: Total tariff revenue by water corporation (\$millions, real 2025-26)

		2026–31 regulatory period				
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Greater Western Water	394	405	426	444	463	481
South East Water	572	581	605	615	626	637
Yarra Valley Water	570	579	605	608	610	612
Barwon Water	12.0	10.7	6.5	6.5	6.5	7.5
South Gippsland Water	0.7	1.2	1.4	1.6	1.9	2.2
Westernport Water	0.6	0.6	0.6	0.7	0.8	0.8
Gippsland Water	1.5	0.6	0.6	0.7	0.8	0.8

Table III: End customer bill impact - cumulative dollar change^a (\$real 2025-26)

		2026–31 regulatory period				
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Greater Western Water	1,110	-	17	27	37	47
South East Water	1,057	-	15	16	17	18
Yarra Valley Water	1,114	-	16	9	1	-7
Barwon Water	1,183	-3	-4	-5	-6	-2
South Gippsland Water	1,405	23	32	42	55	71
Westernport Water	1,394	-	2	4	6	9
Gippsland Water	1,492	-11	-12	-10	-10	-9

^a Bill impacts are indicative only and exclude impacts of water corporation 2028 submissions, desalination water orders and other passthroughs.

Table IV: End customer bill impact – Annual percentage change^b (\$real 2025-26)

		2026–2031 regulatory period				
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Greater Western Water	1,110	-	1.5%	0.9%	0.9%	0.8%
South East Water	1,057	-	1.5%	0.1%	0.1%	0.1%
Yarra Valley Water	1,114	-	1.5%	-0.7%	-0.7%	-0.8%
Barwon Water	1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
South Gippsland Water ^c	1,405	1.6%	0.6%	0.7%	0.9%	1.1%
Westernport Water	1,394	-	0.1%	0.1%	0.2%	0.2%
Gippsland Water	1,492	-0.8%	0.0%	0.1%	0.0%	0.0%

^b Bill impacts are indicative only and exclude impacts of water corporation 2028 submissions, desalination water orders and other passthroughs.

^c South Gippsland Water's increase relates to increased water security provided by entry into the South-Central Pool, which was scheduled to occur in 2024-25 in its 2023 Price Submission.

Melbourne Water is forecasting a minor reduction to the waterways and drainage tariffs (excluding inflation) over the period. A flat charge will replace the current rate in \$ NAV (Net Annual Value) for all non-residential customers. Forecast prices are shown in Table V.

Table V: Waterways and drainage tariffs (\$real 2025-26)

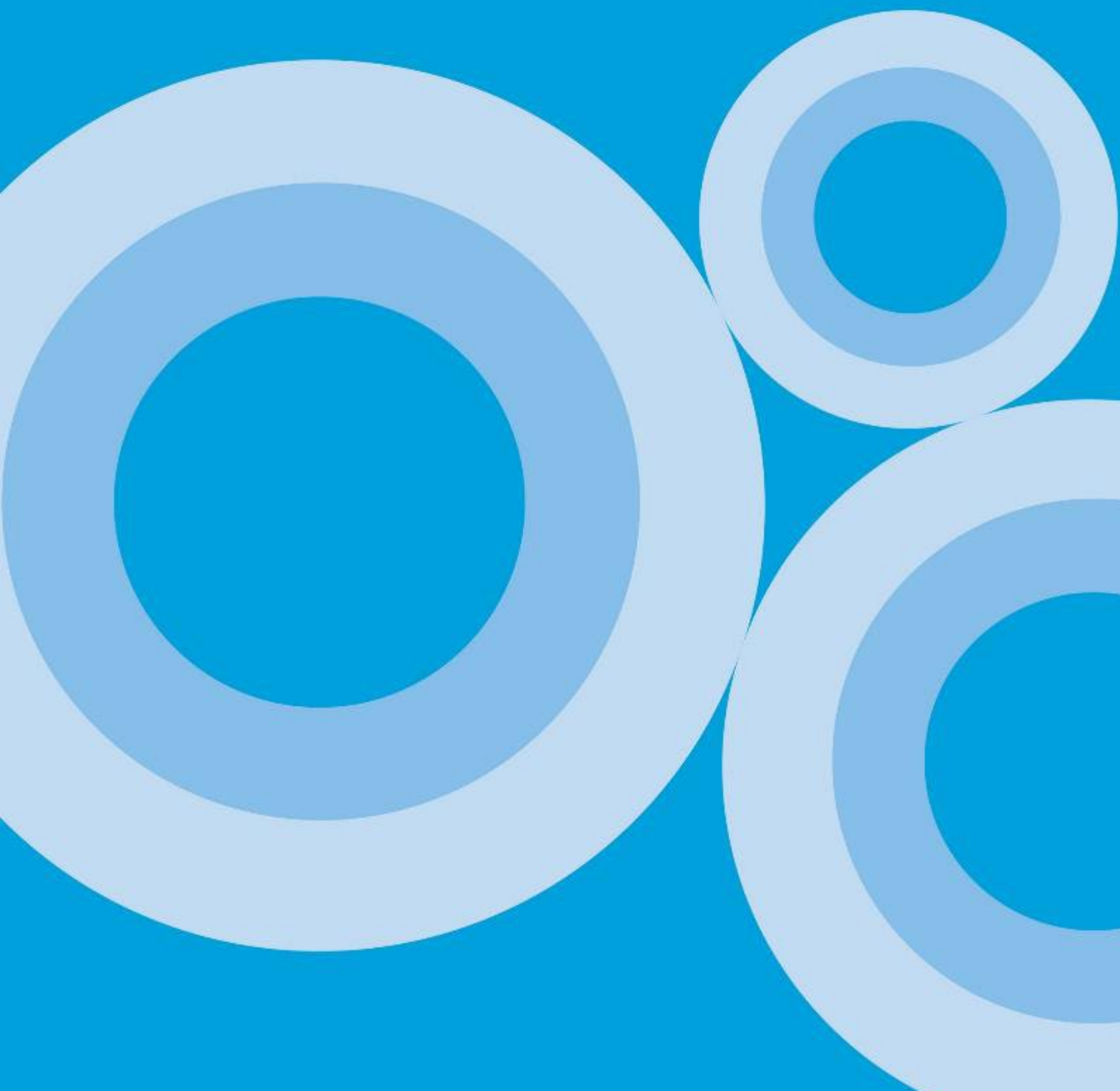
		2026–2031 regulatory period				
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Residential						
\$ per annum	125.01	123.96	123.96	123.96	123.96	123.96
Percentage change		-0.8%	0%	0%	0%	0%
Rural (\$ per annum)						
\$ per annum	68.63	68.03	68.03	68.03	68.03	68.03
Percentage change		-0.8%	0%	0%	0%	0%
Non-residential^d						
\$ per annum	187.81	186.23	186.23	186.23	186.23	186.23
Percentage change		-0.8%	0%	0%	0%	0%
\$ per rate in NAV	0.005032	-	-	-	-	-

^d A flat charge replaces the current \$NAV for all non-residential customers.

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Part A – PREMO



Management

The image features a solid light blue background. In the upper left, the word "Management" is written in a white, sans-serif font. The lower half of the image is dominated by three overlapping circular patterns. Each pattern consists of a central solid blue circle, surrounded by a ring of medium blue, and an outer ring of light blue. The top-right circle contains a white number "1" in its center. The bottom-right circle is partially cut off by the edge of the frame. The leftmost circle is also partially cut off.

1

In Summary

- Our 2026 Price Submission (PS26) reflects a robust and evidence-based planning process, grounded in strong engagement and collaboration with our community and water corporation customers.
- We implemented a robust governance framework to guide the development of a customer-centric pricing proposal. This ensured accountability across all levels of our organisation, including our Board and Executive Leadership Group.
- We have applied lessons learnt from the 2021 Price Submission (PS21) to more deeply involve customers in the development of PS26 and to ensure transparency in decision making – all to ensure we deliver enduring value for our customers and communities.
- We have applied these lessons to strengthen our analysis and frameworks to develop prudent and efficient expenditure forecasts for PS26.
- Our corporate strategy places customers at the heart of all we do – PS26 reflects that strategic positioning.
- For PS26 capital expenditure (capex) forecasts, major projects have a P50 forecast and undertake a Monte Carlo analysis incorporating contingency allowances adapted for the stage, complexity and scope of work. Business cases for the top 15 projects have been subject to independent review and are available upon request.
- Projects and programs have been refined to ensure they are deliverable. This has been tested at a project and program level and at a global whole-of-business level to ensure customers are only paying for what we can deliver in the period.
- Our capex program includes assumptions about incentives for efficiency savings, as specified in our external contracts.
- Our operating expenditure (opex) profile includes a commitment to no net growth in operating cost outside of predefined steps. The opex efficiency rate of 2 per cent per annum outperforms the average rate of an 'Advanced' rated business at the 2023 water price review (of approximately 1.8 per cent per annum).
- Our PREMO self-assessment rating for Management is '*Standard*'.

Chapter 1 provides key insights into the process we have used to develop a quality submission, and the methodologies applied to develop prudent and efficient expenditure forecasts that also reflect strong commitments to efficiency and productivity improvement. The development of PS26 has been an 'open book' process involving our customers, key stakeholders, shareholder and regulators throughout.

Melbourne Water has implemented comprehensive engagement, governance, assessment and assurance processes that allow us to attest to the quality of this submission and that prices reflect only prudent and efficient expenditure.

To support the Management assessment, the first part of this chapter explains the process Melbourne Water followed to produce a quality submission, including:

- the involvement of our executive and Board in the development and endorsement of PS26
- learnings applied from PS21
- the independent and thorough assurance process that was implemented for PS26.

The chapter then outlines how our proposed prices reflect only prudent and efficient expenditure, including how we prioritised and refined our expenditure to ensure it is aligned to Outcomes, is deliverable and reflects commitments to efficiency and productivity improvements. The final part of this chapter provides our Management self-assessment rating.

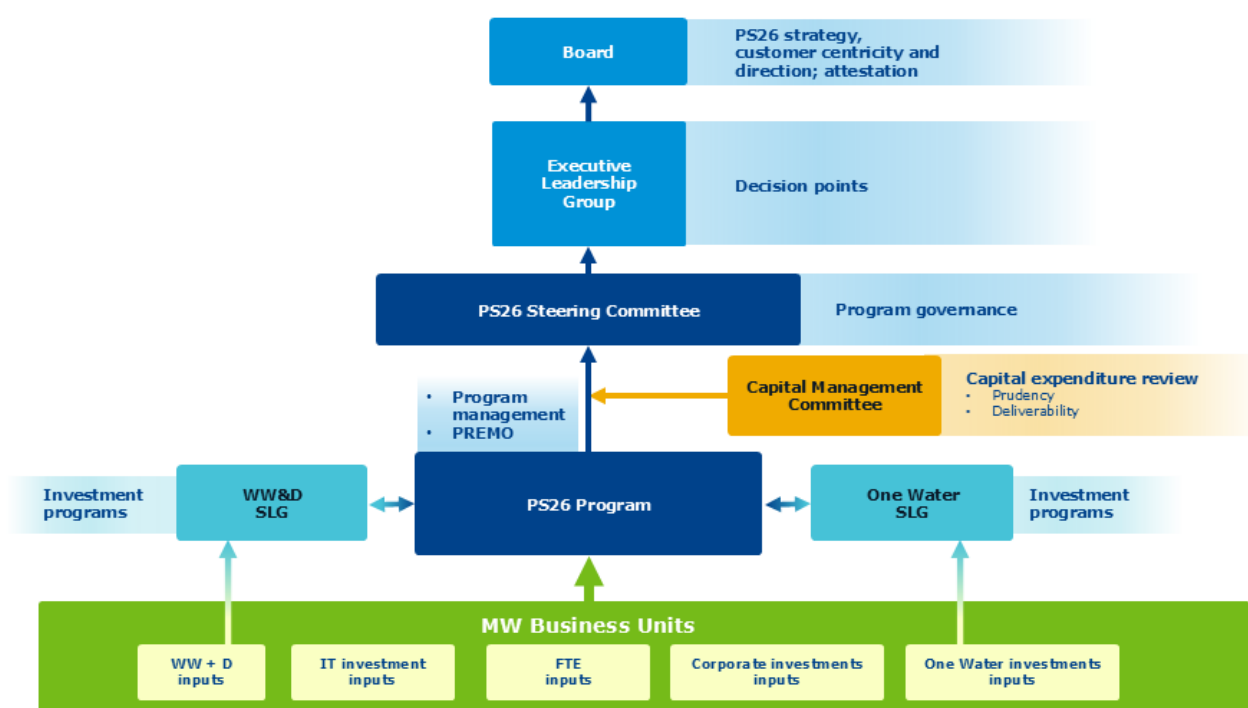
1.1 How we developed a quality submission

1.1.1 Robust governance framework

A robust governance framework guided the development of this submission, ensuring ownership and buy-in across all levels of our organisation. Incorporating insights from our ongoing engagement program was a key focus of this governance framework, with engagement recognised as an overarching workstream, to ensure that the proposals set out in this submission reflected the preferences and priorities of our customers.

An overview of this process is provided in Figure 1.1 and described in more detail below.

Figure 1.1: Our internal governance framework



1.1.1.1 Board

Our Board played an active role in shaping and delivering a customer-centric strategy and risk appetite and applying learnings from PS21 to lay strong foundations for PS26 and driving the organisation to present a 'best offer' for our customers. The Board held strategic workshops in December 2023, December 2024, February 2025 and April 2025, focused on aligning the development of PS26 with Melbourne Water's risk appetite, strategies and accounting for the

engagement inputs. In addition, PS26 has been a standing agenda item at all Board meetings since December 2023, with key decisions made along the way.

The Board also took an active role in our community and stakeholder engagement by attending community deliberative panels and reviewing and contributing to our engagement materials.

1.1.1.2 The Executive Leadership Group

An Executive Leadership Group (ELG) has met twice monthly since May 2023 to oversee and steer the development of PS26. Detailed briefing materials were always provided for meetings to guide discussion and facilitate decisions.

The ELG connected decision making across the corporation, embedded the learnings from PS21, and drove customer focus in Outcomes and investments.

The ELG also played a leading role in community engagement.

1.1.1.3 The Senior Managers

Managers and subject matter experts across our organisation were assigned as leads for respective elements of PS26, with weekly meetings held with dedicated Project Teams to review progress, resolve issues and escalate decisions to ELG. We also employed a rigorous internal quality assurance approach that required managers and subject matter experts to review and verify all elements of PS26 before it was presented to our ELG for final review and to our Board for attestation.

1.1.1.4 Staff

We kept our people engaged throughout the process with a series of introductory interactive 'Lunch and learn' webinars, each attended or viewed by over 1,000 staff, as well as regular internal news stories and discussions via our 'Leaders Live' forum.

1.1.2 Attestation support

We engaged Frontier Economics to provide independent advice in support of the attestation process. The attestation workstream assisted in verifying and providing recommendations to improve the quality, accuracy and comprehensiveness of Melbourne Water's PS26. This included:

- reviewing business cases for major projects and allocations, including against business case and expenditure forecasting guidelines
- assessing the submission to ensure it addressed the requirements of the ESC's Guidance
- assessing pricing models and submission documentation to verify accuracy and consistency before submission
- providing advice on requirements and precedents regarding different levels of PREMO ambition.

This approach helped maintain accountability and drive informed decision-making across all aspects of the PS26 development process.

1.1.3 Incorporating lessons from PS21

The ESC's draft and final decisions on Melbourne Water's PS21 provided valuable insights that we have used to shape the development of PS26. Key learnings and their influence on PS26 are summarised in Table 1.1.

Table 1.1: Key learnings and our response from PS21

Theme	Key learnings and our response
Strengthened customer and community engagement	<p>The ESC's decisions identified opportunities to deepen our understanding of customer preferences and integrate these insights more comprehensively into our plans.</p> <p>In response, we significantly expanded the scope and scale of our engagement efforts for PS26. We undertook extensive consultation with water corporations, end-use customers, community groups, partners, Traditional Owners and other stakeholders. This has ensured that customer values, such as safe and reliable services, affordability, resilience, equity and environmental sustainability, are at the core of PS26, making it strongly aligned to agreed Outcomes.</p>
Demonstrating value for customers	<p>The decisions highlighted the need for Melbourne Water to better demonstrate value for money in its proposals. This included ensuring that investments were not only prudent and efficient, but also clearly linked to tangible customer benefits.</p> <p>For PS26, we have simplified our proposed Outcomes and clearly linked our investments to these. We recognise that, as a bulk supplier of water and sewerage services and provider of waterways and drainage services, our assets are designed to last and shape urban development. Therefore, we have strengthened our focus on collaborative long-term planning to ensure that our investments balance immediate price impacts with long-term price stability and intergenerational equity and deliver the Outcomes our customers expect.</p>
Balancing risk and deliverability	<p>The ESC expressed concerns about the scale and deliverability of the PS21 capital program, particularly given the inherent risks associated with large-scale projects.</p> <p>For PS26, we conducted a detailed deliverability assessment to ensure our proposed program is realistic and achievable. This assessment includes careful project sequencing, rigorous risk management and leveraging market insights to validate our capacity to deliver. Additionally, we have adopted a more balanced approach to managing risk, retaining risks internally where possible.</p>
Managing cost of living pressures	<p>The decisions highlighted the need for Melbourne Water to account for the rising cost of living and to balance investment in safe and reliable services against the need to minimise financial impacts on customers, particularly those experiencing vulnerability.</p> <p>Our approach includes smoothing price increases over time, placing more revenue at risk and working with our partners to enhance the support our sector provides to customers experiencing financial hardship.</p>

Theme	Key learnings and our response
Improving transparency and governance	<p>The decisions encouraged greater transparency in how investment decisions were made, including clearer links between proposed expenditures and outcomes for customers.</p> <p>We have transparently reported our progress and the decisions we are making, including through our first Public Playback. This is consistent with a 'no surprises' approach for our stakeholders, customers and the communities we serve.</p> <p>In consultation with our customers, we have simplified our Outcomes – linking them to each of the core services we provide. This means that any customer, whether a water corporation, end-user or stakeholder, can easily understand our commitments. More importantly, everyone can understand how we are performing against these commitments during the period, the actions we are taking to address any underperformance and how we have re-prioritised. We have enhanced the transparency of our planning and governance processes, providing clear, evidence-based justification for all proposed investments. This includes detailed business cases for major projects and a robust stage-gate framework to manage and prioritise investments.</p>
Focus on environmental sustainability and resilience	<p>The decisions acknowledged the importance of sustainability and resilience in our proposals, but called for stronger integration of these elements into our decision-making.</p> <p>Consistent with the decisions and our corporate strategy, we have elevated resilience and sustainability as guiding principles in PS26. This includes actions required to transition our services to be net zero and to build resilience in the face of climate change and climate variability. This aligns with customer and community expectations that Melbourne Water should proactively plan for reliable services and a more sustainable future.</p>

1.1.4 Ensuring strategic alignment to corporate plans

An early step in the development of this submission was to ensure that it aligned with Melbourne Water's own strategy.

Melbourne Water is committed to 'enhancing life and liveability' for the Greater Melbourne region. Our Strategy identifies three Strategic Goals, which outline how we:

- work to build **Resilience** in and strengthen our services
- work proactively to **Transition** our systems to manage future challenges and demands
- work in **Partnership** with other organisations to support a thriving community and Country.

Figure 1.2 demonstrates how Melbourne Water's three Strategic Goals intersect and work together to place customers at the centre of all we do.

Figure 1.2: The customer is firmly at centre of Melbourne Water's strategy



1.2 Developing, efficient and deliverable expenditure proposals

Melbourne Water has followed the expenditure forecasting guidance of the ESC to develop prudent and efficient expenditure proposals. The expenditure proposals have also been tested and refined through a range of processes, including collaborative planning with the water corporations, broader customer and stakeholder engagement and expenditure prioritisation, which also formed an important part of our risk identification and allocation process.

Melbourne Water is proposing a significantly expanded its capex program for the 2026–31 period (a 62 per cent increase in capex compared to the current period). As demonstrated in this proposal, this is driven by growth, renewal and compliance-related investments. This expenditure program ensures we can deliver the Outcomes sought by our community, particularly our ability to maintain safe and reliable services, which is their highest priority.

Melbourne's water services are at a crossroads, facing critical challenges that demand decisive action and strategic investment. Recent experience demonstrates that further delays in renewing and expanding our asset capacity will have direct consequences for both customers and the environment. Our program optimises essential investment now to avoid a cycle of reactive spending that becomes increasingly difficult to manage, ultimately driving up project costs and heightening the risk of major adverse events.

The remainder of this chapter explains how we have developed prudent, efficient and deliverable capital and operating expenditure forecasts that include commitments to cost efficiency and productivity improvements.

The approach to developing the capital expenditure forecasts is explained first, followed by the operating expenditure forecasts.

1.2.1 Prudent, efficient and deliverable capital expenditure

Melbourne Water developed prudent and efficient capex forecasts by incorporating the ESC's Guidance and following the steps:

- using the best available information and forecasts as inputs

- basing forecasts on efficient cost assumptions
- applying a capex prioritisation framework to refine down the forecasts
- testing for deliverability
- collaboration and testing with the water corporations
- testing that our proposal provides value for money through public consultation to close the loop.

1.2.1.1 Using best available information inputs for prudent decisions

We have used the best available information to develop our capex proposal, including planning information and forecasts.

Collaborative long-term planning: Our investment program is informed by the trends, projections and assumptions that underpin the agreed strategies for the Greater Melbourne region. This includes the *Central and Gippsland Region Sustainable Water Strategy* (CGRSWS), each water corporation's network/growth servicing plans, the *Greater Melbourne Urban Water and System Strategy* (GMUWSS), The *Water Security Plan for Greater Melbourne, Geelong and connected towns* (Water Security Plan) and Victorian Government Climate Scenarios. Collaboration strengthens our planning process and our further commitments to this process are set out in Chapter 4 (Outcomes).

Considering scenarios: Our customers expect our infrastructure to be resilient to shocks and for us to adapt to long-term trends. We use scenarios to assess the ability of our infrastructure to continue to provide services under a range of short- and long-term assumptions. For example, for our water services, we consider probabilistic combinations of inflow and demand to examine supply adequacy, and we test the implications of unexpected supply outages. Our adaptive plans consider these scenarios and help us identify the preferred investment pathways for the short, medium and long term. To support secure and reliable water supplies, these plans include options for manufactured and new water for the region's next major augmentation.

Latest population forecasts: Our growth and demand forecasts are consistent with data provided by the Victorian Government and consider demographic analysis completed by SGS Economics and Planning in 2025.

Collaborative demand forecasting using water corporation insights: We have engaged deeply with the water corporations to develop forecasts for load and volumes for our services for the next regulatory period. We believe our forecasts are reasonable estimates, directly endorsed by our bulk customers.

1.2.1.2 Efficient cost assumptions

The capex forecast reflects efficient cost input assumptions, including:

- **Identifying efficient options:** Melbourne Water applies the Department of Treasury and Finance's (DTF) Investment Management Standard to the development of major capital projects, including the use of investment logic maps.
- **Using our extensive dataset and unit cost estimates:** Our unit costs are based on an extensive library of actual and tendered project cost information.
- **Using P50 estimates:** We use probabilistic Monte Carlo analysis (applied as the Melbourne Water 'RANE' methodology) to each civil project's P50 cost estimate.
- **Competitive tendering:** We seek ongoing efficiencies through competitive tendering, including bundling projects to drive the lowest possible cost over the regulatory period.
- **Efficiency in renewals:** Unlike retail and regional urban water corporations, who have high volumes of reticulation and distribution main renewals, renewals for our bulk assets

and treatment infrastructure require bespoke solutions that are competitively tendered, ensuring we get efficient costs.

1.2.1.3 Capex forecast refined through a prioritisation framework

The starting point for the forecasts is a needs-based capital investment program that reflects the investment required to meet core obligations, which aligns with our risk appetite, accounts for asset condition and performance assessments, and considers customer and community expectations. Melbourne Water's rolling 10-year capital plans provide an important foundation for the needs-based capital program.

We undertook an extensive process to prioritise the needs-based investment program to meet regulatory requirements, make targeted service improvements, meet growing demand for our services and deliver customer value into the future.

For our water, sewerage, and waterways and drainage investment programs, the prioritisation process applied and balanced several criteria, including:

- the incremental bill impacts of the investment program
- the risks from investing or not investing, including avoiding 'unacceptable' risk outcomes based on Melbourne Water's Risk Appetite Statement
- the ESC's certainty principles, for example some projects were identified as needed but were not progressed sufficiently to justify prudence and efficiency in line with the ESC Guidance
- the impacts on long-term asset and service performance for the community and the environment
- the deliverability of the program, incorporating individual project development and delivery timelines (accounting for time needed for investigations, approvals, market ability to deliver and site constraints)
- sequencing and dependencies, for example some projects can only occur at certain times of year (such as winter, when demand is lower), once other projects have been completed or are best delivered as a package of work (for efficiency or to reduce interface risk).

Our investment prioritisation process was iterative, whereby we progressively reduced our proposed expenditure and tested the impact on risk and outcomes. We ran a series of workshops and targeted risk assessments to assess the performance of different portfolios against the criteria.

We also iterated these portfolios with the water corporations, individually and collectively, to understand how different project timings and compositions supported the outcomes and service needs of their customers.

The outcome of the prioritisation process is a capital investment program that we consider strikes an appropriate balance between affordability, risk reduction, customer-driven service improvements and deliverability. This includes business cases for our top 15 major projects and our investment programs.

1.2.1.4 Deliverability

Melbourne Water understands the vital importance of ensuring our proposed capital program is prudent, efficient and deliverable. Therefore, we have conducted a thorough deliverability assessment to ensure our plans are realistic and balance the scale of investment with our capacity to deliver effectively and efficiently. Based on this assessment, which has also drawn

on the lessons learnt during the 2021–26 regulatory period, we are confident in our ability to deliver the proposed capital program.

Following the deliverability assessment, the capex forecasts have been refined as follows:

- Uncertain projects, including where deliverability had lower confidence, have been deferred or funding has been limited to expenditure required for project development.
- Projects with high customer value and readiness for delivery have been identified and prioritised for funding.
- The capital program has been reprofiled to reflect realistic project sequencing and delivery timelines, including:
 - **Sequencing and dependencies:** We considered interdependencies between projects, seasonal constraints and service continuity while undertaking works. This has the effect of delaying some previously planned expenditure.
 - **Site constraints:** We assessed physical limitations at key sites, including the Eastern Treatment Plant (ETP) and Western Treatment Plant (WTP), and community impacts. The forecasts reflect planning scheduled for specific sites (such as ETP), where projects would compete for space, and ensure there are no adverse impacts on required plant operation.
 - **More realistic lead times:** We reassessed our project lead times, including recent lead times for the development, delivery and commissioning of complex projects. We have reflected these timelines in our forecasts. We also applied realistic timeframes for stakeholder engagement, permitting and accounting for the technical complexity of our major projects.
 - **Adjusted annual expenditure profiles:** We have considered deliverability as part of the profiling of the capex forecasts across the regulatory period. This was also tested with the water corporations.

Melbourne Water is also proposing to increase its internal and external project management and delivery resourcing to support the expanded capital program.

Melbourne Water will increase our internal project management staffing but will ensure that this is efficient by further developing the internal workflow tools used by managers. Melbourne Water has also established the Project Management Panel to efficiently meet peaks in demand for project management resources.

For project delivery resourcing, Melbourne Water is refreshing its service provider panels to secure the capacity needed to deliver the planned capex program. We expect to award contracts under our new Major Capital Delivery Model in June 2026. This provides a two-year overlap between new and incumbent providers and provides additional capacity to increase our capital delivery going forward. As part of this procurement process, Melbourne Water has verified that market delivery capacity is available, including factoring for the concurrent decline in transport infrastructure spending across Victoria. Melbourne Water has also verified that contractor skills and resources are highly transferable to Melbourne Water's infrastructure works.

Our detailed Deliverability Plan is available on request.

1.2.1.5 Collaboration with the water corporations

Our Greater Melbourne water corporation customers are highly engaged and informed. Strong collaboration with these customers is a cornerstone of how water and sewerage services are planned and delivered and is reflected in our pricing proposal.

We recognise that the decisions we make impact different corporations and their customers in different ways. While we aim to provide value holistically to all end-use customers, sometimes the decisions we make result in differential value across our region, depending on the complex interactions of the following factors:

- the type and location of the projects we deliver
- how we allocate costs
- how we design tariffs
- how we set prices.

We have taken an open, transparent and principles-based approach to working through these matters where there are different opinions among our customers. Where we have not been able to meet the expectations of one or more corporation, we have described why (see Appendix A: Water corporation summaries for more details).

Our process involved the following key steps:

- **Identifying stakeholder priorities:** We engaged to understand the priorities and expectations of our individual water corporation customers and tested the impact of delivering each corporations' plans (including on customer outcomes and costs).
- **Balancing competing priorities:** We socialised the priorities and expectations of each water corporation across the group and discussed and tested how best to prioritise and balance competing projects and outcomes. We developed processes and principles to make decisions and sought consensus on these where possible.
- **Transparency reporting on decisions:** The water corporations requested that Melbourne Water clearly and transparently report on the decisions it made, and the logic used to reach these decisions. This reporting has been undertaken regularly throughout the finalisation of the proposal.

1.2.1.6 Testing that our proposal provides value for money

We sought to confirm customer sentiment in our Public Playback. This included describing what we heard were customers' priorities, providing our five proposed Outcomes, proposing expenditures to deliver the Outcomes and explaining the implications for customer bills. We heard from consumers that cost-of-living and cost-of-housing pressures are front of mind. Despite this, we learnt that while there was an understandable level of discomfort with any bill increases, the majority of responding customers support our proposed package.

1.2.1.7 Desalination capitalisation

We will be continuing with the approach established in the 2021 final decision regarding desalination capitalisation - principal payments under the finance lease will provide our benchmark for capitalisation. This ensures customers continue to pay only in proportion to their utilisation of the underlying asset.

1.2.2 Prudent, efficient and deliverable operating expenditure

We have developed prudent and efficient opex forecasts that are aligned to our Outcomes and our capital program and reflect an ambitious efficiency target. We have thoroughly assessed base year expenditure to ensure it is reflective of efficient recurring operating costs.

Melbourne Water is proposing no net growth in opex aside from well supported opex steps above baseline. To calculate this, we have proposed an operating expenditure growth rate of 2 per cent, aligned to the Victorian Government population growth forecast directly offset by an opex efficiency rate of 2 per cent per annum.

The proposed efficiency target is supported by a Cost Efficiency Plan that outlines:

- our recent performance
- the strategy that Melbourne Water will use to maintain downward pressure on prices
- our approaches to benchmarking, including our benchmarking through participation in the Water Services Association of Australia (WSAA) totex benchmarking study
- our cost efficiency framework, which will identify, deliver, evaluate and share our results
- the initial efficiency opportunities identified to offset the growth in opex expected as our customer base grows, including through: project delivery, planning and decision-making, digital solutions, actions identified through the WSAA totex benchmarking study, savings from capital investments, cost rationalisation, enterprise workforce planning, workplace facilities and maintenance.

We have proposed well justified opex steps, each supported by a strong rationale and tied to our customer Outcomes. Where relevant, we have engaged with customers and partners on these steps.

Full details of our prudent and efficient opex proposal are provided in Chapter 7 (Operating Expenditure).

1.3 PREMO assessment – Management

For the management component of PREMO, we have assessed ourselves to be '*Standard*', as summarised in Table 1.2.

Table 1.2: PREMO assessment – Management

Guiding Question	Comment
To what extent has Melbourne Water demonstrated how its proposed prices reflect only prudent and efficient expenditure?	<p>Melbourne Water has followed the expenditure forecasting guidance of the ESC to develop prudent and efficient expenditure proposals. The expenditure proposals have also been tested and refined through a range of processes, including collaborative planning with the water corporations, broader customer and stakeholder engagement and expenditure prioritisation processes, which also formed an important part of our risk identification and allocation process.</p> <p>Prudent and efficient capex forecasts have been produced by using the best available information and forecasts as inputs, basing forecasts on efficient cost assumptions, applying a capex prioritisation framework to refine down the forecasts, testing for deliverability, collaborating on and testing the forecasts with the water corporations, and testing that our proposal provides value for money through public consultation to close the loop.</p> <p>As set out in Chapter 6 (Capital expenditure), business cases for all top 15 capital projects have been independently reviewed.</p> <p>We are entering a growth phase in investment and while increasing investment significantly, have excluded uncertain projects from our revenue requirement.</p> <p>We have developed prudent and efficient operating expenditure forecasts that are aligned to our Outcomes and capital program and reflect an ambitious efficiency target.</p>

Guiding Question	Comment
	We have proposed well justified opex steps, each with a strong rationale and tied to our customer Outcomes.
To what extent has Melbourne Water justified its commitment to cost efficiency or productivity improvements?	Our opex profile reflects our commitment to finding ongoing efficiencies. Our efficiency rate of 2 per cent fully offsets growth and is higher than the benchmark for Standard-rated businesses in the 2023 and 2024 water price reviews – refer to Chapter 7 (Operating expenditure).
To what extent has Melbourne Water justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?	Our governance framework guided the development of PS26 and progressive approvals ensured the quality of all aspects of this submission. In addition, we engaged independent experts to review and/or verify key inputs and assumptions taken in this submission, including Frontier Economics for assurance. These processes culminated in the Board making its attestation in support of PS26 at its September 2025 meeting.
To what extent has Melbourne Water provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?	This document is the product of over two years of strategic thought leadership by our Board, Managing Director and ELG to build PS26. Our Board has attested to PS26.
To what extent has Melbourne Water demonstrated its price submission is an 'open book'?	We have engaged openly with customers, other key stakeholders and regulators throughout the development of PS26, including via regular briefings from members of our Board and ELG. Our capex program has been scrutinised by our water corporation customers. We have listed an extensive array of reference materials in PS26 that we will make available on request. In addition, we are available to further discuss or provide any other information required for the ESC to undertake its assessment of PS26. We had regular meetings with ESC staff, including at Commissioner-Board levels, to discuss any issues of concern and mutual understanding. We published a summary of our proposed draft submission in May 2025 and will also publish and promote a summary of PS26 on our website.
Rating	Confident management is 'Standard'.

Performance



2

In Summary

A summary of our performance against Outcomes for 2021–26 is provided below:

- We have performed well against our PS21 customer Outcomes, achieving 'on track' status for five out of the six Outcomes in each of the first four years of the regulatory period. We have largely achieved the targets associated with each Outcome, with 14 out of 19 measures rated green.
- We have performed best on meeting the Outcomes (and associated performance targets) that are most highly valued by customers. These are Outcomes 1 to 4, which deliver on our core services and service level expectations.
- We have transparently reported on our performance throughout the period. We reviewed performance with our bulk water and sewer customers prior to publishing our Outcomes performance in 2023-24 and 2024-25 and will do so for 2025-26.
- Although we had challenges developing a workable customer satisfaction measure for Outcome 5 (Easy, respectful, responsive and transparent customer service), other satisfaction scores (including water corporation, customer contact centre and developer scores) show that we maintained a strong level of satisfaction among our customers throughout the regulatory period.

A summary of our performance against expenditure allowances for 2021–26 is provided below:

- Over the regulatory period, capex is forecast to be 10.6 per cent higher than the benchmark allowance as we invest to manage the challenges facing our region.
- Our capex delivery was slower to start than anticipated, including through deliberate decisions we made to bundle major projects and adapt to new information arising from the October 2022 floods. However, after corrective action, we are on track to deliver our benchmark allowance.
- Some of the initial delays were due to external factors in the post-COVID-19 period. There have been significant lessons learnt, and new processes and resourcing are being applied to improve project delivery going forward.
- We expect that our total opex over the current regulatory period will be 4 per cent higher than our benchmark allowance. Much of this increase has been driven by external factors, and a significant portion of these costs will not be ongoing.
- The higher opex has supported our ability to deliver on customer Outcomes (and customer value) and to meet our regulatory obligations.
- We have learnt from the development of the first set of Outcomes for PS21 and the subsequent process of developing and embedding the associated performance targets. We have brought those lessons to our engagement with our customers and stakeholders and as a result, Outcomes for the 2026-31 period are better aligned to our services, and associated targets are being improved where required. This is particularly applicable to the redevelopment of the customer satisfaction measures.
- Our PREMO self-assessment rating for Performance is 'Standard'.

Chapter 2 provides a report on our performance, including:

- our performance against the Outcomes agreed with customers for the 2021–26 regulatory period
- expenditure outcomes relative to the 2021–26 benchmarks
- broader customer sentiment and how this demonstrates satisfaction in Melbourne Water’s performance
- our Performance self-assessment.

2.1 Our performance delivering Outcomes in the 2021-26 period

For PS21, we agreed on six Outcomes with our customers (outlined in Figure 2.1), which reflected the outcomes mostly highly valued by them.

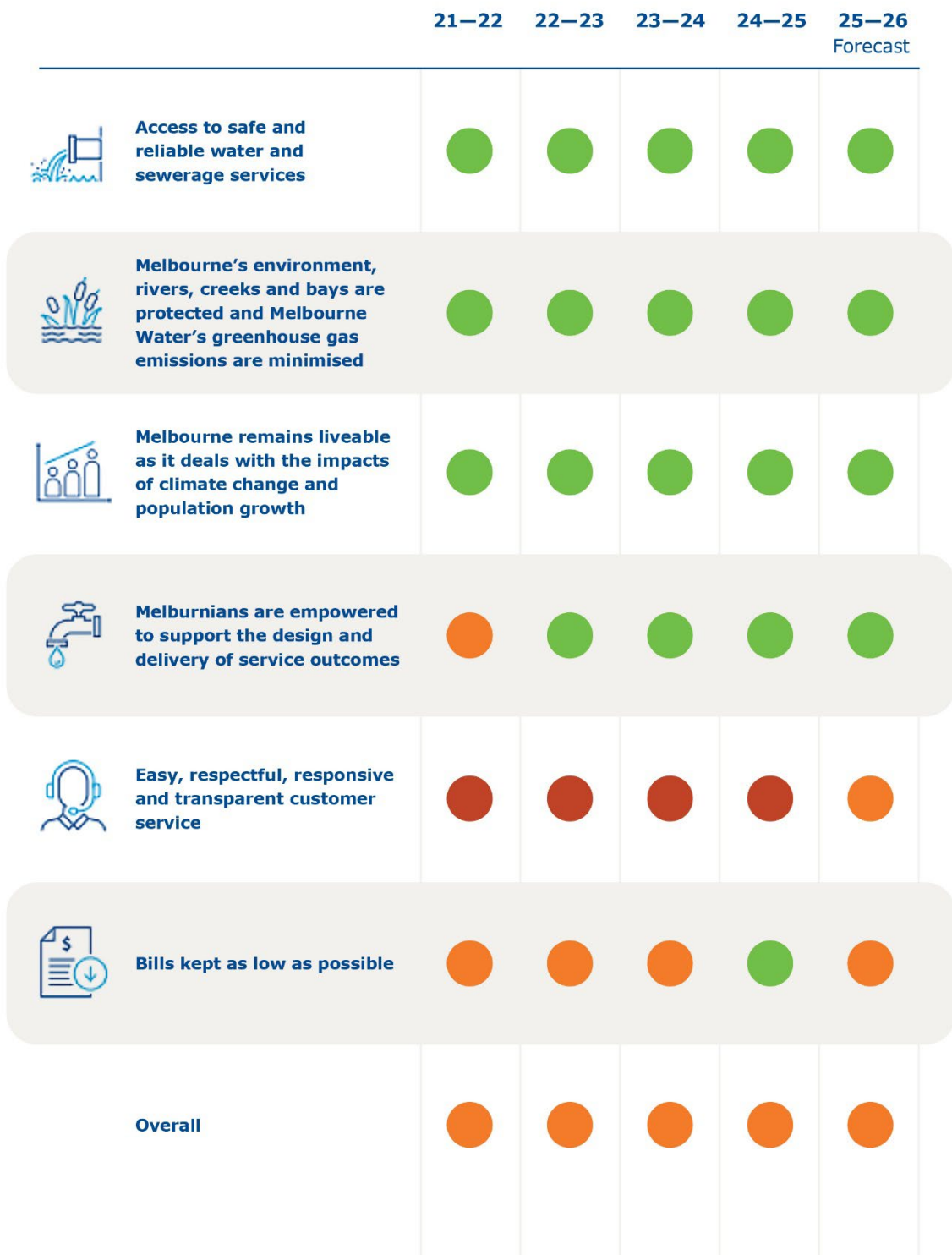
Melbourne Water has reported annually on its performance against these Outcomes and their associated performance measures and targets. We also transparently report on the uplifts in waterways and drainage programs that were approved in the 2021–26 regulatory period (available on the Melbourne Water website: melbournewater.com.au/services/prices-and-charges/price-submission).

Figure 2.1 summarises our performance against each of the six customer Outcomes. Actual performance is shown for the years 2021-22 to 2024-25. A forecast of performance is provided for 2025-26.

We have substantially met our targets, except for the ambitious customer satisfaction targets associated with Outcome 5. Importantly, we have consistently met our Outcomes and the associated targets for Outcomes 1 to 4. These Outcomes represent core service delivery and are most valued by customers.

We provide further explanation below on the challenges faced to develop a workable method to measure performance against Outcome 5, which has prevented us from achieving this Outcome. However, to replace this measure, we are able to provide a broader set of data and information to demonstrate customer satisfaction.

Figure 2.1: Performance against PS21 Outcomes



Note: Green = Met, Amber = Substantially met, Red = Not met.

2.1.1 Outcome 1: Access to safe and reliable water and sewerage services

Outcome 1 establishes performance standards relating to our core bulk water and sewerage services. This includes water quality and water pressure standards and avoidance of sewerage system spills.

Customers consistently rank this as our most important Outcome, and we worked diligently to maintain performance. Over the four years from 2021-22 to 2024-25, we met the targets for all three measures:

- zero non-compliances with the *Safe Drinking Water Act* 2003
- 99.9 per cent with retail water company pressure requirements met
- zero sewerage transfer spills per annum due to system failure.

We expect to maintain this performance in 2025-26.

We substantially met our Bulk Water Supply and Bulk Sewer Agreement service levels. We experienced 14 performance deviations that we assessed as eligible for rebates under our Guaranteed Service Level (GSL) scheme, where our performance temporarily fell short of retail requirements.

Outcome 1 represents aspects of our services that customers value most highly. We will be taking these measures forward into the 2026-31 period in Outcomes 1 and 2 and will expand our GSL scheme to include drinking water quality.

2.1.2 Outcome 2: Melbourne's environment, rivers, creeks and bays are protected, and Melbourne Water's greenhouse gas emissions are minimised

Outcome 2 establishes targets to improve the health of rivers and creeks, for the quality of discharge from treatment plants and for the reuse of biosolids from the Western Treatment Plant (WTP). It also set performance targets relating to the reduction of carbon emissions. We committed to and met the following performance targets over the 2021-26 period:

- 100 per cent of 10 priority/target river sites maintained in high condition
- 100 per cent sewage treatment plant discharge compliance
- at least 40 per cent annual reuse of biosolids
- less than or equal to 204.38 kilotonnes carbon dioxide equivalent of greenhouse gases emitted.

We expect to maintain this performance in 2025-26.

Customers want us to protect the waterways and the environment and do our part to mitigate the effects of climate change. As a result, we will report on waterways management and sewage treatment discharge licence compliance and emissions in our updated Outcomes 2 and 3 for PS26.

2.1.3 Outcome 3: Melbourne remains liveable as it deals with the impacts of climate change and population growth

Under Outcome 3, we committed to increasing access to the land we manage for social and recreational benefit and continuing to reduce damage caused by floods. Our performance metrics across this period were:

- average modelled/estimated damage from floods reduced for customers most at risk, where risk is quantified as a modelled value of Average Annual Damage (AAD) in real dollars (\$155 million in \$real 2020-21, by 2025-26)
- 100 per cent of projects activating land or assets demonstrate a community benefit.

The targeted reduction in AAD has been comfortably exceeded in the four years from 2021-22 to 2024-25. A range of activities have been undertaken to achieve this Outcome, including flood mitigation works, responses to building and planning permits, investments in flood modelling, and education and awareness programs.

In terms of activating land for community benefits, we delivered 47 hectares of land and assets activated to increase community enjoyment of nature and recreation against our Waterways and Drainage Investment Plan (WDIP) target of 31 hectares. Key projects delivered for community benefit included the Werribee Multi-Use Platform for recreational paddling, Blind Creek and a portion of Moonee Ponds Creek as part of our Reimagining Your Creek program, and activation of two zones in Melbourne Outfall Sewer reserve.

However, we have not been able to both deliver these projects and complete community benefit assessments via post-project surveys within the timeframe of the regulatory period. Most projects under this commitment have been delivered in collaboration with local communities and councils. We have scheduled community benefit assessment surveys to occur in 2025-26 and will include the results in our 2025-26 Outcome Performance Report.

We have received strong support from the community on completed projects. Over 1,000 community members attended the openings of the Blind Creek and Moonee Ponds Creek projects, and interactions with the assets have been very positive since opening. Social media pages for these programs had over 50,000 impressions and more than 200 positive interactions, including supportive comments. The information received from the community about how they use these resources and the benefits they see will be considered in future management and investment decision-making.

Delivery of these projects, which is undertaken in partnership with councils and communities, has taken longer than anticipated in some cases. The completion of necessary planning and permit processes has contributed to these delivery times. This has improved our understanding of the delivery process, and the time needed will be incorporated into future project delivery planning.

Flood management and community sentiment about our waterways projects continue to be important and are reflected in new measures in Outcomes 3 and 4 for the 2026-31 regulatory period.

2.1.4 Outcome 4: Melburnians are empowered to support the design and delivery of service outcomes

Under Outcome 4, we committed to working in partnership with the community to deliver more value for the water cycle than we could achieve on our own. This Outcome is focused on improving community literacy about efficient water use, and funding grant programs to community groups and customers for projects that promote waterway vegetation management, stormwater management and rural land management to support improved waterway health outcomes.

Our grants and incentives programs are an efficient means of delivering improvements to the health of our waterways and delivering our vision to enhance life and liveability. More efficient

outcomes are achieved by involving local communities in the design of the project solutions, as they best understand local needs. Efficiency is also improved by leveraging the resources and expertise of the grant recipients to best deliver the projects. Importantly, the grants and incentives also enable community connection and participation.

In 2021-22, we met our water literacy target. However, due to a change to the grant application process in that year, the number of grants awarded was below the target (7 per cent below for the number of successful grants within the waterways and drainage incentives programs and 16 per cent below for the number of projects funded by the waterways and drainage incentives programs). Despite this, we distributed 99 per cent of the funding available for the year and were rated as having largely met the target.

From 2022-23 onwards, we have consistently met the specified targets, which are:

- at least 75 per cent of the community with at least moderate water literacy
- 830 successful grants within the waterways and drainage incentives programs
- 1,000 projects funded in our waterways and drainage incentives programs.

We also expect to meet these targets in 2025-26.

For the 2026-31 regulatory period, measures relating to water literacy and incentives project funding will continue under Outcomes 3 and 5.

2.1.5 Outcome 5: Easy, respectful, responsive and transparent customer service

For PS21, we proposed to measure our progress against Outcome 5 through survey-based customer satisfaction (CSAT) measures for each of our major services.

We proposed an Advanced set of target scores for the period, including stretch targets for all measures under Outcome 5. The following scores and outcomes for each service show that these targets have not been met:

- **Bulk water services CSAT:** Target - Starting at 7.9 and rising to 8.3 over the regulatory period. Result - The score achieved has been stable over the period at just above or below 7.0.
- **Bulk sewerage services CSAT:** Target - Starting at 7.9 and rising to 8.3 over the regulatory period. Result - The score achieved has been between 6.6 and 7.3 over the period.
- **Waterways services CSAT:** Target - Starting at 6.8 and rising to 7.5 over the regulatory period. Result - The score achieved has been between 6.1 and 6.8 over the period.
- **Drainage services CSAT:** Target - Starting at 6.5 and rising to 6.8 over the regulatory period. Result - The score achieved has been between 5.5 and 6.1 over the period.

Our 2024-25 Outcomes Report provided comprehensive advice on the challenges we have experienced with the methodology underpinning the CSAT scores (as discussed in Box 2.1). As a result of these issues, we have undertaken a significant work program to develop improved methodologies for measuring customer satisfaction for our services and have reached an agreement with the water corporations that these new approaches will be applied going forward.

The alternative measures are discussed in detail in the final section of this chapter, which reports on satisfaction with Melbourne Water's performance over the current regulatory period.

Contrary to the compromised measures above, these alternative measures consistently show strong satisfaction with our services among our customers (including the water corporations, developers and customers interacting with our customer contact centre).

For the 2026–31 regulatory period, customer satisfaction targets, including for the water corporations, will continue to apply under Outcome 5. We have proposed to continue working with the water corporations to co-design a new relationship health metric to apply under Outcome 5 (outlined in Box 2.1).

Box 2.1: Customer satisfaction

Customer satisfaction

Melbourne Water has been reviewing our customer satisfaction approach and methodology as part of a continuous improvement program for the 2021-26 regulatory period and to inform our approach for the PS26 period.

The concern with the CSAT measures for Outcome 5 was that the methodology did not suit service type and customers from whom satisfaction information was sought. The methodology was designed for a high transaction service environment, where there would be thousands of observation points captured in surveys. For example, the CSAT method used is typically applied to measure satisfaction with customer service centre performance (as adopted by the water corporations), capturing tens of thousands of scores through interactions over the course of a year and capturing a representative sample of customers.

However, we found that this methodology was not suited to a service environment with a small number of direct customer relationships. Applying the methodology in this context meant it was beset by a low and statistically unsound representative sample and the scores could not be found to reasonably represent a true satisfaction score. Other forms of bias were also present, including self-selection bias resulting in the risk of over-representation or under-representation of certain customer groups that interact with Melbourne Water.

Measuring the satisfaction of water corporations and long-term delivery partners (local government, large-scale developers) requires a different approach, to ensure that we are measuring and reporting the experience of those customers in a way that reflects the nature of their partnerships with Melbourne Water (such as delivering shared strategic outcomes, meeting agreed service levels and the value/productivity of relationships).

This work has progressed substantially and is reported in the final section of this chapter, which reports on customer satisfaction with Melbourne Water.

2.1.6 Outcome 6: Bills are kept as low as possible

Outcome 6 provides an ongoing focus on achieving operating cost efficiencies and being transparent about emerging cost challenges. This Outcome also provides targets for the alignment of our expenditure outcomes to the benchmark allowance set by the ESC for the 2021-26 regulatory period.

During the 2021-26 period, we committed to meeting the following performance targets:

- more than \$500,000 of net savings in operating expenditure identified through new efficiency projects
- actual operating expenditure within 5 per cent of the operating expenditure allowance in the 2021 Price Determination
- actual cumulative capital expenditure within 2 per cent of the capex allowance in the 2021 Price Determination.

We have achieved the first two opex-related metrics consistently over the regulatory period.

Under the first opex metric, Melbourne Water has achieved accumulated new net opex savings of close to \$5 million (\$real 2020-21) in the first four years of the regulatory period. In 2024-25, savings were made as part of the procurement of IT Managed Services and Cloud-based services.

It should be noted that the opex measures used in the second metric, which compares actual opex to the opex allowance, are not directly comparable to reported total opex or to the base year opex benchmark set for the 2026-31 period, as outlined in Chapter 7 (Operating Expenditure). To ensure like-for-like comparisons are being made between the allowance and actual expenditure, some aspects of actual expenditure in the 2021-26 period need to be excluded from the comparison. The following expenditures are excluded from the comparison:

- **Non-recurring opex:** This relates to one-off events that can vary over the period and were not known when setting the allowance. For example, the additional opex incurred in response to the 2022 flood event.
- **Opex associated with new obligations:** This relates to expenditure to meet new obligations that may arise within the regulatory period. This expenditure would not have been foreseen when setting the allowance for the 2021-26 regulatory period.
- **Any changes to uncontrollable expenditure:** This is expenditure that is charged to Melbourne Water by external parties, such as for the Victorian Desalination Project, and other fees and taxes, and may change from what was assumed when setting the allowance.

These adjustments ensure that the comparison between the benchmark expenditure allowance and actual opex is made on a consistent basis. With this adjustment made, this metric has been met in each of the first four years of the regulatory period.

The third capex-related metric was not met in the first three years of the regulatory period due to delays in the commencement of the delivery of the capital program, including decisions we made to bundle works to gain cost efficiencies, which are explained in detail in the next section (2.2 Delivery against expenditure benchmarks). We will exceed the target range in 2025-26 as we scale up to deliver the increasing capital expenditures, that we have forecast are required to meet and deliver the services customers expect.

For the 2026-31 regulatory period, these expenditure outcomes will be reported on as part of the standard reporting requirements under the PREMO regulatory framework, which requires us to track and report on opex and capex outcomes against the allowance over the period and to establish targets for cost efficiency that are reflected in the level of allowed funding provided by the ESC.

Further detail on how our operating and capital expenditure has tracked against our benchmark allowances is provided in the following section.

2.2 Delivery against expenditure benchmarks

In this section, we report on our opex and capex outcomes relative to the benchmark allowances established for the 2021-26 regulatory period.

Necessary variations have occurred to the nature and timing of both opex and capex over the regulatory period. This has included variations due to expenditure reprioritisation and our response to external events impacting our operations. The early delays to the delivery of our capex program were overcome by the end of the period, ensuring that customers received the outcomes reflected in our prices.

Actual opex and capex are forecast to be higher than the benchmark allowance over the 2021-26 regulatory period. Melbourne Water has funded the higher opex associated with reprioritisation and responding to external events and it will not be recovered from customers. Melbourne Water proposes to recover any above determination prudent and efficient capex in the 2031 Price Submission.

2.2.1 Operating expenditure

We expect our total opex over the 2021-26 regulatory period will be \$5,799 million – 4 per cent higher than forecast in our 2021 Price Determination of \$5,583 million. As we pass on changes in the contract cost for the Victorian Desalination Project (VDP) each year, excluding this from the analysis below provides a more accurate reflection of our performance.

The 2021 Price Determination set out total prescribed controllable opex (excluding the VDP) of \$2,326 million. Our forecast expenditure is \$2,626 million – excluding adjustments for one-off or unusual expenditure. This is an additional \$300 million, or 13 per cent over the regulatory period. A summary of the variations is shown in Figure 2.2.

The key drivers for additional opex incurred above the benchmark allowance have been external events beyond the control of Melbourne Water. It has been necessary to incur the additional opex to maintain core service delivery at a standard that is expected by our regulators, our customers and community. While we have sought to make changes to reprioritise expenditure, this has not been sufficient to avoid the reported opex overspend. The key external drivers of this overspend, and how they have been crucial to maintaining customer value, are explained below.

Additional detail is provided in Chapter 7 (Operating Expenditure), which detail our proposed normally recurrent 2024-25 baseline opex for the next regulatory period.

Figure 2.2: Unadjusted controllable opex over the 2021-26 regulatory period (\$millions, real 2025-26)

\$millions, real 2025-26	2021-22	2022-23	2023-24	2024-25	2025-26 (F)	Total
2021 Price Determination	464.4	460.4	462.3	467.4	471.8	2,326.2
Actual/Forecast	501.2	500.3	508.5	568.1	547.8	2,625.9
Cumulative Variance	7.9%	8.3%	8.9%	12.1%	12.9%	299.7

The additional expenditure was driven by:

- Higher population and demand growth than forecast.
- Higher volume of development services applications resulting from upswing in growth and development activity.
- Emergency management response, including the 2022 Maribyrnong flood and the flood review.
- Meeting cyber security standards.
- Increased water maintenance and security costs.
- Increased cost of material resulting from changes in market conditions.
- Actual electricity costs increasing above determination rates.

We are
expected to
exceed
forecast by
\$300m
by June 2026

2.2.1.1 Higher population and demand growth than forecast

PS21 and the corresponding ESC review were finalised during COVID-19 restrictions. At this time, there was significant uncertainty about how the transition back to normal operating conditions would occur, such as the expected rebound in population and demand.

Over the 2021-26 regulatory period, growth and demand has been higher than assumed in the expenditure allowance, including:

- The region's population has grown at an annual average of 2.2 per cent, which is more than double the 1.0 per cent annual average forecast underpinning our 2021 Price Determination.
- Bulk water transfer volumes are 13 per cent higher in 2024-25 than 2019-20.
- Over the 2021-22 to 2024-25 period, actual sewage flows at both the Eastern Treatment Plant (ETP) and WTP have been greater than the 2021-26 determination forecasts by 20 per cent and 10 per cent respectively.

The higher-than-expected growth and volumes have increased opex beyond what was forecast, including through higher pumping, treatment and materials costs. This has also increased the workload and costs associated with urban development application processing.

Significant customer value has been provided by managing these increased volumes in compliance with our regulatory obligations. Responding to these variances in demand and load on our systems is fundamental to our core service delivery.

2.2.1.2 Development application processing

The rebound in growth and development activity beyond what was forecast resulted in a higher volume of development services applications. This increase in applications added to the existing backlog of applications, which built up over the COVID-19 pandemic period.

During 2023-24 and 2024-25, additional operating expense of close to \$4 million (\$real 2025-26) was incurred to process the applications.

The increasing backlogs and delays had become a significant source of concern for our developer customers. With additional resourcing and focus on our interactions, we cleared the backlog and are now meeting our published targets over 90 per cent of completions on time. As shown in the final section of this chapter, we have received clear positive feedback from our developer customers about their satisfaction with the use of additional resources to address the application backlog and the improvements made to processing times. This expenditure to process the development services applications has also supported the implementation of the Victorian *Housing Statement*.

2.2.1.3 2022 Maribyrnong River Flood

On 14 October 2022, significant flooding occurred within the urban catchment of the Maribyrnong River. Melbourne Water provided a significant operational response to the event, which included extensive communication, engagement and operational response activities.

Melbourne Water also supported subsequent flood inquiries, incurring administrative, legal and investigative costs. Melbourne Water established and funded an independent panel to undertake a review of the causes of the flooding, including the impact of the Flemington Racecourse flood wall. In parallel with the independent review, Melbourne Water participated in the Legislative Council Environment and Planning Committee Inquiry into the 2022 flood event.

Within the current regulatory period, Melbourne Water has undertaken additional flood mitigation studies to evaluate future mitigation options and has developed flood risk awareness and preparedness programs in partnership with the Victorian State Emergency Service (VICSES) and councils.

These responses to the flood event have been vital to assisting our customers and addressing broader community concerns. The work undertaken has also supported the development of prudent and efficient flood mitigation and preparedness expenditure proposed for the 2026-31 regulatory period.

2.2.1.4 Meeting our cybersecurity standards

At the time the opex forecasts were prepared for PS21, Melbourne Water was in the very early stages of understanding its obligations and required actions under the new *Security of Critical Infrastructure Act 2018* (SOCI Act).

During the current regulatory period, further analysis and testing indicated that additional expenditure was required to comply with our cybersecurity obligations under the SOCI Act. Additional opex has been incurred to meet this obligation.

2.2.1.5 Water maintenance

To maintain our water assets in compliance with regulatory obligations, we have incurred costs relating to corrective maintenance required due to the climatic conditions and the ageing of assets. In addition to this, increased security costs have been incurred at our asset sites to ensure they are protected from unauthorised access.

These costs have been higher than anticipated, however, have been necessary to maintain safe and reliable water supply services.

2.2.1.6 Material and energy cost increases beyond forecast

Melbourne Water has incurred higher material and energy costs than forecast in PS21 due to changes in market conditions and other unforeseen events arising during the period, including:

- **Chemicals:** Supply chain issues resulted in higher-than-expected chemical prices. Melbourne Water has also used a greater quantity of chemicals than forecast, including to treat higher than forecast water volumes. The prices of fluoride were higher than anticipated, due to the unexpected closure of an Australian production facility. Additionally, a higher quantity of chlorine was used than forecast. As agreed with the water corporations, Melbourne Water has increased its chlorine set points across the system to ensure there is greater chlorine residuals as the water enters the distribution system.
- **Energy:** Although not unforeseen, the energy cost reflected in the opex allowance was based on a benchmark rate rather than our actual electricity rate, which is higher than the assumed benchmark.

Further information on our opex is provided in Chapter 7 (Operating expenditure).

2.2.1.7 Waterways and drainage operating expenditure uplift items

In PS21, we proposed additional waterways and drainage opex related to customer-supported initiatives in the WDIP, with \$25.5 million (\$21.2 million in \$real 2020-21) included in the ESC's final decision.

The uplift funds the following six programs:

- community involvement in waterways
- flood mitigation
- flood preparedness
- natural wetlands
- new Stormwater Quality Treatment Systems
- large-scale stormwater harvesting.

We report annually on this uplift.

During the regulatory period, we invested \$21 million across the waterways and drainage uplift categories identified in the final determination. By June 2026, we are expected to deliver 82 per cent of the committed spend. As outlined in Figure 2.3 below, the challenges associated with activating large scale stormwater harvesting dominated this performance.

Figure 2.3: Waterways and drainage uplift total expenditure during the 2021-26 regulatory period (\$millions, real 2025-26)²

\$millions, real 2025-26	2021-22	2022-23	2023-24	2024-25	2025-26 (F)	TOTAL
2021 Price Determination	3.1	4.1	5.1	6.2	7.1	25.5
Actual Forecast/ Expenditure*	4.7	2.1	3.5	4.9	5.5	20.9
Cumulative Variance	54%	-4%	-15%	-17%	-18%	4.6

During the regulatory period, we delivered:

- Four programs have been delivered or have been largely delivered - community involvement in waterways, flood mitigation, flood preparedness and new Stormwater Quality Treatment Systems.
- We have been slower than anticipated to deliver the natural wetlands management program. This is a result of a shift to deliver a more planned and coordinated approach once the COVID-19 restrictions fully lifted. We are expected to spend slightly less than forecast over the five-year period.
- The greatest challenges and hence delay in delivery has occurred in the large-scale stormwater harvesting program, which has required complex customised solutions. Drawing on the lessons learnt, the program is being re-set to focus on smaller scale assets in the 2026-31 regulatory period.

We propose to maintain the waterways and drainage uplift, but at a level consistent with 2024-25 expenditure (i.e. \$4.9 million is included in base).

As shown in Figure 2.4, four of the six programs are on track. By 2024-25, we achieved the targeted activities and/or levels of service for these programs, with cost savings for the following programs:

- community involvement in waterways
- flood mitigation
- flood preparedness
- new Stormwater Quality Treatment Systems.

























The following two uplift programs have not met expenditure targets, planned activities or levels of service:

- natural wetlands
- large-scale stormwater harvesting.

For both programs, we experienced challenges in coordinating with partners on complex multi-stakeholder matters.

² Note that the Outcomes reporting is in \$real 2020-21 to align with Melbourne Water's 2021 Determination.

Figure 2.4: Waterways and drainage uplift performance during the 2021-26 regulatory period

Program	2021-22 and 2022-23*	2023-24	2024-25	2025-26 (forecast)
Community involvement in waterways				
Flood mitigation				
Flood preparedness				
Natural wetlands				
New Stormwater Quality Treatment Systems				
Large-scale stormwater harvesting				

*Our first performance report combined 2021-22 and 2022-23 data.

The reasons for the delays to the natural wetlands and large-scale stormwater harvesting program and our plans for effective delivery going forward are as follows:

- **Natural Wetlands:** This program was hindered as eight of the 20 priority natural wetlands that were targeted to be maintained throughout PS21 were either lost or will imminently be lost to development or were inaccessible due to their location on private land. Our engagement program showed that preserving biodiversity is highly valued by our customers and we propose to continue the uplifts we have achieved in the 2024-25 year for PS26.
- **Large-scale stormwater harvesting:** This program required multiple stakeholder input and customised solutions for each sub-catchment, which has slowed the progress of delivering proposed projects. However, stormwater harvesting and infiltration is one of the most effective actions to manage waterway health. Our engagement showed that it is also supported by customers. Therefore, we propose to continue with the 2024-25 level of expenditure, albeit targeting smaller scale assets that are more deliverable.

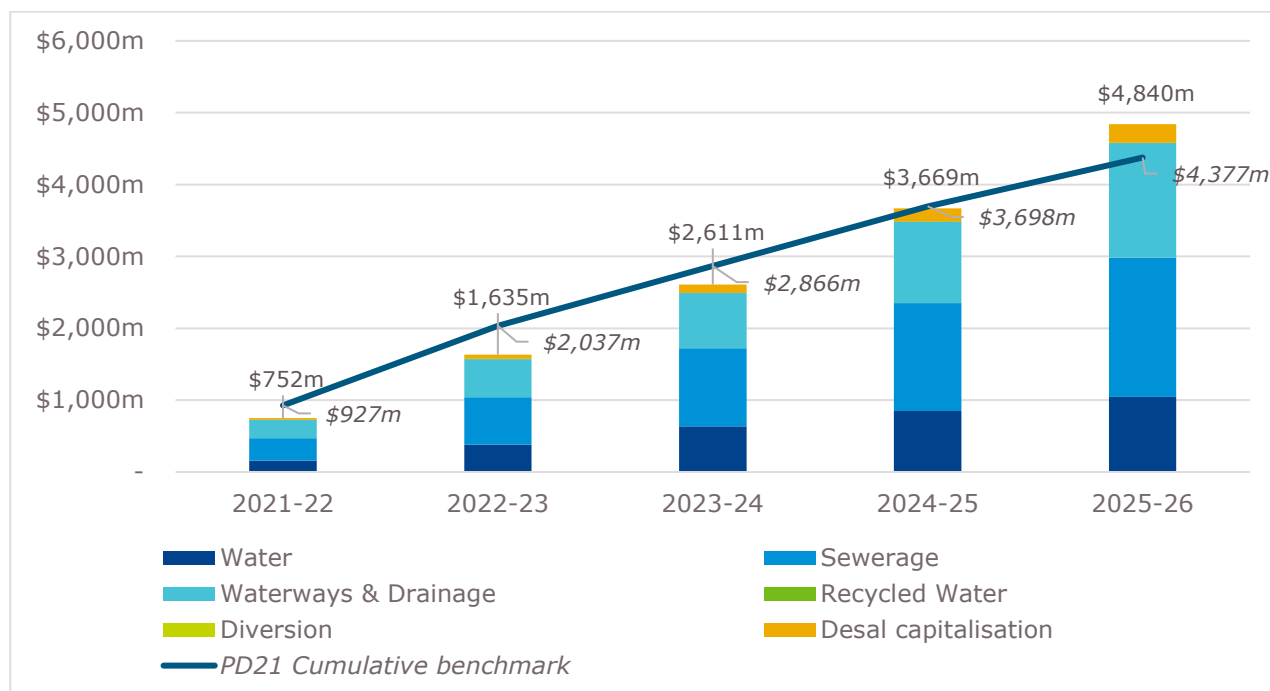
Overall, with the positive outcomes delivered by the programs, we propose to maintain the waterways and drainage uplift, but at a level consistent with 2024-25 expenditure (\$4.9 million is included in base opex). A reconciliation of controllable opex to the allowance is included in Section 7.2.4.

2.2.2 Capital expenditures

The rate of capital project and program delivery has accelerated consistently over the 2021-26 regulatory period and is proposed to continue in the 2026-31 regulatory period to meet the needs of our customers. As at June 2025, actual capex is 0.8 per cent below our cumulative capex benchmark. By 2025-26, we forecast that actual capex will exceed the capex benchmark by \$463 million, or 10.6 per cent.

Figure 2.5 provides a year-by-year comparison of our capex allowance (benchmark capex) versus actual capex.

Figure 2.5: Capex delivery over 2021-26 regulatory period, cumulative (\$millions, real 2025-26)^a



^a Actual capex in 2025-26 is based on our most recent forecast.

The below-benchmark expenditure during the initial four years of the 2021-26 regulatory period was primarily due to delays in several high-value, complex projects. Some of the delays arose due to processes and factors outside our control, including:

- Planning and land acquisition approvals:** There were unanticipated delays in securing approvals. These approvals were time-intensive and required careful coordination with multiple stakeholders. For example, delayed planning and land acquisition approvals for the Yan Yean to Bald Hill Pipeline and the Maribyrnong Main Sewer Augmentation projects. We have assumed these longer approval timeframes when testing the deliverability of our proposed expenditures for the 2026-31 regulatory period.
- Multi-party delays:** The delivery of waterways and drainage infrastructure experienced delays due to the number and complexity of external parties and processes involved, including multiple delivery agencies, multiple funding partners, shared land tenure and distributed beneficiaries. This delay impacted the large-scale Sunbury Stormwater Harvesting Project. Deliverability testing of the waterways and drainage capital program for the 2026-31 regulatory period has incorporated these likely timeframes.
- Lingering post-COVID-19 constraints:** Constraints impacted Melbourne Water's ability to schedule on-site activities necessary to activate our capital program early in the 2021-26 regulatory period. These constraints are now resolved. At this time, there was also strong competition for contractors across Australia, which slowed our ability to secure

contractor resources. This competition and lingering supply chain issues meant that contractor and material costs also increased above inflation – averaging approximately CPI+1.3 per cent each year. As discussed below, this prompted Melbourne Water to re-examine its delivery scheduling and strategies to look for cost and efficiency savings. Going forward, these constraints are easing, and we are taking proactive steps to improve our contractor resourcing.

In the post-COVID-19 environment in the early part of the current regulatory period, Melbourne Water chose to impose some delays to achieve delivery and cost efficiencies. After re-evaluating delivery strategies, we imposed delays to more efficiently bundle major projects at WTP.

These factors combined contributed to the slower-than-expected progress in 2021-22. We stabilised in 2022-23 and caught up across 2023-24 and 2024-25. We expect to exceed the benchmark in 2025-26.

Progress to deliver our major projects is provided below. Despite the initial delays, we are forecast to deliver the capital program reflected in the 2021-26 prices, providing the following benefits for customers and delivering Outcomes 1 to 4:

- **Increased water security, safety and reliability of water and sewerage services (delivering on Outcomes 1 and 2):** Projects delivered included the Yan Yean Water Treatment Upgrade project, Yan Yean to Bald Hill water transfer project, renewal of the over 100-year-old Mitcham to Syndal (M22 and M46) water mains, replacement of filter media at Winneke Water Treatment Plant, sewer rehabilitation, renewal of assets at ETP and the rehabilitation of drainage infrastructure.
- **Protection of Melbourne's environment and minimisation of greenhouse gas emissions (delivering on Outcome 2):** Projects that delivered this include ETP biogas handling system upgrade, expansion of WTP power station, renewal of Hoppers Crossing Pump Station and improvements to waterways condition via minor capital projects.
- **Management of stormwater quality to waterways (delivering on Outcomes 2 and 4):** This comprised the Gladstone Street Wetland Rectification works for waterway health outcomes.
- **Waterway management (delivering on Outcome 3):** We found it challenging to activate our large-scale stormwater harvesting capital program for waterway health and did not spend to plan. Therefore, to target waterway health outcomes we reprioritised vegetation for the environment. Additional works related to waterway management for community benefit were delivered against the Reimagining your Creek programs, contributing to Outcome 3.

2.2.2.1 Major project delivery

Melbourne Water listed 15 major projects in its 2021 Price Submission, and these were included in the 2021 Price Determination. Of these, four projects are being delivered by developers and funded via Development Services Schemes with Melbourne Water holding an oversight role in delivery. Accordingly, from 2021-22 Major Project reporting, we included four additional projects – to be delivered by Melbourne Water where we have direct oversight in delivery. We are therefore reporting on a total of 15 Melbourne Water delivered major projects, plus an additional four developer delivered major projects.

Of the 15 Melbourne Water delivered major projects:

- four have been completed
- two are in progress and on schedule
- seven are in progress and being delivered later than anticipated in our 2021 submission

- one has been deferred
- one was cancelled at the request of a customer.

Of the four developer delivered major projects:

- one has been cancelled but an interim solution was delivered by Melbourne Water instead
- one has been completed
- two have been delayed.

Of the seven delayed projects, a key cause has been the longer-than expected time involved in obtaining planning approvals in a more contested environment. Across the projects, there has been a three-year delay on average. This delay has not had immediate impacts on the level of service provided to end-use customers.

Further detail on the delivery of the PS21 major projects is provided in Appendix C (Major projects delivery).

The lessons from the current period have been applied to the development of major project capex forecasts for the 2026-31 regulatory period. In particular, we have based the development and planning timetable on recent experience. Further detail on the lessons learnt from our PS21 project delivery performance and how we are improving our delivery for PS26 projects can be found in the Deliverability Plan.

2.3 Customer satisfaction

Further to the discussion of Outcomes above, we are able to provide further evidence of positive customer sentiment that demonstrates satisfaction with Melbourne Water's performance over the 2021-26 regulatory period.

Melbourne Water undertakes broader customer satisfaction survey work than reported under Outcome 5. The results of these surveys show strong satisfaction with Melbourne Water and are provided below.

Information on a range of actions that have been taken within the regulatory period to strengthen our relationship with key customer groups with the aim of improving customer satisfaction are also provided below.

2.3.1 Surveys providing evidence of customer satisfaction

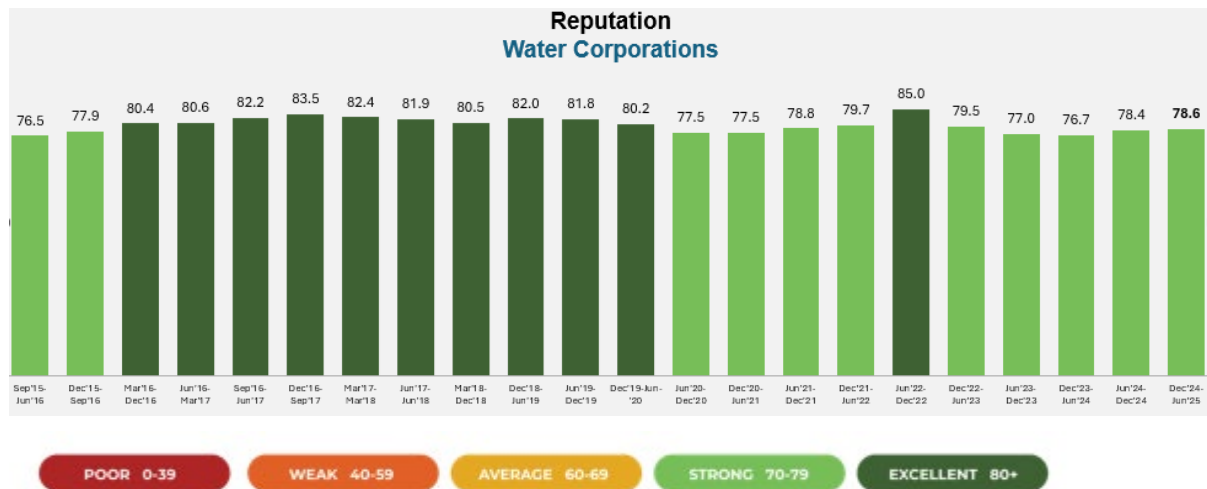
Surveys are undertaken that capture satisfaction data by customer group and by service.

2.3.1.1. Water Corporations: Reputation Survey

This is a six-monthly survey issued to the water corporations each June and December. The online survey seeks information on perceptions of the strength of our relationship and on perceptions of the performance of Melbourne Water in meeting the needs of the water corporation.

As shown in Figure 2.6, the reputation score trend has been steady since 2016. In the current regulatory period, this score has rated as either 'Strong' or 'Excellent'.

Figure 2.6: Water Corporations' Reputation Scores

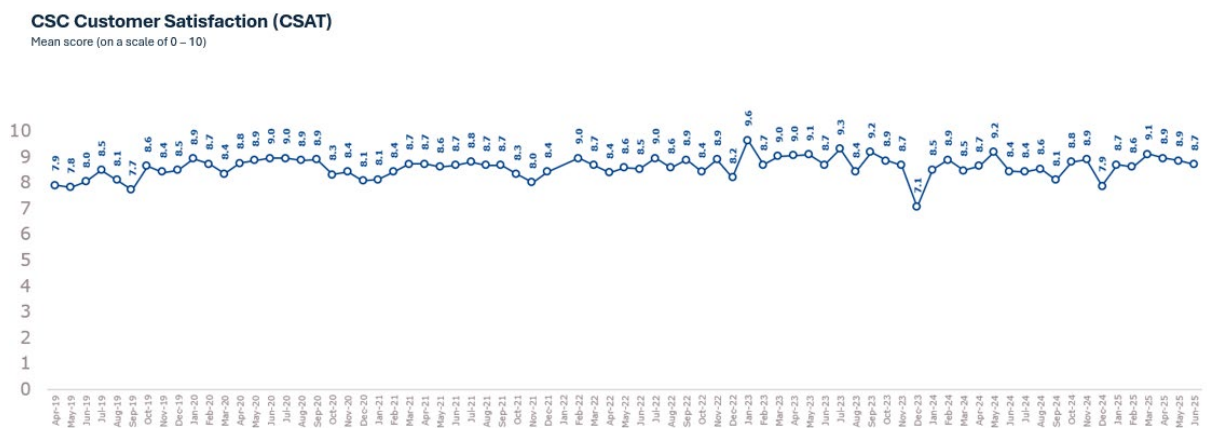


2.3.1.2 Customer Service Centre (CSC) Survey

This online survey is offered to all waterways and drainage customers that contact the CSC. The survey is conducted to test customer experience and to gain feedback on areas for improvement. The survey results, which are compiled monthly, are shown in Figure 2.7.

While there can be variation month to month, this survey shows consistently strong satisfaction since April 2019 and a relatively stable trend.

Figure 2.7: CSC Customer Satisfaction Scores



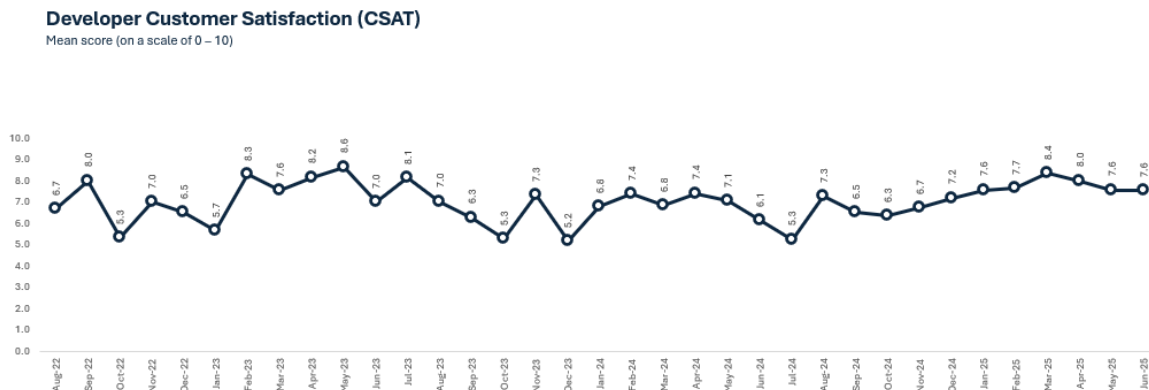
Based on these survey results, Melbourne Water has received customer experience awards under the independent Customer Service Benchmarking Australia (CSBA) call quality and customer experience benchmarking program. This has included:

- ranking first out of 54 corporations in the water sector for call quality and customer experience
- ranking fifth nationally out of 209 participants across all sectors
- receiving the award for 'Best in Sector' for the water industry for the fourth quarter of 2024-25.

2.3.1.3 Developer CSAT Survey

This is an online survey issued to developers that had an application resolved. The survey results, which are compiled monthly, are shown in Figure 2.8. This survey, conducted since August 2022, shows monthly variation. However, the scores have generally improved from the second half of 2024, after some earlier periodic falls, and have risen to a strong satisfaction level.

Figure 2.8: Developer Customer Satisfaction Scores

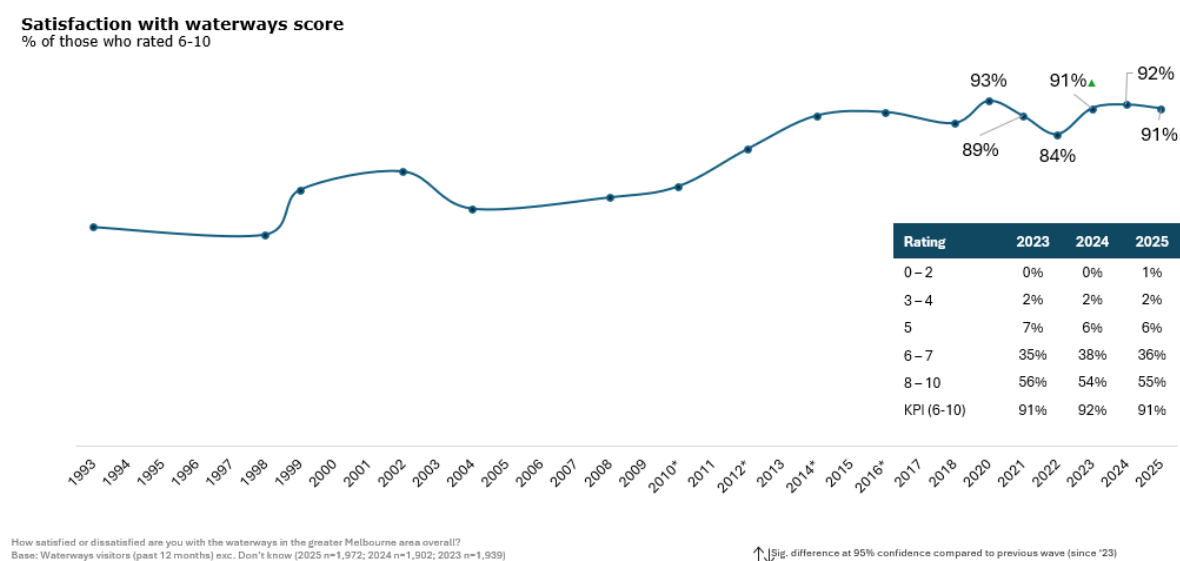


The improvement in developer satisfaction scores has been in response to the increased resourcing provided by Melbourne Water to improve processing periods and completion of applications after an earlier backlog. As at June 2025, we were completing 97.5 per cent of processed applications within statutory timeframes. This has received positive feedback and our Developer Application CSAT score was 7.6 as at June 2025.

2.3.1.4 Perceptions of Waterways Survey

This is an annual survey conducted since 1993. The survey is issued to community members that have visited a waterway managed by Melbourne Water in the prior 12 months. This survey seeks feedback on community satisfaction regarding the waterways, and community needs and priorities relating to the use of the waterways. The survey results are shown in Figure 2.9.

Figure 2.9: Satisfaction with waterways scores



The line on the chart, which shows the percentage of respondents that rated their satisfaction between six and 10 (out of 10), has been increasing to over 90 per cent over the last three years to 2025. In this period, over half of all respondents rated their satisfaction between eight and 10 (out of 10).

This demonstrates strong levels of satisfaction among community members accessing our waterways and satisfaction in their ability to use the waterways in a manner that meets their needs.

2.3.2 Other actions to improve customer relationships and satisfaction

We have continued to focus on ensuring that the investments we are making meet customer expectations and continue to deliver value for the water sector as a whole, and to our residential, non-residential, developer and fee-for-service customers.

We have responded to changes in the sector through:

- Engaging with our different customer segments and developing **Customer Experience Improvement Plans** to best identify and implement the changes we need to make to improve satisfaction.
- Working with the development industry through **the Urban Planning and Development Strategic Consultation Group**, which sought to understand how we can best improve strategic and operational effectiveness, including commitments to turnaround times for development referrals and applications, achieving 97.5 per cent completion within time limits by June 2025.
- Establishing and increasing collaborative planning between businesses under the **Managing Directors Accord**, an industry-first agreement between the Managing Directors of Melbourne Water, South East Water, Yarra Valley Water, Greater Western Water and Barwon Water, which has a shared vision for the sector and agreed principles to work together on key focus areas, including water security, the economic sustainability of the sector, partnering with and delivering for Traditional Owners, building water literacy and efficiency and meeting the challenges of climate change and resilience.
- Working with other water corporations and the Victorian Government to deliver actions from the *Central and Gippsland Region Sustainable Water Strategy* (CGRSWS) and the

Greater Melbourne Urban Water and System Strategy (GMUWSS), both released during this regulatory period to establish the path towards greater use of manufactured water, including planning for and undertaking readiness activities now to add new water supplies within the next 10 years, the delivery of more water for the environment, increased uptake of integrated water management and the creation of water entitlements for Traditional Owners.

- Developing and commencing implementation of a roadmap to support the Victorian Government's *Housing Statement* to unlock tomorrow's housing, including good decisions made faster, better information to support growth, taking action to address process issues and streamlining approval processes, clearer identification of high hazard areas, working with government to explore infrastructure funding mechanisms in established areas, and innovative and well considered risk management.
- Welcoming the **Independent Review Panel** findings on the 2022 Maribyrnong flood event, accepting all 15 of the Panel's recommendations, delivering a community awareness and preparedness program with VICSES and councils and continuing to communicate with impacted communities about our progress to implement the recommendations.
- Delivering ***Burdnap Birrarung burndap umarkoo (the Yarra Strategic Plan)*** and extending the scope of our partnerships with Traditional Owner Corporations.

2.4 PREMO assessment – Performance

For the performance component of PREMO, we have assessed ourselves to be '*Standard*', as summarised in Table 2.1.

Table 2.1: PREMO Assessment – Performance

Guiding Question	Comment
To what extent has the business demonstrated delivery of its customer outcomes commitment over the current regulatory period? Did its customers get what they paid for?	<p>We largely met our targets against our six customer Outcomes for 2024-25 (14 out of 19 measures rated green) and we are on track to maintain this Outcome for 2025-26.</p> <p>We have continued to deliver the high-quality reliable bulk water, sewerage waterways and drainage services that our customers expect of us.</p> <p>We adapted to a range of factors that affected the timing of major project delivery, including extended planning and technical requirements and having to adapt to utilise more strategic approaches to delivery.</p> <p>We worked with our partners to limit the impact on the levels of service experienced by end-use customers as a result of any delays.</p>
How does actual operating expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	<p>Our total opex over the 2021-26 regulatory period is expected to be 4 per cent higher than forecast in the 2021 Price Determination. Over the regulatory period, we have seen changes in our operating environment, new obligations and highly variable climatic conditions, and increased expectations of service performance. Our strategic responses to these challenges have focused on ensuring customer value and continuing to provide safe, reliable and effective services to our customers.</p> <p>Regarding the waterways and drainage operating expenditure uplift, we prioritised spending on our flood response and the urban planning and development function during the period. Even so, we delivered the majority of the benefits of the pre-identified waterways and drainage expenditure uplifts.</p>

Guiding Question	Comment
	We have provided annual reporting on opex throughout the regulatory period and are pleased to provide a detailed breakdown of increases over the period in this submission. Further information is found in section 7.2 (Baseline controllable opex).
How does actual capital expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	We delayed some of our major capital projects (for example at WTP) to deliver a more strategic approach to delivery and we experienced some delays in our major projects. However, we expect that our total capex over the 2021-26 regulatory period will be 10.6 per cent higher than the benchmark forecast in our 2021 Price Determination to continue to meet our regulatory obligations and the needs of our growing city.
To what extent does customer sentiment demonstrate satisfaction in the business's performance over the current regulatory period? Are customers happy with the value they receive from their water business?	<p>As a bulk supplier of water and sewerage services, it is challenging to accurately measure customer satisfaction. Despite this, our surveys for bulk water and bulk sewerage consistently demonstrated 'good' satisfaction with our service. However, we did not meet our stretch target of 'excellent' satisfaction by this survey method.</p> <p>Our independent surveying of water corporations show that we have achieve 'strong' (70-79) or above reputation scores throughout the regulatory period.</p> <p>Our independent CSBA benchmarking shows that our contact centre is consistently ranked high for call quality and resolution. Further, our contact centre has a CSAT score of 8.7 and our Developer Application CSAT score was 7.6 as at June 2025.</p>
Self-assessment	Confident our performance over the 2021 regulatory period was 'Standard'.

Engagement



3

In Summary

- Since June 2023, we have run a dedicated PS26 engagement program alongside our ongoing 'business as usual' engagement and insights programs. The findings of these programs have shaped our submission. We will continue this ongoing engagement to set ourselves up for the future.
- Our PS26 has been shaped by and reflects the voices of our customers, community, partners and stakeholders, gathered through extensive engagement via multiple channels. Under the IAP2 framework, our comprehensive engagement program ranged from consult and involve (community/end-use customers) to collaborate (water corporations and partners).
- We heard from diverse customer groups, with more than 8,200 customers, communities, partners and stakeholders engaged through our broad and multifaceted program.
- We made engagements accessible. Activities included focus groups, forums and panels, surveys, interviews, one-to-one meetings and in-person pop-ups.
- Engaging with customer vulnerability in mind was crucial to the success of our engagement program. We did this by ensuring that a representative voice of customers experiencing vulnerability was included in our forums, panels and focus groups, and listening to community sector organisations.
- We worked closely with our bulk supply customers through the Water Corporation and Regulatory and Tariff forums. Many of these customers hold 'Advanced' and 'Leading' PREMO ratings from their recent ESC reviews. Their input – through insights, advice, and feedback – greatly improved our submission. They also helped shape key decisions, including aligning our customer Outcomes with those from the 2023 and 2024 submissions. This alignment supports the delivery of water and sewerage outcomes across the sector.
- Led by our Traditional Owner partners, we customised our engagement for each Traditional Owner Corporation to support the development of PS26.
- For the first time, we provided a 'Public Playback' of our proposal and potential bill impacts prior to finalising our submission. This allowed us to communicate and gather further feedback on what we heard through our engagement program, test community and customer reaction to the proposal draft, and gather feedback on outstanding topics.
- Our PREMO self-assessment rating for Engagement is 'Standard'.

This chapter provides information on Engagement. It is structured as follows:

- The first section describes our engagement approach – the form of engagement we used (how we tailored information to suit each customer cohort, including how we ensured we were inclusive of Traditional Owner groups and customers experiencing vulnerability), and engagement topics.
- We then describe how the findings of the engagement program have influenced the submission.
- Finally, we include our Engagement self-assessment.

3.1 Engagement approach

Given our role across Greater Melbourne, our customer base is large. We count our customers as anyone who pays us a fee directly or indirectly, including:

- the water corporations who take our bulk water and sewerage services
- land developers
- diversion customers
- direct service and precept customers³
- end-use customers who receive water, sewer, waterways and drainage services.

To ensure our customers and community could see their priorities in our decisions, we ran a six-stage engagement program to understand customer views and values, test and quantify these, co-create Outcomes, play back what we heard, and 'close the loop' on this proposal.

We are also committed to continuous ongoing engagement throughout the regulatory period, setting up forums prior to submission to ensure engagement throughout the regulatory period.

We heard throughout our engagement program that safe and reliable water supply and sewerage systems continue to be the highest priority for all customers. This is followed by ensuring healthy waterways, the ongoing resilience of our systems (including flood resilience) and affordability.

³ Direct service customers are Tidal Waterways and Quiet Lakes in the Patterson Lakes area who services specific to their properties, including maintenance of jetties and bore flushing of lakes that abut their properties. Precept rate customers refer to property owners in the Koo Wee Rup-Longwarry Flood Protection District.

Figure 3.1: Melbourne Water's PS26 engagement journey



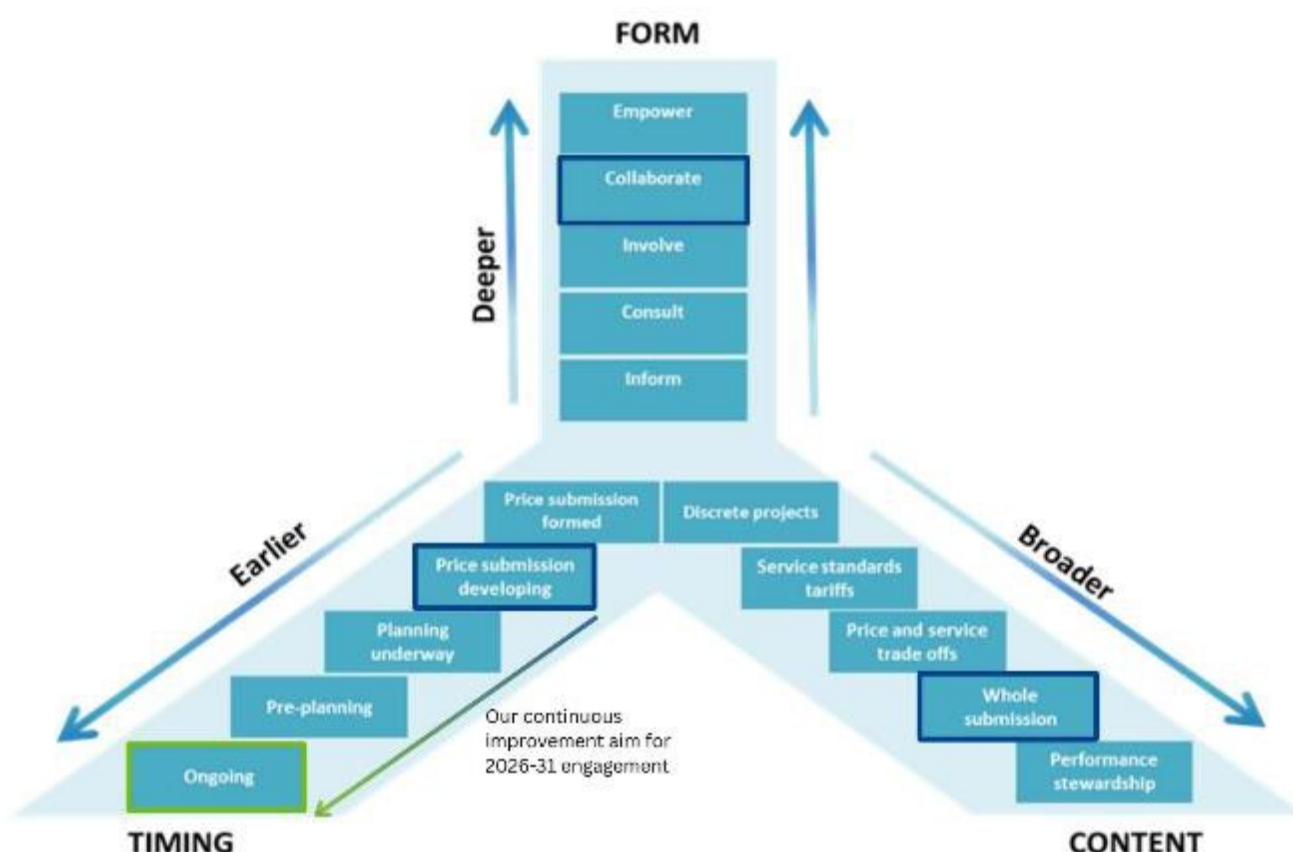
3.1.1 Ensuring purposeful engagement

Our engagement with customers, partners and communities is ongoing and continuous. In the development of PS26, we utilised established channels and added bespoke engagement activities.

Reflecting the priorities and values of our customers has been a central anchor in the development of our submission. We ran a multifaceted engagement program to ensure all voices were appropriately heard, understood, played back, and incorporated into our decision-making.

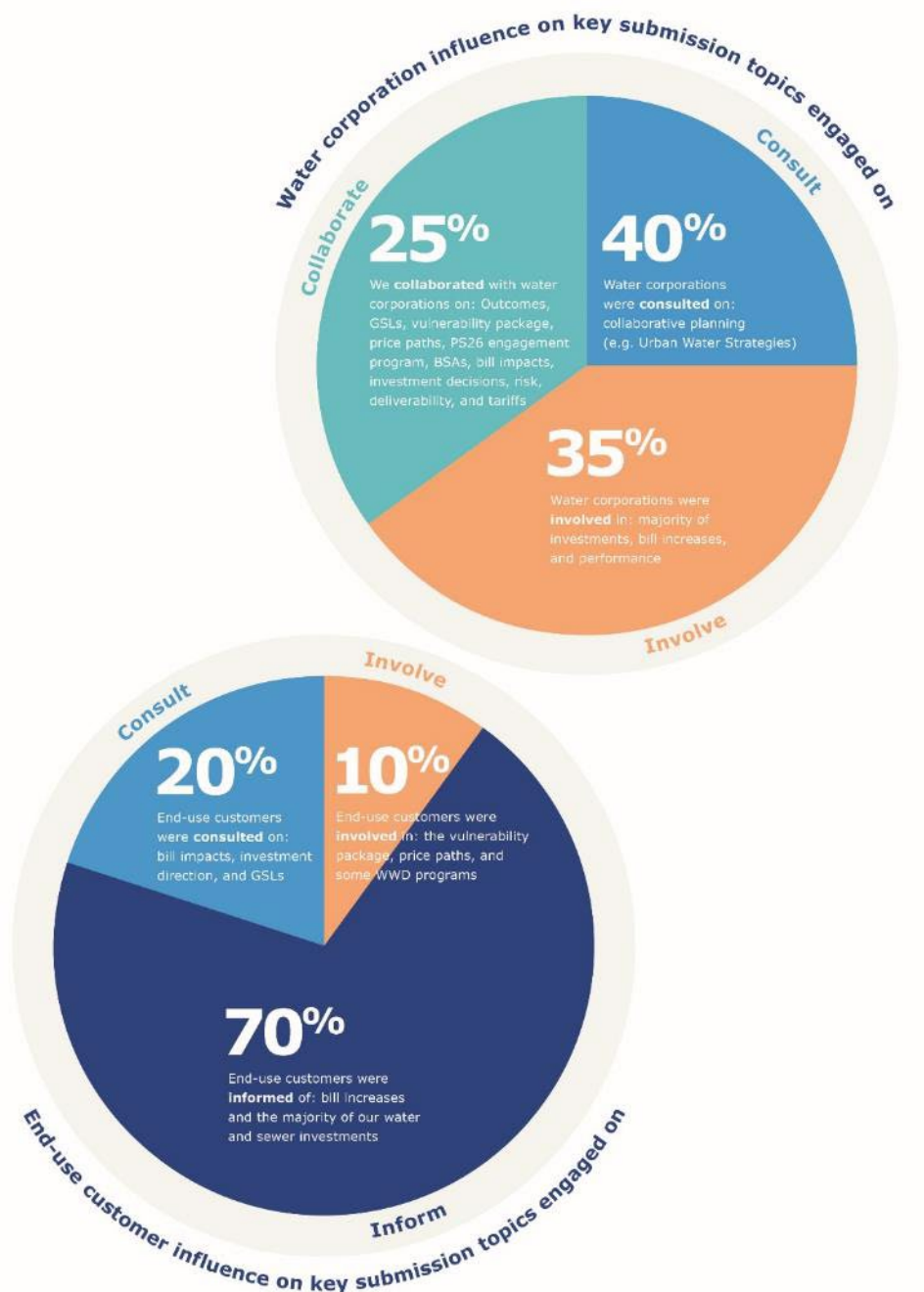
With reference to the ESC's engagement diagram (Figure 3.2), we endeavoured to provide a deeper and broader engagement approach. Limitations of our engagement program relate to timing. Engagement focused on our Price Submission was not ongoing throughout the 2021 regulatory period. We are committed to improving how we engage for this regulatory period. Melbourne Water is now standing up ongoing customer forums with water corporations and end-use customers. This commits us to engaging continuously on customer expectations and experiences and provides opportunities to test our performance.

Figure 3.2: ESC's engagement diagram with influence aim for water corporation engagement identified



Overall, our engagement with our informed customer group – the water corporations and Traditional Owner partners – aimed for an IAP2 level of 'Collaborate', while our broader engagement with end-use customers, stakeholders and broader community aimed for the level 'Involve'. Figure 3.3 provides a high-level summary of how we identified levels of influence for water corporations and end-use customers for key topics.

Figure 3.3: Water corporation and end-use customer level of influence by key submission topics



3.1.2 Commitment to ongoing engagement

We are committing to ongoing engagement throughout the 2026-31 period.

Through the PS26 process, we identified some key topics for water corporations that could not be fully addressed through Price Submission engagement alone (such as collaborative planning, Bulk Supply Agreement (BSA) modernisation). These areas not finalised ahead of submission will be addressed through the regulatory period. In Appendix A (Water corporation summaries), we have outlined these key areas to be addressed during the period.

We are also committed to engaging in an ongoing manner on our performance to understand how we meet customer expectations during the period. We will do this through engagement

activities for water corporations (such as forums), and through a newly established ongoing customer forum made up of end-use customers.

3.2 How we engaged

We tailored our engagement approaches to the different customer groups to ensure our engagement was accessible, targeted, relevant in content, and that the engagement form was tailored to facilitate effective discussion.

We also adapted our engagement program based on feedback and analysis of gaps. We wanted to ensure we provided adequate time and forums to inform decision-making and incorporate meaningful feedback. We did this by:

- extending the program of work to continue into 2025 (originally planned to end in December 2024)
- increasing the number of Water Corporation Forum meetings to ensure regular touchpoints with corporations throughout the Price Submission development
- re-focusing our bulk tariff working group with the water corporations (meeting regularly since 2022) as the Regulatory and Tariff Forum to discuss key regulatory issues associated with the development of PS26
- adding additional waterways and drainage-specific engagement activities, including a Waterways and Drainage Customer Forum to enable appropriate 'deep dives' into topics customers could have material impact on
- running a 'Playback' engagement period in May 2025, where we released a customer-friendly summary of our draft Price Submission to test our decisions and proposals
- working to ensure our submission reflects the voices of our customers, partners and interested stakeholders and running concurrent engagement programs for our partners and direct service customers that targeted key areas outside the broader engagement program.

3.2.1 Engaging with water corporations

We provide bulk water and sewerage services to seven water corporations across our region: Greater Western Water, South East Water, Yarra Valley Water, Barwon Water, Gippsland Water, South Gippsland Water and Westernport Water. We also provide bulk recycled water to Greater Western Water, Southern Rural Water and South East Water.

As a core customer group, highly informed by their own price submission processes, the water corporations were the first stakeholders we engaged. Corporations were asked how they wanted to be engaged through the development of PS26 and for their thoughts on issues and topics to test with end-use customers. Corporations were engaged regularly throughout the development process, ensuring feedback could be consistently implemented into our decision-making.

Engagement with our water corporation customers was done through:

- **Water Corporation Forum:** Held regularly throughout 2024 and 2025 (first meeting in April 2024), the forums brought together all corporations (aside from Southern Rural

Water, who opted not to participate)⁴ to discuss key elements of Melbourne Water's submission.

- **Regulatory and Tariff Forum:** In 2025, we reinstated the forum to allow in-depth discussion on key regulatory topics. This forum met fortnightly throughout the first half of 2025.
- **One-to-one engagement:** To ensure we heard directly from each water corporation individually, we met with regulation, planning and strategy teams several times through the Price Submission process.
- **The Accord:** The Managing Directors of Melbourne Water, South East Water, Greater Western Water, Yarra Valley Water and Barwon Water have signed an Accord to collectively tackle key challenges facing the sector. Under this Accord, collaboration occurs through a Managing Directors Forum, General Managers Strategic Forum, and a series of working groups progressing water security, augmentation and reform, strategy, policy, regulation, communications and Traditional Owner engagement. Utilising key meetings with Managing Directors and strategy leaders, we engaged directly on key issues and decisions that had previously been discussed in other forums.

3.2.2 Engaging with end-use customers

The services we provide impact everyone who lives, works and visits Melbourne. Our costs make up approximately 50 per cent of a metropolitan Melbourne household's water bill. With this in mind, we worked to ensure that end-use customers could have influence on our decision-making.

While our engagement on water and sewerage services primarily focused on the water corporations, we recognise that our proposals affect end-use customers. Therefore, we engaged broadly with the community on water and sewerage services, waterways and drainage management, and support for those experiencing vulnerability. Guided by initial broad engagement, we 'drilled down' into specific programs/areas of work where end-use customers had higher levels of influence.

For PS26, we consider that end-use customers had a 'consult' level of influence over our water and sewerage programs, and an 'involve' level of influence in our waterways and drainage and vulnerability programs (IAP2 engagement spectrum). These different levels of influence reflected the different ways end-use customers interact with and are charged for our services.

3.2.2.1 How we engaged with end-use customers

We ran continuous community engagement throughout the development of the submission. To accurately reflect the voices of the Greater Melbourne community, we worked to provide different styles of engagement to ensure accessibility. We gave special consideration to customers experiencing hardship, culturally and linguistically diverse (CALD) customers, and older/younger customers, as these voices are often not heard in broad engagement programs.

As we progressed through the submission development and engagement processes, we continued to refine our engagement delivery to appropriately meet program needs and address gaps in our knowledge, for example by extending and developing new forums.

⁴ We engaged with Southern Rural Water through other mechanisms to ensure their voices and interests were reflected in the submission.

A critical part of our engagement program was the 'Public Playback'. While our whole engagement program was intended to be accessible and inclusive, particular care was given to this period to ensure that all members of the community could be involved.

Engagement activities with community included:

- a deliberative community panel (55 participants) that met 13 times from May 2024 to June 2025, with some participants taking a tour of the Western Treatment Plant (WTP)
- two community values and priorities surveys (one surveying our whole service proposal and one focused on waterways and drainage) that had over 2,000 respondents
- a willingness to pay survey, which had over 1,300 respondents
- seven waterways and drainage focus groups (70 attendees; demographic based)
- a waterways and drainage customer forum (35 participants, three sessions)
- a community survey on the proposed program of work outlined in our Playback document, which had over 2,000 respondents
- thirteen focus groups on the proposed program of work outlined in our Playback period (112 attendees; demographic and water corporation customer-based)
- three in-person pop-up events to promote and discuss proposals outlined in the Playback (events were held in each of the metropolitan water corporation service areas, with over 600 touchpoints)
- establishment of a new, ongoing customer forum (35 participants), that will meet throughout the 2026-31 regulatory period to discuss Melbourne Water's performance against our commitments and provide community insights into key programs of work.

Overall, we heard from more than 6,000 end-use customers during the Price Submission's development.

3.2.2.2 Engagement methodology for end-use customer engagement

To ensure transparency and prevent bias, we ran multiple engagement activities with support from third-party providers to deliver our program.

Social research

Prior to survey development, we consulted Professor John Rose (University of Sydney). Professor Rose recommended appropriate methodologies for Melbourne Water to use for the following prioritisation and willingness-to-pay surveys:

- **Prioritisation (best-worst) surveys:** We initially conducted two best-worst surveys of end-use customers to understand how customers prioritised key issues. Conducted at the start of our engagement period (Stage 1: Values and Priorities), the results of these surveys helped us identify key issues that were taken forward into our early deliberation processes and our willingness to pay survey.
- **Willingness to pay survey:** Run in November to December 2024, our willingness to pay survey used a choice modelling survey methodology. This survey allowed us to understand how much customers are willing to pay for specific assets and services. For example, how much customers are willing to pay for projects to improve access to and the health of waterways, testing preferences for a current level of expenditure (nine large-scale projects), a lower level of expenditure (four projects), or a higher level of expenditure (11 projects). To ensure accessibility and ease of understanding, we used video explainers that could be translated into other languages/had captions to provide context for each question. These results have been used to inform relevant business cases and expenditure justifications for investment.

Deliberative panel and customer forums

In PS21, Melbourne Water stood up two customer forums – a water and sewerage forum (with representatives only from the water corporations) and a waterways and drainage forum, which was made up of end-use customers, representatives from local authorities, emergency services, developers, river keepers and environmental community groups.

For PS26, we wanted to take a broader approach to engaging with end-use customers to ensure customers could understand Melbourne Water as a whole. We have heard throughout our engagement that end-use customers see 'one water bill' and do not differentiate between the waterways and drainage charge and water and sewerage/usage charges. To reflect this, we took both water and sewerage programs and waterways and drainage programs to our deliberative panel to discuss and provide feedback. The panel met in four phases over 13 months, allowing for each submission development stage to be tested with the panel.

To ensure we received appropriate and detailed feedback on our waterways and drainage services, we also ran a waterways and drainage customer forum. This deliberative process tested level of comfort in investments for specific programs, as well as the overall bill impact these decisions would have.

Focus groups

We know that surveys alone do not allow for nuanced feedback. To ensure we understood customer sentiment on our waterways and drainage proposals and draft proposal through the Playback, we ran a series of focus groups with different demographic groups and groups representing the geographic locations of water corporation boundaries.

Box 3.1: Ensuring accessibility and interaction with our engagement

Ensuring accessibility in and interaction with our engagement

Our engagement approach was carefully designed to align with the complexity of the content and the diverse circumstances of our customers and stakeholders. A multi-method strategy – ranging from large-scale online surveys and targeted focus groups, to in-person pop-ups, stakeholder meetings and social/media outreach – enabled us to attain both broad reach and deep insight. This approach ensured meaningful participation across a wide spectrum of community cohorts, including CALD groups, customers experiencing financial vulnerability, people with disability, renters, homeowners and age-based segments. Engagement activities were geographically distributed across our service area and extended over a two-year period (2023–25), giving participants time to understand the issues, form opinions, and influence Melbourne Water’s proposals.

To support informed and inclusive participation, clear and accessible information was provided throughout the process. This included plain language summaries, multilingual materials, videos to provide context and support for surveys and activities, interactive polls, and other formats designed to reduce barriers to engagement.

Participants were given context around the Price Submission, including key drivers such as population growth, climate impacts, ageing infrastructure, and regulatory frameworks.

The Playback phase allowed us to validate our understanding of community feedback before finalising proposals, ensuring transparency and trust. Overall, the engagement was inclusive and enabled participants to contribute meaningfully to shaping Melbourne Water’s future direction.

3.2.3 Engaging with Traditional Owners

Most of the land on which Melbourne Water operates is the land of the Wurundjeri Woi-wurrung, Bunurong and Wadawurrung peoples. Our service region also borders the lands of the Gunaikurnai and Taungurung peoples, with essential catchments and water supply systems located within these areas. The proposed work outlined in this submission has been developed through discussion and engagement with all five Traditional Owner groups.

We are committed to reconciliation through partnerships with Traditional Owners and recognise the ongoing deep relationship of Aboriginal and Torres Strait Islander peoples with the lands and waters that Melbourne Water manages. While the program of work (comprised of sub-programs, including water justice and strategy policy, managing healthy Country, and planning and development in cultural landscapes) proposed in PS26 is just one step in our ongoing journey, it represents a significant milestone in implementing our first Stretch Reconciliation Action Plan and State water policy. This program and subsequent sub-programs were developed in response to discussions held with Traditional Owners regarding their self-determined aspirations.

Led by our Traditional Owner partners, we customised our engagement for each Traditional Owner Corporation. PS26 builds on the strong foundations laid through our Innovate Reconciliation Action Plan, partnerships and ongoing programs led by our Aboriginal Engagement and Community Connections Team.

Working with Wurundjeri Woi-wurrung and Wadawurrung, we held a series of regular meetings and conversations to support relationship building and enable genuine co-design. The

Bunurong Land Council Aboriginal Corporation requested that engagement primarily continue to occur at a metropolitan sector level, with all metropolitan water corporations working together as a single collective, rather than as separate organisations. We are actively exploring how best to support this collaborative approach. Gunaikurnai priority areas include water management and justice, research on culturally significant species and opportunities for increased cultural understanding and connection to the Thomson Reservoir and catchment.

While Bunurong, Gunaikurnai and Taungurung priorities and interests are reflected in this submission, we anticipate their influence will grow significantly through the 2026-31 regulatory period and into our 2031 Price Submission as this coordinated engagement model continues to develop.

Through this process, we identified shared priorities and developed the following programs of work for PS26:

1. Water justice, strategy and policy
2. Managing for Healthy Country
3. Planning and Development in Cultural Landscapes

Table 3.1: Areas of interest and influence on our work for our Traditional Owner partners

Areas of interest	Influence on our work
Wurundjeri Woi-wurrung Cultural Heritage Aboriginal Corporation	
<ul style="list-style-type: none"> Establishing stable and sustainable funding sources. Embedding cultural landscape planning and management approaches. Contributing to the development of water policy and strategic planning. Supporting and participating in Water on Country activities and research. Ensuring Traditional Owner organisations are adequately resourced to provide input into Melbourne Water's plans and strategies, such as the <i>Healthy Water Strategy</i>, <i>Recycled Water Strategy</i> and <i>Burndap Birrarung burndap umarkoo</i> (previously, Yarra Strategic Plan). Supporting succession planning through initiatives such as traineeship and capacity-building programs. 	<p>In partnership with Wurundjeri Woi-wurrung, we have developed a program of work that reflects these interests, including proposed resourcing and contributing funding to support Wurundjeri Woi-wurrung Cultural Heritage Aboriginal Corporation's pursuit of its self-determined interest.</p>

Areas of interest	Influence on our work
Gunaikurnai Land and Waters Aboriginal Corporation (GLaWAC)	
<ul style="list-style-type: none"> • Securing funding to support the commitments established in the 2022 Partnership Agreement between Melbourne Water and GLaWAC, noting that a formal funding model was not defined at the time. • Advancing restorative water justice initiatives. • Supporting research, focused on eels, through funding. • Cultural Values Assessment and interpretation. 	<p>As per our co-developed Partnership Agreement with GLaWAC, we are proposing to continue to contribute funding to support key self-determined interests.</p>
Wadawurrung Traditional Owners Aboriginal Corporation	
<ul style="list-style-type: none"> • Appropriate and equitable resourcing for Wadawurrung people to participate in their obligation of care and management of Country. • Resourcing at the program level to support capacity building, self-determined participation, decision making and shared outcomes. • Ensuring Wadawurrung input and interest is reflected in policy, strategy and planning. • Enabling Wadawurrung access to water rights and entitlements including storm/recycled water. • Response and readiness for Treaty and truth telling. • Sharing and building whole of system water knowledge through research and forums. • Cultural Values Assessments and management programs for priority landscapes. • Providing strategic and cultural guidance in urban planning and development processes. • Access and involvement in Major Project Development planning cycles. • Co-designed natural resource management planning and implementation across landscapes. • Promoting the use and revitalisation of cultural fire practices. • Supporting Healthy Country Planning initiatives, such as monitoring programs that incorporate cultural knowledge and indicators. 	<p>Through implementation of our <i>Wunggurrwil Ngitj</i> (strong together) partnership, we continue to strengthen our partnership and contribute funding to support Wadawurrung Traditional Owner Aboriginal Corporation's pursuit of its self-determined interest.</p>
Bunurong Land Council Aboriginal Corporation (BLCAC)	
<ul style="list-style-type: none"> • Supporting the Bunurong – Water Justice Fund through a water corporation Accord-level funding model. • Enabling Bunurong to support Indigenous community organisations operating on Bunurong Country. • Assisting BLCAC's Strong Country team in responding to Melbourne Water project work on Bunurong Country. • Supporting the development of BLCAC's Strong Country ranger program on the western side of Bunurong Country (near Altona). 	<p>We have contributed to a commitment to develop a partnership and identify Bunurong's preferred model of engaging and funding self-determined interests.</p>

Areas of interest	Influence on our work
Taungurung Land and Waters Council Aboriginal Corporation	
<ul style="list-style-type: none"> Melbourne Water has been liaising with Taungurung regarding the PS26 process, and they have expressed interest in discussing water justice issues and are interested in Natural Resource Management (NRM) works and potential future employment through our projects. Taungurung are continuing to deliver cultural awareness training to Melbourne Water staff working on Taungurung Country or involved in water management. 	We will continue to engage in partnership with Taungurung Land and Waters Council but will be directed by the Council on the way and focus of doing so.

3.2.4 Engaging with customer vulnerability in mind

Broad engagement ensures a wide variety of voices are heard, but the voice of the majority can overwhelm the voices of those who engage with essential services differently. To ensure we heard from all voices of our community, we worked to provide inclusive and accessible engagement.

PS26 marks the first time Melbourne Water is putting forward a program of work intended to support customers experiencing hardship. To enable us to confidently put forward this program, it had to be informed by our water corporations, end-use customers and the community support sector to ensure deliverability, functionality and impact of the work.

We delivered inclusive engagement by:

- Directly engaging with the Victorian Council of Social Service, Thriving Communities Australia and Consumer Action Law Centre on our proposed hardship program and our PS26 engagement.
- Establishing a Community Sector Forum, with representatives from Financial Counselling Victoria, Uniting Vic.Tas., Thriving Communities Australia and the Victorian Council of Social Service. This forum provided an opportunity to discuss our proposed hardship program and PS26. These organisations provided us with insights into current lived experience of end-use customers.
- Ensuring representation on our deliberative community panel, waterways and drainage forum and ongoing customer forum was diverse and inclusive by employing recruitment criteria and support provision, such as extra support for carers, accessibility for people with disabilities, and accommodation for sensory needs.
- Hosting a series of demographic-based focus groups on waterways and drainage in December 2025, including recruiting customers who have experienced payment hardship through the Victorian Council for Social Services.
- Running a cognitive test of our Playback focus group to ensure the information presented was accessible and provided enough information to make informed decisions.
- Hosting specific focus groups in our Playback period for customers, including those who were experiencing financial hardship, CALD, concession-card holders, living with a disability, and from an older/younger demographic.
- Held a series of in-person pop-ups through Playback at key high foot traffic and accessible locations in metro Melbourne.
- Translated our Playback document into the top five most spoken languages, other than English, in our service region.

Information on our hardship program is available in Chapter 4 (Outcomes).

3.2.5 Engaging with developers

Melbourne Water plays a crucial role in urban development, primarily as a drainage and floodplain management authority. We work with developers to provide new development areas that are safe from flooding and do not negatively impact other properties or waterways. We do this by providing design and construction standards, conditions, and information related to flood management, stormwater quality, sewerage and drainage. We also act as a referral authority in the planning system, reviewing development and subdivision applications to ensure they meet planning requirements.

3.2.5.1 How we engaged

We engaged directly with developers through our Urban Planning and Development Strategic Collaboration Group. Set up prior to our PS26 development, this group meets regularly to discuss and decide on key issues relating to Melbourne Water's role in the industry. We utilised this existing engagement platform to discuss PS26-specific topics, including:

- principles used for pricing and setting our development schemes
- our proposed customer Outcomes (specifically, Outcome 4)
- how we will measure our performance against this Outcome, including seeking advice from the industry on what measures and commitments are important to them.

3.2.5.2 Developer feedback and influence

Table 3.2: Areas engaged on and influence of developers

Area of interest	Influence on our work
Response times for urban planning and development statutory and non-statutory applications	Following feedback from developers, we have made a commitment through Outcome 4 to respond to urban planning and development statutory and non-statutory applications within an agreed timeframe.
Resourcing	To ensure we adequately resource this function, we will continue the uplift in resourcing we introduced in the current regulatory period to ensure we meet the increased demand for this service and agreed application timeframes.
Development Services Scheme (DSS) principles	We have committed to reviewing the DSS principles for the provision of waterways and drainage services for urban growth ⁵ , and in the interim will continue to apply the principles previously agreed with developers following our engagement with the sector.
Miscellaneous fees	We will continue to set miscellaneous fees via established pricing principles, transitioning to full cost recovery over time.
Reporting our performance against agreed commitments	We will be reporting annually against the commitments we are making to the sector via our annual Outcomes Performance Report.

⁵ See [Principles-for-provision-of-waterway-and-drainage-services-for-urban-growth.pdf](#)

3.2.6 Engaging with direct service customers

We provide a range of services directly to individual customer segments. These customers pay separate charges outside of bulk water and sewerage charges for these services. These direct service customers are:

- Property owners living alongside the Tidal Waterways and Quiet Lakes in the Patterson Lakes area, who pay a special service charge in addition to the waterways and drainage charge. These customers receive services specific to their properties, including maintenance of jetties and bore flushing of lakes that abut their properties.
- Property owners in the Koo Wee Rup–Longwarry Flood Protection District. This district is historically prone to flooding risks, and customers pay a dedicated charge to cover maintenance services for the extensive network of channels that drain the area and mitigate flood risks.
- Licensed waterway diverters who hold licences to extract water directly from rivers, streams, dams and stormwater pipes for a variety of purposes, including domestic and stock watering, agricultural irrigation, stormwater harvesting, power generation and industrial cooling.

To reflect the unique services provided to these customers, we ran concurrent engagement programs with each group during 2024 and 2025. This ensured these customers could engage directly on topics that mattered most to them, and they could also participate in the broader engagement program.

3.2.6.1 Engaging with Patterson Lakes customers

How we engaged

We made sure that customers in the Patterson Lakes area had the opportunity to provide feedback on pricing and service levels via multiple channels, including:

- **Customer surveys:** In November 2024, surveys were sent to residents of the three Quiet Lakes (Legana, Illawong and Carramar; approximately 300 residents) to ensure every customer had the opportunity to have their say on the prices they pay, services they receive, and the level of service expected. We received nine responses to the Lake Carramar survey and 24 responses to the Lake Legana and Illawong survey. Through this survey, we heard that improving water quality and potentially expanding bore flushing to all three lakes was important.
- **Community drop-in session:** Held in May 2025, this in-person drop-in session allowed Quiet Lakes residents to interact directly with Melbourne Water on maintenance, bore-flushing services and price options to improve water quality across all three lakes. To ensure awareness of this session, letters were sent directly to the homes of residents, and the event was promoted through local channels. The session focused on providing a deeper understanding of the services and levels of service customers are willing to pay for, and to inform a final set of prices and services. 17 residents attended the session.
- **Quiet Lakes finalisation survey:** To address the lower level of engagement for the community drop-in session, we ran a final survey of Quiet Lakes customers in August 2025 to help finalise the service levels and costs that Quiet Lakes residents preferred. The survey provided two options:
 1. maintain current level of service (where Lake Carramar receives no bore flushing)
 2. expand the bore flushing service across three lakes.

Customers told us they preferred the second option, which directly influenced our decision to propose bore flushing in Lake Carramar in PS26. We received 38 (12 responses were not completed) responses to the survey.

- **Jetty maintenance survey:** Approximately 700 customers in the Patterson Lakes region have access to a private jetty (timber or concrete). Melbourne Water maintains these jetties through the installation or replacement of timber or concrete jetties and ongoing inspections/general maintenance. Timber customers are expected to finalise the repayment of the initial cost of the jetty during the 2026-31 regulatory period, and concrete customers in subsequent regulatory periods. Engagement options for jetty maintenance were limited and focused on price structure. In August 2025, we surveyed jetty customers. Customers with timber jetties were offered two pricing options: maintain current price structure or a smooth price structure over the five-year period. For customers with concrete jetties, this communication was an 'inform' level of influence, with the option to provide feedback on their current level of service. We received 90 responses to the survey.

Customer priorities

Feedback from Quiet Lakes customers has been consistent across all forms of engagement, with most participants supporting a price increase to introduce bore flushing at Lake Carramar to provide a consistent service level across all three lakes.

Several priorities were identified:

- balancing price and water quality outcomes
- maintaining recreational and amenity value
- regular and transparent communication
- broad engagement about cost and service.

From customers who receive jetty maintenance services, we heard that customers with timber jetties preferred smooth price structures, rather than maintaining current price structure.

Areas engaged on and influence

Patterson Lakes customers are split into two categories based on the charge they pay.

Table 3.3: Areas engaged on and influence of Patterson Lakes customers

Area of interest/topics engaged on	Influence on our work
Customers who own properties on the Quiet Lakes pay a bore flushing fee. This fee covers bore flushing services we currently provide to Lake Legana and Lake Illawong, this service improves the water quality of these lakes for customer use. The third Quiet Lake – Lake Carramar – currently does not receive a bore flushing service and is a main focus of community engagement.	Bore flushing will be provided at Lake Carramar with the cost shared equally across customers at all three Lakes. This enables the lake network to be managed as a complete system rather than separate entities. We are proposing a \$0.3 million increase in our opex for Quiet Lakes bore flushing.
Tidal waterways customers pay a jetty maintenance fee. This fee covers the ongoing maintenance, repairs and replacement of the jetties on customers' properties that are used to gain access to the tidal waterways for recreational activities.	Customers with timber jetties told us they prefer smooth price structures. We have implemented this pricing structure, as outlined in Section 11.4.3 (Special area charging).

3.2.6.2 Engaging with Koo Wee Rup–Longwarry Flood Protection District customers

How we engaged

Koo Wee Rup and Longwarry customers have provided feedback about service levels and cost via multiple channels, including:

- a customer survey in November 2024 (311 responses)
- a face-to-face community event (40 attendees)
- the ongoing customer advisory group.

Engagement with our direct service customers is ongoing. Through our PS26 development, we engaged with several existing advisory groups, consisting of customer and community representatives to help inform our engagement process. These groups provided local insights, as well as initial thoughts on proposals related to services, prices charged to customers and our engagement approach for their community.

Customer priorities

Feedback across all forms of engagement has indicated support for a higher level of service.

Several main themes were identified in the feedback received, including:

- affordability needs to be balanced against reduced flood risk
- regular and transparent communication is important – many participants would like to better understand how the precept charge is spent
- fairness and equity matters – there is a feeling that developers upstream should also be contributing to the cost as run off from developed areas contributes to flooding
- dissatisfaction with the current service level – some customers feel there is a lack of tangible outcomes from the existing maintenance activities
- ongoing maintenance is a priority.

Koo Wee Rup–Longwarry Flood Protection District customer feedback and influence

Table 3.4: Areas engaged on and influence of Koo Wee Rup–Longwarry Flood Protection District customers

Area of interest/topics engaged on	Influence on our work
Customers in the district pay a 'Melbourne Water special precept rate', which funds the higher level of drainage services the district receives. As the area is a former swampland and is prone to flooding, customers value a service that helps minimise the risk of flooding in the area, while also balancing the cost of this service.	In response to customer feedback, a dedicated resource will be located to manage and maintain the Koo Wee Rup–Longwarry Flood Protection District, increasing responsiveness and consistency of communication. A 10 per cent uplift in spend is proposed to enable the customer supported uplift in service for the district.

3.2.6.3 Engaging with licensed diverters

Melbourne Water is the delegated surface-water diversion manager that manages surface water diversions in the Werribee, Maribyrnong and Yarra basins through a licencing system. Licence holders are granted the right to take and use a specific volume of water from waterways or dams for particular purposes.

These licences include conditions, such as maximum extraction rates, specific periods for diversion, minimum stream flows, and the designated locations for water extraction and usage.

Melbourne Water ensures compliance with these licences and manages water resources to balance the needs of various users while protecting the environment.

Our diversions management program ensures water allocations are managed fairly, sustainably and consistently between approximately 1,300 licence holders. The program is directly funded by customers through licence, volumetric and application fees. We support the Victorian Government's approach to compliance and enforcement around water theft, with systems in place to monitor take and use of water, and the power to issue penalty infringement notices for non-compliance.

How we engaged

Our engagement with licensed diverters utilised existing and PS26-specific channels, including:

- **Advisory Committee meetings:** Melbourne Water initially met with the Diversions Management Advisory Committee and Keilor Diverters Advisory Group to provide an overview of the diversions program and PS26 process, including timing and customer engagement. Follow-up meetings were held with both committees to share key insights from customer interviews. Input was sought on the service level options to be costed for consultation with a request to include an expanded metering and compliance package.
- **Customer interviews:** An independent research agency was appointed to conduct twenty 30-minute phone interviews with diversion customers representing Melbourne Water's main customer groups. These asked about customers' experience with and expectations of diversion services and the licensing system, with a focus on fee structure, compliance and overall program fairness. Customers were also asked about their appetite for a new online customer portal. Findings were used to initiate consultation with advisory committees and to inform service proposals, which were subsequently tested with customers via an online survey.
- **Online survey:** Although experience with engaging diversion customers indicated that we would not receive a high response rate to surveys, to hear from the broadest group possible in an accessible way, we developed an online survey that was promoted through direct-contact channels (such as SMS reminders, emails and newsletters). The survey contained background information on diversion management, an overview of the Price Submission process, an overview of progress to date and three proposed service options along with pricing. To encourage participation and collect information, customers were asked to confirm eligibility, select a preferred service package and had the opportunity to share any thoughts about the diversions service. We received 57 responses (an increase from our PS21 engagement of nine responses).
- **Newsletter:** Throughout the development of PS26, licensed diverters were provided with updates through our newsletter, StreamNews, which is received by over 1,100 diverter customers.

Licensed diverter feedback and influence

Table 3.5: Areas engaged on and influence of licensed diverters

Area of interest/topics engaged on	Influence on our work
Diverter customers pay an annual licence fee and a usage fee for the volume of water they take directly from local water sources. These customers value accurate meter reads and information, and the service provided by our dedicated officers.	Feedback gathered through the program identified that diverter customers preferred the proposal known as the 'Standard Package'. This would see prices increase by CPI + 0.2 per cent and would involve:

	<ul style="list-style-type: none"> • continuation of current service levels to meet our Customer Charter commitments, including an increased communications focus • meter installation to comply with the Victorian Government's Non-urban Metering Policy and associated renewals • continuous improvement to embrace new technologies and digital platforms • an increase in operating expenditure of \$0.3 million for diversion customers as a result of increased maintenance to maintain the system. <p>We have put forward this package as part of our submission. Further information available in Section 11.4.4 (Diversions).</p>
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3.2.7 Engaging with environmental community groups

We collaborate with environmental community groups in diverse ways to improve waterway health and enhance liveability. We partner with these groups to develop long-term strategies, provide grants for specific projects and monitor the health of our waterways. This collaboration is critical for us to continue to protect water quality in waterways, increase biodiversity and create green spaces for our community to enjoy.

3.2.7.1 How we engaged

To develop PS26 and the Waterways and Drainage Investment Plan (WDIP), we conducted a survey with community groups and partners to gain insights into their priorities and values on waterways and drainage to help shape programs and priorities. This was undertaken from April to May 2025 with 73 surveys completed.

3.2.7.2 Environmental community groups feedback and influence

Table 3.6: Areas engaged on and influence of environmental community groups

Area of interest/topics engaged on	Influence on our work
Providing vegetation for the environment was the highest priority identified through our work.	<ul style="list-style-type: none"> • Feedback from community groups directly influenced our proposed opex for vegetation. We are proposing an increase in vegetation opex of \$6.2 million to provide grants and support to community groups to increase vegetation along the waterways. This activity was also supported by end-use customers.
Key activities that groups want Melbourne Water to invest in are protecting wildlife and biodiversity and engaging/educating and informing communities.	<ul style="list-style-type: none"> • Feedback from community groups along with end-use customers influenced our decisions around waterway condition capital works. We are proposing to undertake \$144 million in waterway condition capital works to renew ageing assets and improve the quality of vegetation and lands surrounding waterways to support biodiversity and waterway health. As part of this, we are proposing a waterway vegetation program to ensure compliance with

Area of interest/topics engaged on	Influence on our work
	<p>our obligations as the waterways manager (\$76 million), which will support wildlife and biodiversity.</p> <ul style="list-style-type: none"> We are also proposing an engagement program to raise awareness and educate the community on the importance of water efficiency, sustainable practices in sewer systems and how to contribute to healthy waterways. This will be reported on through our annual Outcomes Performance Report.

3.3 What we engaged on

We engaged on topics of material interest and impact to customers. These topics were identified through early engagement with the water corporations and via community prioritisation activities.

Our first engagement objective was to identify the challenges our PS26 would need to consider to provide value to customers and community, which would guide our ongoing engagement program. We identified these challenges in consultation with our water corporation customers. This allowed us to focus our purpose at each stage of engagement. The water corporations identified the following challenges (no preferential order):

- a changing climate
- population growth
- ageing infrastructure and changing technology
- protecting our environment
- equity
- caring for Country.

3.3.1 Water corporations

In consultation with the water corporations, we developed specific topics for engagement with them and the community, including:

- engagement topics for communities (including developing the 'challenges' to directly be addressed in our submission) and the community Playback
- customer Outcomes and potential for alignment between performance commitments between Melbourne Water and the water corporations, such as Guaranteed Service Levels (GSL) for water quality and support programs for vulnerable customers
- capital planning and prioritisation based on an understanding of the water corporations' needs
- managing deliverability and uncertainty in investment programs and sharing risk
- asset ownership and Bulk Supply Agreement modernisation
- our approach to PREMO ratings.

Through the engagement process with water corporations, a series of key matters/topics were developed, engaged on, and resolved or had a resolution pathway identified. A detailed resolution outcome for these matters is outlined in Appendix A (Water corporation summaries).

3.3.2 End-use customers and community

For end-use customers and community, we started broad, initially seeking to understand overall priorities that were used to inform our investment directions and Outcomes - outlined in Chapter 4 (Outcomes). We then targeted specific initiatives and activities that required broad community sentiment and insights for us to proceed, including:

- **Customer Outcomes:** To make sure community priorities were reflected in proposed Customer Outcomes.
- **Vulnerability program:** Understanding community views on cost-of-living pressures and whether Melbourne Water should consider implementing a program of work to provide further support for customers experiencing vulnerability, and their willingness to pay for this program.
- **Delivery against Customer Outcomes (investments):** What level of investment customers are comfortable with for each of our Outcomes.
- **Price paths:** To understand if bill increases were to be required, how those increases could best be introduced.
- **Waterways and drainage programs of work:** For our waterways and drainage services, residential and non-residential customers are our direct customers. To reflect this closer relationship, we took a number of programs to customers to understand their expected level of service and corresponding investments levels. These programs included:
 - urban drainage
 - pollution and litter management
 - flood mitigation
 - managing constructed stormwater treatment wetlands for water quality benefits
 - managing the volume of flows into our systems via stormwater harvesting
 - providing community access and recreational opportunities to our lands and waterways.

3.4 Findings and influence

3.4.1 Customer priorities

Through the engagement program we identified a series of top-level priority all customers expect us to deliver on and are the foundation for all our programs and decisions for the 2026-31 regulatory period. In order of priority, these are:

- Clean, safe and reliable water services are the top priority.
- Resilient and sustainable sewerage services and infrastructure.
- Keeping bills as low as possible but also invest in reliable services for a growing Melbourne.
- Continue to support and protect waterway health.
- Ensure resilience and reliability for the whole water cycle, including flood mitigation and drainage management, now and into the future.
- Equity is important, as is providing hardship support to customers who need it.
- Active collaboration with partners, including Traditional Owners, local government and delivery partners.
- Provide more clarity and transparency on how Melbourne Water delivers against its performance targets and spends customer money.

Hearing directly from the water corporations and developers, we identified their following priorities:

- The urban water corporations connected to our system want fairer tariff structures with higher variable charges such that Melbourne Water shares demand-related risk.
- The metropolitan water corporations want us to reinvigorate Bulk Supply Agreements, including commitments to collaborative planning, reviewing asset ownership, and having more regular reviews of the agreements.
- The water corporations want firmer commitments from Melbourne Water on bulk infrastructure delivery and service reliability, backed by a new set of GSLs.
- Water corporations and developers want simpler customer Outcomes that are clearly linked to the services delivered by Melbourne Water.
- Developers want greater transparency in the costs of delivering Development Services Schemes and commitments to turnaround times of applications.

3.4.1.1 Water corporation feedback and influence

Table 3.7: Water corporation discussions and influence on our work

We discussed	Influence on our work
PS26 customer Outcomes and commitments that are simpler and clearly linked to service offering.	<ul style="list-style-type: none"> • Our Outcomes were developed with the water corporations. • Early in our engagement, we worked with the corporations to understand their 2023 and 2024 commitments to help us align our Outcomes direction. We then tested Outcome themes, wording, measures and commitments, how Melbourne Water will measure success, and Guaranteed Service Levels (GSLs).
Water corporations want a deep and early understanding of Melbourne Water's proposed capital plan and investment decisions	<ul style="list-style-type: none"> • Our capital plan was developed in consultation with the water corporations. • The program was taken through staged reviews from June 2024 to finalisation of the submission (September 2025). In doing this, corporations could influence our plans throughout their development, including expenditure priorities. For example, our approach to delivering new water supply infrastructure to Melbourne's west and collaborative planning on the Darebin Intercepting Sewer in Yarra Valley Water's service area. We received feedback and this was incorporated into the prioritisation process. Whenever we proposed updates to our capital program, we tested it individually and collectively with each corporation.
Providing a better understanding/deep dive into PS21 performance	<ul style="list-style-type: none"> • Water corporations were provided the opportunity to review and provide feedback on our Outcome performance reports for 2023-24 and 2024-25, including discussing whether we were self-rating appropriately considering the Outcomes they receive. • Co-design of customer satisfaction scores for 2021-26 performance measures that will continue into PS26.
Risk and Melbourne Water's risk appetite	<ul style="list-style-type: none"> • We consulted with corporations on the amount of risk Melbourne Water should take on through this submission.

We discussed	Influence on our work
Bulk Supply Agreements (BSA), collaborative planning and asset transfers	<ul style="list-style-type: none"> During early engagement through Water Corporation Forums and BSA planning forums, we identified that the BSA modernisation work program is a priority for the corporations. In mid-2025 we established a dedicated project to deliver on this priority in parallel to the development of PS26 and in time for the water corporations' 2028 Price Submissions.
Melbourne Water's proposed approach to supporting customers experiencing vulnerability.	<ul style="list-style-type: none"> Initial direction for this work program was set by water corporations. Re-testing and final decisions on programs were made through water corporation forums. Implementation of the program is being developed in collaboration with corporations' customer care teams.
Melbourne Water's approach to engagement for PS26	<ul style="list-style-type: none"> Feedback, direction and ideas fed into materials presented to deliberative panel and social research as part of our Values and Priorities engagement stage, which in turn directed all subsequent phases. Content shared publicly in the Playback period, as well as the Playback engagement program, was discussed with corporations and where possible, changes were made to both documents and engagement programs to reflect corporation expectations and requirements.

Specific changes made to our proposal based on water corporation feedback are outlined in Appendix A (Water corporation summaries), with key examples including, water security, BSAs, and asset transfers. Where decisions could not be finalised prior to submission (such as BSAs), we have made commitments to deliver during the regulatory period.

3.4.1.2 End-use customer feedback and influence

Table 3.8: End-use customer discussions and influence on our work

We heard	Influence on our work
Providing clean, safe and reliable water services is Melbourne Water's number one job. Continue to provide resilient and sustainable sewerage services and infrastructure.	<ul style="list-style-type: none"> These priorities were clearly reflected in our 2026-31 Customer Outcomes. Water services were the most prioritised by end-use customers. However, customers prioritised sewerage services differently depending on their knowledge of Victoria's water system. To further reflect the significant priority placed on water services, we developed a water quality GSL in consultation with the water corporations.
Continue to support and protect waterway health for nature and biodiversity, and with additional benefit of maintaining community health and wellbeing.	<ul style="list-style-type: none"> End-use customers had a higher level of influence over our waterways and drainage program. The priority given to waterway health by customers is directly reflected in Outcome 3. Willingness to pay surveys indicated a preference for a modest increase in service levels. Waterways and drainage specific engagement and social research supported this.

We heard	Influence on our work
	<ul style="list-style-type: none"> To reflect customer priorities for waterway health, we are proposing to continue the programs we uplifted in PS21 in vegetation, waterway condition monitoring and delivering water for the environment, which are reflected in our PS26 base year expenditure. We are also providing increased capital investment for projects removing fish barriers and constructing fish passageways. We will continue to support customer's priority for more natural waterways to enjoy and use safely through our ongoing programs for riparian vegetation management and maintenance, managing land near waterways, pollution and litter management. We will significantly invest in three waterway projects to remove concrete and make waterways more natural in communities and locations that need it and have the partners willing to work with us for delivery and shared benefits. Feedback on large-scale projects that provide community access to waterways for recreation was mixed. Results of our willingness-to-pay survey indicated preference for a slight increase in service, something that was reflected in the forum and some focus groups. We will continue to partner with community groups to monitor and improve waterway health across the region, for example the frog census. This will see a continuation of the current program. We understand community partners can help us mature our vegetation establishment and other programs.
<p>Keeping bills as low as possible but also invest in reliable services.</p>	<ul style="list-style-type: none"> Affordability remains a core focus of our submission – continuing the theme from our PS21 Outcomes. All customers, including the community sector, stated the best thing we can do to assist costumers is manage our costs effectively. Re-testing and re-prioritising work done with the Waterways and Drainage Customer Forum and the deliberative community panel to understand where customers see opportunities to re-prioritise spend. Early feedback from our Values and Priorities Stage found that affordability was ranked slightly lower than reliable water and sewerage services and healthy waterways. However, affordability was prioritised more strongly through Playback. This shift was expected, with customers seeing the 'cost' of the overall proposal (rather than the more general 'values'), and the increased cost-of-living pressures that occurred over the year. In response, we reviewed our program of work, continuing to refine programs (including our proposed hardship program) to limit the bill increase experienced by customers.
<p>Supporting customers who experience vulnerability is important, but this needs to be done fairly and the financial burden on the broader customer group must be limited.</p>	<ul style="list-style-type: none"> Following direction from the water corporations, Melbourne Water's work in supporting customers was tested with our deliberative community panel and re-tested with the panel and the broader community through our playback engagement. In response to this, we reviewed the program, bringing the overall cost of the program down. However, in consultation with water corporations and community sector organisations, this change is limited as – for Melbourne Water to have the intended impact as supported by customers – an expenditure of \$6.9 million is proposed.

We heard	Influence on our work
Provide more clarity and transparency on how Melbourne Water delivers against its performance targets, spends customer money and provides value.	<ul style="list-style-type: none"> • Our Playback engagement period and documentation publicly promoted our planned investments and decisions and asked for broad community feedback on the level of investment. • To reflect this, we are committing to more regular reporting against our Customer Outcomes and will be taking our annual performance report to the water corporations and our ongoing customer forum for feedback prior to submission to the ESC. • We have provided customer-friendly, non-technical documents with the release of our Price Submission that outlines how our submission supports the water services of metropolitan water corporations, regional water corporations, and provides services for our direct service customers.
After a first year of 0 per cent real increase (rather than a step increase price path), end-use customer preference is for smooth bill increases and for Melbourne Water to consider of their local metropolitan water corporation future price paths when setting our own.	<ul style="list-style-type: none"> • We proposed a 0 per cent real bill increase in Year 1 of the next period, acknowledging cost of living pressures. • Reflecting end-use customer and water corporation feedback, we are proposing to profile our bill increases to account for water corporations' 2028 Price Submission bill impacts. This has the practical effect of increasing bills in 2027-28, more than in subsequent years of the period but allows for a smoother price path for end-use customers. We heard clearly through our deliberative panel that customers want us to work with the water corporations to prevent bill shock and keep prices smooth over different regulatory periods.
Proactive investment where possible is preferred to avoid delays and increased future costs.	<ul style="list-style-type: none"> • We are proactively investing in our water and sewerage systems to meet growing demand and address ageing infrastructure. • We face several challenges that impact infrastructure needs over coming decades, including a growing population and more variable climate. • However, we will ensure that our expenditure proposal only includes the cost of projects and programs that we are confident can be delivered in the regulatory period. This allows us to proactively invest to meet changing needs, while ensuring customers do not wear the costs of more uncertain projects.
Collaboration with community and partners is important to deliver services that are of value for all customers.	<ul style="list-style-type: none"> • Reflecting both Traditional Owner and end-use customer feedback, we are increasing our funding of our partnerships to support Traditional Owner corporations' self-determined programs and projects. • We will continue with a range of co-delivery programs with local community and partners in council, State and Federal Governments. • We will continue to work with community environmental groups to support waterway health.

3.5 PREMO assessment – Engagement

For the Engagement component of PREMO, we have assessed ourselves as '*Standard*'. Our assessment and rationale are summarised in Table 3.9.

Table 3.9: PREMO Assessment – Engagement

Guiding Question	Comment
To what extent has Melbourne Water justified how the form of engagement suits the content of consultation, as well as the circumstances of its customers and other key stakeholders?	<p>Our engagement program was developed in collaboration with our customers after completing an initial environmental scan of water corporations Price Submission findings and customer engagement.</p> <p>The early engagement program we developed with water corporations identified key strategic challenges for Melbourne Water to address, which helped focus engagement on our 2026 Price Submission.</p> <p>More specifically engagement with water businesses was developed in consultation, including:</p> <ul style="list-style-type: none"> regular Water Corporation Forum meetings one-to-one planning and bulk supply meetings a series of regulation-specific meetings. <p>This allowed us to work directly with water corporations on the topics of most relevance and influence to them, including how we can align and support their outcomes.</p> <p>Overall, we have targeted our engagement and the form of engagement to each of our customer groups – bulk customers, waterways and drainage customers, recycled water customers, and end-users.</p>
To what extent has Melbourne Water demonstrated that it provided appropriate instruction and information to participants about the purpose, form and content of the customer engagement?	<p>We are committed to ongoing engagement with both bulk and end-use customers across all aspects of our business. This has meant the complexity provided in our engagement materials has been tailored to each of our customer cohorts.</p> <p>Our end-use customers received foundational, in-depth and targeted engagement activities, whereas our bulk customers were involved in more complex discussions on asset function, form and operations and this was reflected in the materials provided. For example, we offered the community deliberative forum pre-briefings in advance of every full day session and took and answered their questions.</p> <p>During our engagement process we received positive feedback from all our customers who participated that the material was sufficient for them to provide meaningful contribution.</p>
To what extent has Melbourne Water demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?	<p>Our different customer cohorts have different needs and knowledge of Melbourne Water. To engage effectively, we tailored engagements and levels of influence accordingly. To do this, we identified the level of influence the customer segment had (how much/little they used the service and how much/little/directly they are impacted by it) and balanced that with their level of interest identified through early prioritisation surveys and conversations.</p> <p>An example of this is where water corporations had higher levels of influence on water and sewerage services in comparison to end-use customers and other customer groups. Whereas end-use customers had higher levels of influence on waterways and drainage topics. Reflecting this, we provided more detail and more opportunities to provide feedback in these areas of higher influence.</p>

Guiding Question	Comment
<p>To what extent has Melbourne Water explained how it decided when to carry out its engagement?</p>	<p>We began our engagement program in June 2023 with environmental scans and interviews with key engagement leads from the water corporations on their programs to understand how and when to deliver our work.</p> <p>Once work began on the submission in earnest, we set up the Water Corporation Forum and the deliberative panel, which both met throughout the development of the submission. Feeding into these ongoing forums were key activities, such as community surveys and one-to-one engagement with corporations. This allowed us to build on standalone findings in continuous forums.</p> <p>Our engagement strategy itself was intended to build on previous stages, with initial assessment and values and priorities providing the foundations for following phases.</p>
<p>To what extent has Melbourne Water demonstrated how its engagement has influenced its submission?</p>	<p>PS26 is built on the extensive customer engagement insights gathered throughout 2023-25.</p> <p>We worked closely with our bulk customers through the Water Corporation Forum and our end-use customers in the Waterways and Drainage customer forum and deliberative panel, to ensure our proposals reflected their preferences and needs. Key areas of influence included customer Outcomes, areas of investment, risk and risk appetite (water corporations), proposed vulnerability program and GSLs.</p>
<p>To what extent has Melbourne Water demonstrated that its engagement was inclusive of consumers experiencing vulnerability?</p>	<p>Inclusive and accessible engagement is vital for any engagement program. Ensuring a representative voice of customers experiencing vulnerability was included in our forums, panels and focus groups was critical. Along with the financial reimbursement for participants in our work, we offered participants who were carers extra support, online support for those uncomfortable with online forums, and ensured we provided for any accessibility requirements (including catering for sensory needs).</p> <p>Accessible information was developed throughout our engagement program, including explainer videos for our willingness to pay survey and material that could be read in other languages. These helped ensure the participant had the right information to make an informed decision and that the information was presented in an accessible and inclusive manner. Transcripts were provided for customers who were unable to view the video to ensure anyone who wanted to complete the survey could (such as customers who may not be as digitally literate or had poorer connections). To ensure our Playback engagement was as accessible as possible for end-use customers, we translated key documents into five languages (representing most spoken languages in our service region) and utilised easy to understand videos to support knowledge and decision making.</p> <p>We also partnered with the Victorian Council for Social Service to help recruit customers who may experience financial hardship – in acknowledgement that this customer group are unlikely to be recruited through traditional recruitment means.</p> <p>In developing our first vulnerability program, we worked with community support organisations to ensure the program was developed with a customer-first mindset.</p>

Guiding Question	Comment
<p>To what extent has Melbourne Water demonstrated that its engagement was inclusive of First Nations people and relevant Traditional Owner groups?</p>	<p>We are learning from Traditional Owners about how we can partner with them to apply a Caring for Country approach to the land and waterways that we manage and use.</p> <p>We have been working with our Traditional Owner partners to understand the role we can play in their journey to self-determination.</p> <p>In recruiting for our deliberative community panel and customer forum, we ensured there were participants who identified as Aboriginal and/or Torres Strait Islander. However, these participants were not expected to represent First Nations peoples, but only themselves and their experiences of water services. This was intended to prevent cultural burden being placed on individuals. Our work with Traditional Owner partners is intended to ensure we reflect First Nations voices in our decision making, programs, and investments.</p>
<p>Rating</p>	<p>Confident the engagement undertaken and its influence on our submission is 'Standard'.</p>

Outcomes



4

In Summary

- Customer focus is at the heart of our corporate strategy and this submission.
- We have co-created five Outcomes and 19 measures that focus our efforts on providing genuine value for our customers, which remains our guiding principle.
- We heard our outcomes could be simpler and have re-positioned them around our four core services – bulk water, bulk sewerage, waterways and drainage. We have a fifth outcome that relates to how we are a valued partner in the industry.
- Our pricing approach balances short-term impacts on customers with long-term benefits of reliable and resilient systems.
- Customers can expect enduring value from services that support Melbourne’s health, economy and environment.
- We maintain our strong focus on affordability and propose to provide targeted support for customers experiencing financial vulnerability.
- Our Outcomes reflect comprehensive engagement with our customers and community. From the 2,085 customers surveyed in May 2025 (Stage 5 - Playback engagement), 78 per cent said they are comfortable with the Outcomes we propose to deliver, and 57 per cent of respondents confirmed they support our investment proposals against our Outcomes.
- Our PREMO self-assessment rating for Outcomes is '*Standard*'.

Chapter 4 provides information to support the Outcomes assessment, including:

- how we developed our Outcomes considering our diverse customers views and priorities, and building on PS21 Outcomes
- an overview of each Outcome, including what it means for our customers, what we heard, our commitments, key outputs and measures
- the commitments we are making and how we will report progress
- our Outcomes self-assessment rating.

4.1 How we developed our Outcomes

One of the key outputs of our engagement program is a renewed set of Outcomes for the 2026 regulatory period.

Over our six-stage engagement program, we progressively refined and collaboratively developed our proposed Outcomes and measures to reflect what we learnt was most important to our water corporations, communities, and customers. We describe this process below.

4.1.1 Stage 1 - Initial assessment

Our process started with a review of PS21 customer Outcomes, an environment scan and review of engagement activities to date to identify the list of values and priorities we wanted to re-test with our communities and customers.

4.1.2 Stage 2 - Values and priorities

We tested the list of values and priorities with our communities and waterways and drainage customers through surveys. We asked respondents to rank what mattered most to them, which allowed us to group values most important to our customers into broad outcomes for PS26. We also asked the water corporations for an assessment of our existing PS21 customer Outcomes to understand similarities and differences with their own set of Outcomes. From this stage, we narrowed down our focus on priorities for PS26 and gained an early sense of Outcome groupings.

4.1.3 Stage 3 - Valuation

With a clearer understanding of what matters to our communities and water corporations, we undertook a willingness-to-pay survey with our end-use customers, ran a deliberative panel and presented our capital plan to water corporations. We also surveyed direct service customers, interviewed diverters and ran waterways and drainage focus groups.

The insights from this stage directly influenced the themes and measures in our proposed Outcomes relating to waterways and drainage and developers. These findings helped us refine the values that mattered and structure the groupings into clear Outcomes.

4.1.4 Stage 4 - Outcomes testing

We received feedback from the water corporations that we should:

- Simplify the Outcomes language to focus on individual services to improve clarity on what will be delivered under each Outcome and to better track our performance.
- Add more specificity to Outcomes related to 'future proofing' (for example, by focusing on water security and innovative adaptation and addressing emerging issues in housing supply, climate adaptation and flooding).
- Clarify the distinction between waterway health and general environmental Outcomes, such as biodiversity and climate resilience.
- Develop meaningful metrics across Outcomes, such as community engagement and supporting vulnerable customers, complaint handling, customer satisfaction, infrastructure planning and education program participation rates.
- The importance of partnerships and collaboration in the sector, including the importance of industry-wide working groups to address common pressures and challenges. These include the provision of infrastructure to support new housing development, operational and planning, including via the development of Price Submissions, and bulk water supply asset ownership.
- Integrate targets for key priorities across the businesses, such as net zero emissions by 2050, circular economy initiatives, and addressing scope 3 emissions. Collaborative efforts should focus on reducing sewer spills, minimising environmental discharges, and achieving combined biosolids and purified recycled water goals, while aligning with the *Healthy Waterways Strategy*, Nature Positive measures, and broader environmental frameworks, such as water for the environment.

This feedback and engagement with water corporations resulted in a useful development and re-structuring of the proposed Outcomes and values groupings.

We revised our Outcome groupings to reflect the four services we provide - **safe and secure bulk water, sustainable bulk sewerage, healthy and resilient waterways, and urban drainage and flood management**. This provided a focus on each service and highlighted the importance of each one individually, a sentiment that has been echoed by our engagement.

Our commitment to being a **valued partner in the water sector** was then elevated for its own Outcome. This sentiment was previously distributed across multiple Outcomes in PS21 and prior draft Outcomes. Its promotion reflects the dependence on and the importance of effective partnerships to deliver effectively on our Outcomes.

4.1.5 Stage 5 - Playback

Prior to validating our re-structured Outcomes, we undertook a scan of the measures we currently track and potential new measures to include in our Outcomes. We asked senior leaders across Melbourne Water about existing measures and how we could improve them. We then went back to our communities and water corporations with a revised set of Outcomes reflecting the core services we provide and tested a refined set of measures to track our performance.

Through the Playback engagement, we heard that customers valued increased communications and transparency from Melbourne Water. Therefore, we expanded the customer priority list and committed to reporting on our performance twice annually and developing customer-facing Price Submission summaries.

We received minor feedback regarding the wording of themes and proposed measures, which we further refined into the next stage. By the end of Stage 5 engagement, our Outcomes and themes were almost set, with measurements still in progress.

4.1.6 Stage 6 - Closing the loop to business as usual

In Stage 6, we presented our final Outcomes for 2026-31 with our proposed measures and targets to track our performance, reflecting feedback we heard in Stage 5.

We received broad validation from our communities and water corporations, which reflects the extensive refinement process over the six-stage engagement program.

4.2 Outcomes

Bringing together both our community panel and Water Corporation Forum preferences, themes and feedback across the six-stage engagement program, we developed the following five proposed Outcomes:

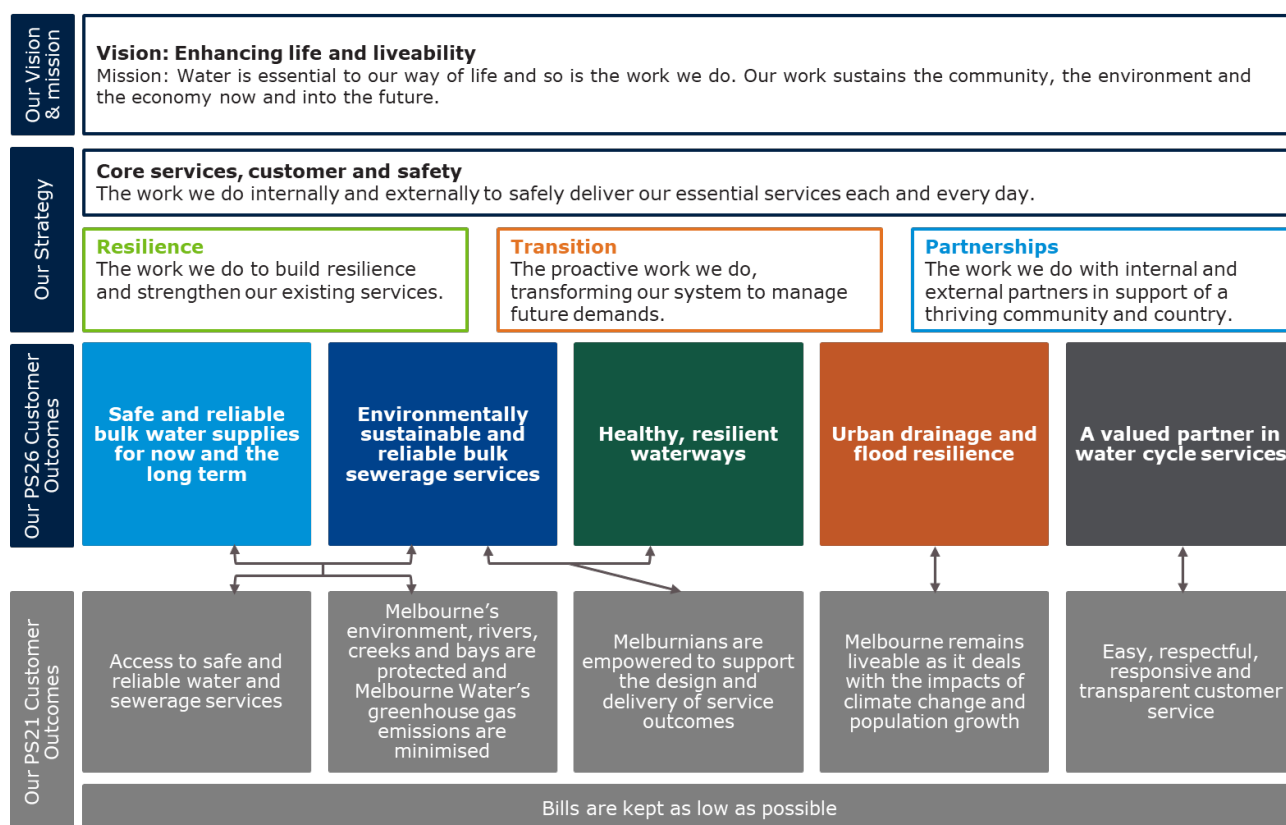
- **Outcome 1:** Safe and reliable bulk water supplies for now and the long term
- **Outcome 2:** Environmentally sustainable and reliable bulk sewerage services
- **Outcome 3:** Healthy, resilient waterways
- **Outcome 4:** Urban drainage and flood resilience
- **Outcome 5:** A valued partner in water cycle services

These Outcomes are underpinned by clear themes that structure our programs, our subsequent investment, commitments and measures.

Figure 4.1 shows how PS26 Outcomes are supported by our Corporate Strategy.

In addition, we have mapped our proposed 2026 Outcomes to our 2021 Outcomes and set performance metrics and targets underneath each of these Outcomes as shown in Tables 4.1 to 4.5.

Figure 4.1: Mapping PS21 and PS26 Outcomes with corporate strategy



4.2.1 Outcome 1 - Safe and reliable bulk water supplies for now and the long term

Table 4.1: Outcome 1 - Safe and reliable bulk water supplies for now and the long term

OUTCOME 1	Safe and reliable bulk water supplies for now and the long term		
What this means for our customers	As an essential service provider, we supply bulk water to the Melbourne Water metropolitan and urban water corporations that serve the neighbouring regions of Geelong, Phillip Island, and Gippsland. We want to ensure that our bulk water supply is safe and reliable now and into the future. This means: <ul style="list-style-type: none">We provide safe drinking water that is accessible to all customers and meets their expectations.Our services are reliable now and into the future.We provide long-term water security, and our sources of supply are resilient to growth in demand and climate change.		
Providing safe drinking water		Improving our water service reliability and resilience	Improving Melbourne’s water supply security
What we heard: <ul style="list-style-type: none">Customers told us ensuring safe and clean water that is accessible to everyone regardless of their socioeconomic status or where they live was their top priority.Customers told us they believe that clean and reliable water is non-negotiable and tied to health and quality of life.Customers believed that we should prioritise consistent water quality and affordability, while also encouraging water conservation.Across all our bulk service customers, safe drinking water is the top priority for their customers. Therefore, they requested that Melbourne Water consider implementing a water quality Guaranteed Service Levels (GSLs).		What we heard: <ul style="list-style-type: none">Along with safe drinking water, customers told us that ensuring reliable water supply was a top priority, for example ensuring that services are maintained even during extreme events like bushfires, drought and flooding.Customers told us they believe efficient infrastructure maintenance supports sustainable water management practices and reduces waste and environmental impact.Customers supported us planning for population growth and investing in cost-effective technologies that reduce operational cost while benefiting future generations.	What we heard: <ul style="list-style-type: none">Customers told us that we should consider all possible water sources when planning for future water supply.Customers believed long-term infrastructure upgrades are important to ensure sustainable water management for the future and to address emerging challenges, such as increased housing demand, climate adaptation and flooding, but that we should also be innovative in our approaches.Customers valued us detecting leaks early to reduce water wastage and supported a focus on water saving technologies.Customers told us to be ready for natural disasters and to put in place effective management plans to handle potential water contamination events, including focusing on protecting our catchment areas.Customers said we should be investing in technology to prevent water loss from our networks and reduce evaporation from storages, while also considering the longevity and relevance of such technologies.
Investments we will make: <ul style="list-style-type: none">We are proposing to invest \$542 million to secure our drinking water quality. Our key investments over the next regulatory period are:<ul style="list-style-type: none">\$86 million to refurbish the filters at Winneke Treatment Plant by 2031 to ensure continuous safe drinking water and continue to meet our quality compliance obligations.Installing UV disinfection at Monbulk and Kalista (\$25 million) and preparing ourselves for upgrades at Silvan and Greenvale in the following regulatory period to ensure continued compliance with drinking water standards.\$75 million in securing our catchments at both Silvan and Greenvale Reservoirs. This will ensure we can keep our protected catchment sources clean and secure and minimise water treatment plant upgrades for continued drinking water compliance.We are proposing an increase in chemical costs for water treatment for changes in the fluoride contract costs (\$10 million over five years).		Investments we will make: <ul style="list-style-type: none">Over the next regulatory period we are proposing to invest \$752 million to meet growth across Melbourne and beyond, optimising our networks to improve resilience and renewing our ageing assets. The key investments are:<ul style="list-style-type: none">\$163 million in securing water transfer reliability from East to West through the Link Main Project. This will increase system reliability and resilience, as well as contributing to meet growing customer demands.Renewing crucial water mains, including our 90 to 110-year old pipes that transfer water from Olinda to Mitcham (\$83 million of the \$118 million investment).Significant investment to service the growing west of Melbourne with Holden Mt Cottrell Pipeline Stage 1 and 2, as well as upgrades at Holden Service Reservoir and Mt Cottrell Pump Station.	Investments we will make: <ul style="list-style-type: none">In preparation for the next climate resilient water supply, we are proposing a significant upgrade to our water production and storage assets (\$888 million). This will optimise storage capacity and provide for greater water efficiency in water transfer, as well as meet compliance and renewal of our assets at the end of their service life. Our key investments over PS26 will be:<ul style="list-style-type: none">Undertaking significant dam safety upgrades at Cardinia Reservoir (\$191 million) to meet compliance standards and optimise storage capacity.Cardinia Reservoir will also have a renewed and upgraded pump station delivered to improve system resilience (\$99 million).Complete the renewal of Maroondah Reservoir Outlet and Aqueduct, both among our oldest assets, improving their safety and enhancing our water capacity (\$157 million).Consistent with the <i>Water Security Plan</i>, we are investing \$250 million in the development of options for manufactured and new water sources detailed investigations and preliminary work in the next regulatory period,

Providing safe drinking water	Improving our water service reliability and resilience	Improving Melbourne’s water supply security
		<p>including readying our transfer networks for the future needs of Melbourne’s West and Geelong.</p> <ul style="list-style-type: none">We are also proposing an increase in opex (\$5 million over five years) to open Tarago Reservoir to recreational access.
<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">We will implement and apply our updated water quality GSL to events that affect our customers.	<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">We will collaborate with our bulk service customers to prepare a long-term adaptive network plan, including regional-based solutions and plans for our bulk transfer network.	<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">We will work closely with our metropolitan bulk water customers to implement the <i>Greater Melbourne Urban Water and System Strategy: Water for Life</i> (GMUWSS), deliver a <i>Melbourne Water System Strategy</i> and support development of <i>Urban Water Strategies</i> in 2027 and implementing State Government Reforms to water entitlements.We will conduct detailed investigations and development activities for the next large-scale water supply for the connected Melbourne system.
<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">Number of <i>Safe Drinking Water Act</i> non-compliances (water sampling and audit).	<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">Percentage of time compliant with water corporation pressure requirements (cumulative across the year).	<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">Conduct detailed investigations to progress the critical path for new large-scale water infrastructure.Percentage of transfer system losses as a percentage of water supplied to water corporations.

4.2.2 Outcome 2 - Environmentally sustainable and reliable bulk sewerage services

Table 4.2: Outcome 2 - Environmentally sustainable and reliable bulk sewerage services

OUTCOME 2	Environmentally sustainable and reliable bulk sewerage services		
What this means for our customers	As an essential service provider, we provide bulk sewerage services to Melbourne’s water corporations, collecting bulk sewage in our bulk transfer networks and then treating it at our two treatment plants – the Eastern Treatment Plant (ETP) and the Western Treatment Plant (WTP). We want to ensure these services are environmentally sustainable. This means: <ul style="list-style-type: none">Our treatment plant processes are sustainable, comply with regulatory requirements, and we plan and invest for the future to ensure they remain resilient to population growth and climate change, including investments towards our net zero target by 2030.Our transfer system is reliable and remains resilient to climate change.		
Augmenting our Eastern Treatment Plant to meet growth and improve system resilience		Transitioning our Western Treatment Plant to meet growth and limit impacts	Improving the reliability and resilience of our sewerage transfer network
What we heard: <ul style="list-style-type: none">Customers told us ensuring reliable services even during extreme events like flooding was one of their top priorities.Our bulk service customers and end-use customers stressed the importance of foresight in planning for future growth needs, investing proactively to prevent service delays and ensuring timely upgrades of equipment, and maintaining the sewerage system to prevent failures and assure safety.Customers expected that we mitigate the impacts of climate change and ensure Melbourne remains liveable through our practices.Customers believed that collecting biogas as an alternative energy source to reduce reliance on external power networks and improving the use of recycled water was a priority.		What we heard: <ul style="list-style-type: none">Customers told us ensuring reliable services, even during extreme events like bushfires, drought and flooding, was one of their top priorities.Our bulk service customers and end-use customers stressed the importance of foresight in planning for future growth needs, investing proactively to prevent service delays and ensuring timely upgrades of equipment and maintaining the sewerage system to prevent failures and assure safety.Customers expected that we mitigate the impacts of climate change and ensure Melbourne remains liveable through our practices.Customers believed that collecting biogas as an alternative energy source to reduce reliance on external power networks and improving the use of recycled water was a priority.	What we heard: <ul style="list-style-type: none">Customers told us ensuring reliable services even during extreme events like bushfires, drought and flooding was one of their top priorities.Our bulk service customers identified that network reliability was important and that sewerage spills and their effect, impact overall community amenity, making it important to consider collective environmental and social effects.The community, via our deliberative panel, identified the need to proactively manage pollutants entering the sewer system.
Investments we will make: <ul style="list-style-type: none">We are investing \$964 million in PS26 as part of a long-term program to optimise the capacity and performance of the existing process, as well as upgrading our ageing assets, to meet growth and maintain compliance. Key projects to be delivered across PS26 are:<ul style="list-style-type: none">Primary Sludge Tanks and Grit tanks augmentation (\$178 million), Sludge Dewatering Upgrade (\$177 million) and Sludge digestion capacity to meet growth occurring in the east.Increasing our compliance with our regulatory obligations by investing in influent screening and processing upgrades and chlorine renewal risk reduction.		Investments we will make: <ul style="list-style-type: none">We are investing in a series of no-regrets decisions to enable realisation of adaptive planning pathways at WTP as part of our \$912 million investment over PS26. This will ensure the asset will continue to treat waste in a sustainable manner. The key projects to be delivered across PS26 are:<ul style="list-style-type: none">Primary treatment capacity augmentation (\$114 million) to meet our growing customer base in the west.Full preliminary treatment augmentation (\$291 million) to ensure continued compliance with our EPA Victoria licence obligations and that we cause no harm to the environment.Renewing the Gas Plant as part of our pathway to meet net zero obligations.	Investments we will make: <ul style="list-style-type: none">We are investing \$741 million in our sewage transfer system over the PS26 period. This will ensure that our critical end of life transfer assets are renewed, meet our growing customer base and ensure we remain compliant. Key projects to be delivered over the PS26 period are:<ul style="list-style-type: none">Renewing part of the Western Trunk Sewer (the Shallow Conduit, \$204 million), a critical asset that transfers all flow to WTP.Investing in augmenting key sewerage transfer assets to ensure compliance (such as Hoppers Crossing Pump Station Emergency Power Supply, Ringwood South Branch Augmentation, and Maribyrnong Main Sewer Augmentation).Preparing for key growth assets, including the Darebin Intercepting Sewer to be delivered during PS31 or earlier if growth requires.
Actions and commitments we will make: <ul style="list-style-type: none">We will collaboratively plan with our bulk customers for the next upgrades at ETP to meet growth and the needs of our community, including the role and the quality of recycled water the plant produces.		Actions and commitments we will make: <ul style="list-style-type: none">We will work with local communities to manage odour when we deliver capital works at WTP and develop a long-term plan to reduce odour.We will work closely with our recycled water partners on the investment required to meet expectations in a cost-effective manner.We will collaboratively plan with our bulk customers for the next upgrades at WTP to meet growth and the needs of our community.	Actions and commitments we will make: <ul style="list-style-type: none">We will work collaboratively with water corporations to prepare long-term adaptive plans to solve whole of system and transfer capacity constraints to deliver the lowest community cost outcome to customers over the long term.We will work with our bulk sewerage customers to develop sewer network collaborative plans.

Augmenting our Eastern Treatment Plant to meet growth and improve system resilience	Transitioning our Western Treatment Plant to meet growth and limit impacts	Improving the reliability and resilience of our sewerage transfer network
<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">• Non-compliances with our Environment Protection Agency Victoria (EPA Victoria) licence conditions for all effluent discharge limits at ETP.• Net amount of greenhouse gas emissions (CO₂-e) (all our services).	<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">• Non-compliances with our EPA Victoria licence conditions for all effluent discharge limits at WTP.• Net amount of greenhouse gas emissions (CO₂-e) (all our services).	<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">• Number and volume of sewer spills across our transfer network due to system failure.

4.2.3 Outcome 3 - Healthy, resilient waterways

Table 4.3 Outcome 3 - Healthy, resilient waterways

OUTCOME 3	Healthy, resilient waterways
What this means for our customers	<p>We are the custodian of Greater Melbourne’s waterways, managing a complex network of interconnected and interdependent rivers, wetlands and estuaries, which collectively gather rainwater, stormwater and groundwater from the landscape (the catchments), ultimately carrying this water to the bays and ocean. We want to ensure that our waterways remain healthy and resilient to change, including the impacts of urbanisation and climate change. This means:</p> <ul style="list-style-type: none">• We protect and enhance land along our waterways so that people and nature can thrive. This includes managing vegetation along our rivers, wetlands and estuaries so that biodiversity can thrive.• We maintain healthy waterways by sustainably managing water quality and availability for environmental flows and reduce and prevent pollution and litter in our waterways.
Protecting and enhancing nature along our waterways and land so nature can thrive	
<p>What we heard:</p> <ul style="list-style-type: none">• In our waterways and drainage customer forum, protecting wildlife and biodiversity so that flora and fauna can flourish, was the top priority among the nine priorities tested.• Customers told us they expected us to maintain a healthy environment for current and future generations, protect and expand green areas, such as catchments along waterways, preserve and protect natural biodiversity and wildlife habitats.• Customers were willing to pay more than the bill impact to establish significantly more vegetation and weed removal along our rivers and creeks through direct investment and through partnerships with other water corporations and local government.• Customers demonstrated strong support for litter management, fostering community participation in cleanup efforts. When combined with vegetation and maintenance, they were willing to pay more than the bill impact for additional catchment scale litter collaboration.• Our community panel highlighted the need for us to involve First Nations communities in preserving waterways and providing incentives for businesses to adopt environmentally friendly practices.	<p>What we heard:</p> <ul style="list-style-type: none">• Customers across different segments ranked maintaining healthy waterways into the future as a top priority.• Customers also expected us to maintain healthy waterways for cultural and social wellbeing, providing spaces for recreation and connection with nature.• Customers told us across the engagement program that local community participation in waterway health activities, increased investment in education about waterway conservation and pollution prevention was a key solution to healthy and resilient waterways.• Our waterways and drainage community panel were supportive of increasing initiatives with partnerships and direct investments in stormwater harvesting and infiltration.• Our bulk service customers told us that the benefits of using manufactured water for environmental flows should be recognised in its role in healthy and resilient waterways.• Customers were willing to pay for additional manufactured water to return 11 GL of water to the Yarra River for environmental benefit. We will explore the feasibility of this option in future strategies.
<p>Investments we will make:</p> <ul style="list-style-type: none">• Undertake \$144 million in waterways management to improve vegetation condition and natural wetlands. This includes \$1.9 million in diversion meters renewal program.• Proposing \$92 million in community access and recreation capital investments, including continuing with our community support of the Reimagining Your Creek Program with Tarralla Stage 2 (\$31 million) and Eumemmerring (\$27 million).• Proposing to invest \$15 million in land and biodiversity management.• Proposing \$6 million over five years in additional opex funding for waterway vegetation, including grants.	<p>Investments we will make:</p> <ul style="list-style-type: none">• We are proposing \$98 million of capital investments in stormwater management. The investments will renew many of our ageing constructed wetlands and support stormwater harvesting and infiltration systems.• We are also proposing an additional \$13 million in opex over the five years for desilting and stormwater management.• We are also increasing our maintenance program for habitat wetland systems (\$1 million over the five years).
<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">• Continue to support the co-delivery of the <i>Regional Catchment Strategy (2021-2027)</i> and <i>Healthy Waterways Strategy (2018-2028)</i> through implementation of our waterway programs with our partners and community.• Develop our next <i>Healthy Waterways Strategy</i> for release in 2028. The strategy will outline catchment-specific visions, goals, long-term targets (10-50 years) and short-term performance objectives (10 years).• Develop our next Waterways and Drainage Investment Plan (WDIP) for release in 2026. This plan details our responsibilities, goals and service levels for our waterway management and drainage services.• Continue to implement our Lower Werribee Waterway Amenity Action Plan 2022, which articulates a 10-year vision for improved amenity, cultural values, community access and visitor experience along the Wirribi Yaluk (Werribee River) corridor.• Implement our Lower Dandenong Creek Litter Action Plan 2024 to effectively manage litter across the catchment and reduce volumes of litter entering waterways and reaching the bay.	<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">• Work closely with the Victorian Environmental Water Holder in our catchment on how to meet the obligations of returning water to the environment.• Work closely with our metropolitan bulk water customers to implement GMUWSS, including exploring the feasibility of additional manufactured water to return 11 GL of water to the Yarra River for environmental benefit.• Receive increasing numbers of developer-delivered assets, including wetland systems, and improve our systems and processes to forecast future maintenance requirements.

Protecting and enhancing nature along our waterways and land so nature can thrive	Sustainably managing water quality and availability
<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">Length (kms) along waterways managed for ecological benefit (including where fish passage is enabled, on ground works of vegetation established, and protected by Stormwater Quality Wetland Systems).Number of projects funded within the waterways and drainage incentives program.	<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">Overall satisfaction with our Waterways Service.⁶

⁶ We are proposing to amend this measure in year 2 of the regulatory period to shift towards a more reflective measure of satisfaction with our delivery of our waterways service. We are proposing to distinguish between waterway customers and will be developed as part of forums set up for the WDIP work and next iteration of the *Healthy Waterways Strategy*. In the interim, we will continue to monitor and track overall satisfaction with our waterways service until a more appropriate measure is developed.

4.2.4 Outcome 4 - Urban drainage and flood resilience

Table 4.4: Outcome 4 - Urban drainage and flood resilience

OUTCOME 4	Urban drainage and flood resilience	
What this means for our customers	As an essential service provider, we plan and manage a complex waterway and drainage system across the Port Phillip and Western Port catchments and facilitate sustainable urban development and renewal. We want to ensure that flows are managed to improve our resilience to flooding and minimise risk to people, property and public places. This means: <ul style="list-style-type: none">We plan for, capture and manage the release of excess stormwater in the catchment to improve our flood resilience and community protection and safety and reduce the risks of flooding and its impacts.We improve our internal planning systems and processes so that we can support developers to respond to the challenges of urbanisation and growing Melbourne.	
Improving Melbourne’s flood resilience through effective planning and management of our urban drainage system		Improving our processes to support urbanisation and a growing Melbourne
What we heard: <ul style="list-style-type: none">Our community panel expected that all customers, regardless of location, are safe in flood scenarios. They highlighted the importance of flood resilience and safety measures.Our customers highlighted that rising flood insurance costs are a common concern, with many seeing drainage and mitigation investment as a solution to ease the burden.Our community panel identified a preference for investing in prevention and research (pro-active management) over reactive flood mitigation strategies and drawing from interjurisdictional experiences across Australia.Customers were willing to pay to target in person engagement with 2,000 at-risk households per year through digital campaigns targeted to all flood risk areas.		What we heard: <ul style="list-style-type: none">Customers expected Melbourne Water should support housing growth and ensure that drainage planning meets these needs.Our bulk water and sewerage customers expected that we have clear commitments on how we support housing growth.Developers wanted commitments to application turnaround times and wanted access to and timely response from Melbourne Water staff to support their applications.Developers want greater transparency in how Development Services Schemes are set and the costs that contribute to fees.
Investments we will make: <ul style="list-style-type: none">We are proposing to invest \$305 million of capital investments into assets that will minimise flood impacts to people and property. Key projects to be delivered across PS26 include:<ul style="list-style-type: none">Elsternwick Creek and Elwood Main Drain Flood Mitigation Works to improve compliance requirements of the assets to manage and drain the catchment under a changing climate (\$69 million).Renewal of the Cardinia Creek Drop Structure Retarding Basin to avoid complete failure of the asset (\$39 million).Elwood Diversion Drain outfall renewal of \$27 million over the regulatory period.Flood modelling and publication of flood maps over the regulatory period (\$42 million in capital works) to ensure that flood overlays are up to date and help us and councils target investment. This will be in addition to the proposed \$41 million of flood mitigation works over the five-year period.We are also proposing a five-year increase in operating expenditure of \$7.3 million in flood management, modelling and awareness programs across the regulatory period.		Investments we will make: <ul style="list-style-type: none">We are proposing to deliver \$1,495 million of investments to support a growing Melbourne. Key programs are:<ul style="list-style-type: none">\$1,400 million in land development expenditure in Development Services Schemes that will be mostly offset by customer contributions.Significant investment in Arden Macauly and Fishermans Bend urban redevelopment projects. These are partially offset by contributions from developers.Continuing to invest in developer funded stormwater quality offsets over the regulatory period.We will continue to resource our urban development function to maintain timely response to development applications and referrals.
Actions and commitments we will make: <ul style="list-style-type: none">Continue to implement our 10-year <i>Flood Management Strategy for Port Phillip and Westernport</i> (2021-31). Key activities in PS26 include:<ul style="list-style-type: none">Continuing to deliver our flood modelling program to ensure we have the most up to date and appropriate flood information available to provide emergency planning development advice and to inform mitigation strategies. This includes our measure to update flood information for up to half our 106 catchments across our region in the 2026 regulatory period.Empowering communities by raising awareness of flooding through initiatives and in-person events, targeting communities with the highest risk of flooding.Continuing to monitor and improve our flash flooding, storm surge and flood warning system.		Actions and commitments we will make: <ul style="list-style-type: none">We will continue to consult with and update the development industry, including through Melbourne Water’s Urban Planning and Development Strategic Consultation Group (UPDSCG) on service standards and ways to improve our processes.We will review the principles for establishing a Development Services Scheme with representatives from the development industry.We will continue to support housing growth through our planning and development services so that new development has adequate drainage and flood protection, without adversely impact neighbouring properties or waterways.Continue to enable innovative solutions in new precincts (for example, Fishermans Bend) to achieve multiple benefits, including flood infrastructure and stormwater harvesting.

Improving Melbourne’s flood resilience through effective planning and management of our urban drainage system	Improving our processes to support urbanisation and a growing Melbourne
<ul style="list-style-type: none">- Continuing to transition the riverine flood warning to the Bureau of Meteorology in 2026, bringing it in line with the national framework. Integrating our flash flood data into the Emergency Management Common Operating Platform in partnership with Emergency Management Victoria and Victoria State Emergency Service.	
How we will keep ourselves accountable (measures): <ul style="list-style-type: none">• Average estimated flood damages reduced as a result of our programs.• Number of secondary catchments where new flood information is completed.	How we will keep ourselves accountable (measures): <ul style="list-style-type: none">• Responses to our urban planning and development statutory and non-statutory applications are completed within the agreed timeline.• Developer application satisfaction score.

4.2.5 Outcome 5 - A valued partner in water cycle services

Table 4.5: Outcome 5 - A valued partner in water cycle services

OUTCOME 5	A valued partner in water cycle services	
What this means for our customers	<p>Customer Outcomes 1 to 4 require us to work in partnership with diverse organisations across the water sector to deliver value and to be as effective and as affordable as possible. This means:</p> <ul style="list-style-type: none">• We collaborate and co-create plans with the water sector and play a key role in delivering solutions that addresses the challenges posed by population growth and climate change.• We seek out new partnerships and leverage existing relationships. For example, with Traditional Owners, and relationships with local councils, industry and organisations to deliver community educational awareness programs, address environmental priorities and improve water management processes.	
Collaborating and co-create plans with our stakeholders		Leveraging new and existing relationships to benefit our communities
<p>What we heard</p> <ul style="list-style-type: none">• The community panel told us about the importance of collaborating and partnering with universities, water corporations, and international organisations to drive research, share costs, and innovate in water management technologies to address water efficiency, flood resiliency, climate change and waterway health.• Our bulk water and sewerage service customers emphasised the importance of water corporation-specific working groups to address industry pressures, such as housing, and maintaining forums for operational and planning collaboration.• Our bulk water and sewerage service customers suggested reflecting on partnerships, such as the Accord, and resolving issues around bulk water supply asset ownership through collaborative approaches to support future planning.• Our bulk water and sewerage service customers suggested that we may have a role in coordinated planning and engagement, particularly with large water users entering the system and to simplify sector-wide engagement and help create a united front when dealing with developers and external stakeholders.• Our bulk water and sewerage service customers emphasised our role in leading and coordinating components of integrated water management planning across the sector.		<p>What we heard</p> <ul style="list-style-type: none">• The community panel stressed the importance of partnerships between water corporations, local councils, developers and the community to foster sustainable water use, incentivising community involvement in environmental conservation efforts and in protecting vulnerable groups.• Across many points of our engagement program, customers and our bulk service customers highlighted that education at all levels of society was key to raising awareness about environmental issues, understanding the water cycle, fostering collective action, and raising awareness about fair and equitable water usage and the significance of waterways and their cultural histories.• Our community panel told us that involving Traditional Owners in the decision-making processes was important, moving beyond consultation to genuine collaboration.• Traditional Owners told us that adequately resourcing our partnerships was the best thing we could do to support self-determined water outcomes.• Our bulk service customers also considered us to have a role in advocating for the sector, and highlighted the need for clear communication to community, sharing learnings and careful planning across water corporations to ensure successful implementation of joint initiatives.• Our bulk service customers underscored the need for us to properly underwrite vulnerability support programs with emphasis placed on financial sustainability, collaborative trade-offs to meet customer needs, maintaining affordability with commitments to low bills, and linking care for waterways and drainage to broader strategies, such as the <i>Healthy Waterways Strategy</i>.
<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">• Implement new Bulk Supply Agreements based on formal relational contracting and incorporating new collaborative planning arrangements.• Complete a collaborative long-term capital and operating plan to support Urban Water Strategies, <i>The Melbourne Water System Strategy</i> and joint <i>Melbourne Sewerage Strategy</i> aspirations, and future water corporations’ and Melbourne Water Price Submissions.• We will support corporation-wide working groups to address industry pressures in collaboration with the Accord.• We will establish an ongoing forum, which will help assess our Outcomes performance reporting and continue to report annually.		<p>Actions and commitments we will make:</p> <ul style="list-style-type: none">• Undertake engagement to raise awareness and educate the community on the importance of water efficiency, sustainable practices in sewer systems and how to contribute to healthy waterways.• Provide grant funding to community groups to assist in their ability to meet their own water-related sustainability goals.• Continue to facilitate the delivery of the <i>Burndap Birrarung burndap umarkoo</i> (Yarra Strategic Plan) and commence engagement on the new plan to come into effect 2032.• Continue to progress formalising partnerships with the Wurundjeri Woi-wurrung Cultural Heritage Aboriginal Corporation.• Invest in programs to support customers experiencing vulnerability. This includes amplifying the metro water corporation’s hardship programs and offering a hardship grant for waterways and drainage customers. We will embed these in water corporation agreements, where applicable.
<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">• Water corporations' relationship health metric.		<p>How we will keep ourselves accountable (measures):</p> <ul style="list-style-type: none">• Number of initiatives delivered that engage community and foster shared outcomes for healthy land, water and people.• Percentage of the community surveyed with a moderate or better level of water literacy.

4.3 Our commitments to our customers

Our Outcomes, the actions we take, our measures and performance targets collectively represent our best offer to customers. During the next regulatory period, we will hold ourselves to account by working with customer and consumer representatives to assess our performance prior to publishing our Outcomes reports.

4.3.1 Actions we will take

Within each Outcome, we have proposed the following targeted actions designed to deliver real value to our customers, ensuring we address their needs and priorities effectively:

- **Keep our customers up to date with any changes to the plan:** Transparency is at the heart of our commitment to our customers. Through clear and consistent communication, we ensure they are informed about any updates or changes, reinforcing their trust in our ability to deliver outcomes that matter to them.
- **Regularly check-in on whether we are meeting their expectations:** Customer satisfaction is a key measure of our success. We are dedicated to ongoing engagement through our new ongoing customer forum, which actively seeks feedback to understand how well we are meeting their expectations. This proactive approach allows us to adapt and refine our plans to ensure we continue to meet evolving needs.

4.3.2 Our targets and measuring performance

We have thoroughly examined the 19 performance measures set in PS21 and will take a revised set forward in PS26. We have built our understanding and made significant learnings over the current regulatory period. Each measure we take forward is measurable, clearly defined in our Key Performance Indicator (KPI) Handbook, and unambiguous. Our new set of performance measures has been designed to reflect the aspects of each Outcome that customers or regulators have said is most important. In combination, this suite of measures will allow for a holistic assessment of our performance for that Outcome. We acknowledge that our Outcomes reflect short-, medium- and long-term aspirations. Therefore, some measures will remain as key inputs to delivery and actions.

We have made significant learnings over the current regulatory period about the need to better specify and accurately measure customer sentiment. We have proposed three unambiguous measures of customer sentiment that are reflective of the four services we provide:

- Noting that the water corporations are our key partners in effectively delivering Outcome 1 (bulk water) and Outcome 2 (bulk sewerage), we have worked closely with them to co-develop a new water corporations relationship health score. We will report this measure under Outcome 5 (partnerships).
- For Outcome 3 (waterways) we will measure community satisfaction with our waterways service.
- For Outcome 4 (flood and drainage) we will measure a developer application satisfaction score.

The full suite of measures is set out in Table 4.6.

Table 4.6: Outcome measures

Outcome	Measures	Performance Direction
Outcome 1: Safe and reliable bulk water supplies for now and the long term	<ol style="list-style-type: none"> 1. Number of <i>Safe Drinking Water Act</i> non-compliances. 2. Percentage of time compliant with water corporation pressure requirements. 3. Percentage of transfer system losses as a percentage of water supplied to water corporations. 4. Conduct detailed investigations to progress the critical path for new large-scale water infrastructure. 	<p>We will invest to maintain and comply with current levels of performance water transfer and water quality, backing the latter with a new GSL.</p> <p>We will invest to improve water security.</p>
Outcome 2: Environmentally sustainable and reliable bulk sewerage services	<ol style="list-style-type: none"> 5. Non-compliances with our EPA Victoria licence conditions for all effluent discharge limits at Eastern Treatment Plant. 6. Non-compliances with our EPA Victoria licence conditions for all effluent discharge limits at Western Treatment Plant. 7. Net amount of greenhouse gas emissions (CO₂-e) produced at all sites. 8. Number of sewer spills across our transfer network due to system failure. 9. Volume of sewer spills across our transfer network due to system failure. 	<p>We will invest to maintain performance of the transfer network.</p> <p>We will invest to improve treatment plant compliance and progress toward net zero.</p>
Outcome 3: Healthy, resilient waterways	<ol style="list-style-type: none"> 10. Length (kms) along waterways managed for ecological benefit. 11. Number of projects funded within the waterways and drainage incentives program. 12. Overall satisfaction with our Waterways Service. 	<p>We will maintain satisfaction with our waterways service.</p> <p>We will invest to improve the length of waterway managed for ecological benefit.</p>
Outcome 4: Urban drainage and flood resilience	<ol style="list-style-type: none"> 13. Number of catchments where new flood information is completed. 14. Average estimated flood damages reduced as a result of Melbourne Water's programs. 15. Responses to our urban planning and development statutory and non-statutory applications are completed within the agreed timeline. 16. Developer Application satisfaction score. 	<p>We will invest to improve flood information and reduce estimated flood damages as a result of our works.</p> <p>We will invest to maintain recent gains in timeliness of responses and developer satisfaction.</p>
Outcome 5: A valued partner in water cycle services	<ol style="list-style-type: none"> 17. Water Corporations Relationship Health Metric. 18. Number of initiatives delivered that engage community and foster shared outcomes for healthy land, water and people. 	<p>We will improve our relationship health with our water corporations.</p>

Outcome	Measures	Performance Direction
	19. Percentage of the community surveyed with a moderate or better level of water literacy.	We will maintain community engagement and water literacy.

Further detail on our performance metrics and targets is set out in Appendix B (Outcomes measures and targets). These measures are supported by our KPI Handbook (made available upon request).

4.3.3 Taking accountability

We will take accountability for our proposals through both internal and external reporting. We are committed to engaging on our performance with water corporations and end-users during the regulatory period, and reprioritisation areas of underperformance through their feedback.

4.3.3.1 Internal reporting

We will continue our practice of monthly performance reporting to Board, structured around delivery of our Outcomes and performance measures.

4.3.3.2 External reporting

We are committed to increasing our external customer Outcomes reporting and making it easier for our customers to quickly understand our performance. We are proposing to report every 12 months with a six-monthly status report.

The annual Outcomes Report will detail our performance against each Outcome, and our performance assessment will be undertaken in collaboration with the water corporations and our ongoing community forum. These annual reports will include a comparison of expenditure performance determination and track against major capital projects.

The six-monthly status report will provide a snapshot of our performance. If required, it will include actions we are taking to remedy underperformance.

4.3.3.3 Bulk Supply Agreements

We hold Bulk Supply Agreements with each of our water corporation customers for water, sewerage and recycled water. We are committed to ensuring these remain contemporary and we are accountable at all levels of our organisation.

We are currently undertaking a program of work to modernise our current Bulk Supply Agreements with the metropolitan water corporations. This reflects feedback gathered from our PS26 engagement program, where water corporations requested updated agreements ahead of their 2028 submissions.

The modernised Bulk Service Agreements will be a relational-style contract, consistent with the Accord principles of collaboration and partnership. Project planning and principles for this program of work have been developed in close collaboration with the water corporations. Draft agreements will be finalised by the end of 2026.

4.3.3.4 Guaranteed Service Levels

Melbourne Water is committed to providing high standards of service. We have engaged with water corporations on the GSL scheme, which has been in place throughout the 2021-26 regulatory period. We recognise that occasionally, Melbourne Water is the cause of a water corporation breaching one of its GSLs and Melbourne Water commits to compensating the water corporation for the rebate to its end customers in these cases, as well as a contribution towards administration or contact centre costs as a result of the breach.

Feedback from the water corporations told us we should continue with our current GSLs and introduce a new GSL around water quality, which they would also incorporate into their GSL schemes. We have co-designed this new GSL with water corporations, as discussed in Section 4.3.4 (Enhanced water quality Guaranteed Service Level). Our complete GSL scheme proposal is included in Appendix D (Guaranteed Service Levels).

4.3.4 Enhanced water quality Guaranteed Service Level

We recognise that water quality and reliability are the number one priority for our community and the water corporations. When we consulted on Melbourne Water's existing GSL scheme, it was requested to consider the applicability of a back-to-back water quality GSL, which would replace the community rebates introduced in water corporations' 2023 and 2024 submissions.

We are implementing this and proposing the following multi-part GSL:

- If a precautionary drinking water advisory is issued due to a potential issue with drinking water supplied by Melbourne Water:
 - bottled water reimbursement to water corporation customers (on application)
 - reimbursement of water corporation incident administration costs.
- Matching water corporation GSL rebate, up to \$75 rebate per property if the drinking water supplied does not meet the microbial characteristics of health-based drinking water quality standards⁷, and Melbourne Water, or a failure in Melbourne Water's system, caused the non-compliance.⁸

We have not forecast additional opex for the water quality GSL in PS26 as Melbourne Water is taking on this risk.

4.3.5 Customer support package

We acknowledge that we have a significant investment program with customer bills projected to increase above inflation. Therefore, we will provide support to customers experiencing financial difficulties and vulnerability. During the development of PS26, we have worked closely with both our customers and the community sector to identify where and how we can help vulnerable customers.

We heard through our engagement program:

⁷ Clause 16(2) of the Safe Drinking Water Regulations (2025).

⁸ Excludes events that are beyond the reasonable control of Melbourne Water, including acts of God, lightning, storm, flood, fire, earthquake or any other natural disaster, explosion, pandemic or epidemic.

- Our customers, community panels and our bulk water customers stressed the importance of being fair and affordable, while ensuring customers experiencing vulnerability are not left behind.
- Our community panels expected concession and hardship policies should be the same across all water providers with payment plans, subsidies and bill extensions to help customers facing financial difficulties.
- Our bulk service customers underscored the need for us to properly underwrite the vulnerability support program with emphasis placed on financial sustainability, collaborative trade-offs to meet customer needs, maintaining affordability with commitments to low bills, and linking care for waterways and drainage to broader strategies, such as the *Healthy Waterways Strategy*.
- Our bulk service customers also considered us an advocate and highlighted the need for clear communication, shared learnings and careful planning across water corporations to ensure successful implementation, reduce the risk of diluting current initiatives and improving hardship support across Victoria.

The four key components of our proposed program are:

1. **To amplify existing water and sewer hardship programs:** This will provide an increase in funding to water corporations to provide grants to customers experiencing hardship. It will be implemented alongside the water corporations' existing hardship program. While this might be the same uniform approach to hardship across our end-use customer base, we believe that water corporations are best placed to implement this through their own established processes.
2. **New waterways and drainage hardship grant:** We are proposing a new hardship grant for customers experiencing hardship to write off debt for waterways and drainage customers. This will expand our existing customers hardship programs to include proactive support for waterways and drainage customers. This will be implemented alongside the water corporations' existing hardship program.
3. **Water efficiency program:** This will provide customers experiencing vulnerability and community organisations with long term permanent solutions to save water in the home and reduce bills. The uplift will re-start a legacy community retrofit program and expand to include customers experiencing vulnerability and be implemented by our bulk water customers.
4. **Sector uplift program:** Providing support to community organisations, financial counsellors, partnerships and advocacy work with water corporations and trusted organisations. The uplift in opex will provide for the development of key partnerships and resources within community sector organisations, increase marketing and education campaigns in collaboration with metropolitan water corporations, and contribute to the Financial Counselling Industry Fund.

A breakdown of the operating costs we are proposing are provided in Chapter 7 (Operating expenditure).

4.4 PREMO assessment – Outcomes

For the Outcome component of PREMO, we have assessed ourselves as '*Standard*'. Our assessment and rationale are summarised in Table 4.7.

Table 4.7: PREMO Assessment – Outcomes

Guiding Question	Comment
Has Melbourne Water provided evidence that the Outcomes proposed have taken into account the views, concerns and priorities of its end-use and retail customers?	<p>We have re-set our Outcomes from PS21 based on feedback that we should have simpler and more service-focussed outcomes.</p> <p>Our simplified Outcomes were shaped by the Water Corporation Forum and considered and refined by our deliberative panel, therefore they reflect both end-use and water corporation customer expectations of our services.</p>
Has Melbourne Water provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?	We have mapped our key capital and opex programs to our Outcomes. We will continue to report on our progress throughout the regulatory period and will embed these Outcomes in our finance and capital reporting systems to ensure we can progressively report in future regulatory periods.
Has Melbourne Water proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?	We have identified 19 performance metrics. These sit under our themes for each of our Outcomes. Our performance metrics have defined units of measure, have an assessed baseline performance (at least 2024-25), and an annual target to determine the outcome.
Has Melbourne Water provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?	<p>We have engaged deeply with both water corporations and end-use customers on how we can meaningfully measure performance. This included a mix of key performance metrics and tracking against actions.</p> <p>We believe these outputs are reasonable measures of our performance against our Outcomes.</p>
Has Melbourne Water demonstrated a process to measure performance against each outcome and to inform its end-use and retail customers?	We have well-established internal performance reporting frameworks. We have established an ongoing forum to help us validate our performance prior to publishing.
Assessment	Confident our Outcomes are '<i>Standard</i>'.

Risk



5

In Summary

- Melbourne Water is accepting additional risks on behalf of customers as a result of extensive internal and external collaboration on risk allocation, including with the water corporations and other customers. This includes including financial and revenue risk associated with the capex program, providing an uplift in deliverability risk management capability to ensure that customers receive what they pay for, increasing our exposure to demand, performance and revenue risk.
- At Melbourne Water, effective risk management is central to delivering safe, reliable and high-quality services in an increasingly complex operating environment. We comply with our extensive legislative and regulatory obligations to adopt, maintain and comply with high quality risk management frameworks.
- To develop PS26, we undertook a robust risk identification and assessment process. The development of PS26 has been integrated with our enterprise risk assessment and management processes to ensure there was explicit work to identify, quantify and allocate risks most relevant to PS26. The risk assessment impacts on many aspects of PS26, including expenditure proposals, demand forecasts, tariff structures, the price control mechanism, efficiency commitments, service delivery and Guaranteed Service Levels (GSLs).

Chapter 5 provides information to support our Risk assessment, including:

- an overview of our approach to considering Risk in PS26
- our risk management obligations and frameworks
- our assessed risk for the purposes of pricing
- the risk allocation between Melbourne Water and water corporations
- our Risk self-assessment rating.

5.1 Our approach to considering risk in this Price Submission

Effective risk management is fundamental to delivering our vision of 'enhancing life and liveability'. As custodians of Greater Melbourne's water resources and infrastructure, our operations are subject to numerous uncertainties (internal and external) with the potential to impact our ability to provide safe, reliable, and sustainable services. Robust risk management enables us to identify and address these uncertainties, ensuring we continue to meet customer expectations, regulatory requirements and our broader strategic objectives.

In this chapter, we explain how we have assessed, quantified and allocated the most relevant risks to the services we provide, our proposed plans and the proposed prices to customers. In addition, how the costs of managing risk have been determined and how they are allocated between us and our customers is an important element of PS26.

Our assessments and proposed management of risks have been tested in our engagement processes. We have coordinated with the water corporations to understand efficient risk management approaches across the Victorian water sector and potential for alignment and innovation. Drawing on insights from our customers and regulators, we have also updated our risk identification and allocation for this submission, focusing on limiting the allocation of risks (and associated costs) to customers where possible, particularly risks associated with our capex program.

5.2 Our risk management obligations and frameworks

Understanding significant risks likely to impact on services and prices, and how these are identified and addressed, starts with the outcomes of applying our formal risk management frameworks. As shown in Table 5.1, Melbourne Water complies with a range of legislative and regulatory obligations to apply sound risk management frameworks and processes. These obligations require joint risk analysis and planning with other government agencies and water corporations in Victoria.

Table 5.1: Relevant legislative and regulatory obligations to risk management

Obligation	Detail
Water Industry Act 1994	<ul style="list-style-type: none"> Part 5.1 - <i>Statement of Obligations (General)</i> issued under the Act requires Melbourne Water to 'develop and implement plans, systems and processes, having regard to ISO 31000'. Melbourne Water has adopted risk management processes in line with ISO 31000, including AS/NZS ISO 31000:2018: Risk Management – Principles and Guideline, which provides an internationally recognised approach. Compliance with this standard is embedded in Melbourne Water's Risk Management Policy, Risk Appetite Statement, and Risk Management Framework. Part 5.2 - <i>Statement of Obligations (General)</i> issued under the Act requires Melbourne Water to develop an emergency management plan for incidents and emergencies covering all hazards and measures, including the continuity of services; incidents resulting in waste discharges to the environment; a dam safety incident; a major Information and Communications Technology (ICT) incident; potential security risks, including but not limited to terrorist attacks; risks to water quality; and flooding. This obligation aligns with the Emergency Management Plan Melbourne Water is required to adhere to under s74N of the <i>Emergency Management Act 2013</i> (Vic). Part 5.3.4 – <i>Statement of Obligations (General)</i> requires Melbourne Water to provide the Department of Environment, Energy and Climate Action (DEECA) a report annually providing a prioritised list of proposed dam safety works, summary of the risk profile for dams operated, summary of the risk profile for each dam on which safety work is proposed after completion of works, and a summary of the overall risk reduction profile of Melbourne Water's dams.
Victorian Government Risk Management Framework (VGRMF)	<ul style="list-style-type: none"> Section 3.7.1 of Standing Directions of the Minister for Finance under the <i>Financial Management Act 1994</i> provides a common minimum standard for risk management for all public agencies. Under the <i>Financial Management Act 1994</i>, Melbourne Water also collaborates with the Victorian Government and agencies to identify and manage state-significant risks (SSRs), which are reported to government annually as part of the water industry risk reporting.
Security of Critical Infrastructure Act (2018)	<ul style="list-style-type: none"> Section 30AC/AD requires Melbourne Water to adopt, maintain and comply with a critical infrastructure risk management program to address cyber security and other threats to their critical infrastructure.

Obligation	Detail
<i>Safe Drinking Water Act 2003 (Vic)</i>	<ul style="list-style-type: none"> Section 8(1) requires Melbourne Water to prepare, implement and maintain a Risk Management Plan in relation to its supply of water to a water supplier. This aligns with the requirements under section 6 of the <i>Safe Drinking Water Regulations 2025 (Vic)</i>.

Figure 5.1 shows that the risk management framework applied by Melbourne Water establishes and maintains risk management principles and policies (updated annually), assigns clear roles and responsibilities (including at Board and Executive level), develops a risk management culture within the organisation, and resources necessary risk management processes and systems.

Figure 5.1: Risk Management Framework



5.3 Risk assessment for the Price Submission

5.3.1 Risk identification and assessment process

The development of PS26 has been integrated with our enterprise risk assessment and management processes to ensure there was explicit work to identify, quantify and allocate risks most relevant to PS26. The risk assessment impacts on many aspects of PS26, including expenditure proposals, demand forecasts, tariff structures, the price control mechanism, efficiency commitments, service delivery and GSLs.

The risk assessment process for PS26 encompassed both internal and external processes.

5.3.1.1 Internal processes

In addition to drawing from the outputs of Melbourne Water's business as usual risk assessment information and processes (including to meet service obligations, asset planning and cyber security management obligations, among others), we conducted enhanced and specific risk-based assessments, which informed the development of PS26 plans and expenditure proposals.

5.3.1.2 Risk appetite update

During the PS26 development, Melbourne Water reviewed and updated its Risk Appetite Statement. This update was undertaken to ensure its alignment with Melbourne Water's strategic goals, including our commitment to delivering high-quality services and infrastructure in the face of increasing complexity and uncertainty.

The risk appetite was revised at the enterprise level and operational risk guard rails were applied to develop PS26. The Risk Appetite Statement makes the organisation's risk tolerances clear, and the nature and level of risk that would or would not be accepted.

Strategic risk tolerances are set with regard to key services (acceptable water storages levels, water quality, sewerage service quality, flooding risk in new and infill areas and waterways fees within limits of customer willingness to pay). Operational risk tolerances are also defined to guide decision making in relation to specific sources of risk, including asset failure, security and cyber security, and financial risks.

In relation to assets, Melbourne Water accepts that with the scale, age and reliability of the assets we manage, at times these assets may fail. We take a risk-based approach throughout the asset lifecycle, including:

- prioritising investment, including renewals, asset inspections and maintenance regimes
- monitoring implementation and improving as risks and opportunities change
- striving to operate assets within their design duty or capacity.

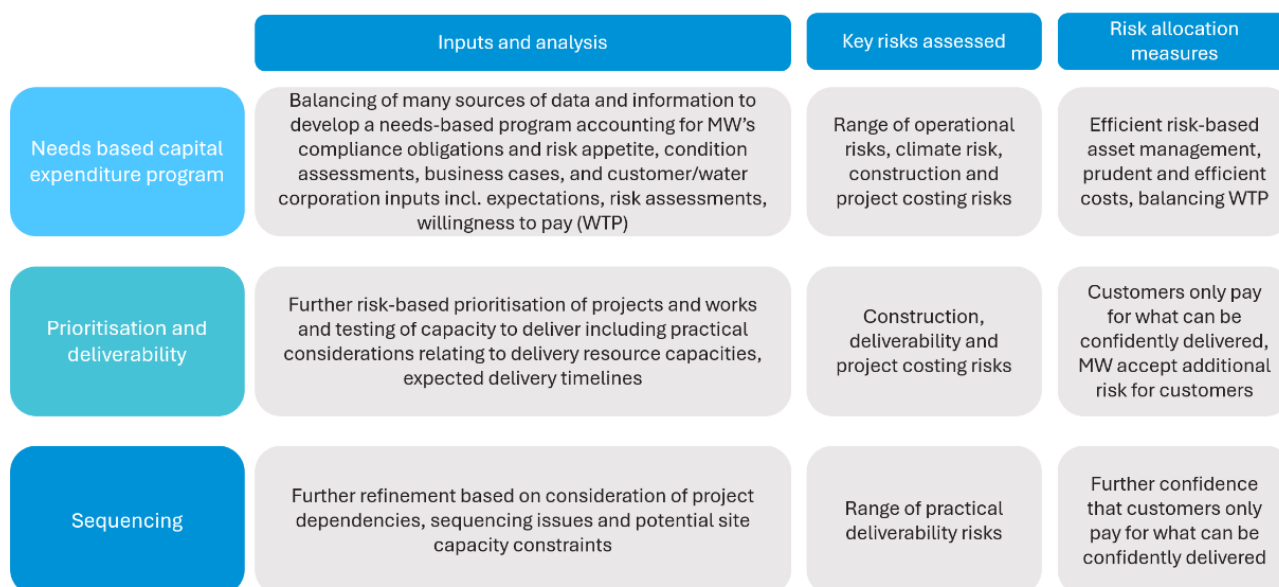
We do not accept a failure of our assets that results in a major or severe impact.

In relation to financial risks, Melbourne Water accepts that external economic factors, our regulatory regime and changing customer expectations may challenge how we fund the delivery of our services into the future. We do not accept expenditure that is not prudent, efficient or supported by our customers, or actions that would lead us to exceed our approved annual borrowing levels.

5.3.1.3 Risk-based expenditure prioritisation:

Within the bounds of the strategic and operational risk tolerances set out in the Risk Appetite Statement, specific and granular risk analysis was also undertaken as part of developing our prudent and efficient expenditure forecasts for the 2026-31 regulatory period. Identified and quantified risks and their allocation were considered to moderate the expenditure proposals for the regulatory period. This process is described in Figure 5.2.

Figure 5.2: Risk-based expenditure prioritisation process



5.3.1.4 External risk assessment and allocation processes

We undertook engagement with water corporations on risk, which went to the heart of key risk management issues related to PS26, including demand forecasts, investment programs and risk sharing, form of price control and tariffs, and the expansion of risk sharing via GSLs.

Other community engagement on risk included wider community engagement on risk issues, such as system resilience, expenditure levels, support for customers experiencing vulnerability, managing the impacts of operational and environmental risks on customers and price paths.

5.3.2 Risk assessment and actions reflected in the Price Submission

Resulting from the risk assessment for PS26, Table 5.2 details the key risks, proposed management and allocation. PS26 allocates more risk to Melbourne Water to ensure that prices are moderated and that Melbourne Water will bear the cost when it performs below expectations or forecasts in these areas.

5.3.2.1 Financial/revenue risk associated with capital expenditure program

Melbourne Water has substantially increased its testing and scrutiny of the deliverable capex program for the upcoming regulatory period. The proposed program is guided by a rigorous prioritisation framework that focuses on risk mitigation and deliverability. Each initiative is assessed for its ability to address specific risks — whether operational, environmental, or compliance-related — as well as for its certainty of approvals, scope definition, cost estimates and realistic delivery pathways.

Recognising that major infrastructure interventions often span multiple years from inception to commissioning, we invest early in development activities to ensure only projects with clear risk reduction benefits and viable delivery plans proceed to construction. This approach ensures our capital program remains focused on achievable outcomes within the regulatory period.

To protect customers from bearing the cost of uncertainty, we have only included cost recovery for projects where prudence, efficiency and deliverability have been firmly established. Initiatives still under review are supported through development funding only. Melbourne Water assumes the financial risk of demonstrating the prudence and efficiency of any subsequent construction expenditures, rather than passing these uncertain costs onto customers in the next pricing cycle.

Deliverability is considered across the full spectrum of assets. For example, projects at the Eastern Treatment Plant (ETP) have been optimised to address operational risks and compliance requirements, while also ensuring they can be delivered within the available timeframe and resource constraints. Similarly, upgrades to drainage infrastructure and water supply networks are sequenced to align with planning approvals, contractor availability and construction windows.

Projects that are not yet deliverable remain in planning and design until all necessary approvals are secured, cost estimates are refined, and delivery pathways are confirmed. As these initiatives progress, they remain eligible to move forward once all deliverability criteria are met. By absorbing the pricing risk for climate adaptation and infrastructure measures, we ensure customers fund only those outcomes that are proven to be deliverable, prudent, and efficient.

5.3.2.2 Uplift in deliverability risk management capability to ensure that customers receive what they pay for

We have been expanding our capital program delivery capacity throughout the current regulatory period, continuing to underpin the proposed 2026 capital program. These efforts are central to managing deliverability risk and ensuring customers benefit from a program that is both achievable and efficient.

To confidently deliver what we recognise as a significantly increased volume of work, we are taking a range of actions that strengthen our ability to execute, including:

- setting realistic delivery timelines based on actual outcomes from past projects, ensuring programming reflects genuine delivery constraints and avoids overcommitment
- increasing internal capacity by boosting resourcing for project planning, scheduling, and management
- leveraging innovative minor capital delivery processes to accelerate lower-risk, lower-complexity works without compromising quality or oversight
- expanding market capacity by engaging construction contractors earlier in the planning process to secure resources and align delivery expectations
- strengthening collaboration with delivery partners to ensure sufficient market capability exists to support the scale and timing of the proposed program.

These measures ensure that our capital program is well-prioritised and risk informed. In addition, it is grounded in realistic programming and supported by the internal and external capacity needed to deliver it. By aligning our delivery model with proven outcomes and market realities, we are building confidence in our ability to deliver the proposed investments efficiently and reliably.

5.3.2.3 Increasing demand risk through tariff reform

Melbourne Water is proposing bulk water tariff reform that would increase the percentage of revenue collected from demand. This expands the management of demand risk to the benefit of customers as we will use a tariff basket. Therefore, if demands change throughout the period compared to forecasts, then we will not adjust prices to account for this.

5.3.2.4 Operational performance and revenue risk through increased Guaranteed Service Levels

Melbourne Water is increasing our performance and revenue risk exposure to benefit customers. Our proposed GSLs offer a higher level of revenue at risk than many other water businesses proposed in their 2023 and 2024 Price Submissions. We have added a new GSL to reflect what customers have asked and their highest priority for us – safe, clean drinking water.

As a result of this change, Melbourne Water will have the most substantial revenue at risk under a GSL scheme in the Victorian water sector and reinforces our commitment to providing high quality water. This will provide strong incentives for performance and allocates the consequence of this risk fully to Melbourne Water.

Table 5.2: Risk allocation

Inflow risk	
Risk	Risk allocation
<p>Inflow risk presents as the inability for Melbourne Water to meet our customer demand due to extended low rainfall and inflows.</p> <p>Melbourne Water has forecast its demand based on average climatic conditions for inflow.</p>	<p>Melbourne Water proposes to share inflow risks with its water and sewerage customers. Note, inflow risk does not impact our waterways and drainage customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">• We propose to maintain the pass-through for water order costs associated with the Victorian Desalination Project that may be required due to lower inflows.• Prudent and efficient development costs for large-scale new water supplies (consistent with the <i>Water Security Plan</i>) have been forecast into prices.• Costs associated with the availability of alternative water sources, including the continued operation of both recycled water facilities at the Western Treatment Plant (WTP) and ETP, and the renewals proposed at the WTP's Class A facility have been included in expenditures.• If any significant works for large-scale new water supplies occur during the period, Melbourne Water may apply for a re-opening to start recovering its investment. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">• Any increase in opex associated with lower rainfall that would likely result in higher pumping costs for harvesting water.• Costs associated with demand management or water conservation programs to avoid water restrictions.• Any change in water treatment operating expenditure as a result of changes in water quality caused by low rainfall and inflows.• Changes in water usage that results in changes in water demand or sewage flows.
Demand forecasting risk	
Risk	Risk allocation
<p>Demand forecast risk presents as actual demand during a regulatory period materially differing from the forecasts used to calculate both expenditure and prices.</p> <p>To ensure the accuracy of its forecasts, Melbourne Water has worked closely with the water corporations to update its demand forecasts and has aligned them to the most recently available Victorian population forecasts.</p>	<p>Melbourne Water proposes to share demand risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">• Projects where the primary driver is growth that are started or will be completed during the 2026-31 regulatory period.• Water order costs associated with the Victorian Desalination Project that may be required due to higher demand via maintenance of the existing pass-through. This includes pumping and related activities to enable Melbourne Water to accommodate Victorian Desalination Project water orders. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">• Retaining the volume and customer connection risk on all its services through the use of existing price control.• Re-balancing water tariffs to collect more revenue from variable (rather than fixed) charges that allocates more volume risk to Melbourne Water and less to customers.• Any costs associated with increased operations.• Developer contributions that differ from current forecast.• Project where the primary driver is growth, however, the timing or cost of the project is uncertain, therefore has been excluded from our forecasts.• Changes to net operating expenditure growth and efficiency (forecast to be zero) that might be required to service new customers.

Inflow risk	
Operational risks	
Risk	Risk allocation
<p>Operational risks – such as breaches in health, environmental, or customer service standards – may arise in water businesses due to flawed internal processes, asset malfunctions, or external influences.</p> <p>Melbourne Water addresses these risks by implementing robust operating policies, investing in infrastructure, maintaining assets, managing contracts, and securing insurance coverage.</p>	<p>Melbourne Water proposes to share operational risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">Proposed investments to maintain existing levels of service.Proposed investments in the renewal or replacement of assets with a compliance cost driver that have been identified as high risk of failure or high risk that it will breach existing operational licence conditions. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">For a failure in our network that triggers a GSL payment under the five existing GSLs:<ul style="list-style-type: none">Unplanned change in source water quality (Yarra Valley Water only).Failure to notify of planned event causing end-customer service interruption (Yarra Valley Water and Greater Western Water).Unplanned water service interruption (Yarra Valley Water, South East Water, Greater Western Water).Unplanned sewer service interruption (Yarra Valley Water, South East Water, Greater Western Water).Sewer spill caused by system failure (Yarra Valley Water, South East Water, Greater Western Water).For the failure in our network that results in a reimbursement or payment to customers under the new Water Quality GSLs, this financial risk is:<ul style="list-style-type: none">Reimbursement of bottled water and direct incident related costs under a boiled water notice advisory to each customer under application.A rebate of up to \$75 on each end customer bill if the drinking water supplied does not meet the microbial characteristics of health-based drinking water quality standards and Melbourne Water, or a failure in Melbourne Water’s system, caused the non-compliance. Note, this is replacing the existing community rebate.
Construction risk	
Risk	Risk allocation
<p>Construction risks, such as underestimated costs, project delays, and challenges in delivering an expanding capital program, are key considerations in this proposal. Water businesses manage these risks through precise forecasting, robust contract management, and the inclusion of contingency allowances in cost estimates. By incorporating cost contingencies into water revenue allowances, the financial burden of potential project overruns is transferred to customers.</p> <p>Melbourne Water has instead chosen to accept this financial risk by excluding general cost contingencies from our revenue proposal, ensuring customers are not exposed to uncertain construction outcomes.</p>	<p>Melbourne Water proposes to share construction costs and delivery risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">Projects and programs with a high degree of confidence in cost and timing, supported by business case analysis and Melbourne Water’s Risk Adjusted Nominal Estimate (RANE), which applies Monte Carlo simulation to forecast anticipated P50 costs.Prudent and efficient costs associated with meeting regulatory and legislative obligations, with capital program delivery smoothed over time but targeted for earlier uplift where feasible.Development-related expenditure included only for projects deemed prudent, where the preferred investment option and precise timing remain under refinement.Necessary project managers to deliver the capital program being incorporated into its capital and operating labour forecast (85 per cent capitalised). <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">Progress development of prudent infrastructure projects during the 2026–31 regulatory period without pricing them in for delivery, taking on the financial risk of proving their efficiency and prudence in future reviews — ensuring customers are not exposed to cost or timing uncertainties upfront, and any asset transfers arising from Bulk Supply Agreement modernisation.Delivery timelines or project costs exceed forecasts despite our strengthened delivery capacity and shared risk arrangements — ensuring customers are not burdened with unforeseen costs arising from execution challenges during the 2026–31 regulatory period.

Inflow risk	
Regulatory and policy risks	
Risk	Risk allocation
<p>Regulatory and policy risks stem from changes in legislation or regulations that significantly impact a water business’s costs or revenue potential. These risks are typically managed through pass-through mechanisms, which allow affected costs to be recovered from customers.</p> <p>Melbourne Water supports the continued use of these mechanisms and actively monitors regulatory developments to ensure timely and transparent engagement with stakeholders when such risks arise.</p>	<p>Melbourne Water proposes to share regulatory and policy risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">• Prudent and efficient costs required to comply with current regulatory and legislative obligations, including operating licences for Melbourne Water’s sewage treatment plants.• Prudent and efficient expenditure necessary to meet existing government policy directives.• Reasonable costs associated with implementing technologies that safeguard critical infrastructure and information systems against cyber threats. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">• Unconfirmed changes in regulatory obligations or perceived change in risk of posture of regulators, such as changes in cyber security requirements as was experienced in the 2021-26 regulatory period.• Changes to forecasts (both demand and costs) during the proposed five-year regulatory period, including costs of potential new supplies to data centres and how it can be recovered from users.
Financial risks	
Risk	Risk allocation
<p>Financial and economic risks are caused by broad market factors such as rising interest rates or economic downturns. These risks are accounted for in the cost of debt, which is included in the calculation of the regulatory rate of return.</p> <p>Melbourne Water manages these risks by aligning its financing strategy with regulatory settings and maintaining prudent debt management practices to ensure long-term financial sustainability.</p>	<p>Melbourne Water proposes to share regulatory and policy risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">• Current and any changes in the financing costs for benchmark debt through the annual cost of debt update to prices.• Changes to inflation and passed through the annual tariff approval process.• Pass-through of changes in the contract costs associated with the Victorian Desalination Project. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">• Decisions made to exceed regulatory benchmark expenditure allowances, or any bring-forward of regulatory benchmark expenditure allowances within the regulatory period, including if assets are transferred between water corporations during the regulatory period as an outcome of the Bulk Supply Agreement modernisation.• Capitalisation of opex that provides a benefit to customers beyond the regulatory period resulting in increased financing costs to Melbourne Water.• Financing costs associated with changes in land development activities in the Development Services Scheme.• Financing costs associated with above determination spend in 2025-26 that will be rolled into the Regulatory Asset Base for prices commencing 1 July 2031.
Business risks	
Risk	Risk allocation
<p>Business risks arising from revenue loss caused by emerging technologies or shifts in the competitive landscape.</p> <p>Melbourne Water addresses these risks by adopting innovative practices and pursuing ongoing cost efficiencies.</p>	<p>Melbourne Water proposes to share business risks with its customers as follows.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">• Projects that deliver evidence-based or proven results increased community values in areas supported by customers and the community, such as Reimagining Your Creek projects or increased investment in water security as identified as a priority by customers. For example, customers in our waterways and drainage focus groups felt that there was 'too much emphasis' on planning instead of 'on-the-ground' activity that had a track record of results, such as 'practical outcomes'. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">• Investing and trialling new technology that is not yet proven to have the potential to make a step change in service outcomes or cost efficiency or unregulated commercial activities that result in expenditure and/or revenue.

Inflow risk	
	<ul style="list-style-type: none">Forecasting in operational efficiencies, for example no growth in core opex that is not linked to a new obligation, capital project, or customer supported project, forecast efficiency in the IT step program of \$0.5 million in core IT services from mid-period, and forecast 30 per cent labour efficiency for new capital project managers..
Climate change risks	
Risk	Risk allocation
<p>Climate change poses significant risks to water businesses, including reduced water availability, increased frequency of extreme weather events, and greater strain on infrastructure. These impacts can affect service reliability, operational costs, and long-term planning. Water businesses manage climate-related risks through adaptive strategies such as scenario planning, investment in resilient infrastructure, and sustainable resource management.</p> <p>Melbourne Water is actively responding by embedding climate resilience into asset planning, investing in nature-based solutions, and collaborating with stakeholders to develop adaptive pathways for a changing climate.</p>	<p>Melbourne Water proposes to share climate change risks with its customers.</p> <p>When customers would pay during the regulatory period:</p> <ul style="list-style-type: none">Prudent investment in improving the efficiency of existing water resources, including enhancing storage capacity and transferring water to growth areas, which also supports supply resilience during bushfire and extreme weather/storm events.Preliminary planning and investigation into future water supply augmentation, with costs included where planning certainty exists.Adoption of benchmark renewable energy rates from the State Electricity Commission (SEC) after 2030.Tactical near-term investment in coastal hazard resilience at WTP, addressing erosion risks while supporting long-term climate adaptation.Investment in additional treatment capacity at WTP aligned with long-term plans to reduce reliance on lagoon treatment and improve resilience to coastal hazards. <p>When we would accept financial risk during the regulatory period:</p> <ul style="list-style-type: none">Continued investment in flood modelling and risk communication without pricing in major flood mitigation infrastructure until solutions are better understood.Assumption of financial risk for potential acceleration of water supply augmentation if the water outlook changes, beyond what is currently priced.Retention of emissions risk by basing forecasts on most likely sewage demand, with Melbourne Water absorbing additional offset costs if emissions exceed expectations.Absorption of costs from existing long-term renewable energy contracts that exceed market rates, including the decision to retire Renewable Energy Certificates from 2025–26 to meet renewable obligations without passing costs to customers.Development of medium- and long-term coastal hazard adaptation plans, with Melbourne Water bearing the financial risk until future investment needs are confirmed.

5.4 PREMO assessment – Risk

For the Risk component of PREMO, we have assessed ourselves to be '*Standard*'. Our assessment is summarised in Table 5.3.

Table 5.3: PREMO Assessment – Risk

Guiding Question	Comment
To what extent has Melbourne Water demonstrated a robust process for identifying risk, and how it has decided who should bear these risks? i.e. such that customers are not paying more than they need to.	<p>Melbourne Water has undertaken a significant risk assessment and assessed the appropriate allocation of risk based on our obligations, risk appetite, and through engagement with the water corporations and our broader customer community.</p> <p>From this process, Melbourne Water has accepted the following additional risks on behalf of customers:</p> <ul style="list-style-type: none"> • Financial/revenue risk associated with the capital expenditure program: Only the cost of prudent and efficient projects that we are certain of delivering have been included in our forecasts. We are confident of delivering additional prudent and efficient capital works and will take risk on our ability to recover these costs at a later date after review and approval by the ESC. • Uplift in deliverability risk management capability to ensure that customers receive what they pay for: The actions we are taking to allow us to confidently deliver what we recognise is a much higher volume of work include: <ul style="list-style-type: none"> - setting realistic delivery timelines that are based on actual project outcomes - increasing our internal resourcing applied to project planning, scheduling and management (including through re-prioritisation of internal resourcing) - expanding our construction contractor capacity and involving contractors in early planning to secure resourcing. • Demand risk: Melbourne Water is expanding its management of demand risk to the benefit of customers via the collection of more revenue from variable tariffs.
To what extent does the proposed Guaranteed Service Level scheme provide incentives for Melbourne Water to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?	Melbourne Water is increasing its performance and revenue risk exposure to benefit customers. Our proposed GSLs offer a higher level of revenue at risk than many other water businesses proposed in their 2023 and 2024 Price Submissions. We have added a new GSL to reflect what customers have asked and their highest priority for us - safe clean drinking water.
Average Score	Confident our risk is '<i>Standard</i>'.

Part B – Regulatory building blocks



Capital expenditure

6

In Summary

- Melbourne Water has developed prudent and efficient capital expenditure (capex) forecasts in accordance with the ESC's guidance. All major projects have a detailed business case, and all programs have a detailed program-level expenditure case. Expenditure relating to uncertain initiatives is limited to development activities.
- Melbourne Water is proposing a \$7,856 million capital investment program for the 2026–31 regulatory period.
- The program is relatively evenly balanced between investment for growth, renewals and compliance.
- By service, sewerage accounts for the largest share (35 per cent), followed by water (29 per cent), waterways and drainage (28 per cent), desalination capitalisation (8 per cent) and other services making up the remainder. The expenditure proposals are closely aligned to achieving agreed customer Outcomes within each service area.
- While the expenditure represents a significant uplift (a 62 per cent increase in capital expenditure compared to the current period), our analysis and recent experience demonstrates that further delays in renewing and expanding our asset capacity will have direct consequences for both customers and the environment. Ongoing deferral of essential investment leads to a cycle of reactive spending that becomes increasingly difficult to manage, ultimately driving up project costs and heightening the risk of major adverse events.
- We faced challenges activating the full scope of our capital program early in the current regulatory period, particularly for complex infrastructure. These lessons have been embedded into our planning and expenditure forecasts for 2026–31 and beyond. We have adopted achievable assumptions about project planning and delivery timeframes.
- The expenditure forecasts have been developed through a structured decision-making process, which identifies service needs, evaluates deliverability, and assesses certainty and risk.

Chapter 6 provides information on our capital expenditure, including:

- an overview of total forecast prudent and efficient expenditure and its key drivers
- forecast expenditure by Outcome and service, including a description of investment drivers and information on each major project and program
- detail on our proposed corporate and IT-related capital expenditure
- proposed capitalisation of desalination security payments and select operating expenditures.

6.1 Overview of capital expenditure

PS26 proposes prudent, efficient and deliverable capex required to meet regulatory and compliance obligations and to deliver the Outcomes that customers and community have told us they value most. The expenditure program also addresses the infrastructure needs associated with the sustained customer growth forecast for our region - a trend that will continue into future regulatory periods as Melbourne's population is forecast to increase to over 8 million by 2050.

As shown in Figure 6.1, forecast capex is \$7,856 million over the 2026-31 period (including desalination capitalisation). This represents a 62 per cent increase in capex compared to the current period. In the 2026-31 period, expenditure to provide bulk sewerage services accounts for 35 per cent of forecast expenditure, water services 29 per cent, waterways and drainage 28 per cent, and desalination capitalisation 8 per cent.

This chapter and Chapter 1 (Management), explains how we developed the prudent, efficient and deliverable capex forecast for the 2026-31 regulatory period. We are confident in our ability to deliver the larger capital program and explain our strategy in Chapter 1 (Management) and in our detailed Deliverability Plan, which is available on request. We have built scalable delivery capacity over the 2021-26 period and updated our delivery lead time estimates based on our learnings over the 2021-26 period.

Figure 6.2 shows the primary drivers of investment by cost driver. Over PS26, these are:

- **Asset renewal and service levels:** Our investments are aimed at maintaining our assets and technology to a standard to manage risk, meet customer expectations and provide resilience to the impacts of climate change. Investment is prioritised for those assets reaching end of life, demonstrating deteriorating condition and with significant impacts on the community and environment if they fail.
- **Growth:** Servicing customer growth and new development includes providing bulk water, bulk sewerage and flood and drainage infrastructure to major urban developments – both in greenfield and infill areas. New infrastructure is required to service sustained high growth rates in Melbourne and to increase the climate resilience of our networks from Geelong to West Gippsland, which is increasingly dependent on the Melbourne Water supply system.
- **Improvements and compliance:** This expenditure is needed to maintain our compliance with health and environmental protection obligations, including the safety of drinking water and minimising any harm to the community and the environment associated with our sewerage services, so far as reasonably practicable.

Figure 6.1: Total actual and proposed capital expenditure by service category including desalination capitalisation (\$millions, real 2025-26)

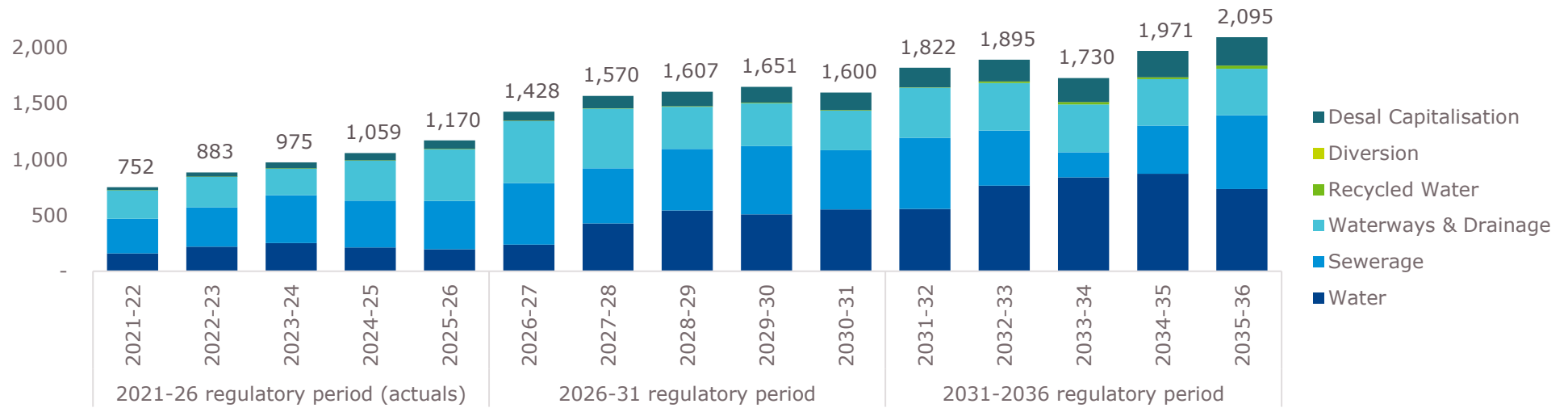
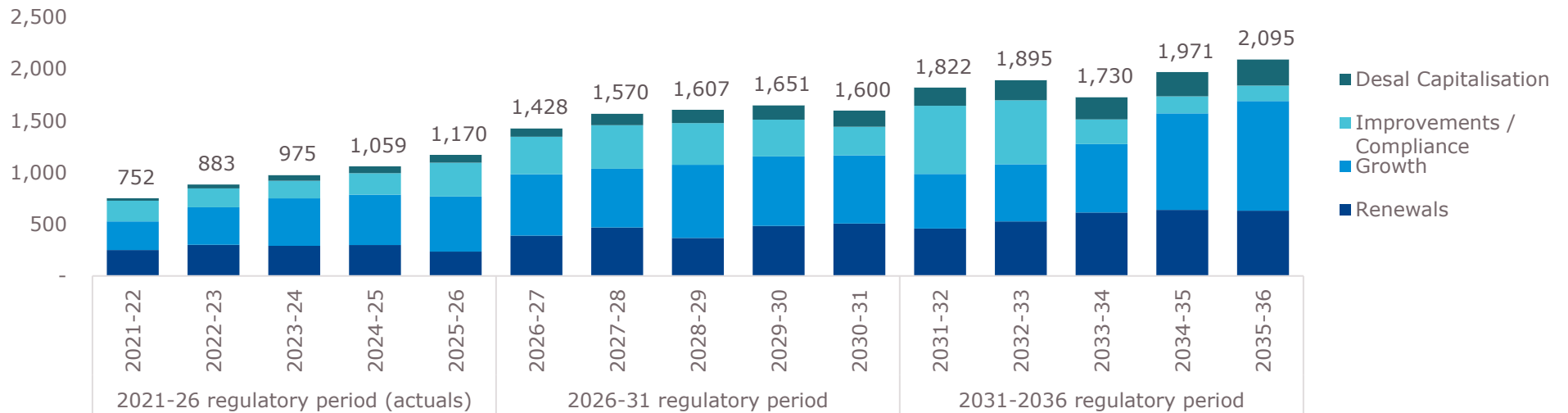


Figure 6.2: Actual and proposed capital expenditure including desalination capitalisation by cost driver (\$millions, real 2025-26)



6.1.1 How our program was influenced by customers

We engaged on our proposed capital plans, and water corporations and end-user customers influenced our capital program. Expectations and direction were set in our early engagement phase (Stage 2: Values and priorities) by customers. We took feedback through our planning process with water corporations. Water corporations saw early drafts of our capital plan – directing and influencing our decisions around priorities, deliverability and risk.

Water corporations led or influenced our decisions in the following key areas:

- How Melbourne Water balances investment over the next two regulatory periods (2026-31 and 2031-36). Feedback on this directly impacted the level of investment we are proposing and its profile in PS26.
- Water corporations told us that new and manufactured water is important, including long-term reliability of Class A recycled water from the Western Treatment Plant (WTP) and Eastern Treatment Plant (ETP). We are further developing this work with the water corporations.
- Key capital programs, particularly the resilience of our network, were directly informed by our water corporation customers.

End-use customers were also consulted on our proposed capital programs. Customers told us their priorities, which formed our Outcomes, and their comfort to pay for key programs, including waterways programs, such as Reimagining Your Creek, stormwater harvesting and land for community enjoyment.

6.1.2 Proposed expenditure is prudent, efficient and deliverable

Melbourne Water has developed capex forecasts that are both prudent and efficient, in line with the ESC's guidance. To support this, we followed the structured approach outlined in Chapter 1 (Management), using the best available data and inputs. Our forecasts are based on efficient cost assumptions and refined through a robust capex prioritisation framework. We tested deliverability, collaborated extensively with water corporations, and validated our proposal through public consultation to ensure it delivers value for money.

In addition, we have undertaken the following:

- All major projects have a detailed business case, and all programs have a detailed program-level expenditure case.
- We use P50 cost estimates for all projects and have optimised contingencies across the program.
- For renewals, we seek ongoing efficiencies through competitive tendering and consider bundling projects to drive the lowest possible cost over the regulatory period. Unlike retail and regional urban water corporations that have high volumes of reticulation and distribution mains renewals, renewals for our bulk assets and treatment infrastructure require bespoke solutions. This need to renew ageing assets provides an opportunity to do things differently and provide additional benefits. For example, our Chlorine Risk Reduction Strategy replaces ageing high risk gas chlorination water and sewage disinfection systems with liquid sodium hypochlorite systems, significantly reducing safety and supply chain risks, as well as renewing essential assets.
- We adopt contracting models that use large panel arrangements with incentives to deliver cost savings to customers and that build on and extend our existing capital delivery model.
- We have optimised our capital program using a risk-based prioritisation of projects, leading to the reduction in scope or deferral of some major projects. To protect

customers from bearing the cost of uncertainty, we have only included cost recovery for projects where prudence, efficiency and deliverability have been firmly established. Initiatives still under review are supported through development funding only. Further details on how we are managing financial and revenue risk associated with our capex program is in Section 5.3.2.1.

Melbourne Water understands the vital importance of ensuring our proposed capital program is prudent, efficient and deliverable. We have conducted a thorough deliverability assessment to ensure our plans are realistic, balancing the scale of investment with our capacity to deliver effectively and efficiently. Based on this assessment, which has also drawn on the lessons learnt from the 2021-26 regulatory period, we are confident in our ability to deliver the proposed capital program. Further details of our deliverability planning and assessments are provided in Chapter 1 (Management). Our detailed Deliverability Plan is also available on request.

6.2 Our proposed capital expenditure aligns with our Outcomes

In this section, we provide an overview of the capex forecasts by Outcome. We provide a summary followed by detailed forecasts by Outcome showing major projects and programs.

6.2.1 Overview

As summarised in Table 6.1, our proposed customer Outcomes directly reflect the core services we provide. We have mapped our capital programs and expenditures for the next regulatory period directly to them. We have not allocated any capital investment to Outcome 5, *a valued partner in water cycle services*, as these activities relate to how we work with our water corporations, communities and customers and is primarily reflected by operating expenditure (opex).

Table 6.1 Mapping of Outcomes to services program and capex for 2026-31 (\$millions, real 2025-26)

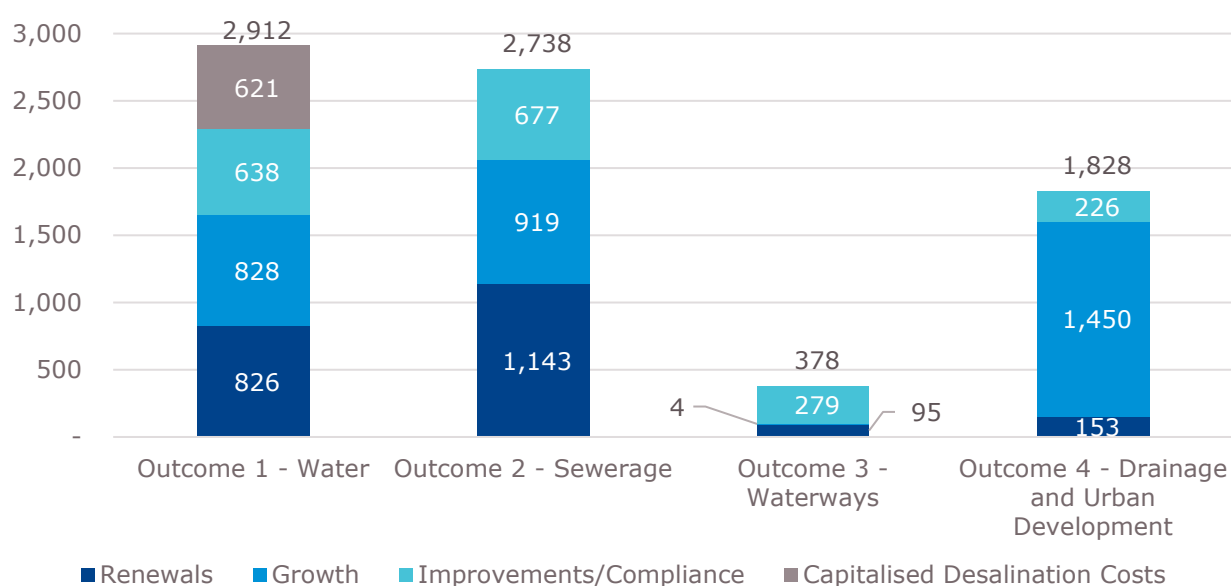
Outcome	Services program*	Capex (\$millions, real 2025-26)
Outcome 1: Safe and reliable bulk water supplies for now and the long term	Water (including capitalised desalination costs) Manufactured and New Water program	2,912
Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Sewerage (including capitalised sewerage costs)	2,738
Outcome 3: Healthy, resilient waterways	Waterways (including Diversions and Government Contributions)	378
Outcome 4: Urban drainage and flood resilience	Drainage Urban Development	1,828

Outcome	Services program*	Capex (\$millions, real 2025-26)
Outcome 5: A valued partner in water cycle services	-	-
Total		7,856

* Capex associated with supporting corporate and Information Technology (IT) services (including capitalised IT operational costs) have been allocated across all services in accordance with our cost allocation methodology.

Figure 6.3 presents our total proposed capex over the 2026-31 regulatory period by Outcome and service.

Figure 6.3: Total PS26 capex by customer Outcome and service (\$millions, real 2025-26)⁹

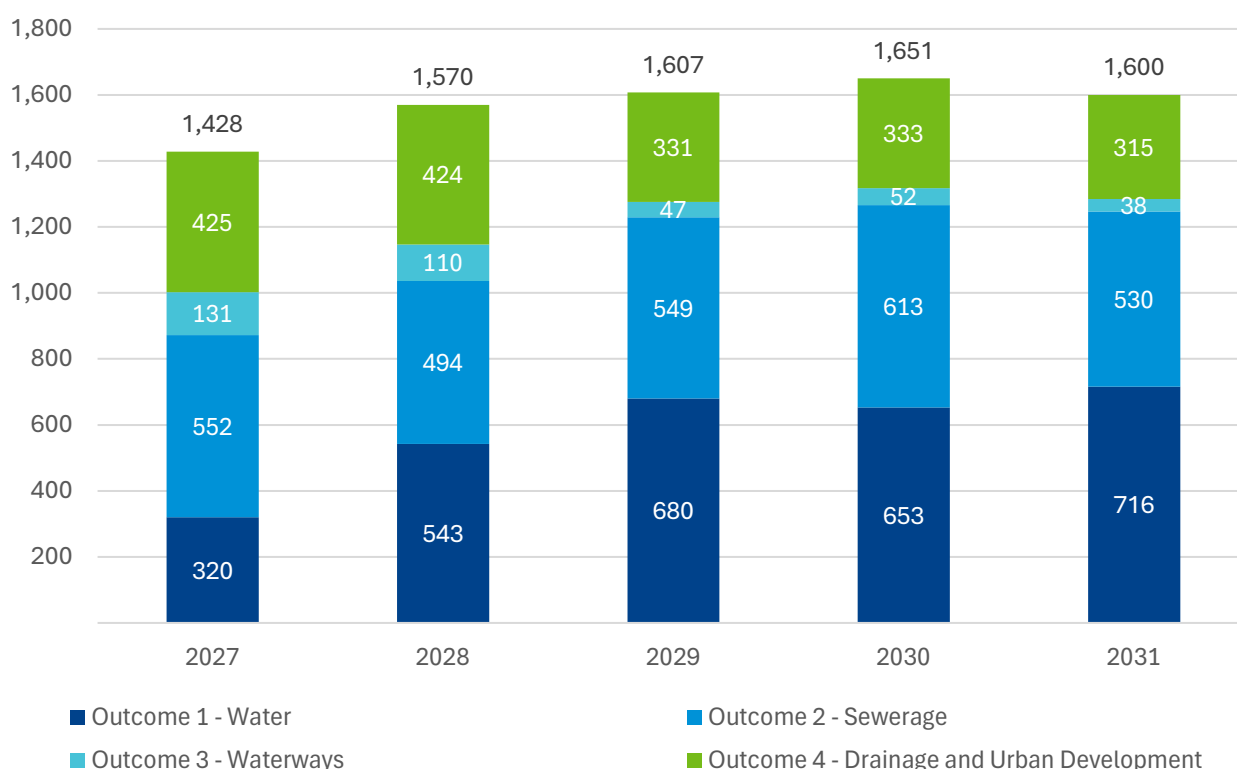


⁹ We have equally allocated waterways and drainage corporate and IT capital costs between Outcome 3 and Outcome 4. Outcome 3 and 4 capital expenditure is offset by customer and government contributions as outlined in Section 6.2.4 and 6.2.5.

Melbourne Water plans and delivers capital expenditure by way of programs that directly align with our services and our Outcomes. This structured approach ties expenditure to a clear service goal and Outcome, enabling us to deliver essential services effectively, while also meeting community needs and supporting sustainable development.

Figure 6.4 shows our proposed PS26 capex profile by year and Outcome.

Figure 6.4: Annual proposed PS26 capex by Outcome (\$millions, real 2025-26)¹⁰



A detailed summary of our proposed capital expenditure can be found in our Program Summaries available on request.

6.2.2 Outcome 1: Bulk water services

We are proposing \$2,820 million¹¹ to fund the **Water Program** (including capitalised desalination water costs) and **Manufactured and New Water Sources Program**.

These programs aim to tackle the pressing water management challenges facing our communities in pursuit of Outcome 1 to *provide safe and reliable bulk water supplies for now and the long term*.

¹⁰ We have equally allocated waterways and drainage corporate and IT capital costs between Outcome 3 and Outcome 4. Outcome 3 and 4 capital expenditure is offset by customer and government contributions as outlined in Section 6.2.4 and 6.2.5.

¹¹ This excludes allocated corporate and IT capital expenditure.

The **Water Program** manages investment in Melbourne's water supply catchments, major dams, treatment facilities and distribution pipelines, pump stations and service reservoirs, ensuring reliable access to safe drinking water for over 5 million residents.

The Water Program reflects three sub-services and capitalised desalination security payments:

- The collection (production) and storage of raw water to be transferred prior to treatment. This includes expenditure relating to our dams, weirs, open channel aqueducts, pipes and mechanical and electrical assets associated with controlling flow. It also includes supporting infrastructure, such as buildings, roads, electrical supply and control systems.
- The treatment of raw water to high-quality drinking water. This includes expenditure relating to:
 - our catchment controls, such as fences and catch drains
 - on-reservoir monitoring assets, such as Vertical Profiling systems
 - in-reservoir assets, such as aerators and variable offtakes
 - treatment plants.
- The transfer of high-quality drinking water to Melbourne's retail water corporations and regional water authorities. This includes expenditure relating to:
 - service reservoirs
 - pump stations
 - network corridors
 - supporting assets, such as valve complexes, pressure reducing stations, surge towers, hydro generation plants and billing flowmeters.
- Capitalised desalination security payments – as outlined in Section 6.3. (Capitalising desalination costs).

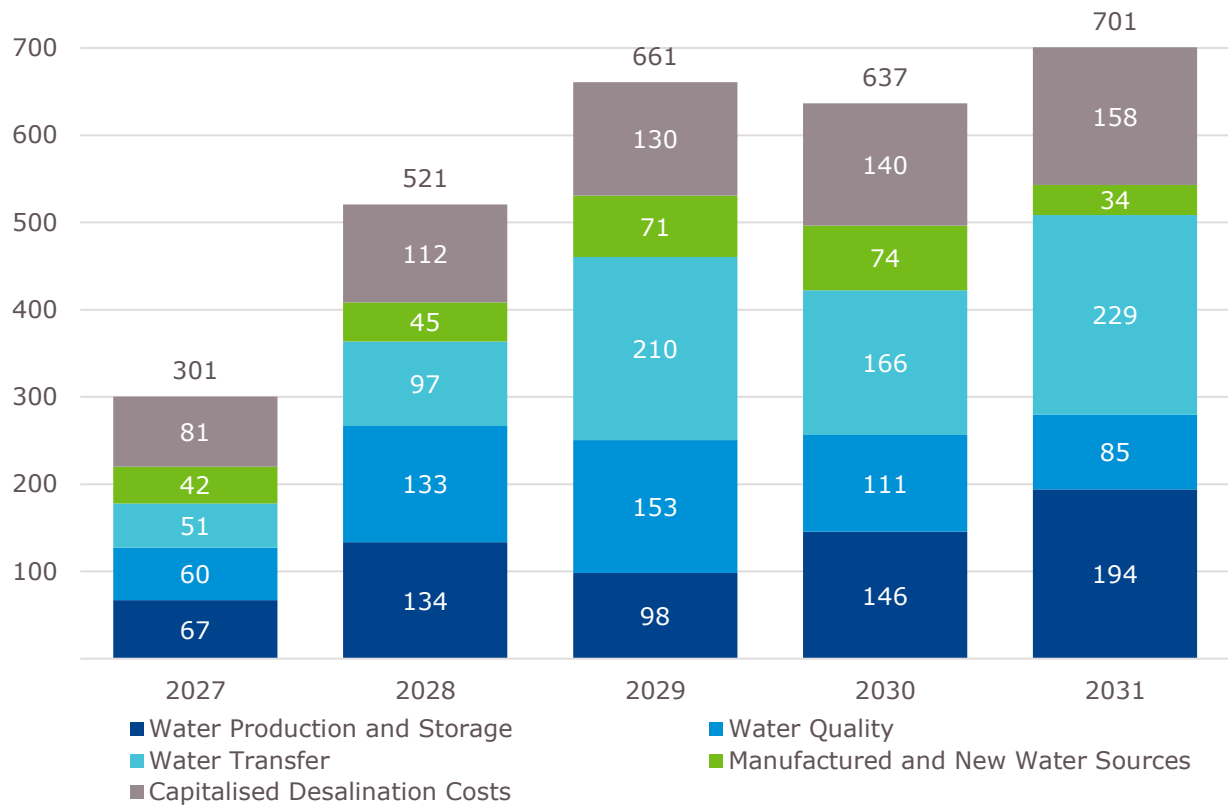
The **Manufactured and New Water Program** manages investment in Melbourne's water security. It reflects the following two key investments in PS26:

- Detailed investigations in preparation for the region's next large-scale water supply, consistent with the *Water Security Plan*.
- Recycled water production at WTP.

This investment will focus on improving and modernising ageing infrastructure, implementing sustainable water resource management practices, and securing reliable access to clean and safe drinking water. By addressing these critical issues, this program seeks to promote public health, support economic growth, and ensure long-term water security for future generations.

Figure 6.5 shows the annual profile of capex proposed under Outcome 1 over the regulatory period.

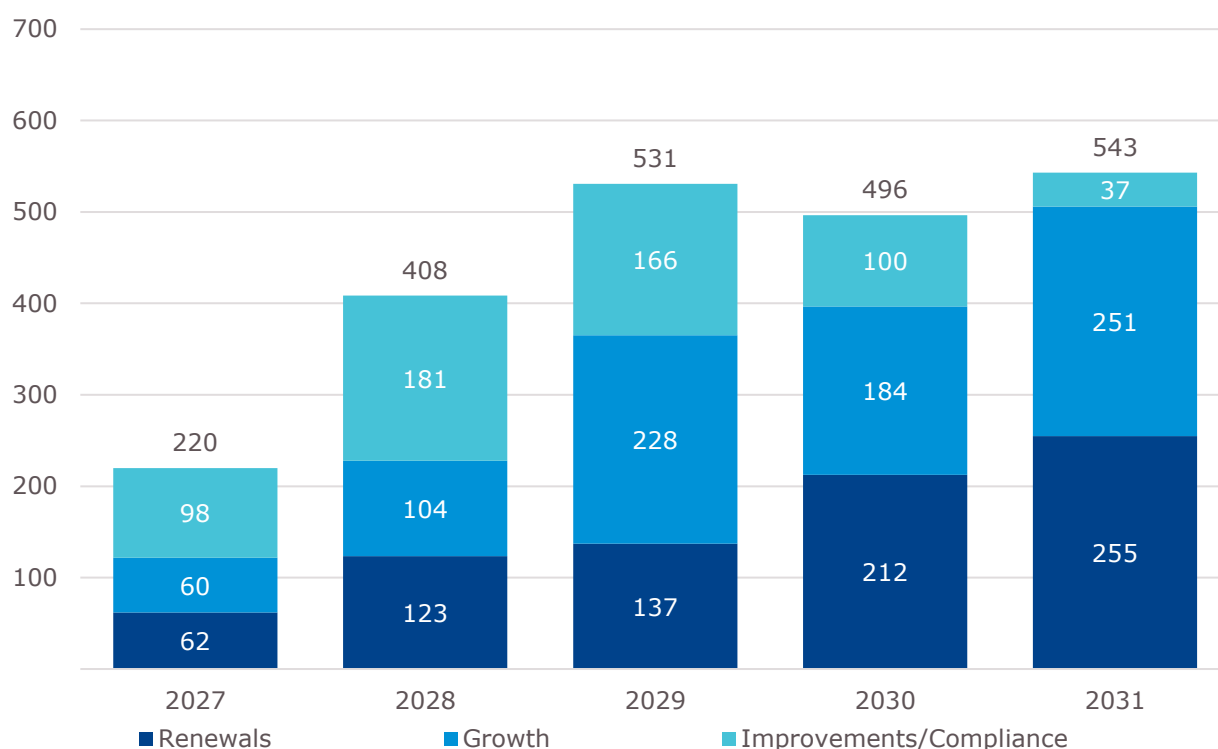
Figure 6.5: Outcome 1 capex by sub-service over 2026-31 excluding corporate and IT allocated expenditure (\$millions, real 2025-26)



Major capital works make up 85 per cent of our Water Program, focusing on large-scale infrastructure projects designed to enhance water supply and management systems. The remaining portion is allocated to smaller, localised initiatives, including maintenance and system upgrades.

Our Top 5 Projects (shown in Table 6.2) make up 25 per cent of the Water Program.

Figure 6.6: Annual water capex split by business driver excluding corporate and IT spend and desalination capitalisation (\$millions, real 2025-26)



Melbourne Water's water system investment in the PS26 period is underpinned by a combination of major capital projects and targeted programs. Table 6.2 highlights our Top 5 water infrastructure projects, which represent the most significant capital investments in the portfolio. These projects address critical needs, such as dam safety, using existing water resources efficiently and effectively, water quality management, emergency response capacity, and long-term supply reliability. Each of these needs play a vital role in safeguarding Melbourne's water future as we face the challenges of population growth, climate variability and ageing infrastructure.

Table 6.2: Water major capital projects as part of the Top 15 Major Projects (\$millions, real 2025-26)

Top Water Projects	PS26 capex	Construction start	Description
Maroondah Reservoir Outlet and Aqueduct Stage 3A	156.7	2028-29	New replacement outlet for the Maroondah Reservoir and partial replacement of the aqueduct to improve system efficiency, operational and maintenance safety, water quality, and deteriorating asset condition.
Cardinia Dam Safety Upgrade Works	191.0	2026-27	Critical works to enable current restrictions on operating levels to be removed and reinstatement of full capacity to support efficient use of existing water resources.

Top Water Projects	PS26 capex	Construction start	Description
Link Main Stage 1	163.1	2028-29	New treated water transfer pipeline between the Silvan and Winneke supply zones to enhance network flexibility, increase permissible outage windows without impacting customers, reduce reliance on single points of failure and significantly boost resilience, especially under bushfire risk scenarios.
Cardinia Pump Station Upgrade	98.7	2027-28	Expands pump station capacity from 300 ML/day to 500 ML/day, which transfers flow from Cardinia to Silvan, including Victorian Desalination Project (VDP) flows into Cardinia. This will enhance distribution of existing water resources in the east of Melbourne to service growth in the west and increase capacity to access stored water in the event of a major water quality incident in the eastern catchments, such as bushfire.
Olinda-Mitcham water mains replacement - Stage 2	83.3	2028-29	This project is stage 2 of the replacement of Olinda-Mitcham pipelines, which performs a critical role in the water supply system, ensuring that Melbourne Water meets its service obligations for water supply under the Bulk Water Supply Agreement (BWSA), as they have reached the end of their service life due to extensive condition deterioration.

In addition to these major projects, a further \$1,240 million will be invested through a suite of strategic programs that support system-wide performance and resilience. These programs focus on diversifying water sources, enhancing water quality, improving water transfer resilience across Melbourne and maintaining production and storage assets. While individually smaller in scale, these initiatives are essential to meet customer expectations, comply with evolving regulatory standards and ensure equitable access to water across Melbourne and surrounding regions. The table below outlines the major programs that will deliver these outcomes.

Table 6.3: Major water sub-service programs (\$millions, real 2025-26)

Major sub-service Program (T1)	PS21 actual/forecast capex ^a	PS26 capex (excluding major projects)	Description
Manufactured and New Water Sources	-	266.0	<ul style="list-style-type: none"> Customers told us we should be investing in 'readiness' for new climate-independent water sources and to continue to supply recycled water. In line with the Victorian Government's <i>Water Security Plan</i>, we will invest in detailed investigations for new large-scale water supplies. The WTP Class A Recycled Water is ageing and failing to meet service expectations. This program aims to make essential renewals to secure supply from the service and to investigate higher value longer term options in line with the Victorian Government's <i>Water Security Plan</i> and <i>Central and Gippsland Region Sustainable Water Strategy</i> (CGRSWS).
Production and Storage	164.0	192.4	<ul style="list-style-type: none"> Customers told us it was important for us to efficiently store and transfer water, including minimising losses and making sure our assets are safe and secure. The Water Production and Storage Program sets out the investments needed to make sure our dams, weirs, aqueducts and raw water pipelines function effectively.
Water Quality	303.3	541.7	<ul style="list-style-type: none"> Customers told us that water quality should be our highest priority. The Water Quality Program ensures we can treat increased demand for water to higher standards per the revised <i>Drinking Water Quality Guidelines</i>, which will come into effect during the regulatory period. Works include advanced treatment technologies to guarantee quality, real-time monitoring, improved disinfection methods and robust catchment protection.
Water Transfer	531.2	505.7	<ul style="list-style-type: none"> Customers told us it is important for us to plan for long-term water needs for our region and to ensure we consider geographic equity in our decisions. The Water Transfer Program enables us to deliver high quality, reliable, treated water to all parts of the region we serve, including Melbourne's growing west and the Geelong region. Works include enhancing water transfer efficiency by upgrading pipelines, optimising pump performance, increasing network flexibility and minimising leakage with smart pressure management systems.

^a Includes major projects.

The water programs outlined in Table 6.3 include development costs for uncertain projects, including:

- Maroondah Aqueduct Stage 3B Upgrade
- Coranderrk-Maroonah Pipeline
- Sydenham Pump Station
- Dandenong No 1 Tank Refurbishment
- Kallista Supply Resilience
- Healesville Supply Resilience.

We are delivering the Bulk Supply Agreement Modernisation Project, which includes a workstream on Collaborative Planning and confirmation of principles for asset ownership and asset transfers, to be resolved in time for water corporation 2028 Price Submissions. We may incur additional capex during the regulatory period if assets are agreed to be transferred between water corporations as a result.

Business cases for all major projects and programs are available upon request.

6.2.2.1 Manufactured and New Water

As part of our **Manufactured and New Water Program** we are proposing \$16.5 million for the recycled water program (see Figure 6.7 for proposed annual capex) associated with the Class A recycled water treatment plant at WTP.

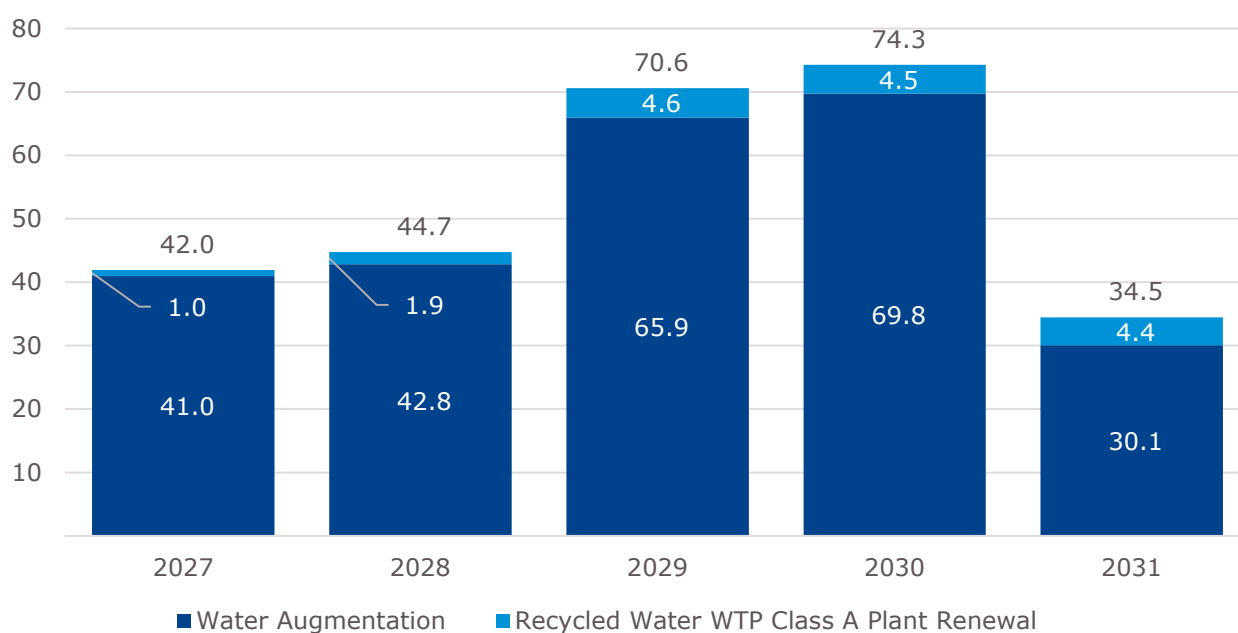
The WTP Class A plant is ageing and failing to meet levels of service.

Under our Manufactured and New Water Program there are several possible pathways with the strategic direction of the WTP Class A plant:

1. A renewal to ensure ongoing operations of the plant to maintain current levels of service, which fail to meet customer expectations.
2. A comprehensive improvement, improving levels of service, which would come at a significantly higher cost.
3. A regional solution via the proposed Werribee Reconfiguration Project, which would provide multiple benefits, including offsetting drinking water consumption, returning water to the environment and creating a strategic water reserve as outlined in the CGRSWS.

There is uncertainty around which pathway will be adopted. Therefore, we are committing to development costs of this project and some necessary tactical renewals, including the chlorine contact basin, blue green algae management and pH management, while we work through longer term solutions with stakeholders and customers.

Figure 6.7: Annual manufactured and new water capex (\$millions, real 2025-26)



6.2.3 Outcome 2: Bulk sewerage services

We are proposing a \$2,617 million¹² investment in the **Sewerage Program**, marking a significant step toward improving the sustainability and resilience of our infrastructure, while also servicing a growing Melbourne. This is in pursuit of Outcome 2, *to provide environmentally sustainable and reliable bulk sewerage services*. The proposed annual capital expenditure is shown in Figure 6.8.

The **Sewerage Program** manages the investments relating to essential sanitation services through the collection, treatment, and disposal of sewage and trade waste, and supporting public health and environmental protection.

The sewerage program reflects three sub-services:

- our major treatment plant in the East (ETP)
- our major treatment plant in the West (WTP)
- our extensive transfer network, transferring sewage from the water corporation assets to ETP or WTP. It includes assets, such as gravity and rising main pipelines (conduits), pumping stations, flow meters, air treatment facilities and associated supporting infrastructure.

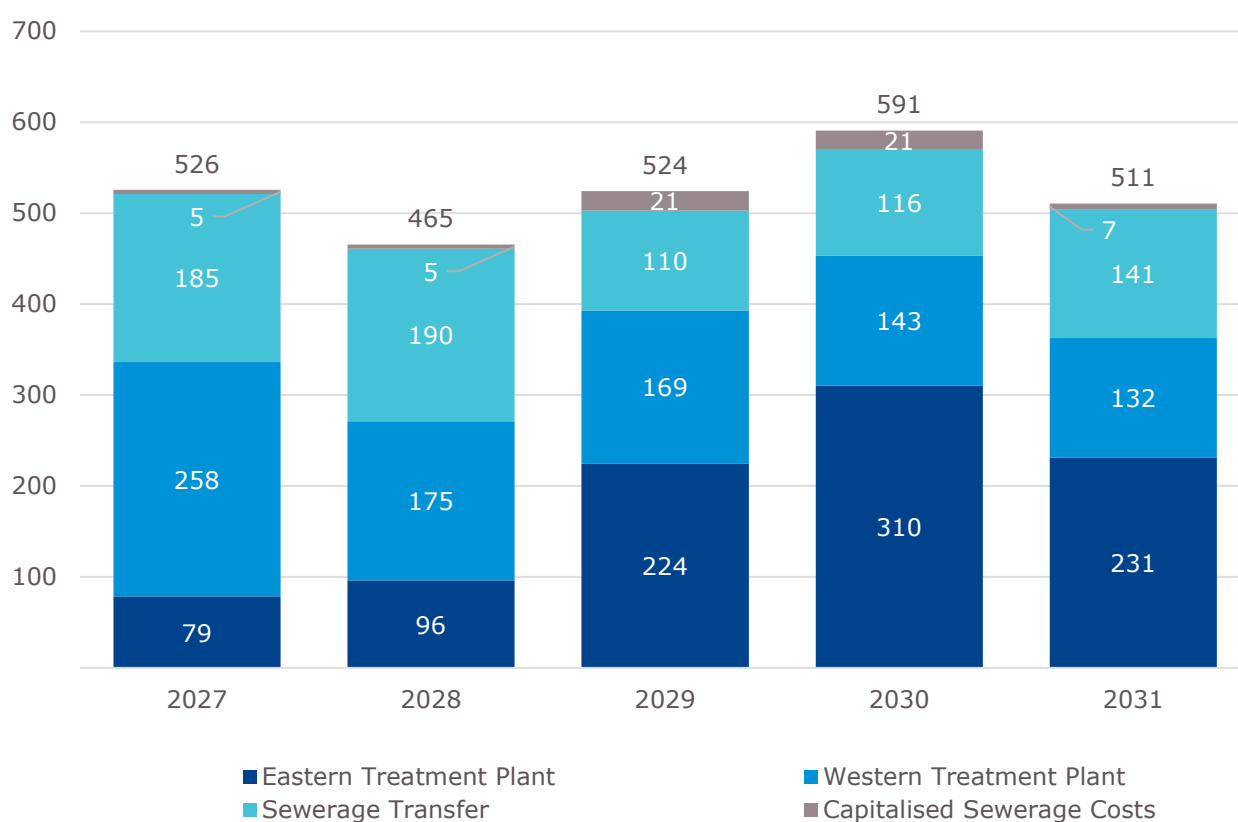
Over the 2021-26 regulatory period, we made significant investments at WTP, the largest sewage treatment plant in Australia. These investments featured heavily in our major projects for that period. We invested in additional nutrient reduction treatment systems to maintain treated water discharge limits to Port Phillip Bay, as well as starting delivery of new preliminary, primary and sludge treatment systems, which will continue into the 2026-31 regulatory period. These new, modern, mechanised and more costly treatment systems are a

¹² This excludes allocated corporate and IT capital expenditure.

significant milestone WTP's transition away from dependence on lagoon-based treatment systems, which is necessary to reduce WTP's impact on the community and the environment.

A major focus now is the ETP program, the second largest treatment plant in Australia. This vital facility is responsible for managing 40 per cent of the region's wastewater. The planned upgrades aim to expand its capacity to service growing demands, improve its resilience to high flow wet weather events, which have challenged the plant in recent years, and enhance its environmental performance. These improvements will ensure the plant can meet both current and future demands and regulatory requirements, while also promoting sustainable water management practices.

Figure 6.8: Outcome 2 capex by sub-service over 2026-31 excluding corporate and IT allocated expenditure (\$millions, real 2025-26)



Our Sewerage Program is a combination of large-scale and smaller initiatives, with 78 per cent dedicated to major capital works, such as infrastructure upgrades and new system installations. The remaining portion focuses on smaller projects and ongoing programs aimed at maintaining, enhancing and ensuring the long-term efficiency of our sewerage systems. Our Top 5 Projects make up 37 per cent of the sewerage program.

The breakdown of sewerage capex by primary business driver is included in Figure 6.9, with a balance of renewals, growth and improvements/compliance.

Figure 6.9: Annual sewerage capex split by business driver, excluding corporate and IT allocated expenditure (\$millions, real 2025-26)

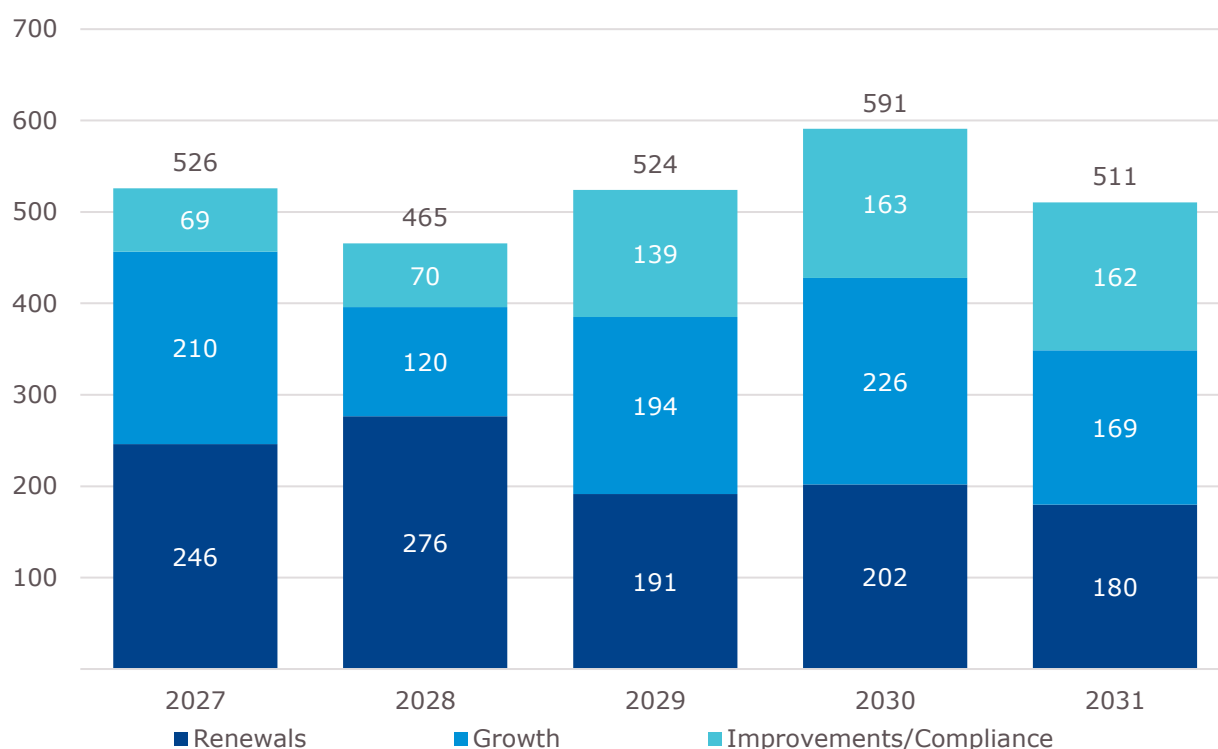


Table 6.4 outlines the Top 5 high-priority sewerage infrastructure projects currently planned or underway across Melbourne Water's network. These projects represent the most significant investments in the PS26 period, targeting critical upgrades and capacity expansions at both ETP and WTP, as well as key trunk sewer assets. Each project addresses pressing operational challenges — such as capacity constraints, asset degradation, and resilience to extreme weather events — making them vital to maintaining service continuity and protecting public and environmental health.

Table 6.4: Major sewer capital projects as part of the Top 15 Major Projects (\$millions, real 2025-26)

Top Sewerage Projects	PS26 spend	Construction start	Description
WTP Full Preliminary Treatment Augmentation	291.2	2027-28	This project involves upgrading the preliminary treatment process (grit and screenings) for WTP. Capacity will expand from 260 ML/d to 1,100 ML/d, ensuring the system meets future demand, as well as supporting the plant's transition from dependence on lagoon treatment systems to managed mechanised systems that reduce impacts on the community and environment. The project is currently in the design phase.

Top Sewerage Projects	PS26 spend	Construction start	Description
ETP Primary Settling Tank and Grit Tank Augmentation	177.7	2028-29	To address the growing flow and load demands within the catchment, this project will expand the critical treatment capacity at ETP. The upgrade will also enhance system resilience to increasingly frequent high-flow events, maintaining consistent performance under a broader range of conditions.
WTP Primary Treatment Capacity Augmentation	113.6	2023-24	This project increases primary treatment capacity by 30 per cent, diverting raw sewage away from the overloaded anaerobic lagoons to a new mechanised treatment system that reduces the frequency of odour-intensive maintenance works associated with the lagoons and progresses the WTP's transition away from dependence on lagoon treatment systems. This project is in the construction phase.
Western Trunk Sewer Shallow Conduit Rehabilitation	204.4	2026-27	This project will rehabilitate 4.4 km of the Western Trunk Sewer (WTS) shallow conduit between maintenance holes WTS014 and WTS001, as well as 14 associated maintenance structures. The rehabilitation will address critical safety and reliability risks for this essential sewer main - the sole conduit transporting sewage to WTP.
ETP Sludge Dewatering Upgrade	176.6	2025-26	This upgrade will introduce enhanced dewatering equipment for digested sludge at ETP, accommodating future growth in loads to keep the system operating smoothly and preparing for future transition to thermal sludge treatment.

Beyond the Top 5 Projects, the remaining \$1,653 million in the Sewerage Program will be delivered through a broad portfolio of smaller, yet strategically significant sub-service programs. These initiatives are essential to maintain and enhance the overall performance, reliability, and sustainability of Melbourne Water's sewerage network. While individually less prominent, these programs collectively address critical service areas (for example, asset renewal, capacity upgrades, environmental protection and regulatory compliance) across ETP, WTP and the bulk sewage transfer system. They are designed to support continued service delivery in line with customer expectations, accommodate recent and future growth, and mitigate risks associated with ageing infrastructure and climate-related pressures. Table 6.5 outlines the major programs contributing to these outcomes.

Table 6.5: Major Sewer sub-service programs (\$millions, real 2025-26)

Major sub-service Program (T1)	PS21 capex ^a	PS26 capex (excluding major projects)	Description
ETP	373.6	609.2 ^b	<ul style="list-style-type: none"> The program of works - projects and program allocations - outside the Top 5 Projects that support the continuing delivery of services to the ETP in line with customer expectations and regulatory and compliance obligations. Specific focus areas include influent screening systems, chlorine disinfection system renewal and risk reduction, increasing solids handling capacity and site power supply capacity and resilience to service demand growth and maintain reliable operations.
WTP	925.6	507.2 ^b	<ul style="list-style-type: none"> The program of works - projects and program allocations - outside the Top 5 Projects that support the continuing delivery of services to WTP in line with customer expectations and regulatory and compliance obligations. Specific focus areas include renewing the ageing biogas handling plant, increasing site power supply capacity and resilience to service demand growth and maintaining reliable operations.
Sewerage Transfer	587.4	536.8	<ul style="list-style-type: none"> The program of works - projects and program allocations - outside the Top 5 Projects that support the continuing safe functioning of the bulk sewage transfer network. Renewal of the sewerage network to address ageing infrastructure and avoid high impact failures. Additional capacity to comply with containment standards and minimise community and environmental impacts during peak rainfall events.

^a Includes major projects.

^b Includes capitalised operating expenditure at ETP and WTP.

The sewerage programs include development costs for uncertain projects, including:

- ETP Secondary Augmentation
- Darebin Intercepting Sewer
- WTP Aerated Static Pile Scum Treatment
- Williamstown Main Extension
- ETP Sludge Rotary Thickener Capacity Upgrade
- WTP Solids Treatment Augmentation
- South Yarra Main Sewer Renewal
- WTP Primary and Secondary Treatment Augmentations.

We may incur additional capex during the regulatory period if assets are agreed to be transferred between water corporations as a result of the Bulk Supply Agreement modernisation project.

Business cases for all major projects and programs are available upon request.

6.2.4 Outcome 3: Waterways services

We are proposing a total of \$349¹³ million (including \$2 million in Diversion Services) across the **Waterways Program**, which will focus on managing our waterway health and stormwater quality. This is in pursuit of Outcome 3 to ensure we have *healthy, resilient waterways*.

The **Waterways Program** focuses on maintaining and improving the health of rivers, creeks, and estuaries across the Port Phillip and Western Port region, while also supporting recreational and cultural values. The program consists of four sub-services:

- Waterways Management
- Stormwater Management
- Land and Biodiversity Management
- Community Access and Recreation.

These four sub-services reflect:

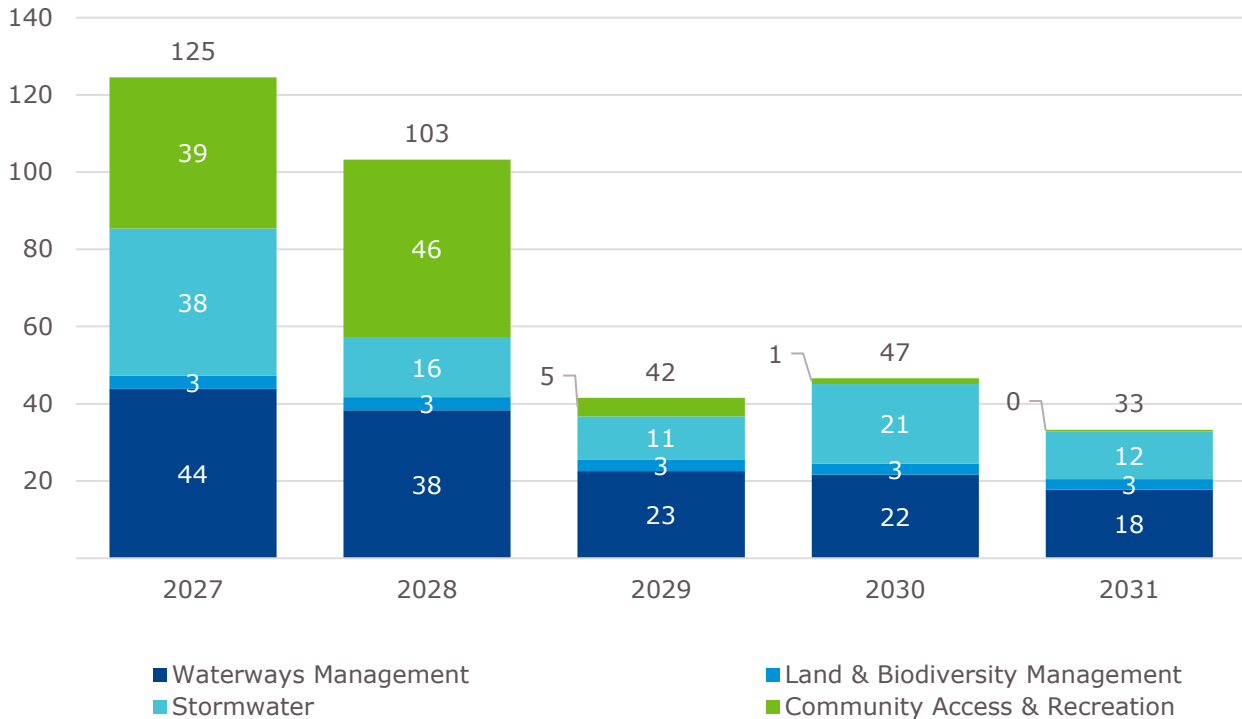
- assets supporting land, waterways, natural and constructed wetlands, estuaries and biodiversity management in the Port Phillip and Western Port catchments to enable conservation, rehabilitation and the sustainable use of natural resources
- assets for the purposes of storing, treating and distributing stormwater to protect waterways and, in some cases, harvesting to enable reuse for non-drinking purposes
- assets supporting safe access and enjoyment of the community to blue-green spaces.

This expenditure supports critical infrastructure projects and environmental initiatives to protect and enhance our waterways ensuring sustainable outcomes for communities and ecosystems alike.

Figure 6.10 shows our proposed capex under Outcome 3 over the regulatory period.

¹³ This excludes allocated corporate and IT capex and is offset in part by government contributions, as outlined in Section 8.3 (Government contributions)

Figure 6.10: Outcome 3 capex by sub-service over 2026-31, excluding corporate and IT allocated expenditure (\$millions, real 2025-26)



Our Waterways Program combines large-scale capital works, which make up 54 per cent of the initiative, with smaller projects and maintenance efforts. We are completing several large-scale projects early in the regulatory period before waterways capex returns to longer term trends. The major capital works focus on addressing critical infrastructure needs, ensuring long-term resilience and functionality. The smaller projects play a vital role in the ongoing care and improvement of local waterways systems. Together, these efforts are designed to enhance water flow and promote environmental sustainability within our communities.

Figure 6.11 shows the split of waterways capex by business driver. The majority of expenditure in the Waterways Program has a primary business driver of improvements/compliance.

Figure 6.11: Annual waterways capex split by business driver (\$millions, real 2025-26)

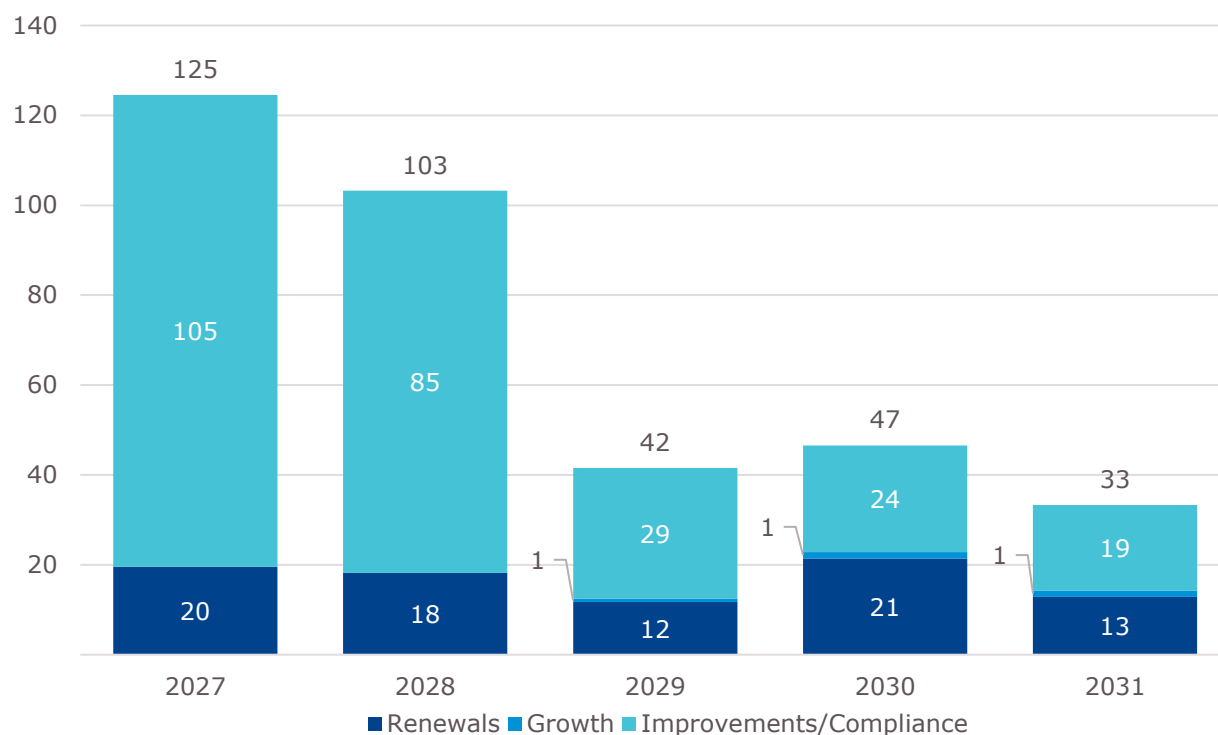


Table 6.6 highlights the Top 2 capital projects across our **Waterways Programs**. Combined with our Top 3 capital programs across our **Drainage Program**, these make up our Top 5 capital projects across our **waterways and drainage service**.

These projects represent the most significant and immediate interventions across the network. They target opportunities for environmental and amenity improvement.

As part of its preparation for the 2026–31 Price Submission, Melbourne Water undertook a comprehensive assessment of drainage assets to identify priority areas for financial investment into amenity. This assessment was guided by the Amenity Needs Framework and Index, developed in collaboration with Mosaic Insights, the Victorian Government, and local councils. The framework uses spatial data and community indicators to rank sites based on their potential to deliver amenity benefits.

Table 6.6: Major waterways capital projects as part of the Top 15 Major Projects (\$millions, real 2025-26)

Program	Top WWD Projects	PS26 capex	Construction start	Description
Waterway	Reimagining Eumemmerring Creek	26.6	2026-27	This project will transform 1,940 metres of low flow underground drain and high flow grassed channel into a natural waterway, creating a space to improve environmental health and enhance community access in the City of Casey, which has a high Amenity Needs Index. The restored waterway will provide opportunities for recreational use, such as walking, cycling and enjoying nature, while also supporting local biodiversity and improving stormwater management. Melbourne Water has forecast \$9.9 million of Victorian Government contributions that will offset the investment.
Waterway	Reimagining Tarralla Creek Stage 2	30.6	2026-27	This stage of the project will transform 886 metres of underground drain into a vibrant natural waterway, creating a space that improves environmental health and enhances community access. The restored waterway will provide opportunities for recreational use, such as walking, cycling and enjoying nature, while also supporting local biodiversity and improving stormwater management. Melbourne Water has forecast \$9.6 million of Victorian Government contributions that will offset the investment.

In addition to these major projects and the land development program, a further \$292 million will be delivered through four sub-service program areas that underpin the broader **Waterways Program**. These programs focus on balancing waterway health and community benefits, while ensuring the long-term sustainability of Melbourne's stormwater systems.

Table 6.7 outlines these programs, which reflect both regulatory obligations and community priorities, such as improving stormwater quality, restoring riparian vegetation and adapting to climate change impacts, such as sea level rise and shifting rainfall patterns.

Table 6.7: Major waterways sub-service programs (\$millions, real 2025-26)

Major sub-service Program (T1)	PS21 capex ^a	PS26 capex (excluding major projects)	Description
Stormwater Quality	66.6	98.0	Works under this Program include stormwater management systems to treat stormwater nutrients and sediments, build capacity and reduce agricultural runoff to maintain a healthy river system and receiving waters.
Waterways Management (includes Diversions)	211.2	144.2 (including 1.9 in diversions)	<p>We have a range of obligations we must meet to ensure waterway health is protected. The community also told us they expect us to make improvements to waterways, including riparian vegetation restoration and stream rehabilitation.</p> <p>Works under this Program include investments to:</p> <ul style="list-style-type: none"> • Support climate adaptation, build resilience, improve and maintain fish passage, mitigate threats to and from physical form and other key values, and meet environmental flow recommendations to improve waterway health. • Renew natural wetland habitat and protect Ramsar wetlands for waterway ecological processes, coordinate management of estuary habitat connectivity, water quality and floodplain vegetation communities, and control the impact of pests on roosting sites for birds. • Establish and renew vegetation along waterways to support waterway health in alignment with performance objective targets within the <i>Healthy Waterways Strategy 2018</i>.
Land and Biodiversity Management		15.3	Works under this Program include investments to protect and enhance sites of biodiversity significance (SOBs) associated with the region's waterways.
Community Access and Recreation		34.7	Works under this Program include investments to activate, transform, preserve, enhance amenity and improve management of Melbourne Water waterways and drainage land assets, creating more natural spaces for community enjoyment, recreational and amenity benefits. Melbourne Water has forecast \$4.8 million of Victorian Government contributions that will offset the investment.

^a Includes major projects.

Business cases for all major projects and programs are available upon request.

6.2.5 Outcome 4: Drainage and Urban Development services

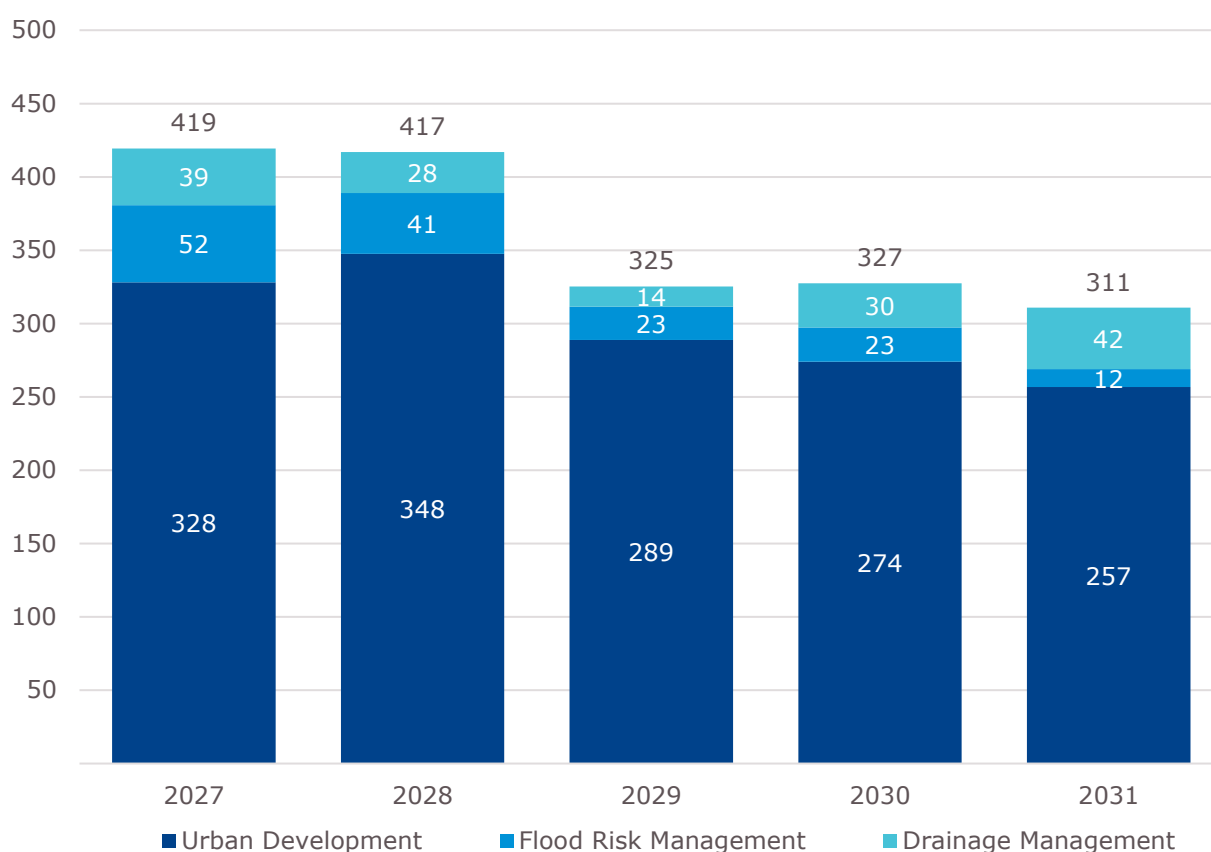
We are proposing a total of \$1,800 million¹⁴ across the **Drainage and Urban Development Programs** in pursuit of Outcome 4 to ensure we support *urban drainage and flood resilience*. The annual breakdown of this expenditure is included in Figure 6.12.

The **Drainage Program** (\$305 million) provides flood protection and stormwater management services across the metropolitan area. This program maintains drainage infrastructure and flood management and control assets, reducing the risk of flooding to communities, while also implementing innovative solutions for safe urban water management.

The **Urban Development Program** (\$1,495 million) reflects our investment in assets facilitating sustainable urban development and urban renewal that mitigate flood risks and protects water quality standards.

This expenditure will support critical drainage infrastructure projects to manage flood risk, ensuring sustainable outcomes for communities and ecosystems.

Figure 6.12: Outcome 4 capex by sub-service over 2026-31, excluding corporate and IT allocated expenditure (\$millions, real 2025-26)



Most of our Outcome 4 spend relates to the **Urban Development Program** and is made up of land development projects. Melbourne Water has a broad oversight role for these projects which are led by developers through the Development Services Scheme (DSS). These are

¹⁴ This excludes allocated corporate and IT capital expenditure.

offset over the economic life of the scheme by developer contributions. The forecast developer contributions offsetting the Regulatory Asset Base (RAB) total \$1,317 million in the 2026-31 period¹⁵. The broken-down developer contribution forecast is included in Section 8.2 (Developer contributions).

Our **Drainage Programs** combine large-scale capital works, which make up 86 per cent of the initiative, with smaller projects and maintenance efforts comprising the remainder. The major capital works focus on addressing critical infrastructure needs, ensuring long-term resilience and functionality. The smaller projects play a vital role in the ongoing care and improvement of local drainage systems. Together, these efforts are designed to mitigate flood risks and promote environmental sustainability within our communities.

Figure 6.13: Annual drainage and urban development capex split by business driver (\$millions, real 2025-26)

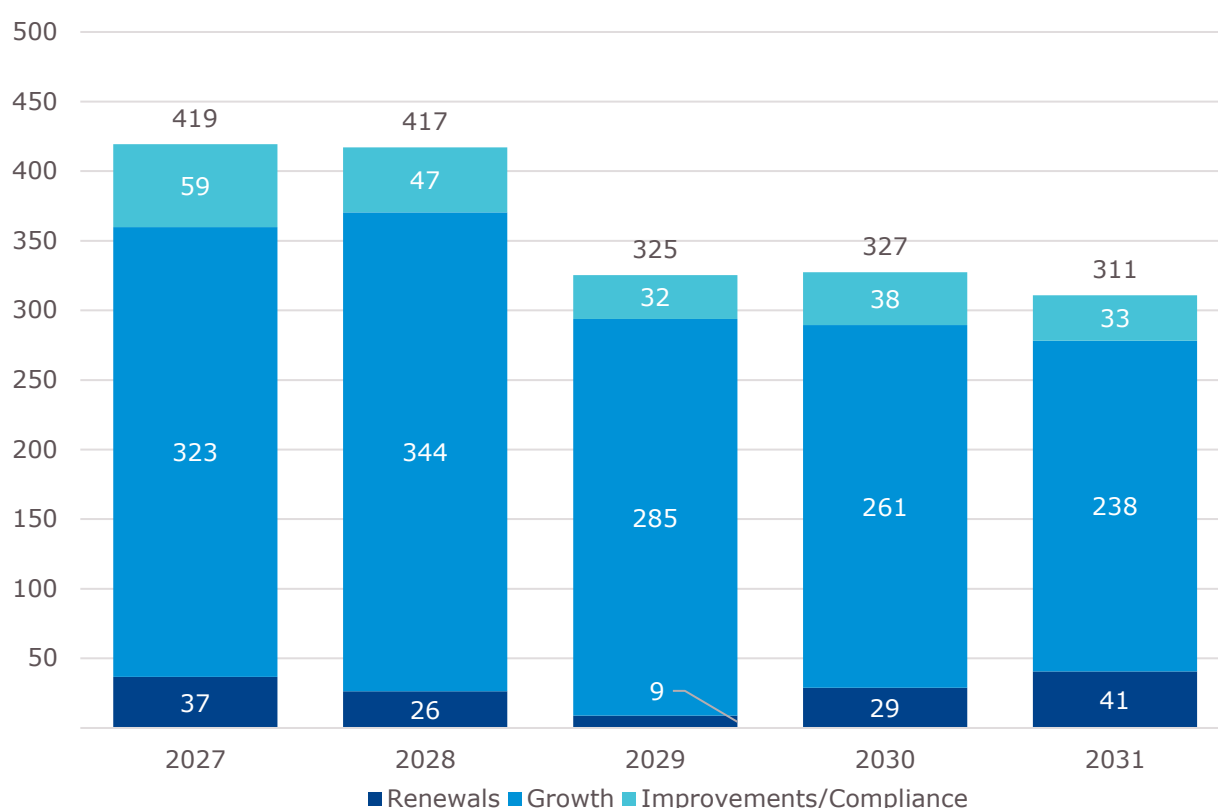


Table 6.8 highlights the Top 3 capital projects across our **Drainage Programs**. Combined with our Top 2 capital programs across our **Waterways Program**, these make up our Top 5 capital projects across our **waterways and drainage service**.

These projects represent the most significant and immediate interventions across the network. They target areas with high flood risk and ageing infrastructure, particularly in densely populated or vulnerable catchments.

¹⁵ This is comprised of \$1,307 million in DSS and \$10 million in stormwater quality offsets.

Table 6.8: Major drainage capital projects as part of the Top 15 Major Projects (\$millions, real 2025-26)¹⁶

Program	Top Waterways and Drainage Projects	PS26 spend	Construction start	Description
Drainage	Elsternwick Creek and Elwood Main Drain Flood Mitigation Works	69.4	2025-26	This project focuses on constructing new infrastructure and upgrading existing assets to address the ongoing challenges of frequent and severe flooding in the Elwood and Elsternwick areas. By improving drainage systems and implementing advanced flood management solutions, the project aims to protect homes, businesses, and public spaces, ensuring greater safety and resilience for the community during heavy rainfall events.
Drainage	Cardinia Creek Drop Structure Retarding Basin Upgrade	39.5	2029-30	An upgrade to the Cardinia Creek Drop Structure retarding basin will enhance safety and improve drainage efficiency for the surrounding catchment area. This project will ensure better management of stormwater, reducing the risk of flooding during heavy rainfall and providing greater protection for local communities and infrastructure.
Drainage	Elwood Diversion Drain 4925 – Outfall Renewal	27.3	2025-26	The Elwood Diversion Drain has been identified as requiring urgent renewal due to significant structural deterioration observed during routine assessments. The renewal will ensure continual performance of the conveyance function of the asset, reducing flood risk to the community.

In addition to these major projects and the land development program, a further \$168 million will be delivered through major programs that focus on balancing flood protection and mitigation activities, while also ensuring the long-term sustainability of Melbourne's drainage systems.

Table 6.9 outlines these programs, which reflect both regulatory obligations and community priorities, such as community expectations around flood risk minimisation and adapting to climate change impacts, like sea level rise and shifting rainfall patterns.

¹⁶ These are projects that are delivered by Melbourne Water and funded by Waterways and Drainage customers, therefore excludes developer funded assets.

Table 6.9: Major drainage and urban development sub-service programs (\$millions, real 2025-26)

Major sub-service Program (T1)	PS21 capex ^a	PS26 spend (excluding major projects)	Description
Drainage Management	177.8	86.0	Works include expenditures to manage flood control structures effectively, minimise flooding impacts and achieve optimal social, economic and environmental outcomes.
Flood Risk Management		82.4	Our community panel expected all customers, regardless of location, are safe in flood scenarios, and highlighted the importance of flood resilience and safety measures. Works under this Program include investments to manage flood risks and opportunities and ensure that the right information is available at the right time to the people who need it to support flood preparedness, so that flood risks are addressed, and flood impacts reduced to properties and critical infrastructure.
Urban Development	1,083	1,495 ^b	Melbourne Water works with the development industry and private landowners to plan for and facilitate the building of sustainable and liveable communities through the construction of assets, such as wetlands, retarding basins and stormwater pipelines. Infrastructure requirements are costed and used to establish contributions under the <i>Water Act 1989</i> (Vic) that will apply to developers to fund the provision of infrastructure. The works under this Program include investments relating to the DSS that are prepared to plan the infrastructure required to ensure new urban development meets appropriate standards for flood protection, water quality, waterway health and amenity.

^a Includes major projects^b Offset by developer contributions of \$1,317 million as outlined in Section 8.2.

Business cases for all major projects and programs are available upon request.

6.2.6 Corporate and IT

In addition to service-specific infrastructure, Melbourne Water is proposing \$270 million in **Corporate and IT Program** investments during the PS26 period.

These initiatives are critical enablers of effective service delivery across all areas of the business, supporting operational efficiency, workforce productivity and customer experience. Table 6.10 outlines the major corporate programs that focus on uplifting digital capabilities and maintaining essential corporate infrastructure.

Table 6.10: Major corporate and IT sub-service programs (\$millions, real 2025-26)

Major sub-service Program (T1)	PS21 spend	PS26 spend	Description
Information and Operation Technology	116.1	179.3 (includes capitalised opex of 66.8)	<p>Our Technology Roadmap and corresponding investment program are designed to enable effective service delivery and achievement of customer Outcomes.</p> <p>The Program is targeting specific capability uplift across five strategic objectives that drive digital investments to:</p> <ul style="list-style-type: none"> • enable a productive digital workforce • be data driven – managing and using data well • provide for digital utility operations • provide digital solutions for better customer experience • provide a stable and secure operating environment. <p>Our work aligns to our corporate strategy and enables efficient delivery of our Customer Outcomes. We have engaged with the water corporation customers' Chief Information Officers to discuss the scope of the planned technology investments. Respondents have indicated that our investment focus aligns with their technology strategies.</p>
Corporate Support	42.7	91.1	<p>Melbourne Water's operating footprint covers large areas of the Port Phillip and Western Port region, and we have operational fleet and corporate facilities co-located at sites across the area.</p> <p>These assets are required to deliver all five customer Outcomes.</p> <p>We maintain fleet and facilities to enable a safe and productive corporate workspace, provide for effective operational response, including incident management facilities, and enable staff to attend activities and worksites across the region.</p>

6.3 Capitalisation of desalination security payments and selected operating expenditure

This final section provides the forecasts of capitalised desalination and selected opex costs.

6.3.1 Capitalising desalination costs

Melbourne Water is required to pay for the security services provided by the current operator of the VDP over the 27-year lease period to 2039-40. At that point, ownership of the plant will transfer to Melbourne Water. Given the plant's significantly longer asset life and consistent with previous ESC guidance, Melbourne Water has been capitalising a portion of these security payments as part of its capex. This reflects the enduring value of the asset once it becomes part of Melbourne Water's portfolio.

This approach aligns with the long-term interests of customers, is consistent with the WIRO, and has been endorsed by the ESC in past determinations. Since 2013, Melbourne Water's proposals, and the ESC's decisions, have consistently supported the capitalisation of a portion of the desalination security payments. In 2021, the ESC approved Melbourne Water's proposal to capitalise amounts equivalent to its capital (principal) payments for tax purposes.

The ESC's guidance indicates that continuing this approach meets its criteria for capitalising desalination security payments. Accordingly, Melbourne Water proposes to maintain this methodology for the 2026–31 regulatory period.

The VDP total forecast contract costs over the 2026-31 regulatory period are \$3,091 million. However, the capitalised amount that will be recovered is \$621 million in accordance with the principal repayment schedule. The remaining \$2,470 million will be recovered within the 2026-31 regulatory period.

Forecast annual VDP capitalised costs and the VDP opex amounts included in the forecast opex allowance for the 2026-31 regulatory period are shown in Table 6.11.

Table 6.11: Victorian Desalination Project costs, excluding any water order (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Opex	519.7	507.2	502.1	481.0	460.3
Capitalisation (Principal paid down)	80.6	112.3	130.0	140.3	157.9
Total contract costs	600.3	619.6	632.1	621.3	618.2

6.3.2 Capitalising selected operating costs

Melbourne Water proposes to capitalise opex related to the following three major projects:

- de-scumming and desludging at lagoon 55E at WTP
- sludge carting at ETP
- Software as a Service (SaaS) cost.

We provide a description of each of the three major projects and desalination capitalisation and our rationale for capitalisation in the following section.

Table 6.12 presents a summary of proposed capitalised costs for PS26.

Table 6.12: PS26 capitalised operating expenditure (\$millions, 2025-26)

Outcome	Project	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Outcome 2 - Sewerage	Descumming at 55E at WTP	-	-	16.6	16.6	2.0	35.2
Outcome 2 - Sewerage	Sludge carting at ETP	4.6	4.6	4.6	4.6	4.6	23.1
IT	SaaS - IT	15.6	17.7	10.6	8.5	5.5	57.9
IT	SaaS - AKT	1.8	1.8	1.8	1.8	1.8	8.9

6.3.2.1 Capitalising de-scumming and desludging costs at Western Treatment Plant (WTP)

WTP at Werribee treats approximately 60 per cent of Melbourne's sewage using a combination of lagoon and mechanical treatment processes. Preliminary and primary treatment at WTP currently comprises two covered anaerobic lagoons.

These covered anaerobic lagoons are commonly referred to as the 55E and 25W anaerobic pots, commissioned in 1991 and 1993 respectively.

The anaerobic pots are simple earthen structures that are deeper (approximately 6 - 8 metres) than downstream facultative and maturation sections lagoons.

The accumulation of scum and sludge adversely impacts the anaerobic pot treatment performance. In particular, the accumulated scum places stress on the floating cover (especially in wet weather), increasing the likelihood of catastrophic failure if not removed. Periodic removal of scum and sludge and cover replacement works have been undertaken previously.

The project is the next periodic removal of accumulated scum and sludge at 55E anaerobic pot.¹⁷ This requires removal of floating cover segments to provide access to the accumulated scum and sludge for the duration of the works before being reinstated as part of completed works.

The forecast opex costs related to de-scumming and desludging at lagoon 55E are detailed in Table 6.13.

Table 6.13: Forecast operating costs (to capitalised) to de-scumming and desludging at lagoon 55E (\$millions, real 2025-26)

Project	2026-27	2027-28	2028-29	2029-30	2030-31
Descumming – 55E at WTP	-	-	16.6	16.6	2.0

Melbourne Water is proposing to capitalise the forecast operating costs to de-scum and de-sludge 55E. These are one-off events, completed at irregular intervals. De-scumming and desludging at 55E were last completed in 2021.

The timing of the expenditure relates to the rate of accumulation of scum and sludge, which is primarily a function of load to the plant. Melbourne Water's forecast of expected de-scumming and desludging costs at 55E demonstrates that the proposed expenditure is 'lumpy' in nature, meaning expenditure is only incurred every seven years on average, which is considered the benefit period. Consequently, the proposed expenditure on average generates customer benefits across two regulatory periods.

We propose to recover the costs over seven years.

¹⁷ Anaerobic Pot 25W is outside the scope of period de-scumming and desludging as it was deemed to be replaced by a new capex program instead.

The capitalisation does not generate large impacts to customers. Capitalising rather than expensing will reduce the forecast revenue requirement in the 2026-31 period by \$23.8 million, as shown in Table 6.14. The \$11.4 million revenue requirement after capitalisation in the 2026-31 period is around 0.1 per cent of the total PS26 revenue requirement.

Table 6.14: Impacts to revenue requirement of de-scumming and desludging at lagoon 55E at WTP (\$millions, real 2025-26)

	Total revenue requirement PS26 customers	Total revenue requirement PS31 customers
Before capitalisation	35.2	-
After capitalisation	11.4	26.2
Difference	-23.8	26.2

6.3.2.2 Capitalising sludge carting costs at Eastern Treatment Plant (ETP)

The ETP Excess Solids Interim Risk Management project supplies alternative process capacity to allow the ETP digesters to be taken offline one at a time and renewed and upgraded for growth, while minimising the likelihood of major process failure. The scope of the project includes:

- installation of mechanical equipment to de-water sludge from ETP's secondary treatment process
- installation of sludge receival facilities at WTP
- transport of the de-watered solids to WTP or a third-party disposal site as required.

The design and construction of the mechanical equipment and sludge receival facilities is being capitalised under standard capital project processes. The expenditure related to removing, drying, transporting, and disposing of the sludge is significant.

The sludge carting project is expected to commence in January 2026 (when the first digester comes offline) and is estimated to conclude in 2031-32. The plant is intended to operate every day to provide the necessary process capacity.

The total proposed capitalised opex costs related to sludge carting at ETP are detailed in Table 6.15.

Table 6.15: Forecast operating costs (to capitalised) of sludge carting at ETP (\$millions, real 2025-26)

Project	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Sludge carting at ETP	4.6	4.6	4.6	4.6	4.6	2.4

This expenditure is required to renew and upgrade the digesters for growth. Digester upgrades are essential to ensure ETP's wastewater treatment process can run safely and effectively while servicing demand growth. Once a sufficient number of digesters have been upgraded and the associated capacity gains realised, sludge transfers from ETP will no longer be required and will not form part of standard operations. Therefore, the sludge carting costs will not be standalone opex, as they are integral and cannot be sensibly separated from the capital project of upgrading Melbourne Water's ETP sludge digesters.

We propose to recover the costs over the life of the digestors (35 years) in line with the capex component of the digester upgrades.

The capitalisation does not generate large impacts to customers. Capitalising rather than expensing will reduce the forecast revenue requirement in the 2026-31 period by \$19.8 million, as shown in Table 6.16. The \$3.3 million revenue requirement in the 2026-31 period is around 0.03 per cent of the total PS26 revenue requirement.

Table 6.16: Impacts to revenue requirement of sludge carting at ETP (\$millions, real 2025-26)

	Total revenue requirement PS26 customers	Total revenue requirement PS31 customers
Before capitalisation	23.1	2.4
After capitalisation	3.3	7.3
Difference	-19.8	4.9

6.3.2.3 SaaS Project costs

Melbourne Water's IT and asset knowledge and technology (AKT) underpin all its operations, enabling efficient and effective service delivery and enhancing community wellbeing. These services enable Melbourne Water to meet its three strategic goals of resilience, transition and partnerships.

There is also strong alignment between the PS26 IT Program of Work, the Digital Strategy and Melbourne Water's business objectives and business drivers.

A significant component of the IT and AKT services involves Cloud-based projects, for example (SaaS projects. These project costs for the development and build are presented in Table 6.17.

Table 6.17: Capitalisation of SaaS projects (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
SaaS – IT	15.6	17.7	10.6	8.5	5.5
SaaS - AKT	1.8	1.8	1.8	1.8	1.8

We are proposing to capitalise these costs, as the expenditure associated with Cloud-based SaaS projects represents 'lumpy' operational costs.

The project operational costs have an expected benefit period of 10 years and will benefit customers across two or more regulatory periods, which reflects the average useful asset life of the IT projects.

We propose to recover the costs over 10 years. The capitalisation does not generate large impacts to customers. Capitalising rather than expensing will reduce the forecast cost in the 2026-31 period by \$42.4 million, as shown in Table 6.18. The \$24.4 million cost in the 2026-31 period is around 0.2 per cent of the total PS26 revenue requirement.

Table 6.18: Impacts to revenue requirement of capitalisation of SaaS projects (\$millions, real 2025-26)

	Total revenue requirement PS26 customers	Total revenue requirement PS31 customers
Before capitalisation	66.8	-
After capitalisation	24.4	38.5
Difference	-42.4	38.5

Operating expenditure

7

In summary

- Total prudent and efficient operating expenditure (opex) forecasts are provided, which have been prepared to reflect efficient base year expenditure, well-documented growth assumptions, an ambitious efficiency target, and well-supported step changes linked to delivering on agreed customer Outcomes.
- Total forecast opex for the 2026-31 period is \$5,512 million. This represents a real reduction of 5 per cent relative to expected actual opex in the 2021-26 period.
- We have thoroughly assessed base year expenditure to ensure it is reflective of efficient recurring operating costs.
- The proposed growth rate for all our services continues to be based on forecast customer connections growth and the rate of reflects 2 per cent per annum is consistent with data provided by the Victorian Government.
- We have proposed an efficiency improvement rate of 2 per cent per annum. We recognise that systematic effort will be needed to make sure we deliver on this target. We have developed a Cost Efficiency Plan (available on request) to continually drive efficiencies across our business and achieve the efficiency target within the 2026-31 regulatory period.
- Given the offsetting growth and efficiency rates, the only proposed increase to opex for the 2026-31 period is associated with prudent and efficient step changes. The proposed step changes account for 7 per cent of proposed 2026-31 controllable opex and 4 per cent of 2026-31 total opex.
- Significant supporting evidence has been prepared to explain the rationale for each of the step changes and how they relate to the delivery of agreed customer Outcomes. This is summarised in this chapter and detailed supporting documents prepared for each step change are available on request.
- Aspects of non-controllable operating expenditure are forecast to fall in the 2026-31 period, reducing overall operating costs reflected in prices. For example, in accordance with the ESC's guidance, the capitalisation amount for the Victorian Desalination Project (VDP) will increase in line with rising principal repayments, reducing the VDP-related opex for pricing purposes.

To explain our proposed opex forecasts for the 2026-31 period, Chapter 7 provides the following information:

- an overview of our total opex, including by service category and Outcome
- the methodology to allocate controllable costs among services
- our baseline controllable opex, including an analysis of non-recurrent expenditure from 2024-25 base year and variations from the benchmark controllable opex allowance for 2024-25

- the proposed annual adjustments to baseline controllable opex, including our growth and efficiency rates, as well as prudent and efficient step increases in controllable opex. The step increases are categorised by Outcome.
- a description of how specific controllable costs, including information technology (IT), operational technology, electricity, carbon offsets and insurances are treated in this submission
- our forecasts of non-controllable opex.

7.1 Total operating expenditure

Total proposed opex for the 2026-31 regulatory period is \$5,512 million comprised of:

- \$2,790 million of controllable opex across all our services
- \$2,470 million of non-controllable opex on the VDP¹⁸
- \$252 million of other non-controllable opex for land tax, licence fees and other smaller items.

Our historical opex and five-year proposed opex forecast is shown in Figure 7.1. The expenditure up to and including 2024-25 is actual spend - all other years are forecast spend.

Figure 7.2 shows our forecast total opex over the next two regulatory periods. This is split by our main service categories – water, sewerage, recycled water and waterways and drainage. The contract costs for the VDP being recovered through opex are shown only in the Water service.

¹⁸ This is the amount that is recovered through opex and does not include the component that has been capitalised or any desalinated water orders that have occurred.

Figure 7.1: Historical and forecast opex by controllable and non-controllable (\$millions, real 2025-26)

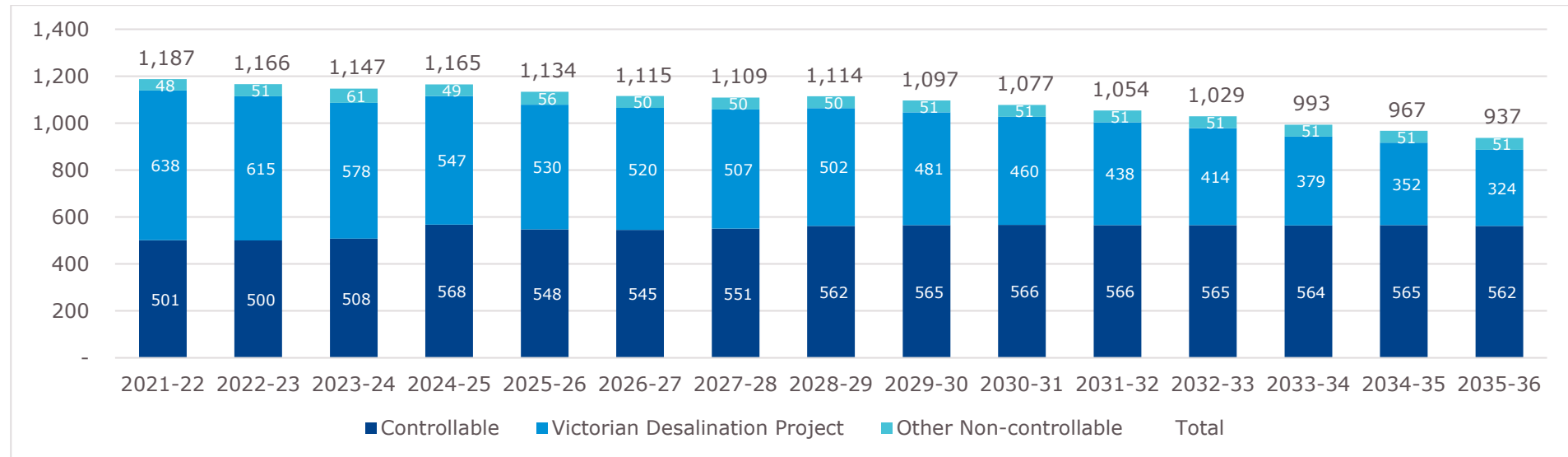
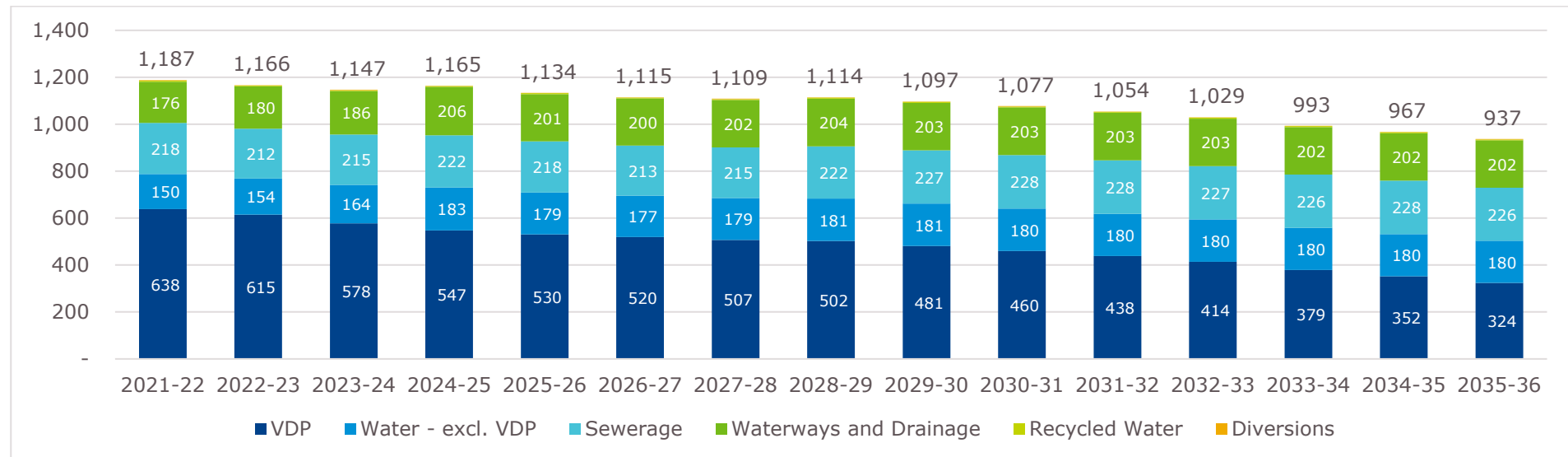


Figure 7.2: Historic and forecast total opex by service (\$millions, real 2025-26)

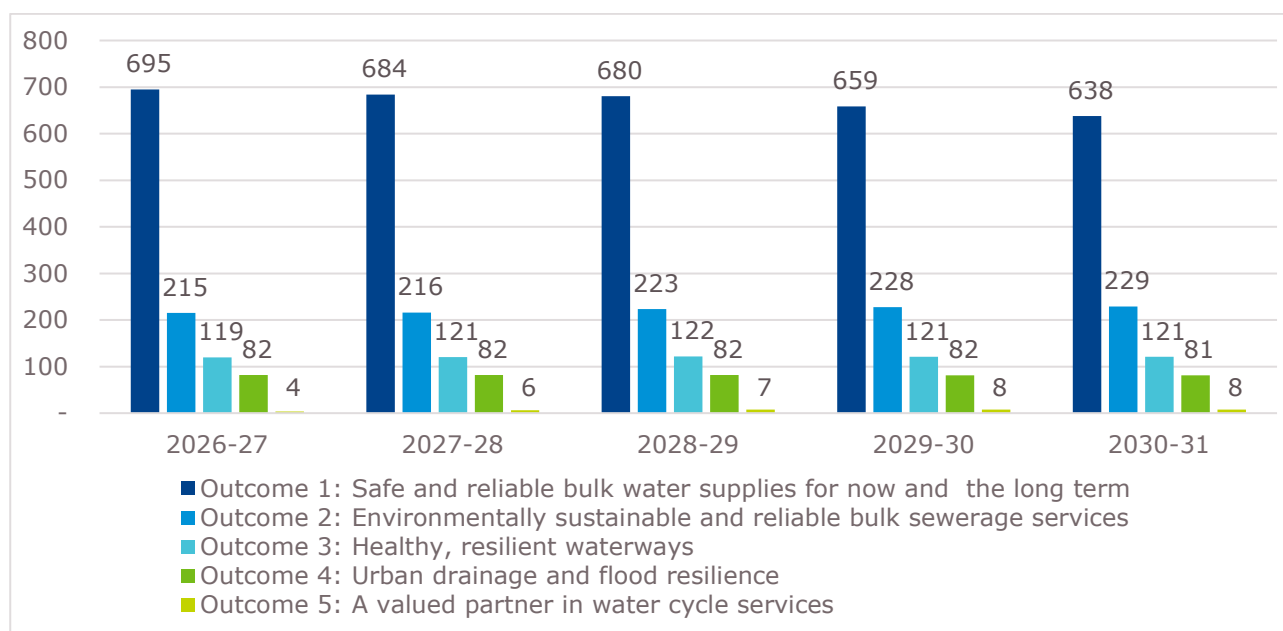


We have aligned our opex to our proposed Outcomes as shown in Figure 7.3.

Figure 7.3 shows:

- **Outcome 1:** This relates to the provision of bulk water service outcomes and accounts for the largest share of forecast opex over the 2026-31 period at over 60 per cent (or \$3,355 million). This includes \$2,470 million of VDP contract cost payments that are recovered as opex.
- **Outcome 2:** This relates to the provision of bulk sewerage service outcomes and accounts for the second largest share expenditure of forecast opex at 20 per cent of total opex over the 2026-31 period (or \$1,111 million).
- **Outcome 3:** For the provision of waterways and drainage outcomes to maintain healthy, resilient waterways, which accounts for 11 per cent of forecast total opex over the 2026-31 period (or \$604 million).
- **Outcome 4:** For the provision of urban drainage and improving flood resilience outcomes, which accounts for 7 per cent of forecast total opex over the 2026-31 period (or \$409 million).
- **Outcome 5:** For outcomes on being a valued partner in water cycle services. This accounts for less than one per cent of forecast total opex over the 2026-31 period (or \$33 million).

Figure 7.3: Forecast total opex by customer Outcome 2026-31 (\$millions, real 2025-26)



7.1.1 Cost allocation

Our proposed cost allocation is the same as PS21, except for costs associated with the integration with Port Phillip and Western Port Catchment Management Authority (CMA). For this, we have amended the internal cost allocation to ensure that these CMA functions are classified as non-prescribed.

Our cost allocation approach allocates all cost centres to our major prescribed and non-prescribed products, specifically water, sewerage, recycled water, waterways and drainage and diversions. The cost allocation principles used are:

- **Directly allocated costs:** costs are directly related to the services allocated to that service.
- **Allocating shared costs:** costs that might be applicable for one or more services are allocated on the basis of share.
- **Allocating corporate and support costs:** costs for corporate and other support functions are not directly attributable to a product, these are allocated to each product based on the scale of resources required for each product. A simplifying assumption is to allocate based on revenue requirement (excluding corporate).

7.2 Baseline controllable operating expenditure

We are proposing a baseline controllable opex for 2024-25 of \$519 million. We are not forecasting the baseline to grow (as described in Section 7.3.1 Growth and efficiency) and an additional expenditure above baseline increase of an average of \$40 million per year (as described in Section 7.3.2 Additions to baseline controllable operating expenditure – by Outcome).

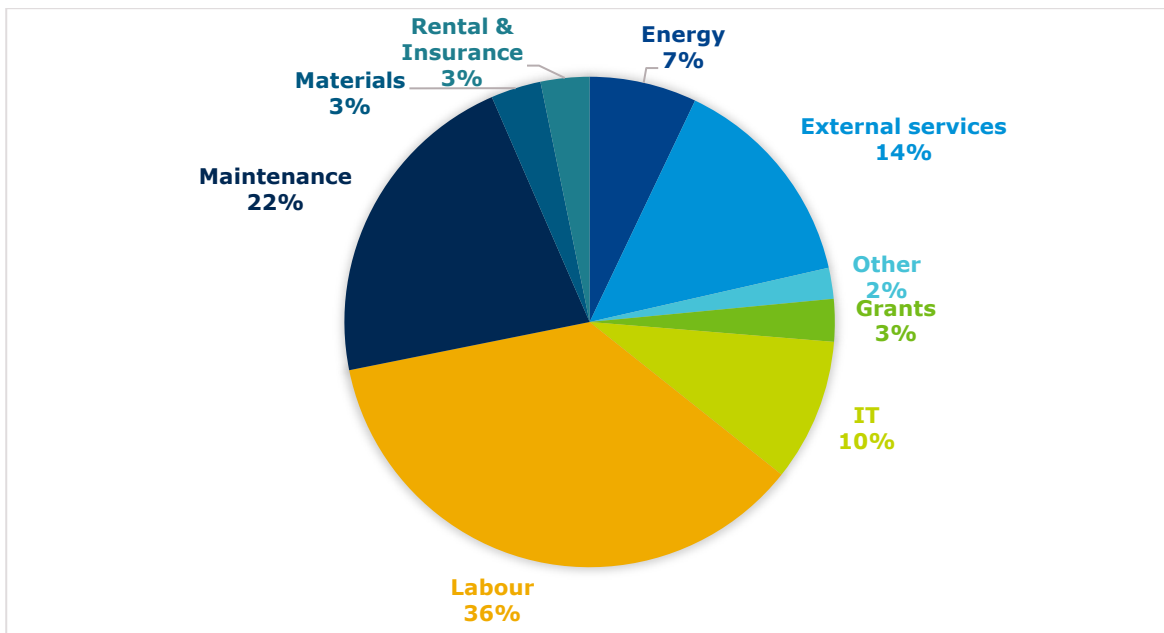
7.2.1 Cost categorisation of baseline controllable operating expenditure

Melbourne Water's largest controllable opex item is labour, which accounts for over one-third of total controllable opex (as shown in Figure 7.4).

A summary of the expenditure categories is:

- **Labour:** permanent and fixed term labour, as well as contractor labour, and all associated costs of people (such as payroll tax and superannuation).
- **Maintenance:** contracted maintenance, waste disposal, and laboratory and chemical analysis.
- **Materials:** chemicals, personal protective equipment and uniforms, stationery, and minor equipment purchases.
- **Rental and insurance:** insurance premiums and brokering costs, and rental payments (including operating lease payments for sites and buildings).
- **Energy:** electricity, gas, oil, fuel, renewable energy certificates and carbon offsets.
- **External services:** billing and collections costs, external consultancy, training and education, advertising, external legal costs, mail, records management and other external services provided to Melbourne Water.
- **Grants:** provided for work to be undertaken on Melbourne Water's behalf by community groups and provided to Melbourne Water by other government agencies.
- **IT:** telecommunications, IT professional services, IT service and support fees, and minor IT hardware and equipment.
- **Other:** fees and charges (such as non-government fees and bank charges), transport, including fleet and parking costs, and other expenses, such as travel, subscriptions, and professional registrations.

Figure 7.4: Controllable opex by cost category



7.2.2 Baseline controllable opex

Our baseline controllable opex profile for the 2026-31 regulatory period is \$519 million. This was calculated by taking our total prescribed opex of \$1,165 million for 2024-25 and adjusting by \$597 million of non-controllable costs, along with \$49 million of one-off and non-recurring costs.

Melbourne Water is proposing to maintain the waterways and drainage uplift expenditure in the base year (what was spent in 2024-25 of \$4.9 million compared to \$6.2 million in determination). We have removed non-recurrent expenditure as per Table 7.1.

Table 7.1: Baseline opex calculation (\$millions, real 2025-26)¹⁹

		Total	Water and Sewerage (incl. recycled water)	Waterways and Drainage (incl. diversions)
Total prescribed opex for 2024-25		1,164.6	957.3	207.2
<i>Less non-controllable expenditure</i>				
VDP		547.3	547.3	-
Licence Fees and Environmental Contribution Levy		3.3	3.0	0.3
Land tax, rates, and fire services levy ²⁰		46.0	33.5	12.5
Sub-total non-controllable		596.5	583.7	12.8
Total controllable opex for 2024-25		568.1	373.6	194.5
<i>Less adjustments for non-recurring expenditure</i>				
Labour and External Services (Legal support)	Urban Planning and Development - Backlog	3.9	-	3.9
Labour	Labour base year adjustments (delayed Enterprise Agreement changes and increased contractor spend)	8.5	6.7	1.8
	Superannuation guarantee change	-0.9	-0.7	-0.2

¹⁹ Figures have been rounded and may not add in the table.

²⁰ These were classified as non-controllable in the 2021 Determination. We are not proposing any additional categories to be non-controllable for the 2026-31 regulatory period.

		Total	Water and Sewerage (incl. recycled water)	Waterways and Drainage (incl. diversions)
Labour, External Services and IT	Capitalisation of projects (IT Service as a Software (SaaS) and New Water)	12.6	10.5	2.1
Energy	Electricity benchmark adjustment	8.2	8.2	0.1
	Higher than normal carbon costs	1.1	1.1	0.01
Labour and External Services	New obligations	-1.2	-1.0	-0.3
Predominantly External Services, IT, Labour.	One-off projects and accounting adjustments	16.9	11.8	5.1
Sub-total 2024-25 non-recurring adjustments		49.1	36.6	12.5
Baseline controllable operating expenditure 2024-25		518.9	337.0	182.0
Controllable operating expenditure in prices for 2024-25				
Determination		467.4	285.1	182.3
Difference		51.5	51.8	-0.3
%		11%	18%	-0.2%

7.2.3 Removing non-recurrent expenditure

We have identified the non-recurring expenditure by a detailed bottom-up assessment of our baseline opex. Our adjustments to our baseline opex are:

- **Development services (backlog) non-ongoing uplift:** During 2023-24 and 2024-25, significant operating expense was incurred to eliminate the backlog of development services applications that built up over the COVID-19 pandemic. Non-recurrent expenditure has been identified as predominately legal and additional contractor costs of \$3.9 million and has been removed from the normally recurrent base year.
- **Labour base year adjustments:** During 2024-25, there was additional spend on contractors and a 'patience in bargaining' payment made to staff due to the delay in the finalisation of the Enterprise Agreement. This has been excluded as it is non-recurrent.
- **Superannuation guarantee:** The Australian Government superannuation guarantee increased to 12.0 per cent in 2025-26 and the base year has been adjusted to reflect this normally recurrent, higher superannuation contribution expense for Melbourne Water.
- **Opex projects proposed to be capex:**
 - **Investment in development of new large-scale water supplies:** We are proposing capex over the 2026-31 regulatory period for development of a new water supply. This project commenced in 2024-25 and we incurred \$2.8 million in operating costs. We have removed these costs from the base year opex and incorporated it into historical capex. The investment we made this year will deliver significant benefits to the Greater Melbourne community across many decades.
 - **IT projects:** Due to changes in the accounting treatment²¹ associated with IT projects, we are proposing to capitalise \$9.8 million in project costs completed under a SaaS arrangement. This would see the inclusion of the development costs associated with SaaS projects rolled into the regulatory asset base as capex, and ongoing licence fees treated as opex. This is consistent with the Regulatory Accounting Code that states operating costs means those costs which relate to the day-to-day operations of the water business.²²
- **Electricity benchmark:** In PS21, Melbourne Water's opex was based on a benchmark energy rate rather than its actual electricity costs, consistent with previous determinations. The adjustment reflects the difference between actual electricity costs and the benchmark electricity rates.

²¹ The accounting treatment of the expenditure associated with these projects would see it expensed and not capitalised. The accounting rationale is based on the license for projects under a SaaS arrangement provides a right to receive access rather than a right to use the software. Therefore, it does not meet the requirements to be classified as either a lease or an intangible asset.

²² ESC 2009. *Water Industry Regulatory Accounting Code*, Issue 4.

- **Carbon offset purchases:** In 2024-25, we purchased significantly more carbon offsets than we typically would. Our carbon offset purchases will form part of our overall energy strategy incorporated into PS26 and will therefore have been removed from the base year. This adjustment reflects Melbourne Water's normally recurrent carbon offset expense under the Statement of Obligations (Emissions Reduction).
- **New obligations:** From 1 July 2026, Melbourne Water will no longer receive grants to facilitate and manage the *Burndap Birrarung burndap umarkoo* (previously referred to as the Yarra Strategic Plan). As this is a normally recurrent expense, the 2024-25 base year includes a positive adjustment to reflect the grant contribution received in that year.
- **One-off projects and accounting adjustments:**
 - **Price Submission:** We have undertaken a significant amount of work both internally and externally to complete PS26. We are proposing to embed the regulatory practices into Business as Usual, including ongoing engagement. This work will be delivered through efficiencies in the business.
 - **Finalisation of the Flood Review:** We finalised the Maribyrnong Flood Review at the start of 2024-25. This is a once off expense that we have removed from the baseline opex.
 - **Finalisation of COVID-19 working arrangements:** A small reduction due to suspension of car-parking for staff with return to work.
 - **Accounting adjustments:** The 2024-25 normally recurrent year has been adjusted downwards to reflect the write-offs and timing of invoicing for the Environmental Contribution Levy.

7.2.4 Reconciliation to controllable opex allowance

In the 2021 Determination, the benchmark controllable opex in prices for 2024-25 is \$467 million. The proposed controllable baseline expenditure for 2024-25 is \$519 million. This is \$51.5 million or 11 per cent difference.

Table 7.2 shows the significant variations between the baseline year and determination benchmark. These explain three-quarters of the variation, with the remainder being smaller and immaterial items. The water and sewerage variations include recycled water, and the waterways and drainage variation includes diversions.

Table 7.2: Variations to the baseline year benchmark (\$millions, real 2025-26)

Category	Item	Description	Total	Water and Sewerage	Waterways and Drainage
Maintenance	Water - maintenance	<p>Higher maintenance expenditure has impacted our water service over the regulatory period with an observed higher opex in 2024-25 compared to the forecast used to set prices in PS21.</p> <p>Our water assets have had higher corrective maintenance over the last two years, driven by climatic conditions and ageing assets. In addition, increased security costs at our assets to ensure they are protected from unauthorised access.</p>	1.6	1.6	-
Materials	Water - chemicals	<p>Drinking water treatment costs have increased due to higher chemical costs. This is primarily driven by market changes in the supply of raw materials and highlighting existing supply chain issues, in addition to increased demand over the regulatory period. The higher demand has resulted in a greater volume of river water pumped and treated through Winneke Treatment Plant (note that the higher pumping costs have been captured in the electricity cost movements).</p> <p>We have also experienced higher input prices for fluoride (which are expected to increase further) due to the closure of local processing facilities and, to a lesser extent, other chemicals used in front-end process water treatment, such as aluminium sulphate at Winneke Treatment Plant. Additionally, Melbourne Water has increased its chlorine set points across the system, in conjunction with the water corporations, to ensure there is greater chlorine residuals as the water enters the water corporation's distribution system.</p> <p>As noted in Chapter 10 (Demand), demand is expected to remain strong over the PS26 period with forecast demands in 2026-27 greater than 2024-25, meaning these chemical costs will continue to be normally recurrent.</p>	4.5	4.5	-

Category	Item	Description	Total	Water and Sewerage	Waterways and Drainage
Maintenance	WWD uplift	As noted in the Chapter 2 (Performance), Melbourne Water has underspent its waterways and drainage uplift spend due to slower than anticipated delivery of the natural wetlands management program and complexities in delivering large-scale stormwater harvesting.	-1.3	-	-1.3
Labour	Land Development	Melbourne Water has significantly increased its capacity and capability in land development to meet the Victorian Government's <i>Housing Statement</i> . This has ensured that statutory referrals for development and greenfield development applications, contributions and asset handover from developers occur in a timely manner. These costs will continue into the next regulatory period and will be partially offset by an increase in the Development Services Scheme's administration charge.	9.3	-	9.3
IT and Labour	Cyber	The 2021 Determination was made early into application of the new <i>Security of Critical Infrastructure Act</i> (SOCI Act). At the time, little was understood about how this legislation would change both the way we manage IT systems, as well as the cost associated with it. Therefore, no significant uplift in opex was proposed in PS21 and Melbourne Water has carried the risk over the last five years to meet its obligations.	5.4	4.3	1.2
IT	Other IT	As we continue to transition to the Cloud, there has been a significant increase in licence fee costs that are higher than the determination.	8.7	6.9	1.8
Fees and Charges	Insurance	Costs have increased over the regulatory period as a result of market conditions, including COVID-19, increased natural disasters and global insurance market changes. Melbourne Water has forecast savings in the 2026-31 regulatory period (see Section 7.3.3.5), however the 2025 base year spend is above the determination value.	1.1	0.9	0.2

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Category	Item	Description	Total	Water and Sewerage	Waterways and Drainage
Labour	Labour and superannuation guarantee changes.	In PS21, Melbourne Water proposed a significant labour vacancy rate of 12 per cent. This was a risk that we took on as the proposal was made during the COVID-19 pandemic. This was equivalent to \$4.6 million in labour costs that has now been filled. Additionally, Melbourne Water has applied the Superannuation Guarantee changes, which has resulted in an additional \$4.1 million in superannuation costs for all staff.	9.6	7.6	2.0
Fees and Charges	Mental health care levy	In PS21, Melbourne Water identified the new payroll tax (i.e. the Mental health care levy) as non-controllable. This has been incorporated into controllable.	3.2	2.5	0.7
N/A	Corporate cost allocation	Melbourne Water allocates its shared corporate costs on a revenue share basis as it is the most fair and equitable basis. During PS21, the corporate cost allocation was re-calculated to align the cost with recent revenue shares (excluding costs associated with VDP). This has resulted in a decrease in costs allocated to waterways and drainage and an increase in costs allocated to water and sewerage.	-	14.8	-14.8
	Total		42.3	43.1	-0.8

7.3 Annual adjustments to baseline controllable operating expenditure

The following section provides our annual growth rate, annual cost efficiency improvement rate and proposed new expenditure to deliver on customer Outcomes. Together these vary the baseline controllable opex in each year.

The growth rate aligns with verified forecasts. In addition, an ambitious cost efficiency improvement rate has been proposed, which will deliver significant customer value and will assist to moderate bills over the 2026-31 period.

With these assumptions, forecast increases to baseline controllable opex only arise due to proposed controllable opex additions. The prudence and efficiency of these additions, which are associated with new or changed obligations and to deliver on agreed customer Outcomes, is explained below. Additional supporting analysis to demonstrate the prudence and efficiency of the proposed additions is also available on request.

7.3.1 Growth and efficiency

The proposed annual growth rates and efficiency improvement rates are shown in Table 7.3. As the proposed growth and efficiency improvement rates match, these offset to mean there is no net increase in baseline opex associated with these rates.

Further information on how we have determined the proposed growth and efficiency improvement rates is provided below.

Table 7.3: Controllable opex growth and efficiency forecasts

	2026-27	2027-28	2028-29	2029-30	2030-31
Growth	2.0%	2.0%	2.0%	2.0%	2.0%
Opex efficiency	2.0%	2.0%	2.0%	2.0%	2.0%
Net efficiency (Growth – Opex)	0.0%	0.0%	0.0%	0.0%	0.0%

7.3.1.1 Operating expenditure growth

The proposed controllable opex growth rates for all service categories is based on forecast growth in residential customer connections. This retains the approach used to determine growth rates in the current determination.

The customer connection forecast has been developed using the data provided by the Victorian Government Department of Transport and Planning in 2025. This source has also been adopted for our demand forecasts. Further detail is included in Chapter 10 (Demand).

Historically, growth in residential customer connections has been shown to have a strong relationship with opex growth across our services.

Evidence of the relationship between customer and operating expenditure growth

We have re-examined the relationship between customer and operating expenditure growth for bulk water and sewerage services and for waterways and drainage services using historical data.

While it would be preferable to use a long time series for this analysis, the COVID-19 period has caused a significant break in the data series that has impacted both the customer connection and opex time series.

As a result, we have examined the relationship based on historical data from 2019-20 to 2024-25 – this is summarised in Box 7.1. The evidence from this five-year period shows that residential customer connection growth may be a conservative measure of growth in opex. Average annual customer growth was 2.0 per cent, while average annual opex growth was over 3 per cent (including or excluding corporate costs).²³

Given the simplicity and necessary limitations to the current time series analysis and our willingness to take on the risk that the chosen growth factor underestimates the true drivers of opex growth, maintaining the conservative customer connection growth factor is proposed.

We note this also aligns with the approach taken by other water corporations, that have also adopted the customer connections growth rate as the appropriate opex growth factor, and this has been accepted by the ESC.²⁴

²³ One-off events can cause significant increases in opex but are not representative of the long term pattern of opex growth. Hence, when comparing average customer and opex growth, we examine both total opex and total opex excluding corporate costs (as a proxy for excluding one-off costs).

²⁴ For example, see Greater Western Water price review 2024, Barwon Water price review 2023 and South East Water price review 2023, where the proposed opex growth rates were all based on connections growth.

Box 7.1: Customer connections and opex growth

Examining the relationship between customer connection and operating expenditure growth

Table 7.4 provides a comparison for the 2019-20 to 2024-25 period of:

- Residential customer connection growth, measured by the compound annual growth rate (CAGR) over the period. The CAGR is used as it provides the mean annualised growth rate over the period and addresses any volatility in the time series
- Actual operating expenditure growth is also measured by CAGR over the period. The expenditure growth is shown separately for bulk and waterways and drainage services and for all services combined. Also, to aid the analysis, a comparison is provided by different operating costs measures, including:
 - total operating expenditure
 - total excluding corporate operating expenditure, as a means of excluding potential one-off costs.

Table 7.4: 2019-20 to 2024-25 customer connection and opex CAGR

Residential customer connections	Water and sewerage	Waterways and drainage	All services
2.0%	Total opex: 2.4% Total excluding corporate opex: 1.5%	Total opex: 4.2% Total excluding corporate opex: 4.3%	Total opex: 3.5% Total excluding corporate opex: 3.1%

This shows that average annual opex growth is generally higher than average annual customer connection growth over the same period (2019-20 to 2024-25). For waterways and drainage, there is a greater gap between average opex growth and customer connection growth

7.3.1.2 Efficiency

Melbourne Water proposes a 2.0 per cent annual efficiency rate for controllable opex forecasts for all major services. This rate will deliver significant value to customers and is higher than Melbourne Water's 2021 Determination efficiency target of 1.2 per cent per annum.

This rate also outperforms the average rate of an 'Advanced' rated business at the 2023 water price review (of approximately 1.8 per cent per annum).

We recognise that systematic effort will be needed to make sure that we deliver on this target. We have developed a Cost Efficiency Plan (available on request) to continually drive efficiencies across our business and achieve the efficiency target within the 2026-31 regulatory period.

The Cost Efficiency Plan outlines:

- our recent performance
- the strategy that Melbourne Water will use to maintain downward pressure on prices
- our approaches to benchmarking, including our benchmarking through participation in the Water Services Association of Australia (WSAA) totex benchmarking study
- our cost efficiency framework that will identify, deliver, evaluate and share our results

- the initial efficiency opportunities identified to offset the growth in opex expected as our customer base grows, including through project delivery, planning and decision making, digital solutions, actions identified through the WSAA totex benchmarking, savings from capital investments, cost rationalisation, enterprise workforce planning, workplace facilities, and maintenance.

7.3.2 Additions to baseline controllable operating expenditure – by Outcome

The total additions to the baseline operating expenditure is \$201 million over the five-year regulatory period. These costs are not covered by the growth forecast and involve a substantive additional spend beyond baseline year to achieve our customer Outcomes, and to meet changed or new legislative, policy and regulatory obligations (see Table 7.5 for more details).

Table 7.5: Proposed additions above growth allowance aligned to customer Outcomes (\$millions, real 2025-26)

Outcome	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Outcome 1: Safe and reliable bulk water supplies for now and the long term	7.1	8.7	10.5	9.9	9.8	46.0
Outcome 2: Environmentally sustainable and reliable bulk sewerage services	12.0	13.1	20.3	24.7	25.8	95.8
Outcome 3: Healthy, resilient waterways	4.7	5.9	6.9	6.3	6.3	30.1
Outcome 4: Urban drainage and flood resilience	2.2	2.6	2.7	2.3	2.3	12.1
Outcome 5: A valued partner in water cycle services (water and sewerage)	1.3	2.3	2.9	3.3	3.3	13.0
Outcome 5: A valued partner in water cycle services (waterways and drainage)	0.3	0.6	0.8	0.9	0.9	3.5
Total	27.6	33.3	44.1	47.4	48.3	200.6

7.3.2.1 Additional operating expenditure for Outcome 1: Safe and reliable bulk water supplies for now and the long term

We are proposing an additional \$46.0 million over the regulatory period for the continued delivery of safe and reliable bulk water services. This is comprised of:

- Additional opex of \$9.9 million associated with new capital works delivered that reflect our capital program. The additional opex reflects the higher labour, maintenance and materials required to operate the new assets, as well as a small proportion of the additional expenditure for project managers to deliver the new capex.

- Further increases to fluoride costs are expected in the order of \$9.7 million over the next regulatory period. Melbourne Water has taken the average of recent tenders to forecast the expected cost during the next regulatory period.
- Additional operating costs for the management of recreational access at Tarago Reservoir under the Victorian Government's Water for Victoria policy. These costs total \$4.8 million.
- Additional corporate shared costs of \$21.6 million. The allocation to Outcome 1 is comprised of \$11.1 million in IT, \$5.0 million in operational technology, \$7.0 million in electricity and \$0.03 million in carbon offsets. These are partially offset by a forecast saving of \$1.6 million in insurance costs. These are explained further below in Section 7.3.3 (Additions to baseline controllable opex – specific cost items).

Table 7.6: Outcome 1 additional expenditure (\$millions, real 2025-26)

Additional expenditure item	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Opex from capital program	0.6	0.9	2.3	2.9	3.3	9.9
Fluoride contract costs	1.8	1.9	1.9	2.0	2.1	9.7
Tarago recreational access	1.0	0.9	0.9	1.0	1.0	4.8
Shared corporate cost allocation	3.7	5.0	5.3	4.1	3.5	21.6
Total	7.1	8.7	10.5	9.9	9.8	46.0

7.3.2.2 Additional operating expenditure for Outcome 2: Environmentally sustainable and reliable bulk sewerage services

We are proposing an additional \$95.8 million over the regulatory period to sustainably transfer and treat sewage to meet our licence conditions (summarised annually in Table 7.7). This is comprised of:

- Significant investment over the next regulatory period at the Eastern Treatment Plant (ETP) and Western Treatment Plant (WTP), which will result in additional opex of \$29.0 million – approximately half is associated with the Top 5 sewerage projects. This additional opex reflects higher costs for maintenance, labour, materials and energy (diesel), as well as a small proportion of the additional expenditure for project managers to deliver the new capex. This investment reflects water corporation expectations for WTP and ETP.
- Additional corporate shared costs of \$66.8 million. The allocation to Outcome 2 is comprised of \$15.0 million in IT, \$6.8 million in operational technology, \$34.1 million in electricity (compared to 2024-25 benchmark) and \$13.2 million in carbon offsets. These are partially offset by forecast saving of \$2.2 million in insurance costs. These are explained further in Section 7.3.3 (Additions to baseline controllable opex – specific cost items).

Table 7.7: Outcome 2 additional expenditure (\$millions, real 2025-26)

Additional expenditure item	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Opex from capital program	1.2	1.9	9.4	6.8	9.6	29.0
Shared cost allocation	10.8	11.2	10.9	17.8	16.2	66.8
Total	12.0	13.1	20.3	24.7	25.8	95.8

7.3.2.3 Additional operating expenditure for Outcome 3: Healthy, resilient waterways

We are proposing an additional \$30.1 million over the regulatory period to ensure that our waterways remain resilient, healthy and a great place for our community to visit (summarised annually in Table 7.8). This is comprised of:

- An increase in opex associated with new capital works for waterways and drainage assets of \$2.0 million. This includes a small proportion of the additional expenditure for project managers to deliver the new capex (\$0.2 million) and to operate the new Reimagining Your Creek projects.
- The maintenance of developer constructed assets required to meet waterway management obligations under the Water Act 1989 (Vic), including retarding basins, constructed wetlands systems (sediment ponds and wetland cells), constructed waterways and drainage pipes and culverts. Maintenance of these new assets handed over by developers to Melbourne Water is essential to ensure we meet our obligations under the Water Act 1989 (Vic) and Environmental Protection Act. These include:
 - Additional operating expenditure of \$7.5 million accounts for the cyclical nature of asset maintenance for waterways assets (assets that are commencing the maintenance cycle after being handed over in the last two years). This includes stormwater quality treatment system maintenance, vegetation and weed control and litter management.
 - Melbourne Water is increasing its desilting program by \$5.3 million to ensure that desilting assets remain functioning. It includes the costs associated with the new obligation to test all silt from wetlands and sediment basins for per- and poly-fluoroalkyl substances.
- The need to undertake additional activities to ensure Melbourne Water meets its waterway manager obligations. Additional opex is required to maintain critical habitats and connectivity for waterways including rivers, creeks, wetlands and estuaries, slowing the decline of our waterways and responding to the increasing threats from climate change and urbanisation. This includes:
 - An increase in investment to manage wetland and estuary systems to improve waterway health of \$1.1 million, reflecting customer expectations and priorities. These will be provided as grants to community groups to deliver valuable programs across the Port Phillip and Western Port region.
 - An increase in vegetation opex of \$6.2 million to provide grants and support to community groups to increase vegetation along waterways, which was supported by customers and community environmental groups and is a more efficient delivery mechanism than an equivalent capital allocation. This includes internal labour costs to manage the increase in the program.

- Melbourne Water has a new obligation to fund work required as the wetland coordinator for Western Port Ramsar site. Ramsar wetlands are protected under a framework of international, national, and state-level statutory obligations. Melbourne Water currently carries out works, including vegetation management and pest and weed control. This is a new funding obligation for Melbourne Water following the discontinuation in 2028-29 of funding via an Environmental Contribution Levy (ECL) grant. The proposed operating expenditure step is \$1.8 million and reflects the current ECL grant that we receive from the Department of Environment, Energy and Climate Action (DEECA) to undertake the work.
- An increase in opex of \$0.3 million for Quiet Lakes – Bore Flushing as customers supported increasing the number of lakes subject to bore flushing from two to three.
- An increase in opex of \$0.3 million for Diversions Customers as a result of increased maintenance to maintain the system.
- A small decrease in Patterson Lakes – Jetties maintenance cost compared to the base year as a result of evaluation of the maintenance program with the jetty renewals commencing in the regulatory period (-\$0.1 million).
- Additional corporate shared costs of \$5.8 million. The allocation to Outcome 3 is comprised of \$4.4 million in IT, \$2.0 million in operational technology, \$0.1 million in electricity and \$0.1 million in carbon offsets. These are partially offset by forecast saving of \$0.6 million in insurance costs. These are explained further below in Section 7.3.3 (Additions to baseline controllable opex – specific cost items).

Table 7.8: Outcome 3 additional expenditure (\$millions, real 2025-26)

Additional expenditure item	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Opex from capital program	0.3	0.4	0.4	0.4	0.5	2.0
Responsibilities to maintain developer assets	2.1	2.6	2.7	2.7	2.7	12.8
Waterway manager responsibilities	1.4	1.4	1.4	1.5	1.5	7.3
Ramsar wetland coordinator	-	-	0.6	0.6	0.6	1.8
Quiet Lakes pumping costs	0.1	0.1	0.0	0.1	0.1	0.3
Diversions maintenance	0.1	0.1	0.1	0.1	0.1	0.3
Patterson Lakes jetties maintenance	0.0	-0.1	-0.1	0.0	-0.1	-0.1
Shared cost allocation	0.8	1.5	1.7	1.0	0.9	5.8
Total	4.7	5.9	6.9	6.3	6.3	30.1

7.3.2.4 Additional operating expenditure for Outcome 4: Urban drainage and flood resilience

We are proposing an additional \$12.1 million over the regulatory period for flooding and urban drainage (summarised annually in Table 7.9). This is comprised of

- A small decrease in opex associated with new capital works for waterways and drainage assets of -\$0.2 million. This reflects a net decrease of a drainage pump renewal and additional costs associated with new project managers (opex portion of \$0.2 million).
- Melbourne Water's floodplain manager obligations have increased following the Maribyrnong River Flood in 2022, the subsequent Pagone Independent Review and the Victorian Parliamentary Enquiry into the 2022 floods. We are now required to deliver additional activities to meet our floodplain manager obligations, including improving floodplain awareness, flood co-delivery and capacity building, and flood investigations research. The higher level of investment in flood management and awareness programs, including flood modelling, is \$7.3 million.
- Similar to Outcome 3, the maintenance of developer constructed assets required to meet regional drainage and floodplain management obligations under the *Water Act 1989* (Vic), including retarding basins, constructed wetlands systems (sediment ponds and wetland cells), constructed waterways and drainage pipes and culverts. An additional \$0.7 million over the regulatory period to account for the cyclical nature of asset maintenance for assets (assets that are commencing the maintenance cycle after being handed over in the last couple of years). This will be used for litter and debris removal in new drainage pits and inspection of new dam walls and retarding basins.
- An additional \$0.6 million for Koo Wee Rup customers to deliver a higher level of service, as identified and supported by customers.
- Additional corporate shared costs of \$3.8 million. The allocation to Outcome 4 is comprised of \$2.6 million in IT, \$1.2 million in operational technology, \$0.3 million in electricity and \$0.1million in carbon offsets. These are partially offset by forecast saving of \$0.4 million in insurance costs. These are explained further below in Section 7.3.3 (Additions to baseline controllable opex – specific cost items).

Table 7.9: Outcome 4 additional expenditure (\$millions, real 2025-26)

Additional expenditure item	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Opex from capital program	-0.1	-0.0	-0.1	-0.0	-0.0	-0.2
Responsibilities to maintain developer assets	0.1	0.2	0.2	0.2	0.2	0.7
Floodplain manager	1.5	1.5	1.5	1.5	1.5	7.3
Koo Wee Rup floodplain manager costs	0.1	0.1	0.1	0.1	0.1	0.6
Shared cost allocation	0.6	0.9	1.0	0.6	0.6	3.8
Total	2.2	2.6	2.7	2.3	2.3	12.1

7.3.2.5 Additional operating expenditure for Outcome 5: A valued partner in water cycle services

We are proposing an additional \$16.5 million over the regulatory period to support our business to become a valued partner in the integrated water cycle. Using our cost allocation methodology, this is allocated \$13.0 million to water and sewerage and \$3.5 million to waterways and drainage. The additional expenditure for Outcome 5 is summarised annually by program and product in Table 7.10. This additional expenditure will deliver:

- A new vulnerability and hardship program with a focus on improving water efficiency in the household for water and sewer customers and supporting the sector to deliver more to support those experiencing hardship (including a contribution to the financial counsellor's fund). This program was developed in consultation with water corporations, end-use customers and community sector organisations. The total opex of the program is \$6.9 million. As part of the program, Melbourne Water has committed to working with water corporations on how hardship grants can be provided for waterways and drainage charges and additional hardship grants for water and sewerage customers. This has not forecast into pricing any revenue not collected and will carry the risk on behalf of customers.
- An increase to fund our Traditional Owner partners of \$6.8 million to support self-determined outcomes across their lands and waters.
- Funding for the development of the *Burndap Birrarung burndap umarkoo* (previously referred to as the Yarra Strategic Plan). We received this obligation during the 2021-26 regulatory period and is funded by DEECA until 30 June 2026. In the base year, we reversed the grant funding from DEECA, as this represents our normally recurrent expenditure. Our proposal is to include additional expenditure of \$2.9 million to engage, develop and deliver a new strategic plan, therefore it is lumpy throughout the PS26 period.

Table 7.10: Outcome 5 additional expenditure (\$millions, real 2025-26)

Additional expenditure item	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Hardship program	0.9	1.2	1.4	1.7	1.7	6.9
Traditional Owner partners	0.6	1.0	1.2	1.8	2.2	6.8
Burndap Birrarung burndap umarkoo	0.1	0.7	1.1	0.7	0.3	2.9
Total	1.6	2.9	3.7	4.1	4.1	16.5
Allocation across services						
Water and sewerage	1.3	2.3	2.9	3.3	3.3	13.0
Waterways and drainage	0.3	0.6	0.8	0.9	0.9	3.5

7.3.3 Additions to baseline controllable operating expenditure – specific cost items

Additional costs associated with IT, operational technology, electricity, carbon offsets and insurances are explained further below.

7.3.3.1 IT expenditure

The increased obligations to meet SOCI Act requirements, as well as continue our shift to Cloud-based services, will see Melbourne Water increase its IT opex over the regulatory period by \$33.1 million (outlined in Table 7.11). This includes the cost of undertaking projects, managing new systems (offset by decommissioning of old ones) and contractual changes in how Melbourne Water delivers its IT services to provide long-term efficiencies.

Technology is a key enabler for Melbourne Water to deliver our services efficiently, securely and safely, thereby meeting our compliance obligations and the needs of our customers. Our IT expenditure in PS26 reflects the efficient costs of implementing Melbourne Water's Technology Roadmap.

Our technology focus for PS26 is to meet our core obligations, while continuing to modernise legacy systems and simplify our technology landscape. By modernising our IT systems and infrastructure and building upon our foundational investments in PS21, we will be better equipped to deliver efficient and effective water services, respond to emerging challenges of service delivery and meet our evolving customer needs. Investment in reducing our cybersecurity risk is necessary to ensure the reliability of critical services and to meet our obligations under the SOCI Act. Enhanced data integration and analytics capabilities will enable more informed decision-making and improve efficiency.

Our Technology Roadmap reflects the feedback of our water corporation customers and their Chief Information Officers. Our focus is on investment to maintain core services prudently and cost effectively, including:

- adopting new technologies where this results in improvements in performance
- efficiency or risk management
- investing in technology that improves collaboration with customers and key stakeholders
- investment in systems and data to drive better management of water, sewerage and drainage systems.

Our customers' Chief Information Officers confirmed that our expenditure focus aligns with their technology strategies, including investment in cybersecurity capacity to protect our critical assets, investment in data analytics and modernisation of information exchange.

Melbourne Water's Technology Roadmap recognises the impacts of several factors that will drive increases in IT opex over PS26, including:

- **Stable and secure:** The majority of our IT step change is due to mandatory infrastructure upgrades and the transition to Cloud-based solutions and network uplifts required to maintain our cybersecurity capability.
- **Digital utility:** Additional expenditure is required to invest in lifecycle upgrades and enhancements for our core SCADA and Asset Management solutions that manage and monitor our operational assets.
- **Digital workforce:** Additional expenditure is required to replace end-of-life corporate systems, including finance, procurement and project management.

- **Data driven:** Extending our capabilities in data management by supporting digital infrastructure and data governance.
- **Digital customer:** Investment in a Customer Relationship Management system and customer portals.

As discussed in Chapter 6 (Capital Expenditure), we reviewed our proposed IT expenditure to identify projects that deliver benefits across two or more regulatory periods and therefore should be capitalised consistent with the ESC's Guidance. Our IT step change reflects the remaining IT opex consistent to prudently and efficiency deliver our Technology Roadmap.

Table 7.11: Forecast additional costs to meet obligations and new projects in operational technology (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Total	4.3	8.9	9.6	5.6	4.6	33.1

7.3.3.2 Operational technology expenditure

New and changed obligations and capital works will result in additional opex of \$15.0 million over the next regulatory period for operational technology (sometimes referred to as Asset Knowledge and Technology). This has been built by considering:

- **Legislative requirements to meet the *SOCI* Act:** Significant amendments have occurred to the *SOCI* Act that has resulted in a change in security patching from 60 days to 30 days. With current staffing arrangements at full capacity, an increase in Full-Time Equivalent (FTE) by five is required to meet our obligations in addition to an additional \$0.6 million per year in vendor costs to meet patching requirements.
- **Right to Disconnect obligations:** Due to obligation changes under Commonwealth labour laws, an additional three FTEs are required to ensure that we are able to comply.
- **Professional Engineers Registration Act:** The Act requires unregistered engineers to be directly supervised by a registered engineer. With the current out-source model, we have engaged with our vendors and software developers to ascertain the qualifications (predominantly trade qualifications) and therefore, will require an additional two FTEs to ensure that we remain compliant with the Act.
- **Policy changes under the Victorian Digital Asset Policy (VDAP):** Requires an update of 240,000 engineering drawings with an additional two FTEs to complete the task and continued management of the digital drawings.
- **Support the delivery of the new SCADA system:** Will result in a short-term uplift in expenditure and a long-term saving in SCADA licences compared to current spend. Five additional FTEs are required to deliver the SCADA work – two of which are required to be supervisory registered engineers as required under the Professional Engineers Registration Act. To support delivery of the capital works, we are forecasting additional licencing costs of \$1.2 million per year from 2026-27 to 2028-29, after which we are anticipating a \$0.3 million per year saving in licencing costs compared to 2024-25.

We have forecast a 15 per cent labour efficiency on the FTE increases. This has resulted in a reduction in additional labour costs forecast into PS26. The cost changes are detailed in Table 7.12.

Table 7.12: Forecast additional costs to meet obligations and new capital works in operational technology (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Labour	1.8	1.8	2.2	1.5	1.5	8.9
Non-labour	1.8	1.8	1.8	0.3	0.3	5.9
Total	3.6	3.6	4.0	1.8	1.8	14.8

7.3.3.3 Electricity

The electricity step change in each year is calculated as the difference between our efficient forecast electricity costs and our 2024-25 base year electricity costs of \$27.5 million, consistent with the approach adopted in previous regulatory reviews.

Our forecast electricity costs are a function of our forecast electricity demand and forecast electricity prices.

Our forecast electricity demand reflects the ongoing operation of our portfolio of assets and changes in electricity demand associated with our investments, net of the electricity we generate from our own generation assets. Our electricity demand is expected to increase from the base year, primarily driven by an increased demand from:

- the WTP Primary Treatment Capacity Augmentation project, which will be partly offset by increased self-generation at the site
- ETP as a result of increasing sewage demands.

Demand is forecast to remain relatively constant over the 2026 to 2031 forecast period.

Our forecast electricity prices reflect an efficient benchmark price, consistent with the approach adopted by the ESC in PS21. From 1 July 2025 the SEC has been appointed as the provider for electricity for all Victorian Government sites, with the current contract extending to June 2028 and covering wholesale and retail costs.

We use SEC contract prices, together with the other costs that make up end-use electricity prices, including network, market and regulatory charges, as the benchmark electricity prices for 2026-27 and 2027-28. SEC contract prices are only available for the first two years of PS26. We retained an expert to forecast wholesale electricity prices for the remaining three years of PS26, based on Melbourne Water's forecast electricity demand. Expert forecasts were used to estimate benchmark electricity prices by including the other costs that make up electricity prices, including network, market and regulatory charges and the retail margin. Our forecast electricity prices are expected to increase over PS26, reflecting the wholesale price forecasts prepared by our experts and increases in regulated network charges.

We generate renewable electricity at several of our sites, including WTP and ETP. We use some of this electricity to meet our own demand and we export some to the grid. Our generation capacity will increase over PS26 once we commission our investments in generation at WTP.

Our forecasts of electricity costs for PS26 estimate the revenue we generate from the sale of electricity to the grid and offset this against our electricity costs.

Under the *Statement of Obligations – Emissions Reduction*, Melbourne Water is required to ensure all electricity consumed is from 100 per cent renewable sources by 2025. Although we generate some renewable energy from our own generation sources, we must buy Renewable Energy Certificates (RECs) for the remainder of our electricity demand to meet the *Statement of Obligations – Emissions Reduction*. Our forecasts of electricity costs for PS26 include the cost of purchasing RECs to meet our obligations under the *Statement of Obligations – Emissions Reduction*.

Under the Victorian Energy Efficiency Target (VEET) program, we are obligated to surrender a certain number of Victorian Energy Efficiency Certificates (VEECs) each year. Our forecasts of electricity costs for PS26 include the cost of purchasing VEECs to meet our obligations under the VEET program.

The total electricity step change is \$41.5 million and is presented annually in the Table 7.13. The step changes vary year on year to reflect variations in our electricity demand and electricity prices.

Table 7.13: Electricity step change (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Electricity	9.7	7.4	6.3	10.2	7.9	41.5

7.3.3.4 Carbon offsets

We have forecast the step change required throughout PS26 to meet our scope 1 emission reduction obligations under the *Statement of Obligations – Emissions Reduction* and National Greenhouse and Energy Reporting Scheme.

We are investigating the scope to cost-effectively invest in low emission infrastructure at our treatment plants to manage our scope 1 emissions. Our *Path to Net Zero* planning has found that further direct abatement of scope 1 emissions will require large scale capital works at treatment plants, with significant engineering, regulatory and planning lead times, that will take several price periods to achieve. Therefore, we will need to purchase carbon offsets to help meet our targets.

We have forecast the step change required throughout PS26 to meet our scope 1 emissions reduction obligations by purchasing carbon offsets. There is a significant increase in our carbon offset costs over PS26 associated with the requirement under the *Statement of Obligations – Emissions Reduction* to reach 'net zero' for scope 1 emissions by 2029-30.

We forecast our scope 1 emissions as a function of growth in wastewater load and compared this to our targets to estimate our requirement to purchase offsets in each year. Our forecasts of offset prices are based on forecasts of international offset prices and Australian Carbon Credit Unit prices prepared by industry experts.

To meet this, an additional \$13.3 million of opex is required across the final two years of the regulatory period (shown annually in Table 7.14).

Table 7.14: Carbon offset forecast (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Total carbon credits cost	2.4	2.4	2.5	8.8	9.3	25.5
Step change for PS26	-	-	-	6.4	6.9	13.3

7.3.3.5 Insurance

Melbourne Water received advice from its insurance brokers that despite a large increase in insurance costs in recent years, it is now expected to receive real decreases in insurance premiums. We have forecast throughout the PS26 regulatory period to account for these real decreases from the 2024-25 actual expenditure. Therefore, we have incorporated a decrease in insurance premium of \$4.8 million in our opex forecast (shown annually in the Table 7.15).

Table 7.15: Forecast insurance opex forecast (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Forecast insurance costs	7.1	7.5	7.8	8.2	8.7	39.3
Step change for PS26	-1.7	-1.3	-1.0	-0.6	-0.2	-4.8

7.4 Forecast controllable opex

The total forecast controllable opex is \$2,790 million over five years and is summarised in Table 7.16 by our three main products. This incorporated a small reduction in base year opex in 2025-26 as per the commitments in PS21.

Table 7.16: Forecast controllable opex forecast (\$millions, real 2025-26)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Base	518.9						
Trend		-1.0	-	-	-	-	-
Step			27.6	33.3	44.1	47.4	48.3
Total controllable	518.9		545.5	551.1	562.0	565.3	566.1

7.5 Non-controllable forecasts

This section steps through the non-controllable opex forecast. It also notes the allocation to products.

7.5.1 Victorian Desalination Project

As outlined in Chapter 6 (Capital expenditure), the VDP total contract costs over the 2026 regulatory period is \$3,091 million. Melbourne Water has forecast the total capitalised amount of the contract costs using the principal repayment as per the repayment schedule of \$621 million and recovered through a return on assets during the regulatory period. The remaining \$2,470 million will be recovered during the next five-year regulatory period. Consistent with PS21 and ESC Guidance, we are proposing to capitalise the principal repayment portion of the contract costs. These figures are shown annually in Table 7.17. All desalination costs are allocated to the water product and the tariff water headworks.

Table 7.17: VDP costs, excluding any water order (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Opex	519.7	507.2	502.1	481.0	460.3
Capitalisation (Principal paid down)	80.6	112.3	130.0	140.3	157.9
Total contract costs	600.3	619.6	632.1	621.3	618.2

7.5.2 Other non-controllable opex

We have \$252 million in other non-controllable opex. The approach to forecasting this was to adopt the 2024-25 figure and hold that steady over the regulatory period, unless otherwise advised by the responsible authority.

The other non-controllable opex is allocated across our products as shown in Table 7.18. This allocation follows the cost allocation approach described above and applies the following:

- Environmental Protection Authority Victoria (EPA Victoria) licence fee to sewerage
- ESC licence fee across all products
- Safe Drinking Water Levy to water only
- Land tax, fire services levy and local government rates across our core products (water, sewerage and waterways and drainage) based on cost allocation methodology.

Table 7.18: Other non-controllable opex (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
EPA Victoria licence fee	1.4	1.4	1.4	1.4	1.4	7.2
ESC licence fee	1.2	1.2	1.2	1.2	1.2	5.9
Safe Drinking Water Levy	0.3	0.3	0.3	0.3	0.3	1.4

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
ECL	0.3	0.3	0.3	0.3	0.3	1.6
Land tax	42.3	42.5	42.7	42.9	42.9	213.3
Local government rates and fire services levy	4.4	4.4	4.4	4.4	4.4	22.2
Total	50.0	50.2	50.4	50.6	50.6	251.7

7.6 Total opex forecast

The total opex forecast is \$5,512 million over five years as shown in Table 7.19.

Table 7.19: Total prescribed opex over PS26 (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total PS26
Recycled Water	3.9	4.0	4.0	4.0	3.9	19.8
Sewerage	213.1	214.8	222.4	227.1	228.1	1,105.5
Water	696.2	686.0	683.0	661.5	640.7	3,367.5
Waterways and drainage	201.8	203.8	205.1	204.2	204.2	1,019.2
Total prescribed opex	1,115.1	1,108.6	1,114.5	1,096.8	1,077.0	5,511.9

Asset base

8

In summary

- The proposed closing value of the Regulatory Asset Base (RAB) on 30 June 2026 is \$15,733 million.
- We are expecting our RAB to grow by \$4,658 million over the 2026-31 regulatory period and close at \$20,391 million on 30 June 2031.
- Consistent with our overall 'Standard' PREMO rating, we are proposing a 4.1 per cent return on equity.

8.1 Opening value of RAB at 1 July 2025

The opening value of the RAB on 1 July 2025 has been calculated as shown in Table 8.1.

Table 8.1: RAB to 2024-25 (\$millions, real 2025-26)

	2020-21	2021-22	2022-23	2023-24	2024-25
Opening value	13,681.4	13,975.0	14,252.1	14,629.7	15,089.7
Plus gross capex	757.5	727.4	847.2	921.0	992.8
Plus Victorian Desalination Project (VDP) capitalisation	39.5	24.5	36.1	54.5	66.0
Less Government contribution	-	-	-	-	-
Less customer contribution	210.9	230.1	244.5	229.9	222.8
Less Proceeds from disposal	4.1	13.8	4.7	2.7	1.7
Less regulatory depreciation	288.4	230.9	256.5	283.0	302.8
Closing value	13,975.0	14,252.1	14,629.7	15,089.7	15,621.2

The RAB has been calculated using the following assumptions over the 2021-26 regulatory period:

- **Proceeds from disposal:** Where Melbourne Water disposes of an asset that is part of our RAB, the proceeds of the disposal are removed from our RAB. Proceeds of disposal for assets non-prescribed assets do not impact our RAB. Our proceeds from disposal reflect actuals as per our regulatory accounting statements and a forecast for 2025-26.

- **Capital expenditure (capex) – Actuals:** For 2020-21 to 2024-25, we are updating the RAB with the capex that is consistent with our financial template, including operational expenditure (opex) that has been capitalised as reflected in our regulatory accounts.
- **Capex – Forecast:** We are proposing to use the determination value of capex of \$679 million (including desalination capitalisation) from 2021 for the 2025-26 year in the RAB. This is a lower figure than forecast by \$491 million. By adopting this lower figure, as is consistent with the ESC guidance, we are reducing our total revenue requirement over the PS26 period by \$124 million.
- **Contributions:** For 2020-21 to 2025-26, we are updating the RAB based on actual and forecast contributions. We are proposing to incorporate an updated forecast of capital contributions of \$245 million for 2025-26 to be rolled into the regulatory asset base for pricing purposes from 1 July 2026. This is \$84 million higher than the forecast in the 2021 Price Determination.

8.2 Developer contributions

We receive contributions from developers through the Development Services Schemes and Stormwater Quality (SWQ) Offsets.

We have calculated the Development Services Scheme developer contributions forecast (outlined annually in Table 8.2) to offset the RAB by:

- Forecasting the developable hectares with the support of external expert advice that provided a forecast of developable hectares by our three growth areas – North, West and South-East. This produced an average developable area of 1,167 hectares per year, or 5,836 hectares over the five-year period.
- Multiplying this by the average annual Development Services Scheme contribution rate for each of our three growth areas, we have incorporated forecast price rises to achieve net present value neutrality as per the latest schemes reviews completed in 2024-25 (for prices to apply from 30 September 2025).

Melbourne Water is currently re-calculating the appropriate SWQ offset rate to apply per kilogram of nitrogen, in line with the pricing principles in PS21 and whether this should increase. Forecasting the volume of SWQ offsets is challenging as these are a 'last resort' for developers that are unable to manage works on site. If the price was to increase, it may be more economically viable for the developer to undertake works on site rather than use our offset scheme. Therefore, for the purposes of PS26, the forecast SWQ offset contribution is as per the last known actual (2024-25) in nominal dollars.

Table 8.2: Developer Contribution Forecast 2025-26 to 2030-31 (\$millions, real 2025-26 unless otherwise stated)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Development Services Schemes (DSS)						
Developable Hectares (ha)	1,254	1,194	1,180	1,167	1,154	1,141

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Average per hectare rate (\$)	\$206,527	\$227,816	\$238,745	\$242,505	\$244,346	\$243,358
Total DSS Contribution	259.1	272.0	281.8	283.0	281.9	277.6
<i>Offsetting RAB</i>	242.5	254.6	263.8	264.9	263.9	259.8
<i>Offsetting Waterways and Drainage (WWD) Revenue requirement</i>	16.6	17.4	18.0	18.1	18.0	17.8
SWQ	2.2	2.1	2.1	2.0	2.0	1.9
Total customer contributions offsetting RAB	244.7	256.7	265.8	266.9	265.8	261.8

Melbourne Water will provide the ESC with an update for the forecast at draft decision time and closer to the determination if requested.

8.3 Government contributions

We receive government contributions for some projects that offset the investments. Our forecast for government contributions is shown in Table 8.3.

Table 8.3: Government Contribution Forecast 2026-27 – 2030-31 (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Water	-	-	-	-	-	-
Sewerage	-	-	-	-	-	-
Waterways and Drainage	-	9.3	15.0	0.0	0.0	-
Recycled Water	-	-	-	-	-	-
Diversions	-	-	-	-	-	-

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total Government Contribution	-	9.3	15.0	0.0	0.0	-

8.4 Regulatory depreciation

Regulatory depreciation is an allowance to recover the initial investment in assets over the life of the asset from customers.

We have adopted a straight-line approach to depreciation. This reflects the ESC's preferred methodology.

8.4.1 Existing assets at 1 July 2026

Our proposed regulatory depreciation allowance for existing assets has been calculated using the weighted average remaining useful for each asset category. This is consistent with the ESC guidance and approach taken in 2021.

We are not proposing to incorporate the regulatory depreciation on VDP. To correct for depreciation during the 2021-26 regulatory period, we are using the depreciation override to reverse the amount of regulatory depreciation relating to Water – Production and Storage. Regulatory depreciation for the 2026-31 regulatory period has been calculated on the total value of the RAB at 1 July 2026 (\$15,733 million) less the amount of VDP capitalised since 2016 (\$455 million). This proposal ensures we are not recovering the VDP amount capitalised until the end of the contract in 2039. This is consistent with the approach put forward in PS21.

A summary of the regulatory depreciation on existing assets is shown in Table 8.4.

Table 8.4: Regulatory depreciation on existing assets from 1 July 2026 (\$millions, real 2025-26)

	2024-25 ^a	2025-26 ^a	2026-27	2027-28	2028-29	2029-30	2030-31
Water (excl. VDP)	89.5	92.7	96.0	96.0	90.6	75.2	75.2
Sewerage	145.0	153.1	156.0	156.0	156.0	156.0	139.4
Recycled Water	65.8	71.6	66.1	66.1	66.1	50.5	45.3
Waterways and drainage	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Diversions	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	302.8	319.8	320.6	320.6	315.2	284.2	262.4

^a For comparison purposes, 2024-25 and 2025-26 are both existing and new assets for that regulatory period.

8.4.2 New assets from 1 July 2026

Once commissioned, new assets are depreciated as per the expected useful life of the asset. This is in accordance with the ESC's Guidance Paper and financial template. The depreciation is calculated using the individual projects for the Top 15 major projects. All other projects have been aggregated to the program level.

A summary of the regulatory depreciation by product is shown in Table 8.5.

Table 8.5: Regulatory depreciation on new assets from 1 July 2026 (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Water	3.3	11.5	21.6	31.0	42.1
Sewerage	5.3	15.3	26.6	43.3	58.6
Recycled Water	3.2	8.8	13.4	17.9	21.5
Waterways and drainage	0.0	0.1	0.2	0.4	0.5
Diversions	0.0	0.0	0.0	0.1	0.1
Total	11.8	35.7	61.9	92.6	122.8

8.5 Forecast proceeds from disposal

We are forecasting \$29.3 million in disposals over the 2026-31 regulatory period. Proceeds from asset disposal outlined annually in Table 8.6. Consistent with the ESC guidance, these will be deducted from the RAB and will no longer be recovered from customers once disposed of.

Table 8.6: Proceeds from asset disposal from 2025-26 (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Water	1.7	4.4	5.4	2.5	2.5	2.1
Sewerage	0.4	2.8	0.4	2.7	2.7	1.6
Recycled Water	0.4	0.4	0.4	0.4	0.4	0.5
Waterways and drainage	-	-	-	-	-	-
Diversions	-	-	-	-	-	-
Total	2.5	7.6	6.2	5.6	5.6	4.2

8.6 Forecast rolled forward RAB

The forecast rolled forward RAB for the 2026-31 regulatory period is shown in Table 8.7 along with the following regulatory period forecast. This reflects:

- the capital program as shown in Chapter 6 (Capital Expenditure)

- VDP capitalisation as per the principal repayment, this was described in Section 6.3 (Capitalisation of desalination security payments and selected operating expenditure)
- forecast customer contributions based on best available information on developable hectares and the average price of DSS as per Section 8.2 (Developer contributions). This applies to waterways and drainage only
- forecast government contributions as per Section 8.3 (Government contributions)
- less a forecast of proceeds from disposals as per Section 8.5 (Forecast proceeds from disposals)
- regulatory depreciation of existing and new assets as per Section 8.4 (Regulatory depreciation).

Table 8.7: Forecast RAB over the next 10 years(\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	15,621.2	15,733.0	16,554.9	17,481.7	18,439.6	19,441.8	20,390.9	21,537.4	22,727.9	23,725.6	24,939.4
Plus gross capex	602.9	1,347.2	1,457.8	1,477.4	1,510.2	1,442.2	1,646.5	1,699.1	1,514.6	1,736.5	1,839.5
Plus VDP capitalisation	75.9	80.6	112.3	130.0	140.3	157.9	175.9	195.5	215.2	234.9	255.5
Less government contribution	-	9.3	15.0	0.0	0.0	-	-	-	-	-	-
Less customer contribution	244.7	256.7	265.8	266.9	265.8	261.8	266.3	259.1	250.0	241.3	232.8
Less proceeds from disposal	2.5	7.6	6.2	5.6	5.6	4.2	4.2	4.2	4.2	4.2	4.2
Less regulatory depreciation on existing	219.0	320.6	320.6	315.2	284.2	262.4	252.0	252.0	252.0	252.0	252.0
Less regulatory depreciation on new asset	100.8	11.8	35.7	61.9	92.6	122.8	153.5	188.8	226.0	260.3	294.1
Closing value	15,733.0	16,554.9	17,481.7	18,439.6	19,441.8	20,390.9	21,537.4	22,727.9	23,725.6	24,939.4	26,251.3

8.6.1 Water regulatory asset base

Table 8.8 shows the water RAB forecast for the next 10 years.

Table 8.8: Forecast RAB for water (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	6,347.9	6,485.0	6,700.3	7,127.6	7,687.8	8,227.7	8,819.8	9,420.9	10,233.9	11,120.8	12,044.2
Plus gross capex	155.6	238.4	427.9	544.9	508.3	553.5	557.3	766.0	839.7	873.5	735.7
Plus VDP capitalisation	75.9	80.6	112.3	130.0	140.3	157.9	175.9	195.5	215.2	234.9	255.5
Less government contribution	-	-	-	-	-	-	-	-	-	-	-
Less customer contribution	-	-	-	-	-	-	-	-	-	-	-
Less proceeds from disposal	1.7	4.4	5.4	2.5	2.5	2.1	2.1	2.1	2.1	2.1	2.1
Less regulatory depreciation on existing assets	65.7	96.0	96.0	90.6	75.2	75.2	75.2	75.2	75.2	75.2	75.2
Less regulatory depreciation on new assets	27.0	3.3	11.5	21.6	31.0	42.1	54.8	71.1	90.8	107.7	125.1
Closing value	6,485.0	6,700.3	7,127.6	7,687.8	8,227.7	8,819.8	9,420.9	10,233.9	11,120.8	12,044.2	12,832.9

8.6.2 Sewerage regulatory asset base

Table 8.9 shows the sewerage RAB forecast for the next 10 years.

Table 8.9: Forecast RAB for sewerage (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	7,145.7	7,153.0	7,540.4	7,862.7	8,226.4	8,637.1	8,968.1	9,401.2	9,679.1	9,676.7	9,865.7
Plus gross capex	160.8	551.5	493.9	548.9	612.7	530.5	636.2	494.3	226.2	429.9	660.7
Less government contribution	-	-	-	-	-	-	-	-	-	-	-
Less customer contribution	-	-	-	-	-	-	-	-	-	-	-
Less proceeds from disposal	0.4	2.8	0.4	2.7	2.7	1.6	1.6	1.6	1.6	1.6	1.6
Less regulatory depreciation on existing assets	117.2	156.0	156.0	156.0	156.0	139.4	129.0	129.0	129.0	129.0	129.0
Less regulatory depreciation on new assets	35.9	5.3	15.3	26.6	43.3	58.6	72.5	85.8	98.0	110.3	121.7
Closing value	7,153.0	7,540.4	7,862.7	8,226.4	8,637.1	8,968.1	9,401.2	9,679.1	9,676.7	9,865.7	10,274.1

8.6.3 Recycled water regulatory asset base

Table 8.10 shows the recycled water RAB forecast for the next 10 years.

Table 8.10: Forecast RAB for recycled water (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	62.4	60.1	59.1	58.9	61.2	63.3	65.0	64.8	74.4	91.4	103.4
Plus gross capex	0.1	1.3	2.3	4.9	4.8	4.7	2.8	12.9	20.8	16.3	27.1
Less Government contribution	-	-	-	-	-	-	-	-	-	-	-
Less customer contribution	-	-	-	-	-	-	-	-	-	-	-
Less Proceeds from disposal	-	-	-	-	-	-	-	-	-	-	-
Less regulatory depreciation on existing assets	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Less regulatory depreciation on new assets	0.1	0.0	0.1	0.2	0.4	0.5	0.7	0.9	1.4	1.9	2.6
Closing value	60.1	59.1	58.9	61.2	63.3	65.0	64.8	74.4	91.4	103.4	125.6

8.6.4 Waterways and drainage regulatory asset base

Table 8.11 shows the waterways and drainage regulatory asset base forecast for the next 10 years.

Table 8.11: Forecast regulatory asset base for waterways and drainage (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	2,061.6	2,031.0	2,250.9	2,428.1	2,459.5	2,508.8	2,533.0	2,645.2	2,735.1	2,831.2	2,920.7
Plus gross capex	286.0	555.7	533.3	378.3	384.0	353.1	449.9	425.6	427.6	416.6	415.8
Less Government contribution	-	9.3	15.0	0.0	0.0	-	-	-	-	-	-
Less customer contribution	244.7	256.7	265.8	266.9	265.8	261.8	266.3	259.1	250.0	241.3	232.8
Less Proceeds from disposal	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Less regulatory depreciation on existing assets	33.9	66.1	66.1	66.1	50.5	45.3	45.3	45.3	45.3	45.3	45.3
Less regulatory depreciation on new assets	37.6	3.2	8.8	13.4	17.9	21.5	25.5	30.9	35.7	40.1	44.6
Closing value	2,031.0	2,250.9	2,428.1	2,459.5	2,508.8	2,533.0	2,645.2	2,735.1	2,831.2	2,920.7	3,013.2

8.6.5 Diversions regulatory asset base

Table 8.12 shows the diversions regulatory asset base forecast for the next 10 years.

Table 8.12: Forecast regulatory asset base for diversions (\$millions, real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opening value	3.5	3.9	4.2	4.5	4.7	4.9	5.1	5.2	5.3	5.5	5.5
Plus gross capex	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2
Less Government contribution	-	-	-	-	-	-	-	-	-	-	-
Less customer contribution	-	-	-	-	-	-	-	-	-	-	-
Less Proceeds from disposal	-	-	-	-	-	-	-	-	-	-	-
Less regulatory depreciation on existing assets	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less regulatory depreciation on new assets	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Closing value	3.9	4.2	4.5	4.7	4.9	5.1	5.2	5.3	5.5	5.5	5.5

8.7 Regulatory rate of return

Using data provided by the ESC and our standard PREMO rating return on equity, we calculate the regulatory rate of return of 2.81 per cent in 2026-27 and increasing to 3.16 per cent in 2030-31. This is shown in Table 8.13.

Table 8.13: Forecast regulatory rate of return

	2026-27	2027-28	2028-29	2029-30	2030-31
Trailing average cost of debt (nominal) ²⁵	4.91%	5.01%	5.14%	5.26%	5.52%
Cost of debt deflator	2.90%	2.90%	2.90%	2.90%	2.90%
Trailing average cost of debt (real)	1.96%	2.05%	2.18%	2.29%	2.54%
Return on equity (real)	4.10%	4.10%	4.10%	4.10%	4.10%
Gearing	60%	60%	60%	60%	60%
Regulatory rate of return (real)	2.81%	2.87%	2.95%	3.02%	3.16%

We will work with the ESC to update our financial template in a timely manner once these input figures are updated.

8.8 Forecast return on assets

The forecast return on assets is calculated as the average between the opening and closing asset base multiplied by the regulatory rate of return. Our forecast return on assets by each product is shown in Table 8.14.

Table 8.14: Forecast return on assets (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Water	185.3	198.4	218.5	240.3	269.3
Sewerage	206.4	221.0	237.3	254.6	278.2
Recycled Water	60.2	67.1	72.1	75.0	79.7
Waterways and drainage	1.7	1.7	1.8	1.9	2.0
Diversions	0.1	0.1	0.1	0.1	0.2
Total	453.6	488.4	529.8	572.0	629.4

²⁵ As per the financial template provided to Melbourne Water.

Revenue requirement

9

In summary

- Our forecast revenue requirement for the 2026-31 regulatory period is \$10,132 million using the building block methodology.
- The proposed revenue requirement is based on meeting our legislative, regulatory and policy obligations in addition to delivering the commitments in our outcomes as developed with our customers.

In developing a best offer that balances service needs and desires (as defined by the customer Outcomes and performance metrics) with impact on price, Melbourne Water has considered the feedback received from our customers. We have also considered the prudent, efficient and deliverable investments required to deliver on the service Outcomes.

Price-service trade-off feedback received from households and businesses consistently indicated that investment to maintain our service level in our core services was important, as well as limiting price rises above inflation. We recognise that in current economic conditions, households and businesses are under significant financial pressures, which has driven our strong focus on only charging customers up-front for investments that have a high degree of certainty around scope, timing and costs.

Overall, the revenue requirement calculated allows Melbourne Water to propose a prudent uplift in investment across both major service areas and confident that we can deliver efficiently, while balancing the risk we are asking customers to bear, and delivering on our commitment to deliver customer value. This has translated into modest price increases for our customers. The exact tariffs and customer impacts are shown in Chapter 11 (Prices and Tariffs).

Over the coming regulatory periods, our waterways and drainage customers will gradually receive the uplift in service levels they told us they desired at a price that is consistent with high levels of customer support. This is reflected in the proposed revenue requirement outlined in Section 9.1.

9.1 Total revenue requirement

As per Figure 9.1, our total revenue requirement is projected to increase each year over the 2026-31 and 2031-36 regulatory periods with increasing investment as outlined in Chapters 6 and 7 (Capital expenditure and Operating expenditure) and a growing asset base as outlined in Chapter 8 (Asset base). The impacts of these increases are offset by increasing demand, growth in population and customer numbers – as outlined in Chapter 10 (Demand forecasts). The revenue requirements for sewerage and recycled water are increasing materially above growth in customer numbers, and for the other services, revenue requirements are increasing slightly less.

Our total revenue requirement for the 2026-31 regulatory period is \$10,132 million (provided annually in Table 9.1). This represents all the investments proposed earlier in this submission.

Figure 9.1: Trend in revenue requirement (\$millions, real 2025-26)

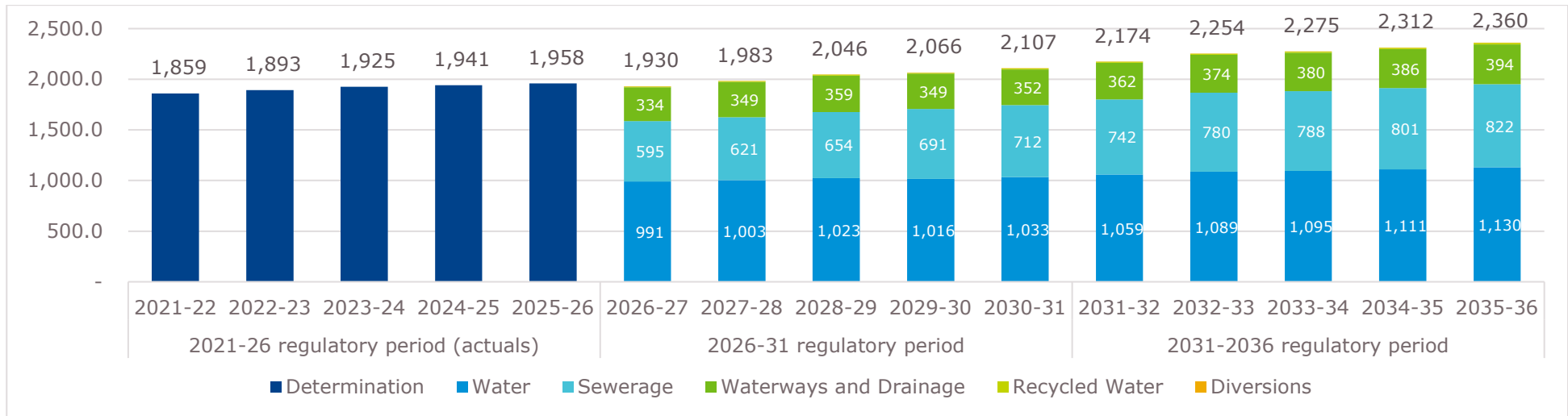


Table 9.1: Total revenue requirement forecast (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Operating expenditure	595.4	601.3	612.3	615.8	616.7	616.3	615.5	614.4	615.3	612.9
Victorian Desalination Project (VDP) opex	519.7	507.2	502.1	481.0	460.3	438.0	414.0	378.8	351.9	323.9
Return on assets	453.6	488.4	529.8	572.0	629.4	698.1	763.6	789.7	817.6	860.0
Regulatory depreciation	332.4	356.3	377.0	376.8	385.1	405.5	440.8	477.9	512.2	546.1
Tax	30.5	31.7	26.9	22.3	17.9	16.4	19.9	14.5	15.4	16.8
Prior Period Adjustment	-1.9	-1.9	-1.9	-1.9	-1.9	-	-	-	-	-
Total	1,929.6	1,983.0	2,046.3	2,066.0	2,107.4	2,174.3	2,253.7	2,275.4	2,312.4	2,359.7

9.1.1 Benchmark tax allowance

The regulated return on assets is expressed in post-tax terms, rather than a tax adjustment included in the specification. Therefore, it is necessary to include an estimate of tax liabilities in the revenue requirement. The tax liability has been calculated in accordance with the ESC's Guidance Paper.

Our proposed tax allowance for the next regulatory period is \$129.2 million (as shown in Table 9.1). This is the estimate determined in the ESC's financial model and assumes the corporate tax rate remains at 30 per cent for the duration of the next regulatory period.

The tax allowance is allocated based on the value of the Regulatory Asset Base (RAB) to each of our four main products – waterways and drainage, water, sewerage and recycled water. Diversions do not receive a tax allowance allocation.

9.2 Water

Our forecast revenue requirement for the regulatory period is \$5,066 million for water (provided annually in Table 9.2). It is based on meeting legislative, regulatory and policy obligations, as well as delivering the outcomes customers told us they value.

Table 9.2: Water revenue requirement (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opex	176.6	178.8	180.9	180.6	180.4	180.5	180.4	180.3	180.0	179.6
VDP opex ^a	519.7	507.2	502.1	481.0	460.3	438.0	414.0	378.8	351.9	323.9
Return on assets	185.3	198.4	218.5	240.3	269.3	303.7	339.0	363.0	389.2	417.9
Regulatory depreciation	99.3	107.5	112.3	106.3	117.3	130.0	146.4	166.0	182.9	200.4
Tax	12.4	12.9	11.1	9.4	7.6	7.1	8.8	6.7	7.3	8.2
Prior Period Adjustment ^b	-1.9	-1.9	-1.9	-1.9	-1.9	-	-	-	-	-
Total	991.3	1,002.9	1,023.0	1,015.6	1,033.1	1,059.4	1,088.6	1,094.9	1,111.4	1,130.0

^a Excludes VDP order costs

^b To correct VDP that was inadvertently depreciated during the 2021-26 regulatory period.

9.3 Sewerage

Our forecast revenue requirement for the regulatory period is \$3,273 million for sewerage (provided annually in Table 9.3). It is based on meeting legislative, regulatory and policy obligations, as well as delivering the outcomes customers told us they value.

Table 9.3: Sewerage revenue requirement (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opex	213.1	214.8	222.4	227.1	228.1	227.6	227.2	226.3	227.6	226.0
Return on assets	206.4	221.0	237.3	254.6	278.2	305.8	329.1	329.0	328.3	338.3
Regulatory depreciation	161.3	171.3	182.5	199.3	197.9	201.4	214.8	227.0	239.3	250.6
Tax	13.9	14.3	12.1	9.9	7.9	7.2	8.6	6.1	6.2	6.6
Total	594.7	621.4	654.3	690.9	712.1	742.1	779.7	788.4	801.4	821.5

9.4 Recycled Water

Our forecast revenue requirement for the regulatory period is \$42 million for recycled water (as shown in Table 9.4).

Table 9.4: Recycled Water revenue requirement (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opex	3.9	4.0	4.0	4.0	3.9	3.9	3.9	3.9	4.0	3.9
Return on assets	1.7	1.7	1.8	1.9	2.0	2.2	2.4	2.8	3.3	3.8
Regulatory depreciation	2.4	2.5	2.6	2.7	2.9	3.0	3.3	3.8	4.3	4.9
Tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	8.1	8.2	8.4	8.6	8.9	9.2	9.7	10.6	11.6	12.8

9.5 Waterways and Drainage

Our forecast revenue requirement for the regulatory period is \$1,743 million for waterways and drainage (as shown in Table 9.5). It is based on meeting legislative, regulatory and policy obligations, as well as delivering the outcomes customers told us they value.

Table 9.5: Waterways and drainage revenue requirement (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opex	200.5	202.5	203.7	202.9	202.9	202.9	202.6	202.5	202.4	202.1
Return on assets	60.2	67.1	72.1	75.0	79.7	86.2	92.8	94.6	96.6	99.7
Regulatory depreciation	69.3	74.9	79.5	68.4	66.8	70.8	76.1	81.0	85.4	89.9
Tax	4.0	4.4	3.7	2.9	2.3	2.0	2.4	1.7	1.8	1.9
Total	334.0	348.9	359.0	349.2	351.6	362.0	374.0	379.8	386.3	393.6

9.6 Diversions

The total diversions revenue requirement for the 2026-31 regulatory period is \$8 million (as shown in Table 9.6).

Table 9.6: Diversions revenue requirement (\$millions, real 2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36
Opex	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Return on assets	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Regulatory depreciation	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax										
Total	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.8

Demand forecasts

10

In summary

- Demand forecasts are based on growth projections consistent with data provided by the Victorian Government.
- Our demand forecasts have been developed using models that have been iterated since the last 2021 Price Submission. These forecasts use inputs from our bulk water and sewerage customers, as well as our own modelling of historic trends.
- Over the 2026-31 regulatory period we are forecasting that customer (property) growth will be 2.01 per cent per annum. This will see a bulk water demand grow by 0.80 per cent per annum, and bulk sewage grow by 0.54 per cent per annum.

Demand forecasts are central to our Price Submission, as they are used to set prices and inform operating costs and the timing of prudent infrastructure investments and operating costs. We have taken on the feedback we received during our PS21 process to increase the robustness of our demand forecasts, particularly for sewage flow and loads. Demand forecasts are Melbourne Water's best estimates, and supporting information is available to justify the assumptions and methodologies used.

The COVID-19 pandemic presented an atypical level of uncertainty for our 2021 Price Submission, including demand forecasting and associated investment in service capacity, particularly sewerage, and we sought to avoid pushing COVID-19 risks onto our customers. Our expenditure proposal responds to growth drivers where we've seen demands exceed forecasts following the pandemic resulting in service deficit and deteriorating service performance.

These key forecasts are discussed further below at a summary level and the demand forecasting approach and methodologies, comparisons of forecast against historical actual demand and final demand forecasts are detailed in our Demand Supplement, along with key reference documents that are available upon request.

10.1 Approach to forecasting

We undertook a robust demand forecasting approach for PS26 that was tailored to each of our three major program areas. Growth forecasts for each service are either underpinned by or aligned to data provided by the Victorian Government. These projections have been supplied by the Department of Transport and Planning (DTP) and are based on unpublished internal DTP modelling. DTP is the agency responsible for the development of the official state government population projections, which incorporate the latest population estimates, evidence from the latest Census and assumptions regarding future births, deaths, migration and local development trends. These are the latest available forecasts provided by the Victorian Government.

As outlined in Chapter 5 (Risk), and consistent with the ESC's Guidance, our demand forecasts are based on average climatic conditions and Melbourne Water accepts financial risk during the regulatory period of changes in water usage and rainfall events that result in changes in water demand or sewage flows.

Our forecasts use different inputs in their forecasting methodology but are aligned with data provided by the Victorian Government. A high-level summary of the key demand forecasts for each service and how they align with Victorian Government data is shown in Table 10.1.

We also engaged an independent advisor to conduct a multi-stage review to test and challenge the demand forecasting process and underlying assumptions. Material improvements to the transparency and quality of supporting data were made following these reviews and a number of key assumptions were either revisited or amended.

Table 10.1: Summary of key demand forecasts

Program area	Alignment with Unpublished Victorian Government Projections, 2025
Waterways and drainage	Residential waterways and drainage forecasts are based on dwelling forecast data provided by the Victorian Government..
Bulk water	Bulk water demand forecasts are compiled from demand forecasts of water corporations that are connected to the Melbourne system which use population and dwelling forecasts provided by the Victorian Government as inputs to their forecasting models.
Sewage demand	Sewage demand forecasts use population forecasts provided by the Victorian Government as inputs to the bulk sewage demand forecasting model.
Developer contributions	Developer contributions were developed by SGS Economics and Planning distributed across geographical areas and are based on SGS Economics and Planning's own internal forecasting model drawing upon data that is publicly available.

10.1.1 Considerations of price elasticity

Previous studies indicate that price elasticity of demand is relatively inelastic for water (and sewage) services – levels of consumption do not vary materially as price goes up or down. For example, a previous Sydney Water study estimated that a 10 per cent price increase would lead to a 1 per cent decrease in residential water demand.²⁶

Consistent with our approach to PS21, we have not added any elasticity response to our forecast for the following reasons. Firstly, our water and sewerage demand forecasts are built on forecasts provided by the water corporations that are connected to the Melbourne system.

For all metropolitan Melbourne water corporations, water demands are prepared using end use models which make a number of assumptions about the uptake of water efficient appliances and changes in water use behaviour including expected wholesale prices. Furthermore, the water corporations allocate Melbourne Water's costs individually and at different proportions to their fixed and variable tariffs. Given that price elasticity is only relevant to the water and sewage variable tariffs, the price elasticity impact on each water corporation could be different, which we are not able to model for each water corporation with precision.

This is further complicated by the tariff reform to pool bulk water entitlements and rebase entitlements based on the 10-year average demand, which would lead to different impacts for different water corporations. The water corporations also consider price elasticity in their own Price Submissions and demand forecasts and accounting for price elasticity in Melbourne Water's demand forecasts could be double counting the impact.

²⁶ Abrams, B., Kumaradevan, S., Sarafidis, V. and Spaninks, F. (2011) *The Residential Price Elasticity of Demand for Water*, Joint Research Study, Sydney, February

Our approach recognises that the water corporations have a direct relationship with end-users and are best placed to model the elasticity associated with the flow through of bulk water charges to consumers.

For waterways and drainage, we consider the price to be perfectly inelastic- ,changes in the waterways and drainage charge will have no impact on the number of residential, non-residential or rural dwellings that the charge is levied upon. The waterways and drainage charge is not considered in any way material to decisions about population growth or the development of new housing stock.

10.1.2 Growth projections

Growth in demand for all of Melbourne Water's services and activities is driven by changes in population size and where they live. A growing population leads to more residential and non-residential properties, which then adds to the collective demand for water and sewage services. New properties lead directly to additional need for activity for waterways and drainage services.

10.1.2.1 Comparison of historical growth to PS21

We first compare historical growth against the 2021 Determination exploring population and property numbers.

Table 10.2 shows that the adopted population forecast understated the actual population growth. This reflected the inherent uncertainty of population forecasts during the COVID-19 pandemic.

Table 10.2: Victorian population actuals against previous forecasts comparison

Forecast / Actuals	Measure
<ul style="list-style-type: none"> 2021 Determination – Centre for Population Projections (Dec 2020) (Compound annual growth rate (CAGR) 2018-19 to 2023-24, 5 years) 	1.0%
Actuals – using Australian Bureau of Statistics (ABS) regional population estimates (CAGR 2018-19 to 2023-24, 5 years)	1.3%
Actuals – expected using data provided by the Victorian Government (CAGR 2020-21 to 2025-26, 5 years)	2.2%

Table 10.3 shows that the adopted property growth forecast was close to the actuals. This was the case despite of the impact of the COVID-19 pandemic, as the development sector operating in Melbourne's growth areas experienced high demand.

Table 10.3: Greater Melbourne property lot forecasts comparison

Forecast / Actuals	CAGR 2018-19 to 2023-24 (5 years)
2021 Determination – residential waterways and drainage customers (CAGR 2018-19 to 2023-24, 5 years)	2.1%
Actuals – residential waterways and drainage customers (CAGR 2018-19 to 2023-24, 5 years)	2.0%
Actuals – Greater Western Water (GWW), South East Water (SEW) and Yarra Valley Water (YVW) residential water customers (CAGR 2018-19 to 2023-24, 5 years)	2.0%
Actuals – expected using data provided by the Victorian Government (CAGR 2020-21 to 2025-26, 5 years)	2.0%

10.1.2.2 Forecasts

We developed property level forecasts primarily with reference to data provided by the Victorian Government. This was supplemented with a review of historic forecasts and actuals, alignment with the *Housing Statement* and independent expert advice from SGS Economics and Planning on lot forecasting for developer services.

Melbourne Water's adopted population forecast compared against the actual population and adopted property growth forecasts compared against other forecasts considered for the next two regulatory periods are shown Figures 10.1, 10.2 and 10.3.

Figure 10.1: Population forecasts

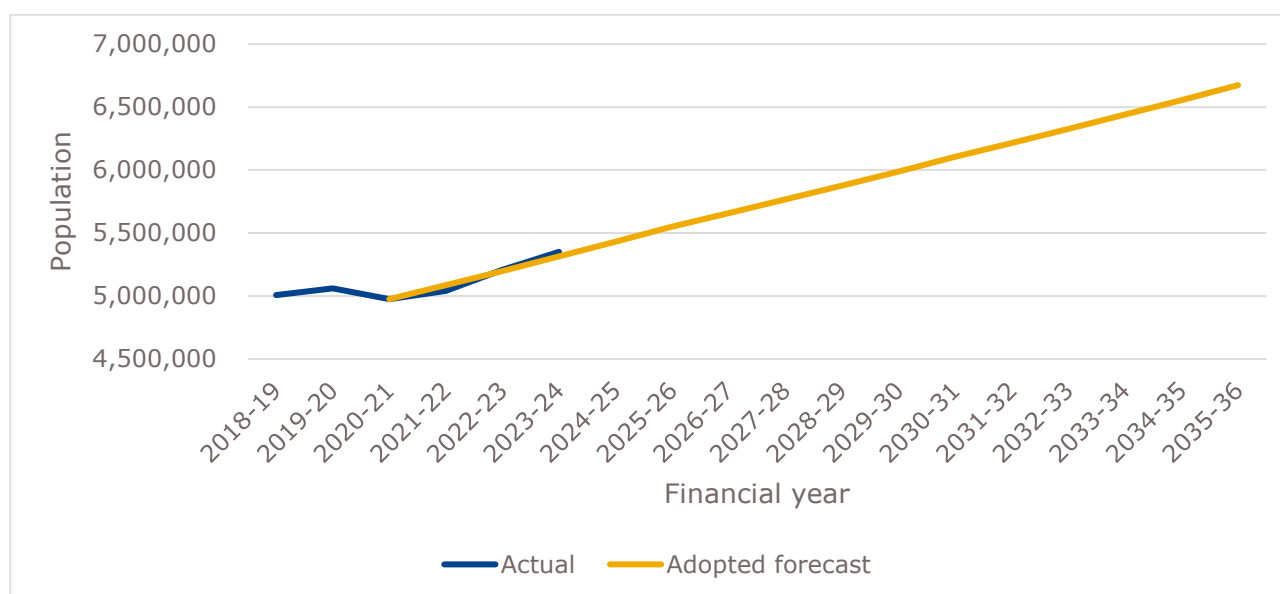


Figure 10.2: Residential property forecast

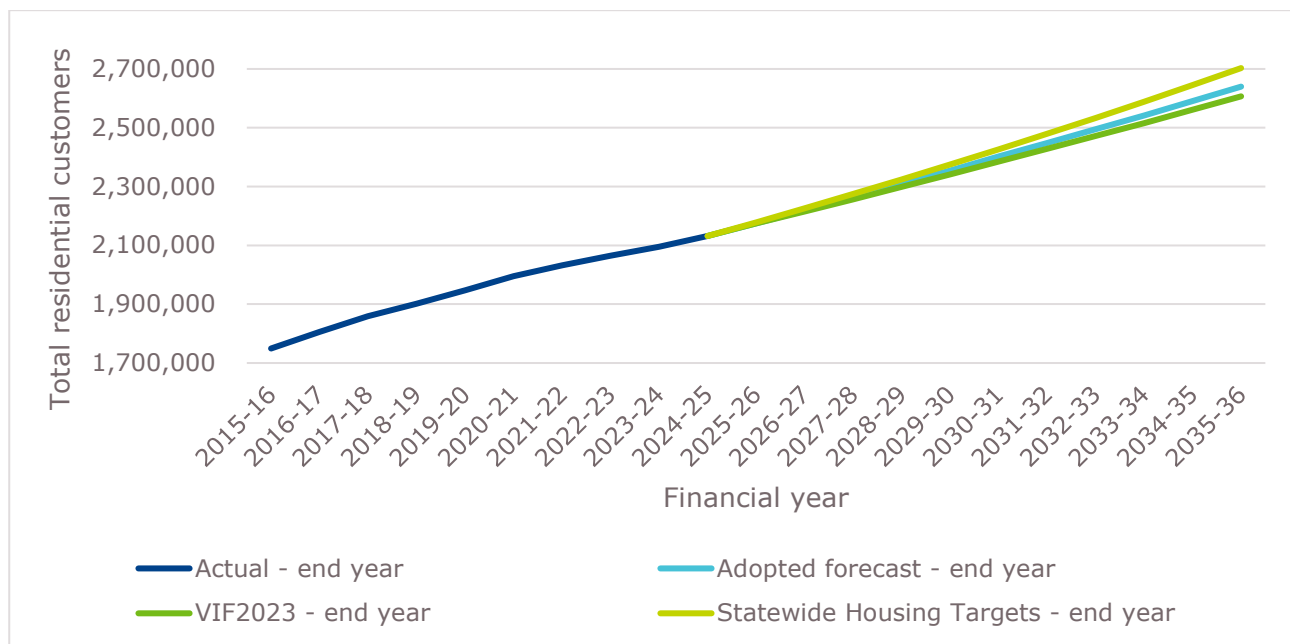
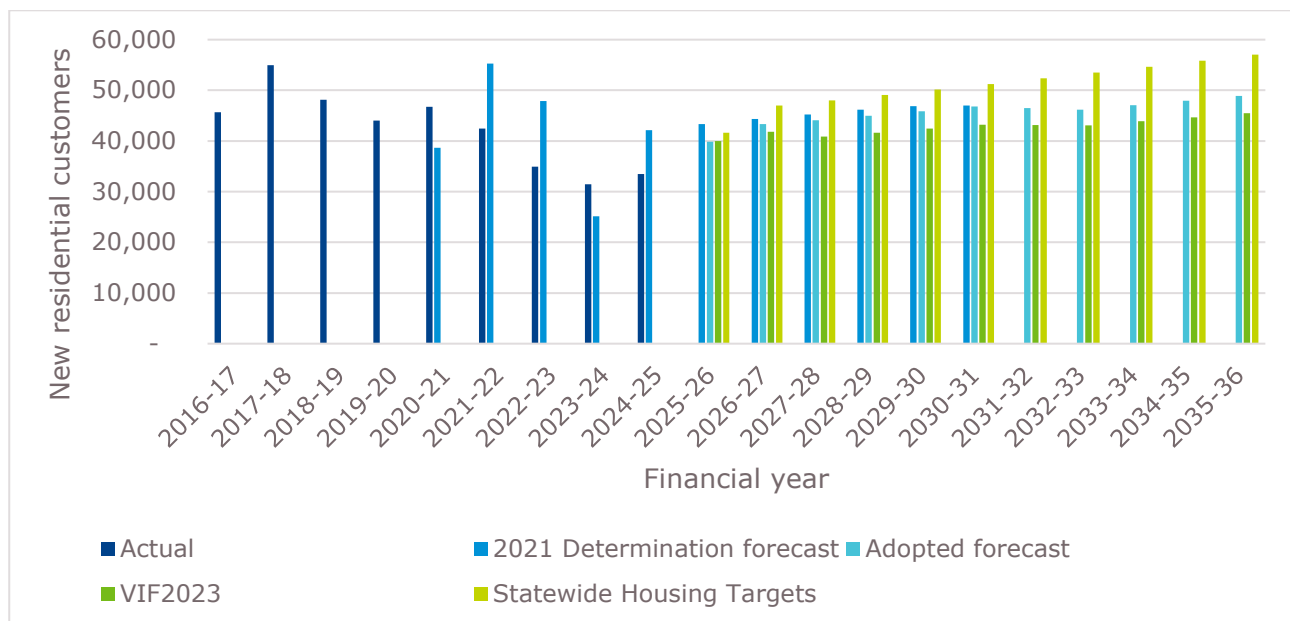


Figure 10.3: New residential properties forecasts



10.2 Waterways and drainage

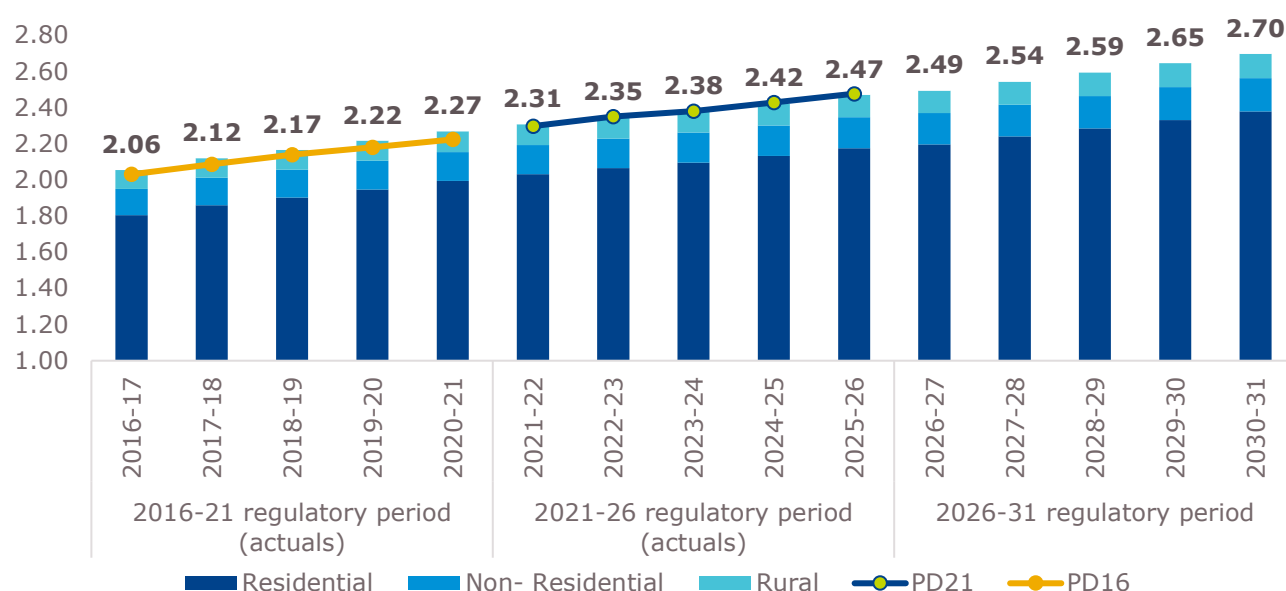
Waterways and drainage customer forecasting is based on rateable properties and aligns with the data provided by the Victorian Government. For pricing purposes, we use mid-year figures (the average of the previous year and current year) for the metropolitan water businesses that bill their customers quarterly.

For residential and rural customers, we have directly adopted the forecast growth provided by the Victorian Government to the base year 2024-25 customer numbers. For non-residential customers, we have adopted the forecast growth provided by the Victorian Government scaled at a ratio based on historical and forecast data comparing non-residential growth rates to residential growth rates. The factor adopted is 80 per cent. We have also removed the tariffs

for non-residential customers to be charged based on the net annual value on a minimum and above minimum basis. This means that all non-residential customers are to be charged the same rate for the 2026-31 regulatory period. Further information on the tariff reform is in Section 11.4 (Waterways and drainage charges).

The forecasts by each customer type are shown in Figure 10.4.

Figure 10.4: Waterways and drainage customer numbers (millions)



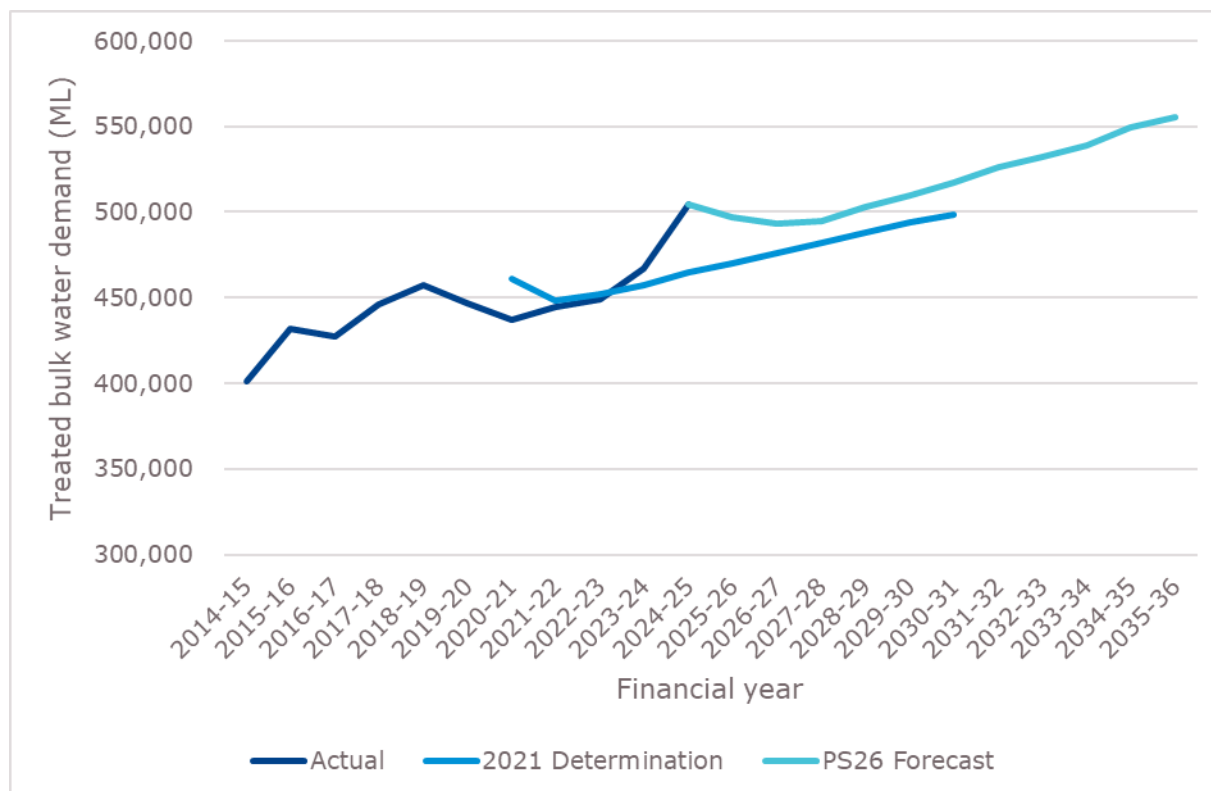
10.3 Bulk water

As a wholesaler, we use a bottom-up approach to forecasting demand, as well as a top-down verification. We rely on our water corporation customers to develop our bottom-up demand forecasts. These represent an aggregation of recent forecasts developed by the water corporations. We request and examine key underlying assumptions made by each water corporation, applying a materiality test to the question of whether or not further refinement or clarification of assumptions is required. This is compared against applying a growth factor to total demand that is consistent with the historical trends and projected population growth. This is a continuation of the methodology we applied in developing our PS16 and PS21 forecasts.

Our water forecasts are described in detail in our Demand Supplement. They show that the megalitres of water sold will grow on average by 0.80 per cent per annum over the PS26 regulatory period. We are comfortable that the underlying assumptions are reasonable and reflect the underlying trends of more water connections, with a declining consumption per connection. This trend is due to a combination of water corporation end use model assumptions around new properties being (on average) smaller, with less outdoor water usage, and the overall stock of water-using appliances becoming more efficient over time.

Overall, actual water demands have closely followed forecasts, which provides confidence in the general approach to water demand forecasting. This is shown in Figure 10.5 along with our forecast.

Figure 10.5: Treated bulk water demand – historical against 2021 Determination and forecast



Over the 2020-21 to 2024-25 five-year period, actual demands were around 0.8 per cent or 18,920 megalitres greater than the 2021 Determination forecast. Of note, the PS21 forecast would have been greater than actual demands if we excluded the 2024-25 year. This is due to the 2024-25 year having record high water demands, primarily driven by weather. Figure 10.6 shows the variation in total annual rainfall and average daily maximum temperature for the last 11 years compared to the 1971-2025 average at Melbourne Airport.²⁷ It shows that 2024-25 is the hottest year and one of the driest years as an outlier. Therefore, the forecast assumes a slight decrease in 2025-26 and a return to the long-term trend.

²⁷ Sourced from <http://www.bom.gov.au/climate/data/>

Figure 10.6: Melbourne Airport weather analysis – variation to the 1971-2025 average

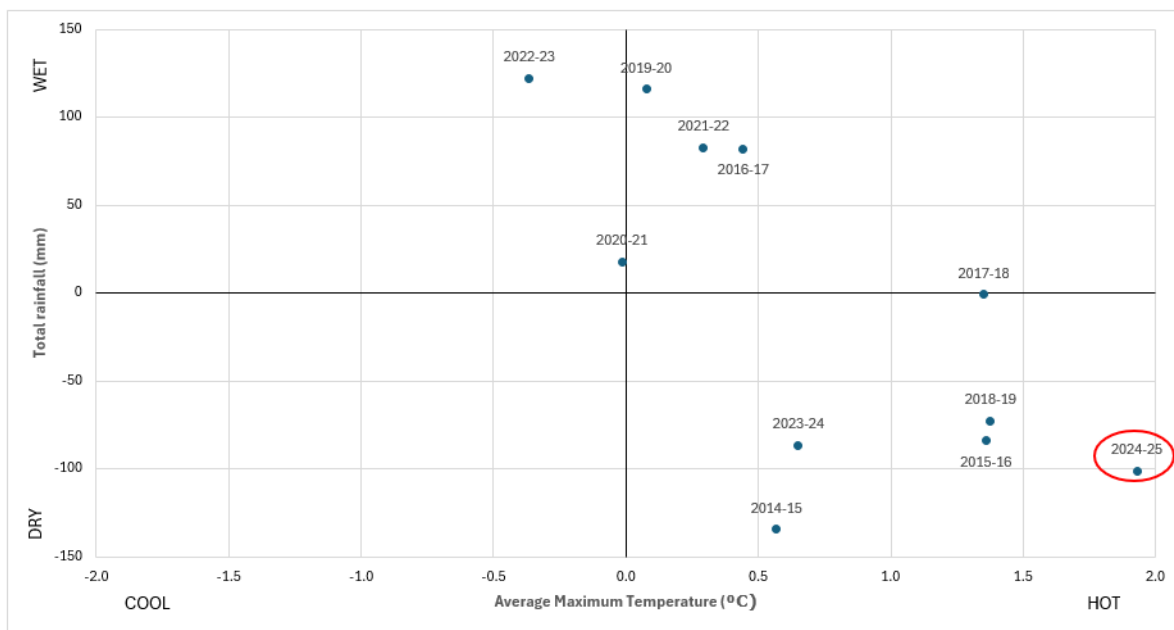
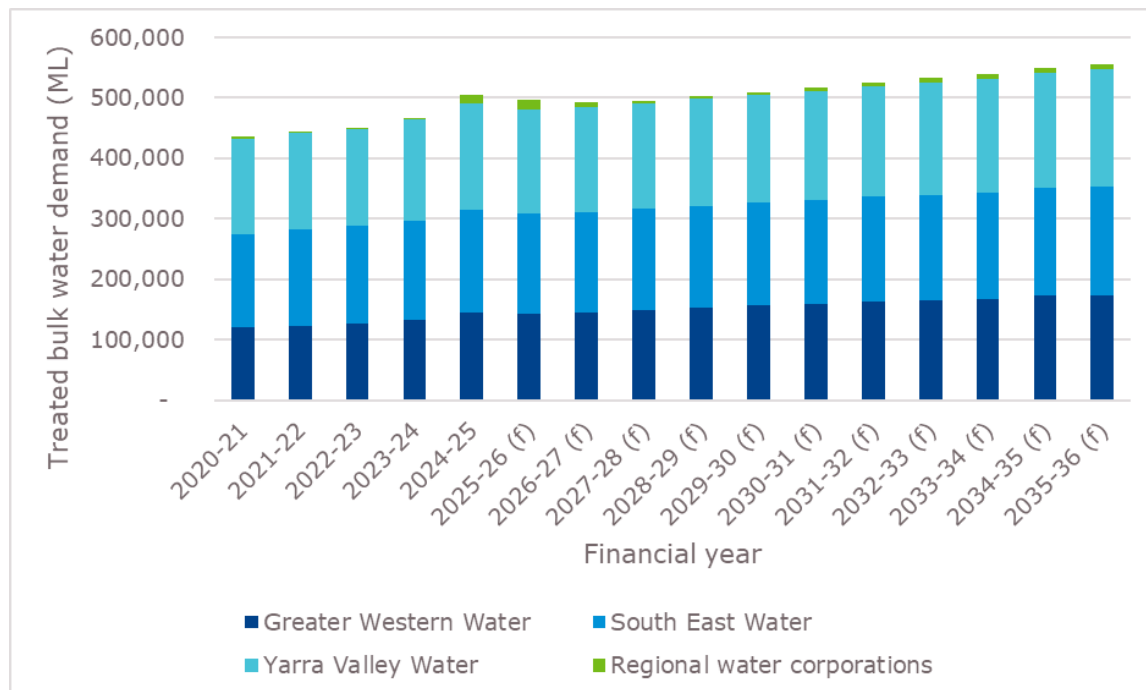


Figure 10.7 summarises our demand forecast for treated bulk water by metropolitan water corporations and groups the regional water corporations together (Barwon Water, South Gippsland Water, Westernport Water), showing actual demand from 2020-21 to 2024-25 and forecast demand from 2025-26 to 2035-36.²⁸

Figure 10.7: Treated bulk water demand 2020-21 to 2035-36



²⁸ We have excluded Gippsland Water from this analysis. Although they draw upon the Melbourne water system, they take raw water only and pay a separate raw water charge. This analysis is solely focused on treated bulk water charge.

10.4 Bulk sewage

Demand forecasting for sewage requires us to consider the five 'treatable' parameters that our bulk sewage treatment facilities are designed to manage. These are:

- sewage flows
- biochemical oxygen demand (BOD)
- suspended solids (SS)
- total Kjeldahl nitrogen (TKN)
- inorganic total dissolved solids (iTDS).

We have a great number and diversity of sources of sewage and unlike water, there is an absence of property-level metering. This makes sewer demand forecasting more challenging than forecasting water. Measurement of sewage flows and loads occurs at a limited number of locations, which presents challenges with respect to verifying contributions from respective sewerage customers (and even whole customer segments) to total flows and loads measured at our treatment plants.

In light of these challenges, we applied a new and highly collaborative methodology for the development of our PS21 forecasts. In response to ESC feedback regarding that process and learning from observations from sewage flows and loads from recent years, we have developed this methodology further outlined in our Demand Supplement. In particular, we have:

- updated the demand forecasting methodology to use trends from the last 10 years of demand data, rather than just the last five years, to determine more representative average baselines for the demand forecasts
- improved visibility of the impact of customer-derived and wet weather volumes on total sewage volumes, with rainfall-related inflows having a greater impact on volume variability than customers.

We outline in our supporting documentation referenced in the Demand Supplement details on the following methodology changes:

- Sewage Demand Forecast Overarching Methodology
- Sewage Demand Forecast Baseline and Variance of Loads
- Sewage Demand Forecast Flow Forecasting Approach
- Mem_FY2324 Sensitivity Analysis of Bottom up Forecast for Treatable Sewage Loads.

At a high level, the sewage forecasting methodology is a bottom-up mass balance model that considers the following components for each parameter:

- residential component that is consistent with the forecast data provided by the Victorian Government
- metropolitan water corporation trade waste customers – Category A Top
- metropolitan water corporation trade waste customers – Category A Group
- metropolitan water corporation trade waste customers – Category B
- metropolitan water corporation sludge
- rainfall and stormwater
- groundwater
- the impact of transient population (for example, population who live in the Eastern Treatment Plant's (ETP) catchment areas but work in the Western Treatment Plant's (WTP) catchment areas)
- a balancing component that comprises the remaining contributions to the sewer that have not been captured in the current forecast segments.

Our sewage volume forecast by treatment plant and comparison against historical and 2021 Determination forecasts are shown in Figures 10.8 and 10.9.

Over the 2021-22 to 2024-25 period, in aggregate, actual sewage flows at both ETP and WTP have been greater than the 2021 Determination forecasts by 19.8 per cent and 10.2 per cent respectively or 14.1 per cent greater across both treatment plants. This was a result of:

- 2021 Determination forecasts being based on preceding dry years (2018-19)
- overestimating the impact of COVID-19 in terms of negatively impacting population growth
- greater volumes of non-customer derived flow, such as inflow and infiltration especially over the 2020-21 to 2022-23 period
- underlying customer growth.

Our sewage forecasts result in an average year-on-year growth in the megalitres of sewage transferred and treated of 1.00 per cent per annum at ETP, 0.94 per cent per annum at WTP, and 0.96 per cent per annum across both treatment plants from the 2024-25 base year to 2030-31. Over the PS26 period, the CAGR is 0.4 per cent at ETP, 0.7 per cent at WTP and 0.5 per cent across both treatment plants, which shows the impact of the 10-year simple average linear regression baselining - the baselining has accounted for the recent growth in sewage flows.

Figure 10.8: ETP bulk sewage flows

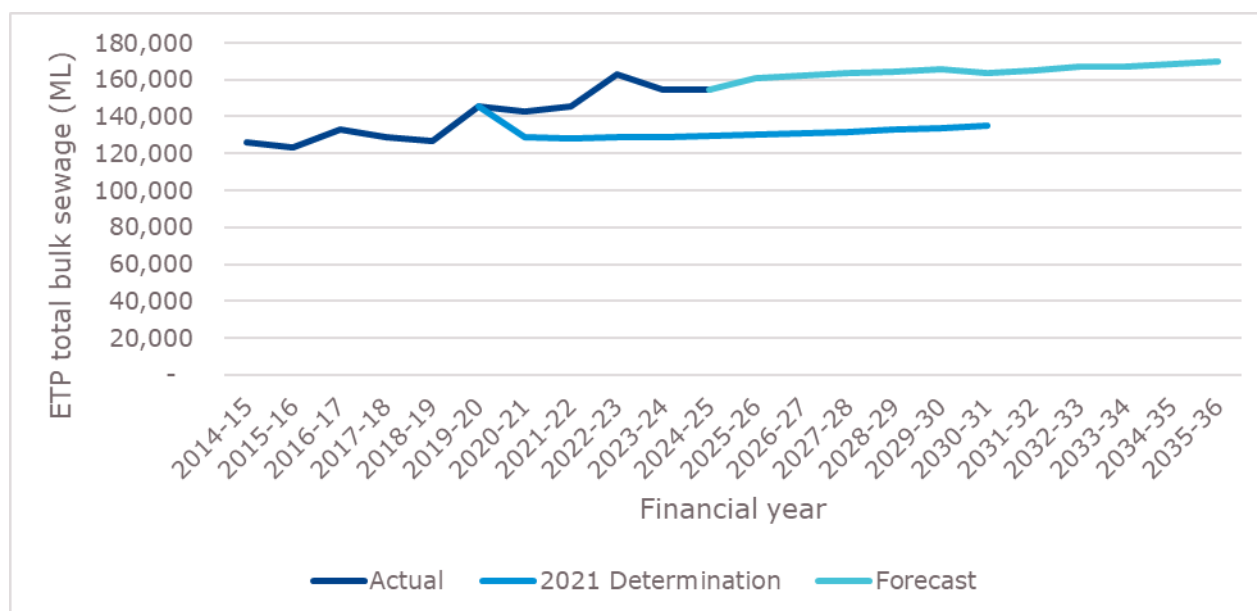
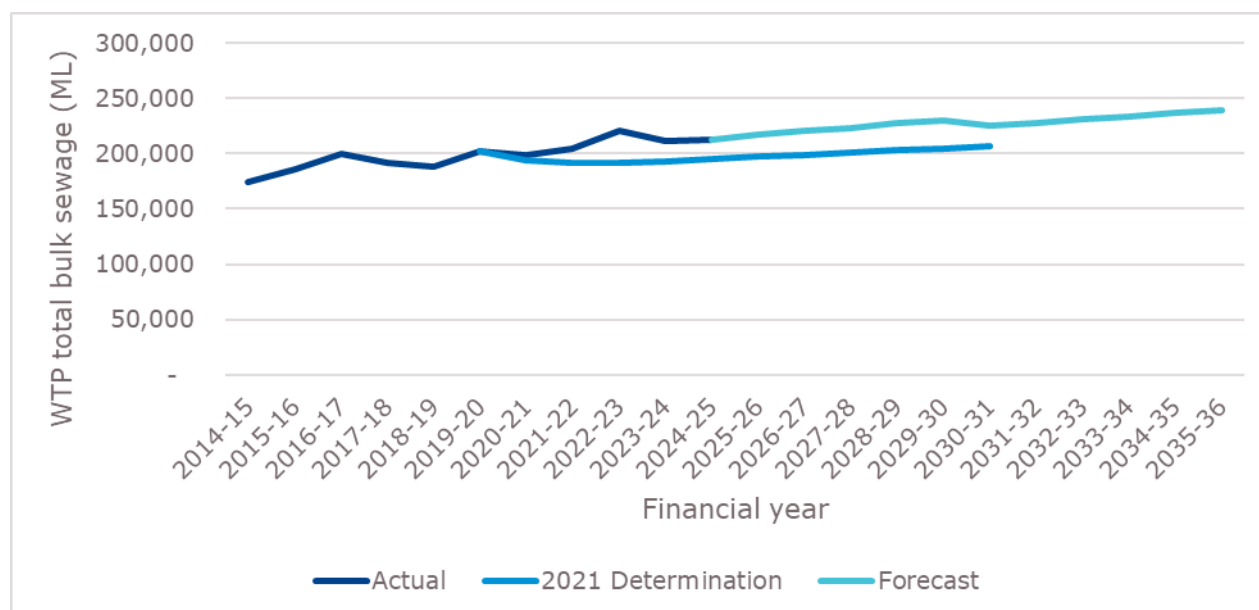


Figure 10.9: WTP bulk sewage flows



For the purposes of pricing, Melbourne Water's load-based charges apply to the loads assessed by the water corporations as derived from their Category A customers in the forecasting model. These Category A loads are a subset of the total pollutant load forecasts for the treatment plants and are the only billed pollutant loads. Category A customers are split into two groups: Category A Top and Category A Group.

Category A Top customers are defined as a single (major) trade waste customer that will contribute more than 1 per cent of a particular treatment plant's load for any treatable parameter or are otherwise identified as an important contribution by the water corporation. These customers have consistently monitored treatable concentrations and measured flows provided by the water corporations on a customer basis. A custom Category A Top forecast is provided by the water corporations based on their customer engagement activities and incorporates expected increases and decreases in load at a customer level.

Category A Group are the remaining major trade waste customers not covered in the Category A Top. These customers have consistently monitored treatable concentrations and measured flows provided by the water corporations on a customer basis. Data for this input is provided each year by each water corporation for every Category A customer based on actual data. The data supplied also includes information about the location of the customer and industry type. The growth rate for this segment is provided by the water corporations based on their experience of trends and insights specific to their catchment, for example using employment forecasts for industry types by Australian and New Zealand Standard Industrial Classification (ANZSIC) code.

Table 10.4 shows the Category A load forecasts by treatment plant and water corporation compared against historical and 2021 Determination forecasts. We present the historical 10-year simple average year-on-year growth rates and forecast PS26 five-year simple average year-on-year growth rates rather than CAGR to account for the impacts of the changes individual customers make. We note that:

- Actual loads (except for WTP GWW TKN, WTP GWW iTDS and WTP SEW iTDS) have been greater than 2021 Determination forecasts across all load categories. This is due to the

2021 Determination assuming flat growth rate, while we have seen an increase in the Category A customer loads.

- SEW's Category A customer load forecast growth is generally higher than historical growth.
- YVW's Category A customer load forecast growth is generally lower than historical growth.
- GWW's Category A customer load forecast growth is higher than historical growth.

Table 10.4: Category A customer load demand forecast comparisons

Category A customer load parameter	Comparison of actual loads against 2021 Determination forecasts over 2020-21 to 2024-25 (% difference)	Historical simple year-on-year growth rate over the 10-year period, 2015-16 to 2025-26	Forecast simple year-on-year growth rate over the 6-year period, 2024-25 to 2030-31
ETP SEW BOD	24.3%	0.1%	3.5%
ETP YVW BOD	34.0%	-0.6%	-1.7%
WTP GWW BOD	3.4%	-1.6%	1.4%
WTP SEW BOD	20.3%	1.1%	11.9%
WTP YVW BOD	15.5%	3.1%	-0.7%
ETP SEW SS	36.9%	1.6%	8.2%
ETP YVW SS	74.0%	-4.4%	-1.4%
WTP GWW SS	5.2%	-4.3%	1.2%
WTP SEW SS	36.2%	14.9%	10.0%
WTP YVW SS	3.9%	5.0%	5.5%
ETP SEW TKN	34.5%	1.5%	5.3%
ETP YVW TKN	61.7%	1.1%	-3.7%
WTP GWW TKN	-14.1%	-2.5%	1.1%
WTP SEW TKN	9.4%	-0.5%	18.0%
WTP YVW TKN	6.8%	4.7%	0.5%
WTP GWW iTDS	-8.9%	-0.3%	2.0%
WTP SEW iTDS	-5.0%	63.7%	98.1%
WTP YVW iTDS	21.5%	6.1%	-2.8%

For capacity planning purposes, we also forecast the total load parameters at each treatment plant. These treatable load parameters, which are a more material driver of treatment plant costs are also forecast to grow, however the change in the baseline is a more significant impact on expenditure. The CAGR over PS26 for these total load parameters are:

- BOD growth is forecast to be 0.8 per cent per annum at ETP and 1.2 per cent per annum at WTP
- SS growth is forecast to be 0.7 per cent per annum at ETP and 1.1 per cent per annum at WTP
- TKN growth is forecast to be 0.7 per cent per annum at ETP and 1.1 per cent per annum at WTP
- iTDS growth is forecast to be 0.4 per cent per annum at ETP and 0.8 per cent per annum at WTP.

10.5 Developer contribution forecasts

Developer contributions have been forecast with the support of external expert advice that provided a forecast of developable hectares by our three growth areas and with regard to Victorian Government projections, recent trends, and engagement with the land development industry to take into account projected rates of land development in growth areas, the current and emerging economic context and the delivery capacity of the land development industry.

Forecast developer contributions of \$1,317 million offset land development capital expenditure of \$1,495 million during the 2026-31 period. The revenue offset has been calculated using the estimated average Development Services Scheme rates for the regulatory period.

See Demand Supplement, Section 8.2 (Developer contributions) and Section 6.2.5 (Outcome 4: Drainage and Urban Development services) for more information.

Prices and tariffs

11

In summary

- Our pricing approach seeks to balance smooth, phased changes in price with a focus on maintaining affordability and delivering enduring value.
- We have engaged extensively with water corporation customers on bulk tariff reform and with the agreement of the water corporations, we propose:
- Significant reforms to bulk water tariffs associated with the Victorian Government's implementation of the South-Central Pool Bulk Entitlements.
- Minor reforms to bulk sewerage tariffs to more equitably recover fixed charges.
- Our bulk water prices reflect tariff reforms and annual average changes in revenue requirement of 1.1 per cent each year of the regulatory period, and bulk sewerage prices reflect annual average changes in revenue requirement of 3.9 per cent in real terms.
- Residential and rural waterways and drainage prices will decrease by 0.8 per cent in the first year and remain flat thereafter in real terms. A flat rate will apply for non-residential customers, as we complete our transition away from a rate in Net Annual Value (NAV) in 2026-27, in preparation for tariff reform to commence in 2031.
- Diversions charges will remain flat in the first year and then increase up to 0.2 per cent per annum in real terms.
- We continue to use pricing principles for miscellaneous fees, development services schemes and stormwater quality offsets.
- We propose to develop and introduce a mechanism during the regulatory period that would ensure existing customers are not disadvantaged when new, large customers connect to Melbourne Water's network via a connected water corporation.

11.1 Customer impacts

With significant population growth forecast over the 2026-31 regulatory period, our proposal results in only modest increases to end customer bills above inflation.

Melbourne Water's forecast impacts to average household bills (excluding inflation) are flat in 2026-27, followed by average annual increases of up to 1.5 per cent above inflation each year from 2027 to 2031 (or up to \$17).

Customer bill impacts have been estimated based on the change in total Melbourne Water bulk water and sewerage charges collected from each water corporation. Consistent with their determinations, each individual water corporation has discretion on how changes are passed onto end-users. Forecast bulk charges have been developed under the assumption that changes in our prices can be passed through to households and businesses through each water corporation's determination. This means that the financial position of water corporations should not be impacted materially by Melbourne Water's determination.

Based on proposed prices and forecast demands, total revenue for water and sewerage services collected from each water corporation are outlined in Table 11.1. Details on the specific charges are included in Section 11.2 (Bulk water and sewerage charges).

Table 11.1: Total tariff revenue by water corporation (\$millions, real 2025-26)

	2025-26	2026-31 regulatory period				
		2026-27	2027-28	2028-29	2029-30	2030-31
Greater Western Water	394	405	426	444	463	481
South East Water	572	581	605	615	626	637
Yarra Valley Water	570	579	605	608	610	612
Barwon Water	12.0	10.7	6.5	6.5	6.5	7.5
South Gippsland Water	0.7	1.2	1.4	1.6	1.9	2.2
Westernport Water	0.6	0.6	0.6	0.7	0.8	0.8
Gippsland Water	1.5	0.6	0.6	0.7	0.8	0.8

Water corporation data, forecast bulk charges in 2025-26, and typical customer bills in 2025-26 have been used to estimate impacts on the typical household in each water corporation region as a result of our proposal. The cumulative impacts to each year of the regulatory period, by water corporation, are summarised in Table 11.2.

Table 11.2: End customer bill impact - cumulative dollar change^a (\$real 2025-26)

	Typical customer bill, dollars	Cumulative impact, dollars				
		2026–31 regulatory period				
		2025-26	2026-27	2027-28	2028-29	2029-30
Greater Western Water	1,110	-	17	27	37	47
South East Water	1,057	-	15	16	17	18
Yarra Valley Water	1,114	-	16	9	1	-7
Barwon Water	1,183	-3	-4	-5	-6	-2
South Gippsland Water	1,405	23	32	42	55	71
Westernport Water	1,394	-	2	4	6	9
Gippsland Water	1,492	-11	-12	-10	-10	-9

^a Bill impacts are indicative only and exclude impacts of water corporation 2028 submissions, desalination water orders and other pass-throughs.

Typical impacts as a result of our proposal are expressed as a percentage of the total household bill, relative to the previous year, are included in Table 11.3.

Table 11.3: End customer bill impact – Annual percentage change (\$real 2025-26)^b

	Typical customer bill, dollars	Annual percentage change				
		2026–31 regulatory period				
		2025-26	2026-27	2027-28	2028-29	2029-30
Greater Western Water	1,110	-	1.5%	0.9%	0.9%	0.8%
South East Water	1,057	-	1.5%	0.1%	0.1%	0.1%
Yarra Valley Water	1,114	-	1.5%	-0.7%	-0.7%	-0.8%
Barwon Water	1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
South Gippsland Water	1,405	1.6%	0.6%	0.7%	0.9%	1.1%
Westernport Water	1,394	-	0.1%	0.1%	0.2%	0.2%
Gippsland Water	1,492	-0.8%	0.0%	0.1%	0.0%	0.0%

^b Bill impacts are indicative only and exclude impacts of water corporation 2028 submissions, desalination water orders and other pass-throughs.

^c South Gippsland Water's increase relates to increased water security provided by entry into the South-Central Pool, which was scheduled to occur in 2024-25 in its 2023 Price Submission.

Melbourne Water is forecasting a minor reduction to the waterways and drainage tariffs (excluding inflation) over the period. Impacts on a typical homeowner are included in Table 11.4. More details on waterways and drainage charges, including for non-residential and rural customers and special charging areas are included in Section 11.4 (Waterways and drainage charges).

Table 11.4: Waterways and drainage tariffs (\$real 2025-26)

	2025-26	2026–31 regulatory period				
		2026-27	2027-28	2028-29	2029-30	2030-31
Residential						
\$ per annum	125.01	123.96	123.96	123.96	123.96	123.96

11.2 Bulk water and sewerage charges

11.2.1 Approach and customer consultation

During Melbourne Water's PS21 process, a Regulatory Managers Forum was established to review bulk tariffs (among other matters). This Forum recognised a need for tariff reform but did not arrive at a proposal with broad support, instead recommending further work be undertaken in conjunction with the South-Central Market Trial. Melbourne Water's PS21 ultimately proposed to continue tariff structures that applied during the 2016-21 regulatory period, and this was accepted by the ESC.

The PS21 committed Melbourne Water to initiate a comprehensive review of tariff structures. Melbourne Water established a Bulk Tariff Review working group in 2022, which transitioned to the Regulatory and Tariff Forum in 2025, with representative from all connected water corporations. The review was intimately linked to the South-Central Reform project, which evolved from the South-Central Market Trial. The group met over 20 times and considered objectives for a tariff review, various options and assessed options against the objectives to provide a majority or consensus view on several reform proposals (outlined in Table 11.5).

The following objectives were agreed by all water corporations that were part of the review, which include reference to the WIRO and ESC's Guidance, as well as the preferences of water corporations advocating for the interests of their customers.

Table 11.5: Tariff Review objectives

Objective	Supporting Statements
Sustainable revenue	<ul style="list-style-type: none"> Melbourne Water can recover its revenue requirement. Risk is balanced between Melbourne Water and customers. Cost of implementation of reform does not exceed benefits, including costs to capture any additional data required for a different charging structure and changes to retail water corporation billing systems.
Incentivising efficient investment	<ul style="list-style-type: none"> Efficient investment is incentivised by price signals that can be responded to. Water security, including the need for future augmentations and their impact has been considered.
Consistency with policy and regulatory environment	<ul style="list-style-type: none"> Tariffs are consistent with the South-Central reform process and the Department of Environment, Energy and Climate Action's (DEECA) timeline. Tariffs are in keeping with government policy and industry strategies. Tariffs meet ESC guidance and the WIRO.
Customer impacts	<ul style="list-style-type: none"> Customer impacts (taking into account transition arrangement) are acceptable to the general public, customers and stakeholders. Impacts on water corporations' viability is acceptable. Material differences in levels of service and product quality have been considered.

This bulk tariff review has resulted in proposed changes to bulk water tariffs and minor amendments to bulk sewerage tariffs.

Melbourne Water has also considered a number of options for reform of waterways and drainage tariffs. We are proposing to continue the reforms to non-residential waterways and drainage tariffs, which we have only partly delivered and, which at full implementation, we consider better meet the requirements of the WIRO and the Guidance Paper.

11.2.2 South-Central Reforms

In the 2022 Central and Gippsland Region Sustainable Water Strategy (CGRSWS), in Action 9-3 DEECA committed to creating a south central pooled resource and associated reforms, to simplify and improve transparency in water sharing across the region. Over the past three years, DEECA has collaborated with metropolitan and regional water corporations to design a reformed bulk entitlement framework. This culminated in the development of a joint governance model, supported by newly drafted bulk entitlements that define roles, responsibilities, and access to a shared urban water source – the South-Central Pool – comprising surface and desalinated water from the Melbourne system.

The new bulk entitlements will enable all connected water corporations to access water from the South-Central Pool as needed, within a collective volumetric cap, removing individual volumetric caps – on which headworks pricing has been based since the entitlements came into effect. Melbourne Water retains its entitlement to surface water and gains a new entitlement to desalinated water, both dedicated to the pool. The governance framework ensures statutory obligations are upheld while enabling coordinated decision-making. Existing entitlements for the Victorian Environmental Water Holder and Southern Rural Water, as well as those in Northern Victoria remain unaffected.

The key aspects of the reforms that are to be enacted through Melbourne Water's Price Submission include pooling the costs of surface and desalinated water and moving to usage-

based charges. This approach incentivises efficient water use, eliminates the need for inter-corporation water trading, and ensures fairer cost-sharing, especially for desalinated water. All connected corporations will begin to contribute to the costs of, and benefit from the water security of, current and future supply sources. DEECA has drafted the new entitlements and the process to revoke existing entitlements and apply for new bulk entitlements has commenced with the new and amended bulk entitlements to be gazetted by 1 July 2026.

11.2.3 Bulk water charges

We undertook extensive engagement on tariff through the Bulk Tariff Review working group and the Regulatory and Tariff forums. We developed consensus positions with our bulk water customers. As a result, we are proposing to change our bulk water tariff structure to best put into effect the South-Central Reforms (outlined in Table 11.6). We are also updating the split between variable and fixed charging based on customer feedback that there should be more demand-revenue sharing between Melbourne Water and its customers. We will also formalise our raw water tariff to apply in instances where corporations supply point is upstream of water treatment infrastructure.

Table 11.6: Existing and proposed bulk water charges

Current Structure	Proposed structure
The current bulk water tariff structure follows the water entitlement-based framework implemented in 2016. This provided for the following charges:	The current entitlements are due to be rescinded with new entitlements taking effect on 1 July 2026. The proposed tariff structure will apply from 1 July 2026 and is required to implement the South-Central Pooled Entitlement Reforms.
<ul style="list-style-type: none"> Storage operator and bulk water headworks charges Greater Yarra System – Thomson River (\$/ML entitlement) Victorian Desalination Plant (\$/ML entitlement) – metropolitan water corporation only North South Pipeline (\$/ML entitlement) – metropolitan water corporation only Storage operator and bulk water usage charges Transfer (\$/ML) Victorian Desalination Plant Water Order charge (\$/ML Entitlement) – metropolitan water corporation only Bulk water headworks charge (\$/month) – Gippsland Water only 	<ul style="list-style-type: none"> Bulk water headworks charges – South-Central Pool (fixed, \$/month) Bulk drinking water usage charges– South-Central Pool (\$/ML) Victorian Desalination Plant Water Order charge (\$/month) Bulk water headworks charges - North South Pipeline (fixed, \$/ML) – metropolitan water corporation only Bulk raw water usage charges (\$/ML) – raw water customers only (Yarra Valley Water, South East Water, Gippsland Water)

Each tariff component – how it is proposed to be calculated and applied – is described further below. Minutes and materials from our engagement with water corporations are available on request.

The Government's South-Central reforms recognise that the Victorian Desalination Project benefits all corporations connected to the Melbourne System and therefore its costs will be shared by the pool. We propose to combine costs previously allocated to the Greater Yarra System – Thomson River entitlements and entitlements associated with the Victorian

Desalination Project and to collect the combined costs via Pooled headworks and usage charges.

We engaged extensively with connected water corporations on the transitional arrangements and reached consensus around this tariff reform.

11.2.3.1 New bulk water headworks charges – South-Central Pool (fixed, \$/month)

The bulk water headworks charge – South-Central Pool is a fixed charge that will apply to each water corporation connected to the Melbourne System. It will be billed monthly. The water corporations' new South-Central Pool bulk entitlements will not include individual entitlement volumes, which were previously the billing unit for fixed headworks charges. Therefore, a new basis is required.

Fixed charges are proposed to be allocated to each connected corporation based on their relative share of historical 10-year average total demand at the time of the Price Submission – in this case 2024-25. This will be updated each regulatory period. Given this change in cost allocation results in distributional impacts, we have proposed to tailor price paths for each water corporation on a net present value neutral basis. This allows a smoother transition into the new pooled tariff structure.

The shares for the South-Central Pool are outlined in Table 11.7 below.

Table 11.7: Shares in the South-Central Pool, 2026-31

	Average demand (2015-16 – 2024-25)	Percentage share, South-Central Pool, 2026-31
Greater Western Water	126,620	28.048%
South East Water	159,489	35.329%
Yarra Valley Water	161,027	35.669%
Barwon Water	3,184	0.705%
South Gippsland Water	663	0.147%
Westernport Water	238	0.053%
Gippsland Water	224	0.050%
Total	451,444	100.000%

11.2.3.2 New bulk drinking water usage charges (\$/ML)

The proposed bulk drinking water usage charge would be charged per megalitre of metered drinking water delivered to the connected water corporations. It includes recovery of costs that were previously recovered under both water transfer costs and headworks costs and has been set with regard to the marginal cost of drinking water and is closer to the short run marginal cost, rather than long run marginal cost. Under this reform, Melbourne Water is significantly increasing the proportion of bulk water costs it recovers from volumetric charges, taking on more demand-revenue risk. A majority of water corporations supported moving to a higher variable charge, and all water corporations accepted Melbourne Water's final proposal on the level of that charge.

11.2.3.3 New Victorian Desalination Plant Water Order charge (\$/month)

Under the South-Central Pool reforms, Victorian Desalination Plant Water Order charges will now extend to all water corporations connected to the Melbourne System. The Victorian Desalination Plant Water Order charge will apply in years when there is a desalination water order, or where there are Melbourne Water costs associated with an order from the previous year. The charge is proposed to remain as a pass-through, with each water corporation's respective allocation of order costs (as advised by DEECA) set by their corporation's relative share of historical 10-year average total demand (as per bulk water headworks charges), as included in Table 11.7.

11.2.3.4 Bulk water headworks charges - North South Pipeline (fixed, \$/ML)

Under the South-Central pool reforms, the retail water corporations retain their volumetric bulk entitlements to the North-South Pipeline, and there are no changes proposed to this charge. This charge is collected monthly and applies to each megalitre of volumetric bulk entitlement in this system held by that water corporation.

11.2.3.5 Bulk raw water usage charges (fixed, \$/ML)

During the 2021-26 regulatory period, Gippsland Water acquired a bulk entitlement to the Greater Yarra System – Thomson River. Following this acquisition, an interim arrangement was agreed whereby Gippsland Water received a lower, cost reflective transfer charge recognising that the water it receives from the Melbourne System is untreated. As part of the tariff review process, we heard from water corporations more broadly that bulk raw water, for which Melbourne Water incurs no treatment costs, should be charged at a rate that is commensurate with Melbourne Water's costs to supply it. This new charge applies to each megalitre of bulk raw water supplied, which includes to Gippsland Water, and small volumes to Yarra Valley Water and South East Water. The charge is calculated by subtracting water treatment costs from the drinking water usage charge. The subtracted revenue is reallocated to all connected water corporations via the South-Central pool charges.

11.2.3.6 Assessment of proposed structure against Guidance and WIRO

The proposed bulk water tariff structure is consistent with each of the ESC's tariff principles. Table 11.8 outlines how the proposed structure meets the pricing principles included in Clause 11 (d) of the WIRO.

Table 11.8: Bulk water tariff reforms - WIRO pricing principles assessment

WIRO pricing principles	How tariff structure meets WIRO pricing principles
11(d) (i) enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated.	We have co-designed new tariff structures with our water corporation customers to whom the tariff applies. We have explored a long list of options proposed by customers as part of that process. New structures are supported by all connected water corporations.
11(d) (ii) provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible.	Moving away from charging that relates to bulk entitlements to actual water usage and increasing volumetric charges with regard to the short and long run marginal costs of drinking water provide improved signals about the efficient costs of providing bulk water services compared to the current tariff structures.

WIRO pricing principles	How tariff structure meets WIRO pricing principles
	Setting volumetric charges below the long run marginal cost and smoothing changes to fixed charges over multiple years helps avoid bill shock for end use customers.
11(d) (iii) take into account the interests of customers of the regulated entity, including low income and vulnerable customers.	As above, the new tariff structures were developed in collaboration with customers taking their interests into account. Extensive modelling has informed the final proposals, which result in smoothed bill impacts and no annual bill impact exceeding 1.5 per cent above inflation as a result of Melbourne Water's costs.

11.2.3.7 Proposed price schedule

The proposed price schedule for bulk water tariffs are presented in Table 11.9.

Table 11.9: Proposed price schedule – Bulk Water (\$real 2025-26)

		2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
South-Central Pool (\$/month)	Greater Western Water	See note	12,305,982.84	13,088,910.45	13,505,279.85	13,934,894.32	14,378,175.18
	South East Water		15,504,326.22	16,886,177.97	17,145,662.77	17,409,135.00	17,676,655.92
	Yarra Valley Water		15,525,549.51	17,471,209.90	17,471,209.90	17,471,209.90	17,471,209.90
	Barwon Water		337,280.72	337,280.72	337,280.72	337,280.72	337,280.72
	South Gippsland Water		38,245.51	50,308.45	66,176.13	87,048.60	114,504.41
	Westernport Water		16,828.29	20,355.28	24,621.47	29,781.80	36,023.67
	Gippsland Water		23,732.02	23,732.02	23,732.02	23,732.02	23,732.02
North South Pipeline (\$/Entitlement)	Greater Western Water, South East Water, Yarra Valley Water	559.01	457.28	457.28	457.28	457.28	457.28
Transfer (\$/ML)-Treated Water	Greater Western Water, South East Water, Yarra Valley Water, Barwon Water, South Gippsland Water, Westernport Water	320.0602	800.0000	800.0000	800.0000	800.0000	800.0000
Transfer (\$/ML)-Raw Water	Gippsland Water, South East Water, Yarra Valley Water	N/A	612.6795	612.6795	612.6795	612.6795	612.6795
Desalination Payments - Variable (\$/ML)	All	610.33	<< based on forecast demands, subject to advice				

Note: In 2025-26, Headworks charges included Greater Yarra System - Thomson River - \$431.19 per ML entitlement and Victorian Desalination Project - \$3,520.23 per ML entitlement, refer section 11.2.3.1

11.2.4 Bulk sewerage charges

We engaged extensively with connected water corporations on bulk sewerage tariffs and reached consensus on tariff reform (current and proposed tariff structures outlined in Table 11.10). We are now proposing two reforms to our bulk sewerage tariffs:

- replacing separate disaggregated Eastern and Western bulk sewage transfer charges with a common transfer charge
- moving to allocate fixed charges based on relative shares of five-year historical demands (similar to the change to fixed bulk water charges).

Table 11.10: Existing and proposed bulk sewer tariffs

Current structure	Proposed structure
<ul style="list-style-type: none"> • Eastern and Western disaggregated sewerage transfer charges based on short-run marginal cost (\$/ML). • Disaggregated treatment plant tariff structures for the Eastern Treatment Plant (ETP) and Western Treatment Plant (WTP) applying long run marginal cost (LRMC) for volume and load (\$/ML and \$/tonne). • Fixed charges make up the shortfall between variable charges and total revenue requirement by water corporation. Revenue requirement by water corporation is determined based on relative forecast use of the system (\$/month). 	<ul style="list-style-type: none"> • Common sewage transfer charge based on short-run marginal cost (\$/ML). • Disaggregated treatment plant tariff structures for the ETP and WTP (no change) with regard to LRMC for volume and load (\$/ML and \$/tonne). • Fixed charges make up the shortfall between variable charges and total revenue requirement by water corporation. Revenue requirement by water corporation is determined based on relative historical use of the system (\$/month).

Each tariff component – how each of these tariffs are calculated and applied – is described further below. Minutes and materials from our engagement with water corporations are available on request.

11.2.4.1 New Sewage Transfer Charge (\$/ML)

Sewage transfer charges will be collected on each megalitre of sewage transferred to Melbourne Water. We are proposing to move to an aggregated sewage transfer charge based on short-run marginal cost (\$ per ML). Cost allocation for sewage transfer has already been based on a pooled system, which has meant a different fixed to variable split depending on which plant sewage is transferred to. While there are differences in costs (for example, more sewage is pumped to transfer it to the WTP), these are much less material than cost differences in treatment. Furthermore, a material portion of sewage is able to be diverted by Melbourne Water to either treatment plant, depending on operational requirements, and water corporations are unable to respond to the price signal of the different transfer charge currently provides.

11.2.4.2 Sewage Treatment Volumetric and Load Charges (\$/ML and \$/tonne)

We are not proposing changes to the tariff structure for sewage treatment charges, which apply to each megalitre of sewage treated at each treatment plant, as well as each tonne of pollutant loads for Class A trade waste customers, and are set with regard to long-run marginal costs, consistent with the ESC's guidance.

11.2.4.3 New Fixed Sewerage Charges (\$/month)

Fixed sewerage charges are collected from each water corporation with a bulk sewerage service on a monthly basis. We are proposing to change the basis on which fixed sewerage charges are set for each water corporation. This relates to the contribution to the costs at each treatment plant required to treat flow, and each of the treatable loads – Total Kjeldahl Nitrogen (TKN), Total Suspended Solids (TSS), and Biological Oxygen Demand (BOD). We base cost allocations on demands from each corporation for each plant. Rather than allocating costs based on forecast demands, we are proposing to set shares of fixed costs based on historical actual usage over the last five years at the time of price setting, upon request from water corporations. This provides corporations a greater incentive to forecast demands and timing of projects that will remove demands from the centralised transfer network accurately.

Sewerage cost allocations are outlined in Table 11.11 below. Total allocations reflect our proposal and will need to be updated at the time of the determination.

Table 11.11: Proposed sewerage cost allocations 2026-31

	WTP	ETP	Transfer	Total
Greater Western Water	45.0%	-	25.5%	22.7%
South East Water	13.7%	67.0%	36.3%	40.0%
Yarra Valley Water	41.3%	33.0%	38.1%	37.3%

11.2.4.4 Assessment of proposed structure against Guidance and WIRO

The proposed bulk sewerage tariff structure is consistent with each of the ESC's tariff principles. Table 11.12 outlines how the proposed structure meets the pricing principles included in Clause 11 (d) of the WIRO.

Table 11.12: Bulk sewer tariff reforms - WIRO pricing principles assessment

WIRO pricing principles	How tariff structure meets WIRO pricing principles
11(d) (i) enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated.	We have co-designed new tariff structures with our customers and explored a long list of options proposed by customers as part of that process. Changes result in simpler tariffs and are supported by all retail water corporations we provide a sewer service.
11(d) (ii) provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible.	Moving to a common transfer charge aligns fixed charges to actual utilisation rather than forecasts and strengthens price signals, removing disincentives for inaccurate demand forecasting. Smoothing changes to fixed charges over multiple years helps avoid bill shock for end-use customers. Moving to pooled sewerage treatment pricing was considered to further reduce bill impacts to customers but was ultimately not supported by the majority of water corporations.

WIRO pricing principles	How tariff structure meets WIRO pricing principles
11(d) (iii) take into account the interests of customers of the regulated entity, including low income and vulnerable customers.	As above, the new tariff structures were developed in collaboration with customers, taking their interests into account. Extensive modelling has informed the final proposals, which result in smoothed bill impacts and no annual bill impact exceeding 1.5 per cent above inflation as a result of Melbourne Water's costs.

11.2.4.5 Proposed price schedule

The proposed price schedule for bulk sewerage tariffs are presented in Table 11.13.

Table 11.13: Proposed price schedule – Bulk Sewerage (\$real 2025-26)

	Units	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Western transfer	\$/ML	48.3280	50.8001	50.8001	50.8001	50.8001	50.8001
Western treatment	\$/ML	72.2804	72.2800	72.2800	72.2800	72.2800	72.2800
WTP BOD	\$/tonne	396.1559	591.0000	591.0000	591.0000	591.0000	591.0000
WTP SS	\$/tonne	648.9573	161.0000	161.0000	161.0000	161.0000	161.0000
WTP TKN	\$/tonne	1,349.4405	1,549.5000	1,549.5000	1,549.5000	1,549.5000	1,549.5000
WTP TDS	\$/tonne	38.5655	38.5600	38.5600	38.5600	38.5600	38.5600
Eastern transfer	\$/ML	6.9020	50.8001	50.8001	50.8001	50.8001	50.8001
Eastern treatment	\$/ML	47.4226	88.0000	88.0000	88.0000	88.0000	88.0000
ETP BOD	\$/tonne	298.8967	926.2000	926.2000	926.2000	926.2000	926.2000
ETP SS	\$/tonne	692.0362	485.0000	485.0000	485.0000	485.0000	485.0000
ETP TKN	\$/tonne	84.7092	371.0000	371.0000	371.0000	371.0000	371.0000
Greater Western Water	\$ per month	8,351,933.39	9,008,558.71	9,716,807.63	10,480,738.77	11,304,729.83	12,193,502.71
South East Water	\$ per month	17,415,949.88	17,907,124.29	18,412,151.08	18,931,420.91	19,465,335.49	20,014,307.82
Yarra Valley Water	\$ per month	15,413,686.52	18,009,276.81	18,049,712.48	18,090,238.94	18,130,856.39	18,171,565.04

11.3 Water and sewerage customer contributions

Water corporations have received applications for very large connections, such as those from hyper-scale data centres with projected instantaneous or annual demands exceeding those of nearly all top 30 non-residential customers in Melbourne. We have not accounted for this in our demand forecasts or expenditure planning. We feel it would be prudent to collect upfront capital contributions for any bring-forward or augmentation of headworks, transfer or treatment assets required to serve these very large customers, so that the financial burden of accelerating major capital works does not fall on the broader customer base.

Under the New Customer Contributions (NCC) framework, water corporations that directly serve customers can collect upfront contributions for capital works to serve growth. Metropolitan retail water businesses have not directly collected contributions towards wholesale-scale infrastructure, beyond a forecast of Melbourne Water's incremental bulk charges in their NCC pricing models. While this approach has been broadly suitable to date, it may no longer be sufficient to protect the long term interests of Victorian water customers or meet the ESC's NCC framework objectives²⁹ given the scale and cost of upcoming infrastructure augmentations.

There is no equivalent scheme that presently exists for Melbourne Water to collect capital contributions towards water or sewerage services as we do not currently provide directly to households or businesses. This is different to our established scheme for collecting contributions from developers in greenfield areas for waterways and drainage (refer to Section 8.2 (Developer contributions)).

To address this gap, Melbourne Water proposes to introduce a mechanism that would ensure existing customers are not disadvantaged when new, large customers connect to Melbourne Water's network. This mechanism proposes to recover the costs of developing appropriate servicing options, and bringing forward augmentations to our headworks, transfer, or treatment infrastructure. The costs for investigating service requirements will be recovered through a miscellaneous fee on a cost recovery basis – consistent with the current pricing principles in Schedule 4.5 of Melbourne Water's 2021 Determination.

Given the emerging nature of this issue and recent guidance from the ESC, Melbourne Water has not yet defined the specific mechanisms for implementing this proposal. We have also not yet engaged with customers or the community on the matter.

Melbourne Water proposes to work collaboratively with customers, the community, our water corporation customers, and the ESC to shape the structure and operation of the new water and sewerage capital contributions and negotiating framework. We intend this would apply to the connected water corporations, or in the case of a directly connected customer, during the 2026–31 regulatory period.

²⁹ Essential Services Commission, New Customer Contributions: Explanatory Note, December 2013, p. 5, cl 1.2.

11.4 Waterways and drainage charges

Our waterways and drainage charges include:

- **Core charges:** Residential, Non-residential and Rural charges for all rateable properties within our service area.
- **Special area charges:** Patterson Lakes, Quiet Lakes, Diversions, Koo Wee Rup, and miscellaneous fees and charges.

11.4.1 Approach and customer consultation

We engaged with our deliberative panel on core waterways and drainage charges, as well as bespoke engagements specifically with our special area charge customers. We heard from the deliberative panel that it is important that our charges reflect our costs.

11.4.2 Core waterways and drainage

We are proposing to continue our current tariff structures for core waterways and drainage charges, except for completion of the transition of all non-residential customers to a flat charge in preparation for further tariff reform in future regulatory periods. Existing and proposed core waterways and drainage tariff structures are outlined in Table 11.14.

We are not proposing any changes to the mix of residential and rural tariffs. Rural waterways and drainage tariffs will continue to be set at 0.5 times the rate of the residential tariff.

Since 2016, Melbourne Water has been investigating different tariff options for non-residential customers that reflect the impact these customers have on the waterways and drainage system. In 2016, we commenced transitioning customers off the rate in the NAV and increasing the flat charge such that it is approximately 1.5 times the residential charge. Since 2016, we have transitioned over 70,000 customers off the NAV, meaning we still have approximately 35,000 customers on the NAV.

In our PS26 customer engagement, we heard that customers with a larger impact should pay more. We have also heard from the ESC and stakeholders that moving to more cost-reflective waterways and drainage pricing may lead to improved outcomes for waterways.

Over the next regulatory period, we will work closely with Government, developers, key stakeholders, non-residential customers and the broader community on the best form of tariff structure. This will consider current Government objectives and aspirations outlined in the *Housing Statement* and the delivery of the Activity Centres, including large re-development sites, such as Fishermans Bend and Arden Macaulay.

Table 11.14: Existing and proposed core waterways and drainage tariffs

Current Structure	Proposed structure
<ul style="list-style-type: none"> • Residential on minimum (\$ per annum) • Non-residential on minimum (\$ per annum) • Non-residential above minimum - Rate in \$ NAV (cents per annum) • Rural (\$ per annum) 	<ul style="list-style-type: none"> • Residential on minimum (\$ per annum) • Non-residential on minimum (\$ per annum) • Rural (\$ per annum)

How each of these tariffs are calculated and applied is described further below.

11.4.2.1 Residential on minimum (\$ per annum)

All residential properties within the Urban Growth Boundary will remain on a single fixed charge, which reflects the shared regional nature of the service. The annual charge is collected in instalments each quarter by water corporations on Melbourne Water's behalf.

11.4.2.2 Non-residential on minimum (\$ per annum)

Non-residential customers within the Urban Growth Boundary will transition to a single fixed charge. The non-residential charge is set higher than the residential charge to reflect the relative impact of the customer cohorts on waterways and drainage. The annual charge will be collected in instalments each quarter by water corporations on Melbourne Water's behalf.

11.4.2.3 Rural (\$ per annum)

A fixed fee is charged to customers within our Waterways Management District but outside the Urban Growth Boundary, who benefit from our waterway services and some aspects of flood protection. They receive a lower charge reflecting the lower level of drainage and flood protection services compared to urban customers. Rural customers will continue to be billed a single fixed charge which is lower than the residential charge.

11.4.2.4 Assessment of proposed structure against Guidance and WIRO

The proposed waterways and drainage tariff structure is consistent with each of the ESC's tariff principles. Table 11.15 outlines how the proposed structure meets the pricing principles included in Clause 11 (d) of the WIRO. Table 11.16 outlines the proposed waterways and drainage charges from 1 July 2026 to 30 June 2031.

Table 11.15: Waterways and drainage tariff reforms - WIRO pricing principles assessment

WIRO pricing principles	How tariff structure meets WIRO pricing principles
11(d) (i) enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated.	We have simplified non-residential waterways and drainage charges, which will make them easier for customers to understand.
11(d) (ii) provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible.	Each non-residential property, on average, has a larger impact on waterways and drainage than a non-residential customer, due to the average property size and proportion of hard surfaces across the two cohorts. Moving to a common charge for non-residential customers better reflects the costs of providing services to non-residential customers collectively than the current structure. Furthermore, this transition will facilitate tariff reforms to more cost-reflective waterways and drainage in 2031.
11(d) (iii) take into account the interests of customers of the regulated entity, including low income and vulnerable customers.	There will be a real price reduction for waterways and drainage charges.

Table 11.16: Waterways and drainage proposed charges from 1 July 2026

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Residential on minimum \$ per annum	125.01	123.96	123.96	123.96	123.96	123.96
Non-residential on minimum \$ per annum	187.81	186.23	186.23	186.23	186.23	186.23
Non-residential above minimum - Rate in \$ NAV cents per annum	0.5032	-	-	-	-	-
Rural \$ per annum	68.63	68.03	68.03	68.03	68.03	68.03

11.4.3 Special area charging

Melbourne Water will continue to maintain jetties for the Tidal Waterways community and conduct bore flushing and water quality inspections in the Quiet Lakes on a fee for service basis.

11.4.3.1 Patterson Lakes - jetty renewals charges

The timber jetty replacement program payments from 2014-15 are set to expire in 2028-29. While Melbourne Water considers how to charge for jetty replacements going forward from 2031, we are proposing to smooth prices over five years instead of the set term expiration date for 2028-29. This ensures customers will not experience bill shock when new charges for new jetty replacements are introduced in 2031. This also reflects customer sentiment, with jetty customers being surveyed on proposed price paths in August 2025, and feedback indicating preference for a smooth path. This engagement is outlined in Section 3.2.6 (Engaging with direct service customers).

We have also reviewed the maintenance charge given the replacement program commencing during the regulatory period. Melbourne Water is proposing to move to a Regulatory Asset Base model rather than an individual price and cost recovery path for each customer base. The new forecast operating costs and new renewals cost have been allocated to the maintenance charge.

The proposed charges are outlined in Table 11.17 below. This provides for a smooth price path for both the Timber Jetty and Concrete customers as we transition to a single maintenance and renewal charge once the existing jetty payments have been finalised (originally 2029 for timber and 2039 for concrete).

Table 11.17: Patterson Lakes proposed jetty charges (\$real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Timber Jetty	1,433.00	886.79	861.79	837.51	813.90	790.96
Concrete Jetty	948.00	821.14	797.99	775.50	753.65	732.41

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Jetties annual maintenance and renewal charge	163.56	163.57	212.66	276.49	359.49	467.39

11.4.3.2 Quiet Lakes – Bore Flushing

Melbourne Water is proposing to increase the Quiet Lakes – Bore Flushing charge, and to increase the number of customers who are subject to the charge. During consultation, there was a desire from the local community to resolve cyanobacterial (blue-green algae) bloom issues and improve the overall water quality for the three interconnected lakes in Quiet Lakes. This has led most recently to a number of options being investigated to improve water quality, most notably assessing engineered options involving modifying the flow dynamics of water passing through the Quiet Lakes system.

While complete eradication of blue-green algae may be unlikely, any proposed solution will aim to minimise the risk of algae blooms as much as possible, as Melbourne Water will look to recoup costs for the proposed the bore flushing solution for all three interconnected lakes from residents.

Customers were supportive of the increased bore flushing to Lake Carramar in addition to the current two lakes (Lake Illawong and Lake Legana) and to smooth in the price increase across the regulatory period. The proposed charges is for a single Quiet Lakes – Bore Flushing charge to apply to all residences that benefit from the three interconnected lakes, as per Table 11.18. This engagement is outlined in Section 3.2.6 (Engaging with direct service customers).

Table 11.18: Quiet Lakes proposed tariffs (\$real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Bore flushing \$ per annum	153.22 ^a	153.22	182.62	217.65	259.41	309.19

^a In 2025-26, the bore flushing charge only applies to residences of Lake Illawong and Lake Legana. From 2026-27, the bore flushing charge will also apply to residences of Lake Carramar.

11.4.3.3 Koo Wee Rup – Longwarry Flood Protection District

Melbourne Water charges property owners in the Koo Wee Rup–Longwarry Flood Protection District a special drainage area rate. It covers maintenance services on an extensive network of channels used to drain the area and mitigate flood risks. During the last regulatory period, we finalised the transition from a rate in the NAV to a single cost reflective price.

A single tariff has been calculated using the principles of cost recovery and reflect direct expenditure on the floodplain district. After consultation with customers about changes in levels of services, Melbourne Water is proposing to increase Koo-Wee Rup – Longwarry Flood Protection District by CPI only in 2026-27 and by 5.2 per cent in real terms each year from 2027-28 to 2030-31. Information regarding this engagement is outlined in Section 3.2.6 (Engaging with direct service customers). These are shown in Table 11.19.

Table 11.19: Koo Wee Rup – Longwarry Flood Protection District proposed price (\$real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
\$ per annum	248.48	248.48	261.29	274.76	288.93	303.83

11.4.4 Diversions

For the 2026-31 regulatory period, diversion services and prices will remain largely unchanged following feedback received from customers.

Customer engagement has indicated a clear preference for the Standard package, which was selected as first preference in 87 per cent of survey responses (more information on this engagement program is outlined in Section 3.2.6.3 (Engaging with licensed diverters)).

The standard package that was chosen by customers includes:

- the continuation of current service levels to meet the Customer Charter, including an increased communications focus
- meter installation to comply with the Victorian Government's Non-urban Metering Policy and associated renewals
- continuous improvement to embrace new technologies and digital platforms.

Prices are based on the principle of cost recovery and reflect direct expenditure and capital works, as well as a provision for overheads. Melbourne Water is proposing that Diversion prices will increase by CPI only in 2026-27 and up to a real 0.2 per cent from 2027-28 to 2030-31.

Melbourne Water is also proposing that prices for diversion-related application fees increase annually by CPI, except for the licence application fee for stormwater harvesting charges, to real increase by 10 per cent in 2026-27 followed by CPI increases annually. Following a review process, it was identified that costs were not being recovered for the time spent by diversion officers. The increase in fee will seek to recover the following additions:

- increase review and compile of external comments. This is currently charged for 30 minutes but should increase to 120 minutes to reflect actual time involved in processing applications
- site visits are currently charged at two hours, inclusive of 60 minutes total travel time and 60 minutes on site. Stormwater harvesting applications, however, require at least two site visits, needing twice the charge to cover costs.

Proposed pricing paths have been communicated to all licence holders via a newsletter and through direct consultation with the Diversions Management Advisory Committee.

Table 11.20 lists the proposed prices for diversion customers. Melbourne Water will continue to charge for application fees, including licence transfers, new licences, and amendments. These are small volume charges and generate approximately \$25,000 per annum in revenue. We will review these charges annually in accordance with pricing principles and publish on our website at the commencement of each financial year.

Table 11.20: Diversions proposed prices (\$real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Waterway diversion charges – unregulated waterways						
Licence service fee – all licence types (\$ per annum)	329.39	329.39	329.92	330.45	330.98	331.51
Power generation licences (\$ per kilowatt)	29.56	29.56	29.61	29.65	29.70	29.75
Volume charges (\$ per ML):						
– All-months licence	43.21	43.21	43.28	43.35	43.42	43.49
– On-stream winter-fill	21.75	21.75	21.78	21.82	21.85	21.89
– Off-stream winter-fill	21.75	21.75	21.78	21.82	21.85	21.89
– Licensed farm dam	21.75	21.75	21.78	21.82	21.85	21.89
– Non-consumptive	2.72	2.72	2.72	2.73	2.73	2.74
Works operating licences						
General (\$ per annum)	74.27	74.27	74.39	74.51	74.63	74.75
Hazardous Dams (\$ per annum)	125.75	125.75	125.95	126.15	126.36	126.56
Waterway diversion charges – regulated waterways						
Licence service fee – All licences (\$ per annum)	329.39	329.39	329.92	330.45	330.98	331.51
Volume charges (\$ per ML):						
- All months licence	90.45	90.45	90.60	90.74	90.89	91.03
- Off-stream winter fill	21.75	21.75	21.78	21.82	21.85	21.89
Stormwater harvesting						
Licence service fee	329.39	329.39	329.92	330.45	330.98	331.51
Volume charge (\$ per ML) – All-months licence	43.21	43.21	43.28	43.35	43.42	43.49

11.4.5 Miscellaneous fees

Pricing for Melbourne Water's miscellaneous services is set on a cost recovery basis, consistent with the WIRO and ESC's Guidance Paper. These services include provision of:

- property information statements
- property flood level information
- hydrologic data
- flood feasibility studies
- build over of Melbourne Water assets and stormwater connections.

Periodically, we review the miscellaneous services prices to ensure they were cost reflective. This includes examining the appropriate direct costs and indirect (over-head) cost allocation. Following this review, real price increases are proposed as follows:

- Property information statements will increase by CPI only in 2026-27, up to 1.1 per cent plus CPI in 2027-28 and then CPI only for the remainder of the 2026-31 regulatory period.
- Flood level certificates will increase by CPI only in 2026-27, up to 0.7 per cent plus CPI in 2027-28 and then CPI only for the remainder of the 2026-31 regulatory period.
- Hydrological data will increase by CPI only in 2026-27, decrease by 1.5 per cent plus CPI in 2027-28 and then CPI only for the remainder of the 2026-31 regulatory period.
- Flood feasibility studies – will increase by CPI for the 2026-31 regulatory period.
- Build over/stormwater connections will increase by 10 per cent plus CPI per annum of the regulatory period. This is a result of a legacy under-recovery pricing that we will partially correct during the 2026-31 regulatory period.

Changes have been proposed for prices for building over Melbourne Water assets and stormwater connections fees following consultation with representatives of our main applicants. The current and proposed prices for build over of Melbourne Water assets and stormwater connections continues to under recover the cost of processing development proposals that involve building over (or near) any of our underground assets or easements. Melbourne Water will continue to monitor the impact of the price increase on customer compliance.

Table 11.21 lists the top 10 miscellaneous fees and charges. Melbourne Water will continue to apply pricing principles and review other small miscellaneous fees and charges on an annual basis. These will be published on our website at the commencement of each financial year.

Table 11.21: Miscellaneous fees and charges (\$real 2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Flood level information						
Property information statements	5.77	5.77	5.83	5.83	5.83	5.83
Flood level certificates	55.21	55.21	55.57	55.57	55.57	55.57

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Hydrological data						
Storm frequency analysis for selected storm events	182.11	182.11	179.42	179.42	179.42	179.42
Hydrological data (\$per dataset – daily, hourly, 6 minute)	113.23	113.23	111.55	111.55	111.55	111.55
Other requests (\$ per hour)	182.11	182.11	179.42	179.42	179.42	179.42
Construction, works & connections						
Application/connection fee	190.05	209.05	229.96	252.95	278.25	306.07
Additional connections/works/build over	523.61	575.97	633.56	696.92	766.61	843.27
Application fee for construction over or near Melbourne Water easements or assets	257.05	282.75	311.03	342.13	376.34	413.98
Fast Track Assessments	1,317.35	1,449.08	1,593.99	1,753.39	1,928.73	2,121.60
Inspection fee						
- Water Supply Inspections (per hour)	164.63	181.09	199.20	219.12	241.04	265.14
- Inspection fee (maximum three inspections)	333.56	366.91	403.60	443.96	488.36	537.20

11.5 Development Services Scheme rates

Melbourne Water has two set of principles in relation to development services schemes

- principles around the establishment of development individual services schemes
- pricing principles that Melbourne Water uses to calculate scheme rates.

The pricing principles we use to calculate the scheme rates are shown in Box 11.1.

The price calculated for each Development Services Scheme achieves net present value (NPV) neutrality over the life of the scheme. To do this, we must include all income received and to be received, and all expenditure spent and to be spent. Therefore, to clarify the pricing principles, Melbourne Water has updated the principles in Box 11.1 to align with the current agreed practice.

Box 11.1: Developer charges pricing principles

Developer charges will be calculated by:

- identifying historic and future capital expenditure for each year of the expected life of the scheme
- determining the appropriate developable unit (developable hectares for greenfield schemes, developable floor area or other density unit where appropriate for urban renewal precincts)
- identifying actual income and developable units
- identifying forecast developable units each year
- applying a pre-tax real discount rate (consistent with that determined by the commission) to convert historic and future cash flows into present value terms
- setting the developer charge such that the present value of historic and future income equals the present value of historic and future costs, where future income is equal to the developable units 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.

We have agreed with representatives of the development sector that we will:

- review, with representatives from the sector, the principles we use to establish schemes
- retain the existing pricing principles used to determine scheme rates, which will continue to be calculated as per Box 11.1.

This review will continue into the 2026-31 regulatory period.

The proposed average rates applied to calculate the developer contributions is described in Section 8.2 (Developer contributions).

11.5.1 Stormwater quality offsets

One of Melbourne Water's roles is to manage stormwater and river health in Greater Melbourne. We work with councils, developers, homeowners, authorities and businesses to mitigate the impacts of stormwater from urban development on our environment and the community.

Victorian Planning Policy requires that all development complies with best practice performance objectives to protect downstream receiving waters and it is part of our role to support this.

While the majority of developments across our region achieve compliance, there are some instances where onsite stormwater treatment is not practical or feasible. We recognise this and offer the flexibility of an optional 'offset' service to help those developers who would otherwise be unable to meet the Victorian Planning Policy requirements.

The pricing principles divide owner contributions into two classes:

- **General Stormwater Quality Charges:** equal to the forecast average cost of stormwater management as identified by Melbourne Water's Stormwater program that delivers stormwater quality equivalence for Port Philip Bay and Western Port. These charges are also known as 'stormwater offsets'.
- **Scheme Stormwater Quality Charges:** recovers the cost of Development Services Scheme-related stormwater quality initiatives.

These charges are:

- payable where the development does not meet the minimum standard for nitrogen discharges. Note: the pricing principles specify that developer charges imposed under a Development Services Scheme will be calculated consistently with principles agreed between Melbourne Water and the development industry
- calculated by reference to the mass of nitrogen discharged from the development, relative to the minimum standard.

The General Stormwater Quality rate is currently under review and is likely to increase to reflect updated costs. The current rate hasn't been updated since at least 2014 and is priced at below cost-reflectivity. We have an engagement program with Melbourne Water's Urban Planning and Development Strategic Consultation Group (UPDSCG).

11.5 Price control

Melbourne Water proposes to maintain the current price control – a price cap form of price control for waterways and drainage, and a tariff basket for water and sewerage with the current 3 per cent rebalancing constraint. This form of control, coupled with Melbourne Water taking on more demand-revenue risk on its bulk volumetric charges, means Melbourne Water is taking on more financial risk.

Melbourne Water retains the ability to price below the maximum price where actual demands are significantly above forecast and/or costs are significantly below forecast – passing through savings to our customers and end consumers.

11.6 Price adjustments

We propose to retain our annual price adjustments contained in Schedule 5 of Melbourne Water's 2021 Price Determination with minor modifications, as outlined in Table 11.22.

The amendments include:

- reflecting South-Central reforms
- corrections to the formula to adjust desalination water order costs
- updating the list of charges to which the annual update to the regulatory rate of return applies to correct inconsistencies in previous determinations.

The existing cost pass-throughs are an appropriate allocation of risk for matters beyond Melbourne Water's control, while overall we are taking on more financial risk in this submission. We are not proposing any material changes to the allocations of the three cost pass-through conditions, except for:

- updating the bulk water charges (fixed component) to reflect the new South-Central pool that includes Desalination Contract costs
- updating waterways and drainage charges to include the non-residential charge under item 2.1. This reflects the practice during the regulatory period, where Melbourne Water applied the cost of debt reductions to all customers by charging the lower price.

We also seek to maintain the price adjustment clause for uncertain or unforeseen events as currently outlined in Section 4 of the 2021 Determination. This clause provides a safeguard to both Melbourne Water and its customers for significant changes in our operating environment that impacts revenue, cost and/or financial viability. It reflects continuation of current long-standing arrangements, are consistent with the efficiency objectives in the WIRO, and have been previously approved by the ESC.

Table 11.22: Price adjustment applicable tariffs

	Condition A Water order costs	Condition B Desalination contract costs	Condition C Annual Regulatory Rate of Return (RRR) updates
Water and sewerage charges			
1.1 Bulk water charges – South-Central Pool ^a		Y	Y
1.3 Victorian Desalination Plant Water Order charge ^a	Y		
1.4 Bulk water headworks charges – North South Pipeline			Y
1.10 Bulk sewerage service charges ^b			Y
Waterways and drainage charges			
2.1 Residential waterways and drainage charge			Y
2.1 Non-residential waterways and drainage charge			Y
2.2 Non-residential waterways and drainage charge			Y
2.3 Rural charge			Y

^a Adjustments to be allocated to water corporations by South-Central Pool share 2026-31, see Table 11.7.

^b Adjustments to be allocated to water corporations by sewerage cost allocation share 2026-31, see Table 11.11.

Financial position and non-prescribed services

12

12.1 Financial position

Although we are increasing investment in our services, Melbourne Water's financial position is projected to remain strong over the 2026-31 regulatory period and beyond. This enables us to take on additional risk to limit increases in customer bills for projects where there remains some uncertainty around deliverability.

Melbourne Water undergoes independent internal credit reviews, which confirm our ongoing financial viability.

Our financial model provides outcomes for the five key financial indicators as summarised in Table 12.1.

Interest cover is forecast to remain within the ESC benchmarks for the regulatory period. We note that interest cover is trending towards the benchmark indicator towards the end of the regulatory period. Funds from Operations (FFO) to net debt is also forecast to decline over the regulatory period. This is driven by increased capital expenditure (capex) and increases in desalination capitalisation payments as we get closer to the end of the contract and principal repayments are increasing.

Gearing, Retained Cash Flow (RCF) to net debt and Internal financing ratio are forecast to remain within the ESC benchmarks for the regulatory period and improve over the regulatory period. We believe these ratios remain serviceable, particularly as gearing and interest cover remain below the benchmarks.

Table 12.1: Financial metrics forecast for the regulatory period

	Benchmark	2026-27	2027-28	2028-29	2029-30	2030-31
Primary indicator						
FFO Interest cover (times)	>1.5x <1.8x caution	2.01x	1.99x	1.92x	1.92x	1.95x
FFO / net debt %	>6%	6.7%	6.7%	6.6%	6.6%	6.6%
Secondary indicators						
Net debt / RAV (gearing) %	<80%	54.4%	54.4%	54.3%	54.1%	53.7%
Retained Cashflows/Net Debt (%)	>4%	6.1%	6.0%	6.3%	6.3%	6.4%
Internal financing ratio (%)	>35%	48.7%	46.5%	47.2%	48.4%	52.6%

12.2 Non-prescribed services

Melbourne Water's non-prescribed activity includes:

- Revenue from land sales such as at the Riverwalk Development in Werribee and associated operating expenditure (opex) and capex. Melbourne Water oversees non-prescribed land sales (proceeds from disposals) as part of the Riverwalk development in Werribee, which is a joint venture between Melbourne Water and Development Victoria. Melbourne Water's equity is the land and Development Victoria's equity is the development costs and expertise. The financial return to Melbourne Water in excess of the land value and remediation expenditure is recorded as unregulated revenue (from a regulatory perspective) as it is outside the normal course of business. This is consistent with the approach taken in the 2016 and 2021 Price Determinations.
- Capex and associated opex for new initiatives since PS21 include:
 - The Net Zero Hub at the Eastern Treatment Plant (ETP) is designed to advance our emissions technology. The research and development project will investigate options to transition to net zero. The project will support research into more environmentally sustainable sewage treatment through reducing scope 1 greenhouse gas emissions and reduce reliance on offsets, achieve more cost-effective sewage treatment, and advance Victoria's circular economy through recovery valuable resources from sewage for beneficial use.
 - Melbourne Water is investigating the viability of co-location of Waste-to-Energy (WtE) facilities at ETP or the Western Treatment Plant (WTP) during the next regulatory period. We have received a licence from Recycling Victoria under the *Circular Economy (Waste Reduction and Recycling) Act 2021* to thermally process 450,000 tonnes per year of residual solid waste. There are significant synergies between WtE facilities and sewage treatment plants, which include the reduction of scope 1 emissions to accelerate our Net Zero Obligation, utilising offtake heat for sewage drying, energy supply from biosolids as a feedstock, and the potential to partner with the private sector to generate wider benefits.

We have appropriately ring-fenced capex, revenues and associated opex and excluded them from regulated expenditure and revenue calculations.

The net non-prescribed revenue is not offsetting prices.

Part C – Appendices



Appendix A: Water corporation summaries

Water corporations asked for individualised summaries of our submission. These summaries were shared with corporations for feedback prior to submission.

A.1 Greater Western Water

How we have worked with you	We have been working closely with Greater Western Water (GWW) throughout the development of the Price Submission. GWW feedback was gathered through over 40 meetings of the Water Corporation Forums, Regulatory and Tariff Forums, the Accord working groups and one-to-one meetings. We also ensured GWW end-use customers were heard directly through our community engagement program, with a specific GWW customer focus group, pop up event in the GWW service region, and GWW customers participating in our surveys, deliberative panel and waterways and drainage customer forum. We have considered all the issues GWW raised during our Price Submission development and believe we have largely addressed them.	
Outcomes – how we’re supporting you	MW Outcome	Related GWW Outcome
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Your water is safe, consistent and resilient Outcome 2: When things go wrong, we fix them
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 2: When things go wrong, we fix them
	Outcome 3: Healthy, resilient waterways	Outcome 5: We heal and care for Country
	Outcome 4: Urban drainage and flood resilience	Outcome 4: We enable growth and help businesses thrive
	Outcome 5: A valued partner in water cycle services	Outcome 3: We support our diverse communities and customers Outcome 5: We heal and care for Country
Addressing your key areas	What we heard	How we are responding
	Item #1: Supplying water to a growing west, and a review of asset ownership and interface principles, by 2028, including review of responsibilities in the outer west and Macedon Ranges.	Addressed We have agreed to a joint servicing plan and committed to delivery of bulk water assets to supply Melton (in the former Western Water region). We are delivering the Bulk Supply Agreement Modernisation Project, which includes a workstream on Collaborative Planning and confirmation of Asset Ownership and principles for asset transfers. Our timelines will resolve in time for the 2028 Price Submissions.
	Item #2: Effective operation of the Western Treatment Plant (WTP), including its ability to produce recycled water reliably, and plans for the Werribee System Reconfiguration Project.	Partially addressed We need to invest to secure the future quality and reliability of Class A Recycled Water at WTP. There are several potential strategic directions for this service, ranging from plant renewal to the Werribee Reconfiguration Project. Therefore, we are developing a business case for the Werribee Configuration Project and will invest in some necessary tactical renewals only while we work through the preferred option and willingness-to-pay.
	Item #3: Increased collaboration on whole of water cycle service planning.	Addressed As part of Outcome 5, we are committing to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that addresses the challenges of a changing climate and future planning across Melbourne. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.
	Item #4: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment, and a ‘user pays’ cost allocation and manageable bill impacts on GWW customers.	Addressed We are proposing a suite of tariff reforms that take interests consistent with GWW’s preferences and taking GWW’s customers into account. This includes moving to a higher variable water price as desired by GWW, and allocating fixed charges based on historical usage rather than forecasts.

	Item #5: Increased support for customers in hardship.	Addressed We are building on water corporations’ extensive support for households experiencing vulnerability with Melbourne Water’s first hardship package, including providing payment difficulty support, water efficient appliances for customers experiencing hardship, and working with community sector organisations.
	Item #6: A new water quality Guaranteed Service Level (GSL) that would apply in cases of confirmed microbiological contamination.	Largely addressed We are proposing to introduce a water quality Guaranteed Service Level (GSL) consistent with GWW’s preference. We are proposing the payment to match metropolitan water corporation GSLs up to \$75, which may be lower than GWW’s desired level as this balances concerns around our commitment to safe and reliable drinking water with the potential liability during a large incident over which we have limited control.
	Item #7: Co-design of measures and targets, including a measure on water security and a customer satisfaction measure that reflects the relationship between Melbourne Water and connected water corporations.	Addressed We have iterated Outcomes and measures based on feedback from customers and community, including introducing a new measure around the health of the relationship between Melbourne Water and bulk customers and a new measure on water security.
	Item #8: Investing in ‘readiness’ for the next large scale water supply.	Addressed We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply, including servicing the west.
	Item #9: Price path smoothed considering forecast retail increases in 2028	Addressed In response to feedback and to reduce end impacts on households and businesses for any subsequent price movements with water corporation 2028 submissions, we have proposed to profile the price path in a manner that has a higher increase in 2027-28 followed by lower increases from 2028-31.
Key projects, actions and commitments	In PS26, we are committing to: <div><div>• Collaborative planning</div><div>• Implementing a water quality GSL</div><div>• Price smoothing</div></div> <div><div>• Updating and modernising our Bulk Supply Agreements</div><div>• Tracking our performance against a new water security measure</div><div>• Fair tariff reforms</div></div>	
	Key projects:* <div><div>• We have heard GWW’s two major priorities are supplying water to a growing west and the effective operation of WTP, including its ability to produce recycled water reliably.</div><div>• We’re proposing to invest more than \$750 million in water transfer, including specific projects that benefit GWW’s service region, such as:<div><div>- Winneke-Preston to Harris Gully Link Main Stage 1 ~\$163 million, which will increase system resilience by allowing us to move water from the Silvan to the Winneke catchments and support east-west transfer of Melbourne’s water resources and can also increase harvest by ~9GL per year.</div><div>- the Mt Cottrell Pump Station, Holden – Mt Cottrell Pipeline Stage 1 and Stage 2, Holden Reservoir, Sydenham Pump Station, St Albans to Sydenham Pipeline Duplication, and Greenvale Pump Station Capacity projects to service growing demand in the west ~\$213 million</div><div>- \$250 million investment for early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large scale water supply.</div></div></div><div>• We are planning more than \$540 million investment in water quality, including works at Greenvale Reservoir where we are planning for:<div><div>- reservoir oxygenation to address water quality issues ~\$5 million</div><div>- implementation of multiple barrier treatment (UV disinfection) ~\$21 million</div><div>- high security fencing to protect the catchment ~\$29 million</div><div>- disinfection resilience through emergency chlorine dosing units ~\$6 million.</div></div></div></div>	

	<ul style="list-style-type: none">More than \$630 million investment in water headworks is proposed, including restoring full operating capacity through the Cardinia Dam Safety Upgrade Works ~\$191 million and Cardinia pump station upgrade ~\$99 million to support transfer of water resources in the east to support growth in the west.In respect of the Western Treatment Plant, we will invest more than \$890m to service growth and support its transition from dependence on lagoon treatment systems to controlled mechanised systems that reduce impacts on the community and environment, including:<ul style="list-style-type: none">tactical renewals for the Class A plant and investigations for longer term higher value options ~\$17 millionfull preliminary treatment augmentation ~\$291 millioncompletion of the in-flight Primary Treatment Capacity and Waste Activated Sludge Treatment Augmentations ~\$150 millionplanning and development of future primary and secondary treatment capacity augmentation in line with adaption planning to transition away from lagoon-based treatment ~\$26 millionFor sewage transfer, we are proposing more than \$740 million investment with a focus on renewing brick lined sewers in the west and including renewal of the Western Trunk Sewer (~\$204 million) and multiple sections of the Hobsons Bay Main (~\$52 million). <p>*All projects listed in \$real 2025-26.</p>														
	Prices and bill impacts – how our prices impact you and your customers	Bulk charges impact							End-use customer bill impact						
		Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):							Typical year-on-year household bill impacts relative to inflation as a result of Melbourne Water’s proposal are summarised below:						
Rev		2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Bills	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	
GWW		394	405	426	444	463	481	GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%	
SEW		572	581	605	615	626	637	SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%	
YVW		570	579	605	608	610	612	YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%	
BW		12.0	10.7	6.5	6.5	6.5	7.5	BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%	
SGW		0.7	1.2	1.4	1.6	1.9	2.2	SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%	
WpW		0.6	0.6	0.6	0.7	0.8	0.8	WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%	
GW		1.5	0.6	0.6	0.7	0.8	0.8	GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%	
							Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs, including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.								

A.2 South East Water

How we have worked with you	We have been working closely with South East Water (SEW) throughout the development of the Price Submission. SEW feedback was gathered through over 40 meetings of the Water Corporation Forums, Regulatory and Tariff Forums, the Accord working groups and one-to-one meetings. We also ensured SEW end-use customers were heard directly through our community engagement program, with a specific SEW customer focus group, pop up event in the SEW service region, and SEW customers participating in our surveys, deliberative panel and waterways and drainage customer forum. We have considered all the issues SEW raised during our Price Submission development and believe we have largely addressed them.	
Outcomes – how we’re supporting you	MW Outcome	Related SEW Outcomes
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Get the basics right, always Outcome 2: Warn me, inform me
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 1: Get the basics right, always Outcome 2: Warn me, inform me Outcome 5: Support my community, protect my environment
	Outcome 3: Healthy, resilient waterways	Outcome 5: Support my community, protect my environment
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 3: Fair and affordable for all Outcome 4: Make my experience better Outcome 5: Support my community, protect my environment
Addressing your key areas	What we heard	How we are responding
	Item #1: Potential impacts to SEW customers as a result of asset transfers, tariff reforms and Melbourne Water’s expanded footprint in the west.	Largely addressed We’ve deeply considered differential impacts of our decisions that impact prices and modelled all options and scenarios raised by water corporations to limit and mitigate any price impacts. We are committed to the Bulk Supply Agreement Modernisation Project, which includes a workstream on Collaborative Planning and Asset Ownership criteria, to be resolved in time for 2028 Price Submissions, and will continue to consider customer impacts and principles-based decision making.
	Item #2: Right-sizing investment in the Eastern Treatment Plant (ETP), so that it operates reliably now and, in the future, including recycled water production and incorporating SEW’s intimate knowledge of its customers in sewage demand forecasts.	Largely addressed We understand that SEW is impacted more directly than the other water corporations from recent materially higher than forecast flows and loads at ETP and therefore is deeply interested in Melbourne Water increasing capacity of the plant in a timely manner, but also not over-investing too early to protect customers from paying for assets that are not yet required. We have incorporated SEW’s feedback on our demand forecast and assessed SEW’s alternate demand forecasts, which has confirmed no changes to the investment program would be required during the 2026-31 regulatory period. We have included over \$900 million of prudent, efficient and deliverable capital investment at ETP during the 2026-31 period to enhance plant capacity and operating efficiency.
	Item #3: Increased collaboration on whole of water cycle service planning.	Addressed Under Outcome 5, we commit to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that addresses the challenges in future planning across Melbourne and climate change. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.

	Item #4: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment and has MW taking on more demand risk, and a ‘user pays’ cost allocation.	Largely addressed We are proposing a suite of tariff reforms that take interests consistent with SEW’s preferences and taking SEW’s customers into account. This includes moving to a higher variable water price as desired by SEW, and allocating fixed charges based on historical usage rather than forecasts.
	Item #5: Increased support for customers in hardship.	Addressed We are building on retail water corporations’ extensive support for households experiencing vulnerability with Melbourne Water’s first hardship package, including providing payment difficulty support, water efficient appliances for customers experiencing hardship, and working with community sector organisations.
	Item #6: A new water quality Guaranteed Service Level (GSL) that would apply in cases of confirmed microbiological contamination.	Addressed We are proposing to introduce a water quality Guaranteed Service Level (GSL). We are proposing the payment to match retail water corporation GSL up to \$75, which is higher than SEW’s desired level (\$60) based on its current GSL payment levels. We are committed to working collaboratively with SEW and the other retail water corporations as they work through GSLs in their 2028 Price Submission engagements.
	Item #7: Co-design of measures and targets, including a measure on water security and a customer satisfaction measure that reflects the relationship between Melbourne Water and connected water corporations.	Addressed We have iterated outcomes and measures based on feedback from customers and community, including introducing a new measure around the health of the relationship between Melbourne Water and bulk customers and a new measure on water security.
	Item #8: Investing in ‘readiness’ for the next large scale water supply.	Addressed We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.
Key projects, actions and commitments	In PS26, we are committing to:	
Prices and bill impacts – how our prices impact you and your customers	<div><div><ul style="list-style-type: none">• Collaborative planning• Updating and modernising our Bulk Supply Agreements</div><div><ul style="list-style-type: none">• Implementing a water quality GSL• Tracking our performance against a new water security measure</div><div><ul style="list-style-type: none">• Price smoothing• Fair tariff reforms</div></div>	
	<div>Key projects:*</div> <div><ul style="list-style-type: none">• Over \$940 million of investment at Eastern Treatment Plant (ETP) for growth and compliance/improvement, as well as improving the reliability of recycled water in conjunction with requirements for safe discharge of treated water to the environment, including:<ul style="list-style-type: none">- influent screening and screenings processing augmentation ~\$68 million (continued in 2031-36 period)- PST and Grit Tank augmentation ~\$178 million (continued in 2031-36 period)- sludge dewatering upgrade ~\$177 million- sludge digestion capacity augmentation ~\$73 million- chlorine renewal risk reduction ~\$50 million- site electricity supply capacity augmentation ~\$43 million (continued in 2031-36 period)- ozone generation reliability ~\$41 million (continued in 2031-36 period).• Over \$740 million investment in sewerage transfer, including:<ul style="list-style-type: none">- Ringwood South Branch Augmentation ~\$41 million (continued in 2031-36 period)- investigation of uncontrolled spill reduction in extreme wet weather events (projects to be confirmed, including addressing South East Water Wells Road pump station).• In terms of water headworks, we propose more than \$630 million investment, including a number of projects in Sout East Water’s service area to ensure the resilience and integrity of critical headworks water supply infrastructure, including:<ul style="list-style-type: none">- Cardinia dam safety upgrade works ~\$191 million</div>	

- Cardinia pump station upgrade ~\$99 million
- Cardinia Reservoir catch drain system capacity upgrade ~\$30 million
- We’re planning more than \$540 million investment in **water quality**, including:
 - Cardinia lime plant renewal, preparing to implement multiple barrier treatment (UV disinfection), and chlorine disinfection resilience dosing unit ~\$29 million
 - high security fencing, preparing to implement chlorine renewal and risk reduction and UV disinfection, fluoride plant renewals, and lime plant improvements at Silvan ~\$71 million
- We’re proposing to invest more than \$750m in **water transfer**, including specific projects that benefit South East Water’s service region such as:
 - Officer North Water Supply Service Reservoir ~\$34 million
 - Cranbourne 2nd tank and improvement works, Dandenong No 1 Tank Refurbishment, and developing the M441 main renewal project ~\$7 million
- \$250 million investment for early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.
- **Increased reliability at ETP**, including resetting the bulk recycled water contract - better balancing financial risk and in context of upgrades taking 10 years at ETP.

*All projects listed in \$real 2025-26

Bulk charges impact							End-use customer bill impact						
Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):							Typical year-on-year household bill impacts relative to inflation, as a result of Melbourne Water’s proposal are summarised below:						
Rev	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Bills	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
GWW	394	405	426	444	463	481	GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%
SEW	572	581	605	615	626	637	SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%
YVW	570	579	605	608	610	612	YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%
BW	12.0	10.7	6.5	6.5	6.5	7.5	BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
SGW	0.7	1.2	1.4	1.6	1.9	2.2	SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%
WpW	0.6	0.6	0.6	0.7	0.8	0.8	WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%
GW	1.5	0.6	0.6	0.7	0.8	0.8	GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%
							Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs, including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.						

A.3 Yarra Valley Water

How we have worked with you	We have been working closely with Yarra Valley Water (YVW) throughout the development of the Price Submission. YVW feedback was gathered through over 40 meetings of the Water Corporation Forums, Regulatory and Tariff Forums, the Accord working groups and one-to-one meetings. We also ensured YVW end-use customers were heard directly through our community engagement program, with a specific YVW customer focus group, pop up event in the YVW service region, and YVW customers participating in our surveys, deliberative panel and waterways and drainage customer forum. We have considered all the issues YVW raised during our Price Submission development and believe we have largely addressed them.	
Outcomes – how we are supporting you	MW Outcome	Related YVW Outcome
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Safe and pleasant drinking water Outcome 2: Reliable <u>water</u> and sewerage services Outcome 3: Timely response and repair Outcome 5: Saving water for the future
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 2: Reliable water and <u>sewerage</u> services Outcome 6: Looking after our natural environment
	Outcome 3: Healthy, resilient waterways	Outcome 6: Looking after our natural environment
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 4: Service that meets everyone’s needs
Addressing your key areas	What we heard	How we’re responding
	Item #1: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment, and a ‘user pays’ cost allocation.	Largely addressed We are proposing a suite of tariff reforms that take interests consistent with YVW’s preferences and take YVW’s customers into account. This includes moving to a higher variable water price as requested by YVW, and allocating fixed charges based on historical usage rather than forecasts.
	Item #2: Transfer of Northern Interceptor Sewer to Melbourne Water, and Melbourne Water to deliver Darebin Interceptor Sewer, and a subsequent review of asset ownership and interface principles, by 2028.	Partially addressed We are committing to working collaboratively with YVW to identify the least community-cost solution to address General Environmental Duty issues for which the Darebin Interceptor Sewer has been proposed. We are delivering the Bulk Supply Agreement Modernisation Project, which includes a workstream on Collaborative Planning and confirmation of Asset Ownership and principles for asset transfers. Our timelines will resolve in time for the 2028 Price Submissions.
	Item #3: A new water quality Guaranteed Service Level (GSL) that would apply in cases of confirmed microbiological contamination.	Largely addressed We are proposing to introduce a water quality GSL consistent with YVW’s request. Our proposed payment matches metropolitan water corporation GSLs up to \$75 (lower than the amount YVW proposed), but balances concerns around our commitment to safe and reliable drinking water with the potential financial liability that may be incurred during a large incident over which we have limited control.
	Item #4: Concern about delivery risk of large capital program including considering financial compensation if Melbourne Water assets are not completed on time, particularly if a supply/redundancy risk is being held by YVW in the interim.	Partially addressed We heard that YVW is concerned about Melbourne Water’s delivery track record and that its customers are exposed to price increases associated with Melbourne Water’s larger 2026-31 capital program - even if Melbourne Water cannot deliver the capital uplift. Addressing this, we have only included expenditure we have assessed as prudent, efficient, deliverable and certain. We have also phased expenditure for a smooth delivery ramp. Where projects have some remaining questions about deliverability or certainty, we have deferred these into the following period for pricing purposes. We have included project development expenditure only for these projects, keeping out options open to fast-track delivery if capacity becomes available. Therefore, our

		benchmark is the absolute minimum program we would deliver in recognition there is a further increased requirement for capital expenditure in the 2031-36 period. We will take on the risk of ESC post-prudency and efficiency review for above benchmark expenditure.
	Item #5: That YVW’s unique customer base be considered and involvement in our engagement processes.	Largely addressed We have actively sought to balance the number of participants in engagements with end-use customers across water corporations, had a good sample size for each water corporation across our social research, completed a YVW-specific focus group as part of our Playback process, had a community pop-up in the YVW service region, and we have engaged with YVW one-to-one with regulatory, planning and operational representatives and in various forums in preparing the Price Submission. We are keen to build from our engagement experience to support YVW and other connected water corporations where collective engagement is needed for co-submissions and looking forward to Melbourne Water’s 2031 submission.
	Item #6: Co-design of measures and targets, including measures on water security and a customer satisfaction measure that reflects the relationship between Melbourne Water and connected water corporations, including delivery on commitments made.	Largely addressed We have updated Outcomes and measures based on feedback from customers and community, including introducing a new measure around the health of the relationship between Melbourne Water and bulk customers and a new measure on water security. We heard that Yarra Valley Water has a desire to introduce additional measures that focus on short and longer term water security, and we commit to exploring this further as part of our collaborative planning with water corporations, as well as providing additional information in our annual performance reporting.
	Item #7: Formal input from all water corporations individually on Melbourne Water’s submission and proposed PREMO self-assessment.	Addressed We have requested feedback verbally and in writing on the key components of our submission and our proposed PREMO self-assessment.
	Item #8: Price path smoothed considering forecast retail increases in 2028.	Addressed In response to feedback and in order reduce end impacts on households and businesses for any subsequent price movements with water corporation 2028 submissions, we have proposed to profile the price path in a manner that has a higher increase in 2027-28 followed by lower increases from 2028-31.
Key projects, actions and commitments	In PS26, we are committing to: <ul style="list-style-type: none">Collaborative planning, including working through the lowest community cost solution for the Darebin CatchmentUpdating and modernising our Bulk Supply AgreementsImplementing a water quality GSLTracking our performance against a new water security measurePrice smoothingFair tariff reforms	
	Key projects:* <ul style="list-style-type: none">We have heard YVW’s primary interests for investments relate to the sewer transfer network and water quality and supply.In respect to sewage transfer, we propose to spend more than \$740 million. This includes a commitment to work with YVW to resolve General Environmental Duty issues that the Darebin Interceptor Sewer (~\$25 million development costs) is proposed to address.In terms of water quality, we plan to invest more than \$540 million, including projects that will improve water quality to YVW supply zones and townships. These projects include:<ul style="list-style-type: none">lime plant renewal and preparing to implement UV disinfection at Cardinia ~\$29 millionUpper Yarra Catchment Debris Nets to mitigate the risk of debris flow events in the Upper Yarra Catchment and support the safe and reliable supply of drinking water following bushfire events ~\$25 millionWinneke treatment plant filter refurbishment, coagulant chemical system upgrade, and switchboard renewal ~\$146 millionhigh security fencing, implementing UV disinfection, and disinfection resilience (emergency dosing units) at Greenvale ~\$56 millionhigh security fencing, preparing to implement chlorine renewal and risk reduction and UV disinfection, fluoride plant renewals, and lime plant improvements at Silvan ~\$71 millionwe are also planning works at a number of townships and sites important to YYVW, including Healesville township supply resilience, Monbulk and Kallista UV Disinfection, and Upper Yarra Townships pressure buffer tanks, and Yan Yean treatment upgrades and renewals.In terms of water transfer, we are planning over \$750 million investment in water transfer, including specific projects that benefit YVW’s service region, such as:	

	<ul style="list-style-type: none">- Yarra Glen new supply main and Kallista supply resilience ~\$6 million- Yan Yean water treatment plant auxiliary tank and tank refurbishment and ~\$73 million- Olinda Mitcham main renewal ~\$83 million- Winneke-Preston to Harris Gully Link Main Stage 1 ~\$163 million, which will increase system resilience by allowing us to move water from the Silvan to the Winneke catchments and support east-west transfer of Melbourne’s water resources and also can also increase harvest by ~9GL per year. <ul style="list-style-type: none">• In terms of water headworks, we propose more than \$630 million investment, including a number of projects in YVW’s service area to ensure the resilience and integrity of critical headworks water supply infrastructure, including:<ul style="list-style-type: none">- Cardinia dam safety upgrade works ~\$191 million- Cardinia pump station upgrade ~\$99 million- Cardinia Reservoir catch drain system capacity upgrade ~\$30 million- Maroondah Res Outlet and Aqueduct Stage 3A and 3B ~\$165 million- Coranderrk-Maroondah Pipeline ~\$3 million- Upper Yarra spillway and outlet upgrades Spillway Upgrade ~\$16 million• \$250 million investment for early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large scale water supply <p>*All projects listed in \$real 2025-26</p>													
Prices and bill impacts – how our prices impact you and your customers	Bulk charges impact	End-use customer bill impact												
	Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):							Typical year-on-year household bill impacts relative to inflation, as a result of Melbourne Water’s proposal are summarised below:						
	Rev	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Bills	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	GWW	394	405	426	444	463	481	GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%
	SEW	572	581	605	615	626	637	SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%
	YVW	570	579	605	608	610	612	YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%
	BW	12.0	10.7	6.5	6.5	6.5	7.5	BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
	SGW	0.7	1.2	1.4	1.6	1.9	2.2	SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%
	WpW	0.6	0.6	0.6	0.7	0.8	0.8	WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%
	GW	1.5	0.6	0.6	0.7	0.8	0.8	GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%
								Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs, including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.						

A.4 Barwon Water

How we have worked with you	We have been working closely with Barwon Water (BW) throughout the development of the Price Submission. BW feedback was gathered through over 40 meetings of the Water Corporation Forums, Regulatory and Tariff Forums, the Accord working groups and one-to-one meetings. We also ensured BW end-use customers were heard directly through our community engagement program and BW customers participating in our surveys. We have reflected the expectations of BW as much as possible in our submission.	
Outcomes – how we are supporting you	MW Outcome	Related BW Outcomes
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Safe, secure, sustainable water Outcome 2: Innovative, reliable services
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 3: Healthier environment
	Outcome 3: Healthy, resilient waterways	Outcome 3: Healthier environment
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 4: Trust, affordability and value
Addressing your key areas	What we heard	How we’re responding
	Item #1: Reliability of supply through the Melbourne-Geelong Pipeline including, how a least community-cost solution to supply on peak days is fairly funded, and whether a lower price could apply to drinking water supplied.	Partially addressed We recognise that the Melbourne-Geelong Pipeline (MGP) currently plays a vital role in supplementing the Geelong region’s water supply and that Barwon Water’s modelling shows that demand growth and variability in local water supplies means that current capacity provided by the MGP alone will not meet the region’s future water needs. Barwon Water is collaborating with the Accord corporations on a range of water security measures, as well as undertaking transformational local projects such as upgrading the Wurdee Boluc Treatment Plant. We have explored Barwon Water’s suggestions for differential pricing through the MGP extensively and co-funded an independent review of this concept. We propose to maintain a common drinking water usage charge, which we think better reflects our drivers of cost and meets the Water Industry Regulatory Order. Barwon Water and Melbourne Water reached consensus on this proposal.
	Item #2: Fair tariff reforms, including consideration of the variability in BW demands and desire to protect end customers from volatility in pricing.	Partially addressed Following extensive analysis and consultation, we believe we have arrived at a fair compromise position for a higher volumetric bulk water charge that provides an efficient signal about the true cost of water security underpinned by desalination, while also minimises variability for customers with demands that increase and decrease like Barwon Water’s. We have adopted the 10-year average utilisation for fixed water shares, which smooths entrance into the South-Central Pool for the connected regional water corporations, including Barwon Water. Based on Barwon Water’s forecast demands, its bulk charges will be lower during the regulatory period than in 2025-26. We believe that Barwon Water’s variability in bulk charges is manageable under the regulatory framework, and this could be part of Barwon Water’s 2028 submission.
	Item #3: Increased collaboration on whole of water cycle service planning, which doesn’t stop at the Urban Growth Boundary and considers BW an equal partner.	Addressed Under Outcome 5, we are committing to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that address challenges in future planning across Melbourne and climate change. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.
	Item #4: A review of asset ownership and interface principles which does not stop at the Urban Growth Boundary and considers BW an equal partner.	Largely addressed We are committed to development costs of transfer infrastructure to service the future needs of the Greater Geelong region. We are committed to the Bulk Supply Agreement Modernisation Project, which includes a workstream on Collaborative Planning and Asset Ownership criteria, to be resolved in time for 2028 Price Submissions.

	Item #5: Investing in ‘readiness’ for the next large-scale water supply.	Addressed We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.												
	Item #6: Simplify customer Outcomes, and make it clear which Outcomes relates to which customer cohort.	Addressed Our new Outcomes reflect our core business activities, customer cohorts and key costs and investments. Barwon Water will be covered by Outcomes 1 and 5 and asked for feedback when Melbourne Water is assessing its performance against these Outcomes during the regulatory period.												
Key projects, actions and commitments	In PS26, we are committing to: <div><div>• Collaborative planning</div><div>• Tracking our performance against a new water security measure</div><div>• Price smoothing</div></div> <div><div>• Updating and modernising our Bulk Supply Agreements</div><div>• Fair tariff reforms</div></div>													
	Key projects* <div><div>• More than \$630 million investment in water headworks is proposed, including restoring full operating capacity through the Cardinia Dam Safety Upgrade Works ~\$191 million and Cardinia pump station upgrade ~\$99 million, to support transfer of water resources in the east to support growth and resilience in the west.</div><div>• \$250 million investment for early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.</div><div>• More than \$750 million investment in water transfer, which supports transfer of water resources in the east to support growth and resilience in the west along with the water headworks investments:<div><div>• Winneke-Preston to Harris Gully Link Main Stage 1 ~\$163 million, which will increase system resilience by allowing us to move water from the Silvan to the Winneke catchments and support east-west transfer of Melbourne’s water resources and can also increase harvest by ~9GL per year</div><div>• Sydenham Pump Station, St Albans to Sydenham Pipeline Duplication, and Greenvale Pump Station Capacity projects to provide resilience in servicing growing demand in the west ~\$213 million.</div></div></div><div>• We’re planning more than \$540 million investment in water quality, including works at Greenvale Reservoir to provide resilience in servicing growing demand in the west:<div><div>• reservoir oxygenation to address water quality issues ~\$5 million</div><div>• implementation of multiple barrier treatment (UV disinfection) ~\$21 million</div><div>• high security fencing to protect the catchment ~\$29 million</div><div>• disinfection resilience through emergency chlorine dosing units ~\$6 million.</div></div></div> *All projects listed in real \$2026</div>													
Prices and bill impacts – how our prices impact you and your customers	Bulk charges impact		End-use customer bill impact											
	Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):							Typical year-on-year household bill impacts relative to inflation, as a result of Melbourne Water’s proposal are summarised below:						
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		Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs, including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.
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A.5 Gippsland Water

How we’ve worked with you	We have been working closely with Gippsland Water (GW) throughout the development of the Price Submission. GW feedback was gathered through over 40 meetings of the Water Corporation Forums, Regulatory and Tariff Forums and one-to-one meetings. We also ensured GW end-use customers were heard directly through our community engagement program and GW customers participating in our surveys. We have reflected the expectations of GW as much as possible in our submission.	
Outcomes – how we’re supporting you	MW Outcome	Related GW Outcomes
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 2: Do your job well Outcome 6: Plan for the future
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 4: Be environmentally responsible
	Outcome 3: Healthy, resilient waterways	N/A
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 1: Be affordable and fair Outcome 3: Be easy to deal with Outcome 5: Be involved in the community
Addressing your key areas	What we heard	How we’re responding
	Item #1: Codifying the ‘raw water’ charge.	Addressed We are proposing to continue with the ‘raw water’ charge we have been applying to GW since it acquired bulk entitlement to the Greater Yarra System. This charge would apply to all customers receiving raw water and excludes Melbourne Water’s water treatment program costs.
	Item #2: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment and has Melbourne Water taking on more demand risk, and a ‘user pays’ cost allocation.	Addressed Following extensive analysis and consultation, we are proposing a suite of tariff reforms that take interests consistent with GW’s preferences and taking GW’s customers into account. This includes moving to a higher variable water price as desired by GW, and allocating fixed charges based on historical usage rather than forecasts.
	Item #3: Collaboration on maintaining and increasing supply to West Gippsland townships and collaboration on whole of water cycle service planning in GW’s region.	Partially Addressed As part of Outcome 5, we commit to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that addresses the challenges of a changing climate and future planning across Greater Melbourne. Melbourne Water and GW planners are exploring the possibility of additional interface points in the future. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.
	Item #4: Investing in ‘readiness’ for the next large-scale water supply.	Addressed We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.

	Item #5: Simplify customer Outcomes and make it clear which Outcomes relates to which customer cohort.	Addressed Our new Outcomes reflect our core business activities, customer cohorts and key costs and investments. GW will be covered by Outcomes 1 and 5 and asked for feedback when Melbourne Water is assessing its performance against these Outcomes during the regulatory period.																																																																																																																
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A.6 South Gippsland Water

How we have worked with you	We have been working closely with South Gippsland Water (SGW) through the development of the Price Submission. SGW provided feedback early in our engagement program that they did not wish to participate in the Water Corporation Forum. To reflect this request, we gathered feedback from SGW over 20 meetings of the Regulatory and Tariff Forums and one-to-one meetings. We also ensured SGW end-use customers were heard directly through our community engagement program and SGW customers participating in our surveys. We have reflected the expectations of SGW as much as possible in our submission.	
Outcomes – how we are supporting you	MW Outcome	Related SGW Outcomes
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Reliability - Plan for the future, be reliable and minimise unplanned interruptions to services Outcome 2: Water - Provide safe, clean drinking water
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 4: Environment - Be environmentally sustainable and adapt to a future impacted by climate variability
	Outcome 3: Healthy, resilient waterways	N/A
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 5: Integrity - We will act with honesty, respect and strive to balance affordability, value-for-money and fairness
Addressing your key areas	What we heard	How we are responding
	Item #1: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment and has MW taking on more demand risk, and a ‘user pays’ cost allocation.	Addressed Following extensive analysis and consultation, we are proposing a suite of tariff reforms that take interests consistent with SGW’s preferences and taking SGW’s customers into account. This includes moving to a higher variable water price as desired by SGW, and allocating fixed charges based on historical usage rather than forecasts.
	Item #2: Consideration of transition arrangements for SGW customers.	Addressed SGW is in a unique position where its 2023 Price Submission included taking up an option to acquire 2 GL of additional bulk entitlement in the Greater Yarra Thomson system and passing through the costs of the Melbourne Water charges associated with holding this entitlement to customers. Due to the South-Central Reform process, this is no longer required, but this means that SGW’s customers have not had the bill increase that would have resulted before the South-Central Reform has come into effect. Instead, they will experience increases for additional bulk charges from 1 July 2026. Following extensive analysis and consultation, we have adopted the 10-year average utilisation for fixed water shares, and smoothed fixed water charges over the regulatory period on a NPV-neutral basis, which smooths entrance into the South-Central Pool for the connected regional water corporations, including SGW.
	Item #3: Greater collaboration on planning.	Addressed Under Outcome 5, we commit to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that addresses the challenges in future planning across Melbourne and climate change. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.
	Item #4: Investing in ‘readiness’ for the next large scale water supply.	Addressed

		We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.												
	Item #5: Simplify customer Outcomes and make it clear which Outcomes relate to which customer cohort.	Addressed Our new Outcomes reflect our core business activities, customer cohorts and key costs and investments. SGW will be covered by Outcomes 1 and 5 and asked for feedback when Melbourne Water is assessing its performance against these Outcomes during the regulatory period.												
Key projects, actions and commitments	In PS26, we are committing to: <ul style="list-style-type: none">Collaborative planningTracking our performance against a new water security measurePrice smoothingUpdating and modernising our Bulk Supply AgreementsFair tariff reforms													
Prices and bill impacts – how our prices impact you and your customers	Bulk charges impact						End-use customer bill impact							
	Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):						Typical year-on-year household bill impacts relative to inflation, as a result of Melbourne Water’s proposal are summarised below:							
	Rev	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Bills	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	GWW	394	405	426	444	463	481	GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%
	SEW	572	581	605	615	626	637	SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%
	YVW	570	579	605	608	610	612	YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%
	BW	12.0	10.7	6.5	6.5	6.5	7.5	BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
	SGW	0.7	1.2	1.4	1.6	1.9	2.2	SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%
	WpW	0.6	0.6	0.6	0.7	0.8	0.8	WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%
	GW	1.5	0.6	0.6	0.7	0.8	0.8	GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%
							Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.							

A.7 Westernport Water

How we have worked with you	We have been working closely with Westernport Water (WpW) throughout the development of the Price Submission. WPW feedback was gathered through over 20 meetings of the Regulatory and Tariff Forums and one-to-one meetings. We also ensured WPW end-use customers were heard directly through our community engagement program and WPW customers participating in our surveys. We have reflected the expectations of WPW as much as possible in our submission.	
Outcomes – how we are supporting you	MW Outcome	Related WpW Outcomes
	Outcome 1: Safe and reliable bulk water supplies for now and the long term	Outcome 1: Reliable water and wastewater services Outcome 2: Better tasting water
	Outcome 2: Environmentally sustainable and reliable bulk sewerage services	Outcome 4: A more sustainable community
	Outcome 3: Healthy, resilient waterways	N/A
	Outcome 4: Urban drainage and flood resilience	N/A
	Outcome 5: A valued partner in water cycle services	Outcome 3: Affordable and responsive services
Addressing your key areas	What we heard	How we are responding
	Item #1: Fair tariff reforms, including a higher variable water tariff that incentivises efficient investment and has MW taking on more demand risk, and a ‘user pays’ cost allocation.	Addressed Following extensive analysis and consultation, we are proposing a suite of tariff reforms that take interests consistent with WpW’s preferences and taking WpW’s customers into account. This includes moving to a higher variable water price, and allocating fixed charges based on historical usage rather than forecasts.
	Item #2: Consideration of transition arrangements for Westernport Water customers.	Addressed WpW’s bulk water demands from the Melbourne Water system are forecast to be significantly higher than the historical average. Together with South-Central Reforms, this means that WpW’s bulk charges will increase over time, albeit from a low base. Following extensive analysis and consultation, we have adopted the 10-year average utilisation for fixed water shares, and smoothed fixed water charges over the regulatory period on a NPV-neutral basis, which smooths entrance into the South-Central Pool for the connected regional water corporations (including WpW), including a year-on-year bill increase based on expected demands, as a result of Melbourne Water’s bulk charges of no more than 0.2%.
	Item #3: Greater collaboration on planning.	Addressed Under Outcome 5, we commit to collaborating and co-creating plans with the water sector and playing a key role in delivering water solutions that addresses the challenges in future planning across Melbourne and climate change. We are committed to working with other businesses to complete a collaborative long-term capital and operating plan to support Urban Water and System Strategies and future water corporation and Melbourne Water Price Submissions, as well as Integrated Water Management Forums.
	Item #4: Investing in ‘readiness’ for the next large scale water supply.	Addressed We have included \$250 million of early planning to determine a preferred combination of water supply options for the future and ‘no regrets’ development costs for water transfer and treatment projects that are required for the next large-scale water supply.
	Item #5: Simplify customer Outcomes, and make it clear which outcome relates to which customer cohort.	Addressed

		Our new Outcomes reflect our core business activities, customer cohorts and key costs and investments. WpW will be covered by Outcomes 1 and 5 and asked for feedback when Melbourne Water is assessing its performance against these Outcomes during the regulatory period.												
Key projects, actions and commitments	In PS26, we are committing to: <ul style="list-style-type: none">Collaborative planningUpdating and modernising our Bulk Supply AgreementsTracking our performance against a new water security measurePrice smoothingFair tariff reforms													
Prices and bill impacts – how our prices impact you and your customers	Bulk charges impact						End-use customer bill impact							
	Forecast total Melbourne Water bulk charges (excludes desalination orders), in \$millions, real 2025-26 (before inflation):						Typical year-on-year household bill impacts relative to inflation, as a result of Melbourne Water’s proposal are summarised below:							
	Rev	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Bills	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	GWW	394	405	426	444	463	481	GWW	\$1,110	-	1.5%	0.9%	0.9%	0.8%
	SEW	572	581	605	615	626	637	SEW	\$1,057	-	1.5%	0.1%	0.1%	0.1%
	YVW	570	579	605	608	610	612	YVW	\$1,114	-	1.5%	-0.7%	-0.7%	-0.8%
	BW	12.0	10.7	6.5	6.5	6.5	7.5	BW	\$1,183	-0.3%	-0.1%	-0.1%	-0.1%	0.4%
	SGW	0.7	1.2	1.4	1.6	1.9	2.2	SGW	\$1,405	1.6%	0.6%	0.7%	0.9%	1.1%
	WpW	0.6	0.6	0.6	0.7	0.8	0.8	WpW	\$1,394	-	0.1%	0.1%	0.2%	0.2%
	GW	1.5	0.6	0.6	0.7	0.8	0.8	GW	\$1,492	-0.8%	0.0%	0.1%	0.0%	0.0%
						Customer impacts are indicative only and exclude inflation, water corporation 2028 submission impacts and annual pass-throughs, including desalinated water orders. Forecast customer bill impacts are estimated on the change in total Melbourne Water bulk costs, it is up to each individual water corporation on how this is passed onto households and businesses.								

Appendix B: Outcomes measures and targets

The table below summarises our measures, and their proposed targets for the 2026-31 period. Note at the time of submission only actual data is available for 2023-24 and 2024-25.

Table B.1: Our proposed customer Outcome measure and targets in detail

Outcome	Theme	Measure	Unit		Current regulatory period			Next regulatory period				
					2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Outcome 1 Safe and reliable bulk water supplies for now and the long term	Providing safe drinking water	Number of <i>Safe Drinking Water Act</i> non-compliances (water sampling and audit)	Number	Target	0	0	0	0	0	0	0	0
				Actual	0	0						
	Improving our water service reliability and resilience	Percentage of time compliant with water corporation pressure requirements (cumulative across the year)	Percentage	Target	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%
				Actual	100.0%	99.9%						
	Improving Melbourne’s water supply security	Percentage of transfer system losses as a percentage of water supplied to water corporations	Percentage	Target	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
				Actual	0.96%	0.92%						
		Conduct detailed investigations to progress the critical path for new large-scale water infrastructure.	On Track / Not Met	Target	No Target	No Target	No Target	On Track	On Track	On Track	On Track	Met
				Actual	N/A	N/A						
Outcome 2 Environmentally sustainable and reliable bulk sewerage services	Augmenting our Eastern Treatment Plant to meet growth and improve system resilience	Non-compliances with our EPA licence conditions for all effluent discharge limits at Eastern Treatment Plant	Number	Target	0	0	0	0	0	0	0	0
				Actual	0	0						
		Net amount of greenhouse gas emissions (CO ₂ -e) produced at all sites	Kilotonnes (kT) of CO ₂ e	Target	On track	<204.38 kT	<204.38 kT	<204.38 kT of CO ₂ e net total reportable Scope 2 emissions	<204.38 kT of CO ₂ e net total reportable Scope 2 emissions	<204.38 kT of CO ₂ e net total reportable Scope 2 emissions	0 kT of CO ₂ e net total reportable Scope 1 and 2 emissions	<0 kT of CO ₂ e net total reportable Scope 1 and 2 emissions
								0 kT of CO ₂ e net total reportable Scope 1 emissions	0 kT of CO ₂ e net total reportable Scope 1 emissions	0 kT of CO ₂ e net total reportable Scope 1 emissions		
				Actual	On track	204.38 kt						

Outcome	Theme	Measure	Unit		Current regulatory period			Next regulatory period				
					2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Transitioning our Western Treatment Plant to meet growth and limit impacts	Non-compliances with our EPA licence conditions for all effluent discharge limits at Western Treatment Plant	Number	Target	0	0	0	0	0	0	0	0
				Actual	0	0						
	Improving the reliability and resilience of our sewerage transfer network	Number of sewer spills across our transfer network due to system failure	Number	Target	0	0	0	0	0	0	0	0
				Actual	0	0						
		Volume of sewer spills across our transfer network due to system failure	Megalitres (ML)	Target	0	0	0	0	0	0	0	0
				Actual	0	0						
Outcome 3 Healthy, resilient waterways	Protecting and enhancing nature along our waterways and land so nature can thrive	Length (kms) along waterways managed for ecological benefit (cumulative)	Kilometres (km)	Target	No Target	No Target	No Target	75	272	378	536	608
				Actual	295	384	491					
		Number of projects funded within the waterways and drainage incentives program	Number	Target	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
				Actual	1,057	1,254						
	Maintaining healthy waterways so that they remain vibrant places for our community	Overall satisfaction with our Waterways Service	Percentage	Target	≥85%	≥85%	≥85%	≥85%	≥85%	≥85%	≥85%	≥85%
				Actual	92%	91%						
Outcome 4 Urban drainage and flood resilience	Improving Melbourne’s flood resilience through effective planning and managing of our urban drainage system	Average estimated flood damages reduced as a result of Melbourne Water’s programs	\$m 2025-26 Real (cumulative)	Target	\$63	\$109	\$155	\$75	\$150	\$226	\$301	\$390
				Actual	\$249.9	\$322.3						
		Number of catchments where new flood information is completed	Number of Secondary Catchments (cumulative)	Target	No Target	No Target	No Target	9	18	27	36	48
				Actual	N/A	N/A						
	Improving our processes to support urbanisation and a growing Melbourne	Responses to our urban planning and development statutory and non-statutory applications are completed within the agreed timeline	Percentage	Target	>90%	>90%	>90%	>90%	>90%	>90%	>90%	>90%
				Actual	N/A	98.0%						
		Developer Application satisfaction score	Percentage	Target	No Target	No Target	No Target	7 out of 10	7 out of 10	7 out of 10	7 out of 10	7 out of 10

Outcome	Theme	Measure	Unit		Current regulatory period			Next regulatory period				
					2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
				Actual	N/A	7.2						
Outcome 5 A valued partner in water cycle services	Collaborating and co-create plans with our stakeholders	Water Corporations Relationship Health Metric	Percentage	Target	No Target	No Target	No Target	>70%	>70%	>70%	>70%	>70%
				Actual	N/A	78.6 % "strong category						
	Leveraging new and existing relationships to benefit our communities	Number of initiatives delivered that engage community and foster shared outcomes for healthy land, water and people.	Number (Cumulative in each regulatory period)	Target	120	160	200	40	80	120	160	200
				Actual	172	208						
		Percentage of the community surveyed with a moderate or better level of water literacy	Percentage	Target	>75%	>75%	>75%	>75%	>75%	>75%	>75%	>75%
				Actual	75%	78%						

Appendix C: Major project delivery

Appendix C summarises Melbourne Water's major project delivery over the 2021-26 regulatory period. For each project, it includes:

- summaries of each project's status
- an explanation of any difference in timings to what was planned
- changes in cost from what was forecast in PS21
- lessons we have learnt from these projects that are reflected in our PS26 planning.

Melbourne Water listed 15 major projects in PS21 and these were included in the 2021 Price Determination. Of these, four projects are being delivered by developers and funded via Development Services Schemes with Melbourne Water holding an oversight role in delivery. These are:

- Shogaki Drive DSS Interim Outfall Works
- Wylies Drain Section 3
- Tributary of Skeleton Creek Upper - Section 1
- Clyde Creek Section 92 Liliun WL9.

Accordingly, from 2021-22 Major Project reporting, we included four additional projects – to be delivered by Melbourne Water where we have direct oversight in delivery. The following projects are intended show our carriage of Melbourne Water delivered projects:

- The Reagan Street Retarding Basin
- Shakespeare Grove Main Drain Renewal
- Hallam Valley Retarding Basin Wetland
- Gladstone St Wetland Rectification.

Eleven projects included in the determination continue to have Melbourne Water as the lead, noting that one was cancelled in discussion with Greater Western Water. The three classifications of projects are shown in Tables C.1 to C.3.

Table C.1 sets out projects included in Melbourne Water's Determination that continue to be delivered by Melbourne Water.

Table C.2 sets out projects not included in Melbourne Water's Determination that are delivered by developers.

Table C.3 sets out those additional projects Melbourne Water included for the purposes of reporting to replace projects delivered by developers.

Table C.1: Projects include in Melbourne Water's Determination that Melbourne Water is delivering

Project	Delivery update																
1. Western Treatment Plant (WTP) Primary Treatment Augmentation	Delayed/Deferred																
	<table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$380.4 m</td><td>-</td><td>\$380.4 m</td></tr><tr><td>Actual/Forecast</td><td>\$264.0 m</td><td>\$113.1 m</td><td>\$377.1 m</td></tr><tr><td>Difference</td><td>-\$116.4 m</td><td>\$113.1 m</td><td>-\$3.3 m</td></tr></table>		2021-26	2026-31	Total	Determination	\$380.4 m	-	\$380.4 m	Actual/Forecast	\$264.0 m	\$113.1 m	\$377.1 m	Difference	-\$116.4 m	\$113.1 m	-\$3.3 m
		2021-26	2026-31	Total													
	Determination	\$380.4 m	-	\$380.4 m													
	Actual/Forecast	\$264.0 m	\$113.1 m	\$377.1 m													
	Difference	-\$116.4 m	\$113.1 m	-\$3.3 m													
	Original start/finish: 2020-21 to 2025-26																
	Expected start/finish: 2023-24 to 2028-29																
	Reasons for delay																
	The commencement of this Project was intentionally delayed for two reasons:																
<ul style="list-style-type: none">To allow bundling with complementary projects including the WTP WAS Treatment Augmentation Project, WTP Tankered Waste Facility and WTP Liquid Food Waste Processing Facility to optimise the combined delivery strategy for construction efficiencies and reduced total cost for customers.To accommodate additional time taken to procure delivery support to ensure greater certainty of project costs in a time of unprecedented cost escalation following the COVID-19 pandemic.																	
Impact to customers and community																	
We have absorbed the impact from the project delay in the form of periods of reduced biogas generation, increased greenhouse gas emissions and increased odour environmental compliance risk.																	
2. WTP 5 West Nutrient Removal Plant (WTP 55E Activated Sludge Plant Upgrade)	On Schedule																
	<table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$240.6m</td><td>-</td><td>\$240.6m</td></tr><tr><td>Actual/Forecast</td><td>\$364.4m</td><td>\$0.3m</td><td>\$364.8m</td></tr><tr><td>Difference</td><td>\$123.8m</td><td>\$0.3m</td><td>\$124.2m</td></tr></table>		2021-26	2026-31	Total	Determination	\$240.6m	-	\$240.6m	Actual/Forecast	\$364.4m	\$0.3m	\$364.8m	Difference	\$123.8m	\$0.3m	\$124.2m
		2021-26	2026-31	Total													
	Determination	\$240.6m	-	\$240.6m													
	Actual/Forecast	\$364.4m	\$0.3m	\$364.8m													
	Difference	\$123.8m	\$0.3m	\$124.2m													
	Original start/finish: 2020-21 to 2025-26																
	Expected start/finish: 2022-23 to 2025-26																
	This project forms part of Melbourne Water’s commitment to protect Melbourne’s bays and waterways from environmental harm.																
	Construction was completed in December 2024, commissioning was completed in June 2025, and the project is scheduled to reach practical completion on time.																

Project	Delivery update																
3. Hobson's Bay Main Sewer Yarra Crossing Duplication	<div>On Schedule</div> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$163.9 m</td><td>\$26.6 m</td><td>\$190.5 m</td></tr><tr><td>Actual/Forecast</td><td>\$191.5 m</td><td>\$3.1 m</td><td>\$194.6 m</td></tr><tr><td>Difference</td><td>\$27.6 m</td><td>-\$23.5 m</td><td>\$4.1 m</td></tr></table> <div>Original start/finish: 2020-21 to 2027-28 Expected start/finish: 2021-22 to 2026-27</div> <p>Since February 2022, the project team has established two construction sites at Scienceworks and Westgate Park. Tunnelling works with tunnel boring machine (Lucey) completed the 670-metre journey under the Yarra River in November 2023.</p> <p>The new sewer tunnel was tested in preparation for the sewage diversion to the second pipeline so that restoration works can commence on the original pipeline.</p> <p>The duplication of the sewer tunnel project was completed in October 2024 with realised risk reduction benefits and new sewer receiving flows.</p> <p>The remaining scope of works, including relining of the original sewer, are now underway and scheduled to be completed in late 2026.</p>		2021-26	2026-31	Total	Determination	\$163.9 m	\$26.6 m	\$190.5 m	Actual/Forecast	\$191.5 m	\$3.1 m	\$194.6 m	Difference	\$27.6 m	-\$23.5 m	\$4.1 m
	2021-26	2026-31	Total														
Determination	\$163.9 m	\$26.6 m	\$190.5 m														
Actual/Forecast	\$191.5 m	\$3.1 m	\$194.6 m														
Difference	\$27.6 m	-\$23.5 m	\$4.1 m														
4. Maribyrnong Main Sewer Augmentation	<div>Delayed</div> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$52.5 m</td><td>\$0.0 m</td><td>\$52.5 m</td></tr><tr><td>Actual/Forecast</td><td>\$76.9 m</td><td>\$35.6 m</td><td>\$112.5 m</td></tr><tr><td>Difference</td><td>\$24.4 m</td><td>\$35.6 m</td><td>\$60.0 m</td></tr></table> <div>Original start/finish: 2020-21 to 2023-24 Expected start/finish: 2021-22 to 2028-29</div> <div>Reasons for delay</div> <p>This project was delayed for two reasons:</p> <ul style="list-style-type: none">Significant flooding leading to unprecedented water levels occurred within the urban catchment of the Maribyrnong River in October 2022. This flood event led to a re-design of the sewer augmentation solution to mitigate risks of future flooding (changing a bridge crossing of the Maribyrnong River to a siphon under the river).The project comprised complex external approvals with extended durations for approvals including European Heritage, Planning and Cultural Heritage Management Plans. <div>Impact to customers and community</div> <p>There have not been any impacts to customers and the community due to the delay of this project. We have been and will continue to carry Environment Protection Authority Victoria environmental compliance risks (spills to the environment) until project completion.</p>		2021-26	2026-31	Total	Determination	\$52.5 m	\$0.0 m	\$52.5 m	Actual/Forecast	\$76.9 m	\$35.6 m	\$112.5 m	Difference	\$24.4 m	\$35.6 m	\$60.0 m
	2021-26	2026-31	Total														
Determination	\$52.5 m	\$0.0 m	\$52.5 m														
Actual/Forecast	\$76.9 m	\$35.6 m	\$112.5 m														
Difference	\$24.4 m	\$35.6 m	\$60.0 m														

Project	Delivery update																
5. WTP Gas Plant Renewal	<p>Delayed</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$27.3 m</td><td>\$18.1 m</td><td>\$45.4 m</td></tr><tr><td>Actual/Forecast</td><td>\$3.8 m</td><td>\$84.7 m</td><td>\$88.5 m</td></tr><tr><td>Difference</td><td>-\$23.5 m</td><td>\$66.6 m</td><td>\$43.1 m</td></tr></table> <p>Original start/finish: 2022-23 to 2027-28 Expected start/finish: 2025-26 to 2028-29</p> <p>Reasons for delay</p> <p>This project was delayed to conduct further investigations and spend additional effort during the design stage to mitigate project construction risk and ensure expenditure is efficient.</p> <p>Impact to customers and community</p> <p>There have not been any impacts to customers and the community due to this project’s delay. We have been and will continue to carry site environmental licence compliance risks (odour) and operating cost risks (if biogas power generation is interrupted) until project completion.</p>		2021-26	2026-31	Total	Determination	\$27.3 m	\$18.1 m	\$45.4 m	Actual/Forecast	\$3.8 m	\$84.7 m	\$88.5 m	Difference	-\$23.5 m	\$66.6 m	\$43.1 m
	2021-26	2026-31	Total														
Determination	\$27.3 m	\$18.1 m	\$45.4 m														
Actual/Forecast	\$3.8 m	\$84.7 m	\$88.5 m														
Difference	-\$23.5 m	\$66.6 m	\$43.1 m														
6. Yan Yean to Bald Hill Pipeline	<p>Completed late</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$115.4 m</td><td>-</td><td>\$115.4 m</td></tr><tr><td>Actual/Forecast</td><td>\$102.9 m</td><td>-</td><td>\$102.9 m</td></tr><tr><td>Difference</td><td>-\$12.5 m</td><td>-</td><td>-\$12.5 m</td></tr></table> <p>Original start/finish: 2020-21 to 2023-24 Actual start/finish: 2021-22 to 2024-25</p> <p>Reasons for delay</p> <p>This project was delayed due to longer than expected approval of the Cultural Heritage Management Plans (CHMPs).</p> <p>Impact to customers and community</p> <p>There have not been any impacts to the community due to this project’s delay. We worked with Yarra Valley Water who supplied customers via their assets until the project was completed.</p>		2021-26	2026-31	Total	Determination	\$115.4 m	-	\$115.4 m	Actual/Forecast	\$102.9 m	-	\$102.9 m	Difference	-\$12.5 m	-	-\$12.5 m
	2021-26	2026-31	Total														
Determination	\$115.4 m	-	\$115.4 m														
Actual/Forecast	\$102.9 m	-	\$102.9 m														
Difference	-\$12.5 m	-	-\$12.5 m														

Project	Delivery update																
7. Maroondah Res Outlet and Aqueduct Stage 3A	<p>Delayed</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$70.2 m</td><td>\$26.7 m</td><td>\$96.9 m</td></tr><tr><td>Actual/Forecast</td><td>\$9.2 m</td><td>\$221.1 m</td><td>\$230.4 m</td></tr><tr><td>Difference</td><td>-\$61.0 m</td><td>\$194.4 m</td><td>\$133.5 m</td></tr></table> <p>Original start/finish: 2020-21 to 2027-28 Expected start/finish: 2026-27 to 2032-33</p> <p>Reasons for delay This project was delayed to conduct further investigations and spend additional effort during the design stage to mitigate project construction risk and ensure expenditure is efficient.</p> <p>Impact to customers and community There have not been any impacts to customers and the community due to this project’s delay. We have been and will continue to carry water security and water quality risks until the project is complete.</p>		2021-26	2026-31	Total	Determination	\$70.2 m	\$26.7 m	\$96.9 m	Actual/Forecast	\$9.2 m	\$221.1 m	\$230.4 m	Difference	-\$61.0 m	\$194.4 m	\$133.5 m
	2021-26	2026-31	Total														
Determination	\$70.2 m	\$26.7 m	\$96.9 m														
Actual/Forecast	\$9.2 m	\$221.1 m	\$230.4 m														
Difference	-\$61.0 m	\$194.4 m	\$133.5 m														
8. Winneke Treatment Plant - UV Disinfection System	<p>Completed on time</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$52.0 m</td><td>-</td><td>\$52.0 m</td></tr><tr><td>Actual/Forecast</td><td>\$49.1 m</td><td>-</td><td>\$49.1 m</td></tr><tr><td>Difference</td><td>-\$2.9 m</td><td>-</td><td>-\$2.9 m</td></tr></table> <p>Original start/finish: 2020-21 to 2024-25 Expected start/finish: 2021-22 to 2024-25</p> <p>This project delivered more robust drinking water treatment processes to continue to safeguard public health. It was completed on schedule in August 2024.</p>		2021-26	2026-31	Total	Determination	\$52.0 m	-	\$52.0 m	Actual/Forecast	\$49.1 m	-	\$49.1 m	Difference	-\$2.9 m	-	-\$2.9 m
	2021-26	2026-31	Total														
Determination	\$52.0 m	-	\$52.0 m														
Actual/Forecast	\$49.1 m	-	\$49.1 m														
Difference	-\$2.9 m	-	-\$2.9 m														

Project	Delivery update																
9. Olinda to Mitcham Water Mains Replacement Stage 1	Completed late																
	<table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$45.4 m</td><td>-</td><td>\$45.4 m</td></tr><tr><td>Actual/Forecast</td><td>\$88.6 m</td><td>-</td><td>\$88.6 m</td></tr><tr><td>Difference</td><td>\$43.2 m</td><td>-</td><td>\$43.2 m</td></tr></table>		2021-26	2026-31	Total	Determination	\$45.4 m	-	\$45.4 m	Actual/Forecast	\$88.6 m	-	\$88.6 m	Difference	\$43.2 m	-	\$43.2 m
		2021-26	2026-31	Total													
	Determination	\$45.4 m	-	\$45.4 m													
	Actual/Forecast	\$88.6 m	-	\$88.6 m													
Difference	\$43.2 m	-	\$43.2 m														
Original start/finish: 2020-21 to 2022-23																	
Expected start/finish: 2022-23 to 2024-25																	
Reasons for delay	This Project’s complexity extended project development and delivery lead times.																
Impact to customers and community	There have not been any impacts to customers and the community due to this project’s delay. We carried the risk of the main’s failure until project completion.																
10. Mt Atkinson Reservoir Inlet Pipeline	Cancelled at customer's request																
	<table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$38.0 m</td><td>-</td><td>\$38.0 m</td></tr><tr><td>Actual/Forecast</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Difference</td><td>-\$38.0 m</td><td>-</td><td>-\$38.0 m</td></tr></table>		2021-26	2026-31	Total	Determination	\$38.0 m	-	\$38.0 m	Actual/Forecast	-	-	-	Difference	-\$38.0 m	-	-\$38.0 m
		2021-26	2026-31	Total													
	Determination	\$38.0 m	-	\$38.0 m													
	Actual/Forecast	-	-	-													
Difference	-\$38.0 m	-	-\$38.0 m														
Original start/finish: 2021-22 to 2023-24																	
Reasons for cancellation	This project was cancelled at the request of Greater Western Water as the water corporation had identified an alternative solution for long-term supply to the Melton growth area to be delivered themselves.																
Impact to customers and community	There have not been any impacts to customers and the community due to this project’s cancellation. The proposed replacement project by Greater Western Water will deliver the required water supply benefits.																

Project	Delivery update																
11. Port Melbourne Pump Station Renewal	<p>Delayed</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$13.8 m</td><td>-</td><td>\$13.8 m</td></tr><tr><td>Actual/Forecast</td><td>\$15.6 m</td><td>\$0.1 m</td><td>\$15.7 m</td></tr><tr><td>Difference</td><td>\$1.8 m</td><td>\$0.1 m</td><td>\$1.9 m</td></tr></table> <p>Original start/finish: 2021-22 to 2022-23 Expected start/finish: 2023-24 to 2026-27</p> <p>Reasons for delay The project was delayed due to longer than expected project development and delivery lead times.</p> <p>Impact to customers and community There have not been any impacts to customers and the community due to this project’s delay. We have been and will continue to flood risks should the asset fail until the project is complete.</p>		2021-26	2026-31	Total	Determination	\$13.8 m	-	\$13.8 m	Actual/Forecast	\$15.6 m	\$0.1 m	\$15.7 m	Difference	\$1.8 m	\$0.1 m	\$1.9 m
	2021-26	2026-31	Total														
Determination	\$13.8 m	-	\$13.8 m														
Actual/Forecast	\$15.6 m	\$0.1 m	\$15.7 m														
Difference	\$1.8 m	\$0.1 m	\$1.9 m														

Table C.2: Projects included in Melbourne Water's Determination that developers are delivering

Project	Delivery update																
12. Shogaki Drive DSS Interim Outfall Works Developer delivered project	<p>Cancelled</p> <table><tr><th></th><th>2021-26</th><th>2026-31</th><th>Total</th></tr><tr><td>Determination</td><td>\$11.3 m</td><td>-</td><td>11.3</td></tr><tr><td>Actual/Forecast</td><td>\$0.7 m*</td><td>-</td><td>0.7</td></tr><tr><td>Difference</td><td>-\$10.6 m</td><td>-</td><td>-10.6</td></tr></table> <p><i>* This relates to the alternate temporary solution implemented</i></p> <p>Original start/finish: 2022-23 to 2022-23</p> <p>Reasons for cancellation</p> <p>Development Services Schemes are used to plan infrastructure for new urban developments. They guide the standards developers must meet for flood protection, water quality and waterway health. Melbourne Water supports land development by acting as the tender authority and asset owner of waterways and drainage projects delivered by the land development industry. This approach captures efficiencies associated with delivery of multiple (predominantly civil) services in a coordinated manner and provides flexibility for the developer to manage the timing for delivery of its projects.</p> <p>The Shogaki Drive Development Services Scheme (DSS) Interim Outfall Works project was raised for the developer of Thornhill Park residential development to undertake the design and construction of interim drainage assets within the Shogaki Drive DSS. The project was cancelled as land development delays in the scheme mean that the developer would not be able to deliver the assets in the required timeframe. An alternative project, Thornhill Wetland, was raised and delivered by a different developer to meet interim DSS drainage requirements.</p>		2021-26	2026-31	Total	Determination	\$11.3 m	-	11.3	Actual/Forecast	\$0.7 m*	-	0.7	Difference	-\$10.6 m	-	-10.6
	2021-26	2026-31	Total														
Determination	\$11.3 m	-	11.3														
Actual/Forecast	\$0.7 m*	-	0.7														
Difference	-\$10.6 m	-	-10.6														

	Impact to customers and community Interim drainage assets have been constructed to meet the needs of DSS development to date.																
13. Wylies Drain Section 3 RBPWL2 Developer delivered project	Delayed <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$10.5 m</td><td>-</td><td>\$10.5 m</td></tr><tr><td>Actual/Forecast</td><td>\$5.3 m</td><td>\$0.4 m</td><td>\$5.7 m</td></tr><tr><td>Difference</td><td>-\$5.2 m</td><td>\$0.4 m</td><td>-\$4.8 m</td></tr></table> <p>Original start/finish: 2021-22 to 2022-23 Expected start/finish: 2021-22 to 2025-26</p> <p>Reasons for delay Development Services Schemes are used to plan infrastructure for new urban developments. They guide the standards developers must meet for flood protection, water quality and waterway health. Melbourne Water supports land development by acting as the tender authority and asset owner of waterways and drainage projects delivered by the land development industry. This approach captures efficiencies associated with delivery of multiple (predominantly civil) services in a coordinated manner and provides flexibility for the developer to manage the timing for delivery of its projects. Commencement of works were delayed due to extended negotiations between Melbourne Water and the developer regarding the scope of works, flora and fauna considerations and redesign of the stormwater outfall.</p> <p>Impact to customers and community The flood protection, water quality and waterway health benefits for the Botanic Ridge Development Services Scheme (DSS) will not be realised until the project is completed.</p>		2021-26	2026-31	Total	Determination	\$10.5 m	-	\$10.5 m	Actual/Forecast	\$5.3 m	\$0.4 m	\$5.7 m	Difference	-\$5.2 m	\$0.4 m	-\$4.8 m
	2021-26	2026-31	Total														
Determination	\$10.5 m	-	\$10.5 m														
Actual/Forecast	\$5.3 m	\$0.4 m	\$5.7 m														
Difference	-\$5.2 m	\$0.4 m	-\$4.8 m														
14. Tributary of Skeleton Creek Upper - Section 1 Developer delivered project	Delayed <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$10.2 m</td><td>-</td><td>\$10.2 m</td></tr><tr><td>Actual/Forecast</td><td>\$3.0 m</td><td>-</td><td>\$3.0 m</td></tr><tr><td>Difference</td><td>-\$7.2 m</td><td>-</td><td>-\$7.2 m</td></tr></table> <p>Original start/finish: 2022-23 to 2023-24 Expected start/finish: 2021-22 to 2026-27</p> <p>Reasons for delay Development Services Schemes are used to plan infrastructure for new urban developments. They guide the standards developers must meet for flood protection, water quality and waterway health. Melbourne Water supports land development by acting as the tender authority and asset owner of waterways and drainage projects delivered by the land development industry. This approach captures efficiencies associated with delivery of multiple (predominantly civil) services in a coordinated manner and provides flexibility for the developer to manage the timing for delivery of its projects. The project has been delayed due to extended contract negotiations between Melbourne Water and the developer.</p> <p>Impact to customers and community</p>		2021-26	2026-31	Total	Determination	\$10.2 m	-	\$10.2 m	Actual/Forecast	\$3.0 m	-	\$3.0 m	Difference	-\$7.2 m	-	-\$7.2 m
	2021-26	2026-31	Total														
Determination	\$10.2 m	-	\$10.2 m														
Actual/Forecast	\$3.0 m	-	\$3.0 m														
Difference	-\$7.2 m	-	-\$7.2 m														

	The project involves the construction of a waterway to provide flood protection and outfall drainage to the new development. The flood protection, water quality and waterway health benefits for the Truganina Development Services Scheme (DSS) will not be realised until the project is completed.																
15. Clyde Creek Section 92 Liliu WL9 Developer delivered project	<div>Completed on time</div> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$10.4 m</td><td>-</td><td>\$10.4 m</td></tr><tr><td>Actual/Forecast</td><td>\$0.9 m</td><td>-</td><td>\$0.9 m</td></tr><tr><td>Difference</td><td>-\$9.4 m</td><td>-</td><td>-\$9.4 m</td></tr></table> <div>Original start/finish: 2021-22 to 2022-23 Expected start/finish: 2021-22 to 2022-23</div> <div>Impact to customers and community Development Services Schemes are used to plan infrastructure for new urban developments. They guide the standards developers must meet for flood protection, water quality and waterway health. Melbourne Water supports land development by acting as the tender authority and asset owner of waterways and drainage projects delivered by the land development industry. This approach captures efficiencies associated with delivery of multiple (predominantly civil) services in a coordinated manner and provides flexibility for the developer to manage the timing for delivery of its projects.</div> <div> This project delivered flood protection, water quality and waterway health benefits for the Clyde Creek Development Services Scheme (DSS) via the construction of a storm water quality treatment wetland with stormwater retardation capacity.</div>		2021-26	2026-31	Total	Determination	\$10.4 m	-	\$10.4 m	Actual/Forecast	\$0.9 m	-	\$0.9 m	Difference	-\$9.4 m	-	-\$9.4 m
	2021-26	2026-31	Total														
Determination	\$10.4 m	-	\$10.4 m														
Actual/Forecast	\$0.9 m	-	\$0.9 m														
Difference	-\$9.4 m	-	-\$9.4 m														

Table C.3: Projects added for reporting to replace developer delivered projects

Project	Delivery update																
16. Regan St Retarding Basin	<p>Deferred</p> <table><tr><td></td><td>2021-26</td><td>2026-31</td><td>Total</td></tr><tr><td>Determination</td><td>\$9.3 m</td><td>-</td><td>\$9.3 m</td></tr><tr><td>Actual/Forecast</td><td>\$0.1 m</td><td>\$14.0 m</td><td>\$14.1 m</td></tr><tr><td>Difference</td><td>-\$9.2 m</td><td>\$14.0 m</td><td>\$4.8 m</td></tr></table> <p>Original start/finish: 2020-21 to 2022-23 Expected start/finish: 2026-27 to 2034-35</p> <p>Reasons for deferral The project delivers both flood risk mitigation and urban land development benefits for privately owned land adjacent to the project site. MW adopted an innovative delivery model to construct the retarding basin using the Developer Works process. This approach has proved to be complex as project costs have been refined and increased and also due to ownership turnover of the adjacent land. MW deferred the project to work through the identified issues.</p> <p>Impact to customers and community</p>		2021-26	2026-31	Total	Determination	\$9.3 m	-	\$9.3 m	Actual/Forecast	\$0.1 m	\$14.0 m	\$14.1 m	Difference	-\$9.2 m	\$14.0 m	\$4.8 m
	2021-26	2026-31	Total														
Determination	\$9.3 m	-	\$9.3 m														
Actual/Forecast	\$0.1 m	\$14.0 m	\$14.1 m														
Difference	-\$9.2 m	\$14.0 m	\$4.8 m														

	The project will reduce the risk of flooding in the St Albans West Drain catchment and support the development of land. The benefits of reduced flood risk will not be realised until the project is completed.																		
17. Shakespeare Grove Main Drain Renewal	<p>Completed on time</p> <table border="1"> <thead> <tr> <th></th><th>2021-26</th><th>2026-31</th><th>Total</th></tr> </thead> <tbody> <tr> <td>Determination</td><td>\$9.0 m</td><td>-</td><td>\$9.0 m</td></tr> <tr> <td>Actual/Forecast</td><td>\$10.7 m</td><td>-</td><td>\$10.7 m</td></tr> <tr> <td>Difference</td><td>\$1.7 m</td><td>-</td><td>\$1.7 m</td></tr> </tbody> </table> <p>Original start/finish: 2020-21 to 2021-22 Actual start/finish: 2020-21 to 2021-22</p> <p>Impact to customers and community The Shakespeare Grove Main Drain beach outlet project successfully improved public safety, enhanced the drainage system and created a Port Phillip Bay viewing platform on the St Kilda foreshore.</p>				2021-26	2026-31	Total	Determination	\$9.0 m	-	\$9.0 m	Actual/Forecast	\$10.7 m	-	\$10.7 m	Difference	\$1.7 m	-	\$1.7 m
	2021-26	2026-31	Total																
Determination	\$9.0 m	-	\$9.0 m																
Actual/Forecast	\$10.7 m	-	\$10.7 m																
Difference	\$1.7 m	-	\$1.7 m																
18. Hallam Valley Retarding Basin Wetland	<p>Delayed</p> <table border="1"> <thead> <tr> <th></th><th>2021-26</th><th>2026-31</th><th>Total</th></tr> </thead> <tbody> <tr> <td>Determination</td><td>\$7.8 m</td><td>-</td><td>\$7.8 m</td></tr> <tr> <td>Actual/Forecast</td><td>\$4.2 m</td><td>-</td><td>\$4.3 m</td></tr> <tr> <td>Difference</td><td>-\$3.5 m</td><td>-</td><td>-\$3.5 m</td></tr> </tbody> </table> <p>Original start/finish: 2020-21 to 2023-24 Expected start/finish: 2020-21 to 2026-27</p> <p>Reasons for delay The project commenced as per the schedule included in our PS21. Wet weather caused some delays to civil works, which were completed in August 2024. Planting was completed in early 2025. The forecast completion in 2027 provides for the revegetation establishment period to ensure the wetland plants have survived.</p> <p>Impact to customers and community The project improves the waterway health via nitrogen removal from the wetland. The project delay has delayed realisation of the project benefits, noting the nitrogen removal benefit will begin to be realised following the completion of planting in early 2025.</p>				2021-26	2026-31	Total	Determination	\$7.8 m	-	\$7.8 m	Actual/Forecast	\$4.2 m	-	\$4.3 m	Difference	-\$3.5 m	-	-\$3.5 m
	2021-26	2026-31	Total																
Determination	\$7.8 m	-	\$7.8 m																
Actual/Forecast	\$4.2 m	-	\$4.3 m																
Difference	-\$3.5 m	-	-\$3.5 m																

19. Gladstone St Wetland Rectification

	2021-26	2026-31	Total
Determination	\$6.5 m	-	\$6.5 m
Actual/Forecast	\$6.8 m	\$22.3 m	\$29.1 m
Difference	\$0.3 m	\$22.3 m	\$22.6 m

Original start/finish: 2020-21 to 2021-22

Expected start/finish: 2025-26 to 2027-28

Reasons for delay

The project has been delayed whilst the project is developed further and costs are refined.

Impact to customers and community

The project improves the waterway health via nitrogen removal from the wetland. The project delay has delayed realisation of the project benefits.

Appendix D: Guaranteed Service Levels proposal

Melbourne Water is committed to providing high standards of service. We've engaged with water corporations on the Guaranteed Service Level (GSL) scheme that has been in place during the 2021-26 regulatory period, which recognises that occasionally, Melbourne Water is the cause of a water corporation breaching one of its GSLs. Melbourne Water commits to compensating the water corporation for the rebate amount to its end customers in these cases, as well as a contribution towards administration or contact centre costs as a result of the breach.

Feedback from the water corporations has been that we should continue with our current GSLs, extend the scheme to include regional water corporations if a Melbourne Water issue results in them paying out a rebate, and introduce a new GSL around water quality, which they would also incorporate into their GSL schemes.

The following principles for allocation of rebates to customers where Melbourne Water is the cause have been used to prepare our GSLs:

- GSLs should be passed ultimately to the end customer or otherwise impacted parties. Therefore, most are simply reimbursing metropolitan water corporation out of pockets for paying out GSLs, where Melbourne Water has caused the impact, with the remainder being some form of recompense for heightened call centre and administrative costs at water corporations for unplanned events (including where minimum notice periods for planned events not met)
- metropolitan water corporations should not be out of pocket where an issue is caused by Melbourne Water
- consistency between water corporations where possible – with deviation from this relates to slightly different rebate values and trigger thresholds
- any payment to end retail customer because of Melbourne Water breaching a GSL would be made by the water corporation to their customer
- keep the GSLs as simple as possible to measure and administer
- utilise existing systems where possible
- Melbourne Water recognises that from time to time there are significant events that would require additional consideration, such as the wide-scale Silvan incident (while these are infrequent, they are highly variable in nature and impact, therefore, our submission to the ESC includes provision for bespoke reimbursement for such major incidents).

Our GSL scheme is summarised against the following two categories and shown in Table D.1:

- back-to-back abatements to water corporations' customers
- additional direct water corporation compensation.

Table D.1: Proposed Guaranteed Service Level scheme

Category	GSL	GWW*	SEW	YVW	Other connected water corporations
Back-to-back abatements to water corporations	Unplanned water quality	<ul style="list-style-type: none"> If a precautionary drinking water advisory is issued due to a potential issue with drinking water supplied by Melbourne Water: <ul style="list-style-type: none"> Bottled water reimbursement to metropolitan water corporation customers (on application) Reimbursement of metropolitan water corporation incident administration costs Matching metropolitan water corporation GSL rebate, up to \$75 rebate per property if drinking water supplied does not meet the microbial characteristics of health-based drinking water quality standards¹, and Melbourne Water, or a failure in Melbourne Water's system, caused the non-compliance². 			
	Unplanned water service interruption	<ul style="list-style-type: none"> \$250 rebate for more than 5 unplanned interruptions per year, \$125 for more than 3 \$125 water service unplanned disruption not resolved within 5 hours of notification 	<ul style="list-style-type: none"> \$60 rebate for more than 5 interruptions (water, sewer and water quality) per year, or unplanned interruption longer than 5 hours to resolve. 	<ul style="list-style-type: none"> \$50 for more than 4 hours unplanned event. \$100 for more than 12 hours unplanned event. \$50 for 3 or more unplanned events 12 months (rolling 12 months) 	<ul style="list-style-type: none"> As per corporation GSL scheme
	Unplanned sewer service interruption	<ul style="list-style-type: none"> \$125 more than 3 sewer blockages in a year \$100 sewer blockage not resolved within 5 hours of notification 	<ul style="list-style-type: none"> \$60 rebate for more than 2 interruptions per year, or unplanned interruption longer than 4 hours to resolve. 	<ul style="list-style-type: none"> \$50 interruption more than 4 hours \$100 interruption more than 12 hours \$50 for 3 or more interruptions last 12 months (rolling 12 months) 	N/A

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Category	GSL	GWW*	SEW	YVW	Other connected water corporations
	Sewer spill (caused by system failure)	<ul style="list-style-type: none"> \$1,200 sewer spill in house \$3,500 sewer spill in house not contained within 1 hour \$100 sewer spill in property not contained within 5 hours of notification 	<ul style="list-style-type: none"> \$1,000 rebate when sewer spill on property takes more than 5 hours to contain. \$3,000 rebate for sewer spill within the house. 	<ul style="list-style-type: none"> \$1,000 spill inside property for over one hour \$2,000 subsequent spill inside property last 12 months for over 1 hour \$1,000 uncontained spill on property more than 4 hours \$2,000 subsequent uncontained spill on property for over 4 hours last 12 months 	N/A
	Planned event – non-emergency – breach of minimum notice period to metropolitan water corporation	Match GWW payment of \$100 to household customer	N/A - SEW don't make a payment to customers for breach of minimum notice periods	Match YVW payment of \$50 to household customer	As per corporation GSL scheme
	Recurring aesthetic water quality customer complaints	N/A	N/A	\$50 to household customers for the third and subsequent contact/complaint about separate water quality issues in a rolling 12-month period	N/A
Additional direct water corporation compensation	Unplanned event or Planned event (minimum notice period not met ³),	Average calls/day 140	Average calls/day 400	Average calls/day 400 Greater than 100 calls/day increase per event caused by MW	N/A

Category	GSL	GWW*	SEW	YVW	Other connected water corporations
	Additional management of customer calls / complaints	Greater than 35 calls/day increase per event caused by MW Or Greater than 10 calls/hour per event caused by MW Compensation of \$5,000 per incident to retail water company	Greater than 100 calls/day increase per event caused by MW Or Greater than 10 calls/hour per event caused by MW Compensation of \$5,000 per incident to retail water company	Or Greater than 10 calls/hour per event caused by MW Compensation of \$5,000 per incident to retail water company	
	Significant Unplanned water or sewerage service disruption / event	Melbourne Water would make payments at our discretion to GWW based on an assessment of the impact	Melbourne Water would make payments at our discretion to SEW based on an assessment of the impact	Melbourne Water would make payments at our discretion to YVW based on an assessment of the impact	N/A
	Pressure deviations above tolerances	Actual cost where >\$10K per incident to GWW	Actual cost where >\$10K per incident to SEW	Actual cost where >\$10K per incident to YVW	N/A

*Rebates for Greater Western Water (GWW) customers have been increased to match GWW determination

Note 1: Clause 16(2) of the *Safe Drinking Water Regulations* (2025)

Note 2: Excludes events that are beyond the reasonable control of Melbourne Water, including acts of God, lightning, storm, flood, fire, earthquake or any other natural disaster, explosion, pandemic or epidemic

Note 3: Minimum notice periods for planned interruptions

- For planned water or sewer service interruptions, metropolitan water corporation to be advised 14 days in advance or by agreement 7 days in advance (Control Room to Control Room).

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- For change of primary water source, metropolitan water corporation to be advised per the schedule below (or less by agreement or emergency⁴) in advance of change (Control Room to Control Room):

- St Albans supply from Winneke vs Greenvale (via Sharps Road)	2 business days
- Greenvale by-pass (Winneke / Silvan shandy)	2 business days
- Tarago to Cardinia, CP1 >50 per cent change in desalinated supply vs Cardinia supply to Peninsula	2 business days
- Upper Yarra to O'Shannassy / Tribs for Yarra Valley Towns	2 business days
- Winneke to Silvan for Yan Yean / Plenty corridor & Western Transfer main	7 business days.

Note 4: Emergency event

- Change required to avert significant supply disruption or water quality issue, but supply remains Bulk Water Supply Agreement compliant.