Consultation Paper
2016 Price Review

Have your say on Melbourne Water’s prices
Melbourne Water’s overarching goal is to provide our customers with the best possible services at a fair cost. As the wholesaler of bulk water, sewage treatment and recycled water, our charges for these services are paid by the local water utilities who provide water and sewerage services to homes and businesses. Melbourne Water’s wholesale water and sewerage costs contribute to over half of average household water and sewerage costs.

Melbourne Water also has responsibilities for waterway health, flood protection, stormwater management and land development in the Port Phillip and Westernport region, an area of some 12,800km² which stretches across greater Melbourne. These services are paid for by a mix of households and businesses through the Waterways and Drainage Charge, which is itemised on water bills.

Over the last decade we have invested significantly in water and sewerage infrastructure to meet the needs of a growing city in a changing climate. Today, Melbourne enjoys some of the highest quality water services in the world, and our focus for the next five years is to operate as efficiently as possible while maintaining this quality.

This consultation paper spells out how we are proposing to do that while reducing wholesale water and sewerage charges from 1 July 2016.

We are seeking input on all aspects of our services and charges but are particularly keen to answer the following questions:

1. How should we fund the ongoing costs of the Victorian Desalination Project?
2. How should we provide customers with the waterways and drainage services they want and what price are they prepared to pay?
3. How can we modernise the Waterways and Drainage Charge for around 140,000 non-residential customers who currently pay the charge on the basis of property value?

There are a number of ways you can have your say including:

- in writing, by free post to:
  2016 Price Submission
  Melbourne Water
  Reply Paid 4342
  MELBOURNE VIC 8060
- provide feedback online at
  PriceReview.melbournewater.com.au
- email us: PriceReview@melbournewater.com.au
- or by calling on 131 722.

Your views are important and I thank you for taking the time to contribute to this process.

Michael Wandmaker
Managing Director
Melbourne Water
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What is the 2016 Price Review?

Melbourne Water is consulting with customers and stakeholders on the services we plan to provide, our forecast expenditure, and the prices we plan to set to deliver these services.

The prices Melbourne Water charges are reviewed and set for up to five years by the independent regulator, the Essential Services Commission (ESC). The ESC regulates prices and standards of water and sewerage services in Victoria, with the main objective of promoting the interests of Victorian consumers.

Early in this process, Melbourne Water consults with customers and stakeholders about the services we plan to provide, our forecast expenditure, and the charges we plan to set to deliver these services. It is an important part of the process through which wholesale water and sewerage charges and the Waterways and Drainage Charge is set.

This consultation paper is a key part of our consultation with customers and other stakeholders, and will help inform our final submission to the ESC on 30 October 2015.

This paper provides an overview of our proposed investment and raises a range of issues for community input that will shape the prices we charge.

Our wholesale water and sewerage charges are paid by your local water utility and we will continue to consult with them in the development of our final submission. However, recognising the significant impact desalination costs have on water bills, we are seeking public input on the way we pay for the Victorian Desalination Plant.

The paper also covers our waterways and drainage customers in the Port Phillip and Westernport region. The region extends from high up in the Yarra Ranges across to Ballan in the west, right across to Tarago in the east and encapsulates Phillip Island and the Mornington Peninsula in the south.

We are also engaging with other stakeholders and with the community both through this consultation paper and via formal deliberative research forums and quantitative surveys.
There are a number of ways you can have your say on this price review.

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Melbourne Water
Reply Paid 4342
MELBOURNE VIC 8060

Online: PriceReview.melbournewater.com.au
Email: PriceReview@melbournewater.com.au
Phone: 131 722
For translating and interpreting services call 131 450. Teletypewriter (TTY) users can phone 133 677.

Throughout this paper you’ll see this symbol with the questions we’re asking Melbourne residents, businesses and other stakeholders to respond to.
Proposed price changes

Water and sewerage

Melbourne Water’s wholesale charges for water and sewerage services are expected to decrease by around 6% (including inflation) in 2016-17 and then increase in line with inflation only. If accepted by the ESC, this would be the first significant decrease in wholesale charges in more than a decade.

This is the start of a comprehensive process which will involve working with the local water utilities and the ESC to determine the prices households and businesses will pay from 1 July 2016. This final price will also be impacted by how the desalination plant is funded. As such the final impact on households is yet to be determined.

Waterways and Drainage Charge

For the next period, we are looking at both the waterways and drainage services we provide, and the way we collect the revenue from the Waterways and Drainage Charge to fund these services.

Further in this paper, we seek feedback on the services we are proposing to fund through the Waterways and Drainage Charge and on three main possible options to reform the non-residential charge.

In considering reform of the non-residential charge, Melbourne water plans to limit any increase to residential customers ($96 in the last year of the current price period) and rural customers ($52) to the rate of inflation. The final non-residential price will be subject to any reforms to the charge.

Key timelines

Price setting process

<table>
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<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>June – July 2015</td>
<td>Customer and community consultation</td>
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<td>ESC releases Final Determination on our Price Submission</td>
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<tr>
<td>1 July 2016</td>
<td>New prices apply</td>
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Your water bill explained

Melbourne Water is the wholesaler of water, sewage treatment and recycled water. Our charges for these services are charged to the local water utilities who provide water and sewerage services to homes and businesses. Your water and sewerage costs include both wholesale costs (over half) and local water utility costs.

**Account Summary**

- Water Service and Usage Charge $xx
- Sewerage Service and Usage Charge $xx
- Waterways and Drainage Charge $xx
- Parks Charge $xx

**Water Bill**

**Water**
Melbourne Water wholesale water costs which is used to invest in and operate major infrastructure like dams, major pipes and pump stations and paying for desalination.

**Sewerage**
Melbourne Water wholesale sewerage costs which is used to invest in and operate infrastructure like treatment plants, major pipes and pumping stations.

**Waterways and Drainage Charge**
The Waterways and Drainage Charge is a direct Melbourne Water charge to you and is used to invest in a range of services including waterway health and flood protection.

**Parks Charge**
The Parks Charge is collected on behalf of the Department of Environment, Land, Water and Planning to support parks, trails and public facilities across Melbourne, as well as Melbourne’s zoos, the Royal Botanic Gardens and the Shrine of Remembrance.
Melbourne Water is preparing its 2016 Price Submission to the water industry’s regulator, the ESC, to establish our prices for the next five years.

We plan to continue making sure Melbourne has a clean and reliable water supply, and world-class sewage treatment, waterways and drainage services.

Understanding what Melbourne’s households and businesses want will guide our submission.

We are working with Melbourne’s local water utilities to ensure that the infrastructure needed to maintain a safe and secure water supply is built and maintained at the most efficient cost.

Price setting timeline

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Our Proposals – have your say

How should we pay for the desalination plant?

Melbourne Water is seeking customer and community input on how we should charge for the cost of the Victorian Desalination Plant so that it is fair to all, including future generations.

Costs around $620m each year over the next 5 years of the 27 year contracted payment period to have this ‘insurance’ against drought.

What is better?

1. Updating existing charges
2. Moving to a flat charge based on the benefits customers receive
3. Setting the charge based on the impact the property has on waterways and flood risk

For more information see the Wholesale services section on page 10.
What is the 2016 Price Review?

What waterways and drainage services do you value and how should we charge for them?

Melbourne Water is seeking input into fairer ways to apply the Waterways and Drainage Charge. This charge is paid directly to Melbourne Water to look after creeks and rivers, and provide flood and drainage services in our region.

Residential waterways and drainage services – what you are paying for?

Waterway protection
- planting trees and removing weeds
- providing shelter and vegetation for wildlife
- education and community programs
- monitoring the state of waterways.

Manage flooding
- managing drainage infrastructure and services
- providing flood risk information
- flood forecasting and warnings
- contributing to strategies to manage floods.

Land development
- assisting in planning to minimise flood as properties are developed
- designing adequate drainage systems in growth areas.

Stormwater management
- rehabilitating wetlands
- providing alternative water supplies.

Non-residential waterways and drainage charge

Setting charges for around 140,000 non-residential customers

Current system is outdated and based on property values.

For more information see the Waterways and drainage section on page 18.
Melbourne Water wants to maximise the value of each dollar spent on core water, sewerage and recycled water services. We plan to deliver savings to our wholesale customers over the next five years.

Our Customers

Wholesale water
Melbourne Water supplies, treats and transfers drinking water to local water utilities. Our wholesale water customers include:
- City West Water
- South East Water
- Yarra Valley Water
- Western Water
- Gippsland Water
- Barwon Water
- South Gippsland Water.

Wholesale sewerage
Melbourne Water transports, treats and disposes of 90% of the sewage generated in Melbourne. Our wholesale sewerage customers are:
- City West Water
- South East Water
- Yarra Valley Water.

Recycled water
Melbourne Water provides recycled water from our two sewage treatment plants to customers who sell it directly to recycled water users. Our wholesale recycled water customers include:
- City West Water
- South East Water
- Southern Rural Water
- Yarra Valley Water
- Water Infrastructure Group
- Barwon Water.
Our services

Wholesale water

As the wholesaler of Melbourne’s water supply, we are responsible for managing catchments, treating water and transferring it to our customers – the local water utilities – who in turn supply to individual homes and businesses.

Wholesale sewerage

Around 90% of Melbourne’s sewage is treated at the Western Treatment Plant (WTP) at Werribee and the Eastern Treatment Plant (ETP) at Bangholme, both of which are owned and operated by Melbourne Water. The rest of Melbourne’s sewage is treated at smaller plants by local water utilities.

Recycled water

Melbourne Water uses a range of new technology to turn sewage into valuable resources such as recycled water and biogas (renewable energy). Both the ETP and WTP produce recycled water for use on site and supply to offsite customers. In 2013-14, around 30,000 million litres was supplied to customers and significant volumes were used on site and provided for conservation purposes in the Ramsar-listed wetlands located at the WTP.

Our proposals

Over the next five years, we will raise around $1.4 billion each year to pay for these services. This revenue is invested in operating and maintaining Melbourne Water’s overall supply, transfer, treatment and recycling systems.
We are consulting with local water utilities to ensure an appropriate level of expenditure that enables us to:

- Replace and maintain ageing assets
- Ensure capacity to meet the increasing demands of a growing city
- Ensure the quality and safety of water supplies, and
- Make other investments to improve safety and efficiency.

Key water and sewerage projects proposed for the coming five-year regulatory period include:

- Upgrading the Western Treatment Plant that treats 52% of Melbourne’s sewage to accommodate population growth and improve efficiency ($509 million)
- Renewal and expansion of the Eastern Treatment Plant that treats 42% of Melbourne’s sewage ($341 million)
- Upgrade and renewal of sewer assets and water mains ($454 million)
  - Sewer assets: $280 million – 343km of sewers
  - Water mains: $174 million – Replacing old high-risk pipes
- Winneke Water Treatment Plant upgrade: $35 million
- Aqueduct Refurbishment: $65 million – maintaining and renewing aqueducts which transfer water from storage reservoirs.

**Price impacts**

We are working with the local water utilities to determine the best structures for the wholesale prices we charge so that together we:

- Create incentives to manage water resources efficiently
- Fairly recover the efficient cost of the services we provide to each customer, and
- Manage any impacts of changes through transition arrangements.

Most of our proposed expenditure relates to replacing and maintaining ageing assets

[Diagram showing distribution of proposed expenditure]

Drivers of proposed investment

- Ensure capacity to meet the increasing demands of a growing city
- Replace and maintain ageing assets
- Ensure the quality and safety of water supplies
- Make other investments to improve safety and efficiency
Water and sewerage services

Based on current planned expenditure, Melbourne Water’s average charge for wholesale water and sewerage services would fall by around 6% (including inflation) in 2016-17 and remain stable, with annual adjustments made for inflation only over the following four years. This is the first time since independent price regulation commenced in 2004 that wholesale prices have significantly decreased.

We have managed to propose a decrease by:

- Maintaining and locking in efficiencies found over the past two years which are currently contributing to the Government water bills rebate
- Reduced interest costs on borrowings used to fund our projects
- Increased water and sewerage sales as a result of a growing city, and
- Reduced Victorian Desalination Plant contract costs.

This is the start of a comprehensive process that will involve working with local water utilities and the ESC to determine prices for households from 1 July 2016. The final price will also be impacted by how the desalination plan is funded. As such the final impact to households will not be known until our price determination is completed in 2016.

Recycled water

Melbourne Water is proposing to continue to use well-established pricing principles when setting wholesale recycled water prices. These principles include setting prices that recover the cost of providing the service, wherever possible, and allow for a variable component to cover individual customer usage. These principles have been reviewed and approved by the ESC previously and inform the contracted prices we establish with each of our wholesale customers.
The Victorian Desalination Project
Desalination complements our water supply catchments by providing a secure, rainfall-independent source of water for Melbourne. The desalination plant (including associated pipeline and power supply) is capable of supplying up to 150 billion litres of drinking water each year, or around one-third of Melbourne’s water needs. It removes salts and minerals from seawater by passing it through reverse osmosis membranes.

The desalination plant, which was constructed and is operated by Aquasure, came into service in late 2012. Over the next five years Melbourne Water will pay an annual security payment of around $620M for the design, construction, financing and maintenance of the desalination plant. These payments are due to continue until the end of the 27 year contracted payment period in 2039-40. Melbourne Water collects the revenue required for its desalination payments via the wholesale water prices it charges Melbourne’s local water utilities. There is an additional smaller cost incurred when water from the plant is required, and that cost would be recovered from water users at the time it is used.

The issue – funding the ongoing desalination costs
The desalination plant’s average asset life is 60 years, which is 33 years longer than the 27 year contracted payment period. Melbourne Water is currently paying for the desalination plant over the term of the 27 year contracted payment period, but the ESC has asked us to consider collecting this cost from customers over the estimated 60 year life of the asset rather than the 27 year contracted payment period.

This would mean those who benefit from the desalination plant will contribute to its cost and is consistent with the approach taken by Melbourne Water when it builds infrastructure. It would however mean Melbourne Water would need to borrow more money in the short term and customers would pay the additional interest, but it would result in lower bills for customers now.
The options
Melbourne Water’s wholesale charges currently reflect the contract costs. That is, we collect the full contract cost in the wholesale prices we charge the local water utilities.

Melbourne Water is considering spreading a proportion of these annual contract costs. The amount spread will determine how much bills are reduced.

However, a consequence of this is that although it would reduce prices in the short term, it would lead to relatively higher prices in the longer term as this would result in borrowings that would need to be collected after the Aquasure contract ended. In other words, contract payments for the desalination plant will have ended but we would have to continue to collect desalination plant costs from customers.

Price implications
The impact of spreading desalination costs:

Every $10M spread annually over the next five years would result in:
• A one-off $3.70 decrease in annual average water and sewerage bills in 2016-17

Therefore, if an amount of $10 million is spread each year, the average annual water bill would fall by $3.70 in 2016-17. If $10 million per year was spread over this five year period, a total of $30 million would need to be recovered after the contract has ended.

If the amount spread was raised to:
• $20 million per year, then the bill reduction would be slightly over $7
• $30 million per year, then the bill reduction would be slightly over $11.

If more of the contract cost is spread, water bills would be further reduced and higher interest would result.

Pros:
• Lower prices today
• Those who benefit from the desalination plant will contribute to its cost

Cons:
• Relatively higher prices in future
• Customers would pay additional interest
Finalising our proposal

We understand the issue of how we charge for the desalination plant is complicated and requires close consideration beyond the scope of this consultation paper. For this reason, Melbourne Water will undertake a detailed research and consultation program with a wide range of consumers, stakeholders and consumer advocacy groups.

Based on the feedback we receive, we will finalise our proposal for funding the cost of desalination charges in our 2016 Price Submission to the ESC in October 2015.

Have your say

- Do you think the cost of the Victorian Desalination Project should be paid within the existing 27 year contracted payment period or spread over the estimated 60-year asset life? What makes you feel that way?
- If so, what are the issues that Melbourne Water should take into account in determining the amount to be spread?
Our region extends from high up in the Yarra Ranges across to Ballan in the west, right across to Tarago in the east and encapsulates Phillip Island and the Mornington Peninsula in the south (see page 22). It is home to around four million people.

To fund these services we levy a Waterways and Drainage Charge on property owners in our region.

We want to find out what our customers expect in terms of the level of service we provide and how they should be charged.

**Our waterways and drainage services**

**Healthy waterways**

Melbourne Water manages the health of Melbourne’s rivers and creeks. Across the Port Phillip and Westernport region we look after:

- 8,400km of rivers and creeks
- 442 waterways treatment systems and wetlands
- 310 monitoring stations on waterways and drains
- 160 urban lakes.

Our role includes encouraging the re-use of stormwater and facilitating new development that protects the environmental condition of waterways for future communities. We also support EPA Victoria to respond to pollution events that impact rivers and creeks.

To support this service, we invest in Waterways protection and enhancement and Improving stormwater management.

**Manage flooding**

Melbourne Water provides flood and drainage services to its customers by designing adequate systems in growth areas, identifying areas at risk, sharing flood risk information, managing assets and responding to extreme events.

Melbourne Water also delivers flood and drainage services to communities by supporting and working closely with a range of agencies such as the Bureau of Meteorology, Victoria State Emergency Service (VicSES) and local councils.
Melbourne Water works with councils to develop Flood Management Plans that outline the unique flooding risks in each region and the individual approaches to address them.

We help reduce the risk of flood through:

- Managing flooding and drainage to reduce flood risks for Melbourne
- Providing flood risk information to stakeholders and communities
- Flood forecasting support for the Bureau of Meteorology and VicSES, and targeted flash flood warning
- Enabling new development that delivers ‘flood safe’ communities.

Melbourne Water and councils share responsibility for most of Melbourne’s drainage system.

We will continue to partner with local government to support a range of projects to benefit local communities, as well as build skills and understanding of sustainable stormwater management.
How much we spend

Melbourne Water proposes to spend over $200 million per year in capital expenditure and $140 million per year in operating costs on its waterways and drainage services over the next five years. Based on these forecasts, we will collect around $250m through charges which will be used to fund past and future investments.

Healthy Waterways

Waterways protection and enhancement (average annual capital expenditure $20 million)

The Port Phillip and Westernport region covers around 12,800km², with more than 8,400km of waterways, 30 estuaries and several natural and constructed wetlands. We plan to undertake extensive improvement including:

- Vegetation management such as planting along riverbanks and removing weeds
- Habitat management such as providing shelter and vegetation for wildlife as well as ensuring streamflows are suitable for aquatic plants and animals
- Education and community programs that increase community understanding and ownership of local rivers and creeks, and
- Monitoring the state of waterways over time so we can understand key issues and improve our management approach.

Improving stormwater management (average annual capital expenditure $17 million)

We plan to undertake a series of works to reduce the impact of stormwater on our waterways and bays, including rehabilitating existing wetlands to protect the water quality of our receiving waterways and bays.

We will continue to partner with local government to support a range of projects to benefit local communities, as well as build skills and understanding of sustainable stormwater management. This will include making use of stormwater as an alternative water source to reduce pressure on our drinking water supplies and to improve the liveability of our communities.

Manage flooding

Minimising the impact of floods (average annual capital expenditure $69 million)

Melbourne Water will continue to provide high quality flood and drainage services to protect the community and public assets from the adverse impacts of flooding. This is proposed to include designing adequate systems in growth areas, identifying areas at risk, sharing flood risk information, managing assets, reducing flood risks in priority areas and responding to extreme events.
New flood management strategy underway
Melbourne Water is currently working with local councils and other agencies that have flood management responsibilities to develop a new Port Phillip and Westernport Flood Strategy for release in late 2015. Unless well managed, both climate change and population growth are expected to increase flood damage across the region in the coming years with significant financial impact. Based on the consultations to date, the strategy will continue to deliver some of the key activities of the existing strategy, with an ongoing focus on gathering flood risk and management information, delivering flood risk reduction activities, achieving better collaborative planning and action between agencies, and building community awareness and engagement around flood risks.
For more information visit PriceReview.melbournewater.com.au.

Land development works (average annual capital expenditure $98 million)
Melbourne Water oversees a process to minimise flood risk in the development of properties and buildings without compromising other properties or adversely impacting our waterways. This includes planning for the development or re-development of land in urban growth areas or infill development.

We plan to undertake a series of capital works over the next five years to service the growth areas of Melbourne such as new drainage infrastructure, and the construction of new wetlands and retarding basins. The cost of this investment is recovered as the area is developed from developers through charges established from development service schemes (see page 30).
Price implications

All rateable properties in our service area pay Melbourne Water’s Waterways and Drainage Charge. The charge is included on water bills and managed by local water utilities. We have three main customer groups:

Rural customers who live outside the Urban Growth Boundary (100,000 households and businesses). These customers pay a lower rate as the regional drainage system is largely confined to metropolitan Melbourne. From 1 July 2015 (the final year of the current pricing period), this charge will be $52 (or $13 per quarterly bill).

Residential customers (i.e. the 1.7 million properties) located inside the Urban Growth Boundary that pay a flat charge which will be $96 from 1 July 2015 (this is usually charged at $24 per quarter).

Non-residential customers inside the Urban Growth Boundary pay a charge based on the value of their property subject to a minimum charge of $110. There are more than 140,000 of these customers, most of which currently pay $110 - $300 per year, while some are paying $100,000 or more per year for the service, due to the higher value of their properties.

Melbourne Water is looking to reform the non-residential charge (see next page) so the price paid by these customers will be subject to the adoption of any of these proposals. Depending on the reform option chosen, residential and rural customers could be impacted. However, in considering options for reform, Melbourne Water is looking to limit any increase for residential and rural customers to the rate of inflation (usually around 2-3%) over the next five years.
Waterways and drainage services

**Have your say**

- What do you think of the Waterways and Drainage services we provide?
- Do you think we should do more, less or about the same amount of work on waterway health, flood protection, stormwater management and land development?
- What should we do more / less of?

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**Waterways management survey**

Deciding on exactly what level of service to provide to our waterways and drainage customers is difficult given the diverse views across our customer base, which will soon reach more than two million households and businesses.

Overall we know our customers generally want healthier waterways and enhanced flood protection but we know less about how much people are willing to pay for these additional benefits.

To help us understand this, Melbourne Water is conducting a random survey of more than 1,000 customers. Each participant will be presented with range of trade-off options related to critical waterways and drainage decisions to help gauge customer preferences.

The results of the survey will inform Melbourne Water about the overall level of service our customers expect and how we should prioritise funding between our services.

The survey is also open to all of our customers. It can be accessed online at: [PriceReview.melbournewater.com.au](http://PriceReview.melbournewater.com.au)
Reforming the Waterways and Drainage Charge

Our Waterways and Drainage Charge has been in place in some form since the 1920s when it was first used to fund some of Melbourne’s early drainage services and was levied at the rate of one penny per pound of property value.

Over time, as Melbourne Water’s service area and responsibilities have changed, so too has the way we fund these services. In 2008, following extensive consultation with our customers and the broader community, Melbourne Water started to move away from property valuation as the basis for charging residential properties.

From 2012 all residential properties have been charged the same flat rate for waterways and drainage services, reflecting the fact that everyone benefits either directly or indirectly from healthy waterways and a safe, reliable drainage system. In addition, a lower flat rate was introduced for customers living outside the Urban Growth Boundary as these customers do not receive the full benefits of Melbourne Water’s drainage system. This followed a similar reform in the late 1990s to set water prices based on the volume of water used, not the value of the property.

The issue – modernising the charge

While property values have been removed for 93% of our customers, around 140,000 non-residential customers still pay based on the value of their property.

This is no longer considered an appropriate way to set charges because:

• It does not reflect either the benefits these customers receive or the costs imposed on the system
• There are historical anomalies in the charge which can see similar properties pay different charges, and
• The property value basis used is based on 1990 values which are now 25 years out of date.

For these reasons the ESC has asked us to look at alternative approaches for the next price period. To simplify our charging arrangements, we are considering ways to ensure non-residential customers of a similar size, industry type or waterways impact pay a similar charge.

In doing so, Melbourne Water will consider the following principles in establishing a new basis for the charge:

• Ensuring the charge is clear, transparent and easily understood
• Providing signals for the cost of our services while avoiding price shocks
• Taking into account the impact on vulnerable customers, and
• Ensuring the charge is cost effective to introduce and administer.
The options

Given the limitations of the existing approach to charging non-residential customers and the ESC’s guidance that we should consider alternative approaches, Melbourne Water is looking at three broad options to modernise and simplify the charge. None of the options being considered would result in Melbourne Water collecting additional revenue from the charge.

1. Update existing charges

Non-residential customers currently pay a charge according to 1990 property values – an approach that has been in place for many years and is no longer reflective of today’s property prices.

One option for modernising the charge is to update property values to current levels. This would result in different impacts for customers depending on how their property values have changed over time.

This approach is expensive to implement as it requires Melbourne Water to acquire more recent property values. In addition, property values do not reflect either the benefits customers receive or the costs that they impose on the system.

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<td>Cons:</td>
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<tr>
<td>Expensive to implement</td>
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<td>Significant customer impacts</td>
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<td>Charges do not reflect costs imposed or benefits received</td>
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2. Based on the impact that a property has on waterways and flood risk

This approach is based on the concept that customers should be charged a rate equivalent to the cost of their impact on our infrastructure. In general, we can assume the greater amount of hard or impervious surfaces at a given property, the greater the impact on our infrastructure and waterways.

Setting the charge in this way would provide a signal to non-residential customers of their impact on waterways and the drainage system. More sophisticated examples of this approach allow customers to lower their charge by undertaking activities to lessen their impact. For example, a property owner with a large amount of hard surfaces may invest in infrastructure to collect and use stormwater, thus reducing their impact on creeks and rivers and potentially making a positive contribution. In practice, however, it can be difficult and costly to set charges that precisely represent the impact of individual properties and so Melbourne Water has reservations about moving to this approach straight away. For example the impact of an individual property can be influenced by its slope and proximity to a waterway, the surrounding area and the underlying condition of drainage and flood protection assets in the area.

If there is significant public interest in pursuing this approach, Melbourne Water will investigate this option further. Over time the cost of this implementing this approach may also reduce as technology improves. This approach could also later be added to a flat charge so that high impact properties pay an additional amount.

**Pros:**
- Charge based on the impacts of each property

**Cons:**
- Timely and costly to implement
- Difficult to calculate a charge which accurately represents the impact
- Will involve customer impacts that will need to be managed
3. Moving to a flat charge consistent with the vast majority of our customers

Melbourne Water’s favoured approach is to move all non-residential customers to one or more flat charges to acknowledge that everyone benefits directly or indirectly from healthy waterways and a safe, reliable drainage system. This is a simpler approach to explain and administer and ensures greater consistency for residential and non-residential customers. However, it doesn’t take into account the impact of individual customers on our waterways, drainage and flood protection infrastructure.

The simplest form of this would be all non-residential customers paying the same fixed charge. Alternatively, we could look at introducing a range of fixed charges which reflect differing benefits received over parts of Melbourne.

**Pros:**
- Reflects benefits customers receive
- Simple to understand and cost effective to implement

**Cons:**
- Does not reflect the impact of properties
- Will involve customer impacts that will need to be managed

**Implementation**

Implementing any change will have potential impacts for customers and it is important that the transition does not create price shocks. For example, Melbourne Water is proposing that any change be adopted over multiple pricing periods (for example over 10 years) allowing customers to shift gradually to a new pricing model. In addition there is an opportunity to apply caps to limit the maximum annual increase or decrease to an individual bill or category of customers.

Depending on the reform option chosen, residential and rural customers could be impacted. However, Melbourne Water plans to limit any increase to these customers to no more than the rate of inflation over the next five years.
Finalising our proposal

Melbourne Water understands that changing the way we set our charges is a complicated issue that needs to be discussed openly with our customers and key stakeholders before any change is made. Based on the feedback, Melbourne Water will undertake more detailed modelling and implementation planning.

It is important to note that any change to the way the Waterways and Drainage Charge is collected will not result in any increase in the overall revenue Melbourne Water receives via this charge.

As well as gaining feedback from the release of this consultation paper, we will be undertaking a detailed research and consultation program with our customers and stakeholders, including customer advocacy groups.

Based on the feedback we receive, we will finalise our proposal in our 2016 Price Submission to the ESC. This will take into account both the services our customers would like and how they would like to pay for these services.

Have your say

• Which of the options do you support? Tell us which option you prefer and why.
• Are there any other options we have not thought of?
• What other considerations should we take into account in reforming this charge?
Other charges

In addition to our wholesale services and Waterways and Drainage Charge, Melbourne Water also provides a number of special services to different communities.

We will be consulting with a range of peak groups and specific advisory committees on each of these proposals.

Koo Wee Rup–Longwarry Flood Protection District

Melbourne Water charges a special precept rate to fund an increased level of drainage services across the Koo Wee Rup-Longwarry Flood Protection District. Starting in 2013 and concluding in 2023, Divisions A and B which are priced according to avoided flood risk, will be replaced with a single cost reflective price. The current rates in 1990 Net Annual Value terms will be replaced with unique price paths for individual properties to transition to the single cost reflective price. During this period, the cost of the service will be subject to annual inflation adjustments less 1% for service efficiency targets.

Patterson Lakes

Melbourne Water’s management strategy for Patterson Lakes consists of a uniform ‘user pays’ pricing system for jetty-related services. Prices charged to individual properties depend on the type of jetty (timber or concrete pontoon) residents hold. All residents with a jetty will be charged annual maintenance costs subject to annual inflation adjustments. This arrangement was formally approved in 2014 by the ESC and Melbourne Water is not proposing any changes.

Development service schemes

These schemes are used to assist in the management of urban development. The charges are paid by the developers as land is developed. Melbourne Water proposes to continue the current methodology for setting developer charges in development service schemes. Under this approach, future capital expenditure is forecast for each year of the expected life of the scheme. This is converted into an equivalent present value cost using an appropriate discount rate. The charge is set such that the present value of the income stream is equal to the present value of total development related capital works. The financial assumptions relating to each scheme are reviewed on an annual basis and the engineering specifications reviewed on a priority and risk basis.

Diversions

We manage the taking of water from rivers, creeks and dams in the Yarra River, Lower Maribyrnong River and Western tributary catchments. This water is used for a variety of agricultural, industrial, commercial and domestic purposes. We also issue stormwater harvesting licences to those who want to take stormwater from one of our waterways or drains.

Overall prices are proposed to increase by inflation plus 0.2% in 2016-17, and then remain steady, with annual adjustments made for inflation over the following four years.

Miscellaneous charges

Melbourne Water is looking at some of its charges for application fees for construction over or near Melbourne Water easements or underground pipes, or connection to Melbourne Water’s stormwater assets. Based on initial feedback from stakeholders, Melbourne Water is investigating the potential to provide applicants with more flexible customer service options including quicker fast track and up front feasibility assessments (at additional cost). We have identified a number of services where costs are currently absorbed internally and in consultation with stakeholders, propose to recover costs for activities including high risk permits, lengthy or excessive inspections and ad hoc training through commencement of fees.
Melbourne Water understands that changing the way we set our charges is a complicated issue that needs to be discussed openly with our customers and key stakeholders before any change is made.
Delivering affordability

Melbourne Water’s most recent price review in 2012 saw residential water bills increase on average by around 20%. This was largely due to the commissioning of the Victorian Desalination Plant.

The desalination plant provides a secure, rainfall-independent source of water with a capacity of around one-third of Melbourne’s annual water use. We have been working closely with the water industry to reduce price impacts by investigating better and more cost-effective ways of providing our services. Melbourne Water’s charges currently contribute to over half of average household water and sewerage costs.

Recent rebates on customer bills were part of the water industry’s approach to make services more affordable and we are now looking at a variety of other ways to lock in and build on these significant savings to ensure our services are delivered at the lowest sustainable cost.
Our priority areas

Current water and sewerage prices in Melbourne are generally lower than other major Australian cities – more than $180 less than the average of $1,350 per year across these comparable cities based on a usage of 200,000 litres (or about 550 litres per day).

Enhancing Melbourne’s liveability

Melburnians are proud of the liveability of their city. Melbourne Water has serviced the community for many decades with safe and secure drinking water, reliable sanitation and effective flood management – all fundamental elements to a liveable city.

In recent years we have also been working with government agencies and the broader community to help provide high-quality open spaces for people to come together, exercise and enjoy the natural environment. The Millennium Drought revealed how important water is for the wellbeing of our city.

Melbourne Water has a significant opportunity to further enhance the liveability of our city. We manage over 33,000ha of land and 8,400km of rivers and creeks and hold valuable partnerships with state and local government, industry and community groups that extend beyond our estate.

Melbourne Water is working with other agencies to ensure our landholdings and assets can be used to support liveability services across the metropolitan region such as walking and cycling paths, parklands and urban lakes.

*Includes the impact of the Victorian Government’s water bills rebate but excludes the Waterways and Drainage and Parks charges.

Melbourne Water’s approximate contribution to household water and sewerage bills. Source: ESC / WSAA survey
Adapting to climate change

Melbourne Water is committed to working with our customers and the community to develop effective and practical solutions to manage the impacts of climate change.

Melbourne Water has a Climate Resilience Plan that builds on the pioneering and internationally recognised work we have undertaken over the last decade to adapt to, and mitigate against, climate change. This plan is designed to achieve our objective of ‘climate resilient service delivery’ by:

**Understanding and managing risks** – We are continually improving our identification and management of climate risks including through our work with research institutions, agencies and industry bodies.

**Building shared capability** – We are working with customers and stakeholders to develop a common understanding of climate risks and opportunities, and clear responsibilities for action.

**Enhancing system resilience** – We are constantly updating our decision-making processes and recovery responses in line with the latest climate change forecasts.

**Evaluating our success** – We are continually reviewing our activities to incorporate lessons learned.

### Current climate resilience activities

**Adapting to less rainfall** by harnessing alternative water sources such as desalination, stormwater and recycled water, and conducting controlled burns to protect water supply catchments from bushfires.

**Monitoring and upgrading our sewerage system** to reduce the risk of spills during extreme storms, and researching options to reduce sewer corrosion and odour.

**Managing our drainage system** for the future including ongoing upgrades in the highest risk locations, and reviewing development guidelines to include new knowledge and adaptation approaches.

**Identifying catchments** at risk from low river flows and species most affected by temperature increases.

**Modelling and mapping increased flooding and coastal inundation** associated with climate change, and using this information to provide development advice in coastal areas.
Planning for population growth

Melbourne has recently experienced significant population growth. Around 600,000 new residents have made Melbourne their home over the past decade, with most new residents located in the outer suburbs.

This rate and pattern of growth puts a strain on the city’s infrastructure and services as well as providing opportunities for new servicing solutions, such as stormwater harvesting.

Land development continues to grow strongly across Melbourne. But as greenfield areas are turned into residential suburbs there is a corresponding increase in stormwater run-off from hard surfaces such as roofs, concrete structures and roads. This may result in downstream flooding impacts and degradation of the waterway unless new or improved approaches are developed to manage the impacts of new development on Melbourne’s drainage system.

Have your say

- How important to you is Melbourne Water’s investment in liveability services?
- How important to you is Melbourne Water’s commitment to adapting to climate change and ensuring secure, reliable water services for decades to come?
- What more can Melbourne Water do to plan for population growth and climate change over the next 20 years? Do we have our priorities right?
- Have we missed any other critical issues?
Melbourne Water understands that changing the way we set our charges needs to be discussed openly with our customers and stakeholders before any change is made. We want to ensure that our final proposal takes into account both the services our customers would like and how we should collect the revenue to fund these services.
Melbourne Water is now seeking further feedback in relation to the proposals contained in this consultation paper.

As well as gaining feedback from the release of this consultation paper, we will be undertaking a detailed research and consultation program with customer and stakeholder representatives, including customer advocacy groups.

Based on the feedback we receive, we will finalise our proposals in the submission we make to the Essential Services Commission at the end of October 2015.

There are a number of ways you can have your say, including:

In writing:  2016 Price Review Melbourne Water Reply Paid 4342 MELBOURNE VIC 8060 (no stamp required for standard size envelopes)

Online:  PriceReview.melbournewater.com.au

Email:  PriceReview@melbournewater.com.au

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For translating and interpreting services call 131 450. Teletypewriter (TTY) users can phone 133 677.

The closing date for feedback is 31 July 2015.