

# Greater Western Water final decision

2024 Water Price Review

18 June 2024

## Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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# Summary

## **This is our first determination for Greater Western Water**

On 1 July 2021, City West Water and Western Water integrated to form Greater Western Water. The existing price determinations set for City West Water in 2018 and Western Water in 2020, and with which Greater Western Water must comply, originally applied until 30 June 2023. We approved Greater Western Water's request in October 2021 to have the determinations for City West Water and Western Water extended by one year to 30 June 2024 given the unique circumstances of integration. The guidance we provided to Greater Western Water outlined our information requirements for its price submission, addressing specific matters arising from the one-year extension to the regulatory period and the integration of the two businesses.

Greater Western Water's price submission included proposals that brought the two former business regions together, harmonising its customer outcome commitments, service standards, and guaranteed service level scheme across its central and western regions. It also proposed tariff reforms to align the two regions that would allow prices to harmonise over time. It proposed a capital investment program that would support growth, ensure water reliability and security, and improve sewage treatment to reduce its environmental impact.

The business also undertook a comprehensive engagement program to explore these issues for its price submission. We recognise addressing these matters can be challenging, and for issues such as tariff structures it can take some time to transition to consistent arrangements and balance the impacts on affected customers.

## **We have made our final decision on Greater Western Water's prices for the next 4 years**

In March 2024, we released our draft decision on the price submission Greater Western Water submitted to us in September 2023.<sup>1</sup> The draft decision set out our preliminary views on Greater Western Water's proposals and invited interested parties to make further submissions. We also held a public forum in May 2024. In addition to a response by Greater Western Water, we received 12 written submissions on our draft decision, which are available on our website (see Appendix A of this final decision for details).

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<sup>1</sup> Our draft decision for Greater Western Water is available at [www.esc.vic.gov.au/waterpricereview](http://www.esc.vic.gov.au/waterpricereview).

After considering that feedback and Greater Western Water’s response, we have made a price determination for Greater Western Water.<sup>2</sup> The price determination sets out the maximum prices Greater Western Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the 4-year period from 1 July 2024 (2024–28). This final decision sets out our supporting reasons and analysis for the price determination.



Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision confirms the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

## **We have approved a revenue requirement of \$3,507.9 million over 4 years**

Our final decision approves a revenue requirement of \$3,507.9 million over the 4-year period starting 1 July 2024 (see Chapter 4).<sup>3</sup> This is \$24.9 million or 0.7 per cent higher than proposed by Greater Western Water in its price submission, which mainly reflects our updates to the cost of debt and the long-term inflation rate.

This revenue requirement will allow Greater Western Water to deliver on its customer service commitments, government policy, statements of obligations, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

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<sup>2</sup> Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water business may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission 2024, *Greater Western Water Determination: 1 July 2024 – 30 June 2028*, 18 June 2024.

<sup>3</sup> Along with forecast demand, the revenue requirement is an input to calculating the prices to be charged by a water business.

## **Typical water and sewerage bills for most customers will increase by less than inflation from 1 July 2024**

A summary of approved maximum prices for major services delivered by Greater Western Water is set out in Section 5.3.2. Table A below shows the estimated typical bills for different customer groups under our final decision, for 2023-24 (the current year) and 2024-25. For a typical residential owner occupier in the western region, the estimated annual water and sewerage bills (including inflation) will increase from around \$1,099 currently to \$1,134 in 2024-25. Meanwhile, for a typical residential owner occupier in the central region, the estimated annual water and sewerage bills (including inflation) will increase from around \$1,007 to \$1,038 in 2024-25.

For a typical residential tenant in the western region, bills (including inflation) will increase from around \$288 currently to \$328 in 2024-25. At the same time, for a typical residential tenant in the central region, bills (including inflation) will remain unchanged at \$531 in 2024-25.

The bill paid by each customer will vary depending on water use, prices for fixed and variable tariffs, and other charges.

Note that bills for residential tenants in the western region will be impacted by the progressive removal of a bill rebate over the 2024–28 regulatory period.

**Table A Estimated typical annual water and sewerage bills**

Customer group	Average consumption (kL p.a.)	2023-24 (current)	2024-25
		\$2023-24	\$2024-25
Residential – owner occupier – central	150	1,007	1,038
Residential – owner occupier – western	150	1,099	1,134
Residential – tenant – central	150	531	531
Residential – tenant – western	150	288	328
Non-residential (small) – central	100	1,297	1,338
Non-residential (small) – western	100	1,057	1,084
Non-residential (medium) – central	1,000	5,694	5,818
Non-residential (medium) – western	1,000	3,812	3,902
Non-residential (large) – central	5,000	25,233	25,731
Non-residential (large) – western	5,000	16,056	16,425

**Notes:** The table shows the average bills for 2024-25 expressed in \$2024-25 terms (which means 3.6 per cent inflation has been included). Our draft decision included bill estimates based on our draft decision revenue requirement, expressed in \$2023-24 terms as the inflation figure was not available at this time. Our determination for Greater Western Water sets prices in \$2024-25 terms, with provision for inflation to be added in each of the remaining years of the regulatory period based on the latest inflation data. Dollar amounts have been rounded.

## Greater Western Water has committed to improving services in key areas

Greater Western Water plans to deliver the following outcomes for customers:

- your water is safe, consistent and resilient
- when things go wrong, we fix them
- we support our diverse communities and customers
- we enable growth and help businesses thrive
- we heal and care for Country.

Among key initiatives to deliver on its commitments, Greater Western Water will invest to increase the resilience of its infrastructure to deal with challenges including climate change and population growth. It will also expand its support to customers and small businesses experiencing hardship. Building on its engagement, Greater Western Water will take a caring-for-Country approach to its land and waterways in partnership with Traditional Owners, agencies, and community members, supported by its new outcome 'heal and care for Country'.

## **Tariff structure reforms will support alignment across its regions**

Consistent with our draft decision, our final decision approves Greater Western Water's proposed tariff structures. The reforms proposed support a transition to similar prices for similar services across its entire region over the next eight years.

### **Central region**

For residential customers receiving both water and sewerage services in Greater Western Water's central region, our final decision approves a combined residential sewage disposal charge and residential variable water charge. This means both regions will have a fixed charge and a variable charge for water use, and only a fixed charge for sewerage, supporting consistency.

### **Western region**

Our final decision approves the removal of the third tier volumetric water usage tariff for potable water customers in Greater Western Water's western region. This also aligns the approach across its western and central regions.

For non-residential customers, tariff structures for both water and sewerage services has remained unchanged.

### **Tariff structures approved**

Our final decision is to approve Greater Western Water's proposed tariff structures, on the basis that:

- they are a continuation of Greater Western Water's current approach
- the proposed tariff reforms meet the criteria in our guidance.

Consistent with our draft decision, our final decision also approves Greater Western Water's proposal to retain a tariff basket form of price control for core water, sewerage and trade waste charges and a price cap form of price control for miscellaneous charges. This is a continuation of its current approach and provides flexibility for Greater Western Water to support the alignment of prices for its two regions over time. Our review of Greater Western Water's proposed tariff structures is set out in Chapter 5.



## **Standard new customer contributions will remain at the current level, increasing with inflation**

Consistent with our draft decision, our final decision does not approve Greater Western Water's standard new customer contributions because we considered it did not provide adequate cost information to justify the prices it proposed against the criteria in our guidance.

Our final decision is to instead retain Greater Western Water's existing standard new customer contributions for the upcoming regulatory period, adjusted for inflation over 2024–28.

## **Greater Western Water's price submission is rated as 'Standard' under PREMO**

Consistent with our draft decision, our final decision is to rate Greater Western Water's price submission as 'Standard' under the PREMO framework (Table B). This is the same as Greater Western Water's self-rating.

Factors in support of Greater Western Water's PREMO rating include:

- generally achieving its outcomes commitments in the current regulatory period despite a substantial program to integrate its antecedent businesses
- a quality engagement program which clearly influenced its proposals
- a new guaranteed service level scheme
- a harmonised set of outcome commitments with measures and targets developed with and supported by customers.

### **Management element of PREMO rated 'Basic'**

Our draft decision did not agree with Greater Western Water's self-rating of 'Standard' for the Management element of PREMO. We rated it 'Basic' because the business did not provide sufficient information to:

- justify some of its operating and capital expenditure forecasts
- demonstrate its proposed standard new customer contributions were consistent with the pricing principles in our guidance.

In its response to our draft decision, Greater Western Water argued to reinstate the 'Standard' rating for Management, on the basis that the further information it provided regarding new customer contributions, operating expenditure and capital expenditure addressed our concerns and justified the business's original proposals.

Our final decision reinstates some of the expenditure reductions proposed in our draft decision, based on new information provided by Greater Western Water and in other submissions responding to our draft decision.

However, under PREMO the onus is on a water business to provide sufficient information in its price submission, or in response to our subsequent follow up requests, to justify its proposals. Our draft decision identified where we considered this requirement had not been met by Greater Western Water.

After assessing its response to our draft decision, our final decision is that Greater Western Water had not sufficiently justified its proposed operating expenditure forecast and was unable to justify its proposed prices for new customer contributions.

Accordingly, our final decision retains our draft decision rating of 'Basic' for the Management element of PREMO.

See Section 1.4 for an explanation of the PREMO framework and Chapter 7 for more detail on our assessment of Greater Western Water's price submission.



Our PREMO rating is an assessment of the water business's price submission and its ambition to deliver outcomes valued by its customers. It is not an assessment of the water business itself.

**Table B**      **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Greater Western Water's self-rating	Standard	Standard	Standard	Advanced	Standard	Standard
Commission's rating	Standard	Standard	Standard	Advanced	Basic	Standard

# 1. Our role and approach to water pricing

## 1.1 We are Victoria's independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO), which is made under the *Water Industry Act 1994* (WI Act) and sits within the broader context of the *Essential Services Commission Act 2001* (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 18 water businesses operating in Victoria.

## 1.2 We are reviewing Greater Western Water's proposed prices

We are reviewing the prices that Greater Western Water proposes to charge customers for prescribed services from 1 July 2024. The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water business.<sup>4</sup>

Greater Western Water provided a submission to us proposing prices for a four-year period starting 1 July 2024. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2024. We make a price determination after issuing a draft decision and considering feedback from interested parties, including any response to the draft decision from the water business.

The price determination specifies the maximum prices a water business may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that sets out our supporting reasons for our price determination.

## 1.3 We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory matters we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act, and clause 8 of the WIRO requires that we place particular emphasis on the promotion of efficiency-related matters. In making a price determination, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act

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<sup>4</sup> The prescribed services are listed at clause 7(b) of the WIRO.

- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance<sup>5</sup>
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so for our final decision for Greater Western Water. Table 1.1 summarises the matters we must have regard to and groups them into themes.

In September 2022, we issued guidance to Greater Western Water, to inform its price submission. The guidance set out how we would assess Greater Western Water's submission against the matters we must consider under clause 11 of the WIRO. It also outlined our expectation that Greater Western Water would comply with certain requirements and specified information that Greater Western Water must provide to us when submitting its price submission.<sup>6</sup>

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Greater Western Water's proposed prices.<sup>7</sup>

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.<sup>8</sup>



The power for water businesses to charge fees for services they provide is set out in the *Water Act 1989*.<sup>9</sup> These provisions in the Water Act also govern the process for and manner in which water businesses may set and impose fees. Each water business must ensure that it complies with these legislative requirements.<sup>10</sup>

<sup>5</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September.

<sup>6</sup> Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission 2021, *Getting to fair: Breaking down barriers to essential services*, 12 August.

<sup>7</sup> This is a requirement of the WIRO, clause 14(b).

<sup>8</sup> This is provided for under the WIRO, clause 14(b)(i).

<sup>9</sup> See part 13, Division 5 and 6 of the *Water Act 1989*.

<sup>10</sup> See Part 13, Division 5 of the *Water Act 1989*.

**Table 1.1 Matters businesses and the commission must have regard to**

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> <li>• promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO]</li> <li>• promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO]</li> <li>• provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO]</li> <li>• efficiency in the industry and incentives for long term investment [s. 8A(1)(a), ESC Act]</li> <li>• efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act]</li> <li>• financial viability of the industry [s. 8A(b)(1), ESC Act]</li> </ul>	<ul style="list-style-type: none"> <li>• particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act]</li> <li>• return on assets in the regulated industry [s. 33(3)(c), ESC Act]</li> <li>• ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act]</li> </ul>	<ul style="list-style-type: none"> <li>• in performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The Commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act]</li> <li>• 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 [cl 11(d)(i), WIRO]</li> <li>• 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 [cl 11(d)(ii), WIRO]</li> <li>• take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]</li> </ul>

Continued next page

**Table 1.1 (continued)**

Benchmarking	Health, safety, environmental and social obligations	Other
<ul style="list-style-type: none"> <li>any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act]</li> </ul>	<ul style="list-style-type: none"> <li>the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act]</li> <li>to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s. 4C(c), WI Act]</li> </ul>	<ul style="list-style-type: none"> <li>the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s. 8A(1)(c), ESC Act]</li> <li>consistency in regulation between States and on a national basis [s. 8A(1)(f), ESC Act]</li> <li>the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities [s. 8A(1)(e), ESC Act]</li> <li>wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]</li> </ul>

**Note:** References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the Essential Services Commission Act 2001 (ESC Act), and the Water Industry Act 1994 (WI Act).

## 1.4 PREMO

PREMO stands for Performance, Risk, Engagement, Management, and Outcomes. Each element of PREMO is summarised in Box 1.1.

### Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- Performance — have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- Risk — has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- Engagement — how effective was the business's customer engagement to inform its price submission?
- Management — is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes — do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

First introduced at our 2018 water price review, the purpose of PREMO is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives, via the rating of price submissions as Leading (the highest available rating), Advanced, Standard or Basic, depending on the level of ambition expressed by a water business in its price submission. Financial incentives are provided by linking the return on equity to the PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and to take these into account in forming the proposals outlined in its price submission. This should be evidenced in price submissions by linking the outcomes proposed with findings from a business's engagement.

Our guidance specifies the way in which we expect water businesses to assess themselves by reference to the PREMO elements.

PREMO links the return on equity allowed in the revenue requirement to the value delivered by a water business to its customers. Under PREMO, a higher level of ambition in terms of delivering customer value results in a higher return on equity.

For Greater Western Water's 2024 water price review, its ambition in terms of delivering customer value is being assessed against all five elements of PREMO – Performance, Risk, Engagement, Management and Outcomes – and it is the first time the Performance element has been included for Greater Western Water. This assesses the business's performance against its outcomes and proposals from the previous price review (which for Greater Western Water means commitments made by the former City West Water and Western Water businesses at the 2018 and 2020 water price reviews). We did not assess the Performance element in 2018 because it was the first time that we had applied the PREMO framework and so we did not have a set of previously approved outcomes to inform our assessment. Western Water was not required to submit a PREMO rating for its 2020 price review, after it was given a two-year decision in 2018.

Taking into account all five elements of PREMO, a water business must self-assess and propose a rating for its price submission as 'Leading', 'Advanced', 'Standard' or 'Basic'. Its proposed return on equity will then reflect its proposed PREMO rating. A 'Leading' submission has the highest return on equity, and a 'Basic' submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the water business's justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.<sup>11</sup>

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<sup>11</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September pp. 41–46.



## 2. Our assessment of Greater Western Water's price submission

We have made our final decision on Greater Western Water's price submission after considering:

- Greater Western Water's price submission
- Greater Western Water's presentation made directly to commissioners
- Greater Western Water's responses to our queries and our draft decision
- our consultants' reports
- the views of participants in our public forum held on 2 May 2024<sup>12</sup>
- written submissions from interested parties (a list of submissions responding to our draft decision is provided in Appendix A).

Any reports, submissions or correspondence provided to us that are material to our consideration of Greater Western Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included matters Greater Western Water must address in its price submission. Greater Western Water's price submission addressed each of these matters, and our initial assessment of those matters is set out in our draft decision.

We consulted on our draft decision, receiving submissions between 26 March and 7 May 2024 and holding an online public forum on 2 May 2024. Issues raised during the forum included investment in and protection of waterway health, responding to rapid population growth while also supporting positive environmental outcomes, and Greater Western Water's ability to deliver its capital program given our draft decision's proposed expenditure cuts. We have considered these matters for our final decision (discussed further in Section 4.2).

We acknowledge the concerns and comments raised in the forum and submissions related to managing Greater Western Water's assets in a way that meets the demands of population growth while also protecting the health of waterways and connected ecosystems. The framework for the management of water supply for both environmental and consumptive purposes, and obligations related to environmental sustainability, as they apply to Victorian Water businesses, are set out in statutory instruments issued to them by government.

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<sup>12</sup> A recording of this forum is available on our website.

Bulk entitlements held by water businesses set out rules that water businesses must comply with about when, where and how much water can be taken from waterways, obligations to release flows for environmental uses, and how water can be used (among other things).<sup>13</sup>

The Statements of Obligations (General)<sup>14</sup> issued by the Minister for Water sets out guiding principles water businesses must follow when performing their functions to assist in the task of transitioning Victoria to an environmentally sustainable economy, and to respond to the challenges of climate change. This also imposes obligations on water businesses in relation to providing their services, including obligations relating to management of water resources, minimising environmental impacts, and compliance with Sustainable Water Strategies.<sup>15</sup>

Water businesses are accountable to government for complying with these instruments and government expectations in relation to these instruments.

Our pricing framework and our guidance requires water businesses to ensure the revenue they propose in their price submissions incorporates the efficient cost of meeting legislative and government obligations.

Our final decision approves a revenue requirement, based on Greater Western Water's expenditure proposals, that we consider is adequate for the business to deliver the outcomes it has determined are those valued by customers and the community, and its legal and regulatory obligations, including for environmental water and sustainability.

The expenditure benchmarks that we adopt for the key categories of prescribed services, and use to determine prices, do not represent the amount that a water business is required to spend or allocate to particular projects or activities within a prescribed service category.

Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Greater Western Water will determine how to best manage the allocation of its revenue and prioritise its expenditure within a regulatory period. This includes responding to its obligations related to environmental water and sustainability.

Greater Western Water provided a response to our draft decision, including a revised financial model that reflected the updated cost of debt and inflation figures we provided to businesses in

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<sup>13</sup> More information available at <https://www.water.vic.gov.au/planning/bulk-entitlements>.

<sup>14</sup> The Statement of Obligations (General) was issued by the Minister for Environment, Climate Change and Water, on 20 December 2015, under section 41(2) of the *Water Industry Act 1994*, and is binding on all Victorian water businesses.

<sup>15</sup> [https://www.water.vic.gov.au/\\_\\_data/assets/pdf\\_file/0015/54330/Statement-of-Obligations-General.pdf](https://www.water.vic.gov.au/__data/assets/pdf_file/0015/54330/Statement-of-Obligations-General.pdf).

May 2024.<sup>16</sup> In arriving at our final decision, we have also considered Greater Western Water's responses to our draft decision.

This paper sets out our final decision.

## 2.1 Final decision paper outline

This final decision paper is structured around the steps we have taken to arrive at our price determination. In summary, these steps were:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Greater Western Water has committed to over the regulatory period (Chapter 3).
- Establish Greater Western Water's revenue requirement using a building block methodology (Chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (Chapter 5).

Chapter 6 outlines our consideration of Greater Western Water's financial position, which we have also had regard to.

Chapter 7 outlines our assessment of Greater Western Water's price submission under the PREMO framework.

Unless otherwise noted, all financial values referred to in this final decision paper are in \$2023-24, which means inflation is excluded.

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<sup>16</sup> All references to Greater Western Water's price submission in this document refer to Greater Western Water's original price submission that it provided to us in September 2023 rather than its response to our draft decision.

## 2.2 Regulatory period

Our final decision is to approve a regulatory period of four years from 1 July 2024.

We are required to set the term of the regulatory period over which a water business's price determination will apply.<sup>17</sup> Our guidance proposed that we set a four-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.<sup>18</sup>

Greater Western Water proposed, and our draft decision approved, a regulatory period of four years. Accordingly, consistent with the reasons outlined in our guidance, and as proposed in our draft decision, our final decision is to set a regulatory period of four years.

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<sup>17</sup> This is a requirement of the WIRO, clause 9.

<sup>18</sup> For detail on the reasons for using 4 years as the regulatory period, see: Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, pp. 18–19.

## 3. Customer outcomes

The customer outcomes Greater Western Water plans to deliver over the regulatory period is a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding into its PREMO assessment.

This chapter outlines our views on:

- Greater Western Water’s engagement with its customers in preparing its price submission (Section 3.1)
- whether Greater Western Water has delivered on the outcomes it committed to for the current regulatory period (2018–23 plus 2023-24) and the customer outcomes Greater Western Water is committing to for the next regulatory period (Section 3.2)
- Greater Western Water’s service standards for the regulatory period (Section 3.3)
- Greater Western Water’s proposed guaranteed service level scheme for the regulatory period (Section 3.4).

### 3.1 Customer and community engagement

Our guidance required Greater Western Water to engage with customers to inform its price submission. Our guidance also identified principles to guide Greater Western Water’s engagement.<sup>19</sup>

As outlined in our draft decision, we consider Greater Western Water’s engagement with customers and community aligned with these principles in a number of ways. Greater Western Water’s engagement:

- started early and sought customer insights to improve the design of its engagement program, which ran between July 2021 and August 2023
- considered the views of 8,000 people across its service area
- used a wide of range of methods across six sequential stages which included customer focus groups, interviews, workshops, bill simulator and best-worst scenario surveys, face-to-face engagement in regional communities, and a five-session deliberative panel
- held inclusive engagement activities to hear from a wide range of customer groups including youth, international students, retirees, culturally diverse customers, customers living with a

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<sup>19</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, pp. 20–21. This guidance includes a focus on engagement by businesses with First Nations people and people experiencing vulnerability which are actions identified in our ‘Getting to fair’ strategy. See Essential Services Commission 2021, *Getting to fair: Breaking down barriers to essential services*, 12 August.

disability, small businesses, customers experiencing financial hardship and not-for-profit community groups

- tailored its engagement methods to engage sensitively with the five registered Traditional Owner groups in its service area and offered cultural safety for its First Nations customers who participated in its deliberative panel
- engaged on six priority topics identified by customers, which then influenced proposals for matters such as unplanned disruptions, harmonising service levels, sourcing water from alternative sources, waterway health and communications with its customers.

Our draft decision outlined several ways in which Greater Western Water demonstrated that its engagement influenced its proposals. These included:

- outcomes that reflect the key findings from its engagement process with high levels of customer endorsement that they reflect customer priorities <sup>20</sup>
- increased expenditure for customer support programs and services for small businesses
- a new water quality guaranteed service level, and an increase to the number of guaranteed service levels available for customers in its western service area
- seven large renewals and reticulation programs, and investment in its asset monitoring program
- upgrades to five wastewater treatment plants to increase capacity and treatment levels to support waterway health
- investment to improve water supply reliability for the Macedon Ranges, Sunbury and Melton.

Our draft decision was to accept Greater Western Water's 'Advanced' self-rating for the Engagement element of PREMO on the basis it had designed and delivered a high-quality engagement program and achieved strong customer and stakeholder influence on the proposals in its submission. Examples outlined in our draft decision included:

- Greater Western Water's sensitive approach to its engagement that obtained guidance from its First Nations customers on how to best engage with them for this price submission and beyond, including meeting separately with the five different Traditional Owner groups in its service area
- its deliberative process that allocated two seats for First Nations customers and effectively facilitated those customers' participation throughout the process
- the multiple ways Greater Western Water offered customers to participate including through a bill simulator survey, focus groups, and a deliberative process which influenced its project and investment proposals.

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<sup>20</sup> Greater Western Water 2023, *2024 Price Submission*, 28 September, p. 22.

In a submission responding to our draft decision, Friends of Steele Creek commended Greater Western Water on its engagement, commenting that they appreciated Greater Western Water's commitment to openness and transparency.<sup>21</sup>

After considering all submissions received in response to our draft decision, including Greater Western Water's response, our final decision is the same as our draft decision, which is to accept Greater Western Water's self-rating of 'Advanced' for its price submission engagement.

See Chapter 7 for more detail on our PREMO assessment of Greater Western Water's price submission.

## 3.2 Outcomes

Greater Western Water's proposed set of outcomes indicates the value its customers can expect to receive during the next regulatory period. Actual performance against output measures and targets is monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It also informs the rating for the 'Performance' element of PREMO at the next price review.

Greater Western Water proposed to deliver the following outcomes over the regulatory period starting 1 July 2024:

- your water is safe, consistent and resilient
- when things go wrong, we fix them
- we support our diverse communities and customers
- we enable growth and help businesses thrive
- we heal and care for Country.

Greater Western Water's proposed measures and targets that it will use to report on its performance for each outcome are detailed in Appendix C: Customer Scorecard on pages 202 to 204 of its price submission.

In our draft decision, we agreed with Greater Western Water's self-assessment that it has, overall, met its outcome commitments for the 2018–23 period to date, and that its reporting to customers during this period met our requirements.

We consider its proposed set of outcomes and targets for 2024–28 will deliver steady service levels and are consistent with the requirements of a 'Standard' rating for the Outcomes element of PREMO. It has proposed a single outcomes set which unifies its central (City West Water) and western (Western Water) service areas.

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<sup>21</sup> Friends of Steele Creek, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 5 May 2024, p. 1.

Some submissions did raise concerns about potential impacts on Greater Western Water's ability to deliver on its 'heal and care for Country' outcome resulting from our proposed adjustments to the capital expenditure forecasts – however our final decision reinstates most of this, as discussed in Section 4.2. After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Greater Western Water's outcomes.

In our draft decision, we noted that some of Greater Western Water's proposed outcome measures and targets were not presented in a manner consistent with our guidance requirements.

In response to our draft decision, Greater Western Water is amending its outcome measures and targets. We are working with Greater Western Water to ensure its final set of measures and targets meets the requirements set out in our guidance.

Following the release of this final decision, we will publish Greater Western Water's 2024–28 outcomes reporting template, and we expect Greater Western Water to publish it prominently on its own websites.

Our assessment of Greater Western Water's outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 7.

### **3.3 Service standards related to service reliability and faults**

Greater Western Water provided a list of service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers as required by clause 18.2 of the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Each water business must specify its own targets against each of these service standards. These service standards and corresponding target service levels are the minimum level of service customers can expect to receive.

Our draft decision summarised Greater Western Water's proposed service standards and the reasons that we considered they comply with the requirements of the Urban Water Industry Standard.

The service standards that Greater Western Water proposed for the 2024–28 regulatory period, consolidate the current two sets of service standards from the former City West Water and Western Water businesses and aligns the service levels with Greater Western Water's average performance over the past three years. This is consistent with customer feedback Greater Western Water received through its deliberative panel to maintain current service levels and to adopt the same service levels across Greater Western Water's central and western service areas.



After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Greater Western Water's service standards. Accordingly, our assessment is that the service standards relating to reliability and faults proposed by Greater Western Water comply with the requirements of the Urban Water Industry Standard.

These service standards and Greater Western Water's targets until 2024 are set out in Appendix C.

Service standards are set out in our Urban Water Industry Standard. Accordingly, in early 2024-25, we will update the Urban Water Industry Standard to reflect targets set by the water business.

### **3.4 Guaranteed service levels**

Our final decision is to adopt updated guaranteed service levels for Greater Western Water as set out in Appendix D.

Guaranteed service levels define a water business's commitment to deliver a specified level of service. For each guaranteed service level, typically a water business commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.

Greater Western Water's proposed guaranteed service levels are set out on pages 48 to 51 of its price submission. As summarised in our draft decision, Greater Western Water's proposed guaranteed service levels consolidate the current guaranteed service level schemes from the former City West Water and Western Water businesses, increase the rebate amounts in line with inflation, and include a new guaranteed service level for water quality events.

After considering all the submissions received following our draft decision, we have not changed our views expressed in our draft decision on Greater Western Water's guaranteed service levels. Our final decision is to accept the guaranteed service levels proposed by Greater Western Water on the basis they have been developed and agreed with its customers during its engagement.

Guaranteed service levels are approved in our Water Industry Standards. Accordingly, in early 2024-25, we will update the standards to reflect the guaranteed service levels set out in Appendix D.

## 4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.<sup>22</sup> Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Greater Western Water's revenue requirement based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 4.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 4.2)
- roll-forward the regulatory asset base (Section 4.3)
- apply a rate of return to the regulatory asset base, calculated using:
  - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 4.4.1)
  - a benchmark return on equity value determined by Greater Western Water's PREMO rating (Section 4.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 4.5)
- establish a benchmark tax allowance (Section 4.6).

Our final decision is to approve a revenue requirement of \$3,507.9 million.

Greater Western Water proposed a revenue requirement of \$3,483 million over a 4-year period starting 1 July 2024. Our draft decision adopted a lower revenue requirement of \$3,439 million, mainly reflecting our proposed adjustments to forecast operating and capital expenditure. Our final decision approves a revenue requirement of \$3,507.9 million (Table 4.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure. This is \$24.9 million (0.7 per cent) higher than originally proposed by Greater Western Water.

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<sup>22</sup> We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Greater Western Water in the regulatory period from 1 July 2024. We had regard to their views in arriving at our final decision.

**Table 4.1 Final decision on Greater Western Water’s revenue requirement**  
\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	622.2	623.8	624.7	627.1	2,497.8
Return on assets	95.8	102.7	109.7	117.7	425.8
Regulatory depreciation	101.6	107.0	112.4	117.7	438.7
Adjustment from last period	-	-	-	-	-
Tax allowance	33.8	36.6	36.7	38.5	145.6
<b>Final decision – revenue requirement</b>	<b>853.5</b>	<b>870.0</b>	<b>883.5</b>	<b>900.9</b>	<b>3,507.9</b>

**Note:** Numbers have been rounded.

Since our draft decision, we have updated our estimates for the cost of debt, licence fees, environmental contribution and the long-term inflation rate to reflect the latest available information. We required Greater Western Water to update its revenue requirement and prices to reflect updates to long-term inflation and the cost of debt and we updated the licence fee and environmental contribution estimates.

In response to our draft decision, Greater Western Water updated the long-term inflation rate, cost of debt and its bulk water charges to reflect the latest information. Greater Western Water also updated elements of its revenue requirement, customer and government contribution figures.

After consideration of all submissions received, our final decision adopts a revenue requirement of \$3,507.9 million, as specified in Table 4.1 above. The adjustments to Greater Western Water’s revenue requirement that we have made in our draft and final decisions are set out in Table 4.2, with the reasons outlined in the following sections.

**Table 4.2 Adjustments to revenue requirement – our draft and final decisions**  
\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
<b>A. Greater Western Water's proposed revenue requirement</b>	<b>846.7</b>	<b>864.0</b>	<b>877.5</b>	<b>894.7</b>	<b>3,483.0</b>
<b>B. Total adjustments proposed in our draft decision</b>	<b>-8.3</b>	<b>-10.2</b>	<b>-12.2</b>	<b>-13.3</b>	<b>-44.0</b>
Operating expenditure	-17.6	-17.4	-17.2	-17.2	-69.4
Return on assets	9.2	8.7	7.8	7.4	33.1
Regulatory depreciation	-1.8	-3.3	-4.6	-5.3	-15.0
Tax allowance	1.8	1.8	1.8	1.8	7.2
<b>C. Draft decision – revenue requirement (C = A+B)</b>	<b>838.5</b>	<b>853.8</b>	<b>865.3</b>	<b>881.4</b>	<b>3,439.0</b>
<b>D. Total adjustments in our final decision</b>	<b>15.0</b>	<b>16.2</b>	<b>18.2</b>	<b>19.5</b>	<b>68.9</b>
Operating expenditure	11.4	11.1	11.8	12.0	46.3
Return on assets	2.5	3.0	3.5	4.0	13.0
Regulatory depreciation	1.3	2.2	2.9	3.5	9.9
Tax allowance	-0.1	-0.1	-0.0	-0.0	-0.2
<b>E. Final decision – revenue requirement (E = C + D)</b>	<b>853.5</b>	<b>870.0</b>	<b>883.5</b>	<b>900.9</b>	<b>3,507.9</b>

**Note:** Row A shows the total revenue requirement proposed by Greater Western Water in its price submission. Row B shows the total difference between our draft decision and what Greater Western Water proposed in its price submission. Row C shows the total revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision. Numbers have been rounded.

## 4.1 Operating expenditure

Our final decision is to adopt a forecast operating expenditure of \$2,497.8 million for Greater Western Water for the 2024–28 regulatory period.

Operating expenditure – comprising both controllable and non-controllable expenditure – is a component of the revenue requirement. Our draft decision proposed to adopt a forecast operating expenditure of \$2,451.5 million for the 4-year period, which was \$69.4 million (2.8 per cent) lower than proposed by Greater Western Water.

Table 4.3 sets out our final decision on Greater Western Water’s forecast operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

**Table 4.3 Final decision – operating expenditure**  
\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
<b>Controllable operating expenditure</b>	<b>211.09</b>	<b>211.14</b>	<b>211.91</b>	<b>213.54</b>	<b>847.68</b>
<b>Non-controllable operating expenditure</b>	<b>411.11</b>	<b>412.70</b>	<b>412.81</b>	<b>413.54</b>	<b>1,650.15</b>
Bulk services <sup>a</sup>	375.78	378.27	379.25	380.80	1,514.10
Environmental contribution <sup>b</sup>	34.33	33.36	32.42	31.51	131.62
Licence fees – Essential Services Commission <sup>c</sup>	0.63	0.69	0.77	0.85	2.94
Licence fees – Department of Health <sup>c</sup>	0.18	0.18	0.18	0.18	0.74
Licence fees – Environment Protection Authority <sup>c</sup>	0.19	0.19	0.19	0.19	0.76
<b>Final decision – operating expenditure</b>	<b>622.20</b>	<b>623.84</b>	<b>624.72</b>	<b>627.07</b>	<b>2,497.84</b>

**Notes:** Numbers have been rounded. <sup>a</sup> Bulk services covers the supply of bulk water and sewerage services.

<sup>b</sup> Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. <sup>c</sup> Licence fees are paid to cover costs incurred by the Department of Health, the Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water business.

Table 4.4 sets out the adjustments we have made to controllable and non-controllable operating expenditure for our draft decision, and our final decision. Details of our assessment and the reasons for our final decision adjustments are included in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Greater Western Water does not represent the amount that Greater Western Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

**Table 4.4 Our adjustments to Greater Western Water’s operating expenditure for our draft and final decisions**

\$ million 2023-24

	2024-25	2025-26	2026-27	2027-28	Total
<b>A. Greater Western Water’s proposed total operating Expenditure</b>	<b>628.35</b>	<b>630.17</b>	<b>630.16</b>	<b>632.22</b>	<b>2,520.90</b>
A1 – Our draft decision adjustments to controllable operating costs	-17.72	-17.69	-17.68	-17.76	-70.85
A2 – Our draft decision adjustments to non-controllable operating costs	0.16	0.31	0.45	0.58	1.49
<b>B. Draft decision – total operating expenditure</b>	<b>610.80</b>	<b>612.78</b>	<b>612.92</b>	<b>615.04</b>	<b>2,451.54</b>
<b>C. Final adjustments to controllable operating costs (C1 + C2)</b>	<b>10.63</b>	<b>10.31</b>	<b>10.60</b>	<b>10.87</b>	<b>42.41</b>
C1 – Total baseline adjustments (after amended efficiency factor) <sup>a</sup>	9.86	9.53	9.80	10.06	39.25
C1.1 – Reinstatement of Transformation – compliance costs	3.32	3.31	3.31	3.32	13.26
C1.2 – Reinstatement of field maintenance	7.00	6.99	6.98	7.00	27.96
C1.3 – Revised forecast operating cost growth rate	-0.46	-0.77	-0.49	-0.26	-1.97
C2 – Reinstatement of billing and collection cost	0.77	0.78	0.80	0.81	3.16

Continued next page

Table 4.4 (continued)

	2024-25	2025-26	2026-27	2027-28	Total
<b>D. Final adjustments to non-controllable operating costs (D1 + D2 + D3 + D4 +D5)</b>	<b>0.78</b>	<b>0.74</b>	<b>1.21</b>	<b>1.16</b>	<b>3.88</b>
D1 – Environmental contribution	1.41	1.40	1.39	1.38	5.57
D2 – Licence fees – Essential Services Commission	0.06	0.13	0.20	0.28	0.68
D3 – Licence fees – Department of Health	0.05	0.05	0.05	0.05	0.20
D4 – Licence fees – Environment Protection Authority	0.00	0.00	0.00	0.00	0.00
D5 – External bulk services – Melbourne Water	-0.74	-0.83	-0.43	-0.56	-2.56
<b>E. Final decision – total operating expenditure (E = B + C + D)</b>	<b>622.20</b>	<b>623.84</b>	<b>624.72</b>	<b>627.07</b>	<b>2,497.84</b>

**Note:** See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in rows C and D (and itemised in rows C1 to C2 and D1 to D5) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded. <sup>a</sup> Our final decision adjustments to Greater Western Water’s baseline operating expenditure (C1.1 to C1.2) capture the impact of our removal of Billing and Collection system cost savings from the proposed efficiency rate (see Section 4.1.1.2). These savings have been reallocated as step change adjustments consistent with our draft decision, representing no overall net change for this adjustment.

#### 4.1.1 Controllable operating expenditure

In relation to controllable operating expenditure, our preliminary findings (outlined in Section 4.1.2 of our draft decision) were that:

- We considered Greater Western Water’s proposal did not reflect an efficient baseline cost to forecast annual operating expenditure. After reviewing the proposal and advice from our expenditure consultant, we removed \$16.86 million of baseline operating expenditure because we could not verify its prudence and efficiency, or recurrent nature. This resulted in a draft

decision operating expenditure baseline of \$192.8 million and a total adjustment of \$55.09 million across the 2024–28 regulatory period.<sup>23</sup>

- Greater Western Water had proposed an average efficiency improvement rate of 3.0 per cent per year. However, of this 3.0 per cent:
  - 1.6 per cent was composed of identified efficiencies from its integration and transformation programs, including identified cost savings from its large ‘Platypus’ billing and collection system capital project.
  - 1.4 per cent captures unidentified efficiencies to be delivered through economies of scale and scope. This rate is consistent with a ‘Standard’ PREMO rating.
- For our draft decision we removed the identified \$12.6 million of savings related to its ‘Platypus’ billing and collection project from its proposed efficiency improvement rate and reallocated these savings as forecast cost variations, consistent with how Greater Western Water has presented forecast new operating costs related to the ‘Platypus’ system. This reduced the average efficiency rate to 2.5 per cent per annum (down from 3.0 per cent per annum) but with no net change to the controllable operating expenditure forecast.
- Greater Western Water’s proposed efficiency improvement rate was marginally higher than its proposed average cost growth rate of 2.8 per cent per year over the next regulatory period, effectively delivering a small net decrease to its controllable annual baseline operating costs. After our draft decision adjustment to account for its ‘Platypus’ project savings, its net efficiency rate instead delivers a small net increase to its controllable annual baseline operating costs.
- We considered Greater Western Water’s forecast cost adjustments to the baseline allowance were prudent and efficient after:
  - removing a \$3.2 million contingency allowance in the forecast billings and collections system additional operating costs
  - reallocating the \$12.6 million in anticipated savings from the rollout of its ‘Platypus’ billing and collection project as a forecast cost reduction.

In response to our draft decision, Greater Western Water sought the reinstatement of all the above costs we removed or reallocated in our draft decision, along with the reinstatement of its proposed average efficiency improvement rate of 3.0 per cent. It provided further information and justification in support of its response. Our further considerations of these adjustments, and Greater Western Water's response to our draft decision, are outlined below.

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<sup>23</sup> The total adjustment figure of \$55.09 million reflects the impact of our draft decision adjustment to the business's efficiency improvement rate.



#### 4.1.1.1 Baseline controllable operating expenditure

As described above, in our draft decision we removed \$16.86 million from Greater Western Water's baseline year controllable operating expenditure where the prudence, efficiency or recurring nature could not be verified based on the information provided by Greater Western Water.

In response to our draft decision, Greater Western Water sought the full reinstatement of all baseline operating expenditure removed in our draft decision, retaining its price submission position that all proposed baseline operating expenditure above its relevant benchmark represented recurring, efficient and prudent expenditure.<sup>24</sup>

Our expenditure consultant reviewed the information provided by Greater Western Water in its response to our draft decision, to assess if it responded to the issues raised in its final report, constituted new information, and might ultimately change its view on the prudence and efficiency of this expenditure. Our consultant found Greater Western Water's response largely restated arguments or information that was previously provided in its price submission or throughout the initial assessment process. Where this was the case, our consultant did not change its earlier recommendation from its final report for our draft decision.<sup>25</sup>

Greater Western Water provided new information on the costs it listed under its compliance obligations driver. It provided a further breakdown of the additional costs currently incurred at each relevant treatment plant, and strong reasoning as to why these costs were ongoing and should be embedded in its baseline. Based on this new information, our consultant was able to verify the proposed \$3.3 million as prudent, efficient, and recurring expenditure.<sup>26</sup> We have reviewed the business's response and our consultant's advice, and our final decision is to reinstate \$3.3 million into the controllable operating expenditure baseline, given the new information and reasoning the business provided. However, we require Greater Western Water to provide a reconciliation of this incremental cost allowance against any future request to increase operating costs at these treatment plants at its next price review.

Greater Western Water provided new arguments to support its proposed \$7.0 million baseline increase to its field maintenance expenditure forecast. Our consultant reviewed this and considered Greater Western Water has now provided sufficient qualitative information to verify that some expenditure increase is reasonable. However, in the absence of clear quantitative cost data

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<sup>24</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024-28*, 7 May, pp. 12–38.

<sup>25</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts*, May, p. 3.

<sup>26</sup> *ibid*, p. 8.

from Greater Western Water, our consultant could not verify the amount that should be included in a forecast for efficient costs.<sup>27</sup>

We have considered our consultant's advice, and the information provided by Greater Western Water. We recognise that the key drivers of the maintenance cost increases put forward by the business are consistent with increases incurred by other Victorian water businesses at our 2023 water price review. We agree with our consultant's view that some cost increase is justified, and consider it is in the interests of customers to ensure the business can maintain reliable service levels. On balance, our final decision accepts the business's proposed figure and reinstates the \$7.0 million we removed from the baseline allowance in our draft decision.

The additional information provided by Greater Western Water to support the re-inclusion of the remaining \$6.6 million removed in our draft decision did not change our consultant's earlier finding, that it was unable to verify the increased expenditure as prudent, efficient, and recurring. We have reviewed, and agree with, our consultant's views on this, as detailed in its final report.<sup>28</sup>

Our final decision is to reinstate a total of \$10.3 million to the baseline operating expenditure allowance, but to retain our draft decision to exclude the remaining \$6.6 million that was not verified as prudent, efficient and recurring expenditure. We have considered the following critical factors in reaching this conclusion on efficient baseline expenditure:

- We do not accept Greater Western Water's assertion in its response to our draft decision that removing these costs from its operating expenditure benchmarks will prevent it from achieving its stated efficiency gains. Our decision considers the appropriate expenditure for establishing benchmark allowances for setting efficient prices – it does not directly impact a business's operating budget or programs.
- Greater Western Water has proposed an efficiency improvement rate of 2.0 per cent for the current 2023-24 year, adopting the current period's average forecast efficiency rate from the last price review, rather than the higher efficiency rates it has proposed from 2024-25 and which it has associated with the cost benefits of the business integration. This suggests the business integration process is still in progress, and current costs would appear to still include some degree of integration and transformation costs.
- With an expenditure growth rate of 3.1 per cent for 2023-24 and all else being equal, adopting the lower 2.0 per cent efficiency rate effectively increases the baseline allowance by a further \$2.2 million, embedding a total of \$8.7 million in the controllable operating expenditure forecast.

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<sup>27</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts*, May, p. 5.

<sup>28</sup> The reasoning behind our consultant's final view on the prudence and efficiency of Greater Western Water's proposed baseline operating expenditure, is outlined in full in its report.

- Our decision to exclude these unverified recurring costs is consistent with our view that customers should not be expected to pay for transitory higher costs associated with the business integration and transformation programs.

#### 4.1.1.2 Efficiency improvement and growth rate

As described above, in our draft decision we removed \$12.6 million in anticipated savings from the business's proposed efficiency rate and reallocated these savings as a cost variation, to align with how the additional costs of operating its new billing are presented. This resulted in a new average efficiency rate of 2.5 per cent per annum, representing a cost neutral adjustment to Greater Western Water's price submission proposal.

In response to our draft decision, Greater Western Water argued against this, claiming the efficiency rate proposed in its price submission was consistent with our guidance.<sup>29</sup>

We have considered Greater Western Water's response to our draft decision, but remain of the view, as set out in our draft decision, that the business's proposed average efficiency improvement rate comprises:

- an underlying 1.4 per cent on business-as-usual operations, which is similar to improvement rates proposed by other water businesses
- a further 1.6 per cent (reduced to 1.1 per cent by our decision's treatment of the expected benefits from the Platypus program) which is essentially a one-off opportunity arising from the merging of two businesses into one – an opportunity other water businesses do not have, and therefore not a direct comparison.

Consistent with our final decision on baseline controllable operating expenditure (set out above) and our draft decision reasoning, our final decision retains our draft decision on Greater Western Water's efficiency improvement rate.

In its response to our draft decision, Greater Western Water updated its operating cost growth rate to reflect the latest Victoria in Future growth data (consistent with its demand update, discussed in Section 5.1).<sup>30</sup> This update slightly rebalanced the cost growth rate in each year of the period, while maintaining the average annual rate of 2.8 per cent per annum. All else being equal, this lowered the business's controllable operating expenditure forecast by \$2.0 million from our draft to final decision. Our final decision accepts Greater Western Water's revised operating expenditure growth rate, noting this reflects its latest growth forecasts.

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<sup>29</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024-28*, 7 May, pp. 42–45.

<sup>30</sup> *ibid*, p. 78.

#### 4.1.1.3 Cost variations

Our draft decision removed \$3.2 million (\$0.8 million per annum) from Greater Western Water's forecast cost variations for a contingency allowance related to operating its new Platypus billing and collection system that was not tied to a specific business activity.

In its response to our draft decision, Greater Western Water acknowledged it had previously incorrectly labelled this cost item as a 'contingency', and provided information describing and costing the actual activities associated with this expenditure.<sup>31</sup> Our expenditure consultant reviewed this information and accepted the expenditure does relate to necessary activities, and therefore should not be removed from the business's forecast operating expenditure.<sup>32</sup>

We have reviewed, and agree with, our consultant's advice, and our final decision is to reinstate the \$3.2 million dollar amount removed in our draft decision.

As described above, our draft decision did not accept Greater Western Water's arguments in support of its initial approach to including the identified savings from its Platypus project in the efficiency improvement rate. We have not been provided with any further information from Greater Western Water in relation to the savings from the Platypus project that changes our view. Accordingly, as proposed in our draft decision, our final decision is to include these savings as a forecast cost reduction, for the same reasons identified in our draft decision. Greater Western Water's identified additional operating costs (\$15.8 million) and expected savings (\$12.6 million) associated with its new billing and collection system actually produces a net increase of \$3.2 million across the pricing period. To isolate and claim the savings component of this equation as an 'efficiency gain' is, in our view, a misrepresentation of the true project impact on operating costs.

#### 4.1.1.4 Final decision on controllable operating expenditure

On the basis that several elements of Greater Western Water's proposed controllable operating expenditure are not consistent with our guidance, and reflecting our analysis above, our final decision is to accept a total controllable operating expenditure benchmark of \$847.7 million across the next regulatory period. This benchmark is \$42.4 million higher than our draft decision allowance, and \$28.4 million lower than the business's price submission proposal.

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<sup>31</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024-28*, 7 May, pp. 39–42.

<sup>32</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts*, May, pp. 9–10.

### 4.1.2 Non-controllable operating expenditure

In relation to non-controllable operating expenditure, our preliminary findings (outlined in Section 4.1.3 of our draft decision) were that:

- Greater Western Water had followed the approach set out in our guidance paper to forecast its non-controllable operating costs in its price submission.
- We increased Greater Western Water's forecast real value of its environmental contribution by \$1.5 million, after we updated our long-term inflation rate from 3.5 per cent per annum, to 3.0 per cent per annum.
- Greater Western Water's forecast bulk charges are consistent with Melbourne Water's 2021 price determination and Southern Rural Water's 2023 price determination.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision, and also adjust for the latest inflation and external bulk charges data.<sup>33</sup>

For the environmental contribution, we have used the latest forecast values provided by the Department of Energy, Environment and Climate Action (which are in nominal dollars) and deflated them into 2023-24 dollars to express it in real terms. We have applied the same approach to our Essential Services Commission fee.<sup>34</sup>

We have assumed the licence fees for the Department of Health and the Environment Protection Authority Victoria remain flat in real terms across the period.<sup>35</sup>

In May 2024, we advised Greater Western Water of our approved bulk water charges for Melbourne Water for 2024-25. In response, Greater Western Water updated its forecasts for bulk water costs. It also updated its demand forecasts as discussed in Section 5.1.

We have increased Greater Western Water's forecast non-controllable operating expenditure by \$3.88 million across the 2024–28 period, resulting from the following adjustments:

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<sup>33</sup> Following our draft decision, we have updated our forecast inflation rate from 3.0 per cent per annum, to 2.9 per cent per annum. This has marginally increased the forecast real values of the environmental contribution and our Essential Services Commission fee across the next regulatory period. A lower long-term inflation forecast reduces the amount a nominal value is deflated by, producing a higher real value.

<sup>34</sup> Our licence fee is based on the expected work program across the 2023–28 regulatory period and is set in nominal terms. The licence fee schedule for each relevant Victorian water corporation was published in the Victorian Government Gazette No. G 39 on Thursday 28 September 2023.

<sup>35</sup> For the Safe Drinking Water Administration levy, we have used the 2022-23 value provided by the Department of Health and indexed it by the annual rate for fees in 2023-24 (3.99 per cent), as set out by the Department of Treasury and Finance's cost recovery guidelines (<https://www.dtf.vic.gov.au/financial-management-government/indexation-fees-and-penalties>). We have applied the same approach to the 2022-23 licence fee provided by the Environment Protection Authority Victoria.

- \$0.88 million increase for licence fees after considering the latest information received from the relevant regulatory authorities and accounting for the latest data on inflation.
- \$5.57 million increase for the environmental contribution to account for the latest forecast figure and the latest data on inflation.
- \$2.56 million decrease for external bulk water costs as revised by Greater Western Water to reflect its updated demand forecast and the Melbourne Water bulk charges for 2024-25.

Accordingly, after considering all submissions received in response to our draft decision and consistent with the reasoning in our guidance, our final decision is to adopt a revised non-controllable operating expenditure of \$1,650.15 million over the next regulatory period.

## 4.2 Capital expenditure

Our final decision is to adopt a forecast capital expenditure of \$1,692.7 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast capital expenditure of \$1,561.0 million for a 5-year period from 2023–2028, \$160.4 million lower than proposed by Greater Western Water.

The reasons for our draft decision were:

- Greater Western Water demonstrated it has adopted a reasonable approach to developing a majority of its capital program, and that its capital expenditure forecasts are largely prudent and efficient.
- We adjusted the forecast expenditure for the Water Main Performance Renewals program down by \$79.4 million across the 2023–28 period, based on our consultant’s review which indicated the stated objective of the program could be achieved more efficiently.
- We removed the full forecast of \$68.1 million for the Asset Ecosystems – Asset Foundations program because the constituent projects had not been fully scoped or costed, and the prudence and efficiency could not be verified based on the information provided by Greater Western Water. We considered under these circumstances customers should not be asked to carry the cost uncertainty for this work.
- We removed the full forecast of \$12.8 million for the Stormwater Harvesting program for a number of reasons, including that prudence and efficiency and benefits of the expenditure in relation to the supply of prescribed services was not clear on the basis of information provided by Greater Western Water.
- We considered the remaining planned capital expenditure program is achievable, given Greater Western Water’s project planning and prioritisation processes, along with its Asset Delivery Organisation Review which is currently underway.

- Greater Western Water has an appropriate approach for managing expenditure associated with uncertain projects, excluding an estimated \$173 million of project costs from its price submission where there is uncertainty in timing, cost, scope, and benefits of capital expenditure. We reiterate that Greater Western Water will need to demonstrate the prudence and efficiency of these costs if they are incurred during the 2023–28 regulatory period, if seeking to include them in the regulatory asset base for the 2028–33 price review.
- We considered Greater Western Water’s approach to forecasting its capital expenditure, other than the adjustments described above, was consistent with the requirements of our guidance.

**Table 4.5 Adjustments to Greater Western Water’s forecast capital expenditure – our draft and final decisions**  
\$ million 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
<b>A. Greater Western Water’s proposed forecast capital expenditure</b>	<b>334.35</b>	<b>370.86</b>	<b>348.77</b>	<b>357.92</b>	<b>309.52</b>	<b>1,721.42</b>
A1 – Water Main Renewal Program	-15.88	-15.88	-15.88	-15.88	-15.91	-79.43
A2 – Storm Water Harvesting Fund	-0.21	-0.86	-4.28	-4.28	-3.21	-12.84
A3 – Asset Ecosystem – Asset Foundations	-12.15	-20.41	-20.23	-10.59	-4.76	-68.13
<b>B. Draft decision – total capital expenditure</b>	<b>306.11</b>	<b>333.72</b>	<b>308.37</b>	<b>327.17</b>	<b>285.64</b>	<b>1,561.01</b>
<b>C. Total adjustments in our final decision</b>	<b>24.33</b>	<b>29.59</b>	<b>28.59</b>	<b>25.71</b>	<b>23.44</b>	<b>131.65</b>
C1 – Water Main Renewal Program reinstatement	15.88	15.88	15.88	15.88	15.91	79.43
C2 – Storm Water Harvesting Fund	0.21	0.86	4.28	4.28	3.21	12.84
C3 – Asset Ecosystem – Asset Foundations	8.24	12.85	8.43	5.55	4.32	39.38
<b>D. Final decision – total forecast capital expenditure (D = B + C)</b>	<b>330.45</b>	<b>363.3</b>	<b>336.96</b>	<b>352.88</b>	<b>309.08</b>	<b>1,692.67</b>

**Note:** Row A shows the total forecast capital expenditure proposed by Greater Western Water in its price submission. Row B shows the total forecast capital expenditure we adopted in our draft decision. Row C shows the total difference between our final decision (row D) and our draft decision. Numbers have been rounded.



In response to our draft decision, Greater Western Water provided further information and justification to support a reversal of our draft decision proposed adjustments to its Water Main Renewal program and its Stormwater Harvesting program, and proposed a revised schedule of works for its Asset Ecosystems – Asset Foundations program. Our further considerations of these adjustments are outlined below in sections 4.2.1 to 4.2.3.

Prior to our final decision, we requested Greater Western Water provide its most up to date capital expenditure forecast for the current 2023-24 financial year. We consider the forecast provided gives confidence that the capital expenditure forecast proposed by the business in its response to our draft decision is appropriate for calculating its closing regulatory asset base (see Section 4.3.1).

### **Stakeholder submissions**

We received 12 submissions from stakeholders in response to our draft decision.

Three of these submissions were from environmental groups, raising concerns with all our draft decision proposed adjustments to Greater Western Water's forecast capital expenditure, because the reductions may negatively impact on the ability of Greater Western Water to manage environmental outcomes.<sup>36</sup> These groups supported the reinstatement of all the capital expenditure that we proposed to adjust or remove in our draft decision.

We received eight submissions in support of Greater Western Water's Stormwater Harvesting program.<sup>37</sup> Six of these submissions were from local government authorities who are likely to submit partnership applications to the proposed program. We also received one submission from the Chairs of the Maribyrnong and the Werribee Integrated Water Management Forums, and one submission from Melbourne Water, which has stormwater management responsibilities given its waterways and drainage obligations.

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<sup>36</sup> Friends of Steele Creek, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 5 May 2024; Macedon Water Think Tank, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 5 May 2024; Concerned Waterways Alliance, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024.

<sup>37</sup> Wyndham City Council, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 1 May 2024; City of Melbourne, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 5 May 2024; Macedon Ranges Shire Council, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 6 May 2024; Maribyrnong City Council, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 6 May 2024; Doctor Rohan Henry and Professor Rob Skinner, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024; Hobsons Bay City Council, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024; Hume City Council, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024; Melbourne Water, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024.



We also received one submission from the Urban Development Institute of Australia, Victoria which questioned whether our draft decision adjustments to forecast capital expenditure would impact the business's ability to deliver capital works that are required in growth areas, and increase temporary costs which would ultimately be recovered from developers.<sup>38</sup> In response, we note that our draft decision adjustments did not apply to growth related capital expenditure, and would not increase temporary works related to growth. Our draft decision therefore would not have impacted the level of New Customer Contributions charged to developers.

Further, and as discussed in Chapter 2, our decision sets benchmarks for the purpose of calculating regulated prices for prescribed services across a given regulatory period. Any adjustments from the business's initial proposal that we adopt for our final decision benchmarks do not preclude the business from undertaking any activity it deems necessary to meet its service obligations or operate the business.

#### **4.2.1 Water Main Performance Renewals program**

As described above, in our draft decision we adjusted the forecast expenditure for the Water Main Performance Renewal program down by \$79.4 million across 2023–28 period, given our expenditure consultant identified a lower cost combination of water main renewals in the central and western regions that would meet the business's stated objective of fewer than five water supply interruptions for a customer in a rolling 12-month period.

In response to our draft decision Greater Western Water sought the reinstatement of the \$79.4 million removed in our draft decision, providing additional information in support of its original proposal.<sup>39</sup>

Our expenditure consultant reviewed this additional supporting information and met with key technical staff at Greater Western Water to gain a better understanding of its renewals modelling and predicted outcomes. Our consultant considered the additional rationale provided in support of the business's initial proposal was reasonable, given its stated objectives and approach to performance-based renewals.<sup>40</sup> Based on this new information provided by the business, our consultant now considers the business's initial proposal has been verified as prudent and efficient, and appropriate for inclusion in its capital forecast for the next regulatory period.

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<sup>38</sup> Urban Development Institute of Australia, Victoria, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024, p. 2.

<sup>39</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024-28*, 7 May, pp. 48–59.

<sup>40</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts*, May, pp. 12–13.

We have reviewed our consultant’s advice and the information provided by Greater Western Water and our final decision is to accept Greater Western Water’s initial proposal and forecast of \$172.8 million given the additional information and further reasoning Greater Western Water provided in response to our draft decision.

#### **4.2.2 Asset Ecosystem – Asset Foundations program**

As described above, in our draft decision we removed the total proposed forecast expenditure (\$68.1 million) for the Asset Ecosystem – Asset Foundations program, given the prudence and efficiency of the constituent projects could not be verified based on the information provided Greater Western Water.

In response to our draft decision, Greater Western Water proposed a revised program of work supported by new information, with detailed business cases for three of the original seven projects, while the remaining projects are still being developed. Greater Western Water proposed to recover the costs for the three developed projects at a total revised cost of \$39.4 million across the 2023–28 regulatory period.<sup>41</sup> This is a reduction of \$28.75 million from its original proposal.

Our expenditure consultant reviewed the new information provided and considered it sufficiently explains the drivers, options analysis, cost estimates, risk and delivery strategy of the three projects.<sup>42</sup> Our consultant considered Greater Western Water’s updated proposal was prudent and efficient, and appropriate for inclusion in its capital forecast for the next regulatory period.

We have reviewed our consultant’s advice and the new proposal and information provided by Greater Western Water and our final decision is to accept Greater Western Water’s revised proposal given the prudence and efficiency of the three relevant projects has now been established. We have allowed the proposed \$39.4 million in our capital expenditure benchmarks, noting Greater Western Water will carry the cost uncertainty of the remaining projects, which is consistent with our guidance for uncertain expenditure.

#### **4.2.3 Stormwater Harvesting program**

As described above, in our draft decision we removed the total forecast expenditure (\$12.8 million) for the Stormwater Harvesting program, given no specific projects were proposed and prudence and efficiency was therefore unable to be assessed. We were also unable to assess whether the program costs were best treated as operating or capital expenditure. Our draft decision also required Greater Western Water to demonstrate how the delivery of these works would involve

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<sup>41</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024–28*, 7 May, pp. 61–64.

<sup>42</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC’s Draft Decision on expenditure forecasts*, May, p. 14.

prudent and efficient expenditure which is relevant to the provision of prescribed services, if seeking this forecast to be reinstated for our final decision.

In response to our draft decision Greater Western Water sought the full reinstatement of its original proposal, stating the program:<sup>43</sup>

- is appropriately treated as capital expenditure for the purpose of regulated pricing
- is prudent and efficient
- is relevant to the provision of prescribed services because it is related to retail water services prescribed under section 7(b) of the Water Industry Regulatory Order 2014, as the program will offset potable water consumption, reducing demand on the centralised system and delaying future system augmentations
- is supported by customers.

Our expenditure consultant reviewed the information provided by Greater Western Water and did not change the view put forward in its final report for our draft decision, as Greater Western Water remains unable to provide specific projects for assessment of prudence and efficiency at this time.<sup>44</sup>

As noted above, we received several stakeholder submissions in support of Greater Western Water's stormwater program. We have considered these submissions in making our final decision. The submission from Doctor Rohan Henry and Professor Rob Skinner provided a number of arguments to address our requirement for Greater Western Water to demonstrate how these works are relevant to the provision of prescribed services.<sup>45</sup> The submission identified a number of obligations specified in government policy, Greater Western Water's Statement of Obligations, and its latest Letter of Expectations from the Minister for Water.<sup>46</sup> The link to these obligations relates primarily to sustainable water management, use of alternate water sources, and long-term water security.

Based on this information, we recognise that the proposed stormwater harvesting program supports these obligations and builds resilience of prescribed retail water services where it provides alternative water that can directly substitute for potable water use. We are satisfied this establishes the prudence of capital investment in stormwater projects by an urban water business,

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<sup>43</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024–28*, 7 May, pp. 72–77.

<sup>44</sup> FTI Consulting 2024, *Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts*, May, pp. 13–14.

<sup>45</sup> Doctor Rohan Henry and Professor Rob Skinner, submission to the Essential Services Commission consultation paper 'Greater Western Water draft decision: 2024 Water Price Review', 7 May 2024, pp. 1–3.

<sup>46</sup> We requested Greater Western Water provide a copy of its latest Letter of Expectations, which we have reviewed and verified it contains relevant obligations.

where potable water substitution is a verified outcome, and that meeting this objective relates to the environmental sustainability and social obligations of Greater Western water.<sup>47</sup>

To help us understand the efficiency of such investment, we requested and reviewed further information from Greater Western Water on stormwater harvesting projects identified in its response that it has previously co-funded. This data reveals the investment cost per megalitre of expected annual stormwater yield varies considerably (up to ten-fold) across the projects, and the average of actual volumes of harvested stormwater used by customers to date is less than half the total design figure. Further, each project has unique features, including variation in asset locations, design and construction cost and complexity, and subsequent commercial arrangements with the users of the harvested stormwater.

Given that the prudence of the expenditure has been established, as discussed above, and the strong stakeholder support for this scheme to continue, our final decision reinstates the \$12.8 million proposed by Greater Western Water, subject to broad restraints to help ensure that the scheme's outcomes are delivered in an efficient manner.

We therefore expect that Greater Western Water will take into account the following in delivering the program:

- for pricing purposes, the program is capped at \$12.8 million over the 2023-24 to 2027-28 period
- this allowance is only used for stormwater or integrated water management projects and unspent funds are not diverted for other uses
- funded projects deliver on the stated objective to substitute potable water<sup>48</sup>
- in selecting projects to fund, Greater Western Water prioritises projects that are expected to have a lower cost per megalitre of stormwater yield
- Greater Western Water must demonstrate the efficiency of the investments for inclusion in the regulatory asset base at the next price review.

Further, we expect Greater Western Water to report publicly at least annually on its progress with this program, including:

- details of the projects selected for funding (project description, the reasons for selection, expected stormwater volumes, project cost and delivery timeline)
- the annual volume of stormwater collected and utilised by each project, and the annual volume of potable water saved.

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<sup>47</sup> See Water Industry Regulatory Order clause 11 and Water Industry Act 1994 s 4C.

<sup>48</sup> Stormwater management to slow run-off and protect the health of Metropolitan Melbourne's waterways and drainage systems is a responsibility of Melbourne Water and local government.

Greater Western Water's outcome 3 measure (a) relates to its commitment to fund 10 stormwater harvesting projects under this program. The annual reporting requirement could complement the reporting against this outcome commitment.

#### **4.2.4 Our final decision on capital expenditure**

After considering all submissions received in response to our draft decision, for the reasons outlined above, our final decision is to adopt a forecast capital expenditure of \$1,692.67 million for the 5-year period (Table 4.5), which is \$131.65 million higher than we adopted for our draft decision and \$28.75 million lower than initially proposed by Greater Western Water. This decision reflects our reinstatement of \$79.4 million to the Water main Renewal Program and \$12.8 million for its Stormwater Harvesting Program, and our acceptance of Greater Western Water's revised proposal of \$39.4 million for its Asset Ecosystem – Asset Foundations program.

We consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on Greater Western Water's forecast regulatory asset base (Table 4.7) and revenue requirement (Table 4.1) reflect this benchmark.

The benchmark that we propose to adopt for Greater Western Water does not represent the amount that Greater Western Water is required to spend or allocate to particular projects (outside of the allowance specifically allocated to the Stormwater Harvesting program). Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Where we have made an adjustment to exclude a project's capital expenditure from Greater Western Water's revenue requirement, we are not requiring the business to remove that project. Greater Western Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

## 4.3 Regulatory asset base

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.<sup>49</sup> The regulatory asset base is used to estimate the return on assets (discussed in Section 4.4) and regulatory depreciation (discussed in Section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Greater Western Water to propose:

- the closing value of its regulatory asset base at 30 June 2023 (using actual data)
- the opening value of its regulatory asset base at 1 July 2024 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2024-25 to 2027-28), in accordance with the prudence criteria outlined in the guidance.

### 4.3.1 Closing regulatory asset base

Our final decision is to approve a closing regulatory asset base at 30 June 2023 of \$3,255.5 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2022-23.<sup>50</sup> This helps to ensure prices reflect the actual net expenditure of a water business.<sup>51</sup>

Our draft decision accepted Greater Western Water's closing regulatory asset base of \$3,255.5 million as at 30 June 2023 because it was calculated in accordance with the requirements of our guidance. After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, our final decision is to approve a closing regulatory asset base at 30 June 2023 of \$3,255.5 million (Table 4.6).

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<sup>49</sup> These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

<sup>50</sup> See Section 4.2 for a discussion of Greater Western Water's capital expenditure.

<sup>51</sup> Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

**Table 4.6 Final decision – closing regulatory asset base (RAB)**

\$ million 2023-24

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Opening RAB 1 July</b>	<b>2,699.7</b>	<b>2,766.9</b>	<b>2,826.8</b>	<b>2,914.8</b>	<b>3,021.1</b>	<b>3,109.6</b>
Plus gross capital expenditure	207.0	230.1	274.5	286.8	281.4	336.4
Less government contributions	-	-	-	-	12.1	5.7
Less customer contributions	58.7	68.8	85.3	72.9	67.7	88.1
Less proceeds from disposals	1.0	1.3	0.8	1.0	3.0	1.0
Less regulatory depreciation	80.2	100.0	100.4	106.6	110.0	95.8
<b>Closing RAB 30 June</b>	<b>2,766.9</b>	<b>2,826.8</b>	<b>2,914.8</b>	<b>3,021.1</b>	<b>3,109.6</b>	<b>3,255.5</b>

**Note:** Numbers have been rounded.

### 4.3.2 Forecast regulatory asset base

Our final decision is to approve the forecast regulatory asset base as set out in Table 4.7.

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Our draft decision was to not accept Greater Western Water's proposed forecast regulatory asset base for the period 2023-24 to 2027-28 due to adjustments we proposed to its closing regulatory asset base. Our draft decision instead proposed to accept a forecast regulatory asset base that reflected our adjustments to Greater Western Water's proposed closing regulatory asset base.

In response to our draft decision, Greater Western Water proposed changes to its forecast regulatory asset base. However, our final decision is to not accept Greater Western Water's updated forecast regulatory asset base.

Our final decision on Greater Western Water's forecast regulatory asset base reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 4.2 (capital expenditure)
- Section 4.3.2.1 (customer contributions)
- Section 4.5 (regulatory depreciation).

Revenue requirement

Table 4.7 sets out our final decision on Greater Western Water’s forecast regulatory asset base from 1 July 2024.<sup>52</sup>

**Table 4.7 Final decision – forecast regulatory asset base (RAB)**

\$ million 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Opening RAB 1 July</b>	<b>3,255.5</b>	<b>3,398.3</b>	<b>3,567.3</b>	<b>3,713.8</b>	<b>3,879.4</b>
Plus gross capital expenditure	330.4	363.3	337.0	352.9	309.1
Less government contributions	15.6	18.2	0.2	-	-
Less customer contributions	75.5	73.7	82.5	74.2	79.0
Less proceeds from disposals	0.8	0.8	0.8	0.8	0.8
Less regulatory depreciation	95.7	101.6	107.0	112.4	117.7
<b>Closing RAB 30 June</b>	<b>3,398.3</b>	<b>3,567.3</b>	<b>3,713.8</b>	<b>3,879.4</b>	<b>3,990.9</b>

**Note:** Numbers have been rounded.

#### 4.3.2.1 Customer contributions

Our final decision adopts a forecast for customer contributions as set out in Table 4.7.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.

Our draft decision did not accept Greater Western Water’s forecast for customer contributions because we proposed to not accept Greater Western Water’s proposed new customer contribution charges.

Our final decision also does not approve standard new customer contributions proposed by Greater Western Water (see Section 5.4). Instead, we have approved the current charges

<sup>52</sup> Our guidance required Greater Western Water to provide an estimate of the components of its regulatory asset base for 2023-24. This was so we could assess the opening asset base for 1 July 2024. Our guidance noted that where developer contribution forecasts are higher than the forecast benchmark for 2023-24 in the 2018 and 2020 price determinations, Greater Western Water must use the higher amount. The estimates for 2023-24 will be confirmed at the next price review. See Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, p. 41–43.



escalated annually by the consumer price index. These are lower than Greater Western Water's proposed charges.

Accordingly, we have lowered the forecast for revenue from customer contributions compared to Greater Western Water's forecast in its 2024 price submission. This is based on an average of the number of new connections proposed per annum over the four years multiplied by an amount that is lower per lot than proposed, to reflect the lower charges approved in the final decision. We consider these forecasts are reasonable given they are consistent with past outcomes.

## 4.4 Rate of return

In establishing the return on assets component of Greater Western Water's revenue requirement, we have applied a rate of return to Greater Western Water's regulatory asset base. The rate of return is calculated using a benchmark cost of debt (discussed in Section 4.4.1) and a benchmark return on equity value (discussed in Section 4.4.2).

### 4.4.1 Cost of debt

Our final decision is to accept the updated cost of debt figures used by Greater Western Water to calculate its revenue requirement.

Our draft decision approved the cost of debt proposed by Greater Western Water as it used the cost of debt values we specified in our guidance to calculate its revenue requirement. We also noted that our estimate of 6.76 per cent for the cost of debt in 2023-24 would be updated to reflect the latest available data.

In May 2024, we provided Greater Western Water with an updated cost of debt value from 6.76 per cent to 6.53 per cent for 2023-24.<sup>53</sup> This reflects a decline in borrowing costs over the past 12 months. Greater Western Water used this updated value to recalculate its revenue requirement.

For the above reasons, our final decision adopts the updated figures for the benchmark cost of debt as set out in Table 4.8.

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<sup>53</sup> These updated figures were based on data from the Reserve Bank of Australia on the actual trailing average cost of debt for 2023-24.

**Table 4.8 Final decision – 10-year cost of debt**

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost of debt (nominal)	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%	6.53%

**Note:** Numbers have been rounded.

#### 4.4.2 Return on equity

Our final decision is to adopt a return on equity of 4.1 per cent in real terms, which reflects Greater Western Water’s PREMO rating.

Under our PREMO incentive mechanism, which we have applied since 2018, the return on equity we adopt to calculate the revenue requirement is linked to a business’s PREMO rating. See Chapter 7 for an explanation of PREMO and our assessment of Greater Western Water’s PREMO rating. As outlined in our guidance, the return on equity we adopt depends on a water business’s self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business’s self-rating and our rating.<sup>54</sup>

Greater Western Water rated its price submission as ‘Standard’. Based on this PREMO self-rating, Greater Western Water proposed a real return on equity of 4.1 per cent per year. This reflects the maximum return rate allowed in our guidance for a price submission rated as ‘Standard’.<sup>55</sup>

Our draft decision adopted Greater Western Water’s proposed return on equity, which reflected our preliminary overall PREMO rating of its price submission.

After considering all submissions received in response to our draft decision, our final decision on Greater Western Water’s overall PREMO rating remains the same as our draft decision.

Therefore, our final decision is to adopt Greater Western Water’s proposed return on equity of 4.1 per cent per year, reflecting our final decision on the overall PREMO rating of its price submission (see Chapter 7).

<sup>54</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, p. 47.

<sup>55</sup> *ibid.*

### 4.4.3 Long term inflation forecast

A long-term inflation forecast is used to convert the nominal cost of debt (outlined in Section 4.4.2 above) to real terms. A higher rate of inflation means a lower cost of debt in real terms, which would flow through to a lower revenue requirement and lower prices, all other things being equal. Conversely, a lower long-term inflation rate will flow through to increased prices, all other things being equal.

In addition to updating our estimate for the cost of debt, in May 2024, we have also updated our long-term inflation forecast. We advised Greater Western Water that the long-term inflation rate we calculated was 2.9 per cent. This figure is a further revision from the 3.0 per cent proposed in our draft decision.

In line with our guidance, we have adopted our long-term inflation forecast based on the 'RBA geometric mean' and the 'bond breakeven' methods. Each method applies a simple 5-year averaging period.

The estimates we have adopted for each year of the 5-year inflation forecast period under the 'RBA geometric mean' and bond breakeven approach are set out in Appendix E.

## 4.5 Regulatory depreciation

Our final decision is to adopt a forecast regulatory depreciation as set out in Table 4.7.

Regulatory depreciation is a component of Greater Western Water's revenue requirement and is also an input to calculating the regulatory asset base.

As indicated in our draft decision, Greater Western Water's forecast for regulatory depreciation was calculated using a straight-line depreciation profile, which is our preferred approach.<sup>56</sup> However, due to adjustments we proposed to its forecast regulatory asset base, our draft decision did not accept Greater Western Water's forecast regulatory depreciation.

In response to our draft decision, Greater Western Water updated its forecast regulatory depreciation.

Following an assessment of Greater Western Water's response to our draft decision, our final decision adopts an updated forecast of Greater Western Water's regulatory depreciation set out in Table 4.7.

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<sup>56</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, pp. 43–44.

## 4.6 Tax allowance

Our final decision is to adopt a forecast tax allowance of \$145.6 million for the 2024–28 regulatory period.

The tax allowance is a component of the revenue requirement.

Our draft decision proposed to not approve Greater Western Water’s forecast tax allowance of \$138.7 million over the 4-year regulatory period because we proposed an adjustment to Greater Western Water’s revenue requirement. We requested Greater Western Water to provide an updated estimate in response to our draft decision.

In response to our draft decision, Greater Western Water updated its revenue requirement and revised its tax allowance to \$148.5 million.

In our final decision, we reviewed Greater Western Water’s response to our draft decision, adjusted Greater Western Water’s revenue requirement and its new customer contribution forecasts. Our final decision reflects these adjustments and adopts a forecast tax allowance as set out in Table 4.1.

## 5. Demand, tariffs and prices

Once Greater Western Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

### 5.1 Demand

Our final decision is to accept Greater Western Water's updated demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

Our draft decision accepted Greater Western Water's proposed demand forecasts but required Greater Western Water in its response to demonstrate how it considered the updated Victorian Government population and dwelling growth estimates (ViF2023).

In response to our draft decision, Greater Western Water updated its connections and volumetric consumption forecasts to reflect the most recently available data from ViF2023.

We have reviewed Greater Western Water's updated demand forecasts and consider that it has had regard to the updated Victorian Government estimates as required in our draft decision.

We accept Greater Western Water's demand forecasts were estimated consistent with the requirements of our guidance. Accordingly, our final decision is to accept Greater Western Water's updated demand forecasts.

### 5.2 Form of price control

Our final decision is to accept Greater Western Water's proposed tariff basket form of price control for the majority of its tariffs and price cap form of price control for miscellaneous tariffs.

Our draft decision proposed to accept Greater Western Water's proposal to retain a tariff basket form of price control for core water, sewerage and trade waste charges and a price cap form of price control for miscellaneous charges. This is a continuation of its current approach and provides flexibility for Greater Western Water to support the alignment of prices for its two regions over time. The proposal is consistent with our guidance.

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision approves Greater Western Water's proposed tariff basket form of price control for the majority of its tariffs, and price cap form of price control for its miscellaneous tariffs.

## 5.3 Tariff structures and prices

Our draft decision accepted Greater Western Water's proposed tariff structures but, like all our water price review draft decisions, did not approve prices for each tariff, because Greater Western Water needed to update its proposed prices to reflect our updates to inflation and cost of debt estimates.

Our final decision on tariff structures and prices is set out below.

### 5.3.1 Tariff structures

Our final decision is to accept Greater Western Water's proposed tariff structures.

As outlined in our guidance, we have provided the water businesses with a large degree of discretion to decide on individual tariff structures.<sup>57</sup> This recognises water businesses are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Our draft decision proposed to accept Greater Western Water's proposed tariff structures, which largely maintain its existing tariff structures, with some key changes to support greater alignment between its western and central regions.

#### Central service area tariff structures:

- for residential customers receiving water services only – continuation of a two-part tariff structure, with a fixed service charge and a variable component that depends on water use
- for residential customers receiving both water and sewerage services – the sewage disposal charge and the variable water charge will be combined into a two-part tariff structure, with a fixed service charge and a variable component that depends on water use
- for non-residential customers – continuation of a fixed service charge for water and a sewerage connection fee, as well as a variable fee for water and sewerage use
- for residential recycled water customers – continuation of a fixed service charge and a variable usage fee
- for non-residential recycled water customers – continuation of a usage charge only.

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<sup>57</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, p. 56.

## Western service area tariff structures:

- for all residential customers – removal of the third step water usage charge to align the tariff structure across its central and western regions, and continuation of a fixed service charge
- for non-residential customers – continuation of a fixed service charge for water and a sewerage connection fee, as well as a variable fee for water and sewage use
- for residential and non-residential recycled water customers – continuation of a fixed service charge and a variable usage fee.

In our draft decision, we considered the two-part structure for water services would promote the efficient use of services and send customers a signal about the costs of their water use. We also considered that a two-part tariff structure would be easy to understand and is an approach that is commonly applied in other states and territories.<sup>58</sup>

In relation to sewerage services, we considered Greater Western Water's proposed change to its sewerage usage charge for its central region residential customers (combining with the variable water charge) was easy to understand and consistent with its engagement findings – both service areas will now have only a fixed sewerage charge. A two-part tariff for non-residential customers would send these customers signals about efficient costs.<sup>59</sup>

After considering all submissions received in response to our draft decision, for the reasons set out above and given Greater Western Water's proposed tariff structures are generally a continuation of its current approach and otherwise meet the criteria in our guidance, our final decision is to approve Greater Western Water's proposed tariff structures.

### 5.3.2 Prices

Our final decision is to not accept Greater Western Water's proposed prices, and instead adopt the prices set out in our determination.

In our draft decision, we noted that Greater Western Water would need to propose updated prices to reflect our draft decision on its revenue requirement and our updates to inflation and cost of debt estimates.

Following our draft decision, Greater Western Water proposed revised prices that reflect the updates to our inflation and cost of debt estimates, and to bulk water charges (see Section 4.1).

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<sup>58</sup> Includes the tariffs of Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

<sup>59</sup> Our reasons are outlined in our 2013 draft decisions on price review 2013-14 to 2017-18.

Greater Western Water’s revised prices also reflect changes to its revenue requirement consistent with its response to our draft decision.

However, our final decision approves a revenue requirement (as set out in Chapter 4) that is lower than the updated revenue requirement proposed by Greater Western Water in its response to our draft decision.

Accordingly, and to ensure maximum prices reflect forecast efficient costs, our final decision is to not accept the revised prices proposed by Greater Western Water, and instead adopt the prices set out in our determination. Maximum prices for major tariffs approved in our determination are set out in Tables 5.1 and 5.2.

**Table 5.1 Final decision – water prices**  
\$ 2024-25

	2024-25	2025-26	2026-27	2027-28
<b>Residential – Central service area</b>				
Variable (\$/kL) block 1	3.5290	3.5290	3.5290	3.5290
Variable (\$/kL) block 2	4.0437	4.0437	4.0437	4.0437
Fixed (\$/year)	220.28	220.28	220.28	220.28
<b>Residential – Western service area</b>				
Variable (\$/kL) block 1	2.4623	2.5463	2.6304	2.7144
Variable (\$/kL) block 2	3.2343	3.2968	3.3592	3.4217
Fixed (\$/year)	220.25	220.25	220.25	220.25
<b>Non-residential – Central service area</b>				
Variable (\$/kL)	3.1308	3.1308	3.1308	3.1308
Fixed (\$/year)	318.47	318.47	318.47	318.47
<b>Non-residential – Western service area</b>				
Variable (\$/kL)	3.1308	3.1308	3.1308	3.1308
Fixed (\$/year)	220.25	220.25	220.25	220.25

**Notes:** These prices have been expressed in \$2024-25 terms, which means 3.6 per cent inflation has been factored into the prices for 2024-25. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2023-24, which means inflation has not been accounted for in 2024-25 or the remaining years of the 2024–28 regulatory period.



**Table 5.2 Final decision – sewerage prices**

\$ 2024-25

	2024-25	2025-26	2026-27	2027-28
<b>Residential – Central service area</b>				
Fixed (\$/year)	287.07	294.83	302.59	310.35
<b>Residential – Western service area</b>				
Fixed (\$/year)	542.24	520.24	498.23	476.23
<b>Non-residential – Central service area</b>				
Variable (\$/kL)	2.0525	2.0525	2.0525	2.0525
Fixed (\$/year)	521.77	515.71	509.64	503.58
<b>Non-residential – Western service area</b>				
Fixed (\$/year)	550.90	537.56	524.21	510.86

**Notes:** These prices have been expressed in \$2024-25 terms, which means 3.6 per cent inflation has been factored into the prices for 2024-25. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2023-24, which means inflation has not been accounted for in 2024-25 or the remaining years of the 2024–28 regulatory period.

Our price determination for Greater Western Water sets out the maximum prices it may charge for the 4-year period from 1 July 2024 (or the manner in which its prices are to be calculated, determined, or otherwise regulated).

### 5.3.3 Addressing the interests of low income and vulnerable customers

In making our price determination, we must have regard to whether Greater Western Water’s prices take into account the interests of customers, including low income and vulnerable customers.<sup>60</sup>

As outlined in our draft decision, we considered Greater Western Water has taken account of customers’ interests because it proposed:

- new expenditure in line with the priorities of the deliberative panel, whose participants were representatives of Greater Western Water’s customer base, including low income customers and customers experiencing vulnerability
- increased spending on its customer support program to improve early intervention and increase uptake of customer support by culturally and linguistically diverse customers (which addresses the issues raised in customer submissions)

<sup>60</sup> Water Industry Regulatory Order 2014 clause 11(d)(iii).

- investment to align services and service levels for regional (western service area) customers with the service levels available in urban (central) areas
- a price path that focused on bill reduction in the first year of the regulatory period for the majority of its customers in consideration of the cost of living pressures
- removing the third step water usage charge for residential customers in its western region in recognition of the affordability impact of the third step on large families who are less able to reduce usage in response to pricing signals
- simplifying its tariff structures by removing the sewage disposal charge and combining it with water usage charges which enables customers to understand their bill more easily.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on how Greater Western Water has addressed the interests of low income and vulnerable customers.

### 5.3.4 Other services

Our final decision approves Greater Western Water's proposed prices for other services including trade waste and miscellaneous services because they are calculated in accordance with the pricing principles in our guidance.

## 5.4 New customer contributions

Our final decision is to not approve Greater Western Water's proposed standard new customer contributions.

Our final decision approves the continuation of Greater Western Water's existing standard new customer contributions, adjusted for inflation over 2024–2028.

Our final decision approves Greater Western Water's negotiated customer contribution framework.

New customer contributions (or developer charges) are levied by water businesses when a new connection is made to its water, sewerage or recycled water networks. New customer contributions can be either standard or negotiated. Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. The purpose of standard new customer contributions is to ensure cost reflective charges, as well as reduce the administrative burden and improve the timeliness and predictability of costs faced by developers.<sup>61</sup> Negotiated charges allow water businesses and developers to negotiate a

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<sup>61</sup> Essential Services Commission 2013, *New customer contributions: explanatory note*, December, p. 3.

site-specific arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.<sup>62</sup>

In its price submission Greater Western Water proposed to:

- align the standard infill new customer contributions between its central and western regions (now called standard new customer contributions)
- increase new customer contributions in 2024-25 by 5 to 10 per cent, except for infill new customer contributions for its western region which it proposed to decrease by 42 per cent
- maintain the greenfield new customer contributions in its western region
- continue to charge recycled water new customer contributions for West Werribee and Greek Hill areas
- cap the increase in new customer contributions to 5 per cent annually in real terms from 2025-26 to 2027-28.

Our draft decision proposed not to accept Greater Western Water's proposed standard new customer contributions for the following reasons:

- Greater Western Water had not provided us with adequate information or justification for us to be satisfied that its proposal regarding uniform standard new customer contributions for both infill and greenfield is compliant with the assessment criteria in our guidance.
- Greater Western Water did not provide us with quantitative evidence to demonstrate that the costs of servicing solutions in its western greenfield areas are sufficiently similar so as to justify a common charge.
- Proposed greenfield new customer contributions did not meet the requirements of our guidance because Greater Western Water's proposal did not meet the pricing principle to have regard to the incremental infrastructure and associated costs attributable to a given connection.

Our draft decision did accept Greater Western Water's negotiated customer contribution framework.

In our draft decision, we required Greater Western Water to:

- explain how its proposed uniform standard new customer contributions consider the guidance principles
- provide its justification, including the cost analysis it is based on, to support a uniform greenfield new customer contribution in the western greenfield areas.

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<sup>62</sup> Essential Services Commission 2013, *New customer contributions: explanatory note*, December, p. 3.

In response to our draft decision, Greater Western Water proposes:

- **Western region infill – water and sewer**

- to continue its existing tariff structure increasing with inflation over 2024-25 to 2027-28
- maintain its price submission proposal for a combined charge for water and sewer customers only (not separate charges), including a 50 per cent reduction in the combined charge if a customer only connects to one service and does not use the negotiated framework

- **Central region infill – water and sewer**

- to maintain its price submission proposals, increasing new customer contributions from current charges by 5 per cent per annum over 2024-25 to 2027-28 and a combined charge for water and sewer customers only (not separate charges), including a 50 per cent reduction in the combined charge if a customer only connects to one service and does not use the negotiated framework

- **Western greenfield water and sewer**

- to maintain its price submission proposal of increasing by 5 per cent per annum over 2024-25 to 2027-28 and a combined charge for water and sewer customers only (not separate charges), including a 50 per cent reduction in the combined charge if a customer only connects to one service and does not use the negotiated framework

- **Central region recycled water**

- to maintain its price submission proposal of increasing by 5 per cent per annum over 2024-25 to 2027-28

Table 5.3 compares Greater Western Water’s current and proposed new customer contributions.

**Table 5.3 Current and proposed new customer contributions, 2023-24 to 2024-25 (\$2023-24)**

Current structure	New structure	Service connection	Current 2023-24	Price sub proposed 2024-25	Price sub modelled 2024-25	Draft Decision response proposed	Draft Decision response modelled
City West Water Standard	Central region Standard	Water	830	915	922	915	518
		Sewer	830	915	2,863	915	2,826
		<b>Total</b>	<b>1,659</b>	<b>1,830</b>	<b>3,776</b>	<b>1,830</b>	<b>3,344</b>
Western Water Infill	Western region infill	Water	1,567	915	922	1,567	82
		Sewer	1,567	915	2,863	1,567	4,366
		<b>Total</b>	<b>3,134</b>	<b>1,830</b>	<b>3,776</b>	<b>3,133</b>	<b>4,337</b>
Western Water Greenfield	Western Greenfield	Water	3,627	3,808	6,372	3,809	6,702
		Sewer	3,627	3,808	8,597	3,809	8,928
		<b>Total</b>	<b>7,255</b>	<b>7,616</b>	<b>14,831</b>	<b>7,618</b>	<b>15,511</b>
West Werribee and Greek Hill	West Werribee and Greek Hill	Recycled water	3,000	3,149	12,390	3,149	11,990

In our final decision, we have had regard to whether Greater Western Water’s proposal is consistent with the new customer contribution pricing principles in our guidance. These principles underpin the aims of the new customer contribution framework, which are to:

- send signals to developers about the costs of developing in different locations<sup>63</sup>
- share the costs and benefits of growth between new and existing customers
- administer new customer contributions in a transparent way.

We have also considered the requirements under section 268(3) of the Water Act, which outlines that:<sup>64</sup>

*(3) The amount of payment required from an owner must be assessed by the Authority to be fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.*

### Uncertain costs underpinning new customer contribution charges

In response to our draft decision, Greater Western Water advised that the underlying costs in its development areas are uncertain.<sup>65</sup> Greater Western Water outlined in its response that there are a number of factors that make it difficult to identify costs of servicing solutions to growth and development and the beneficiaries of the services in its growth areas, such as uncertainty of specifics of growth, growth areas that are part of contiguous systems, lack of information on investment allocations, and lack of understanding of growth boundaries.

We requested Greater Western Water provide the underlying model it used to develop new customer contribution options for its price submission. Our review of the model identified material cost variations in the underlying servicing solutions in Greater Western Water’s growth areas. We therefore remain of the view expressed in our draft decision that the cost variations do not sufficiently justify common new customer contributions.

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<sup>63</sup> As noted in our draft decision, Clause 11(d)(ii) of the 2014 WIRO requires the commission to have regard to whether the regulated entity’s prices provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers). The commission will necessarily have regard to relevant information about costs including costs of servicing particular locations. The 2014 WIRO also requires the commission to place particular emphasis on certain matters including ‘the promotion of efficient use of prescribed services by customers’ (clause 8(b)(i)). Ensuring that prices, including new customer contributions, appropriately reflect costs (including costs in particular locations) is therefore a fundamental part of the commission’s role in making a price determination.

<sup>64</sup> The regulatory task of any new customer contribution charging regime is to determine how much a connecting party should pay upfront versus what will be paid through ongoing charges. Ongoing charges are paid by both the connecting party and all other customers via inclusion in the regulatory asset base (RAB). This regulatory price setting and cost recovery task can be done through the incremental costs minus incremental revenues calculation, applied in conjunction with a building block approach that only adds net capex (i.e. gross capex less contributions) into the RAB.

<sup>65</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024–28*, 7 May, pp. 80–97.

We have reviewed all the information provided to us by Greater Western Water, including its responses to our numerous information requests on its proposed standard new customer contributions. We have not been provided with sufficient or reliable data to verify that the proposed standard new customer contributions meet the pricing principles of being greater than the avoidable cost of that connection and less than the standalone cost of that connection area within the region, or reflect incremental costs of providing services within the region.

We also do not consider the proposed new customer contributions meet the requirements of s268(3) of the Water Act, which provides that the amount required to be paid by the owner of a property take into account the benefit to that property relative to the benefit to other properties.

Our final decisions approved Western Water's (2020) and City West Water's (2018) new customer contributions after we reviewed its new customer contribution model and approach to calculating incremental costs and revenues.<sup>66</sup> We considered that the tariff structures complied with our guidance and had sufficient regard to the incremental costs and revenues attributed to new customer connections.

As noted earlier, Greater Western Water was formed in 2021 through the merger of the former Western Water and City West Water businesses. A driver of the merger was the significant growth in the western region and the capacity of the former Western Water to service future development. In its response to the draft decision, Greater Western Water outlined that growth in its regions is material (in some areas, at around 5 per cent per annum). We consider that given these circumstances, Greater Western Water would have prioritised understanding of its costs and servicing solutions to growth and development to develop new customer contributions that are cost reflective or reflect the incremental costs of providing the servicing solutions (guidance principles).

### **Final decision**

As explained above, we have considered if Greater Western Water's proposal meets our guidance principles and, after considering all submissions received following our draft decision, and for the reasons set out above, our final decision is to not approve Greater Western Water's standard new customer contribution charges.

Our final decision is to instead retain Greater Western Water's existing new customer contributions for the upcoming regulatory period, adjusted for inflation over 2024–2028.

### **Negotiated framework**

We reviewed Greater Western Water's proposed negotiated new customer contributions framework. Our final decision approves Greater Western Water's proposed framework for

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<sup>66</sup> Western Water was merged with City West Water to form Greater Western Water in 2021.

negotiated new customer contributions because it complies with our new customer contributions pricing principles.

## 5.5 Adjusting prices

Our final decision is to approve Greater Western Water's proposed price adjustment mechanisms.

Our draft decision accepted Greater Western Water's proposed price adjustment mechanisms as they meet the requirements of our guidance and are mainly a continuation of Greater Western Water's current arrangements.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, our final decision accepts Greater Western Water's proposed price adjustment mechanisms.



## 6. Financial position

We have reviewed key indicators of Greater Western Water's financial performance and consider that Greater Western Water will generate sufficient cash flow to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.<sup>67</sup> We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the *Water Industry Regulatory Order (2014)* to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

In response to our draft decision, Greater Western Water updated its financial model and noted that the outcomes for the four key financial indicators remain similar to those in our draft decision. It noted in its price submission and response to our draft decision, the main reason impacting its financial position is its proposed increase in capital expenditure to accommodate the accelerated population growth in its service region.<sup>68</sup>

As noted in our guidance, the primary indicator in our assessment of the financial position of a business is Funds from Operations (FFO) interest cover. Under our final decision, Greater Western Water is projected to remain above the minimum benchmark for FFO interest cover.

Greater Western Water is not projected to meet the minimum benchmarks for the other three secondary financial indicators in each year of the next regulatory period.

Gearing (Net debt / Regulatory asset value) is forecast to remain above the maximum threshold of 70 per cent. It is not uncommon for utility businesses to operate at gearing levels above this threshold, and for Greater Western Water, this is influenced by the capital program it has proposed (which we acknowledge is partly driven by the integration needs of the business). In its response to our draft decision, Greater Western Water stated that it believes its gearing ratio remains serviceable based on the strong forecast growth in its region.

Similarly, outcomes for Funds from Operations / Net Debt, and the internal financing ratio, are sensitive to the scope and timing of the increases in capital expenditure proposed by Greater Western Water.

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<sup>67</sup> WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

<sup>68</sup> Greater Western Water 2024, *Price Submission Draft Decision Response: 2024–28*, 7 May, p. 98.

As indicated in our draft decision, and following further analysis of its financial position after we adjusted its revenue requirement, we consider Greater Western Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

## 7. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water business's revenue requirement to that business's level of ambition expressed in its price submission. Our guidance required Greater Western Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism and arrive at an overall self-rating.<sup>69</sup> We required Greater Western Water to self-rate its price submission as either 'Leading', 'Advanced', 'Standard' or 'Basic', with 'Leading' being the most ambitious and 'Basic' the least.

The assessment tool included in our guidance directed Greater Western Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We assessed and rated Greater Western Water's price submission. As outlined in our guidance, the combination of Greater Western Water's self-rating and our rating has determined the return on equity we have adopted to calculate Greater Western Water's revenue requirement in our final decision.

### 7.1 Our PREMO assessment of Greater Western Water's price submission

Our final decision is to rate Greater Western Water's price submission as 'Standard' under PREMO, which is the same as Greater Western Water's self-rating.

Greater Western Water's self-rating for each of the PREMO elements and its overall self-rating are shown in Table 7.1. This table also includes our draft and final ratings of Greater Western Water's price submission.

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<sup>69</sup> This is the first price review we have conducted where the rating has been based on all five elements of PREMO. In our 2018 and 2020 price reviews for the former City West Water and Western Water businesses respectively, our PREMO assessments were against only four of the elements – Risk, Engagement, Management and Outcomes.

**Table 7.1**      **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Greater Western Water's self-rating	Standard	Standard	Standard	Advanced	Standard	Standard
Commission's draft decision rating	Standard	Standard	Standard	Advanced	Basic	Standard
Commission's final decision rating	Standard	Standard	Standard	Advanced	Basic	Standard

Our preliminary PREMO assessment is set out in our draft decision.

Our final decision is to agree with Greater Western Water's proposed overall PREMO self-rating of 'Standard'. This rating is reflected in the return on equity we have approved for Greater Western Water (see Section 4.4.2).

In summary, the following matters support Greater Western Water's overall 'Standard' self-rating:

- despite a substantial program to integrate its antecedent businesses, Greater Western Water generally met its outcome commitments in the current regulatory period, while also charging lower than the maximum prices allowed under prevailing price determinations
- the quality of its engagement program, which we consider provided an extensive opportunity for customers to participate, including low income customers and customers experiencing vulnerability
- the ability for customers to influence its proposals, evidenced by feedback from its community panel members who commented favourably on the alignment between their recommendations and the business's proposals, and endorsement from other engagement participants
- its proposal to exclude capital expenditure of about \$173 million from customer prices due to uncertainty in timing, cost, scope and benefits of associated projects, thereby helping to ensure customers do not pay for projects that do not ultimately proceed or that change in scope
- a new guaranteed service level scheme that better balances risk between customers and the business
- evidence that demonstrates Greater Western Water's outcome measures and targets were developed in consultation with its customers, and that they are supported by customers.

### 7.1.1 Management

As shown in Table 7.1 above, Greater Western Water rated its submission as ‘Standard’ for the Management element of PREMO, but we rated it ‘Basic’ in our draft decision because Greater Western Water:

- did not provide sufficient information to demonstrate its proposed standard new customer contributions were cost reflective and therefore we did not consider they were consistent with the pricing principles in our guidance
- did not sufficiently justify its proposed baseline allowance for its operating expenditure benchmarks
- did not sufficiently justify several components of its capital expenditure forecast were prudent and efficient.

In its response to our draft decision, Greater Western Water argued to reinstate the ‘Standard’ rating for Management, on the basis that the further information it provided regarding new customer contributions, operating expenditure and capital expenditure addressed our concerns and justified the business’s original proposals.

Our final decision reinstates some of the expenditure reductions proposed in our draft decision. This reflects our consideration of new information provided by Greater Western Water, and for its Stormwater Harvesting program, information contained in other submissions responding to our draft decision supporting the rationale and prudence of the expenditure.

However, under PREMO the onus is on a water business to provide sufficient information in its price submission, or in response to our subsequent follow up requests, to justify its proposals. Our guidance provided to Greater Western Water set out these requirements for each component of its price submission, and it is a requirement for a ‘Standard’ rating for the Management element in the PREMO assessment tool.<sup>70</sup> Our draft decision identified where we considered this requirement had not been met by Greater Western Water.

After assessing its response to our draft decision, our final decision is that Greater Western Water:

- had not sufficiently justified all its proposed increases to the baseline operating expenditure (see Section 4.1.1.1)
- was unable to show its proposed new customer contributions satisfied our guidance requirements to consider cost reflectivity (see Section 5.4).

Accordingly, our final decision retains a rating of ‘Basic’ for the Management element of PREMO.

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<sup>70</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, see Appendix E, pp. 89–91.

## Appendix A – Submissions received on draft decision

Name or organisation	Date received
Wyndham City Council	1 May 2024
Macedon Water Think Tank	5 May 2024
Friends of Steele Creek	5 May 2024
City of Melbourne	5 May 2024
Maribyrnong City Council	6 May 2024
Macedon Ranges Shire Council	6 May 2024
Concerned Waterways Alliance	7 May 2024
Hume City Council	7 May 2024
Hobsons Bay City Council	7 May 2024
Melbourne Water	7 May 2024
Rob Skinner and Rohan Henry	7 May 2024
UDIA Victoria	7 May 2024

## Appendix B – Commission’s consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Greater Western Water.

The WIRO requires the Commission to place particular emphasis on the promotion of efficient use of prescribed services by customers, the promotion of efficiency in water businesses as well as efficiency in, and the financial viability of, the regulated water industry and the provision to regulated entities of incentives to pursue efficiency improvements.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.<sup>71</sup> Our draft and final decisions provide further information on where we have considered our guidance, and Greater Western Water’s compliance with our guidance, in making our price determination.<sup>72</sup>

Note: all chapter and section numbers referenced below refer to our final decision for Greater Western Water.

### **Economic efficiency and viability matters**

#### **WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.**

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).

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<sup>71</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September.

<sup>72</sup> Essential Services Commission 2024, *Greater Western Water draft decision: 2024 water price review*, 26 March; Essential Services Commission 2024, *Greater Western Water Determination: 1 July 2024 – 30 June 2028*, 18 June.

- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

**WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.**

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our final decision has therefore had regard to the extent that Greater Western Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6).

**WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.**

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Additionally, our pricing approach allows a water business to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water business has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water businesses to pursue efficiency improvements.



**ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long term investment’.**

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water business promotes efficiency in the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to incentives for long term investment by adopting:

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 4.4.1).
- A regulatory rate of return that we consider will enable Greater Western Water to recover borrowing costs associated with its investment in services, and generate a return on assets.<sup>73</sup>

**ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.**

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in Chapter 6.

**ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.**

In preparing our final decision, we have had regard to the extent Greater Western Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

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<sup>73</sup> The regulatory rate of return is comprised of the cost of debt and the return on equity.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

## **Industry specific matters**

**ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.**

Our pricing approach allows each water business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to the prescribed services listed in the WIRO in making our final decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Greater Western Water to deliver services that are covered by the prescribed services listed in the WIRO.

**ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.**

Our final decision provides for Greater Western Water to generate a return on assets through:

- Our consideration of the regulatory asset base (Section 4.3).
- Our consideration of the cost of debt (Section 4.4.1).
- Our consideration of the return on equity (Section 4.4.2).

**ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.**

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia<sup>74</sup>
- operating and capital expenditure costs per connection throughout Australia<sup>75</sup>
- tariff structures applied by water businesses throughout Australia<sup>76</sup>
- the regulatory rate of return set by other regulators.<sup>77</sup>

We are not aware of any international benchmarks that are relevant to our final decision.

**WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.**

Our pricing approach allows each water business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Our price review also considers the views of stakeholders affected by Greater Western Water’s proposals, including through submissions and public meetings.

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<sup>74</sup> Bureau of Meteorology 2022, *National performance report 2020-21; urban water utilities, part A*, February.

<sup>75</sup> *ibid.*

<sup>76</sup> Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

<sup>77</sup> Independent Pricing and Regulatory Tribunal (IPART) NSW 2021, *Final Report – Review of WaterNSW’s rural bulk water prices*, 9 September; IPART NSW 2020, *Final Report – Review of prices for Sydney Water*, June; Essential Services Commission of South Australia 2020, *SA Water’s water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July; Queensland Competition Authority (QCA) 2022, *Final report - Seqwater bulk water price review 2022–26*, March; QCA 2020, *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January; Office of the Tasmanian Economic Regulator 2022, *Final report - Investigation into TasWater’s prices and services for the period 1 July 2022 to 30 June 2026*, May.

## Customer matters

**ESC Act section 8(1) requires us to have regard to the fact that the ‘objective of the Commission is to promote the long term interests of Victorian consumers’.**

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long-term interests of Victorian consumers.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6)

**ESC Act Section 8(2) requires us to ‘have regard to the price, quality and reliability of essential services’ in seeking to achieve the objective in section 8(1) of the ESC Act.**

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our consideration of demand (Section 5.1).
- Our consideration of tariffs (Section 5.3).

In terms of the quality and reliability of services, the following sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).

**WIRO Clause 11(d)(i) requires us to have regard to whether Greater Western Water’s prices ‘enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated’.**

We consider that the following matters are relevant when considering whether Greater Western Water’s prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water business’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

The following sections of our final decision involved consideration of this factor:

- Our consideration of tariffs and the form of price control (Section 5.2 and Section 5.3).

**WIRO Clause 11(d)(ii) requires us to have regard to whether Greater Western Water’s prices ‘provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible’.**

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

**WIRO Clause 11(d)(iii) requires us to have regard to whether Greater Western Water’s prices ‘take into account the interests of customers of the regulated entity, including low income and vulnerable customers’.**

We consider that customer value established through prices and customer outcomes, as well as tariff structures, and assistance available to customers having difficulty paying bills is relevant to this objective.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1)
- Our consideration of outcomes (Section 3.2)

Appendix B – Commission’s consideration of legal requirements

- Our consideration of guaranteed service levels (Section 3.4)
- Our consideration of tariff structures and prices (Chapter 5)

## **Health, safety, environmental and social obligations**

**ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.**

Our final decision proposes to approve a revenue requirement that will enable Greater Western Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of the form of price control (Section 5.2).

**WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.**

Our final decision proposes to approve a revenue requirement that will enable Greater Western Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

## **Other matters**

**ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.**

In relation to the above, Greater Western Water does not face any competition in the delivery of its prescribed services within its region. Our final decision takes this into account through our consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business’s customer engagement.

The following sections of our final decision involved consideration of this factor:

- Our assessment of engagement (Section 3.1)
- Our assessment of outcomes (Section 3.2)
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.<sup>78</sup>

**ESC Act section 8A(1)(e) requires us to have regard to the ‘benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities’.**

We have had regard to benefits and costs of regulation by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>79</sup>

**ESC Act section 8A(1)(f) requires us to have regard to ‘consistency in regulation between States and on a national basis’.**

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses to implement various forms of price control, including price caps and revenue caps

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<sup>78</sup> Essential Services Commission 2016, *Water Pricing Framework and Approach, Implementing PREMO from 2018*, October, pp. 11–13.

<sup>79</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, pp. 2–3.

- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

**WI Act section 4C(a) requires us to ‘ensure that the costs of regulation do not exceed the benefits’.**

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.<sup>80</sup>

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<sup>80</sup> Essential Services Commission 2022, *2024 Greater Western Water price review: Guidance paper*, 20 September, pp. 2–3.



## Appendix C – Service standards

We have accepted the following standards, and conditions of service and supply, and associated targets for Greater Western Water. Service standards are set out in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2024-25, we will update the Urban Water Industry Standard to adopt these service standards and targets.

### Water service standards

Service standard	2024-25	2025-26	2026-27	2027-28
Maximum number of unplanned water supply interruptions a customer may experience in any 12-month period	5	5	5	5
Average time taken to attend bursts and leaks (priority 1) (minutes)	30	30	30	30
Average time taken to attend bursts and leaks (priority 2) (minutes)	90	90	90	90
Average time taken to attend bursts and leaks (priority 3) (minutes)	315	315	315	315
Average time taken to restore customers' water supply – planned (minutes)	125	125	125	125
Average time taken to restore customers' water supply – unplanned (minutes)	150	150	150	150
Minimum water flow rate (litres per minute for a 20 mm diameter water service pipe)	20	20	20	20

### Sewerage service standards

Service standard	2024-25	2025-26	2026-27	2027-28
Maximum number of sewer blockages a customer may experience in any 12-month period	3	3	3	3
Average time to attend sewer spills and blockages (minutes)	30	30	30	30
Average time taken to rectify a sewer blockage (minutes)	150	150	150	150
Maximum time taken to contain a sewer spill (minutes)	300	300	300	300

## Appendix D – Guaranteed service level scheme

We have adopted the following service level obligations and corresponding payment amounts for failure to attain the stated obligation as the guaranteed service level scheme for Greater Western Water. Guaranteed service levels are approved in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2024-25, we will update the Urban Water Industry Standard to reflect the guaranteed service levels set out below.

In accordance with clause 20(b) of the Urban Water Industry Standard, Greater Western Water must ensure that any payment is made to a customer as soon as practicable after a customer becomes entitled to the guaranteed service level payment.

Greater Western Water is not required to make a payment where the failure to meet the service level is due to the action or inaction of the customer or a third party. For the avoidance of doubt, a third party does not include any person or firm acting on behalf of Greater Western Water.

## Greater Western Water's guaranteed service level scheme

Service level obligation	Payment (\$)
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours (as defined by the ESC) to contact the customer and provide information about help that is available if the customer is experiencing difficulty paying	350
More than 5 unplanned water supply interruptions within any 12-month period	250
More than 3 unplanned water supply interruptions within any 12-month period	125
Unplanned water supply interruption not restored within 5 hours of notification	125
Planned water supply interruptions during peak hours (5 am to 9 pm and 5 pm to 11 pm)	125
Failure to give at least two business days' notice of a planned water supply interruption	100
A water quality advisory notice is issued affecting less than 50 customers	5,000 community rebate
A water quality advisory notice is issued affecting 50 or more customers	10,000 community rebate
More than three sewer blockages in any 12-month period	125
Sewer blockages not restored within 5 hours of notification	100
Sewage spill not contained within 5 hours of notification	100
Sewage spill in a house, caused by the business or a failure of the business's system(s)	1,200
Sewage spill in a house, caused by the business or a failure of the business's system(s), not contained within 1 hour of notification	3,500

Note: These are nominal amounts, that is, the amount of payment will not be impacted by inflation.

## Appendix E – Inputs to calculation of long-term inflation

### Inflation – annual estimates (per cent)

	2024-25	2025-26	2026-27	2027-28	2028-29	Average
RBA geometric mean	3.6	3.5	2.7	2.5	2.5	3.0
Bond breakeven	3.6	2.5	2.5	2.5	2.5	2.7
Long Term Inflation						2.9

**Note:** Figures have been rounded. The long-term inflation estimate is a result of a 5-year RBA geometric mean and bond breakeven forecast. The 2024-25 commencing year is the annualised March 2024 quarter actual inflation rate – that is, calculated based on the annual percentage change in the Australian Bureau of Statistics March 2024 consumer price index (all groups, Australia).