

Return of unrequired desalination payments to customers



February 2013 progress report

The Essential Services Commission is responsible for monitoring the return of unrequired desalination payments by the metropolitan water businesses and Western Water. This report provides information regarding the impacts of the price freeze on customers in the period from July to December 2012. We will provide the next update in April 2013. All dollar values in this report are in nominal (or in today's dollar) terms.

How much has already been returned?

The water retailers estimate the price freeze lowered customers' bills by \$42 million in the period from October to December 2012. This is a greater reduction than the \$30 million over the period from July to September 2012.

The increase was expected and reflects:

- Increased water use, in line with warmer and dryer months – this meant more funds were returned through the price freeze; and
- Customers benefiting from the price freeze for the entire period covered by meter reads (this was not the case in the period from July to September, during which some covered only part of the period after 1 July 2012).

Over the six months to December 2012, the price freeze

resulted in customers paying around \$72 million less on their water bills.

By business, the estimated impact of the price freeze on customer bills over the six months to December 2012 ranges from a reduction of \$2 million for Western Water's customers to a reduction of \$30 million for Yarra Valley Water's customers. The variation is mainly due to differences in customer numbers.

Businesses returned an additional \$50,000 through special circumstances payments from July to December 2012. These payments are made to customers who contributed in the past to desalination payments, but no longer receive a water bill and so do not benefit from the price freeze.

How much do businesses need to return?

As commissioning of the desalination plant is now completed, there is more certainty about the associated costs for 2012-13. This means we can provide a more accurate estimate of the total funds to be returned to customers.

On the available information, we estimate businesses must return \$289 million to customers, including \$23 million of interest.

Based on typical weather patterns, water businesses estimate the 2012-13 price freeze will result in customers paying \$179 million less on their bills. This estimate has increased since our October report as water use has been higher than anticipated and businesses have revised upwards their forecast for water use for the period from January to June 2013.

While the price freeze ensures customers will have paid less on 2012-13 bills, we estimate an additional \$110 million must still be returned to customers.

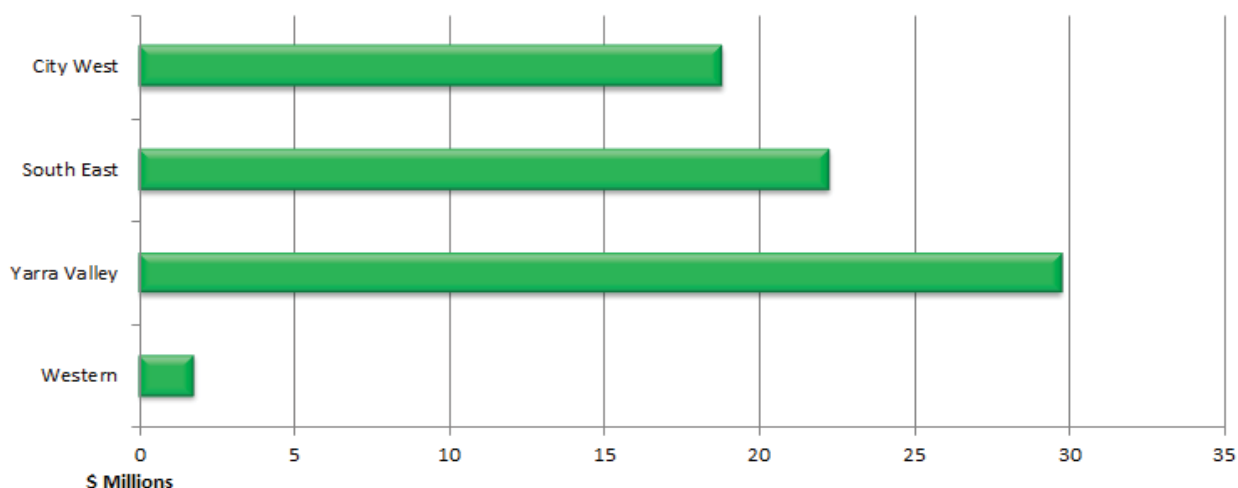
The businesses are developing a method to return additional funds via a rebate on customer bills. The rebate will help to ensure funds are returned as soon as possible.

The rebate will be based on past water use. This approach will seek to align the amount rebated with the unrequired contribution towards desalination costs built into individual customer's water bills last year. We will work with the businesses as they develop their approach to the rebate.

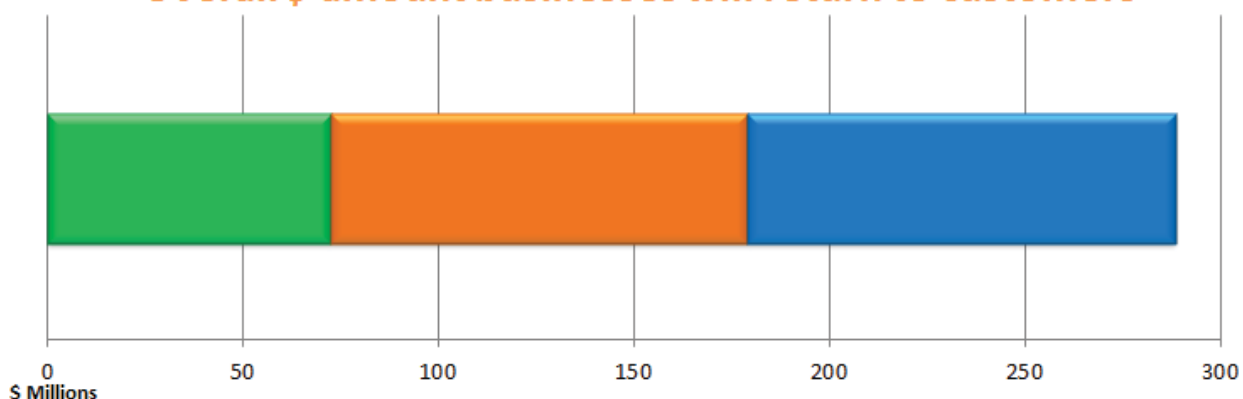
Our expectation is that businesses will commence rebates within the next month. We will monitor the implementation of the rebate. An update will be provided in our April 2013 report (or beforehand if necessary).

An audit will be conducted after June 2013 to ensure that all unrequired desalination payments have been returned, including an adjustment for interest. If the returns to customers are insufficient, the water business will return the balance remaining in 2013-14.

Estimated \$ amount returned by each retailer up to Dec 2012



Overall \$ amount businesses will return to customers



■ Amount businesses returned to customers by December 2012 through the price freeze announced in June 2012 (\$m)

■ Further amount to be returned to customers via the 2012-13 price freeze (\$m)

■ Additional amount returned to customers as a rebate on their bills, starting within the next month (\$m)

More information and feedback?

More information on the return of unrequired desalination payments is available from water retailers.

City West Water: Website: www.citywestwater.com.au
Phone: 131691

South East Water : Website: www.southeastwater.com.au
Phone: 131694

Yarra Valley Water : Website: www.yvw.com.au
Phone: 131721

Western Water : Website: www.westernwater.com.au
Phone: 1300 650 425

Media queries: Amanda Clark
ESC Communication Manager
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We welcome any feedback on this progress report — you can send comments to water@esc.vic.gov.au.

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