

Your ref.

Our ref.

Contact: Jarrah O'Shea, Manager Economics & Pricing

10 December 2015

Marcus Crudden
Director - Water
Essential Services Commission
37/2 Lonsdale St
Melbourne VIC 3000

Dear Mr Crudden

Re: Review of Water Pricing Approach – Further Consultation December 2015

We welcome the opportunity to provide a further submission in response to the ESC's Review of Water Pricing Approach.

The revised WIRO provides the ESC with an opportunity to improve Victoria's method of price regulation. As WSAA has identified Victoria as being one of Australia's best performing jurisdictions, we support enhancing the current system rather than deriving a brand new regime.

We reaffirm the concepts proposed in our previous submission:

- Enhanced customer engagement – must be “fit for purpose” based on topic.
- Regulatory predictability – corporations must readily anticipate regulatory outcomes.
- Flexibility – enough to run a business, not too much to eliminate customer certainty. We support the concepts that underpin the Demand Adjusted Revenue Cap.
- Financeability – a financeable industry relies on each business being financeable.
- Ongoing regulatory period – unfixed duration, perhaps up to 10 years.
- Corporation size matters – less onerous compliance for smaller corporations.

We also remain opposed to the following:

- Total Factor Productivity – this technique is too imprecise to be meaningfully adjusting corporation revenues.
- Extreme operating expenditure benchmarking – setting benchmarked operating expenditure for a particular service for all businesses is likely to result in long term deviation between cost and prices, and leave some businesses with no ability to achieve the benchmark due to geographical differences.
- Unbundled pricing within a business – most businesses are not of sufficient scale to enable unbundled transfer prices to yield net efficiency benefits.

Since the discussion paper, we have reviewed submissions and networked with stakeholders to further inform our views of potential pricing approach enhancements.

These include:

- Fast tracking: we support the use of fast tracking of some variety. If the Frontier UK method of fast tracking is adopted, we would encourage the ESC to allow enough time between the assessment of “Type 1” corporations and the

deadline for “Type 2” submission. The main determinant for whether a corporation is “Type 1” should be price based. We note similarities between the concept of fast tracking and Local Government CPI rate capping.

- Rolling regulatory period: we support the rolling regulatory period as proposed by Yarra Valley Water, noting it is similar to our own preferred approach.
- Benchmarking capital: significant regulator and corporation effort goes into forecasting capital expenditure. We believe that the regulatory and business planning cost and effort in establishing and auditing later years capital forecasts exceed the benefits. We contend that all capital expenditure beyond year three of a regulatory period should be based on corporation analysis of asset renewals and appropriate benchmarking.
- S Factor: we support having a component of revenue dependent on customer service performance. This should be broader than just the Service Incentive Mechanism indicators used in the UK, and could incorporate debt management, instalment plans and networks performance. Such S Factors should be derived by genuine engagement with customers.

We welcome the opportunity to discuss our submission with you in person. If you have any queries, please contact Jarrah O’Shea, Manager Economics and Pricing.

Yours faithfully



Peter Leersen
General Manager Finance and Pricing