

Dear ESC

Thank you for the opportunity to attend the subject session about the ESC draft decision.

In addition to my earlier submission, taking into account the draft ESC decision, I would like to submit the following few comments as key observations and considerations about the ESC process and the draft decision, for your further consideration please:

1. ESC scope of review: The ESC review of Melbourne Water's operations as they affect water pricing is extensive and comprehensive EXCEPT in respect of desalination costs, which account for some 63% of Melbourne Water's total operating expenditure for water and other services (refer MW 2016 Price Submission P18 Figure 4 2015/16 \$620m out of \$989m). I understand that for MW the desalination cost is merely "passed through" and hence is not within the control of MW. However, given that this single cost is the biggest determinant of water costs, the ESC review is somewhat of a "lame duck" if it is thereby prevented from any scrutiny what-so-ever within the ESC process. Notwithstanding that the desalination contract as administered by DELWP is subject to commercial-in-confidence considerations, it is to be hoped that the contract administration includes provision to pass appropriate adjustments to the benefit of the water paying public such as cost and efficiency savings, reduced borrowing costs and so on. MW's own operations and costs are scrutinised by the ESC and your appointed consultants to see that the business is being run in a manner consistent with wider industry where savings are expected and realised, and the Aquasure contract being of such a magnitude and duration ought to deliver savings similarly to the benefit of the partnership, including the public. The ESC has raised only an issue in respect of treatment by MW to capitalise a small proportion of desalination costs, whereas it is surely important to look at issues within the totality of those very large charges.

2. ESC Draft Decision – adjustment to energy costs: The ESC has examined energy cost issues only within MW's in-house operations, however proper consideration of global warming impact should require that energy used, energy efficiency, renewable energy and cost issues arising take into account the entirety of water supply operations, including energy required for desalination. What is the impact of renewable energy certificates funded by the public through the Macarthur windfarm contract between Aquasure and AGL when the desalination plant is/is not operating and how might this impact energy considerations for MW electricity in-house?

3. ESC Draft Decision – adjustment to capital expenditure costs: The ESC draft decision reduces or defers forecast Capital Expenditure over the 5 year period by \$355m. However the MW submission, the Labor Government's Water for Victoria discussion paper currently open for comment, and other public documents are forecasting extraordinary population growth for Melbourne, doubling to around 8 million or more by the middle of this century ie in only 3 decades after the 5-year pricing period under review. In order that groundwork is done now including comprehensive water demand and supply studies, and such water augmentation as is needed can be built, and arises from EVIDENCE-BASED DECISIONS AFTER ASSESSMENT OF VIABLE OPTIONS, I submit that Capital Expenditure should not be cut.

I do hope that the ESC will consider the points I have raised with a view to seeking whatever approvals and co-operation as is required to adjust the scope of your review, reporting, and to the key cost issues raised in points 2 & 3 above.

Yours sincerely

Stephen Cannon