



11 December 2015

Dr Ron Ben-David  
Chairperson  
Attention: Water Team – Pricing  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Dear Dr Ben-David,

Thank you for the opportunity to comment on the consultation paper *Review of Water Pricing Approach*, issued by the commission in April 2015.

Westernport Water (WPW) was well represented at the recent ESC engagement workshops in Melbourne. All attendees agreed that the workshops provided an in depth review of the alternative options being investigated by the ESC for the next pricing period.

Support for alternative pricing regulation:

- 1) Synergies (Euan Morton) - light handed regulation based on compliance with meeting criteria/thresholds.

*WPW is the smallest water corporation and the increasing requirements for preparation of a pricing submission, supporting and resourcing pricing reviews, facilitating consultation, and preparation of regulatory reporting, impacts our efficiency and productivity.*

*WPW supports the principles of criteria based regulation as a mechanism to determine the level of review, monitoring and reporting suitable for the size of the business, the complexity of, or quantum of changes in pricing proposals submitted.*

*WPW is mindful that any significant change from the current building block approach and the consultation required to set [agreed] criteria may be limited.*

- 2) Sapere (Dr Richard Tooth) – Continued use of building block approach and usage prices set at marginal cost of supply. Commission to focus on major changes from a “default revenue or price path” based on benchmarking.

*WPW does not support the use of benchmarking to determine a default (regulated) pricing path, based on agreed criteria. Benchmarking does not necessarily take into consideration the size of the organisation, and therefore could adversely affect pricing proposals for the [short term] five year regulatory period.*

- 3) KPMG (Alistair Buchanan) – RIIO (Revenue set to deliver strong Incentives, Innovation and Outputs) to enhancing customer “value” and greater emphasis on customer engagement, transparency and GSLs (public benchmarking of performance), and providing for innovation funds, and incentives for “fast-tracking” or light handed regulation

*Similar to the Synergies and Sapere proposals, WPW supports the proposal for levels of regulation based on agreed criteria/benchmarks that take into consideration the size of the business and the risks involved in pricing proposals (eg. complexity or quantum of pricing proposals). As stated above, time available for consultation on [agreed] benchmarks may be limited for implementing for the next pricing period.*

- 4) Frontier Economics (UK) – benchmarking, framework for customer engagement, separate price controls for different parts of value chain, risk based approach to earn a light handed regulatory approach for high performing businesses. Direct negotiation model leads to customer support and increased satisfaction = less regulation.

*WPW supports a risk based approach to determine level of regulation, however we believe that applying different prices to the ‘value chain’ would lead to complicated and less transparent pricing proposals, and therefore increase the level of regulation.*

- 5) CME (Stephen Littlechild) – change approach for setting the cost of equity and debt within the building block approach. Cost of equity to reflect longer term considerations and inputs.

*WPW supports the proposal to adopt a longer term view of setting the cost of equity and debt within the building block approach. This approach has been discussed and supported at various water industry finance forums, and is considered a more appropriate rate of recovery for the cost of debt.*

- 6) Rolling 5 year regulatory periods (Yarra Valley Water Proposal) – banking of savings/increases for year 6.

*Without further information and understanding of the mechanics of “banking” savings, WPW can not support this proposal.*

7) Conceptual framework for consultation

*WPW does not support any regulated approach to customer engagement. WPW believes a one size fits all approach may impact regional businesses.*

We look forward to receiving the final results of your evaluation of the approaches to regulation for the next planning period.

Yours faithfully



Peter Quigley  
**MANAGING DIRECTOR**

