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10 December 2015

Water Team - Pricing Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

By email: water@esc.vic.gov.au

RE: SUBMISSION FOLLOWING WATER PRICING CONFERENCE

Thank you for the opportunity to provide an additional submission following the *'Review of Water Pricing Approach'* conference held in November.

Congratulations are due to the ESC for creating the opportunity to consider alternative pricing approaches, community engagement methodologies and exposure to expert speakers.

Following the conference, Central Highlands Water (CHW) has considered its original submission, and would like to reinforce the following points:

- In adopting any new pricing approach, it is important to recognise that the regional urban sector is very diverse and has different drivers, communities and challenges. Therefore CHW would caution against adopting a model that may have unintended consequences for the sector or imposes unrealistic expectations that cannot be fully met in a regional setting.
- Unless there are clear benefits in moving from the current building block approach CHW is still not in a position to endorse any particular alternative model as they have been presented.
- However CHW does support the various speakers that advocate 'light handed regulation' in terms of pricing submission approval for water corporations that fulfil a range of operating criteria and pricing submission proposals.
- It is important to realise that a 'one size fits all' model with specific requirements for larger metropolitan retailers may not provide sufficient flexibility in a smaller regional setting, where different communities can face very different and unique challenges.
- In regards to this point, there was little discussion on how the 'X' factor for prices (e.g. CPI-X) may be arrived at, other than it would potentially be linked to a productivity model. CHW reiterates its point (made in our previous submission of 19 June 2015) that we do not support the ESC's current approach to productivity modelling as it has been developed in complete isolation from the industry and is not representative of CHW's position.

- In addition the need to potentially keep the option of pricing reopening available is also important due to the vagaries of climate change and potential political announcements in the overall context of the ability to provide ongoing essential services.
- It is apparent that the ESC seeking earlier and greater involvement from customers in developing the draft Water Plan 4 and CHW supports that position. CHW does not support any mandated customer engagement approach from the ESC including any requirement for customer challenge panels or citizen's juries or similar approaches. CHW may ultimately decide to adopt these engagement tools but it is important that they are not mandated (consistent with the above concerns over the 'one size fits all' approach).

We trust these comments add value as part of the Water Pricing Approach Review.

Yours sincerely,

Paul O'Donohue
Managing Director