



Your ref.

Our ref.

Contact:

Jarra O'Shea

16 September 2013

Dr Ron Ben-David
Chair, Essential Services Commission
Level 37, 2 Lonsdale St
MELBOURNE VIC 3000

Dear Dr Ben-David

Re: Coliban Water's preferred form of price control

We acknowledge the Commission's consideration of our proposed "Demand Adjusted Revenue Cap" in the lead up to the Final Decision. We also acknowledge the concerns raised in the Final Decision regarding the perceptions of complexity of this form of price control, and we appreciate the opportunity to "resubmit a form of control proposal within 90 days".

In the long term, Coliban Water remains committed to a form of price control that is cost reflective and sends appropriate price signals to customers about the cost of water. However, Coliban Water acknowledges that successfully establishing, developing and prosecuting such a form of price control will take additional time and this could not have been completed in the three months since the Final Decision.

The corporation considers that Price Caps as a form of price control limits flexibility in managing price and revenue risk. Furthermore, Coliban Water is concerned about the adverse financial consequences that would result from a Revenue Cap price control mechanism, particularly as this would diminish the incentive for the corporation to sustainably maximise the provision of water across our region.

Accordingly, Coliban Water is applying for a "Price Cap Hybrid" form of price control.

Coliban Water has recently implemented a number of measures to assist financial sustainability and manage financial risk:

- Price correction applying from 2013-14
- Having a single variable price replace inclining block tariffs for residential customers
- Discontinuation of sewer volumetric charges for most non-residential customers
- Repatriating "core" business services instead of outsourcing
- Reduction in reliance on consultants
- Re-contracting operating and maintenance services through a contestable and open tendering process to provide enhanced value

The Final Decision notes that Price Cap Hybrid price control will "help businesses manage uncertainty by allowing any reasonable rebalancing of tariffs that can be



justified during the regulatory period," and the corporation endeavours to exceed Final Decision benchmarks over the coming regulatory period.

Coliban Water considers the benefits of a revenue cap do not exceed the drawbacks, including expenditure volatility and diminished incentives to provide water and serve customers. However, it is the corporation's intention to strategically engage with the Commission, DEPI and other stakeholders on the benefits of a more dynamic and cost reflective form of price control, for implementation in the next regulatory period commencing 1 July 2018.

We look forward to discussing this with you and your team. If you have any queries about this correspondence, please contact Jarrah O'Shea, Manager Economics and Pricing.

Yours faithfully

A handwritten signature in black ink, appearing to read "Jeff Rigby".

Jeff Rigby
Managing Director