



2021 Draft Price Submission

WSCC Final Response



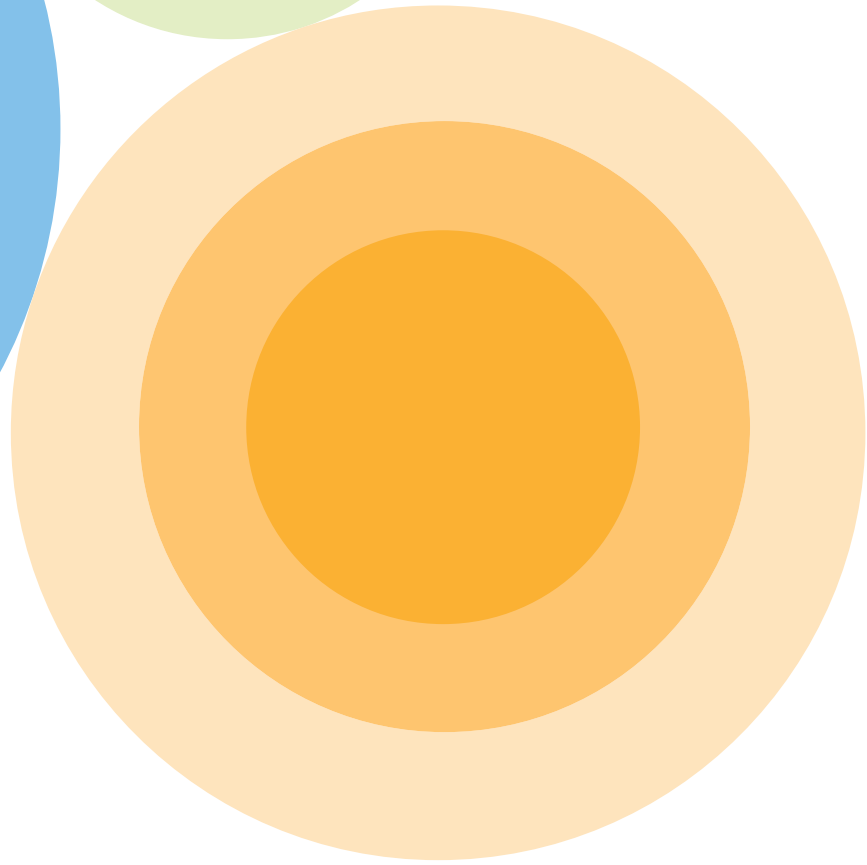
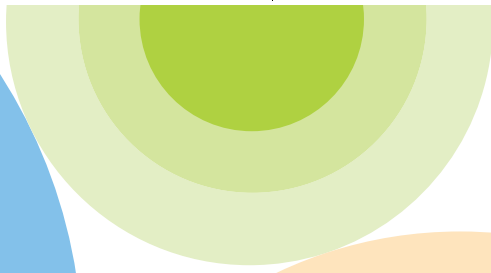


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Key observations

The Water and Sewerage Customer Council would like to thank Melbourne Water for the opportunity to provide feedback on the 2021-2026 Price Submission. We acknowledge the significant effort that Melbourne Water has made to involve us in this process.

This represents an enormous improvement on past processes and establishes a platform for ongoing collaboration on important issues and strategies relevant to the water industry.

We recognise the significant time and effort that such close engagement with customers takes and congratulate the price submission team on their commitment to the process.

Work on the submission has progressed significantly since we reviewed an early draft in April 2020 and we understand that Melbourne Water has additional work to complete on the draft submission prior to internal sign off and lodgement with the Essential Services Commission.

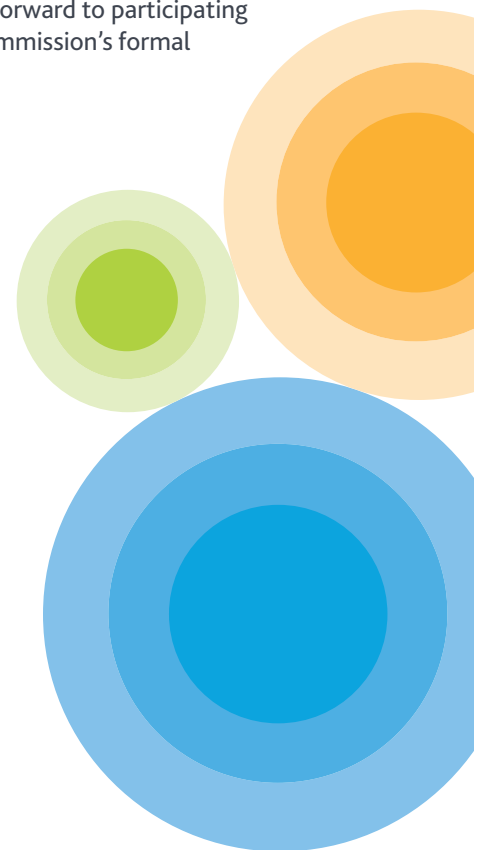
To support you in this, our response offers some opportunities to further the achievement of the Water and Sewerage Customer Council's outcomes.

These include:

- Appropriate planning for water security
- A focus on affordability and price stability, particularly now in the context of Covid-19
- Greater demonstration of value to customers – and how you will be accountable for it.

Recognising the significant societal changes that have occurred since our work together on the price submission began, we also offer some insights to our response to Covid-19 to assist you in finalising your submission.

Thank you again for your ongoing commitment to engaging us through this process. Together with our organisations, we look forward to participating in the Essential Services Commission's formal submission process.







Context

Melbourne Water's wholesale water supply and sewerage services are paid for by Melbourne's retail water corporations, who in turn provide services to households and businesses. The price that retailers pay for these important services is reviewed every five years by the Essential Services Commission (ESC), Victoria's independent regulator.

The ESC determines the maximum prices Melbourne Water can charge and how these charges are calculated. As part of this process, Melbourne Water prepares a price submission which details its proposed service standards and prices.

Who we are

The Water and Sewerage Customer Council consists of representatives of the retail water corporations and connected regional water corporations including City West Water, South East Water, Yarra Valley Water, Western Water, Barwon Water, and South Gippsland Water.

Purpose

In 2019, Council members worked together to set out a clear purpose statement.

Who: The Water and Sewerage Customer Council comprises senior representatives from each of the retail water companies serviced by Melbourne Water.

What: The Customer Council will provide a co-ordinated holistic review of priority areas identified for Melbourne Water's price submission and make recommendations to the 2021 Price Submission Steering Group.

Why (Purpose): To collaborate to ensure that Melbourne Water's price submission supports the delivery of valued services to all of our customers and the broader community.

Principles

In exploring its role and how to work together, the Council determined a set of principles to guide recommendations.

1. **Fair** in terms of price and services
2. **Sustainable** for the long term
3. **Transparent** and evidence-based
4. **Valued** by customers and the community
5. **Prudent and efficient** with appropriate risk
6. **Bold** and forward-thinking.

Price submission alignment

A key driver for the Council is the alignment of the price submission with the outcomes determined by each of the retail water corporations and connected regional water corporations during their price submission processes.

Table 1: Customer Council themes

Water council	Customer council themes			
	Safe, reliable secure water and wastewater for existing and future customers	Affordable, fair access and assistance for all	Long term water availability and caring for the environment and community	Modern and innovative services
Yarra Valley Water	<ul style="list-style-type: none"> • Safe drinking water • Reliable water and sewerage services • Timely response and restoration 	<ul style="list-style-type: none"> • Fair access and assistance for all • Stable prices over the long term 	<ul style="list-style-type: none"> • Water availability and conservation • Care for and protect the environment 	<ul style="list-style-type: none"> • Modern flexible service
City West Water	<ul style="list-style-type: none"> • Services to my home and business are safe, reliable and efficiently delivered 	<ul style="list-style-type: none"> • Customers in hardship are supported • Charging is fair and affordable 	<ul style="list-style-type: none"> • The whole of the water cycle is managed in an environmentally sustainable way 	<ul style="list-style-type: none"> • CWW is a valued partner in servicing a growing Melbourne • Billing and payment options are efficient and convenient • Customer service is accessible, and my inquiries are resolved promptly
South East Water	<ul style="list-style-type: none"> • Get the basics right, always • Warn me, inform me 	<ul style="list-style-type: none"> • Fair and affordable for all 	<ul style="list-style-type: none"> • Support my community, protect our environment 	<ul style="list-style-type: none"> • Make my experience better
Barwon Water	<ul style="list-style-type: none"> • A reliable, secure water future for our region 	<ul style="list-style-type: none"> • Affordability for all our customers 	<ul style="list-style-type: none"> • Deeper knowledge and partnerships with our community • A healthier environment for all 	<ul style="list-style-type: none"> • Timely, innovative services for our customers
Western Water	<ul style="list-style-type: none"> • Reliable safe services to existing and new customers 	<ul style="list-style-type: none"> • Fair and affordable charges for all customers 	<ul style="list-style-type: none"> • Sustainable contribution to the community and regional livability • Care of the environment 	<ul style="list-style-type: none"> • Innovative approaches to addressing customer needs
South Gippsland Water	<ul style="list-style-type: none"> • Provision of safe, clean drinking water • Being reliable and minimising unplanned interruptions to services 	<ul style="list-style-type: none"> • Treating all customers/ community with honesty and respect 	<ul style="list-style-type: none"> • Being environmentally responsible • Safe wastewater service that contributes to our communities and environment 	<ul style="list-style-type: none"> • Planning for future years in partnership with community, business and government

Four key areas influenced the retail water corporations' and connected regional water corporations outcomes and the expectation is that these will be reflected in your final submission:

- Safe, reliable, secure water and wastewater for existing and future customers – the expectation that water retailers will provide safe drinking water, reliable water and sewerage services and timely and efficient responses to service interruptions now and into the future.
- Affordable, fair access and assistance for all – including the right to equal access and the expectation that retailers will provide additional support to those experiencing hardship; lowest price and value for money. Retailers expected to provide new services within a regime where prices were stable at worst and preferentially reducing.
- Long term water availability and caring for the environment and community – the expectation that the whole water cycle is managed in an environmentally sustainable way, delivering benefits that support communities and protect the environment. Retailers are expected to be socially responsible and promote environmental sustainability. Retailers will also prepare for and inform the community about changes to climatic conditions and emergencies (e.g. floods), while also instilling resilience in the community. Customers also wanted them to provide education around sustainable practices and work with community to drive and support environmental initiatives.
- Modern and innovative services – customers expect retailers to have developed plans for long-term water security, accounting for a changing environment and growing population, and want to see infrastructure maintained and improved to provide reliable service with limited interruptions. The broader community expect timely communication and engagement, simple and convenient services and that water retailers are 'easy to deal with' and the service is simple and convenient.

Our engagement journey

The Council met formally 17 times between February 2019 and July 2020 when the submission was provided for this final response. The retail water corporations also participated through other forums including the Regulatory Managers' Forum and the Engagement Advisory Panel.

Stage 1 consisted of five meetings between February and May 2019. During this time the Council explored how to effectively work together to represent its customers in providing input to the price submission and identified priority areas for participation.

Stage 2 was completed over six meetings from June to December 2019. Stage 2 was largely focused on information sharing, with Melbourne Water providing detailed information to respond to the recommendations made by the Council during Stage 1. The Council provided input to the price submission outcomes through a workshop and developed a set of expectations that were provided to Melbourne Water (see Appendix 1).

Stage 3 included six meetings from February to July 2020. The Council was provided with a copy of the draft submission on 14 April 2020 and Melbourne Water presented the highlights at a meeting on 15 April 2020. Over three informal meetings between 15 April and 8 May 2020, the Council deliberated on the draft, undertaking an assessment of the draft against its expectations, and responding to the strategic questions posed by Melbourne Water.

In early July 2020, the Council was asked to consider a paper provided by Melbourne Water regarding the treatment of desalination capitalisation. Feedback was provided via email (see Appendix 2).

On 15 July 2020, Melbourne Water formally presented its response to the Council's initial feedback and provided an updated draft of the submission to inform this final response.







Our response

Engagement with customers

Engagement with the WSCC

The Council was given appropriate information by Melbourne Water to participate in the process and appreciates Melbourne Water's efforts to prepare this information to ensure that the Council was well informed.

Council members were given a reasonable and fair opportunity to participate on the issues relevant to them, but note the difference between participation and genuine influence. The process allowed for adequate time to raise issues.

We believe future engagement programs would benefit from early involvement in the strategies that inform capex decisions and greater involvement in trade-off analysis and in willingness to pay conversations.

Engagement with end-use customers

The current version of the price submission contains strong evidence of engagement with end-use customers. We look forward to seeing a stronger link in the final version between what you heard and how this has influenced water and sewerage capex decisions.

For future processes, we would anticipate closer collaboration between the Customer Council and the Engagement Advisory Panel.

Meeting our expectations

Tariff reform

We expect the final submission will set out the current cost allocation basis for charging bulk water and sewerage services and we are pleased with Melbourne Water's commitment to undertake a tariff review. We look forward to working with Melbourne Water to investigate and implement any tariff structure reform in time for our price submissions.

Preserving the opportunity for IWM

The Council is confident that the submission will include some prudent investments to preserve the opportunity for integrated water management initiatives. We look forward to Melbourne Water making a firm commitment to continue pursuing opportunities in this space.

Growth-related expenditure and associated charges

The submission provides growth capex by bulk water and bulk sewerage services. This will help to inform future discussions associated with the possible introduction of new customer contributions at the wholesaler level which we believe should be progressed through the tariff reform process.

Alignment with strategies

The link to existing strategies is clear within the current version of the price submission.

Opportunities to support the achievement of the Water and Sewerage Customer Council's outcomes

Include appropriate investment to prepare for water security

In our initial response to the draft price submission, we rated Outcome 1 (Provide me with safe and reliable water and sewerage services now into the future) as the number one priority for the 2021 Price Submission. Through our own price submissions, customers identified long term water security as an important planning response to ensure reliable water supply for future generations.

We welcome the inclusion of the forecast desalination order in the submission. While we appreciate Melbourne Water is not solely responsible for planning for the next augmentation, the Council feels that a crucial piece of the puzzle is missing from the narrative around water security, and this has a flow-on impact for future pricing. We feel the price implications of the next major augmentation are an important piece in the puzzle to inform planning decisions.

The Council welcomes Melbourne Water's continued efforts towards clarifying the governance and decision-making framework for the next augmentation. We look forward to continuing to collaborate with you on this issue through development of the Sustainable Water Strategy and the Metro Urban Water Strategy.

Focus on affordability and price stability

The Council reiterates its desire to see stable or declining prices in real terms. Our analysis of the draft submission indicates a real price increase over the period and we remain concerned about year-on-year price volatility.

Affordability was a common theme during customer engagement for our price submissions – in fact, our customers expected us to provide new services while keeping prices stable at worst, and preferentially reducing them.

We believe stable or declining prices are more important than ever given the current state of the Victorian economy and the financial hardship many of our customers are facing in the context of Covid-19.

We appreciate Melbourne Water's commitment to including further commentary about volatility and underlying assumptions in the final submission with a view towards smoothing the price path.

Greater demonstration of value to customers – and how you will be accountable for it

The Council would welcome a more detailed analysis of the advanced PREMO rating in the final submission and how this delivers benefits to customers. We also look forward to receiving a tailored report for each council member which addresses what the submission means for our customers and their bills.

It's not clear in the submission if Melbourne Water has improved its allocation of risk on behalf of its customers between PS16 to PS21, and we would welcome further clarity around the weighting of risk between Melbourne Water and its customers in the final submission.

We are pleased to see you working towards a Guaranteed Service Level scheme and we look forward to continued collaboration with you on this.

Our response to Covid-19

We believe it will be important to reflect the health, economic and social impacts of Covid-19 in the price submission.

Our organisations are currently considering the impact that the pandemic will have on our growth and demand forecasting in relation to revenue. We anticipate that Melbourne Water will also consider this and the impacts it may have on growth capex. For example, do changing growth forecasts mean growth capex can be deferred to keep prices low, or perhaps put at risk?

Our businesses are also doing more to look after our vulnerable customers, including providing support through investment in hardship teams, payment extensions and fee waivers. For the first time we are extending hardship measures to our commercial customers. The uncertain economic environment has had a significant impact on the commercial sector, in particular retail and food businesses who are not currently operating as a result of restrictions in Victoria to slow the spread of the virus. As a result, we are carrying significantly more debt and anticipating greater bad debts.

This highlights the importance of stable or declining prices in real terms. The extent and duration of the economic impacts are as yet unknown to us and we would welcome further consideration of sharing some of this risk. The current situation highlights the Council's ongoing advocacy for higher stability and risk-sharing in pricing.





Appendices

Appendix 1: Customer Council expectations

To support the development of the price submission, the Council provides the following list of preliminary expectations for the 2021 Price Submission in advance of developing its final recommendations (noting that the draft submission will be assessed against these).

We believe Melbourne Water's Price Submission should:

- Support the achievement of the Customer Council members' Price Submissions outcomes.
- Be accompanied by a tailored customer report for each Council member summarising how Melbourne Water's key outcomes, services and prices support the achievement of its customer price submission.
- Demonstrate a focus on affordability and price stability – linked to feedback from customers through Council members' price submissions.
- Demonstrate how Melbourne Water's customer engagement program with end use customers has informed their price submission proposals.
- Include the appropriate investment to prepare for water security augmentations, including confirmation of Melbourne Water's approach to supply/demand forecasting.
- Include a forecast desalination order with mechanisms to vary prices should the water order differ from the forecast.
- Include a performance incentive mechanism such as Guaranteed Service Levels and associated metrics / targets.
- Provide transparency of the forecast price path beyond five years – 10 to 15 years, including underlying assumptions.
- The revenue requirement should not include expenditure (capital and operational) where there is a high level of uncertainty in relation to timing, cost and prudence. However, the submission should identify where this expenditure may be required.
- Include prudent investments to "preserve the opportunity" in relation to the planning currently underway for integrated water management initiatives and water supply augmentation.
- Make a commitment to fully investigate tariff structures that better meet the WIRO tariff principles, within two years.
- Provide opportunities to further water and sewerage customer outcomes (as set out in Council members' price submissions).
- Provide transparency on growth-related expenditure and associated charges (including water and wastewater) that "preserves the opportunity" for future developer related charging.
- Ensure that a higher PREMO rating and the associated increased return delivers greater value to water and sewerage customers in a transparent way.
- Support existing agreed strategies that are being delivered (such as the Sewerage Strategy).

Appendix 2: Feedback regarding desalination capitalisation

Email Message

From **Andre Kersting**

Subject **Re: Desalination capitalisation**

Hi Matt.

Thanks for your time today.

The Council supports the principle of intergenerational equity.

At its core, only capitalising \$30m is inequitable.


We reiterate our view that flat prices are a core desire of our customers, but we don't understand the implications associated with future augmentations.

We don't want future price shocks and we understand that capitalisation can be a lever to avoid future price shocks now and in the future.

We support Melbourne water exploring alternate capitalisation profiles and timings (including a stepped approach) that better enable prices to remain flat over the next and subsequent pricing periods.

Regards
Andre

Andre Kersting
Group Manager, Planning & Regulation

 South East Water

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