

May 5, 2018

Dr Ron Ben-David
Chairman
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

Dear Ron

Southern Rural Water draft decision: 2018 Water Price Review

Having received the draft decision on our 2018 Price Submission, we are pleased to note that the Commission has generally accepted our proposals, including our PREMO self-rating as “Advanced”. As required, we have sent an updated financial template, and we will work with the commission on a revised price adjustment formula, allowing for adjustments to reflect movements in the cost of debt.

We have valued the thorough and effective consultation process undertaken through the development of the new regulatory framework.

We have provided responses (attached) to some specific issues within the draft decision that we believe required clarification, or may require further discussion. We have enjoyed a positive working relationship with Commission staff, and we are keen to meet to discuss some of our issues prior to finalising our determination. We will be in contact to make suitable arrangements.

In the meantime, please contact Lincoln Eddy (0409 506 231).

Yours sincerely,



CLINTON RODDA
Managing Director

REPONSES TO SPECIFIC ISSUES

Pricing impact of changes

The draft decision states that:

“Compared to Southern Rural Water’s original proposal, our draft decision results in lower prices (on average) for customers. Based on our draft decision, on average Southern Rural Water’s prices over 2018-19 to 2022-23 will fall by about 1.6 per cent compared to its original proposal” (page v)

This is not correct. As the adjustment relates primarily to shifting the both costs and revenue for environmental water, the adjustments won’t have any material impact on our proposed prices. We have raised this with Commission staff, and we understand there is no expectation that our proposed prices will change in response to the draft decision.

Victorian environmental water

We note that you do not consider the provision of environmental water to be a prescribed service as defined under the WIRO, and accordingly have transferred a share costs and revenues reflecting our proposed charges to the VEWH, from prescribed (regulated) to non-prescribed services in the financial model. We are keen to understand the basis of this interpretation, and to consider implications for some of our other charges, for example:

- In addition to the entitlements in the Macalister and Latrobe systems, the VEWH also holds an entitlement in the Werribee system for 10% of inflows to Lake Merrimu. The share of costs associated with this entitlement is billed to DELWP, and is included within our prescribed services in the financial model.
- Our proposed charges to DELWP also include the share of costs proportional to the unallocated entitlement in Lake Merrimu. As an unallocated share, there is no water supply associated with this revenue, and so this would not likely meet the definition of a prescribed service. Similarly, DTF is custodian for water entitlements on the Latrobe system issued to the former SECV. Again, there is no water supply associated with this revenue.
- Regardless of who owns or is billed for an entitlement, our role as a storage operator, and therefore the service we provide, is no different, and so we question whether the interpretation of the WIRO would also treat our storage operator charges to the power companies and urban water businesses as non-prescribed.

Given that the functions and costs associated with managing environmental entitlements are not separable from the functions and costs of managing the storages as a whole, we are concerned about the risk that emerges if our revenue cap is not sufficient to meet our full costs. Furthermore, we note that these entitlements or water held may be tradable, so treating entitlements for one

customer different to others could have implications for ongoing reporting against our revenue cap. We suggest this treatment requires a broader discussion, including with DELWP, before finalising the determination.

Rebalancing constraint

The draft decision rejected our proposal for an annual balancing constraint based on individual customer bills, and that basis that it *“is not consistent with the requirements of the WIRO, namely; customers will not be provided with signals on the efficient costs of individual services and it does not promote the efficient use of prescribed services by customers.”* (page 23)

Whilst we agree with the premise that our proposal would not likely provide signals on efficient costs and promote efficient use of services, we’re not sure how this is different for the current form of price control. Moreover, in the context of entitlement based pricing, we’re not sure what it means to promote efficient use of services. Notwithstanding this, for regulatory purposes, we are happy to continue with our current rebalancing constraint of 10% per annum on individual tariffs, recognising that we will continue to consult with our customer committees on annual changes.

Transfer fees

“We do not accept the proposed shift of simple transfer fees to the hybrid revenue cap as Southern Rural Water has not provided the commission with sufficient information on the strategy underlying the proposal” (page 23)

In preparing our price submission, we undertook an initial review of our tariffs in preparing this price submission which led us to make some relatively simple changes to our tariffs to address customer concerns and to simplify our tariff schedule.

We also flagged in our price submission that we’ll complete a more substantial review of our tariffs over 2018-23. One of the potential reform options identified for further investigation is to bundle transfer fees with annual fees for licences, to allow trading against entitlements without incurring additional fees. This is an opportunity to remove what some people see as a barrier to water trading.

To provide flexibility for undertaking this type of tariff reform over the regulatory period, we propose to include licence transfer fees within our revenue cap, rather than tariff caps. Implementation of any tariff reform will still be subject to further consultation with customers, and will be in accordance with regulatory requirements, including the rebalancing constraints.

Engagement

The draft decision suggests that our engagement “took place between September 2016 and June 2017” (page 6).

We would like to reinforce that our submission was built on two decades of ongoing engagement with our customers. Our price submission provided an overview of what our ongoing engagement looks like. The specific engagement program that we commenced in September was a supplementary program designed to validate customer preferences and test some specific proposals.

Outcomes for customers

The summary of the draft decision suggests that we’re proposing to improve outcomes for customers by “increasing access to support for customers experiencing financial hardship” (page iv). This also appears in chapter 2, which states that we’ve proposed “increasing the number of grants available to customers experiencing financial hardship” (page 6).

Southern Rural Water holds “business to business” relationships with customers. We do not provide hardship grants, and this was not part of our submission. Moreover, we do not understand why the draft decision did not recognise the transformational improvements we’ll be delivering for customers, including consistent irrigation flow rates, shorter order lead times, additional water availability, access to real-time usage information, and the ability manage information and transact with us online.