



In reply please quote: FC2016/07272  
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Essential Services Commission  
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## REVIEW OF WATER PRICING APPROACH – POSITION PAPER

Thank you for the opportunity to provide a response to the new model for pricing services in Victoria's water sector, Position Paper.

Wannon Water is supportive of the change in approach proposed by the Essential Services Commission (the Commission).

We believe that the current building blocks method has produced many benefits which will be retained in the proposed approach. Wannon Water has demonstrated support and a willingness to improve customer outcomes. Wannon Water was the first Victorian water Corporation to propose reduced tariffs in our 2013 Water Plan submission.

Having redefined and redesigned our future relationships with our communities over the past six months, Wannon Water is in a good place to integrate increased customer engagement in the Pricing Submission process.

## CUSTOMER ENGAGEMENT

Wannon Water is very supportive of the approach suggested within the position paper of a significantly increased emphasis on customer engagement in the preparation of the 2018 Pricing Submission and beyond. In fact, Wannon Water commenced engagement with our community in April 2016.

We support the principles for customer engagement; with the suggestion that the word "consultation" in principles one and two be changed to the word "engagement". This would better reflect the International Association of Public Participation (IAP2) levels of participation, whereby "consultation" describes just one level. We support the suggestion to engage more extensively on



the aspects of form, content and timing. The final guidelines could also consider providing descriptions of the elements within “content” and “timing”, given there are definitions already in existence for the “form” through IAP2.

We ask the Commission to consider the intersection between “community” and “customer” in the final guidelines. Whilst Wannon Water agrees that primary consideration needs to be given to the views of customers given they are paying the bills, there is a case to be put that the views of the wider community also have *some* consideration in decision making for the future of water corporations – including within Pricing Submissions. Customers are part of the wider community; as are future customers. Additionally, given water is necessary for all life, water management is an issue for the entire community, regardless of the status of ‘who pays’. The final Pricing Submission guidelines could make mention of considering the views of the broader community, provided customer views are considered priority.

## INCENTIVE FRAMEWORK

Wannon Water is supportive of the approach by the Commission in grading Pricing Submissions as to ambition to provide incentives.

Wannon Water asks the Commission to consider the following points:

The definitions for different levels of ambition need to be clearly articulated. While we understand the Commission's preference not to be too prescriptive (a checklist approach), without robust definitions the process may get entangled in a discussion regarding differing assessments.

An unintended consequence of proposing the ambition incentive is a Corporation's reputational risk. The potential consequences of the Department Environment, Land, Water and Planning (Shareholder) and Department of Treasury & Finance questioning Corporations why they did not achieve their stated level of ambition and therefore additional return is an example of this.

Another example of reputational risk is the very strong disincentive of getting the level of ambition wrong. In addition to the clear articulation of the different levels of ambition, the range of potential returns will be critical to the operation of this incentive. Wannon Water proposes that initially the range should be small. This is on the basis of it being a new model and the uncertainty of where Corporations sit in terms of the historical performance and their current ‘level of ambition’ status. Large increments between potential returns may result in water businesses understating their level of ambition.

We are unsure how Corporations would/ should utilise this ‘additional’ return. It's plausible that we may not be sure until we have a chance to operate in the new environment. If one of the goals of a Corporation is to keep prices as low as possible, recovering an ‘additional’ return through prices, even if it still results in lower prices to customers, appears counterproductive.

Wannon Water submits that the proposed mechanism to revise the Cost of Equity during a pricing period to reward performance might need some time to mature before full implementation.

Wannon Water is supportive of the proposal to adopt a 10 year rolling average for cost of debt adjusted annually during the pricing period. While it is another variable that could cloud communication of annual price movements to customers, we believe it is a fairer outcome to both Corporation and customer.

Wannon Water notes that amending both debt and equity on an annual basis could add complexity to tariff change explanations to customers each year.

Wannon Water believes the elements of the PREMO are a valid tool to assess Pricing Submissions by Corporations. Similar to the comments above, clearly articulating these elements will be important to its successful operation. Wannon Water notes that the Commission intends to consult more on the criteria prior to issuing guidance. Wannon Water would be particularly interested in the interpretation of allocating risk appropriately and the measurement of outcomes, potentially via both common service standards and individual service standards driven by customer engagement.

## FELXIBILITY MECHANISMS

Wannon Water supports the flexibility mechanisms outlined in the position paper.

We agree with the improvements proposed to Performance Reporting and the Guaranteed Service Level's. It is critical how they are linked, and variances are reported on, considering the PREMO model and customer engagement into future pricing periods.

We strongly support the fast tracking/ earned autonomy/ light handed regulation approach. We believe that all plans regardless of ambition should be capable of qualifying for fast tracking based on the quality of the submission (incl. prudent expenditure, robust management process, proven record) and alignment with customer engagement. As with the defining the different levels of ambition, what qualifies as a 'high quality price submission' should be adequately defined so that Corporations can appropriately plan for, resource and achieve quality submissions.

Wannon Water does not support the proposed autonomous demand model outlined in the position paper. Prescribing one model to all Corporations removes flexibility to Corporations in preparing the Pricing Submissions and options to customers. We also see the autonomous demand model as potentially confusing to customers when explaining movements in prices during a pricing period.

## INDICATIVE TIMELINES

As discussed at the Commission's engagement session with Wannon Water and Barwon Water on July 19<sup>th</sup> 2016, there is great benefit in ensuring that pricing decisions are aligned with Corporation's annual Corporate Planning process. Final decisions whether they are fast tracked or not, should be received before submission of Corporate Plans to Government by the end of April

2018. This would ensure a higher quality of planning and alignment of the two plans leading into a new pricing period commencing 1 July 2018.

Wannon Water notes that the Commission in the position paper rules out any oversight role in respect to a Corporations level of debt and the rate of change of levels of debt.

Wannon Water looks forward to being actively involved in future consultation regarding the proposed pricing approach. Please do not hesitate to contact me should you have any questions regarding this response.

Yours sincerely

A handwritten signature in black ink, appearing to read "Steven Waterhouse".

**Steven Waterhouse**  
**General Manager Finance & Regulation**