

26 July 2016

Dr Ron Ben David
Commissioner
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Ron

A NEW MODEL FOR PRICING SERVICES IN VICTORIA'S WATER SECTOR – POSITION PAPER

Thank you for the further opportunity to comment on the position paper on the proposed new model for pricing services, and for granting an extension to today, in order for us to confer with our board on this matter.

Southern Rural Water would like to commend the Essential Services Commission on the process undertaken for the review, particularly the engagement of industry through leaders to develop papers on the regulatory process, the opportunities for water corporations to hear and consider their perspectives, and the opportunity to make submissions on our views.

In terms of the current position paper, we offer the following comments:

- We commend the retention of the building blocks model as the basis of regulation;
- In terms of the modifications to the rate of return calculation;
 - We support the model proposed for the cost of debt;
 - We support the principle of incentives being introduced through the PREMO model. We note that a key plank of SRW's strategy is to provide affordable pricing for our customers who are largely farmers, who typically already have low profitability and return on assets compared to other industries. This model provides us with flexibility to determine whether we wish to seek a higher return on equity, which in turn would provide us with flexibility in determining how we return the benefit to our customers.
- We commend the strong emphasis on customer engagement and the customisation of this engagement to suit the corporation's current situation;
- We also commend the introduction of the fast tracking concept to reward corporations that have performed well in previous water plans, have engaged their customers well, and have developed a strong future water plan submission.

Our one concern is the penalty provisions under the PREMO model where a corporation submits a plan that the ESC assesses as less ambitious in relation to return on equity. We understand the need to provide a disincentive for corporations attempting to “game” the system to achieve a higher return. However there is no detail on the standards required at each level of ambition at present so it is difficult to know how easy it will be to incorrectly assess our own level of ambition.

We believe the ESC should consider the use of the lower of the two rates as assessed by the ESC and the corporation, rather than applying a penalty, unless it can clearly be demonstrated that the corporation has not appropriately applied the PREMO assessment guidelines.

We would value the opportunity to be involved in the development of the guidelines.

A handwritten signature in black ink, appearing to read "C Rodda". The signature is written in a cursive, somewhat stylized font.

CLINTON RODDA
Managing Director