

15 February 2016

Water Team
Essential Services Commission
Level 37, 2 Lonsdale Street St
MELBOURNE VIC 3000

Dear Water Team

Melbourne Water's Price Submission

We welcome the opportunity to provide comments on Melbourne Water's Price Submission on behalf of our customers. Our customer research indicates that lower water prices is an important aspect of customer satisfaction for our customers and our response is focussed around this aspect.

We are supportive of many of Melbourne Water's Price submission proposals including:

- a price path with a reduction in prices in 2016/17 followed by CPI increases thereafter
- the proposed service levels
- inclusion in Melbourne Water's capital program of Yan Yean treatment works for completion in November 2017 and detailed design on Yan Yean to Bald Hill water main
- new headworks' tariffs based on bulk entitlement volumes.

There are a number of matters we would like the Commission to further assess as part its review:

- **Capitalisation of desalination water security payments:** From a customer perspective, the extent of capitalisation of desalinated water security payments has a major impact on the price reduction proposed in 2016/17. We note from the customer research undertaken by Melbourne Water that customers are almost equally divided on whether the Victorian Desalination Plant should be paid off over the 27-year period of the contract or the 60-year life of the asset. This was the position of customers prior to being presented with the three capitalisation options of \$0, \$20 million and \$40 million. In our view, given that customers seemed to be equally split in relation to the period for capitalisation, the amount of the capitalisation could reflect the mid-point in years between the contract life and the asset life, which is 43.5 years.
- **Form of the price control for bulk water and bulk sewerage services:** We suggest that the Commission should consider updating the demand forecasts prior to its final determination. The alternative, which we favour, is for Melbourne Water to adopt a revenue cap form of price control for its bulk water and bulk sewerage services similar to that which it is proposing for its drainage and waterways services.

- **Expenditure Proposals:** We understand that the Commission's Auditors, Deloitte, are currently completing the review of expenditure proposals and the Auditors report will be released as part of the Commission's draft decision. We have discussed a number of matters with the Auditors in relation to Expenditure matters and we wish to highlight the following:
 - Melbourne Water has proposed additional expenditure on green energy based on its customer willingness to pay research and an existing contractual price, which Melbourne Water contends was an efficient price at the time the long-term contract was entered into. We would like the Commission to assure our customers that this expenditure is appropriate and efficient.
 - We understand Melbourne Water passes the Commission's productivity hurdle based on assuming a growth rate of 1.8%, which is the customer growth rate associated with the Waterways and Drainage function. Our view is that increases in volumes of bulk water and bulk sewage are more reflective of increases in bulk water and bulk sewerage operating costs than customer numbers and are the appropriate parameters to be used in determining whether Melbourne Water reaches the Commission's 2% per annum productivity hurdle.
- **Rolling Weighted Average Cost of Capital:** We understand that the Commission has engaged a consultant to review this proposal and would like to have access to this report to better understand the proposal. This proposal has the ability to create a precedent for the Victorian water industry and so needs to be carefully considered. It may be appropriate to delay any decision until more broad based consultation is undertaken under the auspices of the 'Approach to Pricing' Review. If the Commission decides to implement Melbourne Water's proposal, it may be appropriate to transition it over the regulatory period such as commencing with an initial five-year average culminating in a ten-year average at the end of the regulatory period.
- **Headworks harvesting tariffs:** We proposed that Melbourne Water should implement a harvesting tariff for the headworks component of its bulk water charges. The proposal included the retail water utilities paying for the actual costs of pumping and treatment of water at the headworks based on the estimated harvesting costs and volume rather than a fixed charge.

If you or your staff have any queries regarding the above, please contact Brett Mathieson, Manager Regulation and Planning by email on Brett.Mathieson@yvw.com.au or by phone on 9872 2441.

Yours sincerely



Pat McCafferty
Managing Director