Barwon Water

Enquiries To: **Nicole O'Malley**

July 27, 2009

Dr Ron Ben-David
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

Email: water@esc.vic.gov.au

Dear Mr Ben-David Ron

Re: Inquiry into an access regime for water and sewerage infrastructure services - Barwon Water submission on Draft Report

Thank you for the opportunity to provide a submission on the Essential Services Commission's draft report on developing a third party access regime for water and sewerage infrastructure services in Victoria. Barwon Water's submission is attached.

Should you have any questions or require further information regarding this submission, please do not hesitate to contact Nicole O'Malley, Economist - Strategy and Technology on 5226 2481 or 0429 537 044.

Yours faithfully,

Michael Malouf
Managing Director

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BARWON REGION WATER CORPORATION

SUBMISSION

Barwon Water welcomes the opportunity to make this submission on the Essential Services Commission's (ESC) Draft Report into the third party access regime for water and sewerage infrastructure services in Victoria.

Barwon Water strongly supports the submission made by VicWater on behalf of its members. It would like this submission to be read in conjunction with the VicWater submission to negate the need for Barwon Water to repeat VicWater's submission.

Barwon Water's further comments and other main issues are discussed below.

Draft recommendation 3.1

Barwon Water supports the staged implementation period for the access regime, however would like to see the timeframes re-considered. Barwon Water believes the work involved in the stages, particularly the first stage which envisages access commitments being developed against guidelines provided by the ESC, requires more time than the initial six months being proposed by the ESC.

Draft recommendation 3.4

The ESC has suggested the access regime be reviewed not less than five years and not more than 10 years after its implementation. Whilst Barwon Water supports this, it would like to see the first initial review undertaken after the shorter time frame of five years to ensure "teething" problems are identified at an early stage.

Draft recommendation 4.4

The ESC recommends storage services provided by large infrastructure facilities like dams are covered by the access regime. Barwon Water strongly opposes this. While short term access could be made available in some circumstances, the risks associated with doing this, as well as the benefits should be weighed up at the time, with the ultimate decision to be at the discretion of the water business and be based on a case-by-case assessment rather than have the dams covered by an access regime.

The uncertainty surrounding rainfall and infolws into dams could place the water business at risk if a private party had access to the storage when the dam is filling and, potentially, overflowing. The water business may be unable to deliver all the water to its customers due to an allocation of water considered to be owned by the third party. In other markets, this is a risk that could be shared based on commercial returns for taking such risks. However Barwon Water strongly recommends a provider of an essential service should not put that essential good at risk.

Draft recommendation 5.1 and 5.2

While Barwon Water supports guidelines outlining the minimum requirements for information to be provided to the access seeker, and vice versa, Barwon Water suggests a process be put in place that "screens" access seekers prior to the water business providing information which is commercially sensitive and may put its assets at risk should the access seeker misuse the information. There is some information already publicly available to the public via the businesses' Water Plans. This includes supply and demand forecasts, capital and operational forecasts. For information requests that go beyond this level, Barwon Water suggests the

screening process needs to have been completed to ensure there is no doubt who the information is going to and what their intentions are to use that information.

Barwon Water supports the inclusion of negotiation protocols into the businesses' access commitments, which includes timeframes the businesses' must comply with. However, Barwon Water recommends timeframes included that the access seeker must comply with to ensure it is not just the water business that can be held accountable if information is not provided to the water business in a timely manner.

Draft recommendation 6.1

In line with comments provided in the VicWater submission, Barwon Water does not support using the cost of service approach for pricing in any other circumstances besides where a regulated retail price does not apply. Using the cost of service approach at any time when a regulated retail price is applied can open the water business up to private parties "cherry picking" low cost areas.

Additionally, further information needs to be provided on how the access price is applied going forward. For example:

- Does the access price increase in line with the increase imposed on Barwon Water's customers based on the ESC's Final Determination on prices (Barwon Water's water and sewerage prices increase by 11% plus the consumer price index in 2009/10)?
- In the future regulatory periods, will the changes in prices (and possibly price structures) be also applied to the access prices?
- How would a two-part tariff be applied to the access seeker, i.e. the current variable charge is based on the customers consumption – what would the access seeker be consuming?

Draft recommendations 7.1 and 7.2

The ESC has recommended operational separation of water sourcing, water and sewerage distribution, and retail customer service functions in the Melbourne businesses and in some regional businesses without specifying which regional businesses. Barwon Water has strong concerns with this recommendation and recommends the ESC undertake research into the unneccessary costs this would impose on the businesses before making such a recommendation.

Barwon Water supports VicWater's submission and suggests adopting accounting ring fencing at this early stage of an access regime is sufficient to provide clarity in cost allocation between business units without imposing additional costs and operational impacts before it is determined how "popular" the access regime is with private parties. If businesses are required to undertake operational ring fencing, only to have zero to five applications (some of which may not be successful) in the first ten years of the regime, the costs that are passed on to the customers would be inefficient and ineffective.

Draft recommendation 8.3

Barwon Water supports a functional licensing system for new water and sewerage service providers being established by the Government. Barwon Water considers it is important for this to be operational prior to the initial implementation stage being completed. As mentioned before, there is a concern regarding the information requirements that may be placed on the water business and who this information is being provided to. A fully operational licensing system would include the access seeker providing the Government valuable information regarding their business, its ownership structure, financial viability and other important details that provides the Government and the relevant water business that the application is being received from a viable and reputable business.