

17 August 2016



Water Team – Pricing Approach Review  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Water Team,

### **Feedback – A New Model for Pricing Services in Victoria’s Water Sector, Position Paper**

North East Water recognises the need and supports the overall intent of the Essential Services Commission’s (ESC) *New Model for Pricing Services in Victoria’s Water Sector*. We welcome a greater emphasis on customer concerns, priorities and preferences underpinning the success of a regulatory process, we acknowledge the increased autonomy and flexibility offered to water businesses and support the continuation of simplicity in approach.

The following commentary is offered from North East Water’s perspective on specific elements of the Position Paper.

#### **A New Incentive Framework**

North East Water is concerned with how this approach would acknowledge individual businesses ambition ‘journey’ (rather than just a 5 year regulatory period snapshot). Is there consideration of how ambitious a business has been in previous pricing submissions?

How would a business be assessed that has already achieved strong, accepted service levels, demonstrated customer engagement and influence and is meeting affordability expectations while accepting risk on behalf of its customers? Is this business considered standard or basic as it is not proposing any ‘significant improvements’ in this price submission, to be considered ambitious?

Is the proposed Incentive Matrix counter intuitive? If a business is ‘leading’ or ‘ambitious’ should this not lead to that business requiring less of a return on equity as a result of efficiencies being achieved? Could this assessment become more of a stance on reputation rather than an assessment for incentive purposes?

#### **Flexibility Mechanisms**

North East Water supports the proposed changes that are intended to provide greater flexibility in the pricing approach and clearly distinguishes and recognises the performance of each water business.

With regard to Guaranteed Service Levels (GSLs), in a more customer focused regulatory process, North East Water would propose to engage with its customers to determine if they support the concept of GSLs or would have a preference for a different approach to addressing actual customers impacted by poor levels of service.

## **Appendix B – Autonomy in Demand Forecasting**

North East Water does not support the proposed Autonomy in Demand forecasting proposal. From the inception of independent economic regulation in the Victorian Water Sector our customers have described price certainty across a regulatory period as one of the main benefits.

North East Water, through its tariff strategy that is weighted towards the variable component, assumes the risk of demand volatility on behalf of its customers. Our commitments through the development of our Price Submission 2013-18 were;

- To ensure that our demand forecast were robust, independently verified and accepted by the Regulator; and
- That should there be substantial over recovery of our revenue requirement then we would share that with our customers by not enforcing the maximum price increases in the later years of the determination.

North East Water would suggest that this flexible arrangement continue into the next Price Submission. We would also propose to continue to absorb any under recovery of our revenue requirement as was the case during the previous regulatory period 2008-13.

### **Length of Regulatory Period**

North East Water notes that the ESC will remain open to water businesses proposing and justifying the length of a regulatory period (greater than five years). We would like to explore this option with the Water Team to understand what might constitute an appropriate risk profile for our business and customers to achieve the efficiencies an extended determination period might present. A longer determination period may also support the concept of a mid-point review.

Thank you for the opportunity to respond to this position paper and we would welcome any further opportunities to discuss the considerations raised.

Yours Sincerely



Craig Heiner  
**Managing Director**