



By Email: water@esc.vic.gov.au

15 August 2016

Mr Marcus Crudden
Director, Water
Essential Services Commission
Level 37, 2 Lonsdale Street,
MELBOURNE VIC 3000

Dear Marcus,

Re: Response to Position Paper – A new model for pricing services in Victoria's Water Sector

Western Water welcomes the opportunity to make this submission in response to the Essential Services Commission's (ESC) position paper – A new model for pricing services in Victoria's Water Sector. This is an important opportunity to frame a new regulatory approach that encourages the efficient delivery of affordable water and sewerage services.

Western Water prides itself on its extensive focus on customer engagement and is supportive of an approach that encourages broader, deeper and longer engagement and places the customer and stakeholders central to regulatory framework.

Western Water supports the continued use of the building block approach as it provides the opportunity for businesses to recover operational costs. The continued use of the ESC New Customer Contributions Model is also supported to ensure existing customers are not disadvantaged as a result of growth.

Western Water is supportive of the use of the Trailing Average cost of debt as it assists with interest rate risk and debt management, while also providing the benefit of removing potential large adjustments to price every price submission.

In respect to the PREMO model, concern is raised that genuine attempts at self-assessment may be penalised. Also, we note comments in the proposal regarding comparative review to other industry participants which will impact the ability of each business to accurately self-assess. Western Water proposes that the introduction of any penalty resulting from self-assessment are deferred until further price submission cycles which will allow businesses to better understand how the new proposal operates.

Western Water reinforces that each submission should be considered on its merits and an absolute grading should be given not a relative comparison. This should also ensure that delivery of customer value remains paramount.

While the guidelines are not essential to commence preparation for the next price submission Western Water is concerned over the lateness of release of guidance which will provide the essential detail of PREMO criteria and assessment framework. Businesses will need to understand the criteria used to determine which category the submissions will fall into as each category level has its own level of financial and reputation importance. This will need to form part of the engagement with both customers and stakeholders.





Ideally the guidelines will be clear and concise and not provide opportunity for differing interpretation. Western Water is also concerned about the reputational risk to businesses of the PREMO "rankings" and further if downgrading is to occur; particularly where there may be a legitimate reason for a lower ranking such as meeting customer preferences.

Western Water raises concern that businesses currently performing at "ambitious" levels will be penalised under the proposed system as they will not be able to demonstrate a "step change". This is particularly relevant in light of the recent rigorous efficiency review conducted by the Stakeholder. Financial viability should remain as a forefront by the ESC.

Western Water raises concern around the level of board attestation required, in particular as to whether the business will be able to provide the board with sufficient evidence to support the full level of attestation proposed.

Western Water appreciates that the use of an autonomous demand model was included only as an appendix seeking feedback. Western Water believes it poses a risk to businesses during times of high demand, acknowledging the predominant driver is "climate" which is outside of the business' control. The potential risk will vary by business depending on forecast and actual demands without any compensating return to riskier businesses.

Western Water seeks to understand the approach that will be taken to determine the Cost of Equity and how interested stakeholders will have an opportunity to respond to the proposed Cost of Equity. Western Water would appreciate a current review of the 60:40 split for debt and equity given the changes in the investment markets.

Yours sincerely,

A handwritten signature in black ink, appearing to read "G Holt".

Graham Holt
ACTING CHIEF EXECUTIVE OFFICER

