



City West Water™

City West Water Corporation

ABN: 70 066 902 467

1 McNab Avenue
Footscray Vic 3011 Australia

Locked Bag 350 Sunshine Vic 3020
DX 30311 Sunshine

citywestwater.com.au

Telephone (03) 9313 8422

Facsimile (03) 9313 8417

Marcus Crudden
Director of Water
Essential Services Commission
Level 37 / 2 Lonsdale Street
Melbourne Victoria 3000

Dear Marcus,

CWW submission to the review of the water pricing approach – Position Paper

City West Water (CWW) welcomes the opportunity to respond to the position paper, *A new model for pricing services in Victoria* (the Paper) released by the Essential Service Commission (ESC) in May 2016.

We unreservedly support the ESC's legislated objective to 'promote the long term interests of Victorian consumers' and believe that the continuation of the core regulatory approach centered on the building blocks is an effective mechanism to achieve that outcome. We welcome the proposed continuation of these core elements in the future.

The most significant changes proposed in the Paper relate to the provision of incentives for more customer-centric price submissions and a shift in the focus of price review interactions from business-regulator to customer-business. Customers are at the core of our businesses and the changes proposed in the Paper align well with our contemporary business practice to seek customers' input to our business plans and practices so as to provide best possible value.

We believe that further clarification on several elements of the new framework prior to its finalisation would provide for increased certainty for water businesses and result in the best possible outcomes for our customers. The areas that we believe would benefit from further clarification are outlined below:

- (1) We believe that the framework would benefit from specific guidance on what criteria the ESC will use to assess whether a price submission should be fast-tracked through the decision process.
- (2) Similarly, we suggest that there is an opportunity to further specify the PREMO assessment criteria that will be used to assign 'levels of ambition'.
- (3) CWW also believes there is an opportunity to describe how corporations with wholesale services will be assessed under the proposed new approach. Nearly 60% of CWW's revenue requirement is reserved for payments to Goulburn-Murray Water and Melbourne Water – our wholesale service providers. Both of these corporations have recently had their prices reviewed by the ESC and the proposed framework would benefit from clarification on the approach to setting prices for these corporations in future.

- (4) CWW understand that the purpose of the proposed assessment matrix is to encourage accurate self-assessments and provide incentives for higher quality submissions and improved customer outcomes. The current reductions to the cost of equity for overstating our level of ambition range from 20 to 40 basis points, which we consider to be substantial. We would encourage the ESC to further consider the level of differences in the cost of equity awarded to water businesses when the Commission has a different view on the level of ambition of a pricing submission.
- (5) We also believe that, as the change in regulatory approach is relatively significant, the Commission could consider some form of transitional arrangement for its initial implementation. One possible way to achieve this may be to provide water businesses with an opportunity to address any ESC-identified shortcomings in price submissions against PREMO criteria prior to the Commission releasing its draft decision.

Thank you for the opportunity to provide comments. We look forward to the next steps in the development of the approach.

Sincerely,



Sean Crees
General Manager, Corporate Services