



Goulburn Valley Region Water Corporation

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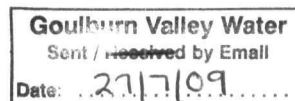
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Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 2
35 Spring Street
MELBOURNE 3000



Dear Dr Ben-David

INQUIRY INTO AN ACCESS REGIME FOR WATER AND SEWERAGE INFRASTRUCTURE SERVICES: DRAFT REPORT

Thank you for the opportunity to make a submission to the Essential Services Commission's *Inquiry into an Access Regime for Water and Sewerage Infrastructure Services*.

Goulburn Valley Water understands that the development of an access regime for the Victorian water industry is a complex task and we agree that the access regime should be developed and refined over a staged implementation period. However, we are concerned that costly obligations may be imposed through this staged implementation period even though some regional water corporations may never receive an application for third party access to infrastructure. Of particular concern is the requirement for operational separation and/or ring fencing.

Recommendation 7.1 of the Draft Report is "that the Government requires the four metropolitan Melbourne businesses and nominated regional water businesses to commence, within six months, the process of implementing operational separation of their water sourcing, water and sewerage distribution and retail customer service functions".

The Draft Report does not specify which regional businesses would be nominated, other than stating that functional separation may not be justified for smaller businesses that do not expect access applications in the near future. Clarification regarding which regional water corporations will require functional separation needs to be included in the final report.

The Commission indicates that the separation of business functions would involve physical separation of the infrastructure operator unit from the other units of the business, separate staffing, separate operational support systems and information management systems, and limits on information exchanges between the infrastructure operator unit and the other units.

Separation to this extent will be a very costly exercise for the smaller regional water corporations. Goulburn Valley Water provides water services to 54 towns via 36 discrete water supply systems. The complexities and costs of implementing operational separation and/or accounting ring fencing of many discrete supply systems requires further consideration and investigation by the Commission.

Goulburn Valley Water does not believe we will receive access applications in the future and would argue strongly that the requirement for operational separation is not justified in our circumstances.

If GVW were to become subject to an access arrangement we would seek to achieve appropriate accounting ring fencing within the Commission's guidelines.

Access Pricing

The Draft Report makes two recommendations regarding access pricing:

- *"That the cost of service approach is used to determine access prices in respect of infrastructure where the costs associated with providing an infrastructure service can be easily identified."* (Draft recommendation 6.1)
- *"That the retail minus approach is used to determine access prices in respect of infrastructure where a regulated retail price exists and the infrastructure operator provides services in the regulated retail market."* (Draft recommendation 6.2)

A significant component of the cost of service is depreciation of and return on the Regulatory Asset base. As mentioned earlier, Goulburn Valley Water operates a large number of discrete water and sewerage systems and the Regulatory Asset base has not been determined for individual components of these discrete systems. A further consideration is that Goulburn Valley Water has postage stamp pricing across all of our supply systems which means there is cost cross-subsidisation built into our existing retail pricing system.

Goulburn Valley Water therefore prefer the retail minus approach to determine access prices because it is simpler and less costly to apply. However, this may cause concerns in our smaller high cost systems that currently receive the benefit of postage stamp pricing, but it is highly unlikely that a third party would seek access to these smaller systems.

Thank you again for the opportunity to make a submission to your inquiry. I look forward to the receipt of your final report in due course.

Yours sincerely



Peter Quinn
MANAGING DIRECTOR