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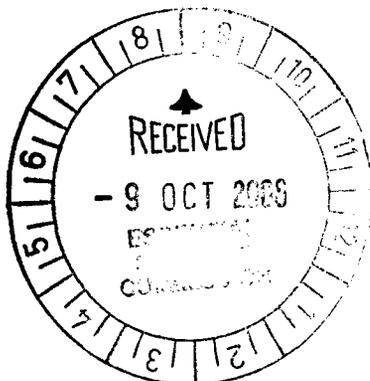
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**CENTRAL
HIGHLANDS
WATER**



5 October 2006

Mr Sean Crees
Acting Director Regulation (Water)
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

Dear Sean,

Re: Response to the 2008 Water Price Review - Guidance on Water Plans

In response to the Guidance on Water Plans recently released CHW is pleased to have the opportunity to offer the following comments.

Section 1.4 Consultation on approach

The Commission states that it will consult on the key issues through a series of consultation papers. Feedback to the Commission after the last Water Plan was that it would be beneficial for the Commission to visit each water business to understand the businesses and the sector as a whole. The Commission accepted this feedback and proposed that as part of the 2008 Water Plan it would visit each business and conduct some in depth discussions of major issues. These visits had been tabled for around September 2006.

It appears that the Commission has now decided against this approach. This is a very disappointing outcome and CHW would urge the Commission to visit the businesses for some direct consultation if at all possible.

Section 3.4 Changes in legislative obligations

The Commission has indicated that changes in legislation that lead to increased expenditure in the first regulatory period will only be taken into account in the second regulatory period where they amount to greater than 2.5% of the businesses' total revenue or \$1million, whichever is the greater. From a position

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of equity, will the Commission apply the same logic if costs decrease as a result of changes in obligations?

Section 5.4.3 Weighted average cost of capital

The Commission intends to release an indicative WACC in early 2007 and notes that the businesses are free to propose a different WACC. Due to variances in individual businesses' Fitch ratings, the businesses will have varying costs of borrowing. Based on indicative WACC figures that the Commission suggested in the recent LRMC costing submissions it is entirely possible that the cost of borrowing for some businesses will be very nearly, if not actually, equal to the return delivered by the WACC. Such a scenario would leave minimal incentive for the business to invest in its infrastructure and would be contrary to the Regulatory principles of the WIRO.

Has the Commission considered this outcome and, if so, how does the Commission propose to address it?

Section 6 Demand

As part of its final determination for CHW for the first regulatory period, the Commission required CHW to forecast a lifting of restrictions in certain systems following a one-off rainfall event just prior to the determination. Actual experience has shown that this was a hasty decision, as continuing lack of rainfall has required restriction levels to remain in place or deepen in all systems.

Given the continuing evidence of climate change and its significant impact on catchment run-off, how will the Commission approach demand forecasting in the next regulatory period? Will the Commission give greater weight to more recent (10 year) rainfall patterns rather than the historic (100 year) averages?

Additionally, the lack of water resources in this regulatory period has caused a significant loss of revenue compared to water plan forecasts. Will the Commission compensate the businesses for this loss of revenue, which in many cases will be greater than the limits set by the Commission for consideration of additional expenditure (i.e. \$1million or 2.5% of the businesses' total revenue)?

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Section 7.1.4 Tariff proposals

On page 39, the Commission discusses trade waste proposals and refers to discussion outlines in Box 7.1. There is no such box in the guidance paper.

Should you require any clarification or further information in relation to any of the responses, please contact Robert Tommasini on (03) 5320 3242.

Yours Sincerely



Bryce Goldsbrough
Finance Manager
Central Highlands Water