

28 July 2016

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

Sent via email: water@esc.vic.gov.au

Dear Water Team,

RE: A model for pricing services in Victoria's water sector, Position Paper

Thank you for the opportunity to provide feedback on the proposed model as described in the above paper.

In general, Central Highlands Water supports the overall model and approach taken by the ESC.

In particular, we are pleased to note that several of our suggestions we made in our previous two submissions have been included, namely the avoidance of a 'one size fits all' approach and the provision of a fast-track or 'light-handed approach' to the pricing review process.

In terms of the 'PREMO' model, Central Highlands Water supports the proposed model while noting the criteria for assessment tend to be a mixture of 'lag indicators' (Performance) and 'leading indicators' (Risk, Engagement, Management accountability and Outcomes). We look forward to further details being developed to support the model.

We provide the following comments in regards to specific parts of the proposed model:

Incentive Matrix

Central Highlands Water supports the proposed approach but considers that a more detailed guide to the 'level of ambition' will be required in order for water corporations to feel competent in deciding their appropriate level and being able to competently undertake the self-assessment.

Cost of debt

Central Highlands Water supports the proposed approach to adopt a 10-year trailing average.

Customer Engagement

Central Highlands Water supports the proposed approach of 'earlier, deeper and broader' engagement with customers and stakeholders in order to support the development of customer-centric standards. We welcome the ESC's deliberate non-prescriptive approach to the form of customer engagement activities, but rather a focus on the outcomes of that engagement. However we note several key points in this regard:

- The development of customer-centric standards may result in standards that are more qualitative in nature than quantitative in comparison to the current engineering-based standards. This may result in standards that are not as easy to measure or demonstrate

acceptable performance against e.g. 'pass or fail'. This may present substantial challenges in annual reporting requirements.

- We note the ESC expects the Guidance Paper to be released November 2016 and that it will guide the criteria to qualify for a fast tracked draft decision. Central Highlands Water would encourage the ESC to release the Guidance Paper as early as possible to help assist with the customer engagement process which consistent with the expectations of 'earlier, deeper and broader', will need to commence shortly.

Demand forecasting and flexible price review process

Central Highlands Water welcomes the approach to accept water corporation's demand forecasts. This makes sense as they will be developed in accordance with the Government's guidelines for the Urban Water Strategies (due for submission March 2017). It is noted that the recently released '*Exposure Draft*' Urban Water Strategy Guidelines contain more detailed and sophisticated criteria for forecasting demand on a range of inputs and assumptions that may have been more discretionary in previous years. By the time the pricing submission is due, the demand forecasts will already have been subject to government scrutiny, providing another layer of assurance.

Central Highlands Water encourages further consideration of the demand forecasting model in regards to the potential for a price adjustment mechanism for customers' consumption above the nominated 'buffer'. It has been our experience that customers highly value the certainty of a five-year pricing pathway which provides them with the capability to plan and budget accordingly. There is a high probability that a potential annual price adjustment process may result in confusing customers and result in unintended consequences of consumption behaviour. For example, a decrease in the volumetric price of water (if that were to be the price adjustment mechanism) may send the signal for customers to use more water, counter to the long-term community positioning and investments that Central Highlands Water is making. It must also be taken into consideration that higher levels of consumption whilst providing additional revenue, also come with higher costs incurred for the production and transport of the additional treated water volume.

Central Highlands Water has adopted the approach of encouraging (and facilitating) the efficient use of water at all time with our customers but recognises that in periods of prolonged hot and dry weather, customers may decide to use more water.

Thank you again for the opportunity to provide a third round of input into the consultative process.

Yours sincerely,



Paul O'Donohue
Managing Director