



4 April 2013

By email: [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

Mr Marcus Crudden  
Acting Director, Water  
Water Price Review  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne Vic 3000

Dear Mr Crudden,

## **Water Price Review 2013-2018 – Supplementary information provided by Melbourne Water**

The Consumer Utilities Advocacy Centre Ltd (**CUAC**) and the Consumer Action Law Centre (**Consumer Action**) refer to the supplementary information provided by Melbourne Water (MW) to the Essential Services Commission in their 18 March 2013 letter (letter).

In our joint submission to the Commission dated 25 January 2013, we, amongst other recommendations, asked the Commission to consider the possibility of spreading the cost of the desalination plant (DP) over the actual asset life (50 years) rather than the proposed 27 year period being the length of the DP public-private partnership. We submitted that appropriate levels of debt were not counter to maintaining safe and reliable services and sound financial governance on behalf of the community.

MW's letter essentially argues that it has only one option. That is, in light of MW's legislative obligations, the Commission's approach to the previous water review (where cost capitalisation was not contemplated), and MW's financial viability, there can be no further capitalisation of the cost of the DP. According to MW, a sustainable revenue stream covering the entire cost of the DP in the 2013-18 regulatory period is required.

In making its case, MW has referred to the following: (1) the Water Interface Agreement under which MW has agreed to pay monies owed by the State for the DP; (2) measures it has taken to ensure it acts efficiently in complying with its legislative requirements; (3) the extensive review

which resulted in MW's conclusion that their non-desalination operations are efficient and that no further savings can be gained from offsetting the cost of the DP capitalisation; (4) the impact additional borrowings for non-infrastructure related requirement would have on MW's ability to meet its service level obligations; (5) that cost spreading would not deliver a material reduction of prices without major impacts on financial viability or service levels; (6) impact on revenue shortfall.

While the Victorian Auditor-General's Report, *Water Entities: Results of the 2011-12 Audits* is publicly available, we are not privy to the other documentation or reviews relied upon by MW to put forward its case. In view of this, we are unable to comment meaningfully on the statements which MW has made in their letter. We strongly urge the Commission to closely scrutinise the claims which have been made by MW, in the interests of transparency and effective regulatory oversight, and provide further comment on this in their draft decision. As part of a meaningful analysis of its claims, MW should also be required to release the financial modelling undertaken to determine that capitalising some of the DP costs would have a negative impact on its financial viability. Such modelling should be open to analysis from the Commission and the public.

MW has interpreted "sustainable" revenue stream in the *Water Industry Regulatory Order (WIRO)* to mean a revenue stream which would enable it to sustain its business operations and support an appropriate investment grade credit rating. MW has also suggested that as the Commission's approach in the previous water review did not allow for further capitalisation of costs, the same principle should apply to this review. We ask the Commission to clarify what their interpretation of "sustainable" is and the approach in this price review.

Please contact the undersigned if you have any questions about this submission...

Yours sincerely

**Consumer Action Law Centre** – Gerard Brody (T: 03 9670 5088), [gerard@consumeraction.org.au](mailto:gerard@consumeraction.org.au)

**Consumer Utilities Advocacy Centre** – Jo Benvenuti (T: 03 9639 7600),  
[jo.benvenuti@cuac.org.au](mailto:jo.benvenuti@cuac.org.au)