



Our Ref. FOL/2960 - DOC16/51642

26 July 2016

Water Team – Pricing Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE 3000

Email: water@esc.vic.gov.au

Dear Sir/Madam

REVIEW OF WATER PRICING APPROACH – POSITION PAPER - GVW FEEDBACK

Thank you for the opportunity to provide feedback on the position paper outlining a new model for pricing services in Victoria's water sector. The new pricing model proposed in the position paper is generally supported by GVW. The increased emphasis on customer engagement, introduction of the PREMO criteria and providing financial incentives based on the outcomes proposed in a submission are concepts that are supported.

PREMO Criteria

The position paper is not clear on the process or timeframes for the PREMO criteria to be further defined. It would be beneficial if ESC could provide further information on how the PREMO criteria will be further developed and when it will be available.

The Performance element of PREMO appears to be future focussed in the position paper. Based on feedback received at an ESC consultation session, the Performance element also appears to include an assessment of performance against outcomes in previous pricing periods. Further detail is required to clarify if the Performance element is based on both past and future outcomes.

Cost of Equity Range

The proposed range in allowable cost of equity between a Basic and Leading submission is quite narrow and does not offer a significant financial incentive to produce an Ambitious or Leading submission. The benefit of producing an Ambitious or Leading submission may be more reputational than financial as a result. Consideration should be given to widening the financial incentive between a Basic and a Leading submission.

Service Levels

The position paper indicates that all existing service levels and any new proposed service levels will be open to change based on the outcomes of customer engagement. GVW will be already well advanced in undertaking customer engagement activities to support the pricing submission before the ESC Guidance is released in November 2016.

If there is a core set of service levels (including GSL's) which ESC is proposing to retain, it would be useful for this core set to be provided as soon as possible (rather than wait until November 2016) to inform customer engagement discussions.

Comparison of Submissions

The position paper is not clear if the ESC assessment of submissions will be based solely on the PREMO criteria or also rate submissions based on comparison. Each water business will not have the benefit of being able to compare submissions when completing self-assessments. Rating submissions on comparison has the potential to produce different ratings from the self-assessment completed by each business. Businesses should not be penalised based on comparison if it has self-assessed accurately against the PREMO criteria.

Autonomous Demand Model

GVW currently has a robust demand forecasting methodology and has received minimal adjustment to forecasts in previous pricing submissions. From GVW's perspective there is no requirement for the previous demand forecasting approach to change. The GVW demand forecast for the next pricing submission is currently being prepared on the basis that the existing methodology will be retained.

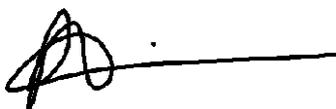
GVW services a number of major food processing industrial customers who can request stepped changes in water or wastewater demand at short notice. The changes are often driven by short term market conditions and may not be identified at the time of preparation a pricing submission. Major industrial customers typically have difficulty predicting water demands beyond a very short term (less than 1 year) horizon.

Stepped changes in water or wastewater demand may require the construction of augmentation works. The funding arrangement between the major customer and GVW for augmentation works will consider the recovery of additional revenue by GVW from the increased water or wastewater volumes. For example, based on the additional revenue that will be received, GVW may discount the contribution of the major customer towards augmentation works.

If an autonomous demand model with a revenue cap buffer were to be introduced, the limitation that this may place on funding options between the water business and major customers for augmentation works should be considered. A potential approach would be to exclude major customer demand from the revenue cap buffer.

GVW looks forward to working with ESC as the pricing approach is further developed. If you require further information please contact Daniel Hughes on (03) 5832 4866.

Yours sincerely

A handwritten signature in black ink, appearing to be 'P. Quinn', followed by a horizontal line extending to the right.

Peter Quinn
MANAGING DIRECTOR