

4 November 2016

Mr Crudden
Director, Water
Essential Services Commission

Dear Marcus

Assessing and Rating PREMO Price Submissions

Thank you for your October 2016 consultation paper, Assessing and Rating PREMO Price Submissions.

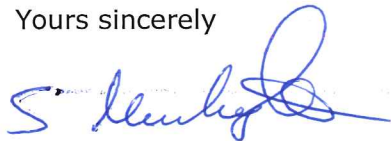
Though Melbourne Water's position remains consistent with that which was communicated in our 29 July 2016 submission we are grateful for the additional information provided in the consultation paper.

Details regarding the price submission rating categories and the applicable criteria, as well as the indicative equity WACC numbers, demonstrating the rewards and penalties associated with each category, has improved our understanding of the PREMO assessment and rating process.

The alternative PREMO rating scoring method proposed by the Commission appears on balance to be a superior method compared to the KPMG recommended approach. The additional flexibility will address the problem of water businesses being forced in some circumstances to adopt either an overtly optimistic or conservative rating.

We look forward to engaging with you further as part of the 2021 Price Review and we will observe how the process unfolds as part of the current retail water authority price review with interest.

Yours sincerely



Simon Marchington
Manager, Pricing and Regulation