



# Memorandum

To: **Essential Services Commission**

From: Goulburn-Murray Water

Subject: **2008 Water Price Review – Guidance Paper**

Date: 26 September 2006 #2005270

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Please find below Goulburn-Murray Water's comments on the ESC's 2008 water price review guidance paper:

- Issues for consultation
  - Length of the regulatory period

A key issue in deciding on the appropriate length of the regulatory period is the extent of 'flexibility' built into the planning and price setting process. There is a greater level of uncertainty the longer the regulatory period. This is particularly the case with the rural water sector which is experiencing significant reform.

For example if a Water Plan was developed in 2001 for the five year period ending 2006, changes such as the Government's White Paper reforms, water savings initiatives and the implementation of the Government's state-wide management rules in our Diversions business could not have been foreseen and consequently would not have been included in the Water Plan.

With a longer regulatory period there needs to be a mechanism built into the planning and price setting process to enable Water Plans to be adjusted for significant changes that could not be foreseen.
  - Form of price control

G-MW supports section 7.3 of the guidance paper which indicates that water businesses will have the ability to propose the form of price control for the regulatory period.
- Outcomes for first regulatory period.

Whilst G-MW understands the purpose of this section, it should be recognised that rural water businesses will only be about 6 months into a 24 month Water Plan when their next Water Plans for the 2008/09 – 2012/13 period are being developed. That is the draft Water Plans which are to be submitted by 1 May 2007 will be developed in the November 06 to January 07 period. Limited actual information on the implementation of the first Water Plan will be available.

It should also be noted that water businesses response to the drought will impact on the implementation of the first Water Plan.
- Service outcomes
  - The licensing/administration service standards will need to change with the introduction of the Victorian water register.
  - No guidance has been received to date from DSE regarding the Government's expected outcomes for the regulatory period 2008/09 – 2012/13.

- Expenditure on obligations  
Expenditure on meeting each obligation is not recorded however expenditure relating to new obligations or changes to obligations will be identified.
- Revenue requirement
  - G-MW's expenditure categories vary from those shown on page 24:
    - Drainage diversion is a service provided under our drainage business not licensing. That is the customers receiving the service are in our gravity irrigation districts and not from our surface water diversions customer group. In addition, the service is included in our surface drainage network costs and is not separately identified.
    - Our salt interception schemes are classified as bulk water as the costs are recovered from bulk water users.
  - Demand-supply strategies and sustainable water strategies
    - Demand-supply strategies is an urban water business initiative
    - The sustainable water strategies initiative has been deferred for one year due to the extent of reform currently being implemented in the rural water sector.
- Approving/specifying prices or the manner in which prices are to be determined  
G-MW requests more information that clearly describes what approving/specifying prices means and what approving/specifying the manner in which prices are to be determined means. Also a comment on the option of one or the other mechanisms is also requested.

Regards

Ian Hatton  
MANAGER FINANCIAL PLANNING AND REGULATION