



City West Water

Response to Essential Services Commission

on

Draft Report (June 2009):

**Inquiry into an Access Regime
for Water and Sewerage
Infrastructure Services**



City West Water

LIMITED

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1. Overview

City West Water (CWW) supports the proposed “training wheels” approach to developing a third party access regime for water and sewerage infrastructure services.

However, CWW believes that the ESC’s proposed timing is unachievable and instead proposes that implementation proceed on a sequential basis, namely:

1. resolve policy issues, then
2. establish ESC guidelines, then
3. nominate access infrastructure and pricing method (with accounting ring-fencing; not operational separation), then
4. review, then
5. decide upon operational separation (and any other issues), then
6. legislate, and then
7. implement

It is not unrealistic that this might be a 10-year timeframe, although attempts should be made to implement it faster, if prudent. It may take longer if at the review phase (#4 above), there has been no access sought and therefore no basis on which to undertake a realistic review.

This response addresses only what CWW considers to be the headline issues, and CWW will be happy to have more significant input to arrangements for access once the Government’s policy intentions are clarified and the ESC begins to develop and consult on its more detailed guidance.

2. Government Policy

Policy should precede reform, and in particular it should precede any trial or “training-wheels” approach to access. Unless the policy positions are articulated, the trial could occur on the wrong basis.

The Draft Report (and CWW’s submission to the Issues Paper) encompasses the major policy issues, namely:

- constitutional limits with respect to private ownership
- ownership of water and trading arrangements
- district boundaries
- Grid manager and water market proposals
- licensing of new entrants
- ability of health, environmental and other regulators to control new private sector entrants
- delivery of Community Service Obligations
- uniformity across metropolitan Melbourne of pricing, water conservation, recycling and water restrictions
- entitlements to water and to which body they are assigned.

Most if not all of these policy issues are so fundamental to the design of an access regime that they should be resolved even before the “training-wheels” period commences.

3. Timing

The timing proposed by the ESC in the Draft Report is un-achievable and appears to be a desired rather than analytical approach to setting target dates.

The Draft Report appears to promote a “parallel” process in which policy issues, ESC guidance and trial implementation all occur concurrently. CWW believes these issues need to be addressed sequentially, and that a realistic trial could only be initiated once the policy and ESC guidance have been established.

Stage 1 duration of 12 months is insufficient time for Government to address the policy issues (particularly if legislation amendments are required). As well, if ESC is to undertake consultation and industry workshops in developing its guidelines (page 4-5), then little time will remain after that process for the water businesses to evaluate and implement their access commitments within the 12 months timeframe.

Stage 2 duration of 12 months gives very little time for access to be sought, negotiated, approved and implemented. If experience elsewhere is indicative of what might happen in Melbourne or Victoria, having sufficient cases on which to base a robust review might take many years. The “review date” will therefore need to be kept flexible or considerably extended.

Timing might also depend on the costs involved in establishing functional separation (see next section).

4. Functional Separation

CWW is concerned that functional separation appears to be the reverse of the Government’s response to the Victorian Competition and Efficiency Commission recommendations on more shared services. A consistent policy direction needs to be established and adhered-to for long enough to allow implementation.

Functional separation for those assets subject to access, and not for the rest of the assets, would appear to create a confusing, dual-management approach to operations and maintenance. If functional separation is to occur (not supported by CWW), then it should involve a total separation of all assets from the retail function, including allocation of current Regulatory Asset Values to different products within the current business. Guidance will be needed on how this is to be achieved particularly to the ‘retail segment’.

While the Draft Report contains little detail on “limits on information exchange”, functional separation could require a separation of the currently inter-linked IT business systems. Such a separation would be extremely costly (maybe tens of millions of dollars), be time consuming and would therefore be better aligned with a new regulatory period to allow cost pass-through to customers.

Establishing service level agreements between the business units, robust enough to be applied equally to a new entrant, will be time consuming and require maybe 12 to 18 months of analysis and negotiations, which could only commence after more detailed guidance from the ESC on its specific requirements. The service level agreements with new entrants will need to address issues such as involvement in statutory planning processes for “Greenfield” developments in which local government relies upon water businesses to be referral authorities.

5. Water Treatment

Draft recommendation 4.2 proposed a list of services to be covered. However, CWW believes that water treatment should be included in that list.

While access seekers’ water must presumably be treated to meet Australian Drinking Water Quality Guidelines, its chemical composition may still interact unfavourably with the incumbent’s water. Therefore, mixing of waters should occur before water treatment facilities, and preferably at a point where maximum dilution can occur.