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10 December 2015

Dr Ron Ben David  
Chairperson  
Essential Services Commission  
Level 37  
2 Lonsdale Street  
MELBOURNE VICTORIA 3000

Dear Dr Ben David 

### **Review of Water Pricing Approach**

Thank you once again for the opportunity to comment on the Review of Water Pricing Approach that is presently being undertaken by the Commission.

In preparing this submission, we have revisited previous submissions and reaffirm the concepts promoted in previous submissions that were prepared as part of the Samuels Review and the earlier responses to this current Review of Water Pricing Approach. GWMWater believe that the amendments made to the Water Industry Regulatory Order (WIRO) provide the Commission with greater flexibility in the approach to price determinations. They also provide an opportunity for the Commission to adopt a more tailored approach to the regulation of water businesses.

We note that much of the material being presented in the current review by the ESC draws heavily from the United Kingdom experiences with water and utility regulation. In doing so, one of the water businesses cited through the consultative processes has been Scottish Water for its models around community engagement and customer support for its pricing proposals. GWMWater would support the concepts promoted at these forums where water businesses that were considered to have a 'healthy' regulatory and customer culture, there were grounds for having a more light handed regulatory approach. In such circumstances water business pricing proposals could be fast tracked where it could be demonstrated there was good consumer engagement and strong customer acceptance of the price and service dimensions of pricing proposals.

We would also support the suggestions made by Euan Morton of Synergies Consulting that the regulatory model may be tailored to organisational size to ensure that the effort expended by businesses in preparing submissions do not outweigh the benefits of regulation. An overarching theme for pricing proposals is that they be underpinned by a 'respectful' model of customer engagement.

The concepts promoted by Euan Morton would be supported by GWMWater. The model promoted by Euan identified three regulatory model types based on the maturity and capability of Water Businesses.

Type One - Earned autonomy where credibility gives rise to light handed regulation and fast tracked processing of regulatory submissions

Type Two - Status Quo where much the same regulatory framework that is in place as presently exists; and

Type Three - Where regulatory submissions are considered to be inadequate and water businesses are required to resubmit their pricing proposals.

The Synergies presentation by Euan Morton went on to identify six preconditions it considered necessary for Type One. These were:

1. A strong commitment to productivity and efficiency (CPI-X).
2. Service outcomes are clear and supported by customers.
3. The business has a good regulatory track record
4. The businesses have good business processes to support their operations
5. There is a healthy model of customer engagement.
6. The business is transparent.

GWMWater would support the application of the methodology promoted by Synergies Consulting to underpin the Water Pricing Approach.

Consistent with previous submissions GWMWater support the retention of the Building Block Approach to pricing. There is a significant level of industry understanding of the Building Block model. Departure from the Building Block would present some significant challenges in re-educating the industry and redeveloping systems if there was a significant departure from the Building Block model.

The adjustments to the WIRO provide greater flexibility to the Commission to drive productivity and efficiency of water businesses. The Commission rightfully identified this as a constraint in the Samuels Review. How the Commission applies benchmarking and/or incentivises productivity and efficiency is an area where greater detail should be provided by the Commission in developing the Water Pricing Approach. This does become critical where water businesses do not demonstrate in their pricing proposals a strong commitment to productivity and efficiency.

The Cost of Capital Workshop introduced a body of work titled 'Regulatory arrangements for the cost of capital and tax in the regulation of Victorian water companies: issues and ideas'. This paper introduced issues that would also suggest a more tailored approach to the Cost of Capital. The issues raised by the paper give rise to the opportunity to better align the Weighted Average Cost of Capital (WACC) to the economic, social and environmental objectives that can vary from water business to water business.

We commend the Commission on the engagement it has undertaken with the water industry reviewing the current framework and identifying opportunities where the regulatory framework and water pricing approach can be changed to deliver better value to water and wastewater customers.

GWMWater would be happy to expand on the concepts raised by this submission if the Commission would require any further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Williams', written over a horizontal line.

**Mark Williams**  
Managing Director

