



By Email [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

26th January 2008

Mr Sean Crees  
Director Regulation (Water)  
Essential Services Commission  
Level 2, 35 Spring Street,  
MELBOURNE VIC 3000

Dear Sean,

Western Water appreciates the opportunity to comment on the Essential Services Commission (ESC) '2008 Water Price Review, Water Plans – Issues Paper'. Of the matters raised by ESC for comment, Western Water limits its response to the following points:

**1. Renewals Annuity (section 2.3)**

Western Water notes the issues raised by rural water businesses in managing the transition from a renewals annuity to a regulatory asset base approach for recovering expenditure on renewing or rehabilitating assets. Western Water believes that there would be benefits in a consistent industry approach being adopted to the recovery of this expenditure.

**2. Price Elasticity of Demand (section 2.5.3)**

Western Water continues to support its proposed Price Elasticity of Demand for inclining block tariffs on water usage. Western Water believes that demand is relatively inelastic although not unresponsive to price, and due to water restrictions, customers ability to respond to stronger price signals may be limited.

**3. Tariff Structure (section 2.7)**

Western Water continues to support a two part tariff for water incorporating a three tier inclining block for domestic usage and a single fixed sewerage service charge. This structure has been strongly supported by our extensive customer consultation.

**4. Guaranteed Service Levels (section 2.8.1)**

Western Water is proposing to introduce Guaranteed Service Levels (GSL's) over the regulatory period. The proposed GSL's are intended to exclude failures to meet guaranteed service levels if an event is caused by, or is the direct responsibility of the customer, or a third party acting on the customer's behalf. Western Water intends to meet GSL payments to customers for all other events.

In addition to the matters above, Western Water would also like to make the following specific points for ESC consideration:



#### **5. Proposed amendments to the Water Industry Regulatory Order (WIRO) (section 2.7)**

Western Water supports the proposed changes to WIRO Principles, other than the proposed amendments to clauses 9(b) and 10(b) that give the ESC additional powers to reject water businesses proposed tariffs, despite complying with the WIRO Principles, if the ESC considers an alternative tariff structure more effective or efficient.

Western Water believes that individual water businesses are best placed to consult with their customers, and recommend tariffs to the ESC that meet WIRO principles and customers requirements. Western Water expects however, to continue to meet and seek advice from the ESC on proposed tariffs that best meet the WIRO Principles and customer requirements.

#### **6. New Customer Contributions (NCC) (section 4.5)**

Western Water strongly supports the Victorian Water Industry Association's NCC proposal in its current form. Western Water believes the proposal meets WIRO principles, scales the NCC charge according to water sensitivity and demand for future infrastructure, provides clarity in classification of reticulation and shared distribution assets, and has the support of customer groups consulted by Western Water. Furthermore, the proposal provides the ESC with the opportunity to make a binding decision on any disputes.

#### **7. Smoothing of Price Increases (section 2.7)**

In regards to price paths, Western Water are proposing a higher increase in the first year with increases tapering over the five years of the Water Plan. This approach reflects the large proposed capital spend upfront and has been supported by our extensive customer consultation. Some smoothing of price increases has been incorporated in order to avoid significant one-off annual price shocks to customers.

#### **8. Form of Price Control (section 4.2)**

Western Water has chosen to use individual price caps as the form of price control for the regulatory period. All major price rebalancing has been complete and whilst some uncertainty of water availability and demand is evident, our customers are supportive of the form of price control that provides price certainty, with the greatest ease of understanding. In the event actual outcomes were materially different from those planned, Western Water may consider an increase less than the maximum allowed under individual price caps for that year of the regulatory period.

#### **9. Vacant Land (section 4.3)**

Western Water currently levy full annual fixed access charges on vacant land (except on contiguous properties where only one fixed annual charge is applied). Due to the rapid growth in urban development in Western Water's region, a significant driver of capital expenditure is related to urban growth. Western Water's customer groups support the continuation of full annual fixed vacant land charges.



**10. Pricing principles for Recycled Water (section 4.7)**

Western Water was recently recognized by the National Water Commission as the leading major urban recycler (in % terms) in Australia. Western Water supports the increased regulation of Class A recycled water prices, and also supports lower classes of recycled water being subject to a “lighter” pricing principles approach.

Should any further information be required, please contact Vicki Pinder, Manager Regulation via email [vicki.pinder@westernwater.com.au](mailto:vicki.pinder@westernwater.com.au) or on 0403 154 923.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John Wilkinson".

**John Wilkinson**  
**MANAGING DIRECTOR**