

Monday 27 July 2009

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000



NORTH EAST WATER

PO Box 863
Wodonga, Victoria 3689

Level 1, Hovell Street
Wodonga, Victoria 3690

Telephone: 1300 361 622
Accounts: 1300 361 633
Facsimile: (02) 6024 7454

e: nerwa@nerwa.vic.gov.au
w: www.newater.com.au

Dear Dr Ben-David

INQUIRY INTO AN ACCESS REGIME FOR WATER AND SEWERAGE INFRASTRUCTURE - DRAFT REPORT, JUNE 2009

North East Water is pleased to provide comment on the Essential Services Commission's Draft Report dated June 2009.

We acknowledge the structural issues associated with the creation of such a Regime, that are addressed in the report's recommendations, and are comfortable that the many implementation issues being identified will be addressed in the next phase of developing a State-based Access Regime.

With our representation at the public hearing, conducted by the Commission, on Wednesday 15 July 2009, North East Water was able to ascertain that whilst the Draft Report has highlighted the implementation challenges in a structural sense, a separate body of work will be required to educate the Industry on the more practical aspects of an Access Regime, including specifically:

- What infrastructure is subject to this Access Regime?
- What constitutes 'new water'?
- How are the unique operating structures of individual business' going to be addressed?

North East Water supports the submissions to the Draft Report made by The Victorian Water Industry Association on behalf of its 19 industry members, but would like to further highlight the sensitivities around access pricing that we may be faced with.

Access Pricing

North East Water notes the two recommendations regarding access pricing:

1. Draft Recommendation 6.1 – That the cost of service approach is used to determine access prices in respect of infrastructure where the costs associated with providing an infrastructure service can be easily identified.
2. Draft recommendation 6.2 – That the retail minus approach is used to determine access prices in respect of infrastructure where a regulated retail price exists and the infrastructure operator provides services in the regulated retail market.

The Corporation agrees with the Commission's approach to access pricing for regulated services as outlined in the Draft Recommendation 6.2, but would like to highlight the major challenges that would be faced by the Corporation:

(a) Regional Uniform Pricing

Significant cross-subsidies exist within our customer base due to the geographical location, small size of many communities and the often remote nature of some systems. In calculating an access price we would require a mechanism to ensure that consideration is given to both the actual cost of providing the service and to the contribution made by some customers to enable a uniform tariff to be applied.

(b) Combined cost recovery of water and wastewater services

The tariff structure, endorsed by the Commission, in our Water Plan 2008/9-2012/13 was designed to increase our customers' ability to control the size of their total account by placing greater monetary emphasis on the water volumetric component, and substantial reductions in the fixed charges. These reductions in fixed charges were across both fixed charges for water and wastewater services, resulting in the Corporation recovering a higher proportion of total costs from water services. Consistent with Regional Uniform Pricing, a mechanism to ensure that this cross service tariff structure is considered when calculating an appropriate access price would be required.

The Board and Executive of North East Water are committed to pro-active involvement in any water industry reform or initiative and would welcome any invitation to participate with the Commission and Industry to further progress this investigation.

Of note is that the principles of this enquiry are consistent with the strategic direction being developed by the Board, particularly around security of supply, service efficiency and customer choice.

Should you wish to discuss in further detail, any of the points raised please contact myself ph: 02) 6022 0521 or Anthony Hernan ph: 02)6022 0524 of this office.

Yours Sincerely

Craig Heiner
Managing Director