



Our Ref: #4245113

28 July 2016

Mr Marcus Crudden
Director, Water
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne 3000

Via email: water@esc.vic.gov.au

Dear Marcus

Re: Review of water pricing approach – Position Paper

Thank you for this opportunity to provide comments on the ESC's water pricing approach position paper. As Goulburn-Murray Water (GMW) is a top-tier basin irrigation infrastructure operator subject to the three sets of water charge rules, including the Water Industry Regulatory Order we appreciate the importance of this comprehensive review and the opportunities it provides for enhancement of the current regulatory framework.

GMW's infrastructure-related services are regulated under the Water Charge (Infrastructure) Rules 2010 (WCIR) and the Australian Competition and Consumer Commission (ACCC) pricing principles. The ESC must approve the price arrangement proposed by GMW if it satisfies the WCIR and ACCC pricing principles. However, GMW's prices for groundwater and non-infrastructure related miscellaneous services are assessed against the Water Industry Regulatory Order (WIRO).

The new approach is being introduced under the WIRO. It is assumed that the ESC will also apply this new approach under the WCIR. Under the WCIR GMW needs to detail the extent and nature of its consultation processes including matters on which it has consulted and customer feedback in response. Consultation to include matters with respect to: price and service trade-offs; investment decisions and proposed tariffs. It is uncertain as to the extent the new approach will be applied under the WCIR.

There are a couple of important questions that have not been answered in the development of the new approach:

- If things are not working under the new approach/framework e.g. if the sector is not building trust and confidence, what will the ESC do?
- The ESC has indicated that it may expect water corporations to provide a level of assurance on information provided to it. It has mentioned on occasions Board/Management accountability and sign off on price submission may be considered. Where, when and how does the ESC intend to accredit that information?
- It is not clear how this approach will influence GMW's ability to appeal or dispute a decision of the ESC. A small component of our delivery services fall under the WIRO the remaining fall under the WCIR in which case GMW has limited opportunity for an appeal of the ESC Decision.

Consultation and Engagement

If we start with the premise that at its essence, economic regulation is about aligning the interests of GMW with the interest of its customers then this new framework in essence needs to support to GMW in achieving that alignment where GMW 'profits' by doing what its customers want. How GMW is required to achieve this is not prescribed by the ESC nor should it be. However, the problem arises as to how this is to be measured, self-assessed by the water corporation and then assessed by the ESC? What will constitute 'good engagement' whether it relates to specific outcomes of the price submission or the submission as a whole and how economic rationale aligns with customer interests is not clear?

The quality of customer engagement is at the forefront of this new approach. This is an ambitious change for GMW and the sector as a whole. In our case, GMW will need to engage dynamically with its customers on an ongoing basis to build trust and confidence so that during the formulation of its next price submission, and just as importantly its Business Plans, there is opportunity for more effective in-depth two-way conversations, further strengthening trust to the benefit of GMW, its customers and the environment.

It is not clear whether the ESC is considering engaging with customer groups (WSC) established by GMW for example and seek those groups to play an assurance role or leave this to GMW itself?

The breadth of the following statements is broad and raises a number of questions:

"The form of customer engagement undertaken by a water business should be tailored to suit the content of consultation and to the circumstances facing the water business and its customers" (p24)

"The more expansive the engagement program (that is, the bigger the triangle), the more likely a business will earn higher returns and face less intrusive scrutiny by the Commission of their price submissions" (p29)

For example;

- The make-up of its customer committees as advocacy and advisory and for example time commitments, rotation, interests, etc.)?
- Whether the customer group is the best means for GMW in obtaining independent customer views?
- Clarity of roles in developing and assessing our business plans and subsequent pricing submission.

The current and new approach do not show much in the way of ESC weighting between customer price interests and corporation longer-term financial viability / sustainability.

It remains uncertain as to how customer engagement approaches will evolve where customers do not have a choice. This means that GMW's approach to customer engagement will depend critically on the context within which it takes place, the relationship with our customer and the relationship at different points and between different parties (GMW, Connections Project etc.) Effective customer research will be key for GMW.

As noted in the paper the 'one size fits all' approach to customer engagement doesn't work, but this is also true of 'willingness to pay' surveys. How GMW and ESC are able to assess the effectiveness is uncertain and may even be qualitative and/or subjective in nature.

Comparative assessments are a useful tool that may be applied; however an increasing number of comparative performance commitments may reduce scope for GMW to engage with its customers

and to design tailored commitments and incentives reflecting its customer's preferences. These will vary between water corporations and may lead to comparative outcomes not being closely aligned with our customer preferences.

Without the ESC providing clarity on what it would be assessing, a few customers with their vested interests being active in the media may sway consideration away from a silent majority. Utilitarian principles are preferred (best outcome for majority of customers).

Beyond the Next Price Review

It is not clear how the new framework looks beyond the current regulatory period (4 years) when it focusses a utility more on delivering what our customers want, given the long-lived nature of our assets, its link to ecosystems and the need to provide resilient services now and into the future. How does the new approach incentivise the sector to take account of the longer term outcomes?

The ESC proposes to apply this new approach to Water Corporations in the next price review process (starting around November this year), however, it is not clear how the application of the regulatory model will be transitioned from the current one size fits all, interventionist regulatory focused administrative model - to - a framework based targeted variable customer focussed 'pro-market' approach.

It would be prudent to enable Water Corporations to manage that transition carefully over time. This will require revealing more improved information and creating valued customer engagement outcomes. In some circumstances utilities may find that a better balance of risk and reward, more focussed delivery of operational efficiencies and more of what customers want will not be achieved uniformly across the sector in one price review.

A longer-term ongoing engagement between utility and customers may be necessary and vital to the longer term sustainability of the utility as it may need to make significant structural changes to its customer engagement interface.

Should you wish to discuss any of the issues raised in our submission, please do not hesitate to contact Carmine Piantedosi on (03) 5826 3585.

Yours sincerely



Geoff Cutter
CHIEF FINANCIAL OFFICER