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Mildura (Head Office)  
741-759 Fourteenth Street  
PO Box 1438  
Mildura 3502  
DX 50023  
Telephone: (03) 5051 3400  
Facsimile: (03) 5051 3480

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

Swan Hill  
73 Beveridge Street  
PO Box 1447  
Swan Hill 3585  
DX 30164  
Telephone: (03) 5036 2150  
Facsimile: (03) 5036 2180

Dear Sean

## **2008 WATER PRICE REVIEW CONSULTATION – FRAMEWORK AND APPROACH**

Lower Murray Water (LMW) welcomes the opportunity to respond to the ESC's paper, 2008 Water Price Review Consultation Framework and Approach.

Robinvale  
37 Moore Street  
PO Box 600  
Robinvale 3549  
Telephone: (03) 5026 1300  
Facsimile: (03) 5026 1106

### **Length of Regulatory Period and dealing with uncertainty**

LMW believes the ESC's view of setting the second regulatory period at five (5) years to be appropriate. This process is a large exercise and from a cost effective point of view any less of a time period would be too costly. Conversely, considering a longer period would provide more difficulty in forecasting operating expenditure. Even forecasting a five year period with the predicted continuance of a drought, climate change, or other events such as the National Water Commission during the second regulatory period proves to be a challenge.

Kerang  
56 Wellington Street  
PO Box 547  
Kerang 3579  
DX 57908  
Telephone: (03) 5450 3960  
Facsimile: (03) 5450 3967

LMW welcomes the approach taken by the Commission in dealing with the impacts of catastrophic events.

### **Service Standards and GSLs**

[www.lmw.vic.gov.au](http://www.lmw.vic.gov.au)

EMERGENCY:  
IRRIGATION (03) 5024 5725  
URBAN 1800 808 830

LMW believes its current core set of service standards for the urban business as appropriate. The urban service standards have good history and are set in accordance with the Commission's performance reporting frameworks.

ABN 18 475 808 826

Service Standards on the rural side are still being developed as part of the Rural Customer Charter. Once the charter is complete, the service standards will be incorporated into the Water Plan.



In reference to guaranteed service levels (GSLs), LMW will be consulting with our customers as to whether there is a need for GSLs, and if any, what type of GSL's. As the Commission states in its paper it would be difficult to implement appropriate GSLs for the rural sector due to lack of reliable performance data. It is good to see the Commission is leaving it to the businesses to adopt GSLs, as LMW's customers should be determining whether they are required or not.

The Commission discusses the possibility of harmonising service standards. This may be difficult to achieve because every Authority has different staff numbers, areas of size, climates and conditions. To be able to compare may not be matching "apples with apples".

### Assessing Expenditure

LMW has no comment to make regarding operating expenditure.

LMW's biggest issue regarding expenditure as discussed in section 4.3 is the renewals annuities. LMW as part of its Water Plan process is reviewing it's method of recovering future capital expenditure. The review will assess which annuity term is more appropriate and an appropriate discount rate, whether a RAV approach is feasible or a mix. If the annuity term is appropriate it should be sufficient for LMW to recover future capital expenditure. LMW recognises that long term forecasts are difficult. However, the renewals surplus and deficit balances provide a means of keeping track of whether outturn expenditures are broadly in line with expectations. If they are not, then surplus balances can be returned to customers (or deficits recovered) when the discrepancies are confirmed as persisting.

LMW's approach for the 2008 Water Review is not confirmed, however an annuity approach could continue. A move to a RAV approach results in greatly reduced recovery expenditure if a "pure" RAV approach adopted without any expensing of renewals expenditure or other "transitional" adjustment. What set of transitional adjustments would the Commission have in mind that is acceptable if a move to a pure RAV approach occurred by LMW?

### Incentive Mechanisms

LMW agrees with the Commission that carryover mechanisms for the first regulatory period may have a small impact for businesses. The first regulatory period is so short compared to a five year period, and Authorities are still coming to terms with the regulatory process in submitting their first plans. With a greater understanding by the Authorities for the May 2008 Review, incentive mechanisms will have more meaning in the second regulatory period.

### Tariff Structure

LMW notes the Commissions' comments on inclining block tariffs. LMW has had step charges for over ten years and feels that it gives its customers the ability to control their water usage. With the prices it propose, LMW also need to take into account the needs of the wider community as well as the customer. LMW's area in the North West of

Victoria is uniquely different to the rest of the State. The region attracts large tourism numbers, which gives a substantial economic return to our community, and offers an attractive quality of life. LMW is mindful of the need for meeting demand supply objectives and the need to provide adequate signals to our customers.

LMW will not be pursuing a sewerage volumetric charge and is glad to see the Commission not enforcing such a charge.

As stated by the Commission, LMW has adjusted its tariff structures to align with unbundling of water entitlements. The Authority will need to consider not only the current structures, but also the potential for termination fees as proposed by the ACCC in its November paper.

In reference to miscellaneous charges, LMW agrees on the principles outlined by the Commission. The Commission stated that rationalisation could make for simpler administration. Although this is true, miscellaneous charges are proposed for a service provided and ensuring that it is customers who want and need that service and not those frivolously requesting that service or information.

The Commission would also like to see a common approach for some miscellaneous charges across the water industry. There are some charges that could have a common approach, but again each Authority tends to be unique in its own right and as such not all miscellaneous charges could have that common approach.

#### Customer Contributions

LMW is supportive of the industry's approach to new customer contributions.

LMW appreciates the Commissions' consultative approach and look forward to discussions regarding the 2008 Water Review.

Yours sincerely



**RON LEAMON**  
**CHIEF EXECUTIVE OFFICER**