

29 January 2008

Essential Services Commission
Level 2, 35 Spring Street
Melbourne VIC 3000

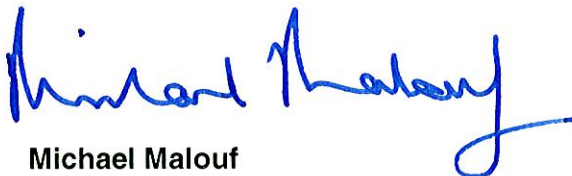
e-mail: water@esc.vic.gov.au

RE: 2008 WATER PLANS – ISSUES PAPER

Thank you for the opportunity to provide a submission on the Issues Paper released by the Essential Services Commission regarding the 2008 Water Plans.

Do not hesitate to contact Nicole O'Malley, Economist Regulation and Pricing on 5226 2391 if you have any questions on this submission.

Yours faithfully,



Michael Malouf
Managing Director



**2008 WATER PLAN
ESC ISSUES PAPER
BARWON WATER SUBMISSION
28 JANUARY 2008**

Background

In October 2008 Barwon Water submitted its 2008 Water Plan to the Essential Services Commission (ESC) for the regulatory period 2008/09 – 2012/13.

The Water Plan outlines Barwon Water's business plan for the upcoming five years, including the forecast revenue requirements to deliver the proposed operating and capital programs, and the resultant price increase of 10.5 per cent per annum.

The ESC released an Issues Paper in December 2007 outlining the key areas of the Victorian water businesses' 2008 Water Plans. The Issues Paper did not outline any draft decisions on specific issues, but rather highlighted key areas for customers' and stakeholders' information.

Submission

Barwon Water has made submissions on various statements made by the ESC in the Issues Paper that are considered to be misinterpreted or require further explanation.

Electricity costs

The ESC outline one of the main areas of cost increase in businesses' water plans is the electricity costs. Barwon Water considers it is important to point out this is a 100 per cent increase from current contract level, which expires in June 2008. This contract was put in place five years ago. Therefore, it is not a 100 per cent increase from current market prices. It is also important to note the forecast increase is for the usage charge only, not for the fixed charge. Barwon Water has not included a forecast increase in the fixed charge; even though it is likely this component will increase as well. Barwon Water is willing to absorb the increase in the fixed charge.

Labour costs

As noted in the Issues Paper, many businesses have increased labour costs greater than CPI. Barwon Water has also forecast an increase in its number of employees. Barwon Water, as are other water businesses, is competing in a fierce market for new, skilled employees, as well as trying to retain its current employees. It is important that businesses are provided with adequate revenue to retain current staff and attract new employees, especially at a time of large capital investment and operating programs to deliver to provide secure water supply and maintain sewerage systems during uncertain climatic conditions.

Barwon Water needs to recruit new employees to deliver the capital program, including the Melbourne to Geelong Interconnection and the Angelsea Borefield. It is also necessary to have the appropriate resources to undertake investigation work into other sources of water, such as Gellibrand, Newlingrook groundwater investigations.



The ESC states on page 11 that (*inter alia*) it will need to be satisfied businesses have the necessary resources to deliver proposed programs. Without the opportunity to compete in the employment market it will be difficult to retain current, and attract new, employees which will inhibit all water businesses' abilities to deliver their proposed programs.

Price elasticity of demand

The ESC has stated Barwon Water utilised a demand elasticity of -0.6 in its Water Plan and stated it is substantially higher than other estimates. Barwon Water wishes to highlight it did not apply the demand elasticity of -0.6 . As stated on page 112 of the Water Plan, Barwon Water decided not to build in the elasticity value due to the high level of uncertainty surrounding climate conditions and, therefore, forecast demand. Barwon Water's demand forecast assumes price will not impact on demand, rather it was calculated based on 10 per cent reduction in unrestricted demand.

Regulatory depreciation

The ESC states the water businesses' forecast regulatory depreciation for different assets varies across the industry and some depreciation profiles are quite "aggressive". Barwon Water considers the method for determining regulatory depreciation should be consistent among businesses. However, during its review, the ESC need to be mindful that assets will have different depreciation profiles depending on the brand of the asset, the location of the asset, its pre-determined usage, and the environment surrounding the asset. This information will cause regulatory depreciation profiles to be different for some businesses.

Demand forecasts

The ESC identify Barwon Water is forecasting a 0 per cent increase in demand for non-residential sales. Barwon Water considers it is important to highlight that during the regulatory period, there is an increase in the demand for non-residential sales, however this declines in the last two years of the regulatory period due to the commissioning of the Geelong Sewerage Strategy (Northern Water Plant), which reduces demand in non-residential sales by 2,000ML per annum. If this scheme did not proceed, there would be an increase in non-residential sales.

The decrease in non-residential sales brought about by the commissioning of the Geelong Sewerage Strategy has a corresponding increase in residential sales because it is assumed that residential customers will consume some of that potable water.

Managing customer impacts

On page 59 of the Issues Paper, the ESC states, "*despite increasing the volumetric component of their tariffs, Barwon Water ... stated that their tariff structures would not disadvantage specific customer groups significantly.*" Barwon Water disagrees with this statement. Barwon Water identifies in its Water Plan that some customer groups will be disadvantaged more than others and, as such, has implemented hardship policies for financial and non-financial assistance, as well as water conservation programs to reduce consumption for both residential and non-residential customers.

It is also important to note when Barwon Water indicated some customers would be impacted more than others, and potentially some residential customers may even have a decrease in their bill, this is a result of the reduction in the fixed charge component of the water bill that Barwon Water has applied.