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22 February 2012

Andrew Chow  
Director, Local Government and Water  
Essential Services Commission  
Level 2, 35 Spring Street  
MELBOURNE VIC 3000

Dear Mr Chow,

**Re: CUAC submission on the Barwon Water Application for Price Adjustment (December 2011)**

The Consumer Utilities Advocacy Centre (CUAC) is an independent consumer advocacy organisation. It was established to ensure the representation of Victorian consumers in policy and regulatory debates on electricity, gas and water. In informing these debates, CUAC monitors grassroots consumer utilities issues with particular regard to low income, disadvantaged and rural consumers.

As a preliminary comment, CUAC understands that the decision to exclude the Melbourne to Geelong Pipeline (MGP) from the 2008 forecast was made at a time of significant uncertainty, as was noted in the ESC's Final Decision. However, the decision does not make clear why this significant project – among Barwon Water's largest in the period – was treated in a different manner to other capital projects and removed entirely from the forecast. This seems particularly unusual given that the Final Determination also seems to assume that the project would go ahead regardless.

Rather than entirely excluding the uncertain costs of planned projects like the MGP from capital expenditure forecasts, it may be more appropriate to include them, allowing adjustments if the actual costs are substantially different from those forecast. This would minimise the likelihood that such large adjustments (with attendant customer impacts) would need to be made later in the regulatory period. Alternatively, the specific reasons for treating an excluded capital project differently should be clearly described in the ESC's determination.

## **Pricing options**

Barwon Water's application outlines two potential pricing options. CUAC strongly favours the first option, which smooths recovery of the revenue over 2012/13 and the five years of the next Water Plan period. Compared to Option 2, this minimises the impact of price shocks for consumers. Nonetheless, we note that this option still results in a substantial 11.2 per cent real price increase in 2012/13, which will place pressure on some segments of the customer base.

In its application, Barwon Water argues that Option 2, which recovers more of the cost of the MGP in 2012/13, 'provides a much clearer link between the increase in price and the costs associated with the MGP.'<sup>1</sup> CUAC understand the theory underlying this argument and believes that detailed information about capital expenditure and prices should be available to interested consumers and community members who seek it. Should Barwon Water adopt Pricing Option 1, it should offer customers a transparent but simple account of the reason for the price increase and for the smoothed approach to cost recovery.

At the same time, however, we believe that few customers have (or wish to have) a highly detailed knowledge of the relationship between price increases and capital expenditure on specific projects, and we do not believe that smoothing will have any material impact on consumer understanding of water pricing. Moreover, given that water from the pipeline is unlikely to be needed in the foreseeable future, the relationship between the MGP, customer benefit and price is already a somewhat muddled one for consumers. Hence, we believe that the consideration of more tangible customer impacts should take precedence.

## **Consumption forecasts**

As detailed in Barwon Water's application, forecast consumption over the 2008-2012 regulatory period was substantially higher than actual consumption, which is attributed to the longer than expected duration of stage four restrictions. Barwon Water also notes that it forecasts growing consumption over the next regulatory period, driven by both population growth and changed behaviour.

From our engagement with metropolitan water businesses, CUAC understands that the 'bounceback' in consumption with the removal of restrictions has been much less than anticipated. This may be because people have developed behaviours (and purchased appliances and fittings) that mean residential water consumption levels have seen a permanent change. High rainfall in 2011 may also be a factor. While future consumption cannot be predicted with certainty, we would urge Barwon Water to consider their consumption forecasts in light of emerging data on consumption trends in the post-restriction environment, particularly given the

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<sup>1</sup> p. 26.

potential for lower than forecast consumption to lead to the re-opening of pricing determinations, which is a significant undertaking.

CUAC thanks the Essential Services Commission for the opportunity to comment on Barwon Water's Application for Price Adjustment. Please do not hesitate to contact us if you would like to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jo Benvenuti', written in a cursive style.

Jo Benvenuti  
**Executive Officer**