

Our Ref: OUT11-05774

26 August 2011

Andrew Chow
 Director, Water and Local Government
 Essential Services Commission
 via email water@esc.vic.gov.au

Dear Andrew,

RE: Westernport Water Response to the 2013 Water Price Review

Westernport Water thanks the Essential Services Commission (ESC) for the opportunity to provide input into the 2013 Water Price Review.

This response provides our comments on the questions posed by the ESC in their 2013 Water Price Review, Tariff Issues Paper July 2011.

Proposed Pricing Principles:

Pricing Principle	Comments
3.2 – Sustainable revenue	We agree with the principle that tariff structures, levels and form of price control should ensure an economically sustainable revenue stream over the Water Plan period and satisfy the WIRO requirements. Additional wording in pricing principle may include: <i>“...ensure a sustainable revenue stream to support least cost expenditure over the water price review period.”</i>
3.3 – Subsidy free pricing & inefficient bypass	Westernport Water does not agree with the ESC’s proposed principle for upper and lower bound analysis of each tariff class. This would suggest that each water corporation specifically model each tariff class based on water supply source and waste removal / treatment processes, where in reality subsidies exist in each system/tariff class. Financial modelling suggests that for each water supply source and waste removal and treatment process – tariffs should be modelled on supporting operational costs and future augmentation of systems for the short to medium future (15 years). This would ensure transparency for customers to understand (or have comfort in the choices made) that they are paying tariffs only for the efficient spend on maintaining and augmenting systems to support operations. This pricing principle also feeds into the following pricing principle.
3.4 – Tariff structures	<u>Bulk Water Charges</u> – Westernport Water supports two part tariff structure. <u>Retail Water Tariffs Structure</u> – Westernport Water supports a two part tariff structure comprising a fixed charge and a volumetric component for each tariff class. <u>Sewerage Charges</u> – we support a single tariff structure (all fixed) that reflects the cost structure. <u>Tradewaste</u> – we support a load-based tradewaste charge where feasible <u>Inclining Block Tariff</u> – Westernport Water implemented IBT in 2 nd Water Plan (2008-2013), however would support the removal of IBT in favour of a flat volumetric charge.

Pricing Principle	Comments
3.5 – Volumetric charge	<p>Westernport Water previous tariff structure included a seasonal charge during the summer period, which reflected a scarcity price during times of warmer weather and low rain fall. This should no longer apply.</p> <p>Westernport Water would also like to note that a revenue recovery model of 60% from volumetric and 40% from fixed has been raised at a number of forums. Due to the unique demographic of our residential customer base (60% of our residential customer are non-permanent and very low water consumers) this model would place a significant cost burden of our permanent population of which 30% are concession card holders.</p>
3.6 - Customer focus & equity	We support the pricing principles for customer focus & equity. This is reflected in 3.2 and 3.3 above.

Form of price control

Westernport Water's supply and demand has been stable since the lifting of water restrictions in September 2008.

We have invested in a number of significant water supply and sourcing projects that will increase the level of certainty regarding water supply for the next 25 years. These projects include our license to extract from the Bass River and the Corinella borefield, our connection to Melbourne pool water and the doubling of capacity of storage at our Candowie reservoir.

Our modelling has indicated that these measures (excluding the connection to Melbourne pool water) will ensure an 88% reliability of supply to our customers until 2055. The connection to the Melbourne pool gives us a 100% reliability of supply.

We believe that an "individual price cap" model is the most appropriate under these circumstances and is the best form of price control to provide price certainty to our customers.

Westernport Water supports the use of **revenue caps** for our business as the preferred form of price control.

The current unknown for Westernport Water is the price of the Metropolitan Pool water and the continued use of the environmental contribution and the Melbourne Waterways charge.

Bulk water tariffs and transfer charges

Impact of BE for metropolitan water is unknown heading into Water Plan 3 and will be difficult to model revenue requirement without forecast from Melbourne Water.

Westernport Water is currently working with Melbourne Water to develop pricing principles and a cost allocation framework for the metropolitan water BE holders.

Westernport Water believes that the metropolitan water cost allocation should be based on forecast demand from each BE holder and structured in line with ESC pricing principles.

Retail tariffs

Westernport Water supports a two part tariff structure comprised of a fixed charge and a single volumetric charge.

Westernport Water introduced an Inclining Block Tariff (IBT) tariff structure for our residential customers in the 2008-2013 Water Plan to drive price signals regarding water conservation.

Our water consumption data for the past 4 years has shown that an IBT pricing structure has not significantly influenced water conservation but rather has penalised customers with large families (and therefore little discretionary use of water) and those who suffer a burst or leak on their property.

Due to the simplicity of our distribution system (one reservoir, one storage and supply system) we would not be seeking to introduce innovative tariffs structures based on location or water quality, nor for reasons identified previously would we believe that "scarcity" based tariffs would be appropriate for our customer base.

Sewerage and tradewaste tariffs

Westernport Water supports setting fixed sewerage charges for residential customers.

For non-residential customers our existing tariff structure does not assume that a larger water meter size results in increased load on our sewerage system, rather it is based on the number of cisterns installed. For commercial properties with more than two cisterns, a charge applies for each additional cistern.

Westernport Water has only one tradewaste customer and does not anticipate that this will change for the next Water Plan period.

Recycled water

Westernport Water is currently planning to install a Class A wastewater treatment plant and will be offering Class A recycled water to customers in the 2013-2018 Water Plan and supports a two part tariff structure that is priced to promote the use of recycled water as a substitute to potable water.

Waterways and drainage charges

The Melbourne waterways charge was introduced into part of Westernport Water's region in 2008 and all our Melbourne Water Waterways' customers pay the same fixed annual charge.

It was an extremely unpopular charge to implement and was our biggest sources of customer complaints for two years. A move to a charge based on property size would be unacceptable to our non-residential customer base and result in an increased administrative burden for us to calculate and bill on behalf of Melbourne Water.

Tariffs and customer choice

For reasons previously mentioned (security of supply and simple distribution network) Westernport Water *does not* support offering "customer choice" tariffs in our region for the 2013-2018 Water Plan.

Westernport Water encourages continued conversations between ESC and individual water businesses to ensure that pricing principles for the Victorian Water Industry are appropriate and adequately address the WIRO.

Regards



Murray Jackson
Managing Director

c.c. Anthony Leonard
Chairman