

Our Ref: F084876
Your Ref: C/15/4191
Enquiries To: Denis Musaefendic

12 June 2015

Mr Marcus Crudden
Acting Director for Water
Essential Services Commission
Level 37, 50 Lonsdale Street
Melbourne 3000

Dear Marcus,

Re: Review of Water Pricing Approach

I am writing to you in response to the Water Pricing Approach Review consultation paper released on 17 April 2015.

Thank you for the opportunity to provide feedback on such an important aspect of the Victorian water sector. Having an appropriate regulatory pricing mechanism is fundamental to water businesses and our customers.

Barwon Water is of the opinion that the existing 'building-block' model has a number of benefits:

- it is well understood by the water sector and relatively simple to explain to customers;
- it facilitates forecasting indicative long term pricing and financial outcomes;
- it identifies revenue requirements which take account of the financial health of the business;
- it has a mechanism, in collaboration with the Commission, to adjust for unforeseen and uncontrollable events, and
- it provides clear transparency and linkage between Price Determinations and resulting prices.

Nonetheless, a number of limitations associated with the 'building-block' approach may still point to areas of potential improvement:

- the model adopts static efficiency targets that can limit incentives for improvement over the life of a Price Determination;
- it is difficult to accurately determine efficient levels of expenditure, and
- information asymmetry between water businesses and the Commission may hamper the effectiveness of Price Determinations.

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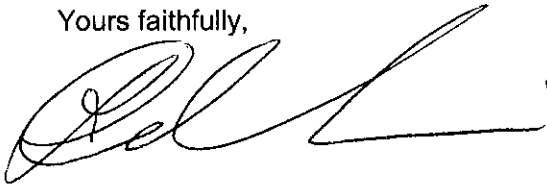
At this early stage of the review process it appears that the 'building-block' approach remains the most viable pricing mechanism option for the Victorian water sector.

In the future there may be opportunities for the Commission to utilise the results of industry participant benchmarking lead by the water businesses, with the Commission providing oversight to satisfy itself that such a process involves an appropriate level of rigour. This could then assist in determining efficient levels of expenditure and provide a healthy incentive for water businesses to deliver efficiencies and optimum levels of customer service.

Barwon Water welcomes the opportunity to continue to participate and explore the pricing methodology alternatives with the Commission over the course of this review of its approach to water pricing.

Barwon Water looks forward to being actively involved in this work over the next year in preparation for the 2018 Price Review. Please do not hesitate to contact Denis Musaefendic (ph: 03 5226 2582) should you have any questions regarding this response.

Yours faithfully,

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

Joe Adamski
Managing Director