

Friday 9<sup>th</sup> May 2008

Mr Greg Wilson  
Chairperson  
Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne Vic 3000



Dear Mr Wilson

*Response: Essential Services Commission, Draft Decision, 2008 Water Price Review*

The Committee for Ballarat facilitates economic and social development within Ballarat and its region to leave a notable and sustainable legacy for the entire community. We are not party-political and work closely with the three levels of government. We identify and work through projects and themes that target priority issues in key areas. We have membership from a wide range of business and community leaders drawn from Ballarat and across the region.

One of our projects relates to water supply and strategies for the region. We are interested in water availability for business and community members, region-wide provision, and equitability and cost-competitiveness across this and other regions, including metropolitan Melbourne.

The Committee for Ballarat is grateful for the opportunity to comment, and for your appearance in Ballarat on 8<sup>th</sup> April to speak about the Draft.

*1 Cost-comparability and potential anti-competitive behaviour*

We heard your response to a question at the consultation in Ballarat indicating that cost-comparability between Victoria's regions is beyond the ESC's present approach. This seems to be at odds with the ESC's Objectives, role and mode of operation particularly:

'to protect the long term interests of Victorian consumers with regard to price, quality and reliability of essential services' (ESC Act 2001);

'to ensure that the misuse of monopoly or non-transitory market power is prevented' and to facilitate effective competition and promote competitive market conduct' (ESC Act 2001 Objectives 2(c) and (d));

'to ensure that regulatory decision making has regard to ...environmental sustainability (including water conservation) ...', (ESC role as described on your website);

'provide incentives for sustainable use of Victoria's water resources by providing appropriate signals to water users about: (A) the costs of providing services, including the costs associated with future supplies ...' WIRO, 14 Regulatory Principles (vi); and

the various references in the draft decisions to "... provide(ing) appropriate signals to customers about using water resources in a sustainable manner."

Your present approach and draft decisions do not demonstrably do these things. The draft decisions do not recognise that water is an essential service, and equitable and cost-competitive water supply is very pertinent for residents and businesses across the State.

We seek your support for cost-comparability, and genuine and equitable approaches to providing appropriate market signals, to be included in this review.

There are two particular examples which we believe show inequitable outcomes. We respectfully request you take these up as part of this review.

First we cite an inter-region comparison. Goulburn Valley's average residential consumption is second highest amongst the thirteen listed, and 170% of the use by Central Highlands Water residents (which is the third lowest in the group). CHW residents' 2007/8 water bills average 140% of Goulburn Valley residents', which are respectively fourth highest and lowest in the group. The price differential is therefore 240%. And in 2012-13 the gap will increase to over 250%. A similar gap exists for industrial supplies. There are at least two issues here, and demonstrations of non-transitory market power and uncompetitive behaviour, and failure to take account of using water resources in a sustainable manner. One is the 240% differential for residential customers (and equivalent for industrial users). The other is the claim that this relates to the cost of provision, it being less expensive to pump water from the Goulburn River. In Goulburn's case, state funded infrastructure provides the source of the inexpensive water, and facilitates the 'generous' relative water use.

The second example is an important metro-regional comparison. The announcement in June 2007 by Premier Bracks and Minister for Water Thwaites of the \$4.9 billion investment entitled "The next stage of the Government's Water Plan" provided a strong statement that Melbourne's water will double in real terms by 2012 based on the investment required and the framework to be applied by the Melbourne water initiatives and regulated by the Essential Services Commission. We recognise that not all of the \$4.9 billion will be spent on Melbourne's water supply. One billion dollars is allocated to modernisation of the food bowl and \$30 million to interconnections for other communities. It is nevertheless clear that the majority will go to the North South interconnect and Wonthaggi Desalination Plant. We would ask: "has a transparent process been demonstrated to show that the pricing structure proposed for Ballarat is consistent with the methodology for Melbourne?" It appears the treatments and price rises that are to apply are not equitable, and this constitutes uncompetitive conduct. The Draft Melbourne Water Plan 2008 - 2012 lodged with the ESC suggests the water prices for the average customer in the metropolitan serviced area will rise by CPI plus 1%.

***These are not reasonable differentials within the ESC's charter and for water as an essential service. We respectfully request that the Commission act in this price review to explain the rationale for any differences, and remove all inequitable and inappropriate differences.***

We respectfully ask that you please respond to the following questions:

Do you intend to modify the draft decisions in the light of the points we raise and if so how, or otherwise take action to have the concerns addressed?

If the Commission will not address these issues in full or in part, then would you please advise who you believe is the agency to whom the issues should be referred?

## **2** *Deferral of essential regional works*

The draft decision recommends the deferral of essential infrastructure works in small towns throughout the region. Some of this has been pressing for a considerable period of time, and remains urgent and important. Notwithstanding the priorities associated with the completion of the Ballarat leg of the Goldfields super pipe, these should be completed urgently.

**We request that the plans for essential regional infrastructure works be again scrutinised carefully with a view to accelerating their completion, while not compromising the commissioning of the Ballarat leg of the Goldfields Superpipe.**

3 *Recycled water targets*

We contend that water recycling is an urgent priority associated with sustainable supply and use, and seek to accelerate widespread debate and the introduction of comprehensive recycling regime, overseen by CHW at least and potentially the State. In the light of what we believe are the imperatives, the proposed rate of introduction shown in Table 2, Draft decision Vol II for CHW is too modest and should be reviewed. **The review should increase both the percentage recycling and the rate of introduction**, viz. above the following:

**Table 2 Additional service standards**

Service standard	3yr Avg 2003-06	2008-09	2009-10	2010-11	2011-12	2012-13
Recycled water target (per cent)	(undeclared)	10.9	12.5	13.2	13.7	15.8

To reiterate, we respectfully request that you take account in finalising your decisions each of the points we have raised, and explicitly respond to the questions we have posed in section 1.

Yours sincerely



Doug Lloyd  
CEO

CC: Minister for Water Tim Holding; Neil Brennan, CEO Central Highlands Water