



Our Ref: #2694757

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 2, 35 Spring Street
Melbourne VIC 3000

27 July 2009

Ron
Dear Dr ~~Ben-David~~

**INQUIRY INTO AN ACCESS REGIME FOR WATER AND SEWERAGE
INFRASTRUCTURE SERVICES – DRAFT REPORT**

Goulburn-Murray Water (G-MW) welcomes the opportunity to provide comment to the Essential Services Commission’s Inquiry into an Access Regime for Water and Sewerage Infrastructure Services Draft Report (the Inquiry).

G-MW supports the Victorian government’s broader water reform program and objectives of the Inquiry.

G-MW is a vertically and horizontally integrated provider of rural water services. These services range from harvesting and storage of bulk water through distribution and delivery to drainage services. It provides these services to other water corporations and to retail customers.

G-MW has, since its establishment in 1994, maintained rigorous accounting separation of the costs and revenues of each of the services it provides, and of its overheads. This accounting ring-fencing supports a transparent pricing regime.

G-MW’s structure and accounting ring-fencing enables it to make evidence-based assessments of the costs of alternative business models, including functional separation and vertical and horizontal disaggregation. Currently, G-MW’s assessment is that alternative business models would likely result in an increase in total costs due to loss of economies of scale.

In the context of the Inquiry, G-MW questions whether incurring these additional costs to support the development of an access regime are warranted given the uncertain demand for third-party access. These additional costs would need to be borne by existing customers. As an alternative, G-MW suggests that unbundled water entitlements may provide a way to achieve the objectives sought by establishment of an access regime, at least in regard to services provided by rural water corporations. Unbundled retail water entitlements have been established for most parts of the regulated rural water systems in Victoria.

Unbundling has created separate entitlements for access to storage (water shares), system yield (water shares and allocation), delivery (delivery shares in irrigation districts; extraction shares in rivers) and water use (water use licences).



Each of these entitlements can be managed independently and seemingly provide the mechanisms by which access seekers could gain access to the rural water infrastructure relevant to their need.

The unbundled entitlement regime has been established for all irrigation districts and most regulated rivers. However, water districts do not yet have unbundled entitlements and there appears to be merit in examining extension of the regime to cover rural water districts.

G-MW supports the detailed submission made by VicWater on behalf of Victorian water corporations. G-MW would like to emphasise that an access regime is most likely to achieve its objectives and be appropriate to the requirements of the Victorian water sector if its development and implementation is undertaken in stages and with the full engagement of water corporations in the process.

Yours sincerely



David Stewart
MANAGING DIRECTOR