

Our Ref.: 010/031/16(LJG:jc)
Direct Dial: 5832 0443



Goulburn Valley Region Water Corporation

ABN 84 578 076 056

104-110 Fryers Street,
Shepparton, Victoria 3630

**P.O. Box 185,
Shepparton, Victoria 3632
DX 63036 Shepparton**

Tel: (03) 5832 0400

Fax: (03) 5831 1467

21 January 2008

The Chairman
Essential Services Commission
Level 2
35 Spring Street
MELBOURNE 3000

Dear Mr Wilson

2008 WATER PRICE REVIEW WATER PLANS – ISSUES PAPER – DECEMBER 2007

Thank you for the opportunity to respond to the abovementioned Issues Paper. On behalf of Goulburn Valley Water, I wish to raise the following points with the Commission in respect of the Corporation's 2008-13 Water Plan.

Operating Expenditure (Section 2.1.1)

The Commission has highlighted that many of the businesses have forecast significant increases in the cost of electricity for the regulatory period, with several budgeting for increases of up to 100% over the five year period.

Goulburn Valley Water wishes to highlight that in its Water Plan electricity costs have been increased by CPI only over the regulatory period.

Guidance and direction is therefore urgently sought from the Commission on the level of real price increases in electricity the water industry should provide for in their Water Plans. As the economic regulator of the energy industry, the ESC is in the best position to provide such guidance, which will provide for a consistent industry wide approach and allowance for this major cost/driver.

Goulburn Valley Water will seek a meeting with Commission staff to discuss an appropriate adjustment to our current Water Plan budget allowance for electricity over the five year regulatory period.

Greenhouse Gas Emission Reduction Initiatives

Under the Corporation's Sustainability Improvement Plan, Goulburn Valley Water has adopted an aspirational goal of carbon neutrality by the year 2020. Following the election of a new Commonwealth Government and the signing up of Australia to the Kyoto Protocol, we anticipate that a carbon trading market will be established during the course of the next Water Plan period. How this will impact on the business of Goulburn Valley Water remains to be seen.

The total capital and operational expenditures included in the next Water Plan period associated with the Greenhouse Strategy is \$50,000 and \$555,000 respectively. No provision has been made for any costs that may be associated with the soon to be established carbon trading scheme.

Increased Staff Numbers

The Corporation's Water Plan (Section 4.7) highlights the significant increased costs in the business driven by incremental changes in regulation and risk management, and that the level of risk now being managed by the Corporation is not sustainable, necessitating additional resources to mitigate and manage these business risks sustainably.

The Corporation's 2008-13 Water Plan makes provision for the employment of an additional 14 people in various segments of the business over the course of the regulatory period. This is a major component of the increased administrative and operational costs in the Water Plan. Existing labour costs have been increased by CPI only.

Capital Expenditure

Major Program Amendment

Since submitting the Water Plan to the ESC in October 2007, the Board of Goulburn Valley Water has approved a major change in the timing of the construction of the Goulburn River to Broadford Pipeline (\$12.73M).

The catalyst for this decision is the impact of the continuing drought and the decline in the availability of water in the Sunday Creek system, which supplies the towns of Kilmore, Broadford and Wandong/Heathcote Junction. Attachment 1 – "Sunday Creek Reservoir Historical Levels" highlights the severity of the drought and the depleting water resource in the Sunday Creek storage over the past seven years. These towns have been on severe water restrictions for several years now and the Corporation is again trucking water from Seymour to Broadford to maintain a supply sufficient to meet basic human needs. Cost to the Corporation this financial year is expected to exceed \$1M. The cost of providing this emergency supply is not included in either the 2005-08 or 2008-13 Water Plans.

In November 2007, the Board of Goulburn Valley Water approved bringing forward this interconnector project as a matter of urgency, with a revised target date for completion 31 December 2008. The approval of the Minister for Water and the Treasurer of Victoria for this project to proceed as a matter of urgency has now been received (17 January 2008).

In the Water Plan submitted to the ESC, the project is programmed for delivery in 2009/10 to 2010/11. Goulburn Valley Water is not seeking any adjustment to tariffs to cover the additional borrowing costs incurred by moving this project forward at this point in time. The overall cost of the project to the Water Plan will be reviewed in the preparation of the 2013-18 Water Plan.

Delivering of Capital Projects

Goulburn Valley Water will deliver its program of works for the current Water Plan, together with a number of additional priority projects implemented in the three year period.

The Corporation has an excellent track record in the delivery of its capital program over the past decade and is confident of its capacity to deliver the full program of projects incorporated in the 2008-13 Water Plan. Goulburn Valley Water therefore does not seek a specific mechanism to deal with uncertain capital projects, as all are required and will be delivered in the five year regulatory period.

Foregone Revenue First Regulatory Period

Actual revenue has closely aligned with Water Plan revenue in Years 1 and 2. Whilst actual revenue in Year 3 is forecast to be below Water Plan budget, the Authority does not seek to recover this in the forthcoming regulatory period.

Demand Forecasts

The report notes at 2.5.1 that Goulburn Valley Water was on Stage 1 water restrictions during 2006/07, and forecast average residential use to decrease by 0.6% per annum during the Water Plan period despite expecting that Stage 1 restrictions will be removed.

Residential volumes in the Water Demand Forecast (Table 21 page 135 of the final Water Plan) for the 2006/07 year are forecast volumes based on normal weather conditions. Actual volumes for 2006/07 were lower than forecast because Stage 1 restrictions applied. We are forecasting average residential use to decrease over the Water Plan period from 2006/07 forecast volumes. Also, Stage 1 restrictions have minimal impact on total water use because they still allow lawns to be watered for up to four hours on alternate days.

Estimated Residential Water Bills

Whilst water and sewer costs will increase 5.9% annually in real terms, Table 2.4 highlights the competitive advantage that Goulburn Valley Water customers enjoy, with the lowest combined average water and sewerage bills in Victoria.

The structure of the Corporation's simple two-part water tariff is easily understood by customers and with greater emphasis on increasing the volumetric component of the water tariff relative to the fixed component, customers are empowered/encouraged to reduce water consumption and reduce the size of their total bill.

The impact of price increases on Goulburn Valley Water customers is much less severe than the impacts of tariff increases in Melbourne and other regional centres.

The average combined water and sewerage bill will increase by around \$35 (real) pa or 70 cents per week in each year of the regulatory period. By 2012-13 the volumetric price of water will be 84 cents/kL plus CPI – around \$1/kL - well below the current costs of comparable water supply in almost all areas of Victoria.

The Corporation is conscious of the impact of rising water bills, particularly on low income and vulnerable customers and, under its Hardship Policy, will assist such customers experiencing payment difficulty sensitively.

Guaranteed Service Levels (GSLs)

The Commission, in its Issues Paper, once again “advocates” the view that each regional water business should establish GSLs as part of its next Water Plan but continues to ignore any meaningful cost/benefit evaluation of such schemes.

Goulburn Valley Water stands by its view that the costs of establishing and operating such a scheme may well outweigh perceived benefits. To develop the necessary computerised systems that will capture data etc. that meets the rigorous auditing standards of the Commission, would cost in the order of \$100,000 with annual administration costs of say \$10-15k before compensation payments.

If GSL schemes are to be imposed on water businesses, it is incumbent on the Commission to first fully evaluate the costs and benefits of such schemes. If they are then to be mandated, this should be done by the Minister for Water through the Statement of Obligations, incorporating an industry wide set of guaranteed standards and uniform compensation payments.

A review of the service levels and range of payments in proposed regional schemes, summarised in table 5.4 of the Issues Paper, highlights this lack of consistency and in some instances, the schemes appear little more than mere tokenism.

Weighted Average Cost of Capital (WACC) – Debt Margin

We note in the Issues Paper that the Commission assumes BBB+ ratings for water businesses in the calculation of WACC. This may result in a poor outcome for businesses such as Goulburn Valley Water with a credit rating below BBB+. VicWater is investigating this issue further. A submission from VicWater on behalf of water businesses will be forwarded to the Commission (if warranted) prior to the release of the Commission’s draft determinations. The Corporation would welcome the opportunity to discuss this issue further with the Commission on a confidential basis.

Trade Waste Charges (4.6)

The Commission makes the comment that in comparison with charges for sewerage services, the annual trade waste charge levied by Goulburn Valley Water is significantly less than the fixed sewerage access charge. The annual trade waste charge applies to our small Trade Waste customers (category 1 and 2) and is raised in addition to standard sewerage service fees and volumetric charges payable by all non-residential customers. The trade waste charge covers audit, inspection and other administration charges incurred in relation to the management of minor trade waste customers.

Yours sincerely



Laurie J Gleeson
MANAGING DIRECTOR

ATTACHMENT 1

Sunday Creek Reservoir - Historical Levels

