

Doc code: RF:JHa

Your ref:



16 October 2015

Marcus Crudden  
Director, Water  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Dear Marcus,

**RE: Central Highlands Water comments on Goulburn Murray Water draft pricing submission**

Further to our recent phone meeting 13<sup>th</sup> October 2015 to discuss Central Highlands Water (CHW)'s concerns regarding the proposed Goulburn Murray Water - draft pricing submission please find attached the details of the key issues in need of further investigation.

It should be noted the CHW water supply operations and the associated customer base is highly dependent on bulk water supplies from Goulburn Murray Water (GMW) including the two major urban supply systems of Maryborough and Ballarat.

CHW concerns and suggestions outlined in this submission are primarily focused on the proposed pricing for the Bullarook system in which CHW holds a 500 ML/annum delivery Bulk Entitlement. The current price CHW pays for this entitlement is \$329.61/ML plus the Regional Urban Storage Ancillary Fee and it is noted that this price is by far the highest of all GMW bulk water prices. The proposed future price increases follow several years of abnormally high price increases in this system potentially impacting the financial viability of this resource for CHW customers into the future. Based on the available information in the draft GMW pricing submission, it is noted this is proposed to be increased to \$363.00 for 2016/17 (up 10%) and increasing at 10% per annum thereafter.

As well as supplying CHW, the Bullarook Creek System also supplies 758 ML of high reliability entitlement (rural), 381 ML of low reliability entitlement (rural) and a 100 ML environmental reserve held by the Victorian Environmental Water Holder (VWEH).

CHW provides the following suggested areas for further investigation and evaluation by the ESC before proceeding with the approval of charges relating to this system:

- Investigate previous price increases on this system & BE and the associated rationale/validity of any historic assumptions (i.e. major capital improvements) that may have influenced the current pricing point;
- Based on our discussions with GMW it would appear that the cost breakup of all input costs for the management and operations of this system needs further evaluation by ESC to ensure the accuracy of data being used and to assess cost saving efficiencies and productivity improvements in the delivery of these services;

- Benchmarking of several key input costs with CHW or other relevant water business reservoir maintenance and monitoring activities. This may identify significant opportunities to reduce costs and CHW would be happy to share this data and/or explore collaborative procurement/shared services model with GMW in order to minimise user charges into the future.

In making this submission CHW would like to note it is currently operating in an economic regulatory customer pricing environment equal to Consumer Price Index (CPI) increases only for the remainder of the Water Plan 3 period till 2018. It is envisaged further CHW pricing submission approvals from the ESC are likely to be at or below these levels into CHW Water Plan 4 that places significant pressures on the ability of the business to absorb these large price increases being proposed by GMW for the Bullarook system.

It is on this basis, CHW feel the concerns raised warrant some further independent investigation and we would be pleased to support the ESC in undertaking this review.

If you require any further clarification please do not hesitate to contact Pat Russell, Strategic Water Resources Engineer, or the undersigned.

Yours sincerely,



Jeff Haydon  
**General Manager Infrastructure Planning and Operations**

cc: Pat Russell (CHW Strategic Water Resources Engineer)  
Jason Fitts (ESC Water Regulation)