



consumer
action
law centre



12 Feb 2016

Water Regulation
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne 3000

By email: water@esc.vic.gov.au

Dear Mr [redacted],

2016 Melbourne Water Price Submission (2016/17-2020/21)

We welcome the opportunity to comment on Melbourne Water's Price Submission for the period 2016/17 – 2020/21.

We are pleased that Melbourne Water has considered cost of living pressures in its price submission and has proposed measures which will help to reduce customer bills for the regulatory period 2016/17 – 2020/21. In particular, we welcome the following initiatives:

- Wholesale charges for water and sewage services are expected to decrease by 9.2 per cent (before inflation) for 2016/17 and thereafter increase in line with inflation for subsequent years;
- Residential customers' waterways and drainage charges will only increase with inflation;
- Retention of Melbourne Water's contribution to the \$100 government water rebate, anticipated to further reduce bills by \$20 per year (before inflation).

Consumer Engagement

We appreciate the efforts that Melbourne Water has taken to engage with, and consult consumer groups and consumers on their prices and service outcomes. Melbourne Water met with us before their consultation paper was issued and kept us informed about their price review process at various stages. We had the opportunity to input into the design and delivery of the deliberative forums which were held in August 2015 to test options to spread the desalination costs, and change the way non-residential customers are charged for their waterways and drainage. We provided a joint submission in response to Melbourne Water's consultation paper in July last year. CUAC also attended the ESC's public forum on Melbourne Water's price submission on 9 Feb. On the whole, our impression of Melbourne Water's consultation process is a positive one. Importantly, it had management level support, and we felt that the consultation was meaningful and genuine.

Victorian Desalination Project (VDP)

In our response to Melbourne Water's consultation paper, we recommended that Melbourne Water adopt an approach which *"focus[s] on minimising price increases for customers, both absolutely (to provide the lowest possible bills) and relatively (to promote price path stability and avoid bill shock)."* In this regard, we suggested that Melbourne Water capitalise as much of the security payments as possible without jeopardising its financial stability; and give regard to the principles of equity and efficiency by spreading the cost of the desalination plant across customers for the estimated life of the plant (60 years).

Melbourne Water has in its price submission proposed to, *"spread a relatively small proportion of the VDP payments, totalling \$100M, over the 2016 regulatory period."* We are of the view that more could have been capitalised in this regulatory period since the cost of debt is currently low. Consequently, the impact on Melbourne Water and its customers may be less due to interest payments being low. In saying this, we acknowledge that Melbourne Water's proposal seeks to weigh and balance the feedback received from customers (online and at the deliberative forums), consumer advocates and water businesses. Therefore, we support in principle, Melbourne Water's approach for the reasons listed in their price submission (p55). We note in particular that this approach provides for further bill relief and aligns the cost of the VDP with the benefits thereby providing a better price signal.

Thank you for the opportunity to participate in the ESC's consultation. If you have any queries on the submission, please do not hesitate to contact the undersigned.

Yours sincerely,

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