

8th February 2016

The Secretary,
Essential Services Commission
Level 37/2 Lonsdale Street,
Melbourne VIC 3000
water@esc.vic.gov.au

Dear Sirs

Water Price Review 2016 – My Submission

I am keenly interested in the sustainable delivery of this essential service within our state, including to the Melbourne area.

I have read the submission by Melbourne Water (MW) dated 30 October 2015 and wish to put the following questions/issues to the ESC as relevant to the review and thus matters of public interest.

Many of the issues relate to the Victorian Desalination Plant (VDP), given that it is the single biggest cost by far within the budget of MW, thus having the greatest impact on pricing.

1. The Aquasure consortium submitted a claim post construction for approximately \$1 billion (<http://www.theage.com.au/victoria/desal-consortium-seeks-1-billion-from-taxpayers-20120223-1tqsh.html>). What did MW provision against this claim, including legal costs, and has this impacted their 2016 submission?
2. I understand that Aquasure's claim has been discontinued. What were the terms of settlement and what if any costs arising have impacted the MW pricing submission?
3. At the same time as the construction claim was in resolution, Aquasure asked and the Coalition Government agreed to Aquasure refinancing some or all of its debt, reportedly bringing substantial savings to that consortium. Did the State Government and in turn MW benefit at all from that agreement and receive a share of the savings, and hence has this impacted the MW pricing submission?
4. Consistent with the whole of business Government and private, the MW submission looks at savings being made across its operations and reports on these (P4 Figure 1

and P22+). Savings impact on the costs of the business and hence the pricing of this essential service, and are clearly a matter of public interest. However, the MW submission treats the VDP cost component, which is some two thirds of their total costs affecting pricing, as an "uncontrollable cost" (P25) and a charge "passed through" (P49), without disclosure whether any savings are reflected. Over a 27 year contract term there will be many factors which may affect supply of water from a source such as the Aquasure water factory, with potential for savings and no doubt increases, yet as it stands MW, the ESC and the public are not being informed how if at all the charges passed through reflect the experience of the business. From P51 para 2, I read quote "There have been significant savings made by DELWP under the VDP contract since it was announced, which has resulted in reduced costs to water customers. Around \$1.4billion (nominal) has been saved to date over the contract term. What are the details?

5. P51 para 3 states quote: "As part of the 2016 Price Submission, MW is examining whether to extend the period over which the costs of the VDP are collected from customers. The term of the contract between the State Government and Aquasure does not change". This appears to be the subject of the following press article. (<http://www.abc.net.au/news/2015-07-17/victorias-desalination-plant-to-take-33-extra-years-to-pay/6626706>). Does this mean that the payments to Aquasure are unchanged, but recovery of those payments by the Government/DELWP from MW and in turn from MW customers is what is extended from 30 years to 60 years. Is that correct?
6. While on P54 the MW submission reports quote ".....was the preference to pay the debt sooner to save money and avoid higher interest in the long run..". What debt is that referring to, Government to Aquasure or MW to Government, and hence what is the interest rate exposure concerned?
7. Please confirm for clarity whether the extended payment period proposal is limited to the period over which payments are to be spread between MW and the Government, or does it include extension of the period of operation, maintenance and/or payment to the PPP group? Has this proposal been factored in to the MW pricing submission already and if so what are the details? If not already accounted for what impact would this change to the contract have on the MW pricing submission? The reported lowering of water bills \$8 or \$16 per YEAR is in any case miniscule – 2 cups of coffee or 4!
8. The VDP was built by the Bracks/Brumby Labor Government using a public private partnership (PPP) deal, which in financial terms is "buy now pay pay pay later" much akin to notorious hire purchase or credit card transactions whereby the cost is inflated to the benefit of the seller compared to the cost of Government owned and built option.
9. What provisioning is included in the MW pricing submission for future water infrastructure, so that financial disasters such as have occurred with the VDP can be averted by avoiding PPPs?
10. In November 2006 John Thwaites was a Minister in the Labor Government then, pre-election, promising that their recycling and conservation measures would meet Melbourne's water needs, while behind the scene plotting the VDP, the second largest and most expensive in the world. The current Labor Government has late

last year appointed Mr Thwaites to the position of Chairman of Melbourne Water. Has MW factored in to their submission supply augmentation needs forecast by their Chairman? (<http://www.theage.com.au/comment/melbourne-water-supplies-dont-flush-successful-conservation-strategy-down-the-drain-20140202-3lux0.html>)

11. The list of supporting documents P88 lists one as "GHD, Bulk Water Assets Benchmarking Study Final Report, September 2014 (confidential)". What is the reason for the confidentiality, and can the report be made available as a matter of public interest. What was the nature of reliance on this document by MW in the development of their submission?
12. In 1997, MW released some 172GL (16% by volume) downstream from the Thomson Reservoir, Melbourne's long term drought protection, without need. The volume was way in excess of environmental and downstream water needs including irrigation. This placed our drought protection in jeopardy during and beyond the following decade, and throughout the millennium drought. Review of MW Board minutes 1997/98 reveals that consideration was only being given to relatively short term factors, including meteorology and water supply related issues. What measures has MW implemented to avoid such waste of our most precious resource in the current and future, since such negligent action could again jeopardize supply and/or increase water prices by unnecessarily triggering ordering of high cost water from VDP?
13. P44 Forecast demand Figure 10 is limited to the period 2012-2021. Whilst the pricing review before the ESC is for the period 2016-2021 in particular, the information provided does not allow the reader to see the submission in the context of a reasonable period of actual and the longer term forecast. I submit that this additional data is necessary to the evaluation - how have prices changed in say the decade before now, and importantly too, what's coming up around the corner?
14. P27 Figure6 shows forecast capital expenditure on recycled water to be less than 1%, indicating MW has virtually no interest in improving this water strategy, which could have the benefit of both productive use and reducing pollution in the form of ocean outfall waste water disposal. This is a disappointing feature of the MW submission.

Please acknowledge receipt of my submission, and I await further consideration by the ESC.

Yours sincerely



Stephen Cannon

