



Goulburn Valley Region Water Corporation

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Water Team – Pricing Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE 3000

Email: water@esc.vic.gov.au

Dear Sir/Madam

PRICING FRAMEWORK REVIEW – FURTHER GVW FEEDBACK

Thank you for the opportunity to provide further feedback on the water pricing approach review. The feedback provided by Goulburn Valley Water (GVW) in this submission relates to a number of themes that have been raised in the papers outlining alternate pricing approaches and in presentations at the recent conference.

Building Block Approach

For a regional water business with a large number of dispersed systems often servicing small populations, the building block approach has provided an open and transparent approach to regulate water prices and provide consistent standards of servicing and pricing for all customers.

A number of the papers have proposed extensions to the existing building block approach in relation to customer engagement, earned autonomy, improved incentives for service performance and innovation and increased benchmarking.

GVW remains supportive of the building block approach and would support further consideration of proposals that extend the existing approach.

Earned Autonomy Option

GVW is supportive of the development of an earned autonomy option that would provide the opportunity to produce a fast track submission. The following points are provided for further consideration in relation to this option:

- The earned autonomy option would need to be available early in the pricing submission process to fully realise the benefit of reducing the cost of regulation.
- If a default price path was to apply for this option it needs to be quantified early in the pricing submission process as this is a key piece of information that will influence decision making on pursuing earned autonomy
- Clear criteria are required that would enable each business to be able to self-assess with a reasonable degree of confidence if it would qualify for the earned autonomy option.
- There needs to be a clear position on the process for approving earned autonomy applications. For example, will all businesses that meet the criteria be approved or will only a select number of the best submissions be approved? If there is a chance that a business that meets the criteria will not be approved, this will act as a disincentive to seeking earned autonomy.

Efficiency Savings & Innovation

The pricing approach should provide improved incentives for efficiency savings and innovation. GVW is supportive of an approach that enables savings to be shared between customers and the business. The paper presented by KPMG on the RIIO approach provided a good example of a savings sharing arrangement in practice.

An approach that enables sharing of savings will provide an incentive for innovation to be delivered.

Financial Sustainability & Debt Levels

The pricing approach needs to have a greater focus on long term financial sustainability and debt levels. The adequacy of the financial viability checks that are built into the pricing approach should be considered as part of this review.

The views of the Victorian Auditor General's Office (VAGO) should be considered in forming a position on financial sustainability and debt levels.

Benchmarking

GVW is supportive of incorporating improved benchmarking between businesses as part of the pricing approach.

The development of improved benchmarking across businesses that is meaningful and will provide greater transparency may take a significant time period to complete and would need to start early in the pricing submission process.

If the timeframes for completing the next pricing submission are likely to compromise the extent of benchmarking that can be developed, consideration should be given to developing improved benchmarking over the next regulatory period.

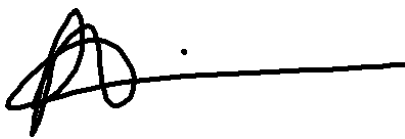
Proposal Not Supported

The proposal presented by Sapere Research Group which involves unbundling the value chain and establishing separate charges for different customer groups is not supported by GVW. The following points are provided in relation to this proposal:

- A regional water business such as GVW currently manages all components of the value chain.
- Efficiencies are currently achieved through integrating the value chain across the business. For example, a number of staff work across all components of the value chain.
- The costs associated with unbundling the value chain for a regional water business for the purposes of economic regulation are likely to result in an increased cost of regulation.
- Establishing separate charges for different customer groups would result in a significant change to the number of tariffs that are currently offered by GVW.
- If this approach were to be adopted it may need to be phased in across a number of regulatory periods to avoid price shocks for individual customer groups.

GVW looks forward to continuing to work with ESC as the review of the water pricing approach continues to develop.

Yours sincerely



Peter Quinn
MANAGING DIRECTOR