

4 May 2021

Kate Symons
Commissioner - Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Dear Kate,

Re: Essential Services Commission 2021, Melbourne Water Draft Decision

Thank you for the opportunity to respond to the Essential Services Commission 2021 Melbourne Water Draft Decision.

We were nominated by our Managing Directors to represent our businesses as members of Melbourne Water's Customer Council. The Council process provided us with an opportunity to consider information, express views, share our experiences with PREMO and provide advice to Melbourne Water for its consideration and use in developing its submission. On 14 September 2020, the work of the Council culminated in the attached final response to Melbourne Water's draft Price Submission.

We support PREMO as best practice Economic Regulation that provides incentives for water corporations to give stronger emphasis to engagement that leads to informed outcomes valued by customers. We welcome the application of PREMO to Melbourne Water as the whole metropolitan value chain is now under a consistent framework. Our support can be demonstrated through Farrierswier's post-implementation review of the PREMO model¹.

Our comments on the ESC's Draft Decision focus on the following areas:

COVID 19: In the context of assessing Melbourne Water's price submission we understand these are uncertain times. The outbreak of coronavirus in Australia has caused adverse impacts on both our residential customers, who may be impacted by job losses and other changes, and our business customers, as they continue to adjust to changes and restrictions on their operations.

Like Melbourne Water, our businesses continue to work towards understanding the impacts the pandemic will continue to have on customer demographics, overseas migration and Victoria and Australia's economic performance. We expect these factors will alter the number and location of existing and future customers, making it necessary for us to consider an additional level of financial risk on behalf of our customers in our upcoming price review process.

Pricing: Our businesses have a desire to see stable prices in real terms. Affordability was a common theme during customer engagement for our 2018 price submissions. Our customers expected us to provide additional value while keeping their water and sewerage bills stable.

¹ Farrierswier; Victoria's water sector: The PREMO model for economic regulation; 28 March 2019.



CityWest
Water™



We have a strong preference that the final decision reflects a smooth price path. Stable bills are more important than ever given the current state of the Victorian economy and the financial hardship many of our customers are facing in the context of COVID19.

Tariff reform: We support Melbourne Water's commitment to undertake a tariff review. We look forward to working with Melbourne Water to investigate and implement any tariff structure reform in time for our price submissions.

Length of regulatory period: We appreciate your concerns around uncertainty and understand the proposed mitigation through a three-year regulatory period. Notwithstanding, decreasing the current gap in the regulatory cycle from two years to one, may reduce our opportunity to meaningfully contribute to Melbourne Water's future price submissions.

IWM: We support Melbourne Water's commitment to continue pursuing opportunities in integrated water management schemes in areas like Upper Merri Creek, Sunbury and regional areas. Investments made now while development is occurring can keep opportunities open for future generations which we believe is in the long-term interests of consumers.

We recognise the ESC's views regarding the evidence to demonstrate the cost-benefits of these schemes. This is an issue facing the water industry across Australia where the policy settings encourage more integrated water management while the economic assessment framework for such projects is not yet mature. We encourage Melbourne Water to provide any additional qualitative or quantitative information in support of these projects.

Outcomes: Melbourne Water's submission is built around six customer outcomes. A key expectation for our businesses is the alignment of the outcomes determined by each of the retail water corporations' 2018 price submissions and Melbourne Water's outcomes. Overall, we support Melbourne Water's outcomes and find that they align to our customer outcomes in a suitable way.

GSLs: We are pleased to see Melbourne Water is working towards introducing performance incentives via a Guaranteed Service Level scheme commencing from 1 July 2021 that will align to our existing GSL schemes. We look forward to continued collaboration with Melbourne Water on this as they continue to evolve consistent with changing customer needs and expectations.

Engagement: We acknowledge the effort that Melbourne Water has made to involve our businesses in the development of its price submission. While this represents an improvement on past processes, we note the ESC's comparative assessment on engagement models across the sector and the opportunity to leverage this assessment for continuous improvement.

We look forward to ongoing engagement that includes working with Melbourne Water to implement its outcomes and to consider future strategies that inform capital decisions through the lens of PREMO.



City West
Water™



Thank you for the opportunity to respond to the Melbourne Water Draft Decision. If you have any queries or would like to discuss the above feedback in more detail, please contact us.

Yours sincerely



Andre Kersting
Council Chair and Group
Manager, Planning and
Regulation
South East Water



Brady Schmidt
Coordinator Strategy and
Planning
Barwon Water



Richard Smith
General Manager Strategy
and Planning
City West Water



Ravi Raveendran
General Manager Operations
South Gippsland Water



Tim Hatt
Integrated Water
Resources Coordinator
Western Water



Brett Mathieson
Manager Regulation,
Planning and Performance
Yarra Valley Water