

Thankyou for the opportunity to provide feedback on Barwon Water's proposal to increase prices to recover the costs of the Melbourne to Geelong Pipeline (MGP).

As I understand Clause 4 of the Determination, the Commission's consideration of Barwon Water's application must not necessarily be solely about the MGP, but can also consider the manner in which Barwon Water has investigated other options to limit price increases during this regulatory period. If this is the case, then in my view the Commission should determine the extent to which Barwon Water has considered ameliorating the impact on customers via (1) an abandonment or deferral of the Black Rock/Armstrong Creek projects and (2) cancelling or deferring dividend payments to government.

I have provided a few observations on these points below, and urge the Commission to consider these points during its deliberations.

- According to its submission, Barwon Water is forecasting to spend a net \$55M on the Black Rock recycled water plant and associated Armstrong Creek water transfer/distribution system, when no such allowance was provided for in the 2008 Final Determination (this is capex only, opex impacts are unclear). Given Barwon Water's statement that "water from the [MGP] will not be required in the foreseeable future", it is incumbent on the Commission to satisfy itself that the \$55M (plus the opex) associated with the production and distribution of 6GL of recycled water* is an efficient way to spend customers' money, when a 16GL potable water capacity upgrade goes unused. If the answer is no, then the Commission should approve the MGP expenditure only on the basis that the Black Rock/Armstrong Creek expenditure is either abandoned, or not rolled into the Regulated Asset Base until such time as it represents an efficient outcome. (Barwon Water raises this prospect, but predictably does not commit itself to actually doing so.)
- The Commission may benefit from having reference to the fact that demand for recycled water from the Black Rock wastewater treatment plant has actually been *falling* since 2006-07. According to DSE's Victorian Water Accounts series, in 2006-07, 2,298ML of recycled water from Black Rock was used for agricultural purposes. In the last two years of available data (2008-09 and 2009-10), agricultural demand for recycled water from Black Rock was 1,756ML and 1,176ML respectively. Although 2010/11 numbers are not available, it is almost certain that demand has fallen further due to plentiful rainfall and high storage levels. The Chairperson of the Commission may wish to ask himself, "If I was the Managing Director of a company, would my shareholders be happy with me spending \$55M on a product for which demand has dropped by more than 50% over the course of four years?"
- I note that Barwon Water's 2010/11 Annual Report suggests the dividend estimate for that year is \$4.8M (it is unclear whether this amount has been deemed payable). The impact on Barwon Water's financial position of retaining, rather than distributing, these funds, should be made apparent, as Barwon Water is using its financial position as one of the reasons why the Commission should accept its proposal.

Once again, thankyou for the opportunity to contribute to this process.

Regards
M Smith.

* Refer to Barwon Water's May 2011 Community Information Bulletin, which indicates the plant will save 2.4GL of potable water to Armstrong Creek and provide an additional 3.6GL of class C recycled water. Why agricultural demand from Black Rock, which was 2.3GL in the driest of dry years (2006/07, see above) would suddenly increase by a further 3.6GL in the future is left unexplained.