



9 October 2009

Ms Angelina Garces  
Acting Director Regulation (Water)  
Essential Services Commission  
Level 2  
35 Spring Street  
MELBOURNE VIC 3000

Dear Ms Garces,

Given the detailed comments provided in response to the Commission's Consultation Paper, South East Water has provided further comments in relation to the remaining matters outstanding only.

South East Water's response to the Commission's Review of Regulatory Accounting Code and Templates Draft Code and Template Amendments Paper is as follows:

- License Fees

South East Water acknowledges the Commission's preference for the inclusion of licence fees (other than the ESC, EPA and DHS fees) in corporate expenditure. However, South East Water sees little value in isolating some licence fees and not others. This treatment is also likely to cause confusion in relation to the quantum of licence fees paid at the time of preparing the Water Plan. South East Water remains of the view that additional room should be allowed in the licence fee category for further fees to be included, with explanatory notes.

- Definition of Prescribed and Non-Prescribed Services

The Commission has sought to categorise the services whose prices are determined either by the Commission directly or by South East Water in accordance with the Commission's pricing principles as prescribed services. While South East Water accepts this definition, South East Water's expectation was that the Commission would use this review of the Regulatory Accounting Code as an opportunity to agree with businesses some key criteria for determining which new products and or services should be priced in accordance with pricing principles.

South East Water provides customers with a range of products and services, some of which are non-prescribed. South East Water is of the view that retailers should make decisions on whether products and services are non-prescribed based on a consistent set of criteria that may include, for example, the whether the product or service is provided in the water retailer's licensed area only or whether it can only be obtained from the water retailer or is able to be obtained from other competing suppliers.

- Non-Prescribed Revenue and Expenditure

The Commission has proposed that businesses identify revenue and associated costs from each item of non-prescribed activity individually. South East Water has, in the past, found it difficult to provide this information with a reasonable degree of accuracy, as it does not have an activity based costing system in place. Such a system would take a significant amount of time and money to implement which, given the current upward pressure on regulated prices, cannot be justified.

The only way in which South East Water can comply with this requirement is to arbitrarily allocate costs to the major categories of non-prescribed activity on the basis of a set of assumptions.

In addition, South East Water considers this type of information to be confidential and expects that the Commission will not disclose any of the information provided.

- Operating Expenditure Breakdown

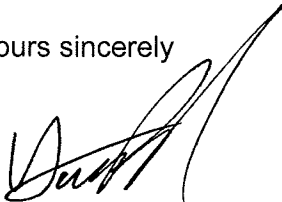
As noted above, South East Water's financial systems do not provide for activity based costing. Therefore it will be difficult for South East Water to populate the regulatory accounts templates with a detailed breakdown of expenditure type for each category. In some cases the breakdowns required will only be able to be populated on the basis of high level allocations and assumptions. Given the level of accuracy able to be achieved, South East Water questions whether this degree of cost breakdown adds value.

- Unbundled Segments

South East Water notes the Commission's comments in relation to the Commission's role in investigating the introduction of a third party access regime in Victoria. South East Water has participated in this investigation and looks forward to being involved in the process of developing ring fencing requirements when the outcomes of the access inquiry are sufficiently advanced. South East Water would like to note that significant changes to internal business systems and processes will be required to implement ringfencing. Therefore, sufficient time needs to be allowed for these changes to be made before the Commission can commence collection of ringfenced financial information.

Should you require any information in addition to the above, please feel free to contact either Lisa Short on 9552 3521 or Alison Le Fevre on 9552 3520.

Yours sincerely



Hamish Reid  
**General Manager Strategy**