



16 July 2015

2016 Price Review
Melbourne Water
Reply Paid 4342
Melbourne VIC 8060

By email: PriceReview@melbournewater.com.au

Dear Sir/Mdm

Consultation Paper 2016 Melbourne Water Price Review

We welcome the opportunity to provide feedback to Melbourne Water on its 2016 Water Price Review Consultation Paper. We appreciate Melbourne Water's endeavours to include consumer advocates in their price review process and the invitation to participate in its deliberative forums.

Water is a basic essential need of all households and its cost has increased in recent years to become a significant component of vulnerable households' expenditure. While access to at least a limited supply is guaranteed by the customer protection framework and enhanced by the progressive and compassionate approaches to payment difficulties taken by most water businesses, the cost of water can still cause significant hardship by affecting capacity to meet other essential expenditure. Accordingly, we are pleased that Melbourne Water's wholesale charges for water and sewage services are expected to decrease by 6 per cent (including inflation) in 2016/17 and then increase in line with inflation only. We hope to see these reduced prices reflected in water business' bills.

The Victorian Desalination Project

Our views on the Victorian desalination project are outlined in our 21 May 2013 joint submission to the Essential Services Commission's (Commission) *2013 Price Review – Greater Metropolitan Water Businesses Draft Determination*.

We do not support option 1 which is Melbourne Water recovering the costs of the desalination plant over the 27 year contracted period. This would result in inconsistent price signals for consumers, as consumers for the next 27 years would bear the costs of services provided in years 27 to 60. This would create an inter-temporal price distortion by raising prices for 27 years then lowering them for 33, leading to sub-optimal, inefficient consumption and investment decisions not reflective of the true cost of water provision and security.

We are of the view that the approach taken should focus on minimising price increases for customers, both absolutely (to provide the lowest possible bills) and relatively (to promote price path stability and avoid bill shock). We therefore believe that Melbourne Water should:

- Capitalise as much of the security payments as possible without jeopardising its financial stability; and
- In consideration of the principles of equity and efficiency, spread the cost of the desalination plant across customers for the estimated life of the plant of 60 years.

We believe that it is efficient and equitable that the costs of the desalination plant should be spread across the customers who will benefit from the plant over its estimated 60 year life.

Capitalisation of some of the plant costs does not mean that future generations are paying for today's debt: rather they will be paying their fair share for the benefit that the plant is providing (it's availability to provide water during times of supply restraint). Matching the benefits and costs of a service over time is also an efficient way of paying for services—those that benefit from the service see the actual cost of that service, thereby influencing consumption decisions at that time.

We recognise that capitalisation may mean that Melbourne Water is more reliant on debt to fund its operations in the short-to-medium term. The cost of debt is currently at historic lows, meaning the impact on Melbourne Water and its customers may be less due to interest payments being low. We note that refinancing of the desalination plant in 2013 was able to lock-in lower interest repayments which could be passed on to customers.¹

In the Consultation Paper, Melbourne Water states that every \$10M spread annually over the next five years would result in a one-off \$3.70 decrease in annual average water and sewage bills in 2016/17. If more of the contract cost is spread, water bills would be further reduced. Whilst, on the face of it this may not appear as a significant saving, for a low income consumer who budgets daily, even a saving of \$11 is significant in reducing their financial stress.

In determining the amount of desalination costs to be spread, Melbourne Water's role as a Government-owned entity operating for community benefit and bearing risk on its customers' behalf must be balanced against conventional commercial imperatives to minimise risk and retain a net profit if at all possible. If there are longer-term financial outcomes that constrain Melbourne Water's options on capitalisation of some proportion of the desalination security payments, this should be clearly substantiated and explained. But planning for a few years of low profits or small losses is a viable option and an appropriate strategy to achieve smoother price paths and generational equity for consumers.

A key role of utilities such as Melbourne's water businesses is to shoulder risk on behalf of consumers. It appears to us that the lesser the proportion of the desalination costs that are capitalised, the greater the financial risk that is borne by today's customers compared to Melbourne Water. We recognise that a greater proportion of capitalisation would mean that Melbourne Water would carry more risk through taking on debt. In our view, Melbourne Water as a Government-owned water business with low debt costs is better placed to do this than are households.

¹ <http://consumeraction.org.au/blog/2013/10/15/press-statement-consumer-groups-welcome-desalination-plant-refinancing/>

Waterways & Drainage Charge

The Consultation Paper states that *'depending on the reform option chosen, residential and rural customers could be impacted'* but neither explains which options would lead to price rises for these customers, nor mentions any rebalancing of charges between customer classes that would lead to such impacts. Consumers responding to the Consultation Paper cannot give an informed view without this information. Melbourne Water should explain and clarify this, providing the relevant information on its website where the Consultation Paper is downloaded and presenting it in consultation sessions.

Deliberative Forums

We welcome the use of deliberative processes to provide opportunities to a range of stakeholders to engage meaningfully in decision making. Deliberative processes can assist people understand complex issues through knowledge building and sharing. They provide people with the opportunity to consider facts and perspectives, talk with each other, and evaluate opinions and options.²

Key elements/features which we would like to see in Melbourne Water's deliberative forums include:

- Deliberation – The process should provide open dialogue, access to information, respect, space to understand and reframe issues, and movement towards consensus;
- Influence – The process should have the ability to influence policy and decision making;
- Inclusion – The process should be representative of the population and inclusive of diverse viewpoints and values, providing equal opportunity for all to participate;³
- Impartial facilitators;
- Provision of balanced and impartial information to participants, which may include information from experts and from stakeholder organisations; and
- Random selection to ensure that a sample is obtained that is not self-selected or stakeholder determined – Random selection may utilise stratified random sampling, particularly for smaller groups, to ensure that the sample reflects the demographics of the larger population (in terms of socio-demographic relevance: for example, sex, age, occupation, geography, education).⁴


² Consumer Utilities Advocacy Centre (2013), [Meaningful & Genuine Engagement: Perspectives from Consumer Advocates](#), p.32.

³ L. Carson & J. Hartz-Karp, 'Adapting and combining deliberative designs: Juries, Polls and Forums', in Gastil, J. & Levine, P. (eds) *The Deliberative Democracy Handbook*, Jossey-Bass, San Francisco, 2005, p.122, referred to in UnitingCare Australia (2014), [Discussion Paper: A Deliberative Approach to Consumer Engagement in the Energy Sector](#), p.5.

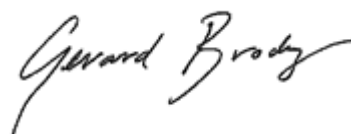
⁴ UnitingCare Australia (2014), [Discussion Paper: A Deliberative Approach to Consumer Engagement in the Energy Sector](#), p.5.

Please contact us if you have any queries on this submission.

Yours sincerely,



For Mercedes Lentz
Executive Officer
Consumer Utilities Advocacy Centre
Tel: (03) 9639 7600
mercedes.lentz@cuac.org.au



Gerard Brody
Chief Executive Officer
Consumer Action Law Centre
Tel: 03 9670 5088
gerard@consumeraction.org.au



Emma King
Chief Executive Officer
Victorian Council of Social Service
Tel: (03) 9235 1000
emma.king@vcoss.org.au