

Friday 5th April 2013

Draft Pricing Determination Released

The economic regulator for the Victorian Water Industry, the Essential Services Commission (ESC) has recently handed down their draft decision for the Water Price Review 2013-2018. Broadly speaking, South Gippsland Water is in agreement with the regulator where both the ESC and South Gippsland Water aim to deliver water and sewerage tariffs that are fair and reasonable for customers. However, on some key areas and projects there is a clear difference of opinion.

Managing Director of South Gippsland Water, Philippe du Plessis said, "The proposed pricing and capital works program included in the Corporation's five year pricing plan submitted to the ESC was based on extensive customer consultation undertaken during 2012 and included feedback provided by the South Gippsland Water's customers, the broader community and various regional stakeholders". Mr du Plessis went on to say that, "South Gippsland Water disagrees with the ESC with respect to three key aspects. These three areas will require further discussion with the regulator and those customers who will be affected. Most notably, it is inconceivable to the Corporation, that the communities of Poowong, Loch and Nyora will endorse the ESC's position to further delay the Sewerage Scheme for these towns".

One opportunity for the community to provide feedback will be at the ESC's up-coming community information session, a date and location is yet to be finalised".

Areas to be further discussed and challenged;

Poowong/Loch/Nyora Sewerage Scheme

In the upcoming five year period, the ESC is proposing not to allow the capital expenditure for the Poowong/Loch/Nyora Sewerage Scheme. Like South Gippsland Water, the ESC sees the scheme as being costly, with the regulator supporting South Gippsland Water's decision to review the project and examination of potentially more cost-effective options for this scheme. Mr du Plessis said that "The Essential Service Commission is raising the very real issue of cost and the impact to the broader South Gippsland Water customer base. However, the Corporation understands the public health issues and community need for the scheme and would like to see the scheme progress in as timely manner as possible. As opposed to the draft determination, South Gippsland Water believes this should be prior to the completion of this next cycle of water pricing. The project has already experienced delays, due in the main, to the regulatory approvals and the complexity of servicing three small towns".

South Gippsland Water's current review of the project treatment and/or reuse options with South East Water is aimed at ensuring that various efficiencies have been fully explored. The ESC has effectively taken the view that South Gippsland Water should take five more years to consider and plan the project. Given the ESC's draft price determination, South Gippsland Water certainly considers it may need to take a wider perspective of the review, including alternate scheme options, however, in no way does it consider it appropriate to delay the scheme for another 5 years. This further delay will only exacerbate the negative public amenity and health impacts that ponding and stagnant effluent has on these townships.

MEDIA RELEASE



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Water Consumption

South Gippsland Water does not agree with the ESC's assessment of some elements of its water consumption estimates. Whilst this issue is far more minor than that of the Poowong/Loch/Nyora Sewerage Scheme, it does impact on the financial sustainability of the Corporation. South Gippsland Water will still work to resolve this over the coming months.

Expenditure Base

Lastly, South Gippsland Water does not agree with some of the ESC's assumptions with respect to the Corporation's expenditure base. Mr du Plessis said, "The key area of concern for South Gippsland Water is the provision of quality services, to an expanding region, on an on-going basis. Some of the assumptions made by the ESC, in our view, will not provide for this".

It is also noted that reduced financing costs, that is, reduced interest rates since September 2012 when South Gippsland Water lodged its Draft Water Plan, have contributed to a significant difference between South Gippsland Water's pricing proposal and the ESC's draft determination. It should be noted that neither South Gippsland Water nor the ESC can claim credit for this impact of reduced tariffs; rather it is a result of the favorable interest rate environment.

South Gippsland Water had proposed an annual average increase of 1.9% (excluding CPI). However, the ESC's Draft Pricing Determination suggests there will be an average 1.7% (excluding CPI) per annum tariff reduction over the five years. Mr du Plessis said, "It is important to understand that the tariff variance between the Corporation's proposal and the ESC's Draft Determination is driven by a number of factors, but predominately by the ESC's culling of the Poowong/Loch/Nyora Sewerage Scheme and the current favourable interest rate environment".

South Gippsland Water will now work with the regulator to discuss areas of the pricing determination where agreement can be reached to ensure positive outcomes for the community are maintained on key aspects of the pricing proposal and that the levels of service and services desired by our customers can be achieved.