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Introduction & Summary

- In-principle support for augmentation of water supply for current and future needs and recognise need for capital + incentives for construction
- Cash flow + credit are concerns for business – in context of rising costs and reduced demand
- Preferable for expenditure and price increases to be smoothed over 5-years
[Align the pricing with delivery of benefits to customers]
- Equitable allocation of costs should prevail

ESC water price review for metropolitan Melbourne 2008/09 – 12/13

Summary of industry feedback



Industry includes



- Food processing
- Power stations
- Paper + packaging
- Printing
- Chemicals
- Plastic
- Autos and transport
- Beverages
- Steel
- Recycling
- Metal manufacture
- Cold storage
- Industrial laundries



Other Non-res water use in metro area



Hospitals + medical care

Education

Sport centres

Entertainment

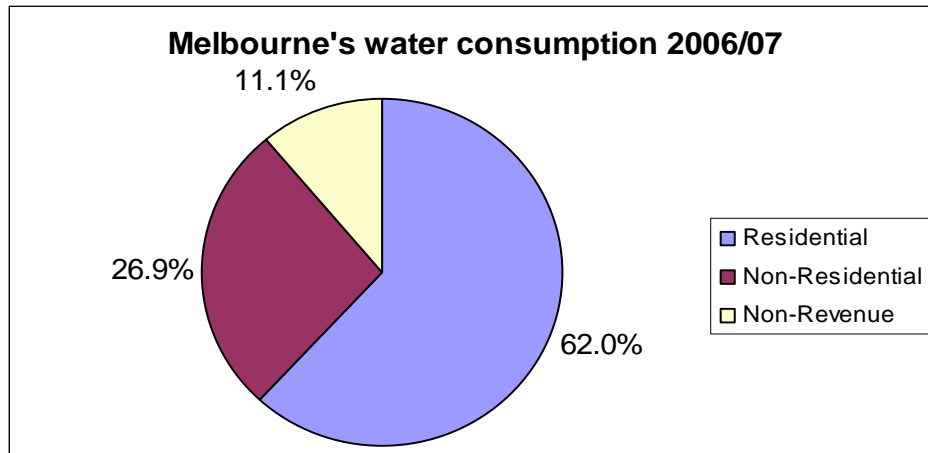
Zoo and Aquarium

Retail + hospitality

Commercial offices + services

Parks and gardens

Melbourne's Water



2006/07	% Demand for water
Residential	62.0%
Non-Residential	26.9%
Non-Revenue	11.1%

Victoria's Water

State-wide consumption

Water consumption by customer class 2005/06

Customer Segment	(ML)	%
Irrigation	3,043,010	76.2%
Domestic & Stock	176,130	4.4%
Melbourne (Residential)	306,290	7.7%
Melbourne (Non- Residential)	131,660	3.3%
Regional (Residential)	142,540	3.6%
Regional (Non-Residential)	75,320	1.9%
Latrobe Valley major uses	120,460	3.0%
	3,995,410	100.0%

Source: State water report 2005/06

Note: 2005/06 is the most recent state-wide consolidated data available

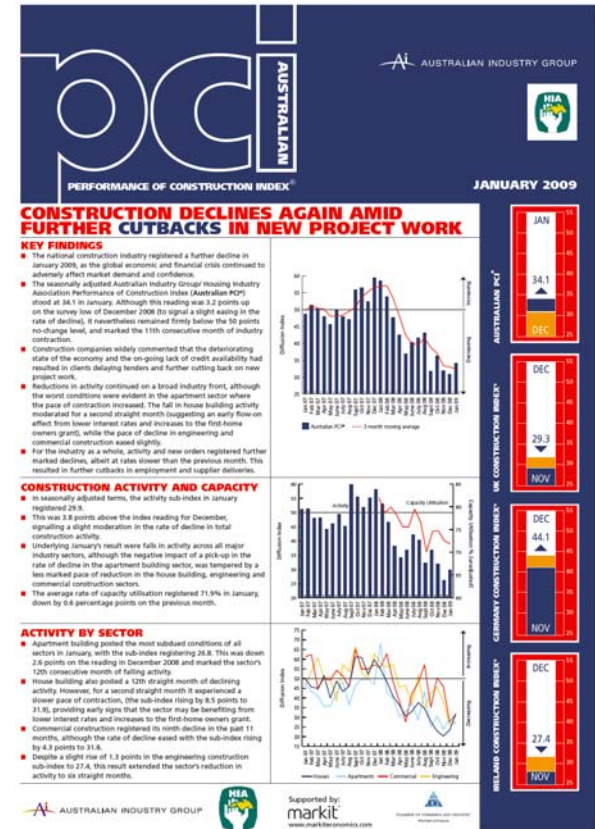
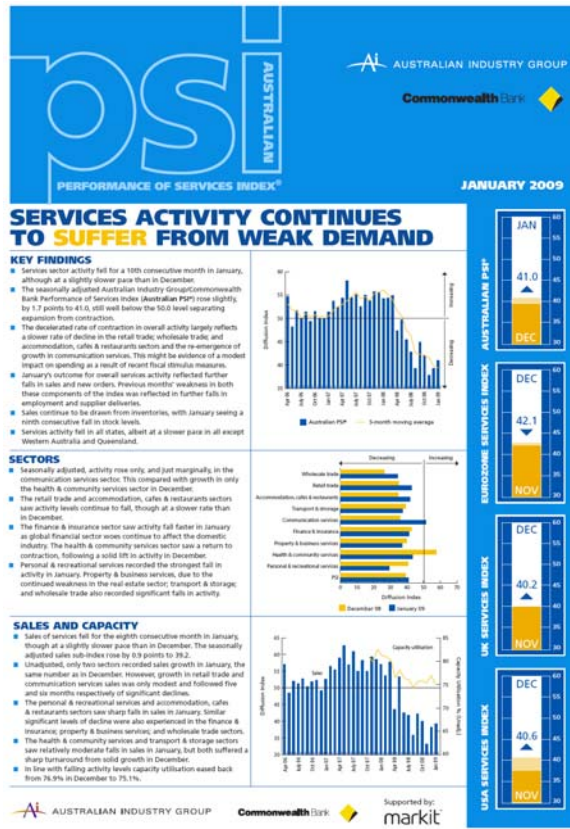
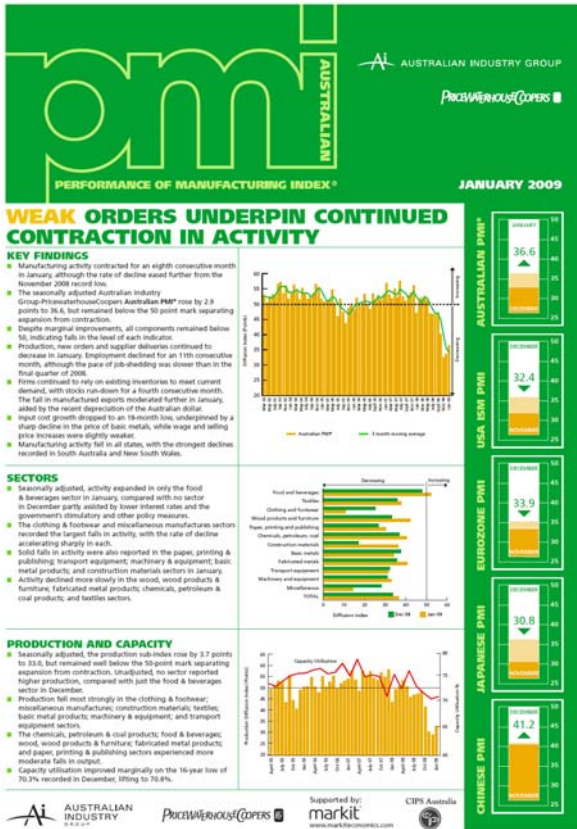
Business Conditions

- The global financial crisis has hit world economic growth hard
- In Australia this has led to significant falls in consumer and business confidence
- The Australian unemployment rate is likely to move above 6 per cent by the end of 2009

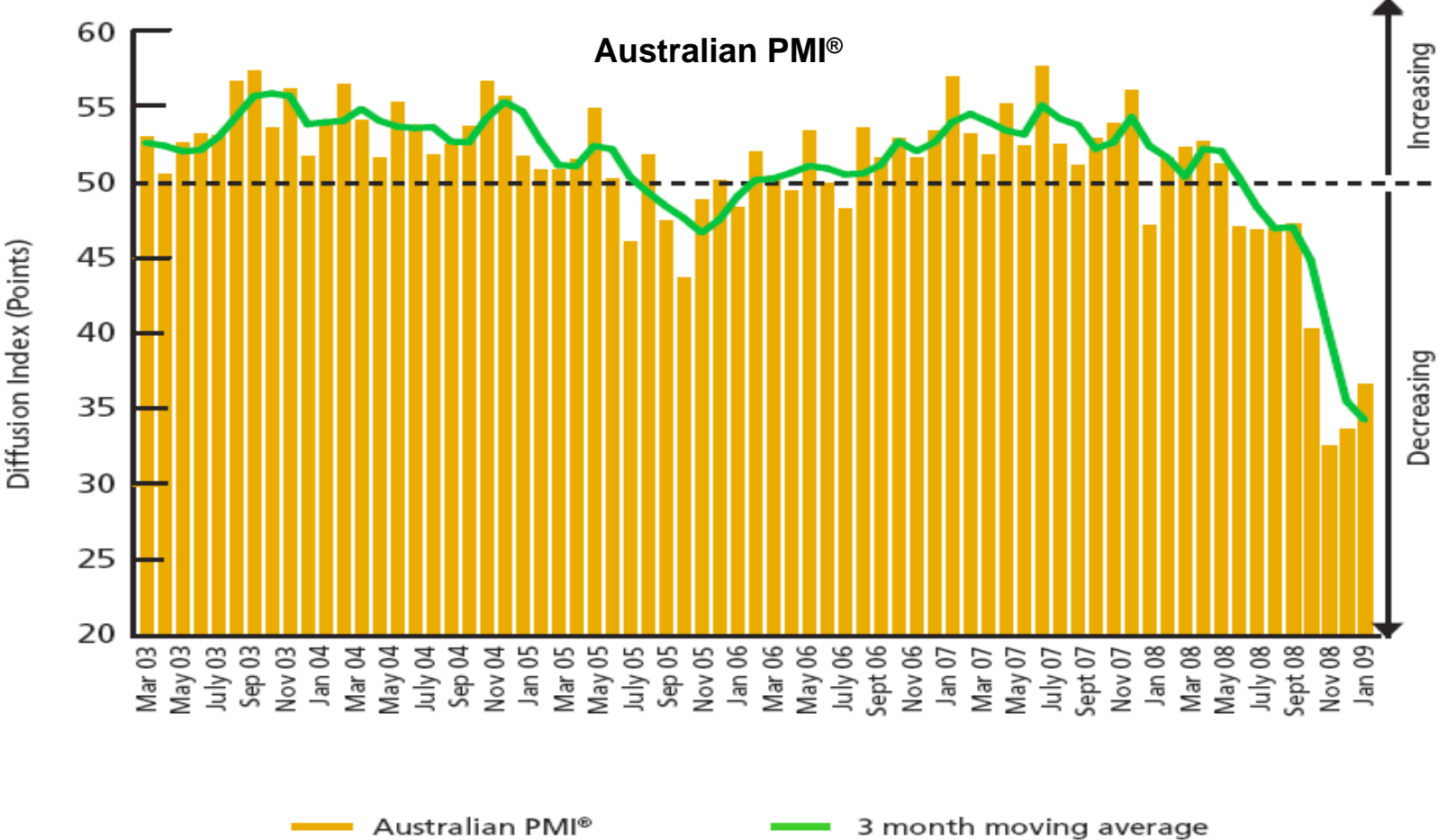


Ai Group's January 2009 performance indexes

see www.aigroup.com.au

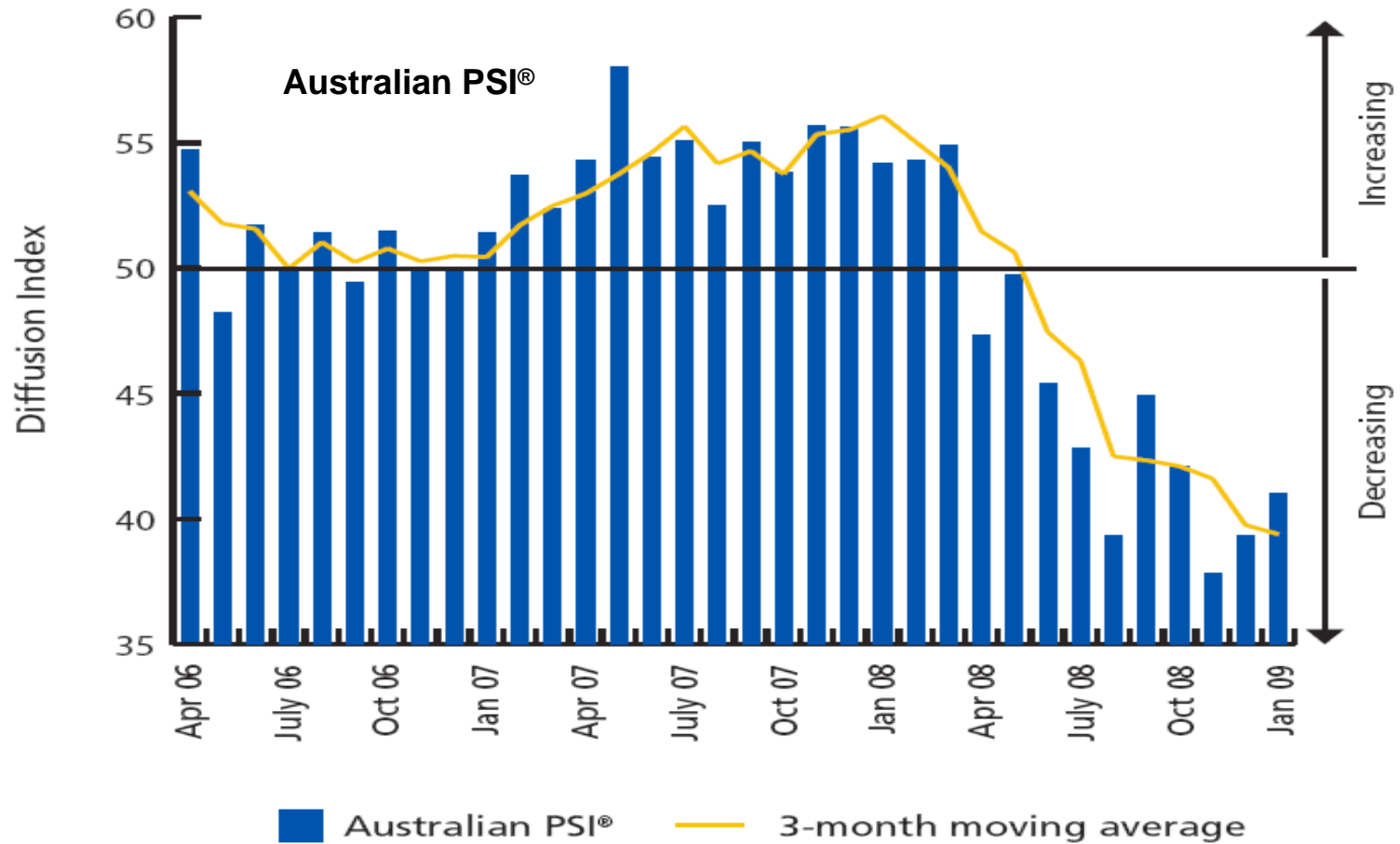


The impact of the global financial crisis on manufacturing has intensified...

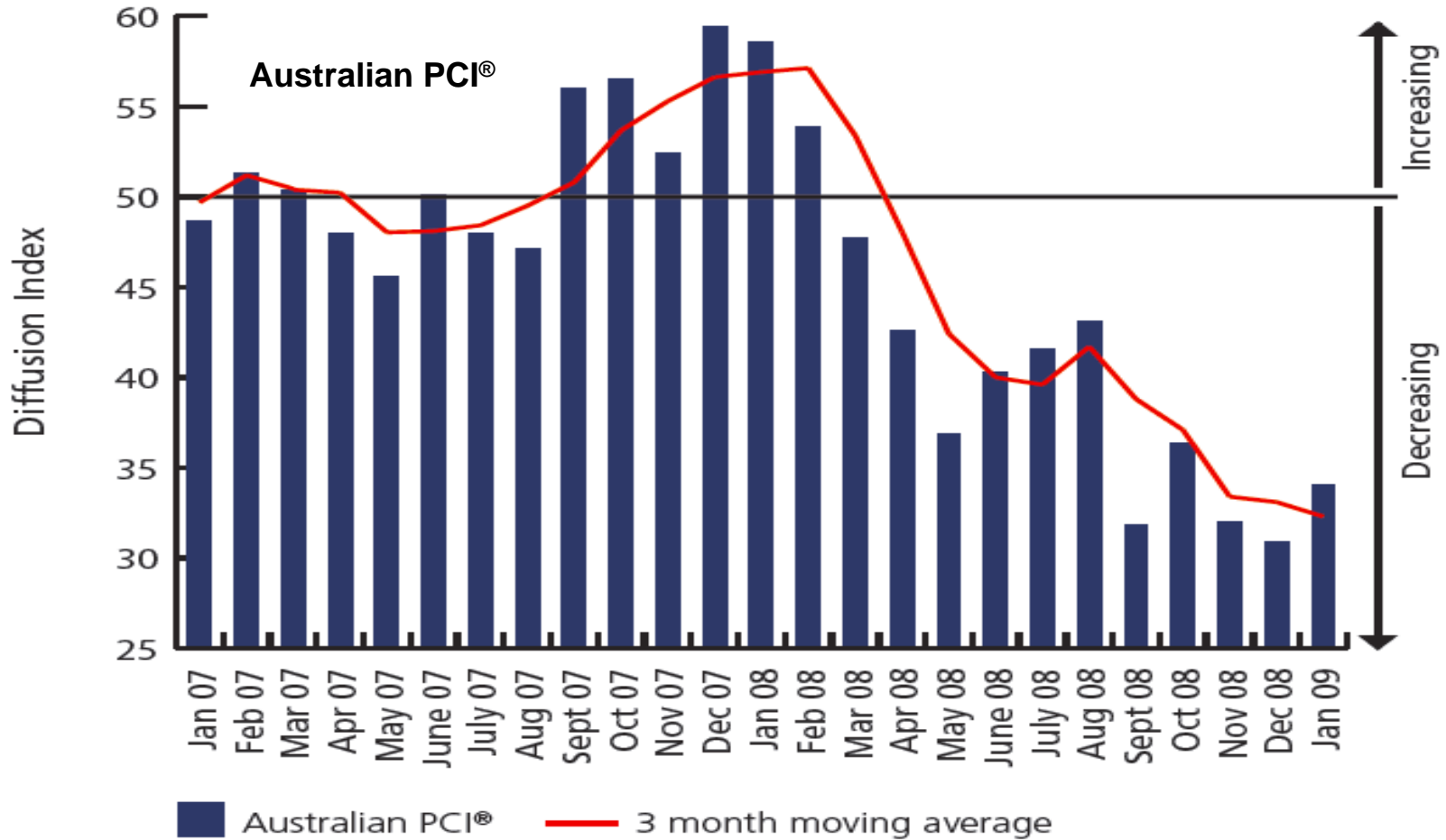




As it has for the **services** sector...



And the construction sector...



Pg 41- Proposed water Price Path

- Govt expects prices will no more than double in 5-year period from 2008/09
 - Proposals **are consistent** with expectation
 - ButEach path has higher than average increases in 2009/10
 - Highest increases apply in toughest times for customers
- Q – Could increases be smoothed out over regulatory period? Or, matched to when benefits are evident?

Pg 42 – Retain existing tariffs for **water** pricing? **YES**

- All customers incur the same percentage increase on their water bill, and have the same incentive to reduce their water demand.
- Note ... Some previous price plans would have resulted in disproportionate increases for large non-residential customers (180% over 5 years, ie twice the govt position of doubling of prices)
- **Mid-Period Restructuring Pg 42 ?**
Consultation and transparency of changes for business needed

Pg 42 – trade waste

Retain existing pricing tariffs? YES

- Currently the price is based around the nominal cost of treatment of each chargeable contaminant. Flat annual increase rate allows revenue stream for augmentation and treatment.
- But ... must resolve the Trade Waste Review and framework for management – Q who's responsible for setting of acceptance parameters?

Pg 48 – Increase the salt price over the regulatory period? **NO**

- **No**

This proposal will impose an unfair price increment on large industrial sites without **any** reduction in salt (TDS) load.

Salt-reduction is only feasible to a point then it becomes a penalty for salt production at a site zoned for receiving high salt effluent.

In many processes, salt arrives in tap water and it becomes more concentrated (eg cooling towers) – if salt can be removed on-site, where can the brine go? (Only to sewer!)

- An increase in TDS charge will hurt businesses but **not improve sewer quality**

Pg 48 – Increase the salt price over the regulatory period **NO**



- Industry contributes < 50% of TDS in sewer, with balance is from domestic source and infiltration. Unfair to charge more to industry only !
- **Principle** - Responsibility for desalination of the water should be with the beneficiary – Eg the cost of the Wonthaggi Desal Plant is spread across the entire customer base.

Using treated effluent as a water source should be viewed the same way.

Pg 47 – MW proposal to vary 2 major trade waste usage charges

- Replace the usage charge on ***total*** nitrogen with total ***kjeldahl*** nitrogen ?

A reasonable and practical way to prevent double counting of a parameter.

Pg 52 – Should metro retailers introduce a salt charge for signal to reduce **NO**

- **No**

A salt charge already applies – no treatment used – charge already hurts !!

Salt-producing sites should have resource efficiency strategies, note they often already have regulatory instruments like EREPs and waterMAPs and licences.

Pg 52 – Recycled Water Prices – impacts of the full service cost?

- Principle – the **beneficiary** should contribute the cost
- The beneficiary from use of recycled water is the entire potable water customer base (as more potable water will be available to them)
- User of recycled water takes on additional risks



Questions

- Can the capital works be completed within the time frames? What happens to prices if works are not done in that time?
- What is the likelihood of tariff variations being introduced? In what circumstances? What conditions for consultation with impacted customers?
- Can price increases be smoothed out over period? And matched with delivery of benefits to customers?



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