

12 January 2023

Dean Wickenton
Senior Regulatory Manager
Essential Services Commission
Level 8, 570 Bourke Street
MELBOURNE VIC 3000

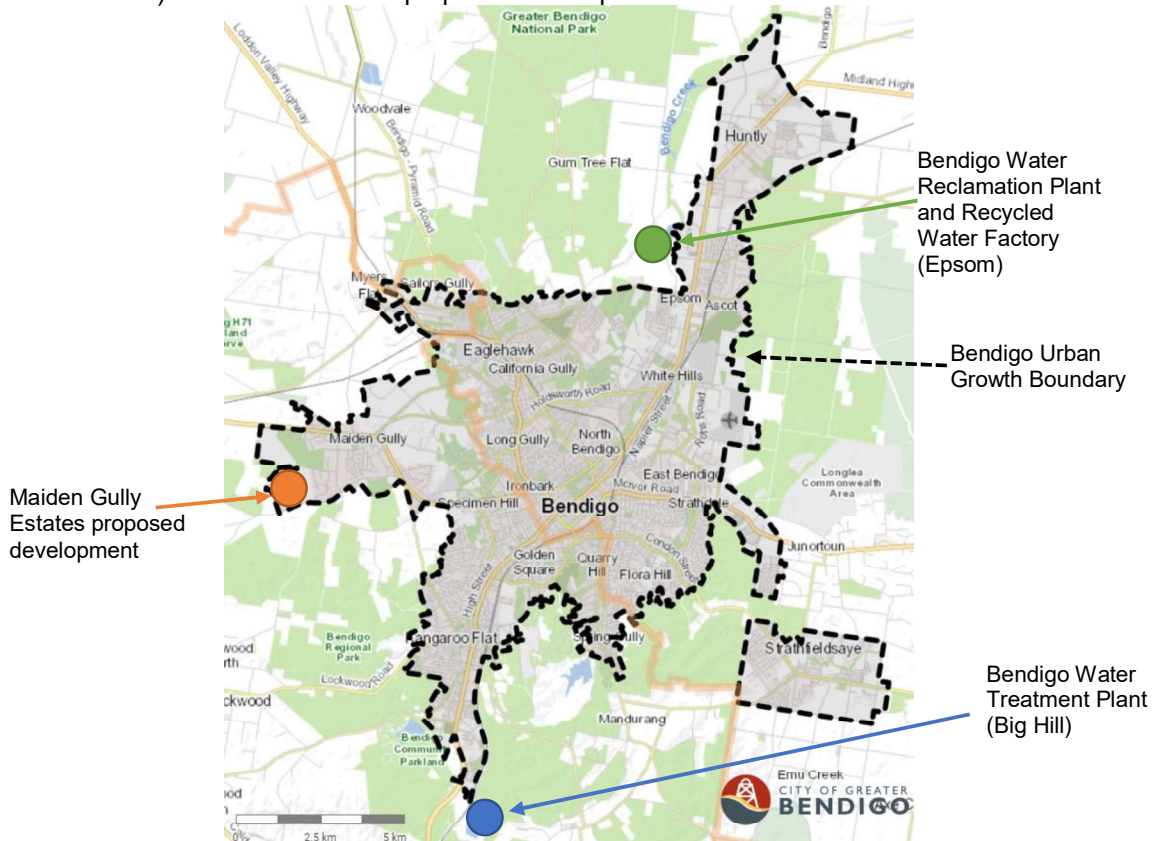
Dear Dean,

Further feedback on Coliban Water’s New Customer Contributions and engagement

Thank you for the opportunity to provide additional factual information in relation to our New Customer Contributions (NCC) proposal in our 2023-2028 Price Submission. This letter responds to issues raised in the Maiden Gully Estates (MGE) submission.

Coliban Water acknowledges the important role developers play in our community. Our *Strategy 2030* has a strategic direction “Prosperous Economies” which includes objectives related to enabling sustainable growth within the communities we serve.

Maiden Gully is the westernmost suburb within Bendigo’s Urban Growth Boundary. The proposed MGE development is located at the south western corner of Maiden Gully approximately 8km west of the CBD in the Myers Creek catchment (not the Bendigo Creek catchment). The location of the proposed development is shown below:



Being on the north of the Great Dividing Range, the course of Bendigo Creek runs from the south (near our Water Treatment Plant) to the north (near our Water Reclamation Plant). Most urban development, historically, was located in this valley. This was straightforward to service as water was naturally pressurised from Big Hill and sewage flowed by gravity to the water reclamation plant at Epsom.

The costs of servicing the proposed MGE development in Maiden Gully are substantial. The proposed development contributes more than half of the high growth area of Maiden Gully over the next twenty years and contributes five per cent of the whole of Bendigo's growth over this period.

Due to the location of the proposed development at the south western limit of the Maiden Gully growth boundary, there are no material developments in the area with which to share costs. Likewise, progress of the proposed MGE development is not dependent on other developers providing shared assets.

We do not comment on the private costings of private assets required for the proposed MGE development. However, we are pleased to have implemented ideas generated throughout our extensive engagement program. This includes the suggestion raised in the developers' workshop on 23 November 2021 that developers constructing pump stations solely needed for their development should receive a discount on the standard NCC in recognition of this significant cost. In relation to MGE, this is equivalent to a reduction in NCCs of approximately \$2 million. We have also realigned pipe infrastructure to be closer to the proposed MGE development.

We have not negotiated a standalone NCC with MGE. If we were to do so, the negotiated rate would likely exceed the standard NCC. Please note that our land development manual (https://coliban.com.au/files/2022-03/Coliban%20Water%20Land%20Development%20Manual%20Revision%20March%202022_0.pdf) and negotiation framework are on our website (https://coliban.com.au/files/2019-07/Coliban%20Water%20NCC%20Negotiating%20Framework_FINAL.pdf) and freely accessible to all.

The MGE submission correctly notes that future Coliban Water revenue will be forthcoming from the proposed MGE development. However, there are significant capital and operating costs due to the location of the proposed development and customer growth no longer drives profitability. This is particularly the case for developments outside the traditional Bendigo Creek valley where significant pumping and asset costs are necessary.

We have utilised the Average Incremental Cost model for calculating NCCs. We note this has been the topic of information sessions between VicWater and UDIA. However, to ensure NCC affordability we have used very conservative (low) estimates of the growth percentage of each asset. We know all new assets are optimised for growth, compliance and improved service (for example, a \$10 million asset with a 30% assumed growth contribution would result in only \$3m going into the NCC model). While we feel higher assumed growth percentages may well be justified, our proposed capping and phasing in of new NCCs means that any higher assumed growth percentage would not have affected our NCC levels. The capping and phasing in of NCCs was implemented following feedback from the development community in an engagement session in June 2022.

The MGE submission asserts that the continuation of postage stamp NCC levels across our region subsidises other areas such as Castlemaine. However, we note that the combined NCC for Bendigo alone would be \$10,865 – higher than the postage stamp level. Within

Bendigo, it is generally true that infill developments are cheaper to service than far flung developments. Feedback from the development community has been supportive of retaining a single rate of NCCs rather than disaggregating by catchment, town or development. Postage stamp NCC levels are also simple and efficient to administer.

The MGE submission suggests our capital planning has been less than prudent. We know the challenges of growth, climate change and ageing assets mean we need a clear step change in investment to deliver the services our customers need. This has resulted in a large step-change in proposed capital expenditure. Because of this, we sought more external assurance on our capital portfolio than any previous price submission. Early reviews were conducted by Aither and Stantec and additional advice was obtained by URA. Costings of major and second tier projects utilised Monte Carlo analysis via an independently engaged quantity surveyor. Our compliance with state procurement rules, including full public tendering of major works, ensures financial efficiency, performance and sustainability.

We note the MGE submission calls for the publication of our augmentation plans. This information has been available on our website (<https://coliban.com.au/builders-developers/connect-property/augmentation-plans>). In addition to this general advice, we spend significant time liaising individually with large developers to help them achieve their ambitions while simultaneously avoiding adverse impacts to our existing customers. This includes meetings with developers, including at least twenty meetings with MGE, at officer, manager and executive level. These meetings are both in our offices and on development sites and we have spent countless hundreds of person-hours preparing advice for MGE without any cost recovery by Coliban Water. We also participate in council Development Forums and meet with local consultants to discuss and resolve industry issues.

We are grateful for the advice received from many different developers in recent years as we *collaborated* regarding our NCC framework and approach. The following is a summary of initiatives we have implemented in direct response to feedback gained through our engagement program:

1. Implementation of whole of region postage stamp NCC and discontinuation of low-growth town discount
2. Phasing in and capping of NCCs increases compared to an up front implementation
3. Inclusion of shared sewer pump stations within NCCs
4. Rebate of \$1500 per lot for private sewer pump stations
5. Inclusion of water network "link-up" costs for legacy network reasons
6. Exclusion/reduction of Axedale, Castlemaine and Trentham capital from NCCs
7. Introduction of the sewer "Growth Capital Expenditure Guarantee"

To assist you with your review of our proposed NCCs and to understand the context we are attaching communication received from Currie Brown in November 2022 and our response. We are also attaching an engagement summary previously provided on 14 September to all developers (including MGE officers).

If you have any further queries, please feel free to contact me by email or telephone.

Yours sincerely


Jarrah O'Shea
Executive General Manager Strategy

Our ref: 107790-18
Your ref: PS23 Price Submission
Page 1 of 2

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10 November 2022

Dear Mr O'Shea

COLIBAN WATER PRICE SUBMISSION 2023-2028 – BASIS FOR NEW CUSTOMER CHARGES

I refer to the above price submission (**CW submission**), presently being reviewed by the Essential Services Commission (**ESC**). I note that any submissions must be lodged with the ESC by 1 December 2022.

This firm has been retained by MG Estates Pty Ltd to prepare its submission to the ESC.

The CW submission states (at p 106) that CW is "*...not proposing any significant tariff reforms for the upcoming Regulatory Period other than the proposed increases to NCCs*". The manner in which the rate of the proposed NCCs is calculated, however, is not readily apparent from the content of the CW submission, including the Financial Model Template (**FMT**) lodged with the ESC.

In particular, it is impossible to ascertain from the CW submission and the FMT if the forecast capital expenditure (upon which the rate of the NCCs is derived) is limited to "*...capital expenditure that would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering service outcomes, taking into account a longterm planning horizon* (see 2023 Water Price Review - Guidance Paper (ESC) at p 33).

In this regard, I note that the *Water Industry Regulatory Order 2014* expressly requires (at clause 11(d)), amongst other things, that any price determination by the ESC should enable customers of CW to "*...easily understand the prices charged, ...or the manner in which such prices are calculated, determined or otherwise regulated*".

Accordingly, in order that the submission to be lodged by MG Estates is both properly informed and of assistance to the ESC in its review of the CW submission and its, subsequent, price determination, I request the following information and any supporting reports and calculations:

- How are the NCC's calculated?
- What catchments and projects are included in the NCC's?
- What component of the NCC's comprise growth related projects and what component covers general works?
- What is the justification for the 20% annual increase in the NCCs for sewer works?

Please also provide the justification for the Advanced PREMO rating proposed by CW for its Engagement program. The claims set out in section 2.4 and Ch 5 of the CW submission are not readily reconcilable with the limited engagement with developers and the minimal transparency of the projects included in the NCC calculation.

I note that the information requested above has previously been requested by Mr Tangey of MG Estates in discussions with your officers and also in his response to CW's survey on 20 September 2022.



I look forward to receipt of the requested information within fourteen (14) days of the date of this letter.

Please note that a copy of this request will be included in MG Estates' submission to the ESC and, particularly if the requested information is not forthcoming. If you require any additional details, please do not hesitate to contact me on [REDACTED].

Yours faithfully
For and on behalf of
Currie & Brown (Australia) Pty Ltd



Gerard Gilfedder
Associate
Manager Planning Services

E [REDACTED]
M [REDACTED]

29 November 2022

Mr Gerard Gilfedder
Currie & Brown (Australia) (acting for MG Estates)
10 Queen Street
MELBOURNE VIC 3000

Dear Mr Gilfedder

Coliban Water Price Submission 2023-2028 – Basis for New Customer Contributions

Thank you for your letter of 10 November 2022 in relation to the basis for the New Customer Contributions (**NCCs**).

Our Price Submission is underpinned by a large increase in capital expenditure to \$435 million for our *Big Water Build* to meet the challenges of climate change, growth and ageing assets. In the absence of additional growth capital expenditure, we would face the real risk of being unable to accommodate regional growth especially in regions outside the Bendigo Creek Valley. Undersized assets can lead to low water flow-rates and environmental harm if sewer networks cannot cope with storm flows that are expected to increase in magnitude as climate change intensifies.

Population growth for Bendigo was, until recently, largely confined to the main Bendigo Creek Valley. This meant that asset augmentation was generally straightforward with water pressurised from Sandhurst Reservoir at Big Hill and wastewater flowing by gravity to the Bendigo Water Reclamation Plant at Epsom. Recent growth to the north, east and west of this valley is costly to serve as various pumping and major asset augmentations are required. Also, we must ensure that new growth is served by assets compliant with environmental and health legislation, and compliance is made more difficult as climate change increasingly impacts our service provision.

The NCCs are designed to ensure that we can fund the works required in order to support growth across the region. You have raised several issues which are addressed variously in our Price Submission and in the New Customer Contributions Proposal Summary (attached to this letter) provided to developers on 14 September 2022. The following will provide some additional detail.

A prudent service provider

All projects included in the Price Submission were subject to rigorous internal and external assessment. Project options were subject to a risk assessment, a Multi-Criteria Assessment and were evaluated using a net present value approach. All projects in excess of \$5M were subject to review by an independent cost estimator with experience in the industry. Risk-based prioritisation ensured only the most important projects are included in our Price Submission. This multi-step process ensured project selection and cost estimation is optimised to the achieve the lowest cost of delivering service outcomes.

We have had numerous meetings with developers over the last year regarding their plans and this has underpinned our growth capital planning. We have proactively provided detailed advice on staging requirements to utilise existing network capacity as this may be more efficient than creating new capacity. Pipelines in Maiden Gully and Marong have been realigned to bring connection approximately 500 metres closer to your client's development so your client can realise cost savings. Consistent with rules applying to all developers, your client is required to provide infrastructure required to service its developments. This includes sewer pump stations, noting that we have incorporated your client's feedback that a discounted NCC should apply in this situation.

These examples show our commitment to work with the development community to achieve lower service delivery costs., while also managing the challenges of climate change, growth and ageing infrastructure for all customers in our service region.

How are the NCCs calculated

The level of NCCs are calculated to ensure that new customers are bearing the costs of their developments so that existing customers are not disadvantaged by growth.

Generally speaking, higher density growth within the Bendigo Creek Valley is cheaper to serve and greenfield growth in suburbs such as Strathfieldsaye, Maiden Gully and Marong is far more expensive. While some water corporations apply a differential NCC (higher rates for greenfield, lower rates for infill), we have decided to apply a standard NCC across our region.

The NCCs are based on a Net Present Cost calculation of the growth proportion of assets, shared between the forecast connections. There are two key aspects to this; growth rates and the proportion of the assets delivery costs borne by the NCCs. The method adopted is outlined on page 105 of our 2023 Price Submission.

The rate of growth is based on historic connection rates calculated over the last twenty years. This is generally a higher rate than forecast by Victoria in Future which results in lower NCCs than if lower growth rates were assumed. Our adoption of this growth rate reflects recently witnessed growth pressures and our support for the development of Bendigo.

What component of the NCCs comprise growth related projects and what component covers general works?

The rates of growth and proportion of projects to be attributed to NCCs is discussed on page 6 of the New Customer Contributions Proposal Summary.

Many projects have multiple drivers. For example, a water pipeline not meeting existing service levels for flow rate requirements may be duplicated to provide additional growth capacity. The main driver is Service Improvement and the secondary driver is Growth. Where multiple drivers exist, the growth proportion has been capped at 33%, which means that existing customers bear 67% of the costs of these projects. This is consistent with our standard approach of charging existing customers for compliance and charging new customers for the upsizing. For areas where growth is less than about 1%, projects are assumed to be 100% attributable to existing customers and excluded from NCCs.

Initially, several projects were identified as Growth only, including Trentham Water Treatment Plant (\$16 million) and the Castlemaine Water Reclamation Plant (\$54 million). However, in direct response to feedback from the development industry the proportion of these projects included in NCCs was reduced to 33% and 14% respectively. No costs for the funding of general works, carbon mitigation projects or asset renewals were included in NCCs.

What catchments and projects are included in the NCCs?

Catchments, systems and suburbs with growth related projects are as follows:

Catchment	System	Suburbs
Campaspe	Goornong	Goornong
Coliban Northern	Axedale	Axedale
	Bendigo	Bendigo Central
		Bendigo West
		Bendigo East
		Strathfieldsaye and Junortoun
		Maiden Gully and Marong
		Huntly
		Golden Square
		Kangaroo Flat
		Big Hill
		Eaglehawk
Coliban Southern	Castlemaine	Castlemaine
		Harcourt
		Newstead
		Campbell's Creek
	Kyneton	Kyneton
		Malmsbury
		Tylden
Trentham	Trentham	
Loddon	Wedderburn	Wedderburn
Murray	Cohuna	Cohuna

Works will be undertaken in other suburbs and regions but the growth-related component of these projects is not included in NCCs.

What is the justification for the 20% annual increase in the NCCs for sewer works?

In our engagement with developers, we outlined the significant uplift in growth capital expenditure and average incremental cost. To fully recoup the costs of the growth projects, we would be imposing the year five rates immediately. We sought feedback on whether developers would prefer a single step increase or for increases to be capped at 20% per annum. Feedback was mixed – several developers noted that NCCs as a proportion of average land prices was much lower than 10-20 years ago, even if the NCCs were increased up front rather than being phased in.

However, a sudden price shock could have a negative impact on development and could inhibit economic progress. We decided to implement the majority view of developers and phase in the NCC increases over five years. This means that from 2023 to 2028 about a quarter of the cost of growth projects will be funded by existing customers who will benefit from the consequential job growth arising from development.

We have heard feedback from developers that the need for sewer pump stations is expensive and stifles growth. We have responded to this feedback in two ways:

1. **Shared** sewer pump stations: In situations where a sewer pump station is required to serve two unrelated developments, this cost will be borne by Coliban Water.

2. **Private** sewer pump stations: In recognition of the significant cost of a sewer pump station solely for one development, we agreed to provide a discount of up to \$1,500 per lot. This means some developers will see price decreases in NCCs until 2027 compared to an alternative inflation only approach.

Based on feedback regarding the water NCC, we have agreed to fund “link-up” costs for assets with legacy compliance issues rather than have this funded by developers. While there is a step change in the water NCC of 20% followed by 10% in future years, this phased increase is less than sewer due to the overall lower increase and the lesser value of new inclusions in the water NCC than the sewer NCC.

Our engagement program with developers

The engagement program with developers is outlined on page 3 of the New Customer Contribution Proposal. In this document we detailed the eight occasions on which we and VicWater approached developers and provided opportunities for developer input. The input we received from the development industry across our region fundamentally shaped our submission, including:

- Phasing average incremental cost charge across five years rather than up-front.
- Reducing the proportion of Castlemaine and Trentham projects within the NCC.
- Shared sewer pump stations included within NCCs.
- Significant discount to NCCs where developers have to solely fund pump stations.
- Inclusion of water link-up costs.
- Growth Capital Expenditure Guarantee for sewer NCCs.

This engagement demonstrates that on many occasions we shaped our plans to reflect developer views, consistent with a positive PREMO rating for Engagement.

Summary

Overall, we are confident we have struck the right balance between ensuring that developers and existing customers both pay a fair share of costs as we proceed with our \$435 million *Big Water Build*. While we understand some developers are not supportive of overall price increases, we have adapted our plan to incorporate developer feedback wherever possible.

NCC increases have been phased in as requested by developers and to ease any price shocks. Shared sewer pump stations will now be paid for by Coliban Water, and developers with private sewer pump stations may actually face lower real sewer NCCs for the next three years. Water NCCs will now include link-up costs due to legacy network arrangements. Lastly, our innovative Growth Capital Guarantee will provide a 20% fixed rebate to the sewer NCC where our growth capital expenditure fails to meet required levels.

If you have any further queries, please feel free to contact us at economics@coliban.com.au.

Yours faithfully



Jarrah O’Shea
Executive General Manager Strategy

Attachments: New Customer Contributions Proposal Summary

»»» **New Customer
Contributions**
Proposal summary

Pricing Submission 2023-2028



New Customer Contributions



Our proposal

Coliban Water is planning to increase capital expenditure in the 2023-2028 pricing period. Growth Capital Expenditure (GCE) is also set to increase significantly compared to historical expenditure.

In Bendigo, the primary water supply point is located at Sandhurst Reservoir, and the main receival point for sewage is at Epsom.

It is efficient to provide water and sewer services to a city in a valley centred around the Bendigo Creek – natural gravity is sufficient for the optimal provision of both water and sewer services.

However, in recent years the Bendigo Creek valley has become increasingly full and little large-scale residential development remains.

Development is occurring to the north (Huntly), east (Strathfieldsaye East) and west (Maiden Gully and Marong). As growth radiates outwards, we incur capital costs for asset upsizing right along the networks, as well as upgrades at storages and treatment facilities. Required pump stations also add to operating costs and carbon emissions.

During the last five years, the towns of Echuca, Castlemaine, Kyneton and Trentham have growth in response to COVID-19 and the implementation of strategic growth plans in these towns. This is necessitating upgrades to treatment facilities.

As a result, we're proposing to increase the level of New Customer Contributions (NCCs). As the level of GCE increases, it becomes more unsustainable to pass these costs onto existing customers.

This is a theme we received strong feedback on during the extensive customer engagement that shaped our 2023-2028 Price Submission.

The proposed levels of NCCs have been shaped by engagement completed with the development community.

This has included one-on-one discussions with key staff and face-to-face, online and hybrid meetings.










We started with a survey about engagement preferences and key issues, and then conducted a series of meetings and surveys. Feedback from this process allowed us to refine options for our NCC proposal.

Through the engagement process, we will for the first time have all shared pump stations now included within NCCs. Furthermore, any developer that needs to build their own sewer pump station to service their own development will receive a partial rebate on their sewer NCCs, up to a maximum of \$1,500 per lot .



Engagement timeline



-  **Pre-engagement survey**
On 4 August 2021 we sent out a preliminary survey to help us design and develop content for future conversations with the land development community including identifying what the key issues are.
-  **Land Development workshop**
On 23 November 2021 we held a forum with developers and consultants to share information and had some great discussions and received some valuable feedback.
-  **Vicwater research project**
Between October 2021 & April 2022, VicWater led a project to look at an industry wide approach to calculating New Customer Contributions's.
-  **Developer information sessions**
Between 21 - 23 June 2022, we held information sessions with developers to discuss what the outcomes of the VicWater research will mean for pricing and service.
-  **Post information session survey**
On 19 July 2022 we sent a survey to everyone to get feedback from people who couldn't attend the information sessions.
-  **Additional information session**
on 4 August 2022 we held an additional session to discuss options for how New Customer Contributions could be calculated and charged.
-  **Options survey**
On 4 August 2022 we distributed a survey for key developers to vote on preferred option for New Customer Contributions, as agreed at the additional information session.
-  **Information pack**
On 14 September 2022 we provided a pack containing additional information, and sought further input on part of our final position to developers.
-  **Close the loop**
We will let you know when our Pricing Submission 2023 - 2028 has been submitted and approved by the Essential Services Commission.



Proposed NCCs for Price Submission 2023 (PS23)



The proposed level of Sewer NCCs is:

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer NCC – standard	\$1,789	\$2,147	\$2,576	\$3,091	\$3,710	\$4,452
Sewer NCC – discounted (min)	NA	\$647	\$1,076	\$1,591	\$2,210	\$2,952

As discussed during previous consultation, the sewer NCC will be subject to an increase of 20% per annum. It has been agreed that shared sewer pump stations will be fully funded by Coliban Water with the cost being recouped through these NCCs.

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Base Case Proposed	\$1,789	\$1,968	\$2,165	\$2,381	\$2,619	\$2,881
Developer Preferred Option including link-ups	\$1,789	\$2,147	\$2,361	\$2,598	\$2,857	\$3,143

We were proposing a water NCC with increases of 10% per annum plus inflation. Through engagement with the development community, provision for additional items was requested to within the standard NCC. Specifically, this was additional funding to recover the cost of Coliban Water funding water main link-ups where these resulted from legacy issues.

These do not replace the requirement for developers to fund those required within new developments to comply with relevant codes. This increased the base NCC and was unanimously supported in the survey provided.

Continuing the current approach, Recycled Water NCC will continue to be set at a level of 50% of the Water NCC.

As previously noted, the proposed levels of NCCs are less than the actual 'full cost' that is implied by a direct application of the modelled values. In response to developer feedback, we have chosen to 'phase in' increases in NCCs, rather than apply more significant increases overnight from 1 July 2023.

Growth Capital Expenditure (GCE) Guarantee - Sewer

While the NCCs outlined will partially fund the enhanced capital program, the majority of the program will still continue to be debt funded and paid for by existing customers.

We recognise with the increased NCC levels we also have an increased responsibility to provide assets that service growth – now and in the future. Therefore, we are seeking feedback on the implementation of a **GCE Guarantee** for sewer services.

We have proposed to spend the following levels of capital expenditure related to sewer growth:

Base Case Plus Rebate	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer GCE	\$7.7m	\$9.0m	\$9.7m	\$10.1m	\$10.6m

For each year, we can calculate the proposed period-to-date capital expenditure:

Base Case Plus Rebate	2023-24 (only)	2023-24 to 2024-25	2023-24 to 2025-26	2023-24 to 2026-27	2023-24 to 2027-28
Sewer GCE	\$7.7m	\$16.7m	\$26.4m	\$36.5m	\$47.1m



For example, our proposed 2022-23 sewer GCE is \$7.7 million (in real terms) based on current forecasts. Our proposal is that if we underspend on our GCE by 10% or more (delivering less than 90% of GCE), we will provide a matching rebate to NCCs of 10% in the following year.

We believe this provides a greater reflection of NCC cost for the capital delivery each year.

The following table outlines how the GSE Guarantee approach would work:

2023-24	NCCs will be \$2,147 (no rebate) OR as low as \$647 (full private pump station rebate)				
2024-25	If Sewer GCE	In 23-24	<90% proposed GCE	(\$6.9m)	We will rebate 2024-25 Sewer NCCs by 10%
2025-26	If Sewer GCE	In 23-24 and 24-25	<90% proposed GCE	(\$15.0m)	We will rebate 2025-26 Sewer NCCs by 10%
2026-27	If Sewer GCE	From 23-24 to 25-26	<90% proposed GCE	(\$23.8m)	We will rebate 2026-27 Sewer NCCs by 10%
2027-28	If Sewer GCE	From 23-24 to 26-27	<90% proposed GCE	(\$33.0m)	We will rebate 2027-28 Sewer NCCs by 10%
2028-29	To be proposed in our Price Submission 2028.				

Key capital projects

The key capital projects that have been costed and included in the PS23 pricing period are listed below.

There are a range of reasons these projects have been selected as part of our capital delivery portfolio for the next five years, with *catering for growth* a key driver. These projects have been fully factored into the proposed New Customer Contributions (NCCs).

Further to the feedback received from the development community, we have outlined the growth component of these projects to help provide a better understanding of how the NCCs have been calculated.

Where the primary driver for the project is growth, the full cost of the project has been included in the NCC calculation. Examples include the Axedale WRP, and water pipe upgrades in Marong and Maiden Gully.

The exception to this is the Trentham WTP. In response to developer feedback, we acknowledge the community will benefit from the provision of a newer treatment plant and, therefore, only a proportion of the costs have been assigned to the NCC.

Where there are multiple drivers for upgrades, the majority of the cost is assigned to the community. Based on previous analysis, an upper limit of 30% of the cost has been assigned to these projects.

In order to reflect the influence of growth, the percentage adopted is proportional to the growth rate in the relevant area. In those areas where the growth is less than 1% per annum, no growth upgrade has been applied to project.

For planning purposes, the long-term rate of growth is generally applied. This is calculated over twenty years. The short-term growth rates are included overleaf. They reflect the changes associated with the current pandemic and the strategic growth projects undertaken by local governments.



The following shows the rate of growth in the towns where major works are occurring:

Town	Water Growth Rate		Sewer Growth Rate	
	Long-term	Short-term	Long-term	Short-term
Axedale	2.8%	5.8%	3.5%	6.8%
Bendigo	2.2%	1.7%	2.3%	2.2%
Castlemaine (incl Harcourt)	1.4%	1.8%	2.8%	2.3%
Kyneton	1.8%	1.7%	3.0%	2.2%
Trentham	3.4%	3.7%	4.0%	4.9%
Echuca	1.8%	1.4%	1.9%	1.7%
Cohuna	1.0%	1.3%	0.7%	1.1%
Goornong	1.1%	2.0%	NA	NA

The following shows major works for the proposed level of capital expenditure broken down by both regulatory period (2023-2028 or 2028+) and growth component:

Town	Total Capital Expenditure		Growth component	
	2023-2028 (PS23)	2028+ (PS28)	2023-2028 (PS23)	2028+ (PS28)
Axedale WRP	\$1m	-	\$1m	-
Bendigo WRP	\$78m	\$66m	\$23m	\$35m
Bendigo sewage network	\$48m	\$78m	\$11m	\$41m
Bendigo WTP	\$5m	\$41m	\$2m	\$35m
Bendigo water network	\$11m	\$29m	\$7m	\$8m
Castlemaine WRP	\$34m	\$22m	\$5m	\$2m
Castlemaine sewer network	\$11m	\$1m	\$2m	\$0m
Castlemaine WTP	\$1m	\$10m	\$1m	\$10m
Kyneton sewer network	\$8m	\$5m	\$1m	\$0m
Kyneton WTP	\$0.1m	\$3m	\$0.1m	\$3m
Goornong WTP	\$14m	\$3m	\$1m	\$1m
Echuca/Cohuna WTPs	\$13m	-	\$2m	-
Trentham WTP	\$15m	\$1m	\$5m	-

Delivery of specific projects may be subject to delays in delivery. When overall capital expenditure is less than the GCE threshold (90%), the GCE Guarantee will apply. Note, other works will occur across our network in response to growth and other drives each year.

Axedale Water Reclamation Plant upgrade

These works will involve a new reuse system and lagoon upgrades to cater for a greater number of customers in this network.

Bendigo Water Reclamation Plant upgrades

This is a significant upgrade to our wastewater treatment capacity and facilities that will be delivered over the PS23 and PS28 pricing periods. A total project cost of \$144 million will be spent in upgrades to treatment assets, odour omissions and sludge processing. This is a critical project to cater for growth.

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To continue to support growth and meet demand on our water treatment plant, the membranes that treat drinking water for the Bendigo region need to be duplicated. The design component for this project will be delivered this pricing period, with the works scheduled for PS28.

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Water supply networks are currently being expanded across major growth fronts in Huntly, Strathfieldsaye and Maiden Gully/Marong. This will continue for ten years (PS23 and PS28). In PS23 we will complete the upgrade and expansion of the Maiden Gully/Marong network. Further investments in Huntly and Strathfieldsaye will follow in PS28.

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The Castlemaine Water Reclamation Plant is at capacity and urgently requires upgrading to meet growth and compliance at the site.

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The large sewer mains and pump stations across the Kyneton network require upgrading as a result of growth within the township, and satellite towns like Trentham.

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Echuca and Cohuna Water Treatment Plant upgrades

Both the Cohuna and Echuca Water Treatment Plants require upgrades to accommodate continued growth in the area.

Cohuna will need a completely new treatment plant in the coming decade. However, works in the next five years will focus on the expansion of the plant's ability to meet demand and improve water quality.

Similarly, works in Echuca will improve water quality but are also designed to assist in meeting the demands of the expanding community.

Trentham Water Treatment Plant upgrade

To support the growing community of Trentham, the water treatment plant needs to be more than 50% larger than its current capacity.



Your feedback:

Please complete the following survey by 5pm on Tuesday 20 September

Group and individual feedback from the developer community, along with consultation with customers more broadly, has informed the Price Submission process.

We have firmed our position on the following points outlined in this document:

- The level of NCCs
- Linking of NCCs to overall growth capital expenditure (we need to ensure flexibility to serve developers even if it occurs differently to what's currently planned).
- The Inclusion of sewer rising mains within NCCs when these need upsizing or are part of shared sewer pump stations.

We now need you feedback on the following:

1. Regardless of NCC levels, do you support our approach of rebating NCCs where we do not spend sufficient Growth Capital Expenditure (GCE Guarantee)?
2. Should we use a different figure other than 10% for the rebate? For example, we would consider an approach where we provide a 20% rebate of sewer NCCs where we spend less than 80% of our proposed Growth Capital Expenditure.
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»»» **New Customer Contributions**
Proposal summary

Pricing Submission 2023-2028



New Customer Contributions



Our proposal

Coliban Water is planning to increase capital expenditure in the 2023-2028 pricing period. Growth Capital Expenditure (GCE) is also set to increase significantly compared to historical expenditure.

In Bendigo, the primary water supply point is located at Sandhurst Reservoir, and the main receival point for sewage is at Epsom.

It is efficient to provide water and sewer services to a city in a valley centred around the Bendigo Creek – natural gravity is sufficient for the optimal provision of both water and sewer services.

However, in recent years the Bendigo Creek valley has become increasingly full and little large-scale residential development remains.

Development is occurring to the north (Huntly), east (Strathfieldsaye East) and west (Maiden Gully and Marong). As growth radiates outwards, we incur capital costs for asset upsizing right along the networks, as well as upgrades at storages and treatment facilities. Required pump stations also add to operating costs and carbon emissions.

During the last five years, the towns of Echuca, Castlemaine, Kyneton and Trentham have growth in response to COVID-19 and the implementation of strategic growth plans in these towns. This is necessitating upgrades to treatment facilities.

As a result, we're proposing to increase the level of New Customer Contributions (NCCs). As the level of GCE increases, it becomes more unsustainable to pass these costs onto existing customers.

This is a theme we received strong feedback on during the extensive customer engagement that shaped our 2023-2028 Price Submission.

The proposed levels of NCCs have been shaped by engagement completed with the development community.

This has included one-on-one discussions with key staff and face-to-face, online and hybrid meetings.










We started with a survey about engagement preferences and key issues, and then conducted a series of meetings and surveys. Feedback from this process allowed us to refine options for our NCC proposal.

Through the engagement process, we will for the first time have all shared pump stations now included within NCCs. Furthermore, any developer that needs to build their own sewer pump station to service their own development will receive a partial rebate on their sewer NCCs, up to a maximum of \$1,500 per lot .



Engagement timeline



-  **Pre-engagement survey**
On 4 August 2021 we sent out a preliminary survey to help us design and develop content for future conversations with the land development community including identifying what the key issues are.
-  **Land Development workshop**
On 23 November 2021 we held a forum with developers and consultants to share information and had some great discussions and received some valuable feedback.
-  **Vicwater research project**
Between October 2021 & April 2022, VicWater led a project to look at an industry wide approach to calculating New Customer Contributions's.
-  **Developer information sessions**
Between 21 - 23 June 2022, we held information sessions with developers to discuss what the outcomes of the VicWater research will mean for pricing and service.
-  **Post information session survey**
On 19 July 2022 we sent a survey to everyone to get feedback from people who couldn't attend the information sessions.
-  **Additional information session**
on 4 August 2022 we held an additional session to discuss options for how New Customer Contributions could be calculated and charged.
-  **Options survey**
On 4 August 2022 we distributed a survey for key developers to vote on preferred option for New Customer Contributions, as agreed at the additional information session.
-  **Information pack**
On 14 September 2022 we provided a pack containing additional information, and sought further input on part of our final position to developers.
-  **Close the loop**
We will let you know when our Pricing Submission 2023 - 2028 has been submitted and approved by the Essential Services Commission.



Proposed NCCs for Price Submission 2023 (PS23)



The proposed level of Sewer NCCs is:

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer NCC – standard	\$1,789	\$2,147	\$2,576	\$3,091	\$3,710	\$4,452
Sewer NCC – discounted (min)	NA	\$647	\$1,076	\$1,591	\$2,210	\$2,952

As discussed during previous consultation, the sewer NCC will be subject to an increase of 20% per annum. It has been agreed that shared sewer pump stations will be fully funded by Coliban Water with the cost being recouped through these NCCs.

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Base Case Proposed	\$1,789	\$1,968	\$2,165	\$2,381	\$2,619	\$2,881
Developer Preferred Option including link-ups	\$1,789	\$2,147	\$2,361	\$2,598	\$2,857	\$3,143

We were proposing a water NCC with increases of 10% per annum plus inflation. Through engagement with the development community, provision for additional items was requested to within the standard NCC. Specifically, this was additional funding to recover the cost of Coliban Water funding water main link-ups where these resulted from legacy issues.

These do not replace the requirement for developers to fund those required within new developments to comply with relevant codes. This increased the base NCC and was unanimously supported in the survey provided.

Continuing the current approach, Recycled Water NCC will continue to be set at a level of 50% of the Water NCC.

As previously noted, the proposed levels of NCCs are less than the actual 'full cost' that is implied by a direct application of the modelled values. In response to developer feedback, we have chosen to 'phase in' increases in NCCs, rather than apply more significant increases overnight from 1 July 2023.

Growth Capital Expenditure (GCE) Guarantee - Sewer

While the NCCs outlined will partially fund the enhanced capital program, the majority of the program will still continue to be debt funded and paid for by existing customers.

We recognise with the increased NCC levels we also have an increased responsibility to provide assets that service growth – now and in the future. Therefore, we are seeking feedback on the implementation of a **GCE Guarantee** for sewer services.

We have proposed to spend the following levels of capital expenditure related to sewer growth:

Base Case Plus Rebate	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer GCE	\$7.7m	\$9.0m	\$9.7m	\$10.1m	\$10.6m

For each year, we can calculate the proposed period-to-date capital expenditure:

Base Case Plus Rebate	2023-24 (only)	2023-24 to 2024-25	2023-24 to 2025-26	2023-24 to 2026-27	2023-24 to 2027-28
Sewer GCE	\$7.7m	\$16.7m	\$26.4m	\$36.5m	\$47.1m



For example, our proposed 2022-23 sewer GCE is \$7.7 million (in real terms) based on current forecasts. Our proposal is that if we underspend on our GCE by 10% or more (delivering less than 90% of GCE), we will provide a matching rebate to NCCs of 10% in the following year.

We believe this provides a greater reflection of NCC cost for the capital delivery each year.

The following table outlines how the GSE Guarantee approach would work:

2023-24	NCCs will be \$2,147 (no rebate) OR as low as \$647 (full private pump station rebate)				
2024-25	If Sewer GCE	In 23-24	<90% proposed GCE	(\$6.9m)	We will rebate 2024-25 Sewer NCCs by 10%
2025-26	If Sewer GCE	In 23-24 and 24-25	<90% proposed GCE	(\$15.0m)	We will rebate 2025-26 Sewer NCCs by 10%
2026-27	If Sewer GCE	From 23-24 to 25-26	<90% proposed GCE	(\$23.8m)	We will rebate 2026-27 Sewer NCCs by 10%
2027-28	If Sewer GCE	From 23-24 to 26-27	<90% proposed GCE	(\$33.0m)	We will rebate 2027-28 Sewer NCCs by 10%
2028-29	To be proposed in our Price Submission 2028.				

Key capital projects

The key capital projects that have been costed and included in the PS23 pricing period are listed below.

There are a range of reasons these projects have been selected as part of our capital delivery portfolio for the next five years, with *catering for growth* a key driver. These projects have been fully factored into the proposed New Customer Contributions (NCCs).

Further to the feedback received from the development community, we have outlined the growth component of these projects to help provide a better understanding of how the NCCs have been calculated.

Where the primary driver for the project is growth, the full cost of the project has been included in the NCC calculation. Examples include the Axedale WRP, and water pipe upgrades in Marong and Maiden Gully.

The exception to this is the Trentham WTP. In response to developer feedback, we acknowledge the community will benefit from the provision of a newer treatment plant and, therefore, only a proportion of the costs have been assigned to the NCC.

Where there are multiple drivers for upgrades, the majority of the cost is assigned to the community. Based on previous analysis, an upper limit of 30% of the cost has been assigned to these projects.

In order to reflect the influence of growth, the percentage adopted is proportional to the growth rate in the relevant area. In those areas where the growth is less than 1% per annum, no growth upgrade has been applied to project.

For planning purposes, the long-term rate of growth is generally applied. This is calculated over twenty years. The short-term growth rates are included overleaf. They reflect the changes associated with the current pandemic and the strategic growth projects undertaken by local governments.



The following shows the rate of growth in the towns where major works are occurring:

Town	Water Growth Rate		Sewer Growth Rate	
	Long-term	Short-term	Long-term	Short-term
Axedale	2.8%	5.8%	3.5%	6.8%
Bendigo	2.2%	1.7%	2.3%	2.2%
Castlemaine (incl Harcourt)	1.4%	1.8%	2.8%	2.3%
Kyneton	1.8%	1.7%	3.0%	2.2%
Trentham	3.4%	3.7%	4.0%	4.9%
Echuca	1.8%	1.4%	1.9%	1.7%
Cohuna	1.0%	1.3%	0.7%	1.1%
Goornong	1.1%	2.0%	NA	NA

The following shows major works for the proposed level of capital expenditure broken down by both regulatory period (2023-2028 or 2028+) and growth component:

Town	Total Capital Expenditure		Growth component	
	2023-2028 (PS23)	2028+ (PS28)	2023-2028 (PS23)	2028+ (PS28)
Axedale WRP	\$1m	-	\$1m	-
Bendigo WRP	\$78m	\$66m	\$23m	\$35m
Bendigo sewage network	\$48m	\$78m	\$11m	\$41m
Bendigo WTP	\$5m	\$41m	\$2m	\$35m
Bendigo water network	\$11m	\$29m	\$7m	\$8m
Castlemaine WRP	\$34m	\$22m	\$5m	\$2m
Castlemaine sewer network	\$11m	\$1m	\$2m	\$0m
Castlemaine WTP	\$1m	\$10m	\$1m	\$10m
Kyneton sewer network	\$8m	\$5m	\$1m	\$0m
Kyneton WTP	\$0.1m	\$3m	\$0.1m	\$3m
Goornong WTP	\$14m	\$3m	\$1m	\$1m
Echuca/Cohuna WTPs	\$13m	-	\$2m	-
Trentham WTP	\$15m	\$1m	\$5m	-

Delivery of specific projects may be subject to delays in delivery. When overall capital expenditure is less than the GCE threshold (90%), the GCE Guarantee will apply. Note, other works will occur across our network in response to growth and other drivers each year.

Axedale Water Reclamation Plant upgrade

These works will involve a new reuse system and lagoon upgrades to cater for a greater number of customers in this network.

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