

Coliban Water final decision

2023 Water Price Review

23 June 2023

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Summary

We have made our final decision on Coliban Water's prices for the next 5 years

In April 2023, we released our draft decision on the price submission Coliban Water submitted to us in September 2022.¹ The draft decision set out our preliminary views on Coliban Water's proposals and invited interested parties to make further submissions. We also held a public forum in May 2023. In addition to four responses by Coliban Water, we received nine written submissions on our draft decision, which are available on our website (see Appendix A of this final decision for details).

After considering that feedback and Coliban Water's response, we have made a price determination for Coliban Water.² The price determination sets out the maximum prices Coliban Water may charge for prescribed services (or the manner in which its prices are to be calculated, determined, or otherwise regulated) for the 5-year period from 1 July 2023 (2023–28). This final decision sets out our supporting reasons and analysis for the price determination.



Where our final decision on a particular aspect is unchanged from our draft decision, we have not detailed the supporting reasons in our final decision. Rather, we have noted that our final decision confirms the reasons and position we reached in the draft decision.

Where we have reached a different decision to that proposed in our draft decision, or where new information required our consideration, we have set out our reasons in full in this final decision. This final decision should be read in conjunction with our draft decision.

¹ Our draft decision for Coliban Water is available at www.esc.vic.gov.au/waterpricereview.

² Before the commencement of a regulatory period, clause 10 of the Water Industry Regulatory Order 2014 requires us to make a price determination which determines the maximum prices a water business may charge, or the manner in which its prices are to be calculated, determined or otherwise regulated during the regulatory period. See Essential Services Commission, *Coliban Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

We have approved a revenue requirement of \$728.1 million over 5 years

Our final decision approves a revenue requirement of \$728.1 million over the 5-year period starting 1 July 2023 (see Chapter 4).³ This is \$0.7 million or 0.1 per cent higher than our draft decision. The main adjustments to the revenue requirement since our draft decision are an increase in the return on assets (mainly reflecting our update to the cost of debt), mostly offset by a decrease in regulatory depreciation.

This revenue requirement will allow Coliban Water to deliver on its customer service commitments, government policy, statements of obligations, and obligations monitored by the Environment Protection Authority Victoria and the Department of Health.

Typical water and sewerage bills will rise from 1 July 2023

A summary of approved maximum prices for major services delivered by Coliban Water is set out in Section 5.3.2. Table A shows the estimated typical bills for different customer groups under our final decision. For a typical residential owner occupier, annual water and sewerage bills (including inflation) will rise from around \$1,367 in 2022-23 to around \$1,477 in 2023-24, which is an increase of around 8.0 per cent. For a typical residential tenant, bills (including inflation) will rise from around \$439 to \$474, also an increase of around 8.0 per cent.

After 2023-24, typical household bills will increase by around 2.5 per cent per year until 2027-28, excluding inflation.

The bill paid by each customer will vary depending on water use, prices for fixed and variable tariffs, and other charges.

³ The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health. Along with forecast demand, it is an input to calculating the prices to be charged by a water business.

Table A **Estimated typical annual water and sewerage bills**

Customer group	Average consumption (kL p.a.)	2022-23 (current)	2023-24
		\$2022-23	\$2023-24
Residential – owner occupier	192	\$1,367	\$1,477
Residential – tenant	192	\$439	\$474
Non-residential (small)	100	\$1,157	\$1,249
Non-residential (medium)	900	\$3,652	\$3,943

Note: The table shows the average bills for 2023-24 expressed in \$2023-24 terms (which means 7 per cent inflation has been included). Our draft decision included bill estimates based on our draft decision revenue requirement, expressed in \$2022-23 terms as the inflation figure was not available at this time. Our determination for Coliban Water sets prices in \$2023-24 terms, with provision for inflation to be added in each of the remaining years of the regulatory period based on the latest inflation data. Dollar amounts have been rounded.

Coliban Water has committed to delivering outcomes that reflect customer priorities

Coliban Water plans to deliver the following outcomes for customers:

- We will supply high quality water you can trust
- We will provide services to meet the needs of our customers now and into the future
- We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations
- Our investment will support the economic prosperity of our region
- We will support customers in need.⁴

Among the key initiatives to deliver on its commitments, Coliban Water plans investments to renew and upgrade its infrastructure to meet compliance obligations, support reliable services for its customers, help to address future growth, and adapt to climate change. Coliban Water has also committed to improving performance on proactive customer notifications as part of a broader goal to enhance the effectiveness of its engagement with its customers.

⁴ Coliban Water, 2023 water price submission, September 2022, p 88–93.

Coliban Water has considered the impacts of relatively high inflation, lowering prices for 2023-24 compared to its original proposal

Our draft decision sought further information from Coliban Water on how it intends to address impacts of relatively high inflation in 2023-24 on prices, customer bills, and expenditure. In its response to our draft decision, Coliban Water proposed to reduce the increase in prices that it had proposed in its price submission for 2023-24, which was made possible by a lower revenue requirement.

Coliban Water also noted its customer-supported programs for those experiencing vulnerability, with greater funding provided through its Coliban Assist Program, that will help to ensure customers can get support they need when they need it.

More information is available in Coliban Water’s response to our draft decision.⁵

Tariff structures remain generally the same

Consistent with our draft decision, our final decision approves Coliban Water’s proposed tariff structures, as they are generally a continuation of its current approach and otherwise meet the criteria in our guidance.

For water services, our final decision approves a two-part tariff with a fixed service charge and a variable usage component that depends on water use. For residential sewerage services, our final decision approves a fixed charge only. For non-residential sewerage services, our final decision approves a two-part tariff with a fixed service charge and a variable usage component. Our final decision also approves discounted annual wastewater access fees for Elmore customers, in recognition that the town will receive a lower level of service than other towns (we consider this justifies a lower charge for the town).

Consistent with our draft decision, our final decision approves Coliban Water’s proposed price cap form of price control including because it is a continuation of its current approach. This means its maximum prices are fixed subject to updates for inflation and cost of debt, and any other price adjustments we approve in our price determination. Our final decision is also to accept Coliban Water’s proposal to maintain the option to revert to a tariff basket form of price control during the regulatory period because this reflects a continuation of its current approach. For more detail on tariffs and the form of price control, see Chapter 5.

⁵ Coliban Water, *submission in response to the Essential Services Commission ‘Coliban Water draft decision: 2023 water price review’*, 18 May 2023, pp. 51–53.

We have rated Coliban Water’s price submission as ‘Standard’ under the PREMO framework

Consistent with our draft decision, our final decision is to rate Coliban Water’s price submission as ‘Standard’ under the PREMO framework (Table B). This is the same as Coliban Water’s self-rating. Factors in support of Coliban Water’s PREMO rating include:

- Coliban Water has justified the substantive elements of its expenditure forecasts, including the prudence and efficiency of proposed capital expenditure.
- While concerns have been raised in submissions about its engagement with developers, we consider Coliban Water showed strong commitment to the outcomes of its engagement processes and to ensuring customers are afforded influence in its price submission, including by adopting all recommendations of its deliberative community panel.
- Coliban Water proposed an efficiency improvement rate for controllable operating expenditure over the next regulatory period of 1.4 per cent per year, one of the highest efficiency improvement rates of all businesses in the current price review.
- Coliban Water’s proposed targets for its outcome measures suggest an overall improvement in customer service levels. Coliban Water will continue to report annually to its customers on how it has performed against its outcome commitments, and it will continue engaging its customers on its outcomes at its annual regional advisory group forum.
- Coliban Water has also proposed to develop an online dashboard where customers can view more information on its performance against its outcome commitments which we consider will support its accountability to its customers.

Our draft decision was that, while we agreed with Coliban Water’s self-ratings of its price submission for the Engagement, Management and Outcomes elements of PREMO, we disagreed with its self-ratings for Performance and Risk (being ‘Advanced’ and ‘Standard’, respectively). In part, this reflected the increases in operating costs for 2021-22 above the benchmarks adopted at the 2018 price review, and its approach to depreciation, which we considered had not been sufficiently justified. We have retained the ratings set out in our draft decision, being ‘Standard’ and ‘Basic’, respectively for the Performance and Risk elements of PREMO, as described in Chapter 7.

See Section 1.4 for an explanation of the PREMO framework and Chapter 7 for more detail on our assessment of Coliban Water’s price submission.



Our PREMO rating is an assessment of the water business’s price submission and its ambition to deliver outcomes valued by its customers. It is not an assessment of the water business itself.

Table B **PREMO rating**

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Coliban Water's self-rating	Standard	Advanced	Standard	Advanced	Standard	Advanced
Commission's rating	Standard	Standard	Basic	Advanced	Standard	Advanced

1. Our role and approach to water pricing

1.1 We are Victoria's independent economic regulator

Our role in the water industry is based on the Water Industry Regulatory Order 2014 (WIRO), which is made under the *Water Industry Act 1994* (WI Act) and sits within the broader context of the *Essential Services Commission Act 2001* (ESC Act). Our role under the WIRO includes regulating the prices and monitoring service standards of the 18 water businesses operating in Victoria.

1.2 We are reviewing the proposed prices of 14 water businesses

Our review is of the prices that the 14 water businesses propose to charge customers for prescribed services from 1 July 2023.⁶ The prescribed services include retail water and sewerage services, and bulk water and sewerage services delivered by the water businesses.⁷

Coliban Water provided a submission to us proposing prices for a 5-year period starting 1 July 2023. Our task is to assess the price submission using the legal framework and make a price determination that takes effect from 1 July 2023. We make a price determination after issuing a draft decision and considering feedback from interested parties, including any response to the draft decision from the water business.

The price determination specifies the maximum prices a water business may charge for prescribed services, or the manner in which prices are to be calculated, determined or otherwise regulated. We also issue a final decision that sets out our supporting reasons for our price determination.

⁶ The review excludes Melbourne Water, Goulburn-Murray Water, North East Water and Greater Western Water. In 2021 we approved prices for Melbourne Water to 30 June 2026 and in 2020 we approved prices for Goulburn-Murray Water to 30 June 2024. In 2018, we approved prices for North East Water to 30 June 2026. We have approved an extension to the regulatory period for Greater Western Water to 30 June 2024.

⁷ The prescribed services are listed at clause 7(b) of the WIRO.

1.3 We assess prices against the WIRO and other legal requirements

Clause 11 of the WIRO specifies the mandatory matters we must have regard to when making a price determination, including matters set out in the WIRO, the WI Act and the ESC Act, and clause 8 of the WIRO requires that we place particular emphasis on the promotion of efficiency related matters. In making a price determination, we have had regard to each of the matters required by clause 11 of the WIRO, including:

- the objectives and matters specified in clause 8 of the WIRO, which include economic efficiency and viability matters, industry specific matters, customer matters, health, safety, environmental and social matters, and other matters which are specified in sections 8 and 8A of the ESC Act and section 4C of the WI Act
- the matters set out in section 33(3) of the ESC Act, which include the return on assets, relevant benchmarking and any other matters that the ESC considers relevant
- the matters specified in our guidance⁸
- the principle that prices should be easily understood by customers and provide signals about the efficient costs of providing services, while avoiding price shocks where possible
- the principle that prices should take into account the interests of customers of the regulated entity, including low income and vulnerable customers.

Appendix B lists the specific objectives and the various matters we must have regard to when making a price determination and provides a guide to where we have done so for our final decision for Coliban Water. Table 1.1 summarises the matters we must have regard to and groups them into themes.

In October 2021, we issued guidance to water businesses, including Coliban Water, to inform their price submissions. In October 2021, we issued guidance to water businesses, including Coliban Water, to inform their price submissions. The guidance set out how we would assess Coliban Water's price submission against the matters we must consider under clause 11 of the WIRO. It also outlined our expectation that Coliban Water would comply with certain requirements and specified information that Coliban Water must provide to us when submitting its price submission.⁹

⁸ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

⁹ Among these expectations are matters that progress our 'Getting to fair' strategy relating to the water industry. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

If we consider the price submission has adequate regard for the matters in clause 11 of the WIRO and complies with our guidance, we must approve Coliban Water's maximum proposed prices it can charge for the prescribed services it provides.¹⁰

If we consider the submission does not have adequate regard for the matters specified in clause 11 of the WIRO or does not comply with our guidance, we may specify maximum prices, or the manner in which prices are to be calculated, determined or otherwise regulated.¹¹



The power for water businesses to charge fees for services they provide is set out in the *Water Act 1989*.¹² These provisions in the Water Act also govern the processes for and manner in which water businesses may set and impose fees. Each water business must ensure that it complies with these legislative requirements.

¹⁰ This is a requirement of the WIRO, clause 14(b).

¹¹ This is provided for under the WIRO, clause 14(b)(i).

¹² See part 13, Division 5 and 6 of the Water Act 1989.

Table 1.1 Matters businesses and the commission must have regard to

Economic efficiency and viability matters	Industry/business specific matters	Customer matters
<ul style="list-style-type: none"> • promotion of efficient use of prescribed services by customers [cl 8(b)(i), WIRO] • promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry [cl 8(b)(ii), WIRO] • provision to regulated entities of incentives to pursue efficiency improvements [cl 8(b)(iii), WIRO] • efficiency in the industry and incentives for long term investment [s. 8A(1)(a), ESC Act] • efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry [s. 33(3)(b), ESC Act] • financial viability of the industry [s. 8A(b)(1), ESC Act] 	<ul style="list-style-type: none"> • particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made [s. 33(3)(a), ESC Act] • return on assets in the regulated industry [s. 33(3)(c), ESC Act] • ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities [s. 4C(b), WI Act] 	<ul style="list-style-type: none"> • in performing its functions and exercising its powers, the objective of the Commission is to promote the long-term interests of Victorian consumers [s. 8(1), ESC Act] without derogating from that objective. The Commission must in seeking to achieve the objective have regard to the price, quality and reliability of essential services [s. 8(2), ESC Act] • enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated [cl 11(d)(i), WIRO] • provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible [cl 11(d)(ii), WIRO] • take into account the interests of customers of the regulated entity, including low income and vulnerable customers [cl 11(d)(iii), WIRO]

Continued next page

Table 1.1 (continued)

Benchmarking	Health, safety, environmental and social obligations	Other
<ul style="list-style-type: none"> any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries [s. 33(3)(d), ESC Act] 	<ul style="list-style-type: none"> the relevant health, safety, environmental and social legislation applying to the industry [s 8A(1)(d), ESC Act] to ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities [s. 4C(c), WI Act] 	<ul style="list-style-type: none"> the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries [s. 8A(1)(c), ESC Act] consistency in regulation between States and on a national basis [s. 8A(1)(f), ESC Act] the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—(i) consumers and users of products or services (including low income and vulnerable consumers) (ii) regulated entities [s. 8A(1)(e), ESC Act] wherever possible, to ensure that the costs of regulation do not exceed the benefits [s. 4C(a), WI Act]

Note: References in the table are to the Water Industry Regulatory Order 2014 (WIRO), the Essential Services Commission Act 2001 (ESC Act), and the Water Industry Act 1994 (WI Act).

1.4 PREMO

PREMO stands for Performance, Risk, Engagement, Management, and Outcomes. Each element of PREMO is summarised in Box 1.1.

Box 1.1 PREMO

Water businesses must demonstrate their level of ambition in delivering value for money for customers in their price submissions across the five PREMO elements:

- Performance — have the performance outcomes to which the business committed in the previous regulatory period been met or exceeded?
- Risk — has the business sought to allocate risk to the party best positioned to manage that risk? To what extent has the business accepted risk on behalf of its customers?
- Engagement — how effective was the business’s customer engagement to inform its price submission?
- Management — is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?
- Outcomes — do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

First introduced at our 2018 water price review, the purpose of PREMO is to provide incentives for water businesses to deliver outcomes most valued by customers. PREMO includes reputation incentives, via the rating of price submissions as Leading (the highest available rating), Advanced, Standard or Basic, depending on the level of ambition expressed by a water business in its price submission. Financial incentives are provided by linking the return on equity to the PREMO rating.

A key priority under PREMO is to provide incentives for a water business to engage with customers to understand their priorities and concerns and to take these into account in forming the proposals outlined in its price submission. This should be evidenced in price submissions by linking the outcomes proposed with findings from a business’s engagement.

Our guidance specifies the way in which we expect water businesses to assess themselves by reference to the PREMO elements.

Our PREMO framework rewards stronger customer value propositions in price submissions, and an early draft decision is available for price submissions we can assess in a short timeframe.¹³

¹³ In December 2022, we issued early draft decisions for Yarra Valley Water and Westernport Water.

For the 2023 water price review, a water business’s ambition in terms of delivering customer value is being assessed against all five elements of PREMO — Performance, Risk, Engagement, Management and Outcomes. This is the first water price review where we are assessing the Performance element of the PREMO framework. The Performance element assesses businesses against their Outcomes and proposals from the previous price review (for our 2023 review, this means proposals at the 2018 water price review). We did not assess the Performance element in 2018 because it was the first time that we had applied the PREMO framework and so we did not have a set of approved Outcomes to inform our assessment.

Taking into account all five elements of PREMO, a water business must self-assess and propose a rating for its price submission as ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’. Its proposed return on equity will then reflect its proposed PREMO rating. A ‘Leading’ submission has the highest return on equity, and a ‘Basic’ submission the lowest. We assess the self-rating and also assess the price submission more broadly, including the water business’s justification for the proposed PREMO rating, and form our own view of the appropriate rating. This process determines the PREMO rating adopted and the return on equity reflected in the revenue requirement.¹⁴

¹⁴ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 41–46.

2. Our assessment of Coliban Water's price submission

We have made our final decision on Coliban Water's price submission after considering:

- Coliban Water's price submission
- Coliban Water's presentation made directly to commissioners
- Coliban Water's responses to our queries and our draft decision
- our consultants' reports
- the views of participants in our public forum held on 1 May 2023¹⁵
- written submissions from interested parties (a list of submissions responding to our draft decision is provided in Appendix A).

Any reports, submissions or correspondence provided to us that are material to our consideration of Coliban Water's price submission are available on our website (to the extent the material is not confidential).

Our guidance included matters water businesses must address in their price submissions. Coliban Water's price submission addressed each of these matters, and our initial assessment of those matters is set out in our draft decision.

We consulted on our draft decision, receiving submissions between 12 April 2023 and 12 May 2023 and holding a hybrid (online and in-person) public forum on 1 May 2023. Topics raised by participants during the forum included Coliban Water's use of sustainable practices to manage water use, the acceptance of price increases by its community panel, and the quality of Coliban Water's engagement with its community through the community panel, but the inadequacy of its engagement with developers.

Coliban Water provided a response to our draft decision, including a revised financial model that reflected the updated cost of debt and inflation figures we provided to businesses in May 2023.¹⁶ In arriving at our final decision, we have considered Coliban Water's responses to our draft decision. Commissioners met with the chair and senior staff of Coliban Water on 29 May to further explore the issues raised in its responses to our draft decision, including in relation to its financial sustainability.

This paper sets out our final decision.

¹⁵ A recording of this forum is available on our website.

¹⁶ All references to Coliban Water's price submission in this document refer to Coliban Water's original price submission that it provided to us in September 2022 rather than its responses to our draft decision.

2.1 Final decision paper outline

This final decision paper is structured around the steps we have taken to arrive at our price determination. In summary, these steps were:

- Determine the regulatory period (Section 2.2).
- Confirm the customer outcomes and service levels that Coliban Water has committed to over the regulatory period (Chapter 3).
- Establish Coliban Water's revenue requirement using a building block methodology (Chapter 4).
- Use demand forecasts and the form of price control to convert the revenue requirement to tariffs and prices (Chapter 5).

Chapter 6 outlines our consideration of Coliban Water's financial position, which we have also had regard to.

Chapter 7 outlines our assessment of Coliban Water's price submission under the PREMO framework.

Unless otherwise noted, all financial values referred to in this final decision paper are in \$2022-23, which means inflation is excluded.

2.2 Regulatory period

Our final decision is to approve a regulatory period of 5 years from 1 July 2023.

We are required to set the term of the regulatory period over which a water business's price determination will apply.¹⁷ Our guidance proposed that we set a 5-year regulatory period, but also noted we were open to justified alternatives proposed in a price submission.¹⁸

Coliban Water proposed, and our draft decision approved, a regulatory period of 5 years.

In a submission on our draft decisions, the Consumer Action Law Centre supported our proposed 5-year regulatory period. It noted that a 5-year period provided customers with predictability around billing and services and that having a uniform period across all businesses included in our current review meant it would be easier to generate public awareness and engagement.¹⁹

Accordingly, consistent the reasons outlined in our guidance, and as proposed in our draft decision, our final decision is to set a regulatory period of 5 years.

¹⁷ This is a requirement of the WIRO, clause 9.

¹⁸ For detail on the reasons for using 5 years as the default regulatory period, see: Essential Services Commission, *2023 water price review: Guidance paper*, p. 18.

¹⁹ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 4.

3. Customer outcomes

The customer outcomes Coliban Water plans to deliver over the regulatory period is a key component of its price submission – confirming its commitments to customers, underpinning its revenue requirement, and feeding in to its PREMO assessment.

This chapter outlines our views on:

- Coliban Water’s engagement with its customers in preparing its price submission (Section 3.1)
- whether Coliban Water has delivered on the outcomes it committed to for the current regulatory period (2018–23) and the customer outcomes Coliban Water is committing to for the next regulatory period (Section 3.2)
- Coliban Water’s service standards for the regulatory period (Section 3.3)
- Coliban Water’s proposed guaranteed service level scheme for the regulatory period (Section 3.4).

3.1 Customer and community engagement

Our guidance required Coliban Water to engage with customers to inform its price submission. Our guidance also identified principles to guide Coliban Water’s engagement.²⁰

As outlined in our draft decision, we consider Coliban Water’s engagement with customers and community aligned with these principles in a number of ways. Coliban Water:

- engaged early and considered engagement data from the past 10 years to inform its engagement program
- engaged using multiple methods tailored to suit the circumstances and engagement preferences of customers and community using a range of online and in-person activities, ranging from surveys to a 5-day deliberative panel
- was inclusive of different customer groups including youth, traditional owners, customers experiencing financial vulnerability or family violence and the community groups that support them, business groups and councils
- covered matters that influence services and prices, such as intergenerational equity, drought preparedness, contribution to its community, the environment and support for customers experiencing vulnerability.

²⁰ Essential Services Commission, *2023 water price review: Guidance paper*, p. 20. This guidance includes a focus on engagement by businesses with First Nations people and people experiencing vulnerability which are actions identified in our ‘Getting to fair’ strategy. See Essential Services Commission, *Getting to fair: Breaking down barriers to essential services*, August 2021.

Our draft decision outlined several ways in which Coliban Water demonstrated that its engagement influenced its proposals. These included:

- adopting all nine recommendations of its deliberative community panel
- doubling support for customers experiencing vulnerability, and increasing education about services for customers experiencing hardship
- purchasing water shares to help secure water supply during periods of drought
- prioritisation of capital works for systems with poor water pressure to deliver improved performance.

Our draft decision also considered submissions from the Urban Development Institute of Australia and MG Estates that raised concerns with Coliban Water's engagement process for new customer contributions. Both submissions considered engagement was limited, occurred late and that not enough information was provided.²¹

Our draft decision considered the feedback from the developer community as part of Coliban Water's overall engagement. Our draft decision was to accept Coliban Water's 'Advanced' self-rating for the Engagement element of PREMO on the basis its engagement program was well suited to the majority of its customers and community, its overall design and delivery was robust and appropriate in the context of proposed real price increases in water and wastewater services over the 5 years of the regulatory period. Examples outlined in our draft decision included:

- the breadth of the engagement methods and the extent to which these were tailored to its customers' engagement preferences and requirements, including its use of Easy English to ensure accessibility
- the sensitivity and inclusivity of its engagement with First Nations people, specifically in the way it sought guidance on how to best engage, including by meeting separately with the different First Nations groups in its service area to understand their needs and priorities
- demonstrated customer support for how its engagement influenced its price submission, including feedback from customer panel members and nine letters of support included with its price submission.

At the public forum we held on our draft decision on 1 May 2023, Coliban Water undertook to further engage with developers and customers before submitting its response to our draft decision. In its response to our draft decision, Coliban Water described the additional engagement it undertook with developer stakeholders and members of its three customer advisory groups, as well as the changes it made to its proposals in response to this engagement.

²¹ Urban Development Institute of Australia, *Submission to the Essential Services Commission 2023 water price review*, 1 December 2022, p. 2; MG Estates, *Submission to the Essential Services Commission 2023 water price review*, 1 December 2022, pp. 11-12.

Following this additional engagement, the Urban Development Institute of Australia and MG Estates provided feedback that Coliban Water continued to engage poorly with developers and did not provide timely or sufficient information to support meaningful contribution.²²

In forming our final decision on Coliban Water's customer engagement we considered the significant factors in favour of an 'Advanced' rating, which are set out in our draft decision and summarised in this section, as well as the entirety of the stakeholder feedback on its engagement program, which was numerous and overall positive. In particular, we note the strength of the endorsement of its engagement from customers and community with experience of vulnerability and with First Nations customers – two areas of focus required by the commission and which form part of the commission's principles of good engagement.²³

In the case of Coliban Water's engagement with developers in relation to new customer contributions, we agree with representatives of MG Estates and with the Urban Development Institute of Australia that Coliban Water could have done more to tailor information to their level of sophistication, given the purpose, form and content of the engagement, and also provided more adequate opportunities for them to participate. Had it done so, and at an earlier point, Coliban Water may have been able to achieve the same high quality and meaningful engagement it achieved in all other areas of its engagement.

While we agree with this perspective, we consider this to be a confined experience in the context of an overall engagement program that was otherwise robust and well suited to the majority of its customers, was appropriate in the context, and which was strongly endorsed by customers from across its customer base. On this basis, our final decision is to accept Coliban Water's self-rating of 'Advanced' for its price submission engagement.

See Chapter 7 for more detail on our PREMO assessment of Coliban Water's price submission.

3.2 Outcomes

Coliban Water's proposed set of outcomes indicates the value its customers can expect to receive during the next regulatory period. Actual performance against output measures and targets is monitored during the regulatory period to demonstrate whether customers are receiving the value they paid for. It also informs the rating for the 'Performance' element of PREMO at the next price review.

²² Urban Development Institute of Australia, *Submission: Essential Services Commission Water Price Review 2023–2028 – Draft Decision for Coliban Water*, 12 May 2023, p.1, 3; MG Estates, *ESC Coliban Water Pricing Draft Decision Submission*, 11 May 2023, pp. 1, 3-6.

²³ Essential Services Commission, *2023 water price review: Guidance paper*, p. 20. Samantha Bews, participant comment, Coliban Water price review 2023 public forum, 1 May 2023; Rodney Carter, Dja Dja Wurrung group, participant comment, Coliban Water price review 2023 public forum, 1 May 2023.

Coliban Water proposed to deliver the following outcomes over the regulatory period starting 1 July 2023:

- We will supply high quality water you can trust
- We will provide services to meet the needs of our customers now and into the future
- We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations
- Our investment will support the economic prosperity of our region
- We will support customers in need

Coliban Water's proposed measures and targets that it will use to report on its performance for each outcome are detailed on pages 88 to 93 of its price submission.

In our draft decision, we agreed with Coliban Water's self-assessment that it has, overall, met its outcome commitments for the 2018–23 period to date, and that its reporting to customers during this period met our requirements.

We considered its proposed set of outcomes for 2023–28 demonstrated an overall improvement in customer value and was consistent with the requirements of an 'Advanced' rating for the Outcomes element of PREMO. After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Coliban Water's outcomes.²⁴

In our draft decision, we noted that some of the proposed outcome measures and targets were not presented in a manner consistent with our guidance requirements.

In response to our draft decision, Coliban Water amended its outcome measures and targets. We have worked with Coliban Water to ensure its final set of measures and targets meets the requirements set out in our guidance.

Following the release of this final decision, we will publish the 2023–28 outcomes reporting template for all water businesses participating in this price review, and we expect water businesses to publish them prominently on their own websites.

Our assessment of Coliban Water's outcomes, measures and targets has informed our final decision rating of its price submission for the Outcomes element of PREMO, which is discussed in Chapter 7.

²⁴ A submission from the Consumer Action Law Centre commended all businesses for working closely with customers to develop their proposed outcomes set. Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2023.

3.3 Service standards related to service reliability and faults

Coliban Water provided a list of service standards relating to reliability and attending faults that it will include in its customer charter. Service standards are a common set of services applicable to all Victorian consumers as required by clause 18.2 of the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard) and clause 1.5 of the Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). Each water business must specify its own targets against each of these service standards. These service standards and corresponding target service levels are the minimum level of service customers can expect to receive.

3.3.1 Urban water service standards

Our draft decision summarised Coliban Water's proposed changes in its urban service standards from July 2023 and the reasons that we considered that they comply with the requirements of the Urban Water Industry Standard.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Coliban Water's service standards.

Our final assessment is that the urban service standards relating to reliability and faults proposed by Coliban Water comply with the requirements of the Urban Water Industry Standard.

These service standards and Coliban Water's targets until 2028 are set out in Appendix C.

Urban service standards are set out in our Urban Water Industry Standard. Accordingly, in early 2023-24 we will update the Urban Water Industry Standard to reflect targets set by the water business.

3.3.2 Rural water service standards

Coliban Water was previously not required to provide rural service standards, however under clause 1.5 of the new Rural Water Industry Standard, it must define service standards and specify targets in particular areas. The Urban and Rural Water Industry Standards came into effect on 1 March 2023. Coliban Water did not provide proposed rural service standards with its price submission.

In our draft decision we stated that we would work with Coliban Water to enable it to submit its proposed rural service standards to us with its response to our draft decision.

In its response to our draft decision, Coliban Water has stated that it will work with its rural customers via existing rural customer groups and further targeted engagement to develop new rural service standards.²⁵ To allow appropriate time for engagement, it anticipates that it will

²⁵ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision:2023 water price review'*, 18 May 2023, p. 8.

propose rural service standards to the commission in the second half of 2023. We will review Coliban Water's proposed rural service standards when we receive them and update the Rural Water Industry Standards accordingly.

3.4 Guaranteed service levels

Our final decision is to adopt updated guaranteed service levels for Coliban Water as set out in Appendix D.

Guaranteed service levels define a water business's commitment to deliver a specified level of service. A guaranteed service level scheme is required by clause 20 of the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard) and is optional for rural services under clause 2 of the Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). For each guaranteed service level, typically a water business commits to a payment or a rebate on bills to those who have received a level of service below the guaranteed level.

Coliban Water's proposed guaranteed service levels are set out on pages 97 to 99 of its price submission. Our draft decision summarised Coliban Water's proposed changes in its urban guaranteed service level scheme from July 2023. Among these proposed changes were increases in the amounts for existing guaranteed service level rebates by approximately 10 to 15 per cent, except for the guaranteed service level rebate paid to the community related to a significant sewer spill to the environment. Coliban Water proposed to reduce this service level rebate after consultation with customers.

In our draft decision, we proposed to accept Coliban Water's proposed guaranteed service levels on the basis that they had been developed with customers during its engagement.

The Consumer Action Law Centre commented positively on Coliban Water's approach to increase the rebates associated with its guaranteed service levels.²⁶

After releasing our draft decision, we identified that Coliban Water's existing guaranteed service level relating to rural customers receiving less than 100 per cent of water allocation, has been published incorrectly among urban guaranteed service levels listed in Schedule 2 of the Urban Water Industry Standard. Given this guaranteed service level is for rural customers, from 1 July 2023 we will include it as a guaranteed service level in the Rural Water Industry Standard rather than in the Urban Water Industry Standard.

²⁶ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 4.
Customer outcomes

On the basis of the above, our final decision is to adopt the guaranteed service levels outlined in Appendix D.

Guaranteed service levels are approved in our Water Industry Standards. Accordingly, in early 2023-24, we will update the Urban Water Industry Standard and Rural Water Industry Standard to reflect the guaranteed service levels set out in Appendix D.

4. Revenue requirement

The revenue requirement is the forecast amount a water business needs to deliver on customer outcomes, government policy, statements of obligations, and obligations monitored by technical regulators including the Environment Protection Authority Victoria and the Department of Health.²⁷ Along with forecast demand, it is an input to calculating prices.

We have used a building block methodology to establish the revenue requirement. This chapter outlines our assessment of Coliban Water's revenue requirement based on the following steps:

- establish an efficient benchmark level of forecast operating expenditure for the next regulatory period (Section 4.1)
- establish an efficient benchmark level of forecast capital expenditure for the next regulatory period (Section 4.2)
- roll-forward the regulatory asset base (Section 4.3)
- apply a rate of return to the regulatory asset base, calculated using:
 - a benchmark cost of debt estimated using a 10-year trailing average approach (Section 4.4.1)
 - a benchmark return on equity value determined by Coliban Water's PREMO rating (Section 4.4.2)
- establish a return of capital through a regulatory depreciation allowance (Section 4.5)
- establish a benchmark tax allowance (Section 4.6).

Our final decision is to approve a revenue requirement of \$728.1 million.

Coliban Water proposed a revenue requirement of \$731.4 million over a 5-year period starting 1 July 2023. Our draft decision adopted a lower revenue requirement of \$727.4 million, mainly because of adjustments we made to its operating expenditure and regulatory asset base.

Our final decision approves a revenue requirement of \$728.1 million (Table 4.1), which reflects our assessment of each element of the revenue requirement, including forecast operating and capital expenditure.

²⁷ We met with officers of the Department of Energy, Environment and Climate Action, the Department of Health, and the Environment Protection Authority Victoria, to discuss their expectations of Coliban Water in the regulatory period from 1 July 2023. We had regard to their views in arriving at our final decision.

Table 4.1 Final decision on Coliban Water’s revenue requirement

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Operating expenditure	88.8	88.3	87.7	87.9	88.3	440.9
Return on assets	15.0	16.0	17.9	19.9	22.0	90.9
Regulatory depreciation	34.9	36.6	38.3	42.0	44.5	196.3
Tax allowance	-	-	-	-	-	-
Final decision – revenue requirement	138.7	140.9	143.8	149.8	154.9	728.1

Note: Numbers have been rounded.

Since our draft decision, we have updated our estimates for the cost of debt, inflation, licence fees and environmental contribution to reflect the latest available information. We required Coliban Water to update its revenue requirement and prices to reflect updates to the cost of debt and inflation estimates and we updated the licence fee and environmental contribution estimates.

Coliban Water also updated its bulk water charges to reflect the latest information for Goulburn-Murray Water, and we updated Coliban Water’s forecast bulk water charges to reflect approved prices for GMMWater in 2023-24 after making our final decision for GMMWater for the 2023–28 regulatory period.

In response to our draft decision, Coliban Water updated its forecast controllable operating expenditure, capital expenditure, regulatory asset base and regulatory depreciation and updated its revenue requirement accordingly. These updates are discussed in the relevant sections below.

Coliban Water also updated its forecast operating expenditure and capital expenditure to reflect changes announced in the 2023-24 Victorian State Budget (see Sections 4.1 and 4.2).

The adjustments to Coliban Water’s revenue requirement that we have made in our draft and final decisions are set out in Table 4.2, with the reasons outlined in the following sections.

Table 4.2 Adjustments to revenue requirement – our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Coliban Water's proposed revenue requirement	141.8	142.6	144.9	149.1	153.0	731.4
B. Total adjustments proposed in our draft decision	-1.0	-0.7	-1.3	-1.0	-0.1	-4.0
Operating expenditure	-1.0	-0.7	-1.3	-1.0	-0.0	-3.9
Return on assets	0.0	0.0	0.0	0.0	-0.1	-0.0
C. Draft decision – revenue requirement (C = A+B)	140.8	141.9	143.7	148.1	153.0	727.4
D. Total adjustments in our final decision	-2.1	-1.1	0.2	1.7	1.9	0.7
Operating expenditure	-0.1	-0.3	-0.4	-0.4	-0.5	-1.7
Return on assets	-0.1	1.0	2.4	3.9	5.6	12.8
Regulatory depreciation	-1.8	-1.8	-1.8	-1.8	-3.2	-10.4
E. Final decision – revenue requirement (E = C + D)	138.7	140.9	143.8	149.8	154.9	728.1

Note: Row A shows the total revenue requirement proposed by Coliban Water in its price submission. Row B shows the total difference between our draft decision and what Coliban Water proposed in its price submission. Row C shows the total revenue requirement we adopted in our draft decision. Row D shows the total difference between our final decision (row E) and our draft decision.

4.1 Operating expenditure

Our final decision is to adopt a forecast operating expenditure of \$440.94 million for Coliban Water for the 2023–28 regulatory period.

Operating expenditure – comprising both controllable and non-controllable expenditure – is a component of the revenue requirement. Our draft decision proposed to adopt a forecast operating expenditure of \$442.6 million for the 5-year period, which was \$3.9 million lower than proposed by Coliban Water.

Table 4.3 sets out our final decision on Coliban Water's forecast operating expenditure, for the purpose of establishing the revenue requirement outlined in Table 4.1.

Table 4.3 Final decision – operating expenditure

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	80.54	80.18	79.81	80.17	80.71	401.42
Non-controllable operating expenditure	8.22	8.07	7.90	7.74	7.59	39.52
Bulk services ^a	2.34	2.38	2.39	2.41	2.43	11.95
Environmental contribution ^b	5.54	5.35	5.17	5.00	4.83	25.89
Licence fees – Essential Services Commission ^c	0.11	0.11	0.12	0.12	0.12	0.58
Licence fees – Department of Health ^c	0.04	0.04	0.04	0.04	0.04	0.20
Licence fees – Environment Protection Authority ^c	0.18	0.18	0.18	0.18	0.18	0.91
Final decision – operating expenditure	88.76	88.26	87.71	87.91	88.30	440.94

Notes: Numbers have been rounded. ^a Bulk services covers the supply of bulk water and sewerage services.

^b Environmental contributions are funds collected from water businesses under the *Water Industry Act 1994*. ^c Licence fees are paid to cover costs incurred by the Department of Health, the Environment Protection Authority Victoria, and the Essential Services Commission in their regulatory activities related to the water business.

Table 4.4 sets out the adjustments we have made to controllable and non-controllable operating expenditure for our draft decision, and since our draft decision. Details of our assessment and the reasons for our final decision adjustments are included in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure).

The operating expenditure that we have adopted for Coliban Water does not represent the amount that Coliban Water is required to spend or allocate to particular operational, maintenance and administrative activities. Rather, it is a benchmark that represents assumptions about the overall level of operating expenditure (to be recovered through prices) that we consider sufficient to operate the business efficiently, meet its legislative and policy objectives, and to maintain services over the regulatory period.

Table 4.4 Our adjustments to Coliban Water’s operating expenditure for our draft and final decisions

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Coliban Water’s proposed total operating expenditure	89.90	89.20	89.39	89.33	88.76	446.59
A1 – Our draft decision adjustments to controllable operating costs	-0.95	-0.62	-1.20	-0.88	0.13	-3.52
A2 – Our draft decision adjustments to non-controllable operating costs	-0.05	-0.04	-0.08	-0.11	-0.14	-0.43
B. Draft decision – total operating expenditure	88.90	88.54	88.11	88.34	88.75	442.64
C. Final adjustments to controllable operating costs (C1 + C2)	-0.09	-0.20	-0.30	-0.30	-0.30	-1.19
C1 – Superannuation guarantee levy increase	-0.21	-0.32	-0.42	-0.42	-0.42	-1.80
C2 – 2023-24 State Budget updates	0.12	0.12	0.12	0.12	0.12	0.60
D. Final adjustments to non-controllable operating costs (D1 + D2 + D3 + D4 + D5)	-0.04	-0.08	-0.11	-0.13	-0.15	-0.51
D1 – Environmental contribution	-0.03	-0.05	-0.08	-0.10	-0.12	-0.37
D2 – Licence fees – Essential Services Commission	0.02	0.02	0.02	0.02	0.02	0.09
D3 – Licence fees – Department of Health	-0.00	-0.00	-0.00	-0.00	-0.00	-0.01
D4 – Licence fees – Environment Protection Authority	-0.01	-0.01	-0.01	-0.01	-0.01	-0.06
D5 – External bulk water charges	-0.02	-0.03	-0.03	-0.04	-0.04	-0.16

Continued next page

Table 4.4 (continued)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
E. Final decision – total operating expenditure (E = B + C + D)	88.76	88.26	87.71	87.91	88.30	440.94

Note: See our draft decision for details of the adjustments we proposed in our draft decision (shown in rows A1 and A2). The adjustments shown in rows C and D (and disaggregated in rows C1 to C2 and rows D1 to D5) are the differences between our draft decision and our final decision and are outlined in Section 4.1.1 (controllable operating expenditure) and Section 4.1.2 (non-controllable operating expenditure) of this final decision. Numbers have been rounded.

4.1.1 Controllable operating expenditure

In relation to controllable operating expenditure, our preliminary findings (outlined in Section 4.1.1 of our draft decision) were that:

- We considered Coliban Water’s proposal reflects an efficient baseline cost to forecast annual operating expenditure after allowing for an adjustment of \$0.19 million to align with its approved regulatory accounts.
- Coliban Water had proposed an efficiency improvement rate of 1.4 per cent per year which was one of the highest rates proposed in the current price review and is above the average (around 1.3 per cent).
- The efficiency improvement rate is lower than Coliban Water’s proposed average cost growth rate of 1.9 per cent per year, effectively delivering a net annual increase to its controllable annual baseline operating costs in each year of the regulatory period.
- The increase in controllable operating expenditure per customer connection peaks in 2023-24, with a forecast general overall decline in the following years of the regulatory period.
- We considered Coliban Water’s forecast cost adjustment additions were mostly prudent and efficient after removing the \$4.5 million step change for end-of-term contract review.
- We requested that Coliban Water explain how forecast increases in inflation will not cover increases in the superannuation guarantee levy.
- We also requested that Coliban Water quantify the cost savings to customers delivered from its digital metering project rollout across the current period, and demonstrate how these savings are reflected in its financial model and passed through to customers.

In its response to our draft decision, Coliban Water provided further information on the end-of-term contract review step change, increases in the superannuation guarantee levy, and on the cost savings for its digital metering project, as described below.

Coliban Water also reviewed its demand forecasts against the latest Victorian Government population and dwelling growth estimates (discussed in more detail in Section 5.1). Consistent with

its proposal to not change its demand forecasts, which we have accepted, it did not propose any change to its operating expenditure growth rate.²⁸

4.1.1.1 End-of-term contract reviews

In response to our draft decision proposing to remove the \$4.5 million step change for end-of-term contract reviews, Coliban Water advised that it has five major outsourced contracts reaching end-of-term with the future value of these contracts exceeding \$1 billion. Coliban Water further stated that this will require an end-of-term arrangement review and associated comprehensive analysis to consider the ongoing viable service delivery model options for evaluation.²⁹

While Coliban Water has accepted the removal of these costs from the controllable operating expenditure forecast, it has maintained its initial position that this expenditure is required and has instead proposed to capitalise these additional costs to align with the term of the contracts. This is discussed further in Section 4.2.

4.1.1.2 Superannuation guarantee levy

Our draft decision accepted Coliban Water's proposed \$1.8 million step change for the superannuation guarantee levy on the basis it was a new obligation, but we asked Coliban Water to explain why forecast increases in inflation will not cover the superannuation increases.

In its response, Coliban Water maintained its initial position that this was a new obligation to increase the superannuation guarantee levy from 10 per cent to 12 per cent, and stated that it had forecast this step change in accordance with our guidance.³⁰ However, it provided no information to address our specific question relating to high inflation forecasts covering these costs.

Since our draft decision, the Victorian Government released its new wages policy, which provides for annual wage increases of 3.0 per cent.³¹ With inflation forecasts expected to exceed this by a significant margin (with costs indexed by 7 per cent in 2023-24), we consider this should readily cover the increase for superannuation. On this basis, we do not accept Coliban Water's proposed additional operating expenditure above its baseline allowance to meet its superannuation obligations. Accordingly, our final decision is to remove the \$1.8 million allowance for this from the controllable operating expenditure forecast.

²⁸ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 18 May 2023, p. 28.

²⁹ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 18 May 2023, pp. 9–11.

³⁰ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 18 May 2023, pp. 11-12.

³¹ 'Wages Policy and the Enterprise Bargaining Framework', Department of Premier and Cabinet, accessed 5 May 2023, <https://www.vic.gov.au/wages-policy-and-enterprise-bargaining-framework>.

4.1.1.3 Digital metering project

In response to our draft decision, Coliban Water has further qualified and quantified the cost savings for customers from its digital metering project rollout across the current regulatory period. Coliban Water has indicated that it includes cost savings from avoided meter replacement costs where Coliban Water had not undertaken any planned meter replacements this regulatory period, improved leakage reduction and detection with at least 1,758 customers having been notified of leaks on their properties since August 2020, and improved occupational health and safety related to meter readings which should eventually lead to reduced operating expenditure from reduced WorkCover premiums.³²

Coliban Water had previously committed to undertake an independent peer review of its digital metering rollout as part of its response to our draft decision from the 2018 water price review.³³ Coliban Water explained that it had commissioned three independent peer reviews following the Department of Treasury and Finance Gateway process, and all three received a green confidence assessment, which means that the program timing, cost and quality is on track for success.³⁴

Coliban Water stated that the financial benefits flowing from this rollout were built into and enabled the achievement of the 1.4 per cent efficiency improvement factor across the current regulatory period, however it has not quantified what proportion of this is attributed to the \$5.6 million investment in digital meters, nor provided an overall indicative operating expenditure saving.

We received two submissions that expressed concerns about the associated health and environmental impacts relating to Coliban Water's digital metering rollout and requested an opt-out option continue to be available to customers.³⁵ One of the submissions also raised concerns about tariffs for those who have opted out of digital meters and requested further information on the cost savings to customers from the digital metering and how these savings are being realised by customers. The impact of the digital metering project on tariffs is discussed in Section 5.3.

In its response to our draft decision, Coliban Water also responded to the concerns raised in these submissions by stating that digital water meters do not pose a health risk to the community or to the natural environment, as the data logger transmits hourly through low level radiofrequency

³² Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 18 May 2023, pp. 12–16.

³³ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2018 water price review'*, 14 May 2018, p. 14.

³⁴ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 18 May 2023, p. 16.

³⁵ Janobai Smith, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 1 May 2023, pp. 1-2; Alanna Moore, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review'*, 4 May 2023, p. 1.

waves, which are well within Australian safety standards. Coliban Water also emphasised that it offers the option for customers to opt-out of digital metering, and that this approach will be retained for as long as it uses radio devices to record water consumption.

Similar concerns were raised in submissions in our 2018 price review, and we note Coliban Water has already taken some steps to address these customer concerns. We expect Coliban Water to manage any health-related issues, and comply with all relevant standards and regulations.

4.1.1.4 Our final decision on controllable operating costs

Following release of the 2023-24 Victorian State Budget on 23 May, we wrote to water businesses to provide them with an opportunity to update their cost forecasts, should they seek to claim any additional costs and reflect these in customer prices.³⁶

Coliban Water responded with updated cost forecasts to reflect higher payments relating to payroll tax. We have accepted these additional amounts as they are unavoidable costs that the business faces in delivering prescribed services to its customers.

Accordingly, on the basis that Coliban Water's revised forecast controllable operating expenditure is consistent with our guidance, our final decision is to adopt a forecast controllable operating expenditure of \$401.42 million (Table 4.3).

4.1.2 Non-controllable operating expenditure

In relation to non-controllable operating expenditure, our preliminary findings (outlined in Section 4.1.2 of our draft decision) were that:

- Coliban Water had followed the approach set out in our guidance paper to forecast its non-controllable operating costs in its price submission.
- We identified that Coliban Water's proposed bulk water charges paid to Goulburn-Murray Water were not consistent with our latest annual tariff approval for Goulburn-Murray Water in 2022. Prior to our draft decision, Coliban Water submitted a revised financial model with updated figures for both Goulburn-Murray Water and GWMWater bulk water charges and we proposed a corresponding adjustment in our draft decision which reduced its non-controllable operating expenditure by \$0.43 million.
- We verified that the revised forecast bulk charges were consistent with Goulburn-Murray Water's 2020 price determination and stated we would verify GWMWater's charges for the next regulatory period once a final decision is made for GWMWater's 2023 price review.

³⁶ Victorian Government, *Budget papers '2023/24 State Budget papers'*, 23 May 2023.

We noted in our draft decision that we would update the forecast non-controllable operating expenditure for our final decision, and also adjust for the latest inflation and external bulk charges data.³⁷

For the environmental contribution, we have used the 2022-23 value provided by the Department of Energy, Environment and Climate Action and assumed that this will remain flat in nominal terms (decline in real terms) across the 2023–28 regulatory period.

We have assumed the licence fees for the Department of Health and the Environment Protection Authority Victoria remain flat in real terms across the period.³⁸

For our Essential Services Commission licence fee, we have taken our forecast fee estimate schedule, which is based on the expected work program across the 2023–28 regulatory period (which is in nominal dollars) and deflated it into 2022-23 dollars to express the fee in real terms.³⁹

In May 2023, we advised Coliban Water of our approved bulk water charges for Goulburn-Murray Water for 2023-24. In response, Coliban Water updated its forecasts for bulk water charges. After making our final decision for GWMWater for the 2023–28 regulatory period, we have also updated Coliban Water’s forecast bulk water charges to reflect approved prices for GWMWater.

We have reduced Coliban Water’s forecast non-controllable operating expenditure by \$0.51 million across the 2023–28 period, resulting from the following adjustments:

- \$0.02 million increase for licence fees after considering the latest information received from the relevant regulatory authorities
- \$0.37 million decrease for the environmental contribution as proposed by Coliban Water to account for the latest data on inflation.⁴⁰
- \$0.16 million decrease for external bulk charges to reflect our approved Goulburn-Murray Water and GWMWater bulk charges for 2023-24.

Accordingly, consistent with the reasoning in our guidance, our final decision is to adopt a revised non-controllable operating expenditure of \$39.52 million over the next regulatory period.

³⁷ Non-controllable costs are those that cannot be directly or indirectly influenced by a water business’s decisions.

³⁸ For the Safe Drinking Water Administration levy, we have used the 2021-22 value provided by the Department of Health and indexed it by the annual rate for fees in 2022-23 (1.75 per cent), as set out by the Department of Treasury and Finance’s cost recovery guidelines (<https://www.dtf.vic.gov.au/financial-management-government/indexation-fees-and-penalties>). We have applied the same approach to the 2021-22 licence fee provided by the Environment Protection Authority Victoria.

³⁹ These fees are yet to be determined by the Minister for Water.

⁴⁰ Coliban Water, *submission in response to the Essential Services Commission ‘Coliban Water draft decision: 2023 water price review’*, 18 May 2023, p. 16-17.

4.2 Capital expenditure

Our final decision is to adopt a forecast capital expenditure of \$506.4 million.

Capital expenditure is an input to estimating the regulatory asset base, which is an input to the revenue requirement. Our draft decision proposed to adopt a forecast capital expenditure of \$501.7 million for the 5-year period, which was \$5.8 million lower than the \$507.5 million proposed by Coliban Water.

As explained in our draft decision:

- Coliban Water demonstrated it has adopted a reasonable approach to developing its capital program, and that its capital expenditure forecasts are largely prudent and efficient.
- Coliban Water's price submission sufficiently explained the drivers of its large 'Big Water Build' capital program, including the business's previous strategy of deferring infrastructure augmentation and running assets to capacity, which has resulted in significant under-investment.
- We reallocated the forecast costs of the Purchase Water Shares program in 2027-28 (\$5.8 million) to the beginning of the 2028–33 regulatory period, given the uncertain impacts of forecast customer growth and climate change on Coliban Water's water supplies.
- We considered Coliban Water's planned capital expenditure program is ambitious yet necessary, given the current condition of its ageing infrastructure following its past strategy of deferring major capital works, and the resulting level of exposure to non-compliance and environmental risk.
- Coliban Water's price submission did not specifically identify any projects it has excluded where there is uncertainty in timing, cost, scope and benefits of capital expenditure, outside of the projects it listed under its proposed uncertain and unforeseen events mechanism. Given the size and costs of the projects listed under this mechanism, and in the context of Coliban Water's forecast capital program size, it would be necessary for a project to undergo a review of its prudence and efficiency before any associated costs were passed on to customers.
- We considered Coliban Water's approach to forecasting its capital expenditure, other than the adjustment described above, is consistent with the requirements of our guidance.

Table 4.5 Adjustments to forecast capital expenditure – our draft and final decisions
\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A. Coliban Water’s proposed forecast capital expenditure	86.83	98.62	104.94	108.28	108.83	507.50
A1 – Purchase of water shares	0.00	0.00	0.00	0.00	-5.78	-5.78
B. Draft decision – total capital expenditure	86.83	98.62	104.94	108.28	103.05	501.72
C. Total adjustments in our final decision	1.17	0.84	1.43	1.11	0.10	4.64
C1 – End of term major contract reviews	1.14	0.81	1.39	1.07	0.06	4.47
C2 – Payroll tax payable on capital projects	0.03	0.03	0.04	0.04	0.04	0.17
D. Final decision – total forecast capital expenditure (D = B + C)	88.00	99.47	106.37	109.38	103.15	506.36

Note: Row A shows the total forecast capital expenditure proposed by Coliban Water in its price submission. Row B shows the total forecast capital expenditure we adopted in our draft decision. Row C shows the total difference between our final decision (row D) and our draft decision, with the adjustments detailed in rows C1 and C2. Numbers have been rounded.

In response to our draft decision, Coliban Water accepted our adjustment related to its Purchase Water Shares program.

Also in response to our draft decision, Coliban Water proposed an additional \$4.5 million in capital expenditure in relation to end-of-term contract reviews. As indicated in Section 4.1.1, in our draft decision, we removed \$4.5 million from Coliban Water’s proposed controllable operating expenditure in relation to end-of-term contract reviews. We removed this expenditure because of the insufficient level of detail provided on how these costs were estimated and the activities to be undertaken, and because \$0.94 million had already been incurred in the baseline year for similar activities, effectively allowing a total of \$4.7 million to conduct this work across the 2023–28 regulatory period. In response to our draft decision, Coliban Water proposed the cost of these reviews be capitalised to align with the term of the relevant contract.⁴¹

⁴¹ Coliban Water, *submission in response to the Essential Services Commission ‘Coliban Water draft decision: 2023 water price review’*, 18 May 2023, pp. 9-10, 17.

Coliban Water's response provided further details on how it established these cost forecasts.

We consider Coliban Water's proposal – to capitalise these costs to align with the term of the contracts – is a better approach for pricing purposes than including these costs as operating expenditure. Given the importance to Coliban Water of undertaking a very robust review of these significant operating contracts, our final decision is to accept this additional capital expenditure as proposed by Coliban Water, noting the forecasts will be replaced by actual costs at the next price review. Accordingly, for our final decision, we have increased the capital expenditure forecast by \$4.5 million.

As noted in Section 4.1.1, following release of the 2023-24 Victorian State Budget on 23 May, we wrote to water businesses to provide them with an opportunity to update their cost forecasts, should they seek to claim any additional costs and reflect these in customer prices.⁴²

Alongside the increased payroll tax it requested as operating expenditure, Coliban Water proposed an additional \$0.17 million to its capital expenditure forecast reflecting its payroll tax obligations on the labour components of its capital expenditure. We have accepted these additional amounts as they are unavoidable costs that the business faces in delivering prescribed services to its customers.

We have considered all submissions in response to our draft decision. Our final decision is to adopt a forecast capital expenditure of \$506.4 million for the 5-year period (Table 4.5), \$4.6 million higher than our draft decision, for the reasons outlined above. We consider this benchmark is consistent with our guidance and the principles in the Water Industry Regulatory Order (2014). Our final decisions on Coliban Water's forecast regulatory asset base (Table 4.7) and revenue requirement (Table 4.1) reflect this benchmark.

The benchmark that we propose to adopt for Coliban Water does not represent the amount that Coliban Water is required to spend or allocate to particular projects. Rather, it represents assumptions about the overall level of expenditure (to be recovered through prices) that we consider sufficient to operate the business and to maintain or improve services over the regulatory period. Where we have made an adjustment to exclude a project's capital expenditure from Coliban Water's revenue requirement, we are not requiring the business to remove that project. Coliban Water determines how to best manage the allocation of its revenue and priority of its expenditure within a regulatory period.

⁴² Victorian Government, *Budget papers '2023/24 State Budget papers'*, 23 May 2023.

4.3 Regulatory asset base

A water business's regulatory asset base is the value of the business's assets for regulatory purposes.⁴³ The regulatory asset base is used to estimate the return on assets (discussed in Section 4.4) and regulatory depreciation (discussed in Section 4.5). Both the return on assets and regulatory depreciation are components of the revenue requirement.

Our guidance required Coliban Water to propose:

- the closing value of its regulatory asset base at 30 June 2022 (using actual data)
- the opening value of its regulatory asset base at 1 July 2023 (calculated according to the criteria outlined in the guidance)
- the forecast value of its regulatory asset base for each year of the regulatory period (2023-24 to 2027-28), in accordance with the prudence criteria outlined in the guidance.

4.3.1 Closing regulatory asset base

Our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$573.5 million.

We update the regulatory asset base to reflect actual gross capital expenditure, less government and customer contributions, and asset disposals for the period from 2017-18 to 2021-22.⁴⁴ This helps to ensure prices reflect the actual net expenditure of a water business.⁴⁵

Our draft decision adopted a closing regulatory asset base of \$573.5 million at 30 June 2022. This was slightly higher than the \$573.2 million proposed by Coliban Water in its price submission due to adjustments we made to align with Coliban Water's approved regulatory accounts for 2021-22.

In response to our draft decision, Coliban Water updated the closing regulatory asset base in its financial model to align with our draft decision and its approved regulatory accounts.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision. Therefore, our final decision is to approve a closing regulatory asset base at 30 June 2022 of \$573.5 million (Table 4.6).

⁴³ These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.

⁴⁴ See Section 4.2 for a discussion of Coliban Water's capital expenditure.

⁴⁵ Net capital expenditure is calculated by deducting government and customer contributions from gross capital expenditure. Customer contributions reflect revenue earned from new connections made to the water business's water, sewerage or recycled water networks.

Table 4.6 Final decision – closing regulatory asset base (RAB)

\$ million 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22
Opening RAB 1 July	539.8	552.8	549.5	553.5	558.0
Plus gross capital expenditure	40.0	40.5	48.6	48.5	62.5
Less government contributions	0.7	0.0	0.0	0.0	2.6
Less customer contributions	3.9	4.8	3.3	3.7	4.1
Less proceeds from disposals	3.2	3.6	4.9	2.6	1.4
Less regulatory depreciation	19.3	35.4	36.5	37.7	38.9
Closing RAB 30 June	552.8	549.5	553.5	558.0	573.5

Note: Numbers have been rounded.

4.3.2 Forecast regulatory asset base

Our final decision is to accept a forecast regulatory asset base as set out in Table 4.7

The forecast regulatory asset base is calculated having regard to the closing regulatory asset base, and forecasts for capital expenditure, government and customer contributions, and asset disposals.

Our draft decision did not accept Coliban Water's forecast regulatory asset base for the period from 1 July 2023 based on our proposed adjustments to Coliban Water's closing regulatory asset base and forecast capital expenditure and our draft decision to not accept its proposed new customer contributions and regulatory depreciation.

In response to our draft decision, Coliban Water updated its closing regulatory asset base, capital expenditure forecasts, customer contributions and regulatory depreciation.

On 25 May, Coliban Water proposed that we consider including capital expenditure amounts for 2022-23 in its forecast regulatory asset base, noting our guidance capped this amount at 2018 levels. We have accepted the inclusion of these amounts, because Coliban Water also proposed an offsetting change to depreciation to ensure there was no impact on customer prices, and having regard to the longer term financial position of the business as it described in its response to our draft decision (a higher regulatory asset base supports longer term financial sustainability).

Our final decision is to accept Coliban Water’s updated forecast regulatory asset base as it reflects our final decisions on its closing regulatory asset base and the components of the forecast regulatory asset base, which are outlined in the following sections of this final decision paper:

- Section 4.2 (capital expenditure)
- Section 4.3.2.1 (customer contributions)
- Section 4.5 (regulatory depreciation).

Table 4.7 sets out our final decision on Coliban Water’s forecast regulatory asset base from 1 July 2023.

Table 4.7 Final decision – forecast regulatory asset base (RAB)

\$ million 2022-23

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB 1 July	573.5	596.5	639.1	690.3	745.3	798.0
Plus gross capital expenditure	71.6	88.0	99.5	106.4	109.4	103.1
Less government contributions	1.3	-	-	-	-	-
Less customer contributions	5.3	8.3	9.5	11.0	12.5	13.8
Less proceeds from disposals	1.7	2.2	2.2	2.2	2.2	2.2
Less regulatory depreciation	40.3	34.9	36.6	38.3	42.0	44.5
Closing RAB 30 June	596.5	639.1	690.3	745.3	798.0	840.7

Note: Numbers have been rounded.

4.3.2.1 Customer contributions

Our final decision is to adopt the benchmarks for customer contributions as set out in Table 4.7.

Revenue from customer contributions is deducted from gross capital expenditure so it is not included in the regulatory asset base.

Our draft decision proposed to not accept Coliban Water’s forecast revenue from customer contributions because we did not accept Coliban Water’s proposed new customer contributions and because Coliban Water’s forecasts for customer contributions in the financial model and the new customer contributions model did not match.

Revenue requirement

We asked Coliban Water to update its customer contribution forecasts in response to our draft decision and to ensure that the forecast customer contributions in the financial model and new customer contributions model reconcile.

As discussed in Section 5.4, our final decision accepts Coliban Water's revised new customer contributions. In response to our draft decision, Coliban Water has also provided an updated financial model with forecast customer contributions revenues that are consistent with the forecast revenue to be generated by its revised new customer contributions. Accordingly, we consider that the proposed forecast revenue from customer contributions has been calculated consistently with the requirements of our guidance.

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision accepts Coliban Water's revised benchmark revenue from customer contributions as set out in Table 4.7.

4.4 Rate of return

In establishing the return on assets component of Coliban Water's revenue requirement, we have applied a rate of return to Coliban Water's regulatory asset base. The rate of return is calculated using a benchmark cost of debt (discussed in Section 4.4.1) and a benchmark return on equity value (discussed in Section 4.4.2).

4.4.1 Cost of debt

Our final decision is to accept the updated cost of debt figures used by Coliban Water to calculate its revenue requirement.

Our draft decision approved the cost of debt proposed by Coliban Water as it used the cost of debt values we specified in our guidance to calculate its revenue requirement. We also noted that our estimate of 3.75 per cent for the cost of debt in 2022-23 would be updated to reflect the latest available data.

In May 2023, we provided Coliban Water with an updated cost of debt value from 3.75 per cent to 6.76 per cent for 2022-23.⁴⁶ This reflects the rise in borrowing costs over the past 12 months. Coliban Water used this updated value to recalculate its revenue requirement.

For the above reasons, our final decision adopts the updated figures for the benchmark cost of debt as set out in Table 4.8.

⁴⁶ These updated figures were based on data from Treasury Corporation Victoria on the actual trailing average cost of debt for 2022-23.

Table 4.8 Final decision – 10-year cost of debt

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cost of debt (nominal)	7.05%	5.36%	5.27%	4.91%	4.53%	4.61%	3.31%	3.05%	3.75%	6.76%

Note: Numbers have been rounded.

4.4.2 Return on equity

Our final decision is to adopt a return on equity of 4.1 per cent in real terms, which reflects Coliban Water's PREMO rating.

Under our PREMO incentive mechanism, which we have applied since 2018, the return on equity we adopt to calculate the revenue requirement is linked to a business's PREMO rating. See Chapter 7 for an explanation of PREMO and our assessment of Coliban Water's PREMO rating. As outlined in our guidance, the return on equity we adopt depends on a water business's self-rating and whether we accept that rating.

Our guidance included a matrix proposing the return on equity we would adopt, based on the combination of the business's self-rating and our rating.⁴⁷

Coliban Water rated its price submission as 'Standard'. Based on this PREMO self-rating, Coliban Water proposed a real return on equity of 4.1 per cent per year. This reflects the maximum return rate allowed in our guidance for a price submission rated as 'Standard'.⁴⁸

Our draft decision adopted Coliban Water's proposed return on equity, which reflected our preliminary overall PREMO rating of its price submission.

After considering all submissions received in response to our draft decision, our final decision on Coliban Water's overall PREMO rating remains the same as our draft decision.

Therefore, our final decision is to adopt Coliban Water's proposed return on equity of 4.1 per cent per year, reflecting our final decision on the overall PREMO rating of its price submission (see Chapter 7).

⁴⁷ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 42-43.

⁴⁸ Essential Services Commission, *2023 water price review: Guidance paper*, p. 42.

4.4.3 Long-term inflation forecast

A long-term inflation forecast is needed to convert the nominal cost of debt (outlined in Section 4.4.2 above) to real terms. A higher rate of inflation means a lower cost of debt in real terms, which would flow through to a lower revenue requirement and lower prices, all other things being equal. Conversely, a lower long-term inflation rate will flow through to increased prices, all other things being equal.

In addition to updating our estimate for the cost of debt, in May 2023 we also updated businesses on our long-term inflation forecast. We advised businesses that the long-term inflation rate we calculated was 3.5 per cent.⁴⁹ All businesses adopted this amount to calculate prices in their responses to our draft decision. We checked this estimate again for our final decision, based on the method below.

While we have estimated inflation based on the outcome of the two methods specified in our guidance – the ‘RBA geometric mean’ and the ‘bond breakeven’ methods – we have varied our approach given the relatively high near-term inflation environment. While our guidance indicated that our calculation of long-term inflation would cover a 10-year forecast period, we consider in the current high inflation environment, that this would lead to outcomes that underestimate inflation in the 2023–28 regulatory period, which would not be in the interests of customers. Accordingly, we have adopted an averaging period of 5 years. This is consistent with the time period adopted by other economic regulators, including the Australian Energy Regulator.

Estimates we have adopted for each year of the 2023–28 regulatory period under the ‘RBA geometric mean’ approach are set out in Appendix E. Using the ‘RBA geometric mean’ approach we estimate an inflation rate of 3.8 per cent.⁵⁰

For the ‘bond breakeven’ approach, we estimate a 5-year average rate of 3.3 per cent, with the estimates adopted for each year of the 2023–28 regulatory period also set out in Appendix E.⁵¹

The average outcome under the two approaches is 3.5 per cent, which we have adopted for our final decision.

However, to manage the risk that inflation falls well below our forecast, our price determinations include a provision that allows for a reconsideration of the inflation forecast adopted, if inflation falls

⁴⁹ The inflation rate adopted in our draft decision was 3 per cent.

⁵⁰ We have decided to use a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

⁵¹ Similar to the ‘RBA geometric mean’ approach, we have adopted a rate of 7 per cent for 2023-24, because it is consistent with the rate used to inflate 2023-24 prices in our price determination.

below 2.5 per cent by 2026-27.⁵² The updated inflation estimate, if needed, would be based on a 5-year averaging period.

4.5 Regulatory depreciation

Our final decision is to adopt the benchmarks for regulatory depreciation as set out in Table 4.7.

Regulatory depreciation is a component of Coliban Water's revenue requirement and is also an input to calculating the regulatory asset base.

4.5.1 Summary of our draft decision

Coliban Water's forecast regulatory depreciation was calculated using a straight-line depreciation profile, which is our preferred approach.⁵³

In its price submission, Coliban Water proposed an asset life of 16 years for existing assets as at 30 June 2023, being the same rate it proposed during the 2018 water price review. We accepted Coliban Water's proposed 16-year asset life in 2018 on the basis that the approach resulted in a smoother price path reflecting customer preferences for stable bills, and enabled recovery of depreciation amounts deferred from the 2013–18 regulatory period.⁵⁴

In its price submission, Coliban Water said that its proposed asset life for the 2023–28 regulatory period reflected a recommendation from its deliberative panel for modest price increases now to ensure future prices remain sustainable in support of intergenerational equity.⁵⁵

In our draft decision, we considered that Coliban Water had not justified why 16 years reflected a reasonable assumption about asset life and how this was consistent with the requirements of our guidance. In forming this view, we noted that Coliban Water's assumed asset life of 16 years for existing assets is around:

- 30 years less than the average adopted by regional Victorian water businesses on average, for the 2023–28 regulatory period (around 47 years)

⁵² With inflation measured by the Australian Bureau of Statistics Consumer Price Index – all groups.

⁵³ Essential Services Commission, *2023 water price review: Guidance paper*, p. 39.

⁵⁴ Essential Services Commission 2018, *Coliban Water final decision: 2018 Water Price Review*, 28 March, p. 24.

⁵⁵ The underlying assumption is that current customers should pay for a relatively higher proportion of the assets than future customers as current customers benefit more from the assets than future customers. Hence, per unit prices for current and future customers would be relatively constant. Coliban Water, 2023 water price submission, September 2022, p. 71.

- 14 years lower than the next lowest asset life proposed by a water business in the current price review.

We also considered that Coliban Water had not sufficiently justified that its assumption for asset life would best achieve intergenerational equity. We considered its approach meant today's customers would pay more than an efficient cost of providing services than would future customers, which runs counter to the objectives associated with intergenerational equity and the efficiency objectives of the Water Industry Regulatory Order 2014.

Accordingly, we did not accept Coliban Water's proposed forecasts for regulatory depreciation and adopted an assumed asset life of 16 years for existing assets at 1 July 2018 only.

We asked Coliban Water to propose an asset life for existing assets of at least 30 years (the next lowest asset life assumption proposed by a water business in the current review) or to provide more information to justify its approach to regulatory depreciation using the straight-line method and its assumptions about asset life or propose and justify an alternative approach that is consistent with our guidance.

4.5.2 Coliban Water's response to our draft decision

In response to our draft decision, Coliban Water noted that if it was to adopt a 30-year regulatory life, this would have material consequences on its short-term financial sustainability.⁵⁶

Consequently, Coliban Water proposed an alternative approach whereby it applies straight-line depreciation on:

- assets constructed prior to 2018 with a depreciated asset value at 1 July 2023 of \$280.7 million by applying a 16-year asset life, consistent with our draft decision (meaning a remaining life of 11 years from 1 July 2023 given the 5 years elapsing over the current regulatory period)
- all assets constructed during the current 2018–23 regulatory period by applying:
 - for infrastructure, an average remaining life of 36 years, developed from various asset lives for specific investments delivered over this period
 - for IT, an average remaining life of 4.5 years
- all assets constructed from 1 July 2023, by applying an average remaining life of 45 years.

Coliban Water explained that this approach:⁵⁷

⁵⁶ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision:2023 water price review'*, 18 May 2023, p. 22, and letter dated 27 April 2023.

⁵⁷ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision:2023 water price review'*, 18 May 2023, p. 22.

- reverts the rate of regulatory depreciation to align with asset lives for three significant investments (Goldfields Superpipe, Harcourt Rural Modernisation and Water Share purchases)⁵⁸
- ensures that all other assets constructed prior to 1 July 2018 are fully depreciated on a straight-line basis over 16 years in accordance with the approach we approved in 2018
- applies a longer 45-year life to all assets constructed from 1 July 2018 onwards (the start of the current regulatory period), which is more consistent with the industry average and is longer than our minimum requirement of 30 years in our draft decision.

Coliban Water considers that this approach:

- ensures financial sustainability sufficient to meet its Board’s fiduciary duties (including interest cover)
- reflects technical asset lives and is consistent with our 2018 final decision
- achieves the deliberative community panel’s recommendations relating to modest price increases for achieving intergenerational equity.

Table 4.9 compares the regulatory asset lives proposed by Coliban Water in its price submission for assets post 30 June 2023 and pre 1 July 2023, with its revised proposal in response to our draft decision.

⁵⁸ Coliban Water proposes to maintain the remaining value as a non-depreciating asset.

Table 4.9 Coliban Water proposed regulatory asset life

Water price submission		Draft decision response		
Asset	Regulatory life	Asset	Regulatory life	Value 30 June 2023
Assets constructed after 30 June 2023	As per actual asset life	Assets constructed after 30 June 2023	As per actual asset life	Not applicable
Assets constructed before 1 July 2023	16 years	Water shares	No further depreciation	\$39 million
		All assets constructed before 1 July 2018	11 years	\$281 million
		Superpipe - pump stations	9 years	\$4 million
		Superpipe - pipe	84 years	\$18 million
		Harcourt - channel	93 years	\$27 million
		Harcourt - tanks	73 years	\$2 million
		Harcourt – pump stations and PRV	18 years	\$18 million
		2018-2023 IT assets	4.5 years	\$12 million
		All 2018-2023 other assets	36 years	\$181 million
		All assets constructed before 1 July 2023	25 years average	\$572 million

Source: Coliban Water, submission in response to the Essential Services Commission 'Coliban Water draft decision:2023 water price review', 18 May 2023, table 9.

4.5.3 Our final decision

Our final decision is to accept Coliban Water’s revised approach to depreciation for the 2023–28 regulatory period. Table 4.10 shows the resulting depreciation from Coliban Water’s revised approach to asset lives.

Table 4.10: Coliban Water regulatory depreciation

\$ million 2022-23

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Coliban Water's price submission proposal	36.79	38.40	40.06	43.79	47.74	206.79
Coliban Water's revised proposal in response to our draft decision	34.95	36.58	38.26	42.02	44.53	196.34
Difference	-1.84	-1.82	-1.80	-1.77	-3.21	-10.45

We consider that Coliban Water's revised approach is consistent with our preferred method of depreciation as set out in our guidance. The revised approach appropriately applies:

- our decision made in the 2018 price review on the average life of assets constructed prior to 2018 to have a 16-year asset life as at 1 July 2018
- technical asset lives for assets constructed from 1 July 2018 resulting in an average 45 years asset lives.

The resulting remaining average useful life for assets constructed from 1 July 2018 is consistent with our expectations and those of other rural water businesses of around 47 years.

Further, we consider that the revised approach facilitates Coliban Water being able to achieve short-term financial sustainability. We estimate Coliban will achieve a FFO interest cover of around 2 in each year of the regulatory period, which we consider to be a key financial sustainability metric (noting we consider 1.5 to be a reasonable lower bound). Coliban Water expects to achieve a FFO Interest cover above 1.5 across all years of the regulatory period, which we consider to be a key financial sustainability metric. Although Coliban Water also expects to meet other financial ratios measuring short-term financial sustainability, we set the revenue allowance based on benchmark financing practices which include benchmark levels of equity funding and returns on equity. To the extent that actual financial outcomes do not achieve Coliban Water's desired financial sustainability, we suggest that Coliban Water look at options to address differences between our benchmark approach and actual outcomes.

4.6 Tax allowance

Our final decision is to adopt Coliban Water’s forecast of no tax allowance for the 2023–28 regulatory period.

The tax allowance is a component of the revenue requirement. Coliban Water proposed no tax allowance in its revenue requirement for the 2023–28 regulatory period as it will not be required to pay tax during the 2023–28 regulatory period.

Our draft decision was to accept Coliban Water’s forecast as it was calculated consistently with the method required by our guidance.⁵⁹

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision accepts Coliban Water’s tax allowance as set out in Table 4.1.

⁵⁹ Essential Services Commission, *2023 water price review: Guidance paper*, pp. 47-48.

5. Demand, tariffs and prices

Once Coliban Water's revenue requirement is established, demand forecasts and the form of price control are used to translate the revenue requirement into tariffs and prices.

5.1 Demand

Our final decision is to accept Coliban Water's demand forecasts.

Along with the revenue requirement, demand forecasts are an input to calculating prices.

In our draft decision, we accepted Coliban Water's demand forecasts but required Coliban Water in its response to our draft decision to demonstrate how it has considered the updated Victorian Government population and dwelling growth estimates that had been made available to water businesses.

In response to our draft decision, Coliban Water did not adjust its demand forecasts as it considered its internal forecasts (based on long-term connections history) are a better indicator of growth in its region because the areas covered by the Victorian Government forecasts are not well-aligned with Coliban Water's water and sewer networks. However, it noted that the updated Victorian Government forecasts are closer to its internal forecasts than the previous Victorian Government forecasts. We consider that Coliban Water has had regard to the Victorian Government estimates as required in our draft decision.

Our final decision approves Coliban Water's demand forecasts because they were estimated consistently with the requirements of our guidance.

5.2 Form of price control

Our final decision is to accept Coliban Water's proposed price cap form of control.

Our draft decision accepted Coliban Water's proposal to retain a price cap form of control because, among other things, it is a continuation of Coliban Water's current approach and we considered that a price cap provides customers with price certainty and means Coliban Water is managing demand risk on behalf of its customers, which we consider is more efficient than customers managing that risk.

Our draft decision also accepted Coliban Water's proposal to reserve the option to revert to a tariff basket during the regulatory period because it is the same as the current arrangement provided for in Coliban Water's 2018 price determination. This allows flexibility for the business to propose

changes to prices, within certain constraints, within the regulatory period if it is sufficiently justified. Also, this is consistent with our price determinations for all businesses, which allow water businesses the flexibility to apply to change from a price cap to a weighted average price cap or tariff basket within a regulatory period.

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision approves Coliban Water's proposed price cap form of price control.

5.3 Tariff structures and prices

Our draft decision accepted Coliban Water's proposed tariff structures but, like all our draft decisions in this review, did not approve prices for each tariff, because Coliban Water needed to update its proposed prices to reflect our updates to inflation and cost of debt estimates.

Our final decision on tariff structures and prices is set out below.

5.3.1 Tariff structures

Our final decision is to accept Coliban Water's proposed tariff structures.

As outlined in our guidance, we have provided the water businesses with a large degree of discretion to decide on individual tariff structures.⁶⁰ This recognises water businesses are often best placed to consider the interests of customers in designing tariffs, and that existing tariff structures have been developed over time to deal with a variety of local circumstances.

Our draft decision accepted Coliban Water's proposal to retain the following existing tariff structures:

- for water services – a two-part tariff with a fixed service charge and a variable usage component that depends on water use
- for residential sewerage services – a fixed charge only
- for non-residential sewerage services – a two-part tariff with a fixed service charge and a variable usage component
- for Elmore customers – a discount on annual wastewater access fees in recognition that the town will receive a lower level of service than other towns.

⁶⁰ Essential Services Commission, *2023 water price review: Guidance paper*, p. 51.

Our draft decision also accepted Coliban Water’s proposed changes to its new customer contributions and trade waste charges and its proposal to add metering and installation charges to the schedule of prices because they met the criteria in our guidance.

In our draft decision, we considered the two-part tariff structures for water services will promote efficient use of these services and also sends customers a signal about the costs of their water use. We also considered that a two-part tariff structure is easy to understand and is an approach that is commonly applied in other states and territories.⁶¹

A submission from the Consumer Action Law Centre expressed support towards water businesses generally retaining the balance between fixed and variable charges, particularly given the disproportionate impact on tenants when more weight is assigned to variable charges.⁶² We consider that Coliban Water’s proposal retains such a balance.

After considering all submissions received following our draft decision, we have not changed our views expressed in our draft decision on Coliban Water’s tariff structures.

On that basis, our final decision is to approve Coliban Water’s proposed tariff structures.

5.3.2 Prices

Our final decision is to accept the revised prices proposed by Coliban Water, subject to our adjustments to controllable operating expenditure for the superannuation guarantee levy (Section 4.1.1).

In our draft decision, we noted that Coliban Water would need to update its prices to reflect our draft decision on its revenue requirement (including any changes arising from our further review of its new customer contributions and regulatory depreciation) and our updates to inflation and cost of debt estimates. We also sought further information from Coliban Water on how it intends to address the impacts of relatively high inflation on its proposed prices and customer bills for 2022-23, given it had, unlike some other water businesses, proposed to increase prices in real terms over the 2023–28 regulatory period.

In its response to our draft decision, Coliban Water updated its prices to reflect our draft decision on its revenue requirement. Following its response, it also provided updated expenditure forecasts to reflect tax changes arising from the 2023-24 Victorian State Budget and updated its bulk costs to reflect the latest available information. It submitted revised prices to us at this time.

⁶¹ Includes the tariffs of Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁶² Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2013, p. 2.

As part of our review, we have considered whether the prices proposed by Coliban Water reflect prudent and efficient expenditure. Reflecting our views on its revenue requirement, our final decision adopts a slightly lower revenue requirement than proposed by Coliban Water (Chapter 4).

Accordingly, and to ensure maximum prices reflect forecast efficient costs, our final decision is to not accept the revised prices proposed by Coliban Water and instead adopt the prices set out in our determination. Maximum prices for major tariffs approved in our determination are set out in Tables 5.1 and 5.2. Further, we have sought to maintain the price profile proposed by Coliban Water, so that prices increase by lower amounts (in real terms) in 2023-24 than in later years, to help manage the impacts of relatively high inflation on its customers.

Our price determination for Coliban Water sets out the maximum prices it may charge for the 5-year period from 1 July 2023 (or the manner in which its prices are to be calculated, determined, or otherwise regulated). After 2023-24, water and sewerage prices for most water and sewerage services for residential and non-residential customers will increase by around 2.5 per cent per year until 2027-28, excluding inflation.

Table 5.1 Final decision – water prices
\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential and non-residential					
Variable (\$/kL)	2.4700	2.5317	2.5949	2.6597	2.7261
Fixed (\$/year)	250.24	256.49	262.90	269.47	276.20

Notes: These prices have been expressed in \$2023-24 terms, which means 7 per cent inflation has been factored into the prices for 2023-24. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2022-23, which means inflation has not been accounted for in 2023-24 or the remaining years of the 2023–28 regulatory period. Fixed prices are based on 20mm connections.

Table 5.2 Final decision – sewerage prices

\$ 2023-24

	2023-24	2024-25	2025-26	2026-27	2027-28
Residential					
Fixed (\$/year)	752.04	770.84	790.11	809.86	830.10
Non-residential					
Variable (\$/kL)	1.0718	1.0985	1.1259	1.1540	1.1828
Fixed (\$/year)	752.04	770.84	790.11	809.86	830.10

Notes: These prices have been expressed in \$2023-24 terms, which means 7 per cent inflation has been factored into the prices for 2023-24. For the remaining years shown, inflation will be added each year based on the latest inflation data. The figures in other tables of this report are expressed in \$2022-23, which means inflation has not been accounted for in 2023-24 or the remaining years of the 2023–28 regulatory period.

5.3.3 Addressing the interests of low income and vulnerable customers

In making our price determination, we must have regard to whether Coliban Water’s prices take into account the interests of customers, including low income and vulnerable customers.⁶³

As outlined in our draft decision there is evidence that Coliban Water has sought to address the interests of low income and vulnerable customers because it has proposed:

- improving access to government support (the Utility Relief Grant scheme) through faster turnaround times for its processing of the applications (applications submitted to government within 2 days)
- doubling the existing budget (to \$570,000) to support customers experiencing financial hardship.
- investing to raise awareness of customer support programs.

Coliban Water also proposed not to increase its Minor and Medium trade waste charges given concerns for non-residential customers experiencing hardship as a result of the coronavirus pandemic.

The Consumer Action Law Centre strongly supported proposals from water businesses, including Coliban Water, to significantly increase their investment in hardship assistance during the 2023–28 regulatory period.⁶⁴

⁶³ Water Industry Regulatory Order 2014 clause 11(d)(iii).

⁶⁴ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2023, pp. 3-5.

In response to our draft decision, we received a submission that suggested that the interests of vulnerable customers must include the needs of people with electro-hypersensitivity and advocated for Coliban Water to retain the option for customers to opt out of digital metering especially for people with electro-hypersensitivity.⁶⁵ Coliban Water responded to the concerns raised in these submissions in its response to our draft decision, affirming that radiofrequency waves of digital meters fall within Australian safety standards, but stating it will retain its current approach (of an opt-out for customers who contact it directly) for as long as it uses radio devices to record water consumption.⁶⁶ Section 4.1.1.3 sets out further information from Coliban Water about the benefits arising from the implementation of its digital metering program.

We have considered all submissions in response to our draft decision, however, our views on how Coliban Water has addressed the interests of low income and vulnerable customers remain the same as expressed in our draft decision.

5.3.4 Other services

Our draft decision accepted Coliban Water's proposal to:

- introduce a Medium trade waste category to better manage these customers
- introduce five new trade waste non-compliance charges to incentivise compliance
- include scheduled metering and installation charges in its tariffs.

Coliban Water has confirmed its proposed tariffs for trade waste and miscellaneous services, which includes its proposed metering and installation charges, are calculated in accordance with the pricing principles referenced in our guidance.

After considering all submissions received in response to our draft decision, our final decision is the same as our draft decision, which is to accept Coliban Water's proposed charges.

5.4 New customer contributions

Our final decision is to accept Coliban Water's updated new customer contributions and its negotiated new customer contributions framework.

New customer contributions (or developer charges) are levied by water businesses when a new connection is made to its water, sewerage or recycled water networks. New customer contributions can be either standard or negotiated. Standard charges apply to new connections in areas where

⁶⁵ Alanna Moore, *submission to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review*, 1 May 2023.

⁶⁶ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review*, 18 May 2023, p. 16.

infrastructure requirements and growth rates are relatively well known and designated by the water business. The purpose of standard new customer contributions is to reduce the administrative burden as well as improve the timeliness and predictability of costs faced by developers.⁶⁷ Negotiated charges allow water businesses and developers to negotiate a site-specific arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.⁶⁸

As outlined in our draft decision, Coliban Water proposed using a model based on average incremental cost to estimate its new customer contributions rather than the net incremental cost approach it has used in the past.

Our draft decision did not approve Coliban Water's proposed new customer contributions, because Coliban Water had not provided us with adequate information or justification to enable us to be satisfied that its proposal complies with our guidance requirements. We indicated in the draft decision that Coliban Water must:

- provide further information to enable us to assess if growth related costs have been appropriately attributed between new customer contributions and charges paid for the general customer base
- explain its transition plan towards achieving full cost reflectivity for each service including the timeframes of this plan and provide reasons for adopting this transition plan and its timing
- set out how it proposes to fund any shortfall in revenue from new customer contributions, compared to the estimated costs of providing the services
- explain how it considered setting new customer contributions that distinguish between infill and greenfield growth areas and its reasons for not proposing charges to reflect this distinction
- information regarding how its proposed cap on new customer contributions has not caused the contributions to fall below avoidable costs
- ensure that its proposed new customer contribution charges and connection numbers by service reconcile between its new customer contributions model and financial model.

In our draft decision, we also gave Coliban Water the opportunity to recalculate its new customer contributions using the current methodology for calculating new customer contributions.

In response to our draft decision and the outcomes of its re-engagement with developers and customers, Coliban Water revised its proposal:

- It proposed introducing new customer contribution charges for small scale lot subdivisions in established areas. The small lot infill new customer contributions will start at the current level of

⁶⁷ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

⁶⁸ Essential Services Commission, *New customer contributions: explanatory note*, December 2013, p. 3.

new customer contributions charges for water and sewer then will increase by inflation annually during the 2023–28 regulatory period.

- It revised its proposed price path such that both water and sewer new customer contributions will be cost reflective by 2027-28 instead of the following regulatory period as originally proposed.
- It maintained its proposed level of new customer contribution charges for water, sewer, and recycled water connections that are not small scale infill lots.
- It maintained its proposed Growth Capital Expenditure Guarantee, discounted sewer new customer contributions of \$1,500 per lot, inclusion of budget for 'linkups' of water networks and basing new pressure system connections on actual costs.⁶⁹

Coliban Water also:

- provided additional information about its reasons for adopting the average incremental cost approach in setting its new customer contributions
- explained its cost allocation method between new and existing customers
- provided a transition plan towards achieving cost reflective new customer contributions and the impact on new and existing customers of the proposed transition
- provided its calculated infill and greenfield new customer contribution charges on a system and postage stamp basis and the outcome of its engagement with developers and customers on whether to adopt new customers contributions for infill and greenfield areas
- provided its reconciliation of capital expenditure allocated between new and existing customers
- reconciled the number of new connections between the financial model and new customer contributions model
- provided its calculated new customer contributions charges if it continues to adopt the commission's net incremental cost approach or if it is to adopt system-based new customer contributions
- articulated the implications of freezing the new customer contributions at the current level in terms of compliance with the Water Industry Regulatory Order (2014), the extent of cross-subsidy from the broader customer base and Coliban Water's ability to negotiate new customer contributions

⁶⁹ Under the Growth Capital Expenditure Guarantee, Coliban Water will rebate sewerage new customer contributions by 20 per cent in the year following a period where it has underspent sewer growth capital expenditure by at least 20 per cent. A discounted sewer new customer contribution will apply where a new development requires a standalone pump station to be built at the developer's expense. The maximum discount of \$1,500 per lot will apply where this additional cost is equal to or greater than \$1,500 per lot. The inclusion of budget for 'linkups' of water networks enable developers to not pay for all legacy link-up issues as suggested by developers.

- set out how it re-engaged with developers and customers in May 2023 to get their input and feedback on some of the key elements being reviewed and how it has taken into account stakeholders' feedback in updating its proposal
- supported a review of the new customer contributions framework and suggested a number of areas for consideration in the review.

We have reviewed Coliban Water's revised new customer contributions proposal against our guidance paper requirements.⁷⁰

In coming to our final decision, we have had regard to if and how Coliban Water's proposal is consistent with the aims of the new customer contributions framework, which are to:

- send signals to developers about the costs of developing in different locations
- share the costs and benefits of growth between new and existing customers
- administer new customer contributions in a transparent way.⁷¹

We have carefully considered the impact of the issues relating to cost reflectivity, avoidable costs, locational cost reflectivity and our consultant's (FTI consulting) 'medium confidence' rating for some assets regarding allocation of growth capital expenditure to new customer contributions. We also have carefully considered the reasonableness and transparency of the proposal and whether it is supported by customers and as a whole advances the aims of our new customer contributions framework.

On balance, we consider that we can approve Coliban Water's revised new customer contributions because the business has sufficiently addressed the pricing principles in our guidance and its proposal meets the aims of the new customer contributions framework.

Our final decision is to approve Coliban Water's revised standard new customer contributions.

The Consumer Action Law Centre made a submission on our draft decisions which reiterated its support for water businesses moving to higher more cost reflective new customer contributions. The Centre also supported our draft decision's call for clarity on the full proposed terms for transitioning to cost reflectivity.⁷² On balance we consider that Coliban Water has had regard to a fair and reasonable allocation of incremental infrastructure and associated costs when determining its proposed new customer contributions.

⁷⁰ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021, pp. 59-60.

⁷¹ Essential Services Commission, *New Customer Contributions Explanatory Note Final*, December 2013, p.2.

⁷² Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 3.

We wish to highlight that, to the extent necessary, the new customer contribution framework allows water businesses and developers to negotiate new customer contributions in lieu of using the standard new customer contributions.

Regarding Coliban Water's proposed negotiated new customer contribution framework, our draft decision proposed to not accept the framework because we were still assessing the implementation of the proposed average incremental cost approach used by Coliban Water to calculate new customer contributions. In response to our draft decision and a stakeholder submission which stated that Coliban Water's negotiating framework requires changes to make it a more comprehensive framework, Coliban Water has revised and resubmitted a revised negotiating framework that we consider is consistent with our guidance requirements.⁷³ For this reason, our final decision is to accept Coliban Water's revised negotiated new customer contribution framework.

If there is a dispute between a developer and a water business (whether in relation to a standard or negotiated new customer contribution), developers may use the dispute resolution offered by a water business as part of its new customer contribution negotiating framework. In addition, developers may follow the *Water Act 1989* process to object and seek internal review by the water business, and to pursue unresolved matters through the Victorian Civil and Administrative Tribunal.⁷⁴

5.4.1 Stakeholder submissions

We received five submissions responding to our draft decision for Coliban Water in relation to its proposed new customer contributions.⁷⁵ To the extent they have not been discussed in Section 5.4 above, we discuss below the key points raised in submissions and our response.

5.4.1.1. Average incremental cost approach

MG Estates suggested that we should reject the average incremental cost method used by Coliban Water and its proposed new customer contributions. MG Estates considered that Coliban Water's proposal did not meet the new customer contributions pricing principle of having regard to

⁷³ MG Estates, *Coliban Water's proposed negotiating framework for new customer contributions (NCCs)*, 29 May 2023.

⁷⁴ *Water Act 1989*, section 271.

⁷⁵ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 water price review*, 5 May 2023, p. 3. MG Estates, *Draft decision for Coliban Water – MG Estates PTY LTD submission*, 11 May 2023. Urban Development Institute Australia, *Essential Services Commission Water Price Review 2023-2028 – Draft decision for Coliban Water*, 12 May 2023. Villawood Properties, *Coliban Water Draft Decision*, 12 May 2023. MG Estates, *Draft decision for Coliban Water – supplementary submission*, 18 May 2023.

incremental future revenues because there is no residual value assigned to infrastructure that might serve new customers beyond the planning period.⁷⁶

In our draft decision for Coliban Water, we set out how the average incremental cost method is capable of having regard to the new customer contributions incremental revenue pricing principle under our guidance. We have considered MG Estates' submission and reviewed Coliban Water's revised new customer contribution model and justification. We are satisfied that Coliban Water's proposal as a whole is consistent with the aims of our new customer contributions framework as discussed above and that the average incremental cost method is capable of complying with our guidance.

Relatedly, the Consumer Action Law Centre stated that water businesses not using the commission's net incremental cost approach should provide justification on why their methodology is preferable.⁷⁷ Coliban Water has provided additional public information on why it chose to adopt the average incremental cost method. It also included the impacts on its new customer contributions if it were to keep the current method.⁷⁸

5.4.1.2 Information provided by Coliban Water and PREMO rating

Three submissions considered that the information provided by Coliban Water during its further engagement with developers on 5 May 2023 was limited, high level and difficult to scrutinise.⁷⁹ They wanted more detailed information such as scope for works, design, consultancy, underlying assumptions, contingencies and any justification that the capital expenditure are 100 per cent growth related.⁸⁰ Two submissions suggested that the commission reject the 'Advanced' PREMO rating for engagement and 'Standard' rating for management given 'poor engagement' on new customer contributions.⁸¹

We strongly encourage Coliban Water to assist developers with their more detailed information requirements to help developers inform their decision. Also, where relevant, developers may request more specific information under a water business' negotiating framework.

⁷⁶ MG Estates, *Draft decision for Coliban Water – MG Estates PTY LTD submission*, 11 May 2023, pp. 1-3.

⁷⁷ Consumer Action Law Centre, *Feedback on standard draft decisions: 2023 Water Price Review*, 5 May 2023, p. 3.

⁷⁸ Coliban Water, *Price Submission draft decision response 2023–2028*, 18 May 2023, pp. 30-34.

⁷⁹ Coliban Water conducted one-on-one interviews with developers on 5 May 2023. Urban Development Institute Australia, *Essential Services Commission Water Price Review 2023–2028 – Draft decision for Coliban Water*, 12 May 2023; MG Estates, *Draft decision for Coliban Water – supplementary submission*, 18 May 2023; Villawood Properties, *Coliban Water Draft Decision*, 12 May 2023.

⁸⁰ Villawood Properties, *Coliban Water Draft Decision*, 12 May 2023.

⁸¹ Urban Development Institute Australia, *Essential Services Commission Water Price Review 2023–2028 – Draft decision for Coliban Water*, 12 May 2023; MG Estates, *Draft decision for Coliban Water – MG Estates PTY LTD submission*, 11 May 2023.

Coliban Water re-engaged with developers and customers on three occasions in May 2023.⁸² While we consider that Coliban Water could have better engaged with developers on new customer contributions prior to making its price submission, we observed that majority of developer and members of the Customer Advisory Group considered the engagement exercise to be fair and authentic. Further, Coliban Water:⁸³

- re-engaged with stakeholders in terms of fleshing out the issues we raised in our draft decision about cost reflectivity, infill new customer contributions and engagement with stakeholders.
- committed to convene an annual forum of developers and advisors to outline the capital works undertaken in the prior year and to assess whether a sewer growth capital expenditure rebate applies.⁸⁴

See Sections 3.1 and 7.1 for more information about our assessment of Coliban Water's most recent engagement with stakeholders and our PREMO assessment on management. Our PREMO rating is based on Coliban Water's overall program across all customers and community.

5.4.1.3 Suggestions on our final decision approach

Three submissions recommended that the commission adopts the current standard new customer contributions plus inflation for the 2023–28 regulatory period in addition to allowing negotiated new customer contributions.⁸⁵ As discussed above, we consider that on balance, Coliban Water's proposal as a whole is consistent with the aims of our new customer contributions framework. Further, doing so would result in new customer contributions that are less cost reflective than those proposed by Coliban Water.

MG Estates, in a further submission, stated that Coliban Water has responded positively to its request for negotiated new customer contributions but has recommended a number of changes to Coliban Water's negotiating framework to make it more comprehensive.⁸⁶ Coliban Water's revised negotiating framework has addresses the key suggestions made in MG Estates' submission.

⁸² This entails one-on-one interviews with developers on 1-5 May, engagement with its Customer Advisory Group on 4 May and a close out information session with both developers and members of the Customer Advisory group on 15 May 2023.

⁸³ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision: 2023 water price review' – Attachment 1-6*, 18 May 2023, p. 6.

⁸⁴ Coliban Water, Letter to the commission, Response to Coliban Water price submission draft decision, 18 May 2023, p. 3.

⁸⁵ Urban Development Institute Australia, *Essential Services Commission Water Price Review 2023–2028 – Draft decision for Coliban Water*, 12 May 2023. MG Estates, *Draft decision for Coliban Water – MG Estates PTY LTD submission*, 11 May 2023. Villawood Properties, *Coliban Water Draft Decision*, 12 May 2023.

⁸⁶ Coliban Water has notified MG Estates in writing that it has agreed to commence negotiations with MG Estates around new customer contributions in accordance with the Coliban Water's negotiating framework. MG Estates, *Coliban Water's proposed negotiating framework for new customer contributions (NCCs)*, 29 May 2023.

MG Estates also recommended that a better practice for dispute resolution might be to offer a disaffected landowner or developer an escalation process before referral to the Victorian Civil and Administrative Tribunal to save parties time and money. Under the new customer contributions explanatory note, developers are able to seek an internal review by the water business or request independent commercial dispute resolution.⁸⁷ We will include MG Estates' other recommendations on principles, cost allocation and cross subsidies, among others, as part of our new customer contribution framework review which will start in 2023-24.

5.4.1.4 Review of the new customer contributions framework

Coliban Water, the Urban Development Institute of Australia and MG Estates supported a review of the new customer contributions framework after the 2023 price review. As noted below, we intend to review the new customer contributions framework in 2023-24 and we will consult extensively with the sector.

5.4.2 Review of the framework for new customer contributions

Our guideline for new customer contributions establishes our expectations for standard new customer contributions and bespoke negotiated new customer contributions. However, in light of issues we identified during our 2023 water price review, we believe that a review of the regulatory framework for new customer contributions is necessary. Our review will aim to identify and address key implementation issues for water businesses, establish consistency in setting new customer contributions across the sector, and define the purpose and content of the negotiating framework.

5.4.2.1 Current issues

Our experience reviewing the new customer contributions proposals of water businesses in the current price review has identified varied practices across businesses in terms of their approach and substantiation of proposed charges to meet our guidance and the objectives of the framework. This includes varied approaches to the inclusion of costs in new customer contributions, differentiated pricing, and use of negotiated new customer contributions.

A number of businesses in the current price review also based their new customer contributions on an average incremental cost methodology, rather than the net incremental cost approach adopted in the past. We want to explore the issues associated with having different underlying approaches and how this affects confidence and transparency in the way new customer contributions are arrived at.

⁸⁷ Essential Services Commission, New customer contributions: Explanatory note, December 2013, pp. 7-8.

Other issues we have identified in the current review – such as varied approaches to locational and incremental cost reflectivity – and the transparency of new customer contributions and the nature of engagement, may also be covered in the review.

5.4.2.2 Next steps

In 2023-24, we intend to initiate a review of the framework for new customer contributions by issuing a consultation paper. This paper will outline the proposed scope of the review and seek feedback from stakeholders. We encourage stakeholders to suggest any other important matters that they believe should be included in the review.

Throughout the review process, we will actively engage with industry and stakeholders to gather their input.

5.5 Adjusting prices

Our final decision is to accept Coliban Water's proposed price adjustment mechanisms.

Our draft decision accepted Coliban Water's proposed price adjustment mechanisms related to cost of debt adjustments and uncertain and unforeseen events because they were consistent with the requirements outlined in the Water Industry Regulatory Order (2014). Coliban Water has identified a number of uncertain or unforeseen events and approaches to manage these events prior to seeking a re-opening of its determination. For example, Coliban Water proposed to rebalance its capital expenditure program in the first instance, where appropriate, or to fund the project through increased debt.

As noted in our draft decision, Coliban Water also proposed to provide an annual rebate to wastewater new customer contributions if its wastewater growth capital expenditure falls materially short of proposals.⁶¹ Under Coliban Water's proposed Sewer Growth Capital Guarantee, Coliban Water proposed a 20 per cent rebate to the next year's new customer contributions if Coliban Water's actual sewer growth capital expenditure over the 2023–28 regulatory period is 80 per cent or less than the target amount.

In response to our draft decision, Coliban Water provided us with the formula to be used to implement the Sewer Growth Capital Guarantee. We consider that a mechanism which takes into account shortfalls in performance relative to targets demonstrates a commitment to ensuring customer prices are not higher than they need be.

After considering all submissions received in response to our draft decision, and for the reasons set out above, our final decision accepts Coliban Water's proposed price adjustment mechanisms related to cost of debt adjustments, uncertain and unforeseen events and the Sewer Growth Capital Guarantee. These price adjustments mechanisms have been reflected in Coliban Water's price determination for 2023–28.

6. Financial position

We have reviewed key indicators of Coliban Water's financial performance and consider that Coliban Water will generate sufficient cash flow to deliver on its service commitments.

In approving prices, we must have regard to the financial viability of the water industry.⁸⁸ We interpret the financial viability requirements under the *Essential Services Commission Act 2001* and the Water Industry Regulatory Order (2014) to mean that the prices we approve should provide a high level of certainty that each water business can generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations. Our guidance set out key indicators of forecast financial performance.

In response to our draft decision, Coliban Water raised our preliminary views as set out in our draft decision on its approach to and its forecast for regulatory depreciation, and the implications for financial sustainability risks facing the business.⁸⁹ Commissioners also met with the chair and senior staff of Coliban Water on 29 May to discuss their proposals in response to our draft decision, and how these relate to its financial sustainability.

We have reviewed forecasts for the key indicators of financial viability as set out in our guidance, based on our final decision on Coliban Water's prices. We have assessed that under our final decision, Coliban Water will generate sufficient cash flow to deliver on its service commitments, including financing costs arising from investments to meet service expectations.

As noted in Section 4.5.3, we forecast Coliban Water to achieve an interest cover of around 2 in each year of the 2023–28 regulatory period, above the 1.5 times we see as a desirable lower bound. We acknowledge forecast gearing is above the lower bound of 70 per cent we see as desirable, averaging around 75 per cent over the next regulatory period. Funds from operations to net debt is also forecast to remain below our desirable lower bound. However, we note interest cover is forecast to remain at relatively healthy levels (indicating an ability to cover interest obligations), and in part the high gearing and outcomes for net debt are driven by investments in new assets by Coliban Water.

The internal financing ratio is expected to remain slightly below the desirable lower bound of 35 per cent early in the 2023–28 regulatory period (again likely reflecting a large increase in capital investments) before returning above the lower bound by 2026-27.

⁸⁸ WIRO clause 8(b)(ii) and ESC Act s.8A(1)(b).

⁸⁹ Coliban Water, *submission in response to the Essential Services Commission 'Coliban Water draft decision:2023 water price review'*, 18 May 2023, p. 22, and letter dated 27 April 2023.

7. PREMO rating

PREMO is an incentive mechanism that links the return on equity used to calculate a water business’s revenue requirement to that business’s level of ambition expressed in its price submission. Our guidance required Coliban Water to self-assess the level of ambition of its price submission for each element of the PREMO mechanism and arrive at an overall self-rating.⁹⁰ We required Coliban Water to self-rate its price submission as either ‘Leading’, ‘Advanced’, ‘Standard’ or ‘Basic’, with ‘Leading’ being the most ambitious and ‘Basic’ the least.

The assessment tool included in our guidance directed Coliban Water to consider its level of ambition in relation to matters covered in its price submission, such as proposals related to operating and capital expenditure, the form of price control, and tariffs.

We assessed and rated Coliban Water’s price submission. As outlined in our guidance, the combination of Coliban Water’s self-rating and our rating has determined the return on equity we have adopted to calculate Coliban Water’s revenue requirement in our final decision.

7.1 Our PREMO assessment of Coliban Water’s price submission

Our final decision is to rate Coliban Water’s price submission as ‘Standard’ under PREMO, which is the same as Coliban Water’s self-rating.

Coliban Water’s self-rating for each of the PREMO elements and its overall self-rating are shown in Table 7.1. This table also includes our draft and final ratings of Coliban Water’s price submission.

Table 7.1 PREMO rating

	Overall PREMO rating	Performance	Risk	Engagement	Management	Outcomes
Coliban Water’s self-rating	Standard	Advanced	Standard	Advanced	Standard	Advanced
Commission’s draft decision rating	Standard	Standard	Basic	Advanced	Standard	Advanced
Commission’s final decision rating	Standard	Standard	Basic	Advanced	Standard	Advanced

⁹⁰ This is the first price review we have done where the rating has been based on all five elements of PREMO. In our 2018 price review, our PREMO assessment was against only four of the elements — Risk, Engagement, Management and Outcomes.

Our preliminary PREMO assessment is set out in our draft decision.

After considering submissions received in response to our draft decision, our final decision is to agree with Coliban Water's proposed overall PREMO self-rating of 'Standard'.

This rating is reflected in the return on equity we have approved for Coliban Water (see Section 4.4.2).

In summary, the following matters support Coliban Water's self-rating of its price submission as 'Standard':

- Coliban Water has justified the substantive elements of its expenditure forecasts, including the prudence and efficiency of proposed capital expenditure.
- While concerns have been raised in submissions about its engagement with developers, we consider Coliban Water showed strong commitment to the outcomes of its engagement processes and influence of customers, including by adopting all recommendations of its deliberative community panel.
- Coliban Water proposed an efficiency improvement rate for controllable operating expenditure over the next regulatory period of 1.4 per cent per year, one of the highest efficiency improvement rates of all businesses in the current price review.
- Coliban Water's proposed targets for its outcome measures suggest an overall improvement in customer service levels. Coliban Water will continue to report annually to its customers on how it has performed against its outcome commitments, and it will continue engaging its customers on its outcomes at its annual regional advisory group forum.
- Coliban Water has also proposed to develop an online dashboard where customers can view more information on its performance against its outcome commitments which we consider will support its accountability to its customers.

7.1.2 Risk

In response to our draft decision, Coliban Water considered we should reconsider our rating for the Risk element of PREMO and rate it as 'Standard' (compared to the 'Basic' we adopted in our draft decision). Coliban Water set out a number of matters it considered demonstrated where its risk position had sought to minimise the impact of its investment program on customer bills, which it said supported its self-rating of 'Standard'.

Our draft decision considered Coliban Water had not justified its approach to depreciation, specifically its proposed 16-year life for existing assets which has the effect of raising customer prices in the 2023–28 regulatory period and lowering prices at some later time. This approach sits in the context of Coliban Water proposing relatively large real price increases over the 2023–28 regulatory period, at least in part to address what it has described as a historical under-investment, to enable it to meet its compliance obligations.

In its response to our draft decision, Coliban Water provided a revised proposal and additional information in relation to its approach to depreciation. As noted in Section 4.5, our final decision is to accept this revised approach. We welcome Coliban Water's proactive and constructive approach to addressing our draft decision on its approach to regulatory depreciation. However, a key objective of PREMO is that a business puts forward its best offer in its price submission. While we consider all submissions and information including responses to our draft decision, this is consistent with our guidance which explains that we expect each business's price submission to reflect its 'best offer' to customers.

Accordingly, we have maintained our draft decision rating of 'Basic' for the Risk element of PREMO, consistent with our draft decision.

7.1.3 Engagement

In assessing Coliban Water's engagement against our requirements for an 'Advanced' PREMO rating, we considered all the information provided by Coliban Water (including its initial price submission, its responses to our draft decision and responses to our information requests) as well as the information provided by other stakeholders including at the public forum. We carried out a detailed review of materials and records of Coliban Water's wide range of engagement methods with its diverse customer base. Our assessment was conducted according to our guidance and the PREMO Assessment Tool. That tool is structured to demonstrate our assessment against the guiding questions.

As noted in Section 5.4, in response to our draft decision, we received submissions from MG Estates dated 11 May 2023, and the Urban Development Institute of Australia dated 12 May, which listed what they considered to be various shortcomings with Coliban Water's engagement with developers on new customer contributions. Both submissions disagreed with our acceptance of Coliban Water's 'Advanced' PREMO rating for engagement, with MG Estates seeking we give greater weight to the experience of developers in assessing the engagement component of Coliban Water's PREMO rating. It considered that a 'Basic' rating for the engagement element of PREMO would be more reflective of Coliban Water's engagement with developers.

As detailed above in Section 3.1, we considered the significant factors in favour of an 'Advanced' rating and balanced these against the engagement experiences of the developer community. For the reasons outlined in Section 3.1, our final decision confirms our acceptance of Coliban Water's self-rating of 'Advanced' for its price submission engagement.

7.1.4 Management

Our final decision is to rate Coliban Water's price submission as 'Standard' for the Management element of PREMO, consistent with our draft decision. The following factors support this rating:

- Coliban Water proposed an efficiency improvement rate for controllable operating expenditure of 1.4 per cent per year over the next regulatory period, one of the highest efficiency improvement rates of all businesses in the current price review.
- We have tested Coliban Water's assumptions for forecast operating and capital expenditure, and our preliminary view is that, except for some relatively small adjustments, they reflect efficient expenditure.
- Coliban Water's financial model contained no substantive errors and was consistent with its written submission. Its price submission was well presented and clearly linked the outcomes of its engagement to planned outcomes and expenditure. The Coliban Water Board has also attested to the accuracy of the information contained in its submission, as required by our guidance.

In a submission on our draft decision, the Urban Development Institute of Australia did not agree with the ratings we adopted in our draft decision for the Engagement and Management elements of PREMO based on issues related to the modelling and alignment of Coliban Water's proposals with pricing principles. The Urban Development Institute of Victoria submitted that we should instead adopt a 'Basic' rating for Coliban Water's price submission for the 'Management' element of PREMO.

We have considered the matters raised by the Urban Development Institute of Australia along with other aspects of Coliban Water's proposals to assess its price submission Management rating. However, we consider factors such as those noted above support a rating of 'Standard' for the Management element of PREMO.

Appendix A – Submissions received on draft decision

Name or organisation	Date received
Coliban Water	27 April 2023
Janobai Smith	1 May 2023
Alanna Moore	4 May 2023
Consumer Action Law Centre	5 May 2023
MG Estates	11 May 2023
Urban Development Institute of Australia Victoria	12 May 2023
Villawood properties	12 May 2023
MG Estates	18 May 2023
Coliban Water	18 May 2023
Coliban Water	25 May 2023
Registered Accommodation Association of Victoria	26 May 2023
MG Estates	29 May 2023
Coliban Water	2 June 2023

Appendix B – Commission’s consideration of legal requirements

Clause 11 of the Water Industry Regulatory Order 2014 (WIRO) specifies the mandatory factors we must have regard to when making a price determination. The WIRO covers matters that are included in the *Water Industry Act 1994* (WI Act) and the *Essential Services Commission Act 2001* (ESC Act).

Below, we describe how we apply the mandatory factors and where we have done so in our final decision for Coliban Water.

The WIRO requires the Commission to place particular emphasis on the promotion of efficient use of prescribed services by customers, the promotion of efficiency in water businesses as well as efficiency in, and the financial viability of, the regulated water industry and the provision to regulated entities of incentives to pursue efficiency improvements.

In addition to the mandatory factors set out below, clause 11 of the WIRO requires the commission to have regard to the matters specified in the commission’s guidance.⁹¹ Our draft and final decisions provide further information on where we have considered our guidance, and Coliban Water’s compliance with our guidance, in making our price determination.⁹²

Note: all chapter and section numbers referenced below refer to our final decision for Coliban Water.

Economic efficiency and viability matters

WIRO clause 8(b)(i) requires us to have regard to the ‘promotion of efficient use of prescribed services by customers’.

We consider that the efficient use of prescribed services by customers is promoted when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).

⁹¹ Essential Services Commission, *2023 water price review: Guidance paper*, 26 October 2021.

⁹² Essential Services Commission, *Coliban Water draft decision: 2023 water price review*, 12 April 2023; Essential Services Commission, *Coliban Water Determination: 1 July 2023 – 30 June 2028*, 23 June 2023.

- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

WIRO clause 8(b)(ii) requires us to have regard to the ‘promotion of efficiency in regulated entities as well as efficiency in, and financial viability of, the regulated water industry’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost promotes efficiency in regulated entities and the water industry. Our final decision has therefore had regard to the extent that Coliban Water has demonstrated its proposed outcomes reflect customer service priorities, and whether its tariffs and forecast costs reflect efficient levels of expenditure.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6).

WIRO clause 8(b)(iii) requires us to have regard to the ‘provision to regulated entities of incentives to pursue efficiency improvements’.

We consider that the delivery of outcomes which reflect customer service priorities at an efficient cost provides regulated entities incentives to pursue efficiency improvements. The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Additionally, our pricing approach allows a water business to retain the benefits of any cost efficiencies it generates until the end of its regulatory period. In other words, a water business has an incentive to outperform the operating and capital expenditure benchmarks we accept for the purpose of estimating its revenue requirement and prices. This is consistent with providing incentives for water businesses to pursue efficiency improvements.

ESC Act section 8A(1)(a) requires us to have regard to ‘efficiency in the industry and incentives for long term investment’.

We consider that adopting forecasts of efficient expenditure that reflect the service priorities of the customers of each water business promotes efficiency in the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to incentives for long term investment by adopting:

- A 10-year trailing average approach to estimating the benchmark cost of debt (see Section 4.4.1).
- A regulatory rate of return that we consider will enable Coliban Water to recover borrowing costs associated with its investment in services, and generate a return on assets.⁹³

ESC Act section 8A(1)(b) requires us to have regard to the ‘financial viability of the industry’.

We consider that the financial viability of the industry is secured by approving prices that provide a high degree of certainty that each water business can maintain an investment grade credit rating. Further, prices should enable each business to generate cash flow to service financing costs arising from investments to meet service expectations.

We have had regard to this matter in Chapter 6.

ESC Act section 33(3)(b) requires us to have regard to the ‘efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry’.

In preparing our final decision, we have had regard to the extent Coliban Water has demonstrated its forecasts reflect efficient costs to deliver services valued by customers, and to deliver on relevant legislation and relevant health, safety, environmental and social obligations.

⁹³ The regulatory rate of return is comprised of the cost of debt and the return on equity.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Industry specific matters

ESC Act section 33(3)(a) requires us to have regard to the ‘particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made’.

Our pricing approach allows each water business to propose outcomes, tariff structures and expenditure that reflect its particular circumstances. We consider that taking into account the particular circumstances of each water business is consistent with taking into account the particular circumstances of the water industry.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

We have had regard to the prescribed services listed in the WIRO in making our final decision. This includes adopting operating and capital expenditure benchmarks that we consider will allow Coliban Water to deliver services that are covered by the prescribed services listed in the WIRO.

ESC Act section 33(3)(c) requires us to have regard to the ‘return on assets in the regulated industry’.

Our final decision provides for Coliban Water to generate a return on assets through:

- Our consideration of the regulatory asset base (Section 4.3).
- Our consideration of the cost of debt (Section 4.4.1).
- Our consideration of the return on equity (Section 4.4.2).

ESC Act Section 33(3)(d) requires us to have regard to ‘any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries’.

In assessing costs, prices and return on assets we have had regard to relevant interstate benchmarks:

- indicative bills paid by customers in other jurisdictions in Australia⁹⁴
- operating and capital expenditure costs per connection throughout Australia⁹⁵
- tariff structures applied by water businesses throughout Australia⁹⁶
- the regulatory rate of return set by other regulators.⁹⁷

We are not aware of any international benchmarks that are relevant to our final decision.

WI Act section 4C(b) requires us to ‘ensure that regulatory decision making and regulatory processes have regard to any differences between the operating environments of regulated entities’.

Our pricing approach allows each water business to propose outcomes, a revenue requirement, expenditure and tariffs that reflect its particular circumstances and operating environment.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Our price review also considers the views of stakeholders affected by Coliban Water’s proposals, including through submissions and public meetings.

⁹⁴ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*, February 2022.

⁹⁵ Bureau of Meteorology, *National performance report 2020-21; urban water utilities, part A*.

⁹⁶ Includes Icon Water, Sydney Water, Hunter Water, Central Coast Council, Power and Water Corp, Urban Utilities, Unity Water, SA Water and TasWater.

⁹⁷ Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of WaterNSW's rural bulk water prices*, 9 September 2021; Independent Pricing and Regulatory Tribunal NSW, *Final Report - Review of prices for Sydney Water*, June 2020; Essential Services Commission of South Australia, *SA Water's water and sewerage retail services: 1 July 2020 - 30 June 2024*, Price Determination, 1 July 2020; Queensland Competition Authority, *Final report - Seqwater bulk water price review 2022–26*, March 2022; Queensland Competition Authority (QCA), *Final report - Rural irrigation price review 2020–24, Part A: Overview*, January 2020; Office of the Tasmanian Economic Regulator, *Final report - Investigation into TasWater's prices and services for the period 1 July 2022 to 30 June 2026*, May 2022.

Customer matters

ESC Act section 8(1) requires us to have regard to the fact that the ‘objective of the Commission is to promote the long-term interests of Victorian consumers’.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers is consistent with promoting the long-term interests of Victorian consumers.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).
- Our assessment of financial viability (Chapter 6).

ESC Act Section 8(2) requires us to ‘have regard to the price, quality and reliability of essential services’ in seeking to achieve the objective in section 8(1) of the ESC Act.

We consider that promoting efficiency in delivering outcomes that align to service priorities of customers, and allowing businesses to meet regulatory and policy obligations is consistent with this objective.

In terms of prices, the following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our consideration of demand (Section 5.1).
- Our consideration of tariffs (Section 5.3).

In terms of the quality and reliability of services, the following sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our consideration of outcomes (Section 3.2).

WIRO Clause 11(d)(i) requires us to have regard to whether Coliban Water’s prices ‘enable customers or potential customers of the regulated entity to easily understand prices charged by the regulated entity for prescribed services or the manner in which such prices are calculated, determined or otherwise regulated’.

We consider that the following matters are relevant when considering whether Coliban Water’s prices enable customers or potential customers to easily understand prices, or the manner in which prices are calculated, determined or otherwise regulated:

- feedback from customers during a water business’s engagement
- the structure of individual tariffs
- the proposed form of price control
- any changes to tariffs and how water businesses explain them to customers.

The following sections of our final decision involved consideration of this factor:

- Our consideration of tariffs and the form of price control (Section 5.2 and Section 5.3).

WIRO Clause 11(d)(ii) requires us to have regard to whether Coliban Water’s prices ‘provide signals about the efficient costs of providing prescribed services to customers while avoiding price shocks where possible’.

We consider prices can provide signals about efficient costs when a tariff is applied to customers benefiting from the service covered by the tariff, and tariffs send appropriate signals about efficient costs.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1).
- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

WIRO Clause 11(d)(iii) requires us to have regard to whether Coliban Water’s prices ‘take into account the interests of customers of the regulated entity, including low income and vulnerable customers’.

We consider that customer value established through prices and customer outcomes, as well as tariff structures, and assistance available to customers having difficulty paying bills is relevant to this objective.

The following chapters and sections of our final decision involved consideration of this factor:

- Our consideration of customer engagement (Section 3.1)
- Our consideration of outcomes (Section 3.2)

Appendix B – Commission’s consideration of legal requirements

- Our consideration of guaranteed service levels (Section 3.4)
- Our consideration of tariff structures and prices (Chapter 5)

Health, safety, environmental and social obligations

ESC Act Section 8A(1)(d) requires us to have regard to ‘the relevant health, safety, environmental and social legislation applying to the industry’.

Our final decision proposes to approve a revenue requirement that will enable Coliban Water to deliver the outcomes valued by customers, and on its legal and regulatory obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of the form of price control (Section 5.2).

WI Act section 4C(c) requires us to ‘ensure that regulatory decision making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities’.

Our final decision proposes to approve a revenue requirement that will enable Coliban Water to deliver the outcomes valued by customers, and on its health, safety, environmental sustainability and social obligations.

The following chapters and sections of our final decision involved consideration of this factor:

- Our assessment of the revenue requirement (Chapter 4).
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).
- Our assessment of tariffs (Section 5.3).

Other matters

ESC Act section 8A(1)(c) requires us to have regard to ‘the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries’.

In relation to the above, Coliban Water does not face any competition in the delivery of its prescribed services within its region. Our final decision takes this into account through our consideration of forecast efficient costs, and considering the service priorities of customers as revealed through a business’s customer engagement.

The following sections of our final decision involved consideration of this factor:

- Our assessment of engagement (Section 3.1)
- Our assessment of outcomes (Section 3.2)
- Our assessment of efficient operating expenditure (Section 4.1) and capital expenditure (Section 4.2).

We consider that our pricing approach helps to address market power and information asymmetries relating to the water businesses. Our PREMO water pricing approach provides incentives for a water business to provide its “best offer” to customers in its price submission. This is described in further detail in a report we released in 2016.⁹⁸

ESC Act section 8A(1)(e) requires us to have regard to the ‘benefits and costs of regulation (including externalities and gains from competition and efficiency) for: (i) consumers and users of products or services (including low income and vulnerable consumers); and (ii) regulated entities’.

We have had regard to benefits and costs of regulation by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.⁹⁹

ESC Act section 8A(1)(f) requires us to have regard to ‘consistency in regulation between States and on a national basis’.

Similar to other state and national regulators, our economic regulatory approach:

- uses the building block method to estimate a water business’s revenue requirement
- allows water businesses to implement various forms of price control, including price caps and revenue caps

⁹⁸ Essential Services Commission 2016, Water Pricing Framework and Approach, Implementing PREMO from 2018, October, pp. 11–13.

⁹⁹ Essential Services Commission, *2023 water price review: Guidance paper*, p. 2.

- allows for consultation with key stakeholders during a price review, including through the release of a draft decision.

WI Act section 4C(a) requires us to ‘ensure that the costs of regulation do not exceed the benefits’.

We have sought to ensure that the costs of regulation do not exceed the benefits by:

- Implementing a price review process so that water businesses may receive streamlined price reviews if they submit a high quality price submission. This reduces the costs of regulation for water businesses and the commission.
- Focusing our assessments of price submissions on the materiality of proposals to customer interests (including low income and vulnerable services), including in terms of price, bill and service impacts.
- Designing our guidance so we minimise the compliance costs for water businesses. Our guidance noted that much of the information required in price submissions should be readily available to water businesses as it would be relevant for other purposes such as corporate planning and project prioritisation and justification.¹⁰⁰

¹⁰⁰ Essential Services Commission, 2023 water price review: *Guidance paper*, p. 2.

Appendix C – Service standards

We have accepted the following standards, and conditions of service and supply, and associated targets for Coliban Water. Service standards are approved in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard to adopt these service standards and targets.

Water service standards

	2023-24	2024-25	2025-26	2026-27	2027-28
Minimum water pressure a customer should receive under normal conditions ^a (kPa)	200	200	200	200	200
Maximum number of unplanned water supply interruptions a customer a may experience in any 12-month period	4	4	4	4	4
Average time taken to attend bursts and leaks (priority 1) (minutes)	32	32	32	32	32
Average time taken to attend bursts and leaks (priority 2) (minutes)	80	80	75	75	70
Average time taken to attend bursts and leaks (priority 3) (minutes)	1,440	1,440	1,440	1,440	1,440
Average duration of unplanned water interruptions (minutes)	112	112	112	112	112
Average duration of planned water interruptions (minutes)	140	140	140	140	140

^a Refer to Section 17.2, Water Industry Standard – Urban Customer Service for a list of conditions where minimum pressure requirements may not be met.

Sewerage service standards

	2023-24	2024-25	2025-26	2026-27	2027-28
Maximum number of sewer blockages a customer may experience in any 12-month period	3	3	3	3	3
Average time to attend sewer spills and blockages (minutes)	30	30	30	30	30
Average time to rectify a sewer blockage (minutes)	80	80	80	80	80
Maximum time taken to contain a sewer spill (minutes)	300	300	300	300	300

Appendix D – Guaranteed service level scheme

We have adopted the following service level obligations and corresponding amounts of payment for failure to attain the stated obligation as the guaranteed service level scheme for Coliban Water. Guaranteed service levels are approved in the Water Industry Standard – Urban Customer Service (Urban Water Industry Standard) and the Water Industry Standard – Rural Customer Service (Rural Water Industry Standard). Accordingly, in early 2023-24, we will update the Urban Water Industry Standard and the Rural Water Industry Standard to reflect the guaranteed service levels set out below.

In accordance with clause 20(b) of the Urban Water Industry Standard and 2(b) of the Rural Water Industry Standard, Coliban Water must ensure that any payment is made to a customer as soon as practicable after a customer becomes entitled to the guaranteed service level payment.

Coliban Water is not required to make a payment where the failure to meet the service level is due to the action or inaction of the customer or a third party. For the avoidance of doubt, a third party does not include any person or firm acting on behalf of Coliban Water.

Coliban Water’s urban guaranteed service level scheme

Service level obligation	Payment (\$)
Sewer intrusion into property (blown seal)	\$60 first event \$120 subsequent events
Sewer intrusion into property (plus compensation for damages)	\$360 (less than 1 hour) \$1,200 (1 hour or more)
Special meter read not completed within two business days	Reimbursement of special meter read fee
Greater than three sewer blockages in the past 12 months	\$120
Greater than four water outages in the past 12 months	\$60
Unplanned water supply outage longer than five hours	\$60 each or community GSL of \$6,000 if more than 100 connections
Planned water outage during peak times (6am-9am & 6pm-9pm weekdays and on weekends)	\$120
Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	\$360
Failing to unrestrict water supply within 24 hours after reason for restriction removed	\$360

[Continued next page](#)

Coliban Water's guaranteed service level scheme (continued)

Service level obligation	Payment (\$)
Ongoing aesthetic water quality issue	25% Water Access charge discount
Ongoing water pressure issues	25% Water Access charge discount
Negative impact on living amenity due to construction works	Tier 1: Fair and reasonable impact mitigation cost Tier 2: 25% Water Access Charge discount
Boil Water or Do Not Consume notice issued	\$6,000 community GSL
Significant sewer spill to environment	\$10,000 community GSL

Note: These are nominal amounts, that is, the amount of payment will not be impacted by inflation.

Coliban Water's rural guaranteed service level scheme

Service level obligation	Payment (\$)
Rural customers less than 100% water allocation	Infrastructure Charge refund (% unallocated)

Appendix E – Inputs to calculation of long-term inflation

Inflation – annual estimates (per cent)

	2023-24	2024-25	2025-26	2026-27	2027-28	Average
RBA geometric mean	7.0	4.1	3.1	2.5	2.5	3.8
Bond breakeven	7.0	2.3	2.3	2.3	2.3	3.3