

In reply please quote: FC2023/06289

22 May 2023

Mr Marcus Crudden
Executive Director, Price Monitoring and Regulation
Essential Service Commission

By email: water@esc.vic.gov.au

Dear Marcus,

UPDATE TO WANNON WATER'S RESPONSE TO DRAFT DECISION

I write to provide an update and additional information regarding the proposed Great Tasting Water project identified in our Price Submission 2023-28¹.

We are pleased that the Albanese Government's 2023/24 Budget includes an allocation of \$26.1 million within the National Water Grid Fund deliverables for the Great Tasting Water project – identified in budget papers as 'Quality Water for Wannon project'².

The funding substantiates our investment in this project and our commitment to delivering the project for the communities of Port Fairy, Portland and Heywood. The particulars regarding the funding will be worked through over the coming months. We expect the funding agreement to include an obligation to deliver for the three communities over approximately six years. This outcome increases project delivery certainty, including our capital investment obligations during the Price Submission 2023-28 period.

Our revised investment estimate for this project is \$52.23 million. With capital funding from the National Water Grid Fund and funding from Department of Health, Wannon Water's revised capital expenditure investment is \$21.49 million:

Funding body	\$million
Wannon Water	21.49
Victorian Government – Department of Health	4.70
Federal Government – National Water Grid	26.05
TOTAL	52.23

We estimate that \$20 million of our \$21.49 million investment will occur during the Price Submission 2023-28 period.

Our Price Submission 2023-28 proposed Wannon Water's capital investment as \$16.50 million over six years, \$15.75 million during the 2023-28 period. The Commission's draft decision proposed an adjusted amount of \$1.6 million during 2023-28 to enable the project to commence.

¹ Wannon Water Price Submission 2023-28, page 45

² <https://www.dcceew.gov.au/sites/default/files/documents/securing-our-nations-water-management-fs.pdf> - accessed May 22 2023

Our response to the draft decision³ accepted the Commission's capital expenditure adjustment on the basis that we are under-collecting revenue requirement, that additional capital expenditure would not impact customer tariffs and that we have the capacity to borrow to fund the project in the short term. Our response noted our intention to recover actual incurred (net) expenditure at the end of the 2023-28 period.

Following confirmation of funding we reconsidered our response to the capital expenditure adjustment in the draft decision. Despite the certainty about investing in the project during the 2023-28 period, we remain willing to accept the proposed \$1.6 million in the draft decision.

In restating our decision to accept the draft decision, we highlight:

1. Confirmation of funding does not alter our proposed customer tariffs. It does reduce the risk of future tariff increases though.
2. The likely net investment recovered at the end of the 2023-28 period has increased to approximately \$20 million.
3. The seed funding allocated in the Final Decision will be mis-aligned with the increased likelihood of project delivery, meaning Wannon Water carries a greater level of risk on behalf of customers.
4. Our proposed outcome deliverables are stretch targets as the capital allocation in the Final Decision is not sufficient to complete the stated deliverable without additional risk assumed by Wannon Water.
5. The Commission's assessment of the Management element of PREMO should not include our Price Submission 2023-28 capital and operating expenditure relating to this project.

We have also reconsidered our response to the operating expenditure adjustment in the draft decision. For the reasons outlined in our Price Submission 2023-28 and restated above, we remain willing to accept the removal of all operating costs associated with this project.

I would be happy to discuss this further.

Yours sincerely



STEVEN WATERHOUSE
General Manager People & Business Services

³ Wannon Water's Response to Essential Services Commission Wannon Water Draft Decision 2023 Water price Review, page 13