



Essential Services Commission online public forum

Central Highlands Water
draft decision 2023

28 April 2023



Agenda

- Summary of our role in water price regulation

Kate Symons

Chairperson, Essential Services Commission

- How we assessed the price submission and our draft decision

Marcus Crudden

Executive Director, Price Monitoring and Regulation, Essential Services Commission

- Central Highlands Water's response to our draft decision

Jeff Haydon, **Managing Director**

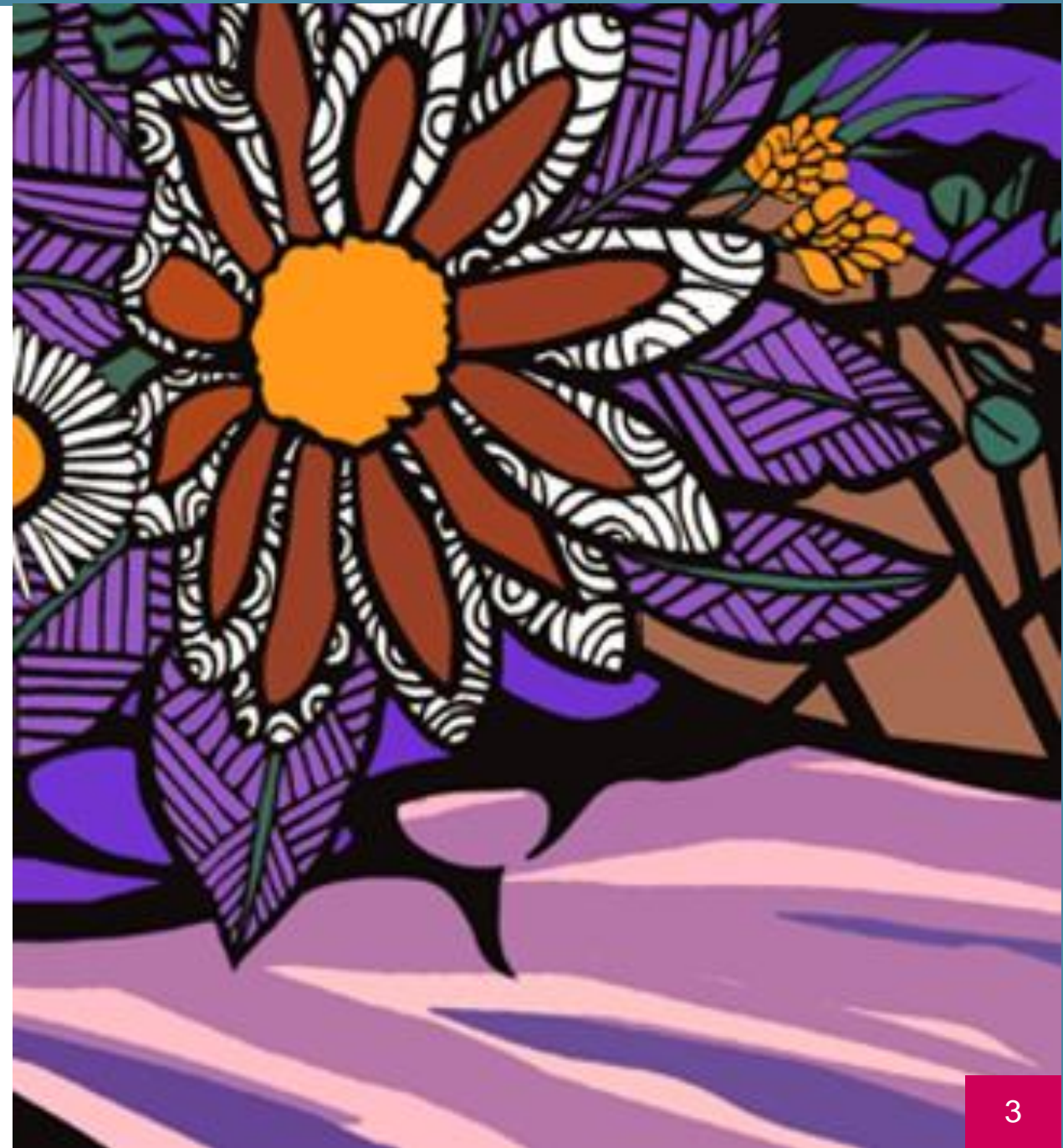
- Questions from attendees

Acknowledgement of country

I would like to acknowledge the Traditional Owners of all of the lands wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of Central Highlands Water.

I would also like to pay my respects to their Elders, past and present, and extend that respect to all Aboriginal people here today.

Barring Djinang artwork by Jade Kennedy.
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About the Essential Services Commission

Our purpose is to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate Victoria's energy, water and transport sectors, and oversee the Fair Go Rates system. We also administer the Victorian Energy Upgrades program.

We have been regulating water prices more than 20 years.

For the water sector we:

- approve prices and service standards
- monitor and report on performance
- administer customer service codes.

Central Highlands Water price review process

We assess Central Highlands Water's price submission to ensure it:

- complies with the requirements of the Water Industry Regulatory Order
- meets the requirements in our guidance, including:
 - our expectations on the overall approach
 - application of our incentive (PREMO) framework, where the returns earned are linked to the level of ambition in the price submission
- complies with relevant criteria in the *Water Industry Act 1994* and the *Essential Services Commission Act 2001*.

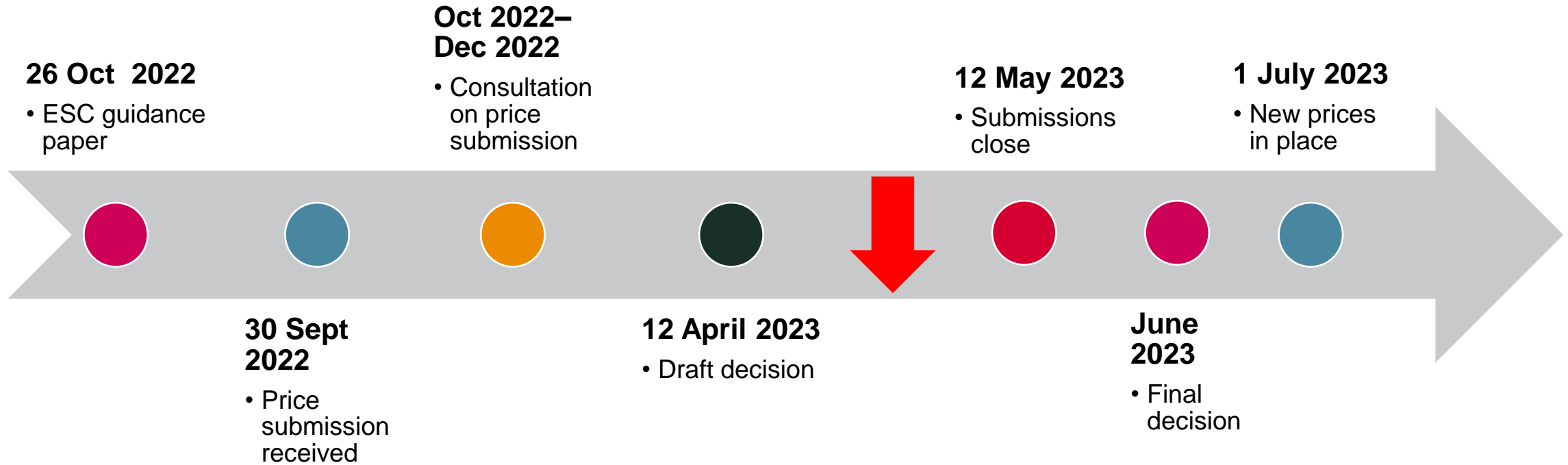
Central Highlands Water price review process

It is up to Central Highlands Water to propose prices and services consistent with the order, guidance and relevant legislation.

Essential Services Commission's draft decision

Our draft decision indicates what we propose to approve (or not approve), and allows Central Highlands Water – and other stakeholders – to respond before we make our final decision and price determination.

Central Highlands Water price review process



We assessed Central Highland Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Central Highland Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Central Highland Water managed risk and its performance
- reviewing opex and capex costing and timing assumptions to ensure they were reasonable.

We also obtained advice from expert consultants where appropriate.

Summary of our draft decision

- Accepts 5-year pricing period (prices decreasing in real terms over the 5-year period).
- Proposes to accept many elements of the price submission including:
 - Demand, tariff basket form of price control and tariff structures
- Adopts a revenue requirement of \$528.9 million over a five-year period.
- We asked Central Highlands Water to:
 - provide its transition plan for achieving full cost reflectivity for new customer contributions, separate modelling for its zones, how its cap complies with pricing principles and how it has allocated capital expenditure to new customer contributions
 - Explain how it intends to address the impacts of relatively high inflation on its proposed prices and customer bills for 2023-24, demonstrate how it considered the impacts of inflation on its forecast expenditure in 2023-24
 - demonstrate how it has considered updated population and dwelling growth estimates.

Estimated typical annual water and sewerage bills (proposed)

*Does not include inflation

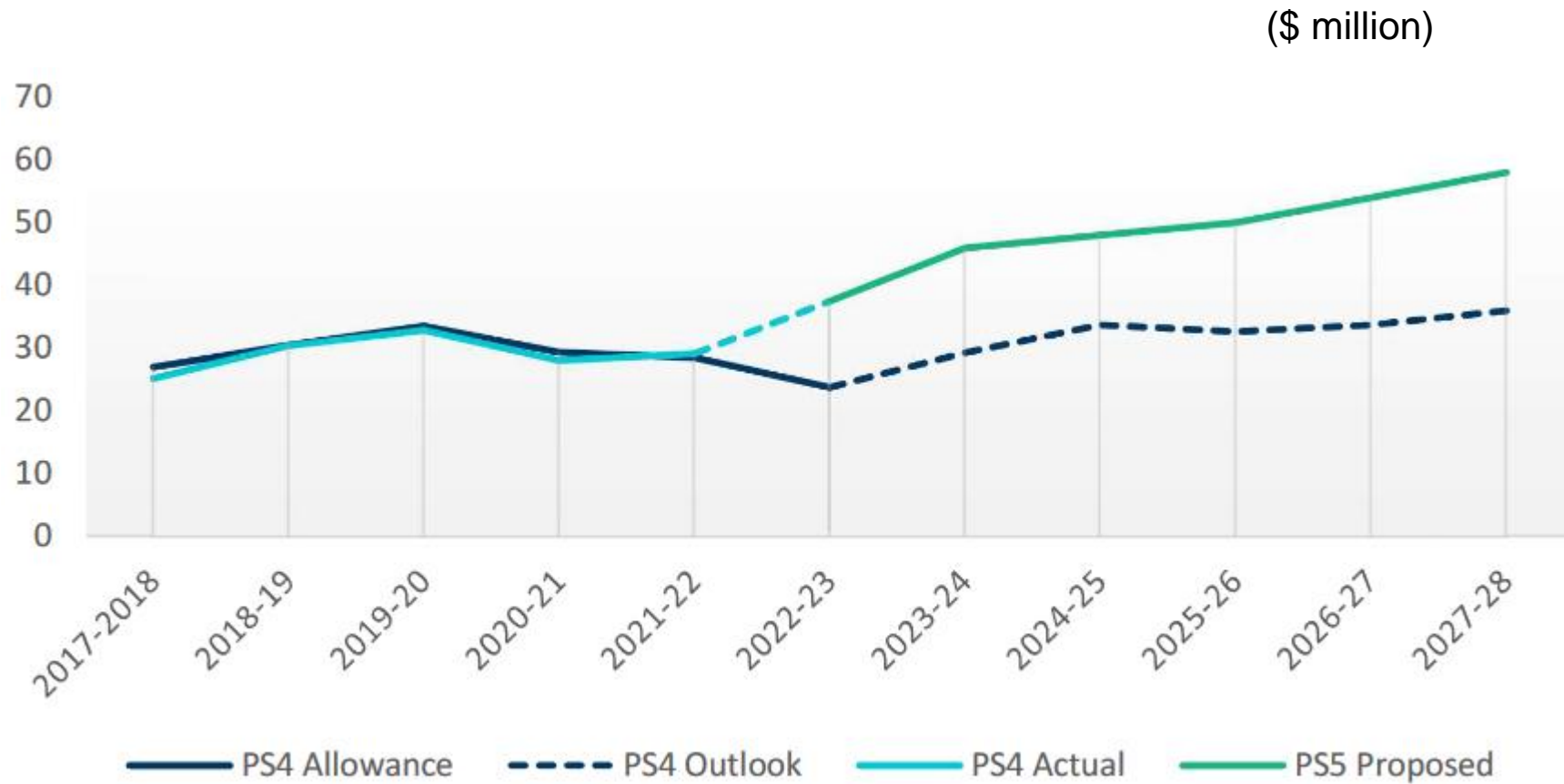
| Customer Group | Average consumption (kL p.a.) | 2022-23 annual bill | 2023-24 annual bill | 2027-28 annual bill |
|------------------------------|-------------------------------|---------------------|---------------------|---------------------|
| Residential (Owner occupier) | 150 | \$1,231 | \$1,231 | \$1,281 |
| Residential (Tenant) | 150 | \$313 | \$313 | \$326 |
| Non-residential (Small) | 200 | \$1,348 | \$1,348 | \$1,402 |
| Non-residential (Medium) | 1,000 | \$3,944 | \$3,944 | \$4,104 |
| Non-residential (Large) | 10,000 | \$33,148 | \$33,148 | \$34,494 |

A seven per cent inflation outcome for the year to March 2023 means the bill for a residential owner occupier under the business price submission proposal is around \$1,317.

Central Highlands Water expenditure forecasts

| 5-year total | Proposed | Our proposed adjustments | Draft decision (\$ million) |
|-----------------------|----------|--------------------------|-----------------------------|
| Operating expenditure | 375.3 | -18.8 | 356.5 |
| Capital expenditure | 256.0 | -11.3 | 244.7 |

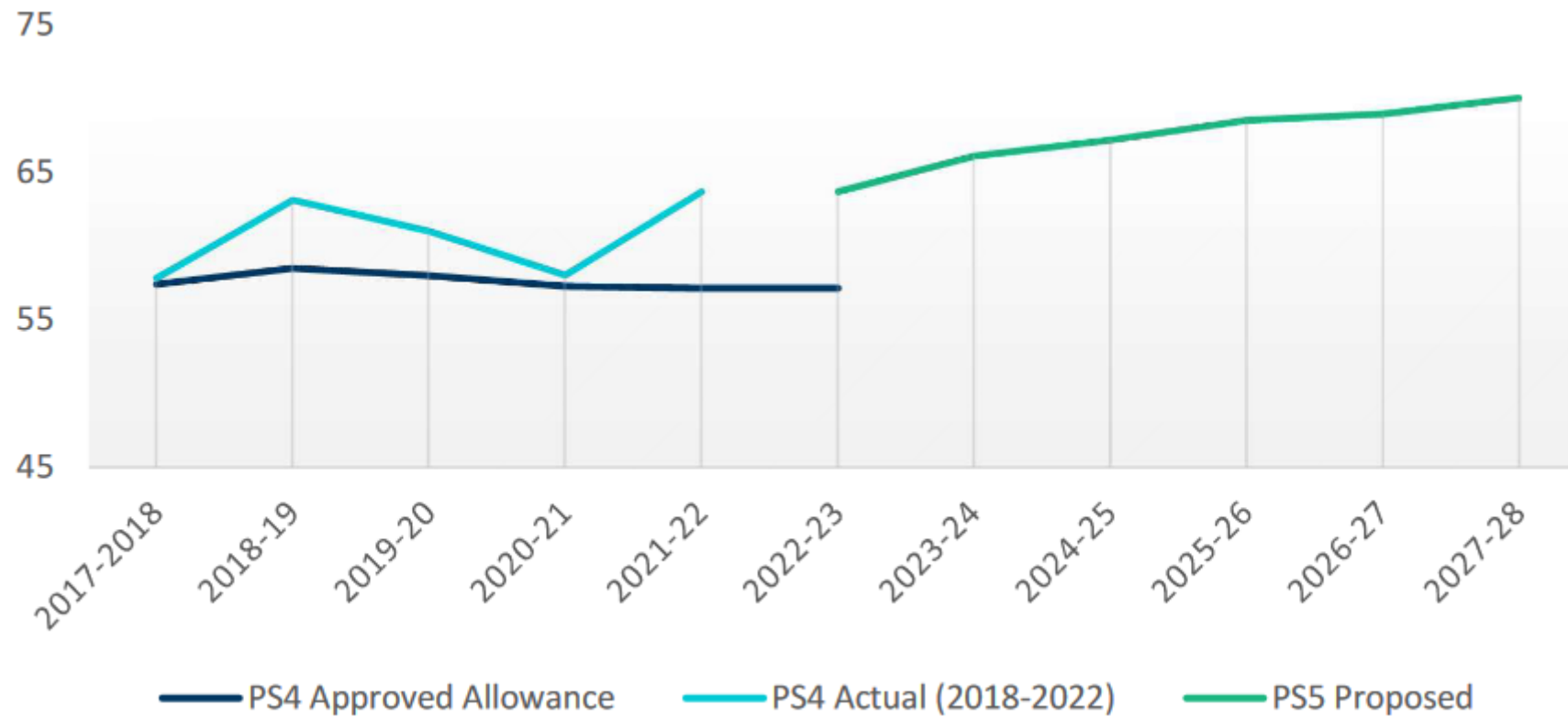
Central Highlands Water forecast capital expenditure



Source: FTI Consulting, Central Highlands Water 2023 Price Review Model

Central Highlands Water forecast operating expenditure

(\$ million)



Source: FTI Consulting, Central Highlands Water 2023 Price Review Model

We propose to accept a 'Standard' PREMO price submission rating

- We consider that Central Highlands Water met expectations for delivery against its outcome commitments for the current regulatory period.
- Its engagement program gave customers an opportunity to participate and to provide feedback on the prices and services that affect them. Its engagement was inclusive and diverse.
- Its proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.

Our draft decision means...

- Excluding inflation, prices will remain steady in 2023-24, and then increase by 1 per cent per year in 2024-25 to 2027-28 (noting inflation will be added to 2023-24 prices and bills). In response to our draft decision, Central Highlands Water must consider the inflation environment and impact on customer prices and bills.
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways.
- Central Highlands Water will continue to reduce its environmental footprint and respond to climate change.



CENTRAL
HIGHLANDS
WATER

Price Submission 2023-28

Essential Services Commission Public Forum

Jeff Haydon, Managing Director

Philippa O'Sullivan, General Manager -
Customer & Business Services

Phillip Anstis, Project Director

28 April 2023

Central Highlands Water acknowledges the Traditional Owners of the region we work in, including the Dja Dja Wurrung, Wadawurrung, Wurundjeri Woi Wurrung, Tjap Wurrung and Wotjobaluk, Jaadwa, Jadawadjali, Wergaia and Jupagulk Peoples. We pay our respects to the Elders of these communities; past and present.



CHW has been developing its understanding and engagement with Aboriginal and Torres Strait Islander Peoples and their cultures over time. On this journey, we have built meaningful relationships with Traditional Owners as we strive to continually improve reconciliation outcomes.



161,986 total population serviced

30 reservoirs

13 wastewater treatment plants

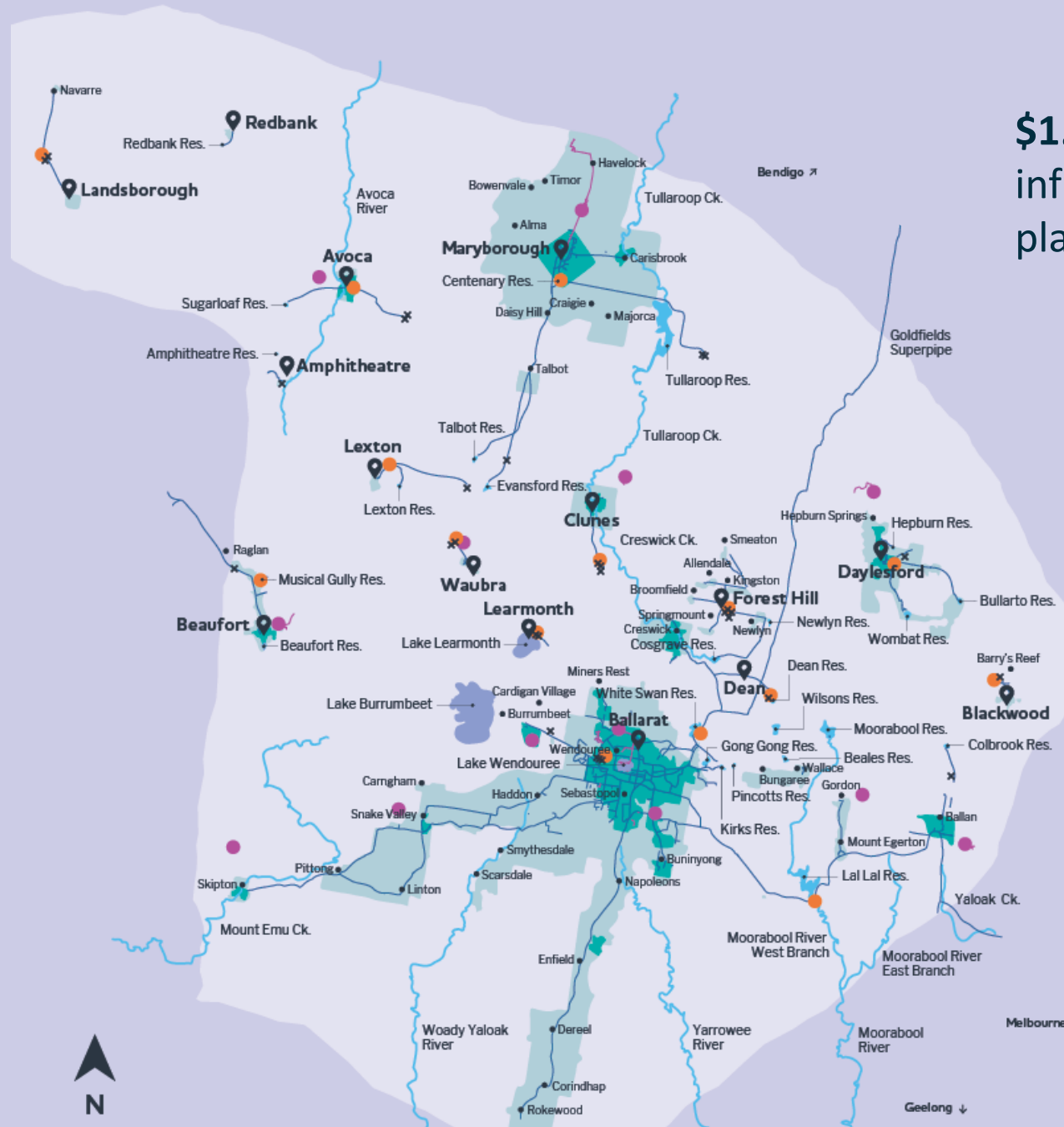
103 wastewater pump stations

\$1.570 B value of infrastructure, property, plant and equipment

15 water treatment plants

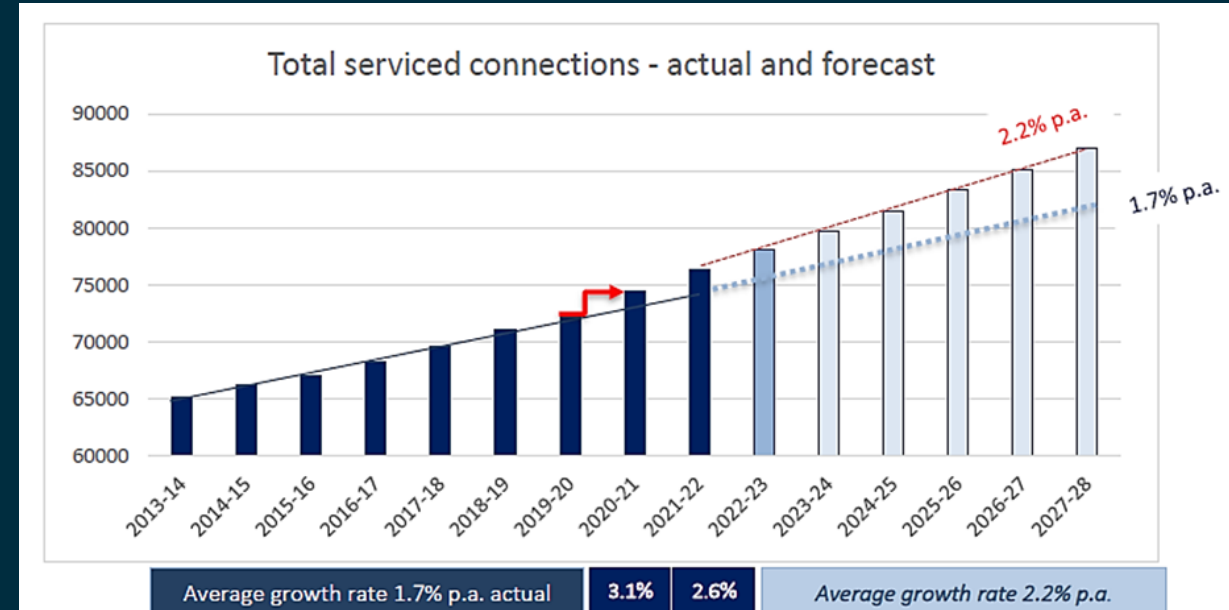
2,603 KM of water mains

23 major trade waste customers



PR23 key drivers

- COVID-19 pandemic impacts across all parts of the business
- Increasing cost pressures beyond CPI across many critical goods and services
- Rapid and sustained escalation in population growth pressures
- Require 15 years capacity of serviceable lots
- 32,000 lots planned for development in Ballarat
- Overall 30% increase in growth rate from 1.7% p.a. to 2.2% p.a.



Our 5-year value proposition

PREMO: Standard



Outcomes:

- Customer Care
- Equity
- Sustainability



Outputs:

14 new and improved services



Increase GSL customer rebates by at least 50%



100% renewable electricity in use by 2025



Doubling greenhouse gas reductions to 55% from 2011-16 baseline



Capex increased by 62% to \$256 million to fund customer priorities and support rising regional growth rates



Reforming New Customer Contributions from \$1,504 to \$8,000 per lot and phased in



Proposed price increases of less than 1% p.a. on average (excluding CPI): \$50 increase for homeowner, \$13 increase for residential tenant



Doubling our support to vulnerable customers to \$2.5 million over the 5-year period.

Multi-dimensional engagement approach

Customer, community and stakeholder



Community conversations
Customer survey



Discussion with team members
Customer Advisory Panel
Stakeholder workshops



Deliberative Assembly



Our 3 outcomes and 14 outputs

Customer Care

- First call resolution
- Net Positive Score
- More frequent billing
- Priority Guaranteed Service

Levels:

- leaking water service
- clean drinking water
- GSL rebates increase

Equity

- Funding regional growth
- Water quality focus for Raglan, Amphitheatre and Redbank
- Support for vulnerable customers
- Impact of vulnerable customer support programs
- Traditional Owner partnerships

Sustainability

- Renewable energy
- Greenhouse gas emissions
- Recycled water
- Water efficiency

Next steps

1. Response to ESC draft decision including:
 - a) Responding to matters raised
 - b) Providing further information and or clarification
 - c) Providing further justification where required
2. CHW response due 12 May 2023
3. Questions / Discussion

Q & A

Housekeeping

- A reminder this public forum is being recorded. This means:
 - any statement or comment you make or question you ask will be **included in the recording**
 - any question you ask using the **'chat'** function, will be **read out along with your name** and will be included in the recording.
- For verbal comments, please use the **'raise your hand'** function and you will be invited to unmute your microphone, turn on your camera, say your name and organisation.
- If you are calling in via phone, please say your name and location prior to speaking.

Thank you for joining us today

Submissions on our draft decision are due by 12 May 2023

- You can provide written submissions or feedback via the Engage Victoria website:
<https://engage.vic.gov.au/water-price-review-2023>
- You can also contact us by email: water@esc.vic.gov.au

