

Welcome to the Essential Services Commission's public forum on our draft decision





Essential Services Commission public forum

Coliban Water
draft decision 2023

1 May 2023

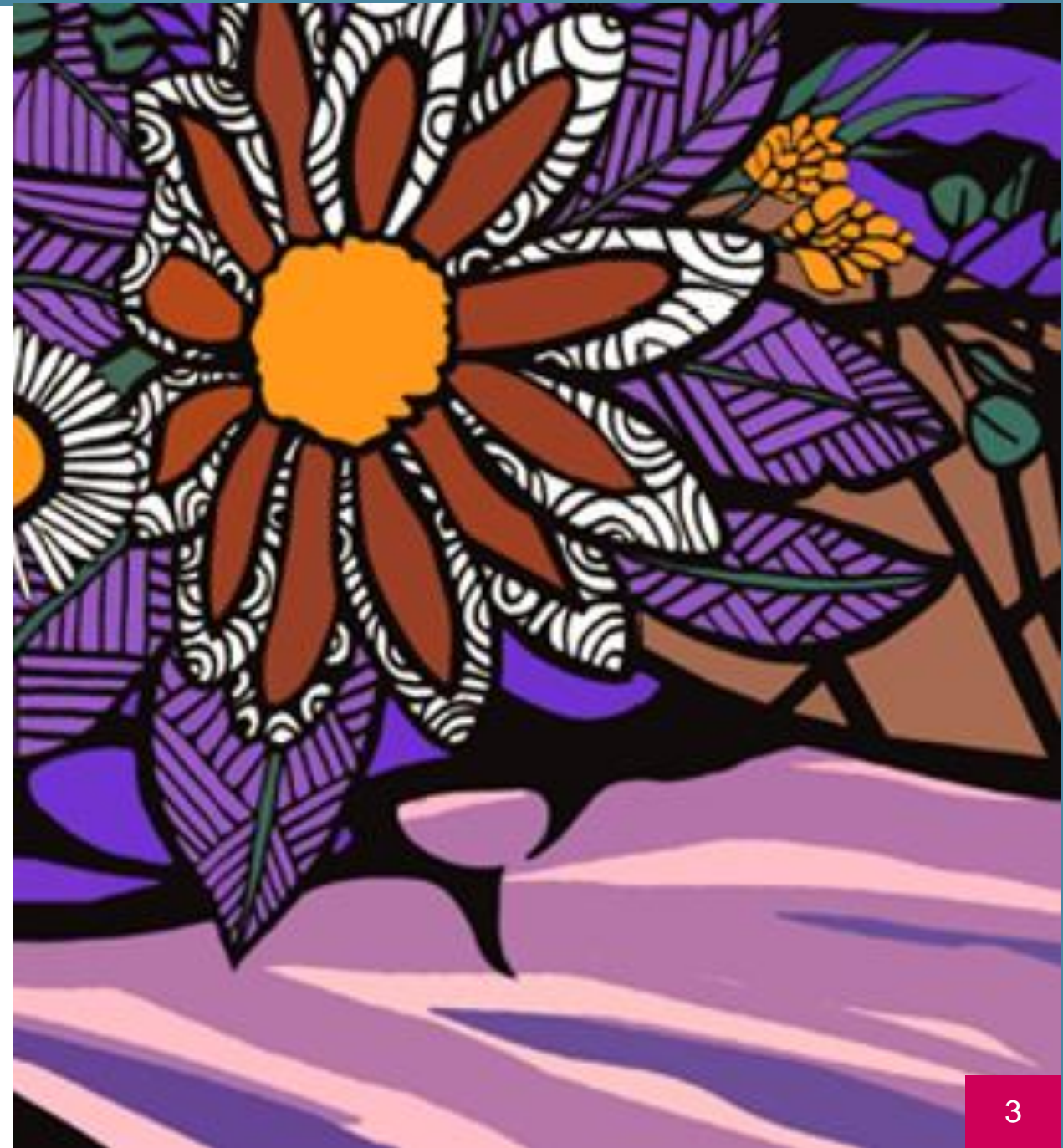


Acknowledgement of country

I would like to acknowledge the traditional owners of all of the lands and waters wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of Coliban 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.
Reproduced with permission.



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

- Coliban Water's response to our draft decision

Questions from attendees

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.

Coliban Water price review process

We assess Coliban 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*.

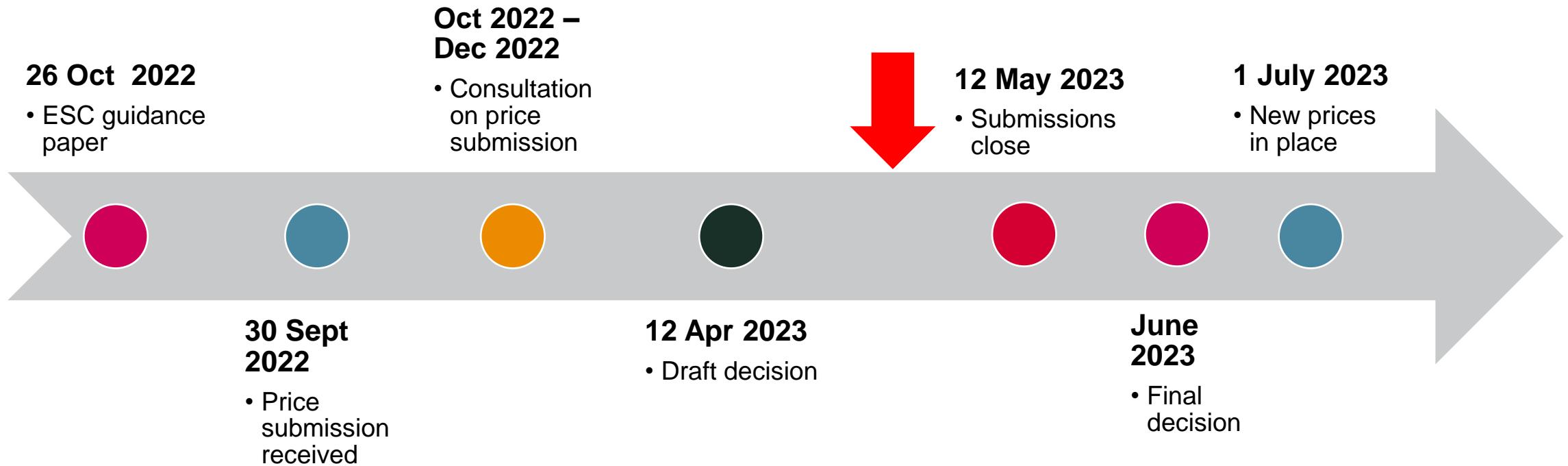
Coliban Water price review process

It is up to Coliban 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 Coliban Water– and other stakeholders – to respond before we make our final decision and price determination.

Coliban Water price review process



We assessed Coliban Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Coliban Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Coliban 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 but does not approve prices for each tariff (prices increasing in real terms over the 5-year period).
- Proposes to accept many elements of the price submission including:
 - Tariff structures and form of price control
- Adopts a revenue requirement of \$727.4 million over a five-year period.
- We asked Coliban Water to:
 - address our preliminary views on forecast regulatory depreciation (not accepted)
 - update proposed prices to reflect our proposed changes to its revenue requirement
 - consider the impacts of relatively high inflation on proposed prices and customer bills
 - provide further information on new customer contributions including allocation of capital expenditure, its transition plan to cost-reflective pricing, its cap, reasons for not proposing separate charges for infill and greenfield

Estimated typical annual water and sewerage bills (proposed)

*Does not include inflation

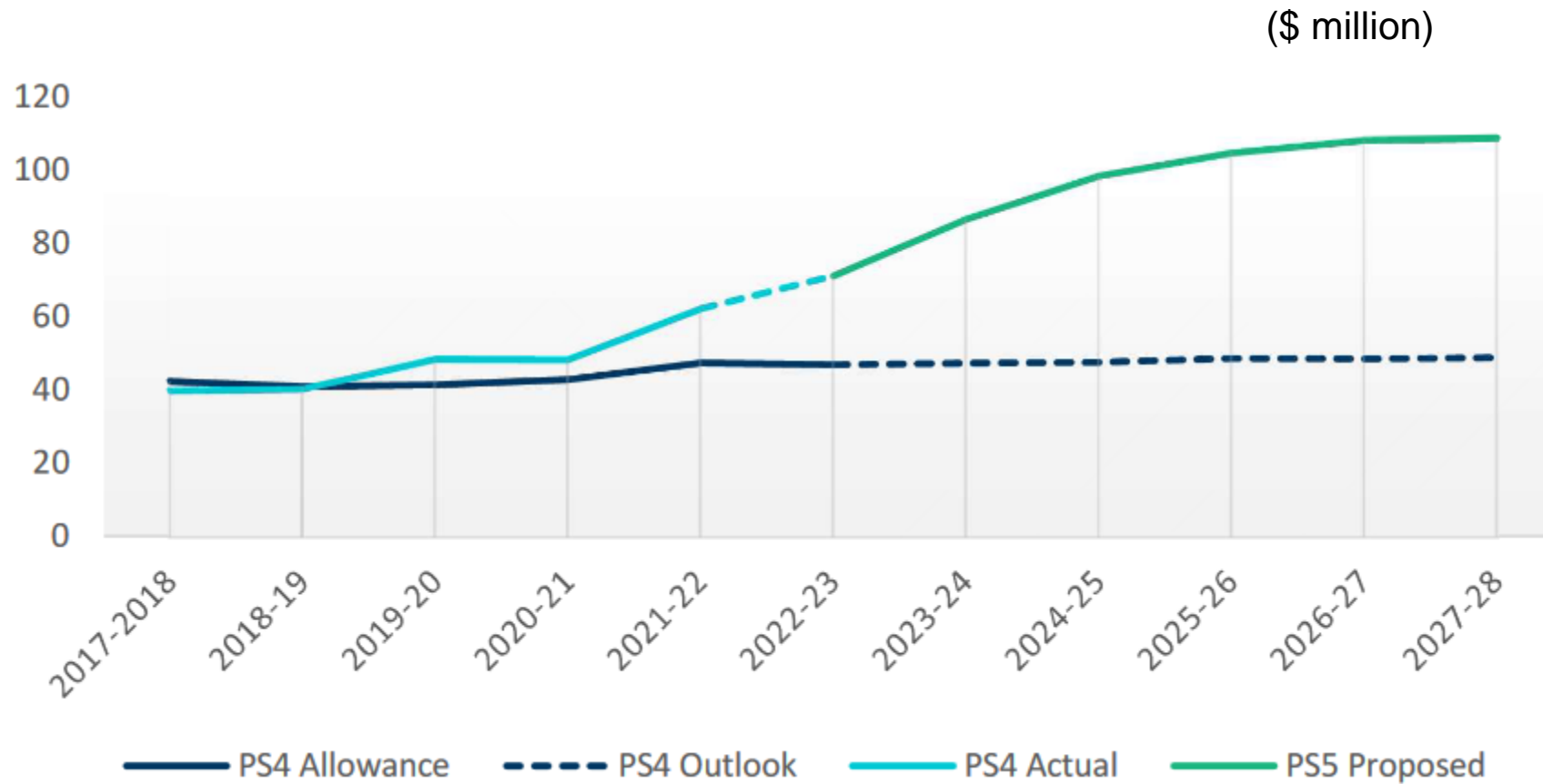
	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	192	\$1,367	\$1,393	\$1,529
Residential – tenant	192	\$439	\$448	\$491
Non-residential (small)	100	\$1,157	\$1,179	\$1,294
Non-residential (medium)	907	\$3,760	\$3,832	\$4,205
Non-residential (large)	2,000	\$7,291	\$7,430	\$8,153
Rural (modernised)	4,373	\$2,857	\$2,823	\$2,789
Rural (unmodernised)	3,146	\$1,851	\$1,829	\$1,807

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 \$1,491.

Coliban Water expenditure forecasts

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	446.6	-3.9	442.6
Capital expenditure	507.5	-5.8	501.7

Coliban Water forecast capital expenditure



Source: FTI Consulting, Coliban Water 2023 Price Review Model

Coliban Water forecast operating expenditure



Source: FTI Consulting, Coliban Water 2023 Price Review Model

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

- We consider that Coliban 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 proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.
- It has not justified its allocation of risk, with its approach to depreciation meaning customers will pay more than they need to. For management it did not provide sufficient information or justification on new customer contributions.

Our draft decision means...

- Prices will increase in real terms before inflation (noting inflation will be added to 2023-24 prices and bills, subject to the price cap).
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways.
- Coliban Water will continue to reduce its environmental footprint and respond to climate change.



Coliban Water Draft Decision

ESC public forum - Bendigo

1 May 2023



1300 363 200
www.coliban.com.au

Connect
with us



Acknowledgement of **Country**



We pay our respects to Dja Dja Wurrung, Taungurung, Yorta Yorta, Barapa Barapa, their Elders past, present and emerging, as Traditional Owners. We respect their unique ability to care for Country and their deep spiritual connection to it.

We are committed to partner with Traditional Owners to ensure meaningful, ongoing contributions to the future of land and water management. We will ensure that the aspirations of Aboriginal peoples are embedded in our business.





Our core business

We provide **safe drinking water, recycled water, sewage and rural water services** for public health and the environment so that our **communities** can sustain themselves.



Our operating context



Our region is at a critical point in its water supply and demand.

We have a responsibility to prepare now for this changing future and deliver water security.

Climate Change

Once a reliable water source, the Coliban catchment is now one of the most unreliable due to climate change

We have seen a 53% reduction in inflows since 1997.

Sewer assets are increasingly compromised as the severity of storms increases.



Ageing Assets

Our infrastructure is ageing and is unsuitable for current population.

Major EPA compliance issues at our Water Reclamation Plants requires generational investment.

High consequence asset failures and undersized networks.



Growth

Intergenerational investment is required to replace and upgrade key infrastructure for a growing population and secure our water supply.

We are expecting 30% growth in Bendigo by 2036.

Murray and Calder corridor towns are growing quickly.



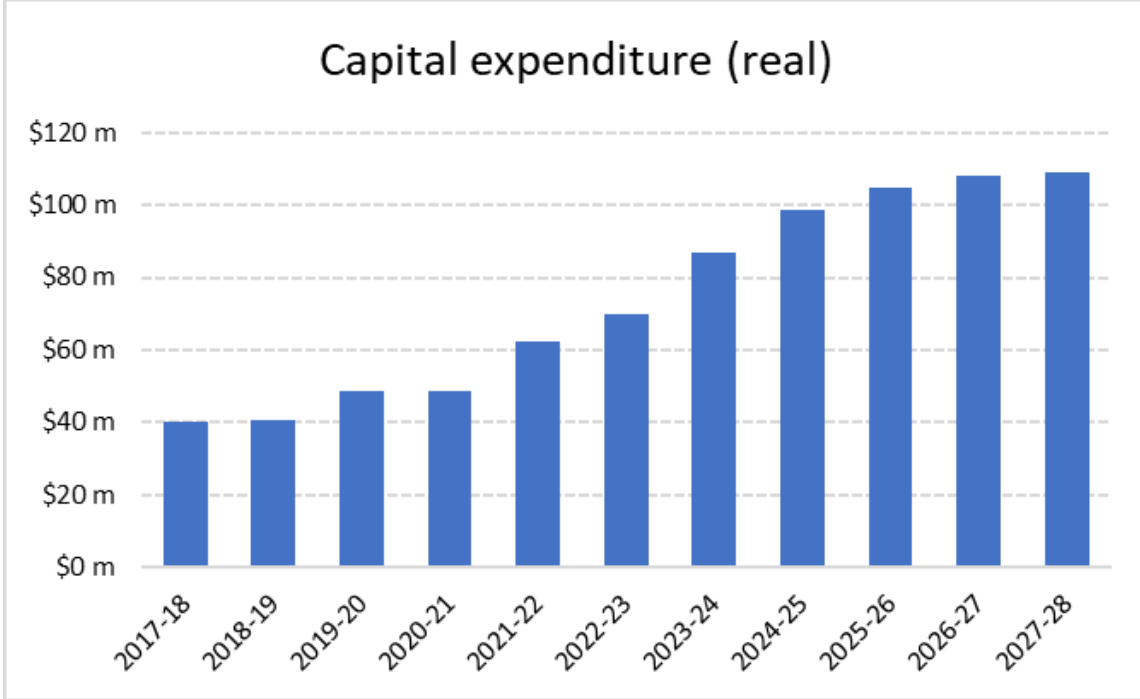
Financial sustainability

Debt per customer is an industry outlier and will remain high relative to our peers. Total debt will exceed \$1 billion by 2033.



Sustainability for our customers

- Environmental and service failures are occurring – capital investment can no longer be deferred
- Capital expenditure has necessarily doubled and trajectory will continue with our clear plans for delivery
- Modest price increases are needed to ensure financial sustainability and meet directors’ fiduciary responsibilities
- Majority of capital works will be funded by debt.



nc	Excluding inflation	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Urban increase		1.9%	1.9%	2.5%	2.5%	2.5%
	Rural increase		-1.2%	-1.2%	Nil	Nil	Nil
• O tr	New Customer Contributions (water & sewer combined)	\$3,579	\$4,296	\$4,939	\$5,691	\$6,569	\$7,597



Deliberative Community Panel and targeted engagement



“How do we prepare for tomorrow while being fair to customers today?”



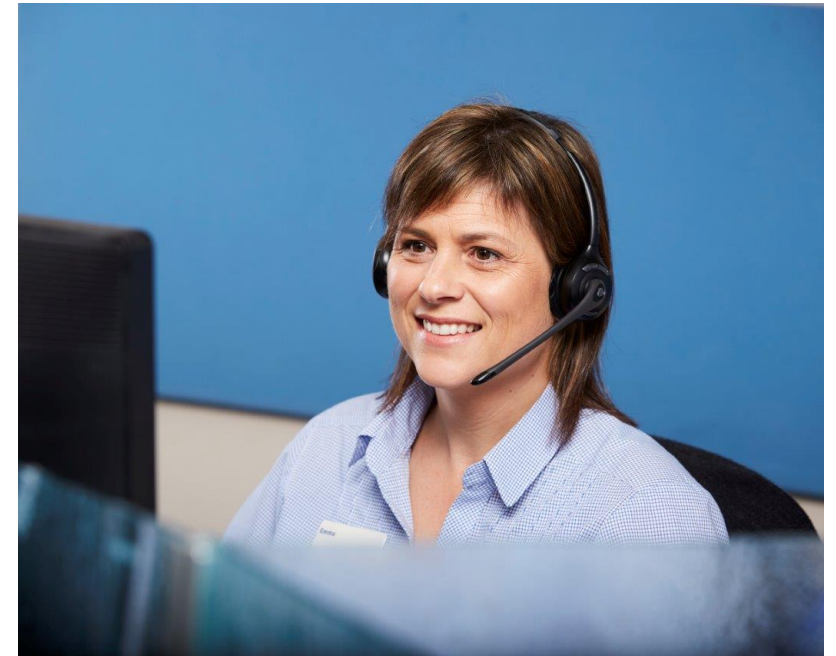
Targeted conversations with groups such as Traditional Owners, customers experiencing vulnerability and youth to complement the Community Panel.





Helping customers manage the change in an uncertain economic climate

- **Phasing-in new prices smoothly** over five years will help customers manage the change.
- We've committed to **doubling the level of financial support to \$570,000 per year** to customers through the Coliban Assist Program – and extending the program to business customers.
- **Assistance types available** include payment extensions, payment plans, concessions and discounts, community rebate program, support for those experiencing violence at home, and referrals to financial counselling services and other agencies.
- Transition to **monthly billing**, combined with digital metering, will enable smaller more frequent bills to avoid bill shock and ease affordability concerns.



Our response to the draft decision

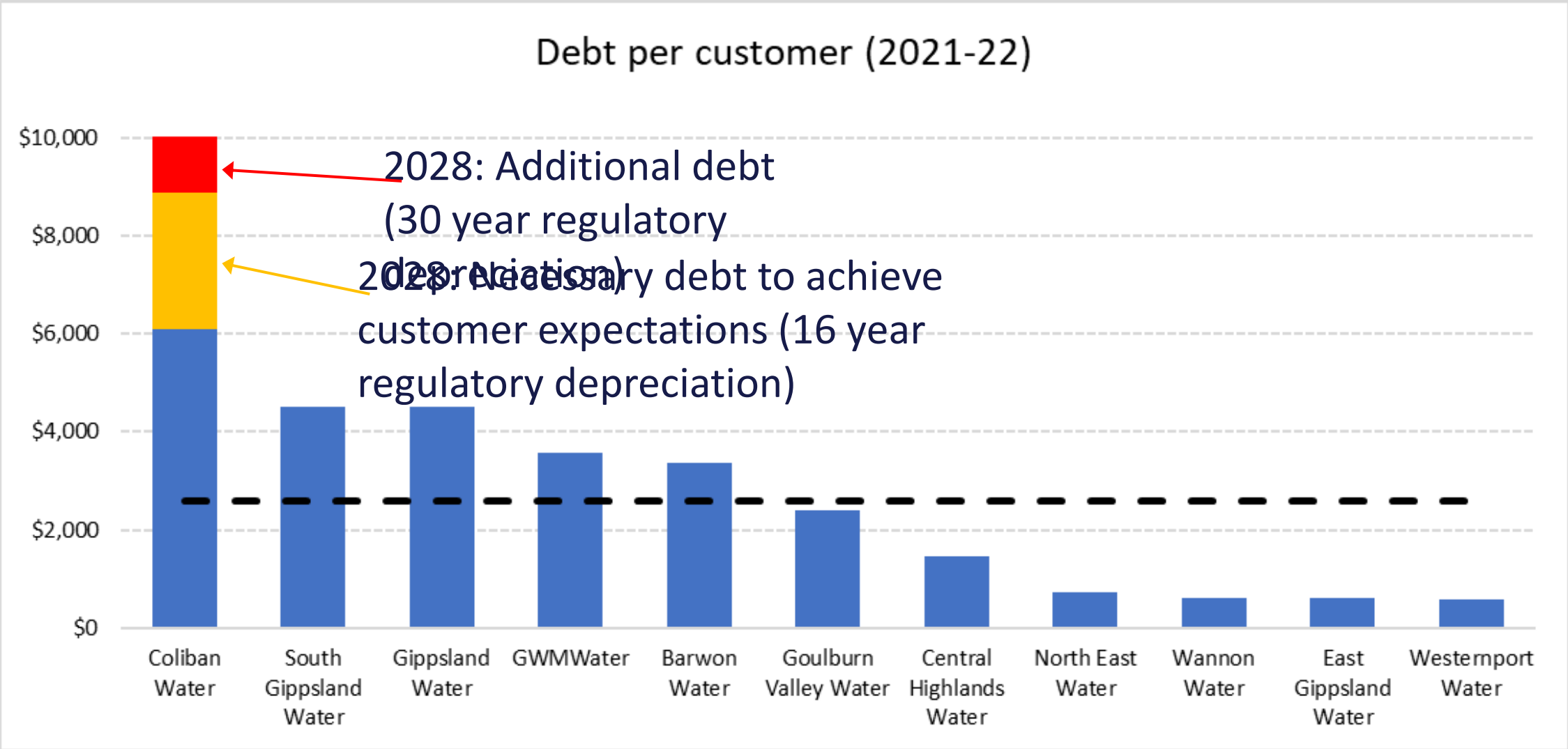


Issue	Our submission	ESC draft decision	Proposed response
Revenue Requirement	\$731m	\$727m	Needing sustainable debt levels Prices to support customer priorities
Operating expenditure	\$446m	\$443m	Exploring capitalising costs
Capital Expenditure	\$507m (incl adjustments)	\$502m Rejection of purchasing new water	Under consideration
New customer contributions	New model. Increases based on higher costs	More information	Extra engagement based on draft decision questions
Regulatory depreciation	Continuation of 2018 approach: 16 years	Strongly suggest 30 years (\$80 million revenue cut) Or provide extra justification	Justifying regulatory depreciation that supports deliberative panel pricing recommendations
Inflation	CPI passthrough	Consider appropriate passthrough	Explaining how inflation is affecting us. Reducing prices will only increase debt.
Growth, Outcome measures, Rural Service Standards, Superannuation, Digital Meters, Modelling issues, PREMO			Responding to all issues raised in draft decision

Debt and financial losses



- We are **investing** over \$1 billion into our region's services and infrastructure
- We are **recovering** \$800 million through customer bills
- We are **borrowing** \$350 million with debt increasing to \$800 million by 2028
 - This increases to \$900 million with 30 year regulatory depreciation
- We are **incurring** \$175 million of interest repayments, while debt levels still increase
 - This increases to nearly \$200 million with 30 year regulatory depreciation



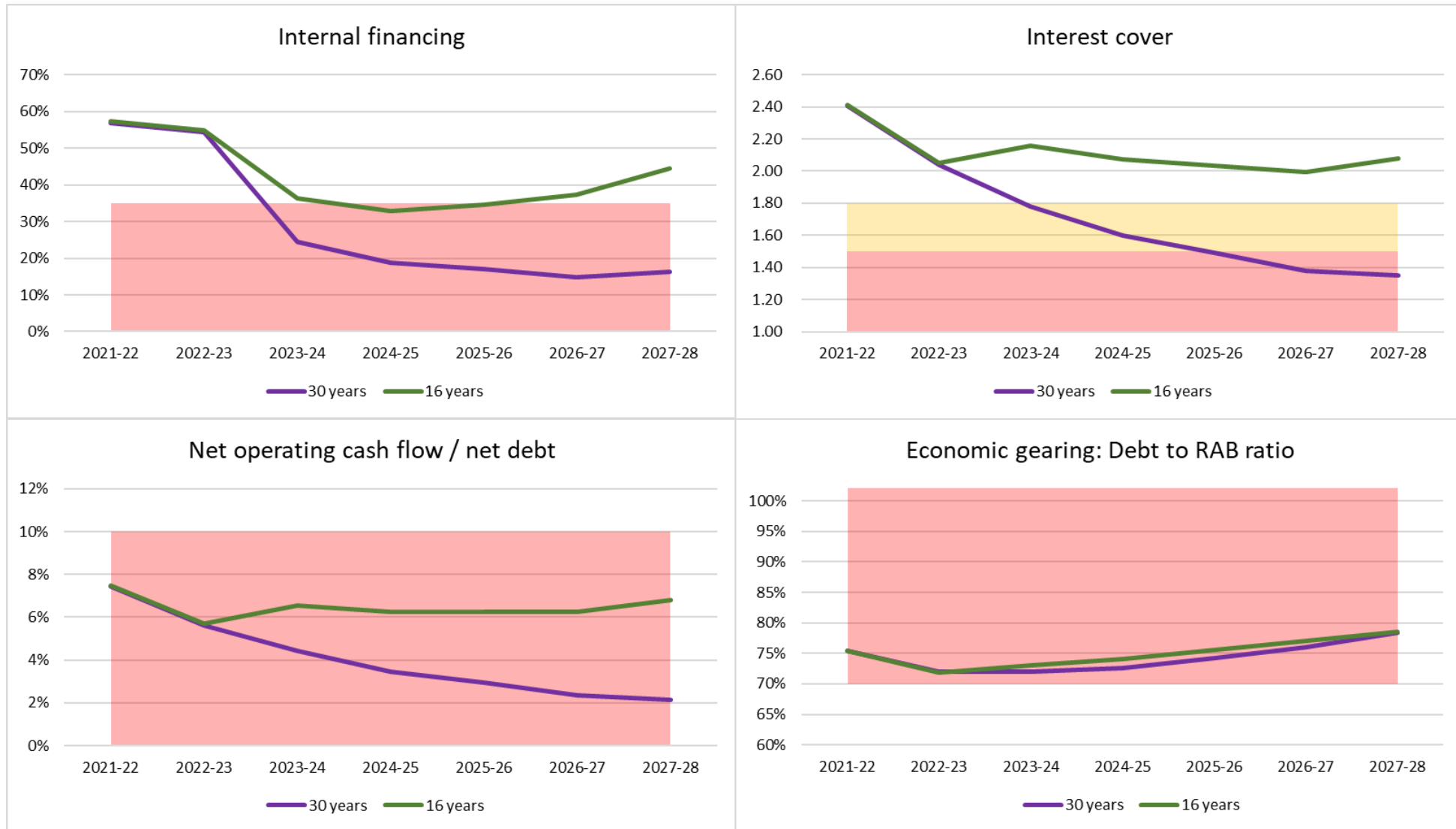
Inflation



- Since 2018, prices have fallen by 10 per cent compared to inflation
- The last price increase for Coliban Water customers above inflation was in 2015
- Actual costs have exceeded inflation for most of this time

- In recent times some costs have increased significantly: (source ABS)
 - Chemical costs up 52% in two years
 - Heavy and civil engineering construction up 16% in two years
 - Electricity costs up 50% in two years

Financial indicators adopted by the ESC with 30 year regulatory asset life





Summary of our customer-supported plan

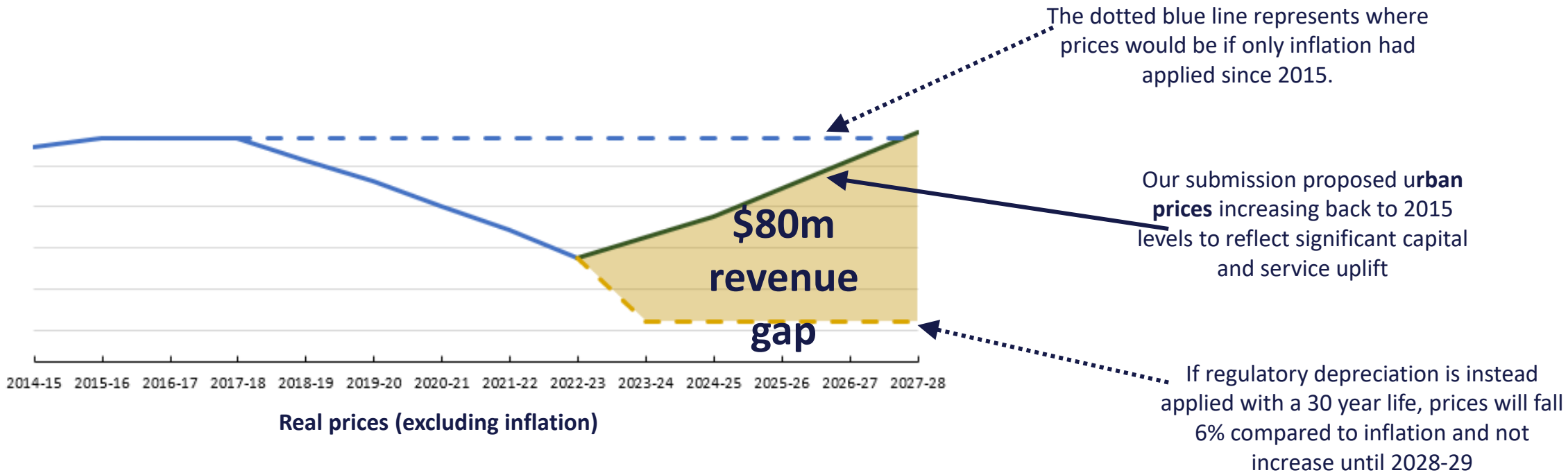
- We are addressing major challenges of climate change, ageing assets and customer growth
- We are doubling support for customers experiencing vulnerability so that no customer is left behind
- We are proposing a modest price increases above inflation ensure current financial sustainability and avoid future price volatility
- Phasing in increases in New Customer Contributions will ensure developers pay their fair share





Regulatory depreciation

- Regulatory depreciation is the balance between prices now and prices into the future
- Our proposal is a direct result of customer preference for intergenerational equity
- Our continuation of 2018 regulatory depreciation (16 year life) was the only option to achieve minimum financial health

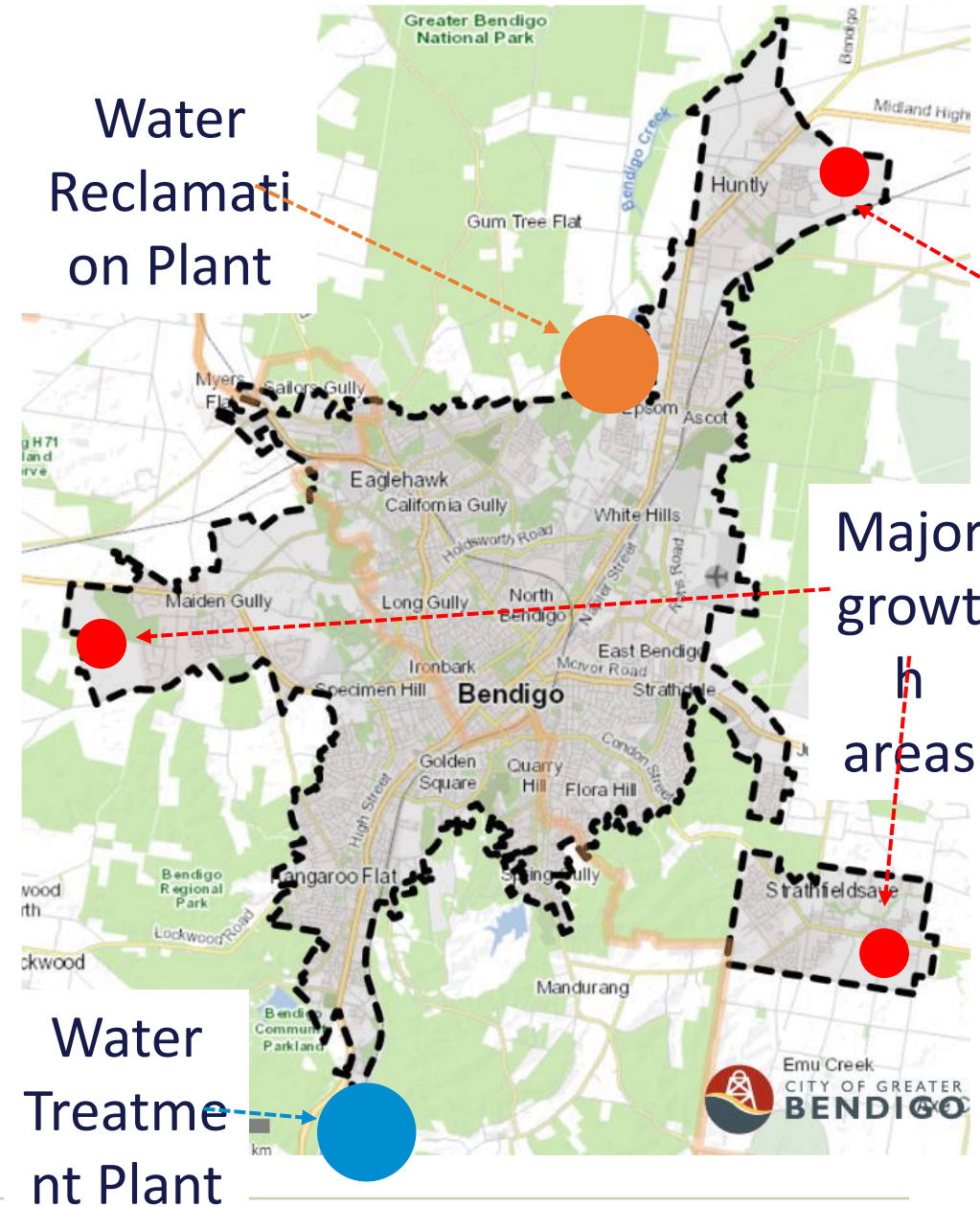


New Customer Contributions

Excluding inflation	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
New Customer Contributions (water & sewer combined)	\$3,579	\$4,296	\$4,939	\$5,691	\$6,569	\$7,597

Growth costs accelerating as hard-to-service land far from Bendigo is being developed

- New engagement underway:
 - Phasing in of increases (Developers and general customers)
 - Infill versus Greenfield (Developers)
 - Region specific charges (Developers)
 - Different cost methodologies and impacts (Developers)



New Customer Contributions

- Customer feedback consistently states developers should pay their fair share of costs. We are spending \$96 million on growth assets from 2023-2028.
- Significant engagement undertaken in lead up to submission
- Developer engagement directly influenced our submission in many ways:
 - Discontinuation of low growth town discount
 - Phasing in NCCs compared to up front implementation
 - Inclusion of shared sewer pump stations within NCC
 - Rebate for private sewer pump stations
 - Inclusion of water network link-up costs for legacy network reasons
 - Exclusion of certain costs related to Axedale, Castlemaine, Trentham from NCC
 - Introduction of new Growth Capital Expenditure Guarantee

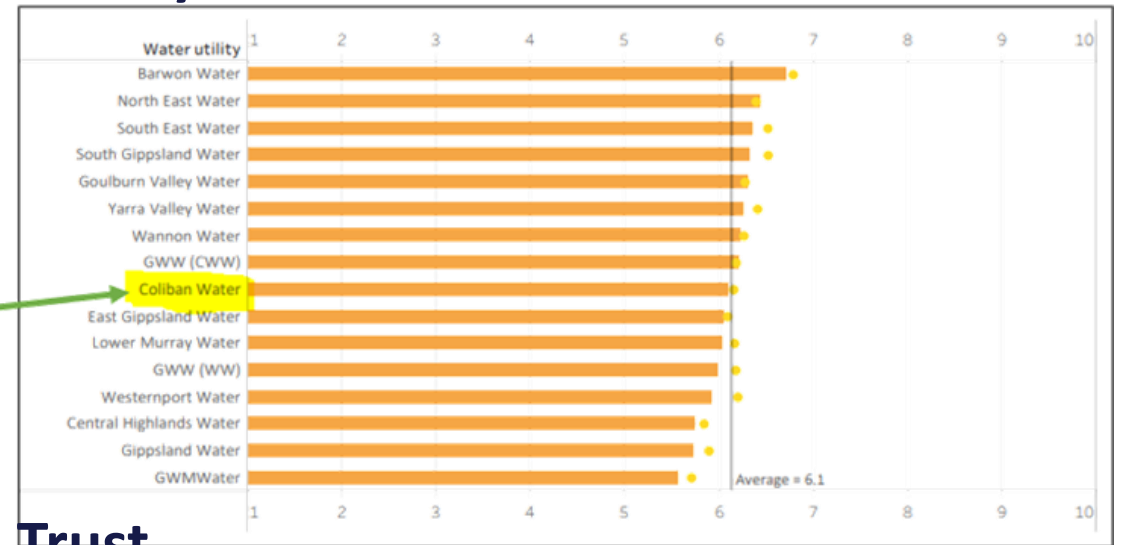
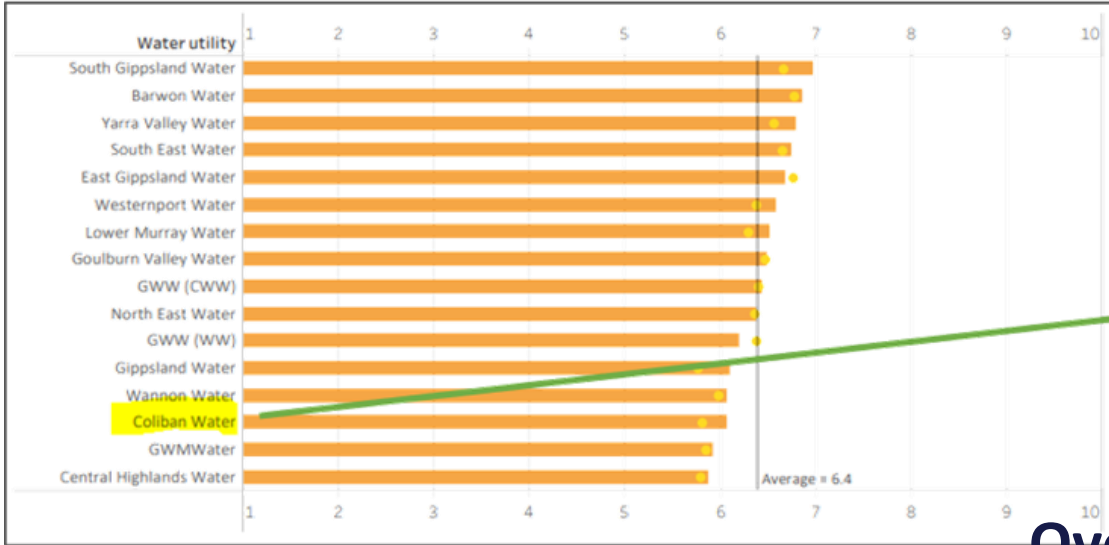
- ✓ **Pre-engagement survey**
On 4 August 2021 we sent out a preliminary survey to help us design and develop content for future conversations with the land development community including identifying what the key issues are.
- ✓ **Land Development workshop**
On 23 November 2021 we held a forum with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

Our industry ranking by customers has improved

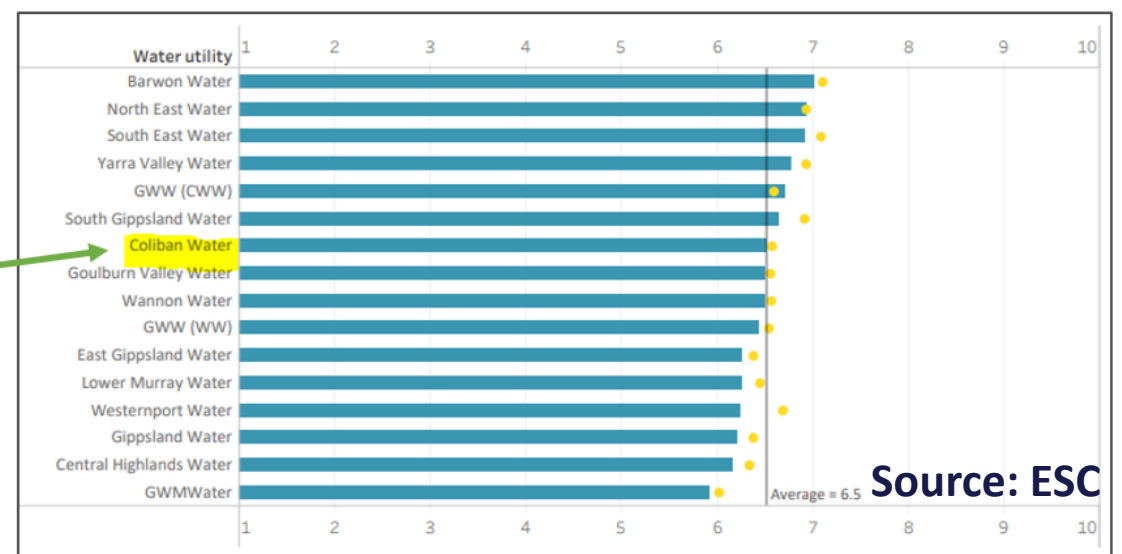
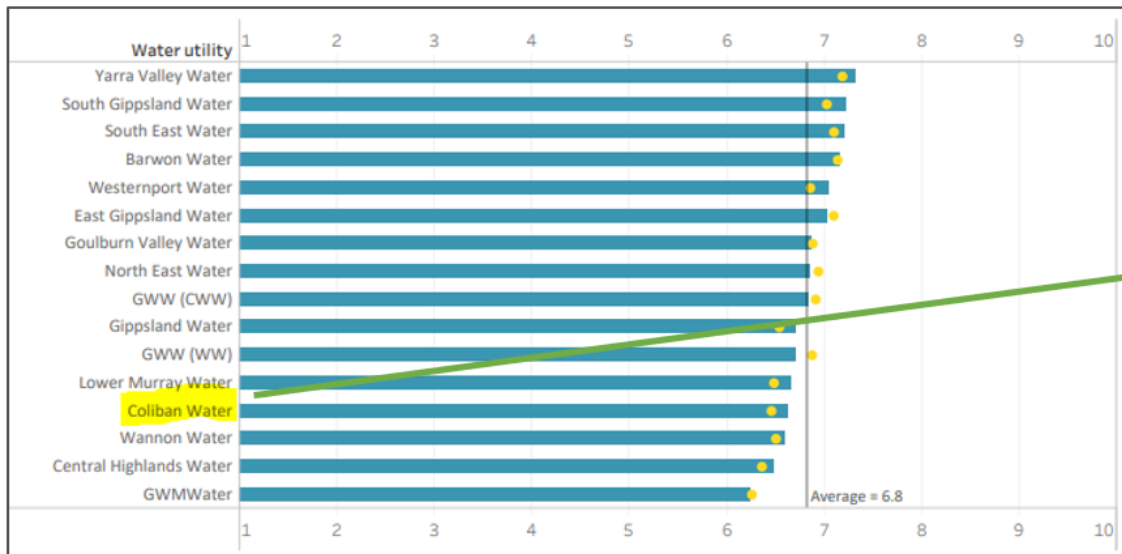


Value for money

April 2021 to January 2022



Overall Trust



Source: ESC



Questions



1300 363 200
www.coliban.com.au

Connect
with us



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 those online, 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

