

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





# Essential Services Commission online public forum

Gippsland Water  
Draft decision 2023

6 April 2023



# 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 Gippsland Water, the Gunaikurnai and Bunurong.**

**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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# Agenda

- Summary of our role in water price regulation

**Sitesh Bhojani**  
**Commissioner, Essential Services Commission**

- How we assessed the price submission and our draft decision

**Dean Wickenton**  
**Senior Regulatory Manager, Essential Services Commission**

- Gippsland Water's response to our draft decision

**Sarah Cumming, Managing director**

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.

# Gippsland Water price review process

We assess Gippsland 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*.

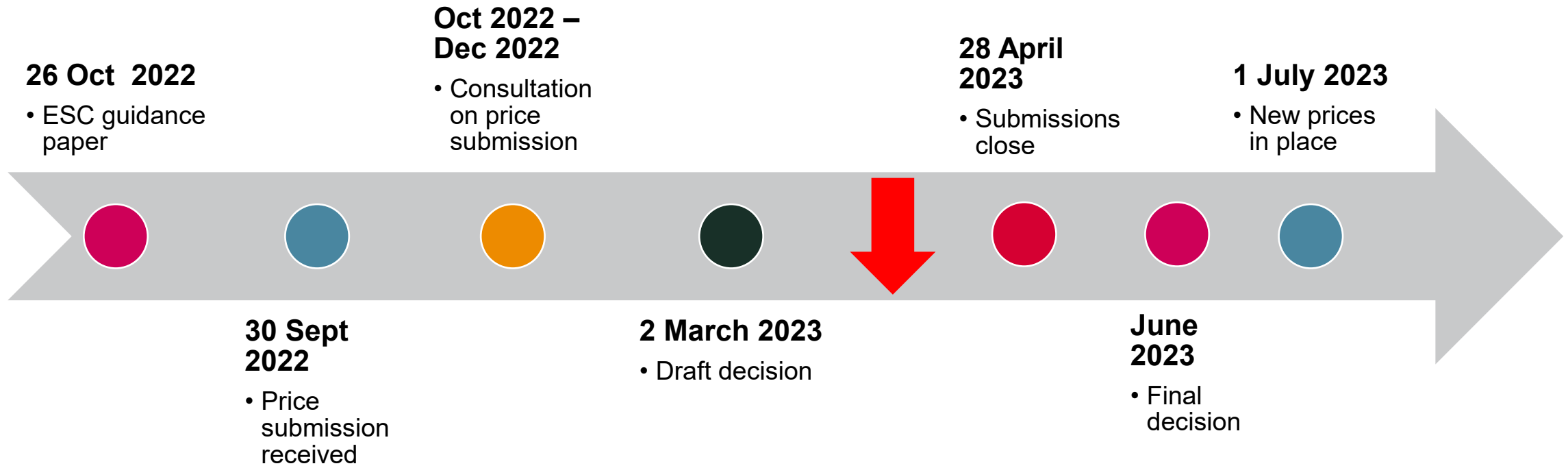
# Gippsland Water price review process

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

# Gippsland Water price review process





# We assessed Gippsland Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Gippsland Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Gippsland 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

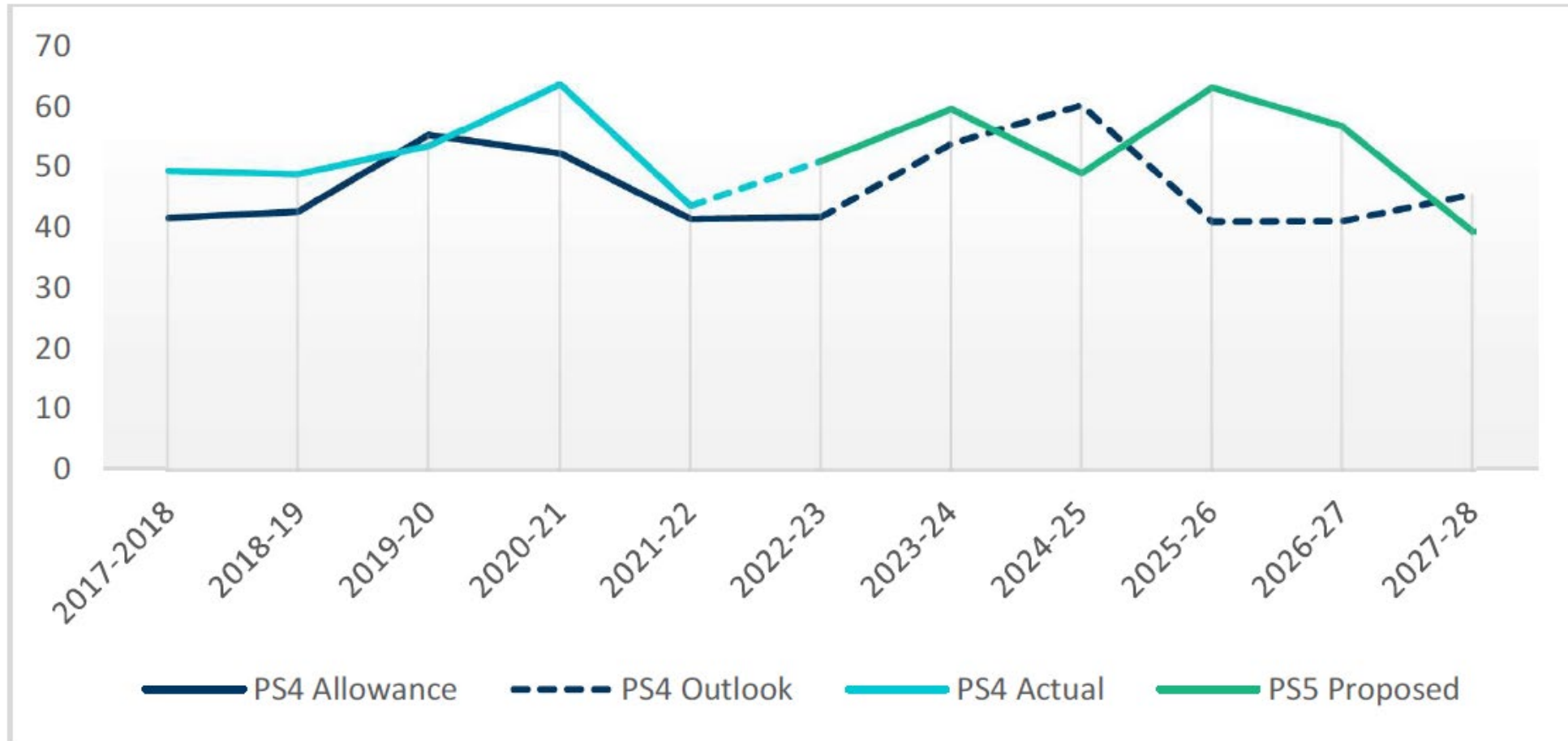
- Generally proposes to accept Gippsland Water's proposals including:
  - 5-year pricing period 1 July 2023 to 30 June 2028
  - Forecast operating expenditure
  - Forecast capital expenditure (with minor adjustments proposed by us)
  - Guaranteed service level scheme
  - Tariff structures and form of price control (price cap)
- Adopts a revenue requirement that is 0.3 per cent lower than proposed by Gippsland Water
- Have asked business to review its approach to tax obligations

# Gippsland Water expenditure forecasts 2022–23

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	454.9	0	454.9
Capital expenditure	267.7	0	267.7

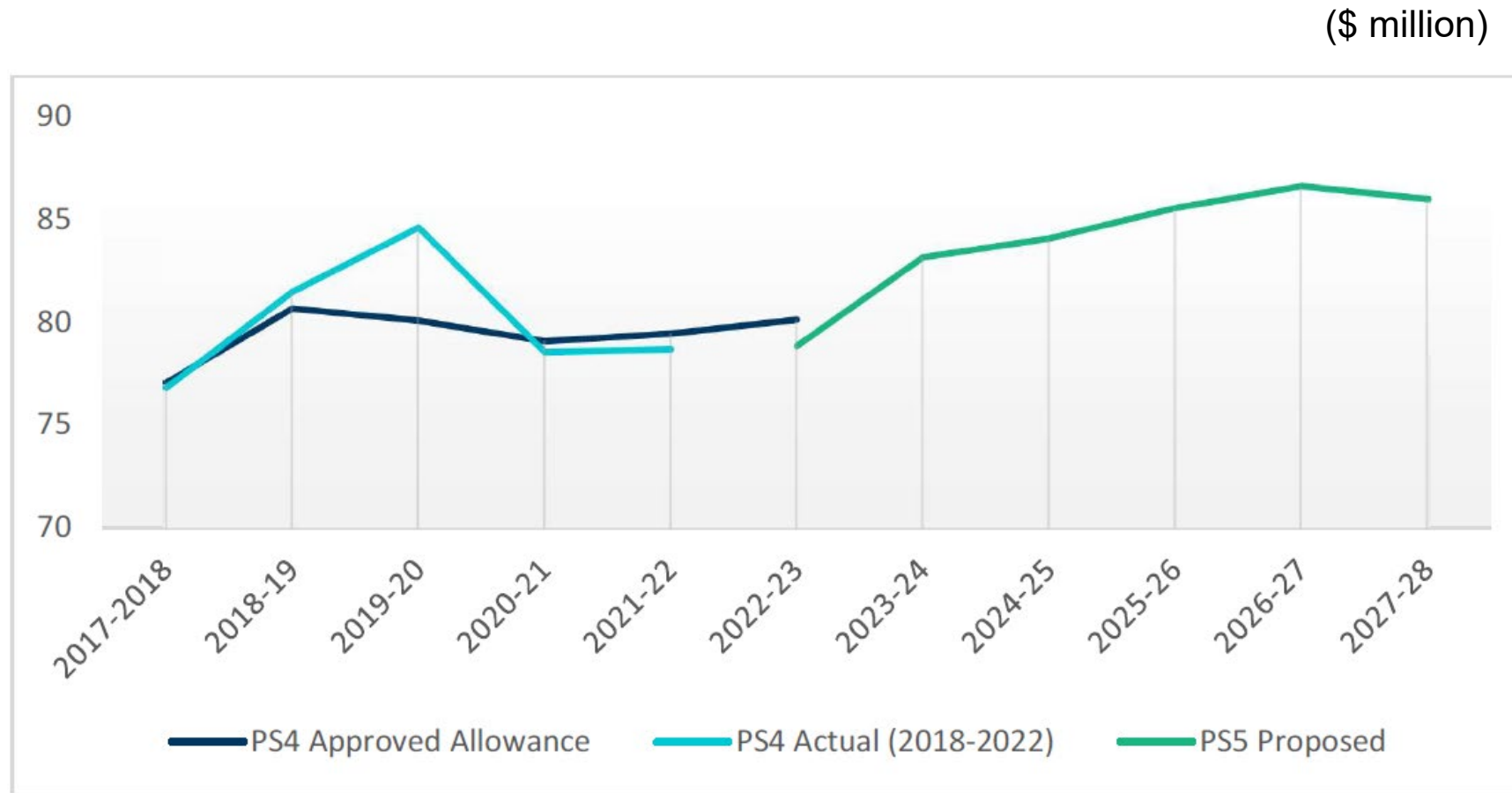
# Gippsland Water forecast operating expenditure 2022–23

(\$ million)



Source: FTI Consulting, Gippsland Water 2023 Price Review Model

# Gippsland Water forecast capital expenditure 2022–23



Source: FTI Consulting, Gippsland Water 2023 Price Review Model

# Estimated annual water and sewerage bills (proposed)

	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	164	\$1,363	\$1,279	\$1,272
Residential – tenant	164	\$366	\$344	\$342
Non-residential (small)	70	\$1,267	\$1,191	\$1,185
Non-residential (medium)	327	\$2,258	\$2,130	\$2,121
Non-residential (large)	600	\$3,311	\$3,128	\$3,115

# We propose to accept an 'Advanced' PREMO price submission rating

- overall value proposition – proposed reduction in prices before inflation, service targets generally remaining the same or improving (and validated with customers)
- a strong engagement program which gives confidence that its proposals are informed by deep insights into customer priorities and concerns
- managed operating expenditure relatively close to benchmarks in current regulatory period (relatively good overall cost control)
- the overall strength of the justification for the prudence and efficiency of its forecast expenditure
- proposed price path takes into account customer interests, noting high inflation environment
- acceptance of risk on behalf of customers

# 2023-28 Price Submission

Our response to the Essential Services  
Commission's draft decision

Presentation to customers – April 2023





# Acknowledgement of Country

We acknowledge the Traditional Owners of the Gippsland Water area, the Gunaikurnai people and the Bunurong people, and recognise their strong cultural connection to the land and waterways.

We pay our respect to their Elders, past and present.

# Key messages

- Our customers have shaped our submission:
  - ✓ stronger customer outcomes
  - ✓ higher levels of service
  - ✓ greater accountability
- One of only five water businesses offering a tariff reduction
- Biggest decrease of all regional water corporations
- Largest reduction in controllable operational expenditure per connection in the state
- Commitment to ongoing reduction in our cost to serve
- More risk taken on behalf of customers saving ~\$60+ per annum per customer

# Our service area



We service towns in the Baw Baw, Latrobe, Wellington and South Gippsland municipalities

# What we do

We own and maintain a \$1 billion infrastructure network which includes:



of water mains,  
**65** treated  
water storages and  
**48** water pump  
stations



of sewer mains  
and **199**  
sewer pump  
stations



water treatment  
plants



wastewater  
treatment plants  
including the  
Gippsland Water  
Factory



ocean outfalls  
(McGaurans Beach  
and Delray Beach)

- 73,000 drinking water customers
- 65,000 sewage customers

# Our vision and values

Our vision is to take pride in partnering with the community to provide quality water and waste services so we can enjoy a healthy and sustainable Gippsland for generations to come.



## SAFETY AND WELLBEING

'Go home safe'

The safety and wellbeing of our employees and community is our priority. Always.

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## CUSTOMER FOCUSED

'Customer first'

Customers are at the heart of everything we do.

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## INNOVATION

'Clever solutions'

We challenge our thinking, learn and embrace change.

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## ACCOUNTABILITY

'Make it happen'

We each take ownership and deliver on what we say.

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## COLLABORATION

'Working together'

We work in partnership with our colleagues, customers, and stakeholders.

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## INTEGRITY AND RESPECT

'Treat others as we wish to be treated'

We are transparent, honest, inclusive, and treat people fairly.

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# Our community engagement journey

What we did - key data:

3,500+ customers engaged

2 YEAR JOURNEY

Input received from residents across

36 towns  
87.8% of our service area

22 pop-up events in 19 towns

13 focus group WORKSHOPS



One customer summit with a panel of more than 30 CUSTOMERS over 3 1/2 DAYS

32 STAKEHOLDER INTERVIEWS

STAGE 4 Deliberations  
Feb 2022 - May 2022

- Customer summit deliberative forum
- Customer Reference Group deliberative sessions

STAGE 1 Awareness raising and early engagement  
Nov 2020 - Feb 2021

- Launched the 'Let's Talk' engagement hub on our website
- Local media and social media updates
- Online community events and webinars
- Recruitment of Customer Reference Group

STAGE 2 Customer insights and expectations  
Feb - May 2021

- Face-to-face interviews with customers
- In-person attendance at community events
- Feedback form sent to all customers with their water bills to understand what they like, dislike, and expect from us
- Online feedback form submissions from customers sharing what their thoughts on what we do well and where we can improve
- Social media updates and conversations
- Local media stories and advertising
- Interviews with key stakeholders
- Meetings with youth groups, youth councils and education networks
- Customer Reference Group input into engagement strategy and updates on insights
- Traditional Owner conversations

STAGE 3 Establishing preferences  
Jul 2021 - Feb 2022

- 10 customer workshops
- 3 customer focus groups (Urban Water Strategy)
- Interviews with stakeholders
- Interviews with everyday customers and vulnerable customers including those experiencing financial difficulty, domestic violence, and cultural and linguistically diverse groups
- Meetings with Traditional Owners and First Nations customers
- Special focus on customers struggling to make ends meet
- Meetings with youth groups, youth councils and education networks
- Targeted engagement with cohorts who are likely to be impacted by initiatives in our Price Submission
- Customer preferences survey

STAGE 5 Development, drafting and review  
Oct 2021 - Sep 2022

- Develop draft Price Submission
- Customer consultation on Price Submission directions paper



# The challenge

- Our community is facing economic uncertainty and high levels of disadvantage
  - Cost of living pressures
  - Major economic transition
  - One of the highest cohorts of social and financial disadvantage in the state
- Predominant theme from customer and community engagement was affordability and fairness
- Acute exposure to major customer revenue fluctuation
- Global and sector challenges impacting our business

# Our submission – at a glance



- ✓ Price decrease of \$91.30 (before inflation) for the average urban customer
- ✓ Almost all of our tariffs and charges will decrease
- ✓ Residential tenants will pay close to the lowest water bills in the state
- ✓ \$268 million for infrastructure investment to meet higher demand and higher service levels
- ✓ \$10 million for energy projects to increase system resilience and reduce long-term energy costs
- ✓ \$100k per year for increased community support, including more public drinking fountains
- ✓ Customer experience improvements – app, SMS notifications, website improvements, live outage tracker
- ✓ Faster response to sewer blockages
- ✓ Annual education and awareness campaigns - water conservation, sustainability, wellbeing, customer support
- ✓ More customer care resources, employing and upskilling more staff
- ✓ Aboriginal employment and cultural recognition initiatives



# What the ESC said about our submission

*“Our draft decision rates Gippsland Water’s price submission as ‘Advanced’ under the PREMO framework”*

*“As well as presenting a high-quality price submission, it has demonstrated improved value for its customers”*

*“Gippsland Water has committed to delivering outcomes that reflect customer priorities, including a focus on pathways for Aboriginal people”*

# Our response to the ESC's draft decision

- **Residential customers** will save **\$79.63** (originally \$91.30) on average
- **Residential tenants** will save **\$21.40** (originally \$24.54) on average
- **Non-residential customers** will save **\$118.22** (originally \$137.40) on average
- **Property investors** will save **\$58.23** (originally \$66.76) on average



# We've been asked to respond to the following matters raised in our draft decision



Forecast capital expenditure for 2022/23



Recovery of shared asset costs through New Customer Contributions in 2022/23



The impact of VIF2022 population projections on our growth assumptions



Clarifying our proposed customer promise measures



Material impacts on our expenditure, revenue or pricing assumptions



Treatment of income tax

# Forecast capital expenditure

What we proposed	ESC feedback	Our response
<p>Proposed to include forecast capital expenditure for the 2022/23 year \$9.3M higher than the 2022/23 benchmark (2018 determination).</p>	<p>The proposal is contradictory to the 2023 Price Submission guidance.</p>	<p>We accept the ESC's draft decision and will amend our 2022/23 CAPEX forecast to the 2018 determination allowance for 2022/23 capital expenditure of \$41.7M.</p> <p><b>\$5.09 customer bill decrease over five years.</b></p>

# Recovery of 2022/23 shared assets costs

What we proposed	ESC feedback	Our response
<p>Proposed to include forecast capital expenditure for the 2022/23 year \$9.3M higher than the 2022/23 benchmark (2018 determination).</p> <p>\$5.3M of the additional \$9.3M over expenditure related to investments in shared assets (servicing both new connections growth and existing customers).</p>	<p>That as a significant proportion of the proposed additional capital expenditure is related to growth related shared assets expenditure which in their opinion is expenditure that should be recovered through New Customer Contributions.</p>	<p>We will adopt recovery of the 2022/23 shared assets expenditure via the AIC NCC methodology.</p> <p>NCC tariff impact increase for Warragul/Drouin (\$70.41) and Traralgon (\$135.74). All others systems remain unchanged.</p> <p><b>Customer Impact \$0.08 bill decrease.</b></p>

# VIF2022 population projection impacts

What we proposed	ESC feedback	Our response
<p>We forecasted growth higher than Victorian In the Future (VIF) 2021 projections by 1.7%.</p>	<p>The ESC has asked us in response to their draft decision to demonstrate how we have considered updated growth forecasts (VIF2022) these updated estimates and if required, identified and justified any changes to its demand forecasts.</p>	<p>Our analysis found that our new connections growth is closely aligned to the revised VIF2022 forecast.</p> <p>Therefore, we're not proposing to change our new connections growth assumptions.</p>

# Clarifying our customer promise measures

What we proposed	ESC feedback	Our response
<p>We proposed a set of 19 measures and targets to report on our performance across the 6 customer outcomes.</p>	<p>The ESC considers Gippsland Water's intentions are clear, and will provide a sound basis to track performance and delivery against each outcome.</p> <p>However, most of its measures were not well presented and will require reworking to meet our requirements.</p>	<p>We will work with the ESC to reword our measures to ensure they are clearly defined, unambiguous and easy for customers to understand.</p>



# Material impacts on our expenditure, revenue or pricing assumptions

Material change impacting our submission	ESC feedback	Our response
<p>Two unforeseen events since our submission was made to the ESC:</p> <ol style="list-style-type: none"><li>1. Closure of Saputo Maffra</li><li>2. Partial closure at Opal, Maryvale</li></ol>	<p>The 2023 Price Submission guidance allows us in our response to the draft decision to consider post submission impacts unknown at the time of the submission to our expenditure, revenue or pricing assumptions.</p>	<p>Significant impacts from partial (Opal Maryvale) and full (Saputo Maffra) on net revenue in 2022/23.</p> <p>Heightened risk of further closures/restructures may lead to need to recover lost revenue through tariff.</p> <ul style="list-style-type: none"><li>• <b>Saputo impact: \$8.33 bill increase</b></li><li>• <b>Opal impact: \$8.51 bill increase</b></li></ul>



# Treatment of income tax

What we proposed	ESC feedback	Our Response
<p>Our submission didn't include income tax liability as we were seeking a ruling from the ATO regarding the income tax treatment of gifted assets.</p> <p>Should we receive an unfavourable ruling, we'd have a tax pass-through mechanism to recover tax liability.</p>	<p>Draft decision is to not accept Gippsland Water's proposed tax allowance as set out in its price submission.</p> <p>As a consequence of this decision the ESC has also disagreed with our proposed income tax pass through mechanism</p>	<p>We accept the ESC draft decision as our proposed revenue requirement will remain unchanged from our original submission.</p> <p>Further advice received indicates we won't be liable for an income tax payment during the pricing period.</p> <p>We'll remove the requirement for an income tax pass through mechanism</p> <p><b>No customer impact.</b></p>

# Questions and discussion?

# Thankyou



# Appendix 1 (if required)

Full Service Residential Customer – Annual Average Bill (Jan \$23)	22-23	23-24	24-25	25-26	27-28	28-29
Original PS23 Submission	\$1362.90	\$1279.26	\$1277.34	\$1275.43	\$1273.52	\$1271.60
Revised PS23 Submission inclusive of intended responses	\$1362.90	\$1291.01	\$1289.07	\$1287.14	\$1285.20	\$1283.28

Residential Tenant– Annual Average Bill (Jan \$23)	22-23	23-24	24-25	25-26	27-28	28-29
Original PS23 Submission	\$366.31	\$343.83	\$343.32	\$342.80	\$342.29	\$341.77
Revised PS23 Submission inclusive of intended responses	\$366.31	\$346.99	\$346.47	\$345.95	\$345.43	\$344.91

Full Service Non- Residential Customer– Annual Average Bill (Jan \$23)	22-23	23-24	24-25	25-26	27-28	28-29
Original PS23 Submission	\$2258.12	\$2130.43	\$2128.00	\$2125.57	\$2123.14	\$2120.72
Revised PS23 Submission inclusive of intended responses	\$2258.12	\$2149.70	\$2147.24	\$2144.79	\$2142.34	\$2139.90

Property Investor– Annual Average Bill (Jan \$23)	22-23	23-24	24-25	25-26	27-28	28-29
Original PS23 Submission	\$996.59	\$935.43	\$934.03	\$932.63	\$931.23	\$929.83
Revised PS23 Submission inclusive of intended responses	\$996.59	\$944.02	\$942.60	\$941.19	\$939.77	\$938.36

# 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 28 April 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](mailto:water@esc.vic.gov.au)

