



East Gippsland **Water**

Our Ref: DOC/18/12196

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9 March 2018

Marcus Crudden
Director, Water
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne 3000

Dear Marcus,

RE: 2018-23 Price Submission – Draft Price Determination

East Gippsland Water appreciates the opportunity to provide this response to the “*East Gippsland Water draft decision: 2018 Water Price Review*”.

It is pleasing to note the Commission has accepted our proposals contained in our 2018 Price Submission, which was built on a platform of customer engagement, outcomes valued by customers, prudent and efficient expenditure and maintaining prices at existing levels. It is also pleasing to note the Commission’s PREMIO assessment of our Price Submission was in line with our self-assessment.

East Gippsland Water understands further work on the outcome measures is required and is committed to working with the Commission to implement a set of measures that effectively monitor our progress toward implementing the proposals outlined in our Price Submission. I understand that the Commission plans to undertake this work over the coming six months.

As required in our response to the draft determination the following information is provided in order for the Commission to make its final decision on prices:

Adjusting prices to reflect movements in the cost of debt:

For the 2018-23 Price Submission period the ten-year trailing average approach to estimating the benchmark cost of debt will be used. The cost of debt will be updated annually during the regulatory period to reflect the rolling ten-year average. Where the updated benchmark cost of debt applies, a pass-through mechanism is proposed that will apply to sewerage charges (both residential and non-residential). For the 2017/18 cost of debt adjustment due at the end of April, any pass-through adjustment will be applied to the sewerage charges.





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The formula for adjusting the sewerage charges is detailed below:

$$P(\text{Sewerage})_t = P(\text{Sewerage})_{t-1} \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t) + (\text{CoD}_{t^{\text{act}}} - \text{CoD}_{t^{\text{for}}}) \times \text{RAB} \times \frac{CPI_t}{CPI_{t-1}}$$

Where

$P(\text{Sewerage})_t$	Annual sewerage service charge in year t
CPI_t	Is the consumer price index for the March quarter in year t (all groups' eight capital cities)
PPM_t	Is the prescribed price movement for year t
$\text{CoD}_{t^{\text{act}}}$	Actual calculated 10 year cost of debt for year t
$\text{CoD}_{t^{\text{for}}}$	Forecast 10 year cost of debt for year t
RAB	Average Regulatory Asset Base for year t

East Gippsland Water understands the Commission will seek to establish a consistent approach to cost of debt adjustments across the industry for the coming regulatory period. The Corporation will continue to engage with the Commission in the development of the approach.

Prices and tariff structures:

As noted in the draft decision, there were a number of changes made to the pricing model to reflect changes requested throughout the Commission's review. These changes altered the proposed tariffs outlined in our Price Submission as reflected in the enclosed table.

Updated financial pricing model:

An updated financial pricing model has been included with this response incorporating all the changes stemming from the initial review by the Commission. Once the cost of debt and inflation outcomes are known at the end of April, the model will be updated to reflect these actual values. I note that this will potentially change the final tariffs approved in June.

We look forward to working with the Commission towards the final price determination. Should you require any additional information please contact Mathew Scott, Executive Manager Business, on [REDACTED].

Yours faithfully,

Bruce Hammond
MANAGING DIRECTOR

Enc.



Enclosure

Table 1 Proposed water prices
 \$ 2017-18

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Residential						
Variable (\$/KL)	2.18	2.11	2.11	2.11	2.11	2.11
Fixed (20mm) (\$/year)	216.66	201.15	201.15	201.15	201.15	201.15
Non-residential						
Variable (\$/KL)	2.18	2.11	2.11	2.11	2.11	2.11
Fixed (20mm) (\$/year)	216.66	201.15	201.15	201.15	201.15	201.15

Table 2 Proposed sewerage charges
 \$ 2017-18

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Residential						
Fixed (\$/year)	660.23	660.23	660.23	660.23	660.23	660.23
Non-residential						
Fixed (\$/year)	660.23	660.23	660.23	660.23	660.23	660.23