Pricing Submission

October 2017
Submission Process

• Customers and community at the forefront;
• Focus on customer outcomes, outputs, activities and measures
• PREMO assessed as ‘Standard’
• Robust risk identification, assessment and allocation
• Pricing and tariff structure to meet customer expectations
• Provides for a sustainable South Gippsland Water
• Expenditure linked to customer outcomes
Prices and Tariff Structure

- Developed in consultation with customers
- Changes in line with customer preference for a user pays rationale – Volumetric water rate
- Provide a more equitable tariff structure and alignment with the wider water industry – revision of cistern and minor trade waste rates
- Tariff correction in year 1 with a smoothed increase thereafter
- Penalty fees introduced for trade waste
- Customer assistance programs developed to support impacted customers
Tariff impact (residential)

- Average bill for residential customers in FY17/18 is $978 (assuming average consumption 118kL)
- Price increase in Year 1 represents an increase of $23 per bill
- Tenants will incur a price increase in Year 1 of $19 per bill.

<table>
<thead>
<tr>
<th>Options</th>
<th>Average residential customer price (118 kL)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 1</td>
</tr>
<tr>
<td>Nominal price</td>
<td>$1,073</td>
</tr>
<tr>
<td>Real Price</td>
<td>$1,049</td>
</tr>
<tr>
<td>% increase (real)</td>
<td>7.3%</td>
</tr>
<tr>
<td>$ increase per annum (real)</td>
<td>$71</td>
</tr>
<tr>
<td>$ increase per bill (real)</td>
<td>$23</td>
</tr>
</tbody>
</table>
Pricing History

(Source for following 2 graphs is ESC Pricing Determination WP2 and WP3 – assumes constant average consumption)
Pricing History

(Source for following graph is the ESC Annual Performance Reports)

Real % Increase in Average Residential Tariff - 2007/08 to 2015/16
(2017/18 prices)
Tariff impact (businesses)

- Year 1 price increase to the majority of businesses will range from $36 to $90 per bill
- The impact to businesses of the waste water volumetric model are vastly different e.g. a small motel could be better off by $2,000 whilst a large hotel could be worse off by $30,000 per annum
- Major customers will pay more due to the combined impact of a higher volumetric rate and price increase
- The two largest major customers will pay an additional $186,000 over the pricing period with no change to trade waste

* Subject to a separate customer engagement process
Understanding customers will be impacted:
1. Increased tariff structure
2. Focus on volumetric water rate
3. Focus on wastewater user pay principle

South Gippsland Water propose to:
1. Undertake further analysis to identify vulnerable customers
2. Undertake further engagement prior to implementation of change
3. Enhance programs to assist vulnerable domestic and business customers
Engagement

Wide & Broad  ➔  Delve Deeper  ➔  Test  ➔  Pricing Submission
Engagement

- 400 Survey Responses
- 3,100 Reach via paid Social Media
- 300 Responses to Discussion Sheets
- 1,340 Emailed Customers
- Mailed all 21,000 Customers
- 6 Customer Advisory Panel Sessions
- 51,700 Reach via Traditional Media
- 14 In depth Stakeholder Interviews
- 5 Discussion Sessions with Community Groups
- Focus Groups in All Major Centres
- 300 ‘Your Town’ Visits
- 10
Planning for the future is key and planning for medium level of climate change was accepted.

South Gippsland Water should go ‘above and beyond’ to avoid leaks and interruptions.

Customers support increased investment into ageing infrastructure.

It is expected South Gippsland Water will maintain service standards.

Support for contributing to social hardship programs.

Calls for control over their bills. Customers believe a higher volumetric component would facilitate this, however there is a concern about the extent of the shift.
Customer Expectations

Water
"We will provide safe, clean drinking water for the benefit of our customers & communities"

Wastewater
"We will provide a safe wastewater service that contributes to the health & liveability of our communities & environment"

Integrity & Customers
"We will treat all customers/community with honesty & respect & will strive to balance affordability, value for money & fairness"

Environment
“We will be environmentally responsible, sustainable & adapt to a future impacted by climate variability”

Planning
"We will partner with community, business & government to facilitate integrated planning for future years, considering efficiency, affordability & growth"

Reliability
"We will minimise unplanned interruptions to services & commit to quality communications with our customers"
Capital Expenditure

- Customer expectations and levels of service aligned
- Shift of focus from growth to renewal and reliability
- $88.2M of planned capital expenditure
- Customer expectations & regulatory requirements have impacted planned expenditure.

Expenditure by driver (2018/19 - 2022/23)
- Asset Renewal: 54.9%
- Business Efficiency: 32.9%
- Compliance: 8.2%
- Growth: 2.7%
- OH&S: 1.3%

Expenditure by outcome (2018/19-2022/23)
- Customer & Integrity: 43.6%
- Environment: 22.4%
- Planning: 15.6%
- Reliability: 14.6%
- Wastewater: 3.4%
- Water: 0.4%
Infrastructure Investment

Standard of service/investment options

1. Improve capital investment in standard of service
   Total: $123M

2. Maintain capital investment in standard of service
   Total: $88M

3. Reduce capital investment in standard of service
   Total: $65M
Reliability

Infrastructure Investment: An Asset Story

Current Approach

- Run to failure – common industry approach
- Service levels will suffer if current rate of renewal continues
- Need to further understand asset condition & performance

<table>
<thead>
<tr>
<th>Asset/Facility Type</th>
<th>Replacement Asset Value</th>
<th>Current Budget</th>
<th>Proportion %</th>
<th>Asset Life – Renewal Rate (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Reticulation</td>
<td>$138,000,000</td>
<td>$595,000</td>
<td>0.43%</td>
<td>231</td>
</tr>
<tr>
<td>Sewer Reticulation</td>
<td>$127,000,000</td>
<td>$600,000</td>
<td>0.47%</td>
<td>211</td>
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</table>
$88M Infrastructure Investment over 5 Years

$2.3M Wonthaggi Wastewater Treatment expansion, $2.7M wastewater treatment plant renewals

Sewer System Expansion projects: $6.4M Wonthaggi and $4.2M Inverloch. Renewal projects: pump station $1.8M in Yarram and $1.7M in Wonthaggi

$1.5M In hydraulic modelling and network master planning to plan and respond to climate variability and regional growth

$4.7M to renew water mains and $4.3M to renew sewer mains

$2.2M In water distribution main renewals for leak reduction and $5M to renew raw water transfer mains

$7.6M to complete stage 1 of the Lance Creek Water Connection Project, $3.1M for Water Treatment Plant renewals and $2.1M for disinfection upgrades

$2.6M Carbon Emissions Reduction Program to meet our pledge of reducing emissions by 15% by 2025
Operating expenditure

- Customers emphasised maintaining service standards
- Balancing strategic asset planning and preventative maintenance with aged infrastructure is critical
- Expenditure reflects 2016/17 baseline operating costs with additional components following
- Linked to regulatory and customer outcomes
- $1.4M p.a. existing efficiency target sustained with a further 1.5% p.a. efficiency target

Reliability
## Operating expenditure

<table>
<thead>
<tr>
<th>Controllable operating expense item $’000</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance / Reliability (incl Sewer Sidelines)</td>
<td>590</td>
<td>670</td>
<td>590</td>
<td>660</td>
<td>650</td>
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<tr>
<td>Information Technology</td>
<td>200</td>
<td>280</td>
<td>320</td>
<td>360</td>
<td>390</td>
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<tr>
<td>Biosolids Management</td>
<td>160</td>
<td>160</td>
<td>160</td>
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<td>160</td>
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<tr>
<td>Strategic Asset Management</td>
<td>80</td>
<td>80</td>
<td>330</td>
<td>80</td>
<td>80</td>
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<tr>
<td>Lance Creek Net Operating Costs</td>
<td>30</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Stakeholder collaboration &amp; partnerships</td>
<td>110</td>
<td>110</td>
<td>40</td>
<td>40</td>
<td>40</td>
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<tr>
<td>Secure Water Supply (leakage reduction, planning)</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>50</td>
<td>50</td>
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<tr>
<td>Catchment Management</td>
<td>50</td>
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<td>Ecological Risk Assessments</td>
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<td>Customer Support Programs</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
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<tr>
<td>Electricity rate (emissions offset)</td>
<td>150</td>
<td>140</td>
<td>20</td>
<td>-40</td>
<td>-40</td>
</tr>
<tr>
<td>Wages above CPI</td>
<td>50</td>
<td>70</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Total additional operating expenditure</strong></td>
<td><strong>1,560</strong></td>
<td><strong>1,900</strong></td>
<td><strong>1,850</strong></td>
<td><strong>1,600</strong></td>
<td><strong>1,620</strong></td>
</tr>
</tbody>
</table>
$92M Controllable Opex over 5 Years

- $330K Stakeholder collaboration and partnerships
- $250K for increased customer support programs
- $230K electricity market rates (offset by emissions)
- $250K for improved catchment management
- Secure water supplies for 60% of our customer base; $630K to (net Lance Creek operating costs)
- $800K to re-use 100% of bio-solids and reduce stockpiles
- $800K for increased sewer maintenance programs
- $1.5M I.T. systems to quickly identify when systems fail
- $0.66M towards making sure we renew infrastructure at the most economical time
- $1.7M for increased scheduled maintenance to improve reliability
- $700K for increased water maintenance to improve quality
- A 1.5% efficiency on existing operating costs will be delivered
Review

Board Attestation
28\textsuperscript{th} September 2017

PREMO Rating
9.9 – Standard

New Customer Contribution
Uniform NCC for water and sewer

Guaranteed Service Levels
Increase $75 to $100 unplanned water and sewer interruptions not restored/rectified within 5 hours
Review

Demand
Moderate residential growth (1.5%), Major Customer demand to increase by approx 0.5% p.a.

Form of Price Control
Individual price caps with revenue cap for service known as cistern and minor trade waste

Revenue Requirement
Five year regulatory period, 10 years forecast
Customer Programs

88% of customers were supportive of assisting customers struggling to pay their bill

Suite of Programs to Support Customers

• Flexible payment options
• URGS Grants
• Dedicated ‘Customer Support’ officer
• Training & greater support for customers impacted by family violence
• Water Efficiency Audits
• WET Loan Scheme: Assist business customers to reduce bills through water efficiency projects
• Debt Elimination Scheme
• $ for $ Payback Scheme
Customer Programs

Delivered with no additional cost to customers

Re-distribute to fund programs - $120K

Remove discounts for;
  • Water by Agreement customers
  • Not for profit charge (i.e. Halls, Scouts etc)

*Note: Government water concessions & rebates still apply
South Gippsland Water

Planning for the future:
Delivering on Reliability, Services, Environment & Integrity