

# Price Submission

## September 2017



wannonWATER

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# I.THE CUSTOMER VALUE PROPOSITION

This is a pricing plan that details the activities and investments Wannon Water will undertake for the fourth regulatory period commencing from 1 July 2018 and ending on 30 June 2023. This plan should be read in conjunction with the Price Submission Financial Model 2018-2023 and other relevant reports where referenced.

This plan is designed to keep our customers' bills affordable and deliver services that are value for money while:

- Enabling us to meet or exceed the high quality standards our customers appreciate;
- Safeguarding our existing networks, treatment works, operational assets and systems;
- Minimising the impact of our activities on the environment;
- Ensuring we can meet future challenges such as climate change, population movements, ageing infrastructure and consumer preferences; and
- Maintaining a financial position that ensures sustainable operations and certainty for customers into the future.

We have undertaken our largest customer engagement exercise in developing this submission, initiating over 3,000 instances of engagement with our customers. Our customers and stakeholders told us:

- To maintain existing service standards, especially speedy restoration of services, and to improve communication regarding service interruptions;
- To improve water quality taste, smell and/or hardness;
- They are supportive of our Carbon Pledge;
- They are supportive of a 'Water for Community' program;
- They value current/traditional communication methods, and would like to see more contemporary customer service options introduced;
- They support initiatives that improve the natural environment and community outcomes;
- To keep our prices low;
- They want bills linked more strongly to usage – ability to influence their bills and recognition of precious resource;
- They value certainty and fairness in prices;
- They value our support of those customers experiencing hardship; and
- They appreciated the opportunity to engage.

Our price submission is based around seven outcomes our customers expect us to achieve (Section 7). These outcomes relate strongly to what we heard from our customers and are reflective of our obligations as a water corporation.



Provide safe and reliable water supplies

Provide sewerage services that protect public health and the environment

Ensure the long-term resilience of our services

Be responsive and willing to adapt as their needs change

Protect and enhance the environment in line with community expectations

Partner with their communities and help our region flourish

Ensure we provide great value

In delivering these outcomes we are not proposing tariff increases beyond CPI for our residential and non-residential customers. Current period tariff increases will be significantly less for some minor trade waste customers (3.8% + CPI, compared to 12% + CPI in the current regulatory period), with all other minor trade waste tariffs increasing by no more than CPI. Major trade waste tariffs will continue to rise by 2% + CPI.

The four-year annual \$70 Government Water Rebate will end on 30 June 2018, as scheduled. The action taken to reduce customer bills in 2016/17 by 2% more than the approved tariff effectively provides for an ongoing \$27 price reduction to customers every year into the future. We will phase out the Government Efficiency Rebate for tenant customers by applying a \$35 rebate to tenant customers in the first quarter of the 2018/19 year.

Actual tariffs and bills for the period 2013-2018 and indicative tariff and bill impacts for the 2018-2023 period are outlined in the below tables. Information for other towns can be found in Appendix B.

AVERAGE RESIDENTIAL CUSTOMER - OWNER							
(Projected Average Water Consumption 2013 - 2028 : 146 kL per annum)							
Financial	Sewer	Water		%	Government	TOTAL	%
Year	Fixed	Fixed	Variable	Change	Rebate	BILL	Change
2013/14	\$786	\$171	\$280			\$1238	
2014/15	\$777	\$171	\$280	-0.8%	-\$70	\$1158	-6.5%
2015/16	\$768	\$170	\$279	-0.9%	-\$70	\$1146	-1.0%
2016/17	\$744	\$166	\$272	-2.8%	-\$70	\$1112	-3.0%
2017/18	\$734	\$165	\$271	-1.0%	-\$70	\$1100	-1.1%
2018/19	\$734	\$165	\$271	0.0%		\$1170	6.4%
2019/20	\$734	\$165	\$271	0.0%		\$1170	0.0%
2020/21	\$734	\$165	\$271	0.0%		\$1170	0.0%
2021/22	\$734	\$165	\$271	0.0%		\$1170	0.0%
2022/23	\$734	\$165	\$271	0.0%		\$1170	0.0%

All amounts are stated in 1/1/18\$

## AVERAGE RESIDENTIAL CUSTOMER - TENANT

(Projected Average Water Consumption 2013 - 2028 : 146 kL per annum)

Financial	Sewer	Water		%	Government	TOTAL	%
Year	Fixed	Fixed	Variable	Change	Rebate	BILL	Change
2013/14			\$280			<b>\$280</b>	
2014/15			\$280	-0.3%	-\$70	<b>\$210</b>	-25.3%
2015/16			\$279	-0.3%	-\$70	<b>\$209</b>	-0.4%
2016/17			\$272	-2.3%	-\$70	<b>\$202</b>	-3.1%
2017/18			\$271	-0.5%	-\$70	<b>\$201</b>	-0.6%
2018/19			\$271	0.0%	-\$35	<b>\$236</b>	17.4%
2019/20			\$271	0.0%		<b>\$271</b>	14.8%
2020/21			\$271	0.0%		<b>\$271</b>	0.0%
2021/22			\$271	0.0%		<b>\$271</b>	0.0%
2022/23			\$271	0.0%		<b>\$271</b>	0.0%

All amounts are stated in 1/1/18\$

## AVERAGE NON RESIDENTIAL CUSTOMER

(Projected Average Water Consumption 2013 - 2028 : 376 kL per annum)

Financial	Sewer	Water		TOTAL	%
Year	Fixed	Fixed	Variable	BILL	Change
2013/14	\$786	\$171	\$867	<b>\$1824</b>	
2014/15	\$777	\$171	\$864	<b>\$1812</b>	-0.7%
2015/16	\$768	\$170	\$862	<b>\$1800</b>	-0.7%
2016/17	\$744	\$166	\$842	<b>\$1752</b>	-2.7%
2017/18	\$734	\$165	\$838	<b>\$1737</b>	-0.8%
2018/19	\$734	\$165	\$838	<b>\$1737</b>	0.0%
2019/20	\$734	\$165	\$838	<b>\$1737</b>	0.0%
2020/21	\$734	\$165	\$838	<b>\$1737</b>	0.0%
2021/22	\$734	\$165	\$838	<b>\$1737</b>	0.0%
2022/23	\$734	\$165	\$838	<b>\$1737</b>	0.0%

All amounts are stated in 1/1/18\$

Our customers told us that they value our current service levels and we are committed to maintaining these high levels of service. We have achieved very high customer satisfaction during the Water Plan 3 regulatory period (2013-2018). We expect this to continue throughout this Price Submission period.

We have modified (favourably) two of our Guaranteed Service Levels and introduced a new GSL based on sewer spills within a customer's property.

We will undertake our largest ever capital works project during this period, a \$38 million expansion of the Warrnambool Water Reclamation Plan (WRP). Projects to renew our assets to maintain their performance are a significant amount of our \$156 million capital investment program during this period.

Our operating costs are prudent and efficient. Costs are forecast to remain relatively stable during the regulatory period. Compared to baseline, they increase in the first year by 14% and remain relatively stable thereafter. The initial increase is largely due to the cost of electricity and an increase in the Environmental Contribution Levy (ECL). They account for 23% and 13% of the increase compared to baseline respectively.

Electricity is one of our major costs and forecasting is difficult in the current environment. We have taken an approach to forecasting electricity tariffs which we believe is pragmatic. It is likely that we will incur greater costs than those we have included in this Price Submission.

A key outcome of this Price Submission is that Wannon Water's financial viability is maintained. With a significant capital investment program our total borrowings are forecast to increase by \$28 million to \$71 million by the end of this Price Submission. Our cash flow forecasts indicate we can service this increased level of debt and our gearing ratio remains low.



## **2. BOARD ASSURANCE STATEMENT**

The Board of Wannon Water has influenced this Price Submission throughout its development.

The Strategic Issues Committee of the Board was assigned oversight of the Price Submission's development. The Board and Strategic Issues Committee formally considered material impacts of Price Submission matters on 16 occasions over the past 18 months.

Directors were engaged in the development of the revised framework, attending a number of Essential Services Commission (ESC) forums and provided input into Wannon Water's feedback to the ESC regarding the framework. Upon invitation, the ESC Chairman attended a Strategic Issues Committee meeting in October 2016, discussing the potential framework and his expectations.

Directors remained informed throughout the submission's development, challenging and providing additional insight into the formation of this Price Submission. They also represented the Board in customer and community engagement sessions.

This Price Submission has been shaped by the Board's focus on achieving Wannon Water's vision: *Beyond water for strong communities*.

As at 22 September 2017, the Directors of Wannon Water, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2018 Water Price Review:

- Information and documentation provided in the price submission and relied upon to support Wannon Water's price submission is reasonably based, complete and accurate in all material respects;
- Financial and demand forecasts are the business' best estimates, and supporting information is available to justify the assumptions and methodologies used; and,
- The price submission satisfies the requirements of the 2018 Water Price review Guidance paper issued by the Essential Services Commission in all material respects.



**Jacinta Ermacora**  
**Chair**



**Andrew Jeffers**  
**Managing Director**

### 3. OUR PREMO ASSESSMENT

We have assessed our submission against the criteria in the guidance paper. Appendix D provides detail on our assessment against each criteria and provides applicable references.

Our assessment results in a **standard** outcome and is summarised as follows.

Engagement (Advanced 3.25)	Outcomes (Standard 2.5)
<ul style="list-style-type: none"><li>Commenced engagement process as soon as practically possible (Dec 2015)</li><li>3,000 instances of engagement reaching about 7% of customer base</li><li>Engagement tailored with a wide range of customers</li><li>Engagement was an iterative process, with development and testing of customer priorities and proposed activities to achieve these, including price impacts to deliver requested services</li><li>Feedback that engagement was genuine and considered</li></ul>	<ul style="list-style-type: none"><li>Linked to customer insights to deliver on customers' highest priorities</li><li>Consistent with customer feedback, propose to maintain current levels of service</li><li>Justification provided for the one case where feedback was not acted upon</li><li>Expenditure profile didn't require material change as it is currently consistent with customer feedback</li><li>Outputs measure customer perceptions as well as our performance</li><li>Proposed improvement in performance for 63% of KPI's</li></ul>

Standard

Management (Standard 2.25)	Risk (Standard 2.0)
<ul style="list-style-type: none"><li>Board and senior management have demonstrated ownership and commitment to the development and proposals</li><li>Business cases developed for projects over \$250,000 to justify capital investment</li><li>In addition to the 1% rate of operating efficiency improvement, an additional \$1.2 million in operating efficiencies is proposed</li><li>Strong level of supporting documentation and justification</li><li>Forecasts are based on sound methodologies and assumptions</li><li>Independent advisors have been utilised where appropriate</li></ul>	<ul style="list-style-type: none"><li>Our management systems are certified</li><li>Forecasting demand, operating costs &amp; savings and our capital investment program are consistent and undertaken with customer tariff outcomes in mind</li><li>Uncertain projects are not included in the capital investment plan</li><li>Forecasts are based on latest available information and P80 for our largest capital project</li><li>Maintaining current price control and tariff structures</li><li>Current GSLs have been refined to provide greater service and accountability</li></ul>

## 4. ABOUT WANNON WATER

We supply water to 36 towns and communities via 14 water supply systems within our region. These systems are diverse in nature, including surface systems (rivers and streams), deep geothermal groundwater systems (aquifers) and shallow aquifer systems.

We provide sewerage services to a permanent population of more than 84,000 people covering 23,500 square kilometres. Our 16 Water Reclamation Plants (WRPs), two Industrial Water Reclamation Plants (IWRPs) and two Tertiary Water Reclamation Plants (TWRPs) provide waste water treatment processing to 18 towns as well as a number of major and minor trade waste customers.

The majority of Wannon Water's WRPs operate winter storages and irrigation facilities. However, three sites – Warrnambool, Port Fairy and Portland – discharge treated effluent to the ocean. Tertiary

Water Reclamation Plants operate in Hamilton and Mortlake and provide tertiary treated recycled water to industrial customers.

We employ more than 200 people serving more than 42,000 customers. We manage more than \$775 million worth of assets, provide 11,400 megalitres of water, treat 10,000 megalitres of sewage and trade waste and provide 2,000 megalitres of recycled water for reuse each year.

Our services are integral to the health and wellbeing of our community and we recognise that we can enhance the growth and prosperity within our region.

We serve in a way that's responsible for our communities and that supports the greater prosperity of the region. Our vision and objectives are central to this approach:



We have a number of certified management systems, providing the community with a high level of reassurance that our processes are aligned with best practice. We are certified against:

- ISO 14001:2004 Environmental Management Systems
- AS/NZS 4801 Occupational Health and Safety Management Systems
- HACCP based Drinking Water Quality Management System

During May 2017 we were successful in having our Environmental Management System externally audited and recommended for certification to the updated ISO 14001:2014 standard.

We have plans, systems and processes which have regard to ISO 31000 Risk Management.

All wastewater treatment sites operate under an amalgamated EPA licence to ensure Wannon Water meets required environmental standards.

Our overall performance as a business has strengthened our financial position. Our commitment to reducing total debt from \$89 million in 2012 was made whilst considering affordability outcomes for our customers. Our total debt is now currently \$44 million, a reduction we have achieved at the same time as providing bill relief for our customers. Whilst our total debt levels are low in comparison to our significant asset base, this safeguards our exposure to the possibility of significantly increased debt levels.

## 4.1 WHERE ARE WE NOW?

We have come a long way since our inception in 2005. We have undertaken significant capital investment in our infrastructure to secure safe and reliable supplies and services. We have had a period of investment in our operations to ensure compliance with regulatory obligations. With secure and safe supplies and consistent services, our attention turned to delivering more efficient ways of operating, passing these benefits to our customers in the form of lower bills. We are proud of our achievements to date and will continue our culture of doing things better than before.

We have invested significantly in capital infrastructure. Investments of \$295 million since 2005 have:

- strengthened the security of water supplies for our customers,
- increased the reliability of our network; and,
- enhanced the efficiency of our infrastructure.

These investments, with operational improvements and acquiring appropriate resources, have seen our performance highlighted in the ESC's annual Water Performance reports as one of the better performing water corporations in the state.

Our people play an important role in delivering services to our customers. The skillsets we require to operate the business are varied. We are a professional workplace and we are proud to provide a critical service which supports the health and wellbeing of the community. The safety and wellbeing of our employees is our most important focus. Our employees are members of the community we serve and we genuinely understand that our role is to do more than provide water and sewerage services.

We recognise the challenge that our customers have when it comes to living expenses, especially paying utility bills. Our tariffs have reduced at a time when other utility bills have increased significantly.

By implementing better ways of working, the impact is lower bills for our customers. During the 2013-2018 regulatory period customers received a 5.9% real tariff reduction. In addition, an annual \$70 rebate was provided from 2014 onwards, and a further 2% tariff reduction was delivered in 2016/17.

Our customers' average water bill has fallen from one of the highest in the state to the sixth lowest compared to other regional water corporations.

## 5 OUR DEVELOPMENT APPROACH

Our approach to developing this plan is outlined in our Board-approved *Project Management Plan – Price Submission 2018*.

This plan includes our objectives, the governance structure, resourcing requirements, key milestones and timelines. The Board received project status reports in November 2016 and April 2017.

Management accountability for the project was assigned to a member of our executive team. Sub-project leaders were assigned for areas of key impact (e.g. engagement, operating costs, capital investment program, demand, tariffs, and financial sustainability). We established a working group composed of all executive team members, sub-project leaders and subject matter experts. This working group met fortnightly to ensure accountability was maintained,

to provide appropriate levels of support to each other and to ensure that rigor and consistency was embedded in the development process.

Where forecasts and assumptions have been required, we have used internal and external knowledge and processes which are consistent with our business planning approach. Information has been derived from our corporate systems and relevant reports. Credible external sources have been utilised to substantiate our assumptions and support our judgements where appropriate.

Supporting documentation is available for all material aspects of this Price Submission.

Unless otherwise stated, all financial information in this Price Submission is in 2017-18 dollars.



## 6. ENGAGEMENT

### 6.1 INTRODUCTION TO THE PRICE SUBMISSION ENGAGEMENT

Wannon Water has 42,766 customers<sup>1</sup>. In developing this 2018-2023 Price Submission, Wannon Water had over 3,000 instances of engagement with its customers and community – in other words, around 7% of our customer base. A total of 505 of these engagements were in-depth conversations.

The accompanying report “Price Submission 2018-2023 Final Engagement Report” provides greater detail on the approach Wannon Water took to ensure it fulfilled the ESC requirements for engagement in the development of our Price Submission.

<sup>1</sup> 2016/17 Wannon Water Annual Report

Wannon Water’s definition of engagement is “a genuine process of working with people to build capacity, strengthen relationships and inform decisions”.

Our stakeholder engagement policy outlines Wannon Water’s broad approach to engagement and adopts the International Association of Public Participation’s (IAP2) core values, code of ethics and public participation spectrum. Our community engagement framework (an overview provided below) shows the practical approach we take in planning for community and stakeholder engagement.



## 6.2 WANNON WATER'S PRICE SUBMISSION PRINCIPLES

A set of **principles** that underpin the Price Submission were developed by the Board early in the submission's planning phase. These **principles** establish consistency with our corporate objectives, but were also informed and refined through the early rounds of customer engagement.

The following is the final list of **principles** developed that underpin the Price Submission:

### ❖ **Value for Customers**

- Balancing the needs of current and future customers;
- Providing safe, reliable and responsive services that our customers value; and
- No price shocks<sup>2</sup>.

### ❖ **Stronger Communities**

- Strengthening communities and businesses in south-west Victoria; and
- Protecting and enhancing the environment

### ❖ **Organisational Capability**

- Providing a safe, diverse and inclusive workplace for our people.

### ❖ **Business Excellence**

- Balancing economic outcomes with social, environmental and cultural needs.

## 6.3 OVERVIEW OF THE ENGAGEMENT PROCESS

The Price Submission engagement process commenced in December 2015 and concluded in September 2017. It was an iterative approach including successive engagements. The outcomes of each engagement were analysed to inform and refine existing knowledge about what customers value. This knowledge was then used to plan for the next round of engagement.

In all, there were five rounds of engagement:

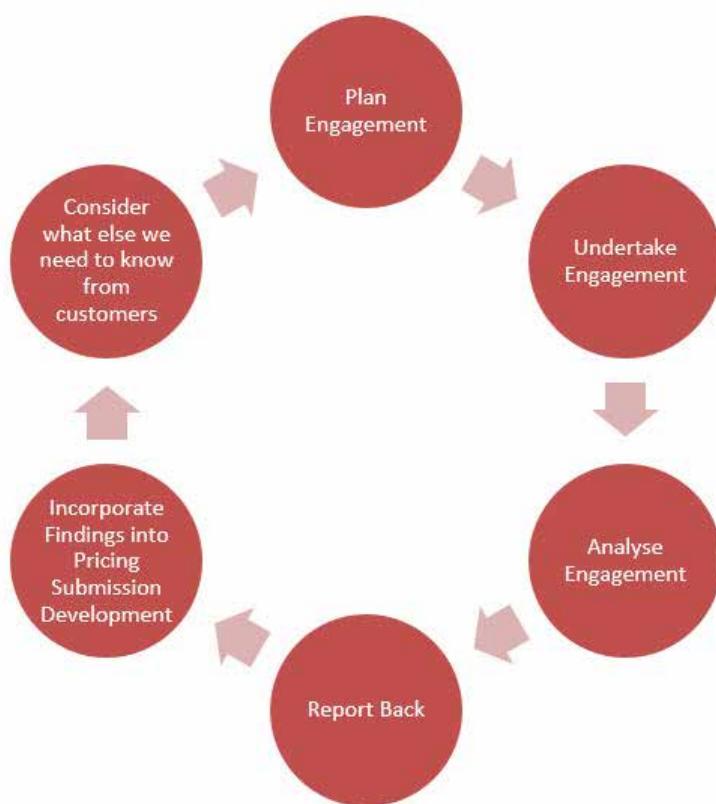
1. Stakeholder perceptions round;
2. Early round;
3. Broad round (capturing a wide variety of customers);
4. Deep round (probing deeper on the themes arising in the earlier rounds); and
5. Feedback on proposals for the Price Submission.

Each round included multiple engagement methodologies appropriate for the different stakeholder groups and the type of information/content being requested from customers. Importantly, Wannon Water 'closed the loop' at the end of each engagement round; each round was reported back to the Board, executive, staff and those who were engaged.



<sup>2</sup> A price shock was defined as a >10% change in tariffs

## The Planning Cycle for each Engagement Round



## The Five Engagement Rounds for the Price Submission Development



Within these engagement rounds, there were also specific engagements for other initiatives that needed consideration for incorporation into this plan. For example, the:

- Warrnambool Water Reclamation Plant upgrade engagement;
- Urban Water Strategy 2017-2065 engagement; and
- Contemporary Customer Services Project engagement.

The engagement rounds were supplemented by the ‘business-as-usual’ customer engagement undertaken by Wannon Water, including:

- The Community Advisory Committee (which met six times during this period – with one of

these being a deliberative forum on the Price Submission); and

- Annual customer and business surveys (June 2016 and June 2017).

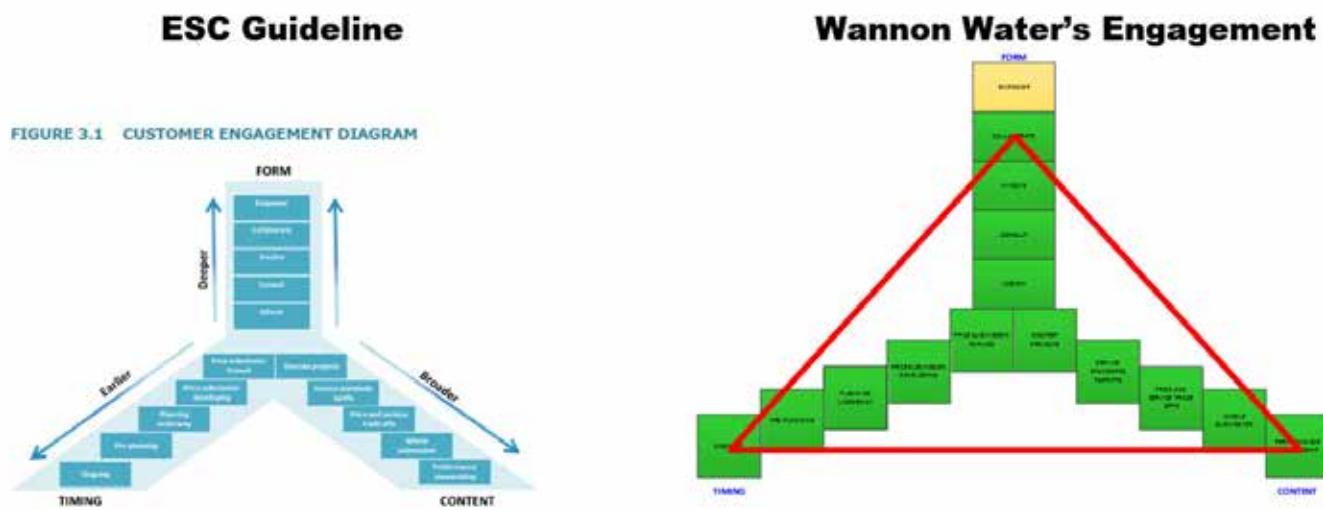
Importantly, analysis of customer enquiry and complaints data – qualitative and quantitative – from the 2013-18 Water Plan period was also taken into consideration.

Most of the Price Submission engagement was undertaken in-house, involving employees from across the organisation. This approach kept costs down and ensured that employees gained first-hand understanding of what customers were telling us, supporting incorporation into the Price Submission development process and immediate incorporation of business-as-usual activities where possible.

## 6.4 APPROACH

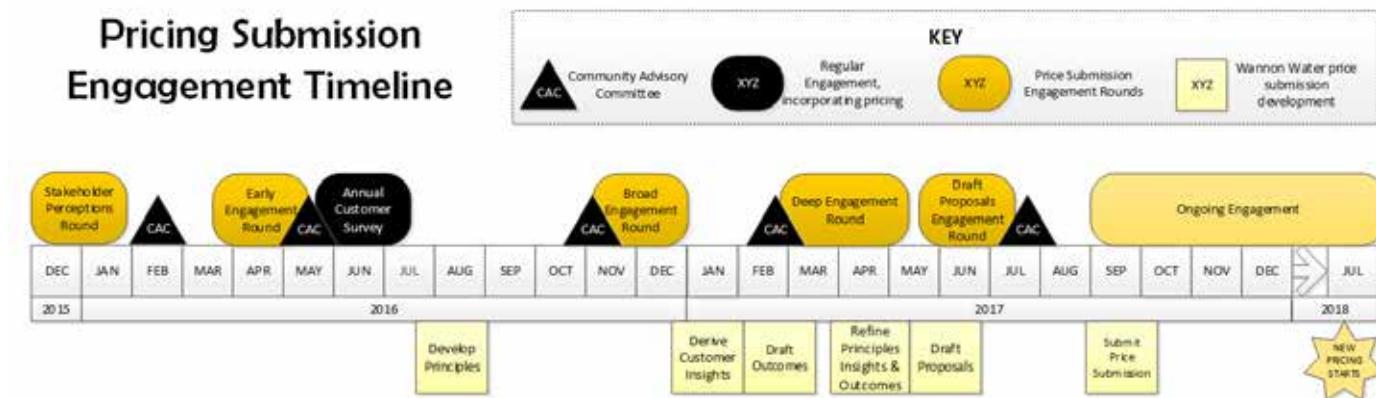
### 6.4.1 Form, content and timing

The 2018 Water Price Review – Guidance Paper (November 2016) provides advice on the form, content and timing of the engagement required for the development of the Price Submission (see p25, Figure 3.1, as replicated on the left-hand side below). This section addresses the way in which Wannon Water's Price Submission engagement has responded to these elements (as represented on the right hand side below).



### 6.4.2 Timing – When did we engage

Customers were engaged early and often throughout the process of the submission development. The first engagement activity in December 2015 was held prior to the Wannon Water's Price Submission working group and project investment committees commencing. This ensured that customer engagement findings were ever present in the planning and development of the submission from the very beginning.



Lessons from this engagement process have been fed into an ongoing annual engagement cycle for Wannon Water. Future 'performance stewardship' by customers has been established in this price plan, whereby the outputs include ensuring customer engagement will inform continuous improvement and each year's corporate plan.

#### 6.4.3 Form – Where were we on the engagement spectrum?

The International Association of Public Participation (IAP2) Public Participation Spectrum defines five levels of engagement: inform, consult, involve, collaborate and empower. These levels of engagement have been reflected in the Figure 3.1 ‘Customer Engagement Diagram’ in the ESC guidance paper for the Price Submission as the ‘form’ of engagement.

There was evidence of all levels Wannon Water’s Price Submission engagement, with the exception of empowerment.

Notably, the Stakeholder Reference Group (SRG) for the Warrnambool Water Reclamation Plant upgrade (a multi-stakeholder community panel that sat twice and advised the Board on the weightings and criteria for the multi-criteria assessment of upgrade option to be pursued) and the deliberative forum held with members of our Community Advisory Committee (where they deliberated on five key Price Submission themes) were examples of collaboration. In both instances it was made very clear to participants that, whilst their feedback would be taken very seriously and that their advice would be incorporated into the final decisions, ultimately it would be the Board that made the final decision. Indeed, the Board did incorporate the advice of both bodies<sup>3</sup> into this Price Submission.

The engagement tools adopted across all rounds could be considered at different levels of engagement. However, as a generalisation, the deeper engagement round was situated mostly at the involve level, with earlier rounds mostly situated at the consult level.

Our engagement process was designed to be at the collaborative level (as defined by IAP2 and in the ESC guidelines), with Wannon Water’s ministerially appointed Board accepting empowerment responsibility for Wannon Water.

#### 6.4.4 Content - How did we decide what to engage upon?

The discursive engagement methodologies in the first two rounds of engagement were open in how we questioned customers. In essence, they were explorative in nature and allowed *free responses* to elicit any range of topics of importance to customers. This is critically important and demonstrates that Wannon Water has been careful to ensure customer feedback developed and shaped the nature and themes of what we engaged upon from the start of the process.

Following these first rounds, a set of draft **Principles** (see section 1.2) was established. These **Principles** established consistency with Wannon Water’s corporate objectives, but were also informed through the themes coming through early rounds of engagement.

The third round of engagement included a mix of methodologies: some that continued an open questioning approach (such as with developers); some that were more specific and tested the draft principles; and some that started ‘deeper’ questioning on issues that had been raised in earlier engagements or through enquiries and complaints during the current regulatory period (e.g. extent of online services desired by customers). By the end of this round, a draft set of **Customer Insights** were derived. The final **Customer Insights** encapsulated the key themes arising from the engagements with customers.

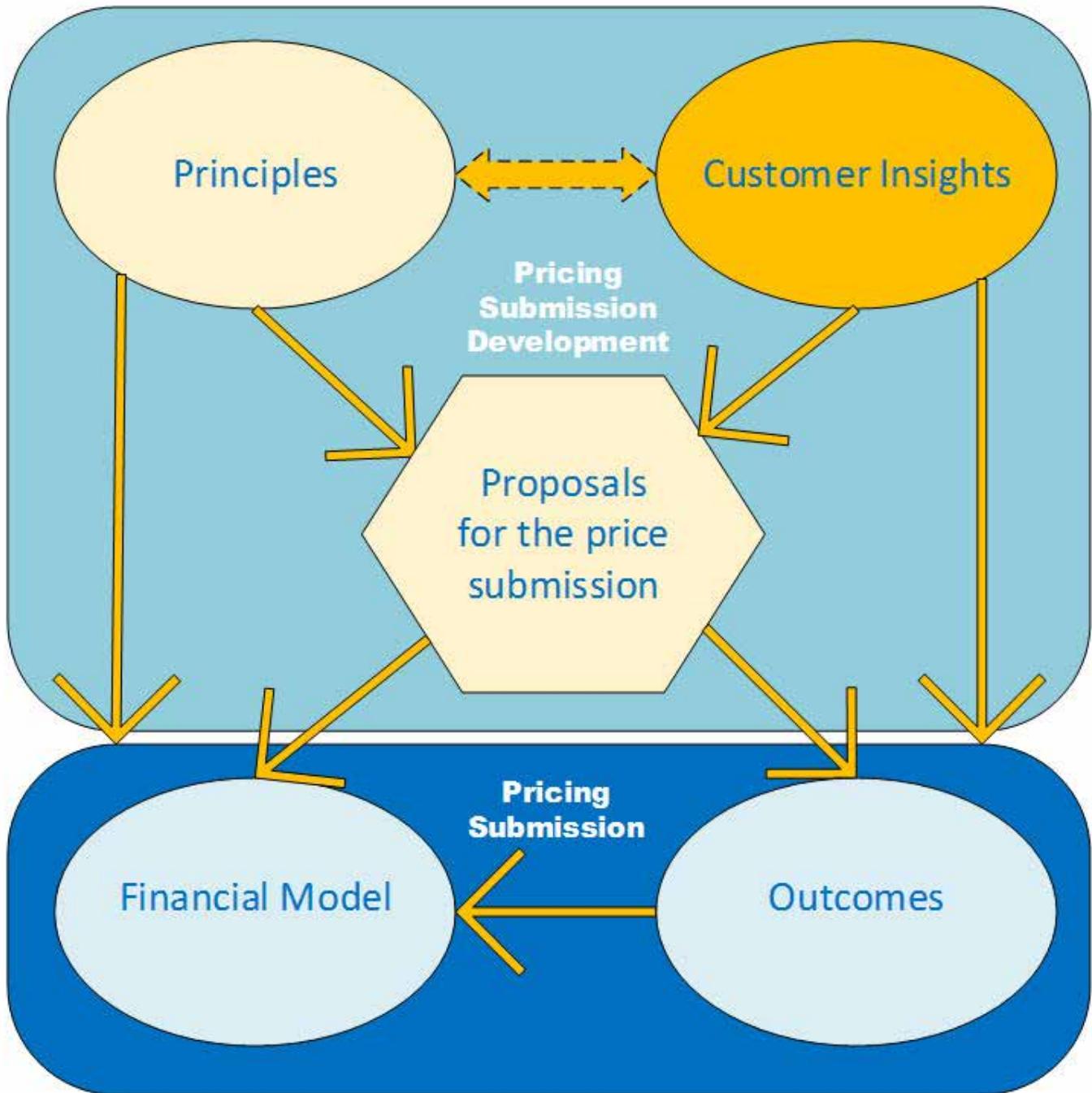
The fourth round of engagement was intent on testing and refining these **Customer Insights** and gaining a deeper understanding of the issues and themes that had been raised. This round concluded the detailed engagement. At this point a set of draft **Proposals** flagging key directions was developed and then tested with customers in the final round of engagement. Whilst all engagement rounds were important, the **Proposals** round was critical in demonstrating that the directions in the final submission have been tested with our customers and that, overwhelmingly, our customers have supported them.

<sup>3</sup> The board altered the officers’ initial recommendations to incorporate feedback from the SRG in the final weightings and criteria approved to determine the upgrade option that will be pursued.

The result of this approach to content is that the engagement was very broad in nature. It included engagement on specific projects, trade-offs (e.g. customers were asked their willingness to pay more or less to increase or decrease current service levels) and tariffs (such as engagement on unconnected charges, fixed and variable, etc.), the components of the building blocks model (with the Community Advisory Committee) and feedback on the decisions guiding the whole submission (draft Proposals engagement round).

## 6.5 CUSTOMER INSIGHT AS THE KEY DRIVER FOR THE PRICE SUBMISSION

The diagram below outlines the relationship between the **Principles**, **Customer Insights**, **Proposals** and their resulting relationship with the final Price Submission financial model and outcomes. All are interconnected, with customer input as the core driver for the penultimate submission.



ENGAGEMENT TOOL							
ENGAGEMENT ROUND	Online Surveys (& available in hard copy)	Interviews - Face-to-Face	Interviews - Phone	Wannon Water Focus Groups	Discussions with existing groups	Community Events	Stakeholder Forums
Stakeholder Perceptions Round	✓	✓	✓				
Early Round	✓	✓			✓		✓
Broad Round	✓	✓	✓	✓		✓	✓
Deep Round		✓		✓	✓	✓	✓
Proposed Directions Round	✓				✓		

## 6.6 ENGAGEMENT TOOLS

Consistent with best practice engagement principles, we chose engagement tools suitable to different stakeholder groups. The following table provides an overview of the range of engagement techniques employed. Appropriate materials were prepared for these engagements (e.g. flyers, information sheets, presentations, etc.) to ensure those engaged had received appropriate information to support them to provide informed feedback. More details on the engagement tools used can be found in the Appendices in the accompanying Final Engagement Report.

## 6.7 WHO WAS ENGAGED?

We engaged multiple groups of stakeholders throughout the engagement, including residential customers, small business customers, major business customers, recycled water customers, rural customers, urban customers, high volume customers (real estate, solicitors, plumbers), local government, regional groups and organisations, community groups, vulnerable groups, developers, environmental groups, aboriginal people, young people, older people, customers from townships throughout our service region and non-customer residents in our water catchment areas.



## 6.8 WHAT DID WE HEAR?

We developed a list of customer insights following the broad engagement round. These were tested further in the deep engagement round and then altered accordingly.

Whilst customer feedback is provided throughout this document, this is the final list of customer insights from the Price Submission engagement. It provides a summary of what Wannon Water learned from customers throughout all the engagement undertaken during the submission planning process.

### FINAL CUSTOMER INSIGHTS DERIVED FROM THE 2018-23 PRICE SUBMISSION ENGAGEMENT:

- Our customers are satisfied with most of our existing approaches and service levels
- Our customer told us they value the speedy restoration of their services when there is an interruption
- Our customers value Wannon Water working to protect the natural environment
- Our customers value support of local communities and think we should do more
- Our customers value our existing modes of interaction and would like additional contemporary options
- Our customer value being able to further influence their bills and value equity across our customer base
- Our customers value understanding more about their local water sources and treatment
- Our developers value stable and fair new customer contribution charges, simple fee structures, flexible mechanisms to ensure the costs associated with shared reticulation assets are fairly allocated to benefitting developers and our engagement with them
- Our major customers value the level of service, technical support and expertise we provide them and they have individual and complex needs
- Our major customers told us they would value investment in sewage/trade waste treatment infrastructure, water quality improvements and easier entry processes for new business to promote regional prosperity

Overwhelmingly, we also heard from those we engaged with that they appreciated Wannon Water's openness in the information presented and willingness to involve stakeholders in developing the Price Submission. The findings from those small group participants who provided feedback during the deep round showed 100% thought the engagement process was worthwhile, both for them and Wannon Water.

All Deliberative Forum participants also rated the participation, organisation and quality of the forum as either good or excellent. The experienced engagement consultants engaged to facilitate the forum, Capire Consulting, also told us that the staff presentations were the most unbiased they had ever seen from a client, confirming the rigour and independence of this engagement process.

Following engagement with developers and major customers, these stakeholders also expressed their

interest in participating in regular forums with Wannon Water in the future, given the value they got out of our engagement.

An overview of feedback from each engagement round is provided in the accompanying Final Engagement Report.

***"Quality inputs, not weighted, they were all true and honest reports (from Wannon Water staff)" - Deliberative Forum feedback.***

***"Wannon Water is to be congratulated on its leadership and willingness to engage with the development industry. It is greatly appreciated" - Warrnambool property developer.***

## 7. DELIVERING OUTCOMES TOWARDS 2023

Outcomes are our higher level objectives. They represent what our customers and community value over the short, medium and long term. They are linked to what we have heard from our customers and community and provide us with direction on areas of focus for the next five years. They are also areas we will assess ourselves against when reporting on our performance.

Our customers expect us to:	We will:
<b>Provide safe and reliable water supplies</b>	<b>Provide a reliable supply of safe water:</b> If there are interruptions to their supply, customers will receive timely information about the restoration of their service. We will improve the taste, smell and colour of drinking water.
<b>Provide sewerage services that protect public health and the environment</b>	<b>Protect public health and the environment:</b> Customers can expect that the sewerage service to their homes and businesses work reliably and efficiently. If there are interruptions to their service, they will receive timely information about restoration.
<b>Ensure the long-term resilience of our services</b>	<b>Plan for the long term to deliver secure, sufficient and resilient water services for the region:</b> Customers can expect us to take into account climate change, their expectations regarding water availability and the needs of future generations.
<b>Be responsive and willing to adapt as their needs change</b>	<b>Listen and act on customer requests, queries or suggestions in a genuine way:</b> Customers can expect us to expand the ways they can interact with us to be more contemporary.
<b>Protect and enhance the environment in line with community expectations</b>	<b>Take opportunities to protect and improve the environment:</b> Customers can expect us to do this in line with government and community expectations and with future generations in mind.
<b>Partner with their communities and helping our region flourish</b>	<b>Influence outcomes that benefit regional prosperity – the economy, people and quality of life in the region:</b> Customers can rely on us to use our capabilities responsibly and establish strategic partnerships to improve outcomes for their communities.
<b>Ensure we provide great value</b>	<b>Provide services that customers consider great value:</b> Customers are provided with quality information about the benefits of our services and why they cost what they do.

## 7.1 PROVIDE SAFE AND RELIABLE WATER SUPPLIES

### Provide a reliable supply of safe water:

If there are interruptions to their supply, customers will receive timely information about the restoration of their service. We will improve the taste, smell and colour of drinking water.

Wannon Water recognises how fundamental it is for our communities to have safe and reliable water services. This is reflected in our corporate mission and is the shared experience of our customers.

In terms of the safety of our water supplies, Wannon Water exceeded the State average<sup>4</sup> in 2015/16, reporting<sup>5</sup> 100% compliance for all parameters under the Safe Drinking Water Regulations 2015. Victoria's overall compliance for 2015/16 was 98%, which in turn was the highest compliance result since the safe drinking water regulatory framework was introduced. Wannon Water undertook more than 45,000 individual water tests to confirm the safety of our products, with around 19,000 of these directly occurring at customer taps. We continue to maintain an externally certified drinking water quality management system based on the Australian Drinking Water Guidelines risk management principles.

Our performance for overall reliability of the water supply continues to be exemplary. In 2015/16, Wannon Water reported the lowest rate of water supply interruptions to customers of all the Victorian water corporations, a result it has achieved for the past eight years. Overall reliability of our water supply networks, as measured by customer minutes off supply, placed Wannon Water's performance as among the best in the state<sup>6</sup>.

*"In developed countries, with rare exception we don't even think about drinking water. It is plentiful, clean and easily available. Nor do we give a second thought to the quality or quantity of drinking water. We simply turn on the tap to take a drink or open a bottle of water. Water supply is seen as a government or corporate responsibility." [James Salzman, 2005: *Thirst: A Short History of Drinking Water*, Duke Law School Legal Studies Research Paper No. 92]*

**86% of customers surveyed said they were satisfied or very satisfied with Wannon Water's Price Submission proposals relating to quality water and sewerage services for now and the future**

*"It's the engineers at Wannon Water that keep us healthy, not the doctors" - Portland*

*"How fortunate I am to live in a country where water is there when I turn on my tap" - online survey*

Delivering this level of performance is the result of continued appropriate investment in our people, systems and infrastructure to maintain, expand and improve our water supply systems from catchment to tap. The results are consistent with customer expectations and the commitments we made in Water Plan 3.

<sup>4</sup> <https://www2.health.vic.gov.au/Api/downloadmedia/%67B-3FEBFF10-3653-4C19-8723-2BACE95F591C%7D> (accessed 14 September 2017)

<sup>5</sup> <http://www.wannowater.com.au/media/16977/waterqualityannualreport2015-16.pdf> (accessed 14 September 2017)

<sup>6</sup> Essential Services Commission 2016, *Performance of Victorian urban water and sewerage businesses 2015/16*

Through the broad community engagement approach adopted to inform this Price Submission, our customers told us that they are satisfied with most of our existing approaches and service levels. Further, they told us that they value our existing modes of interaction with them. We feel proud that our customers recognise our performance and the results we have achieved.

And, we know we can continue to improve.

Based on customer feedback and changes in our regulatory environment, Wannon Water has identified four key challenges for the period 2018-2023.

1. Taste, smell and appearance of drinking water;
2. Major customer demand uncertainty;
3. Delivering timely information about restoration of services; and
4. Introduction of health-based targets

### **Taste, smell and appearance of drinking water**

Our challenge is the transition from a focus on providing safe drinking water every day forever, to a focus on providing water that tastes, smells and looks good. This was the highest priority in customer feedback received in compiling this plan. Our customers have told us that they would value improvements to the taste, smell and hardness of their water. Our deeper engagement explored customer attitudes to whether it should cost more to have good tasting water, and who should pay for good tasting water, and the specific elements of taste (e.g. chlorine, minerals, hardness) and their related impacts (reduced life of household assets).

We understand that the experience of taste, smell, appearance and hardness is not uniform across our supply systems, and that there is variation in customer perception within supply systems. Customers on groundwater supplies (e.g. Portland, Port Fairy, Heywood) would strongly value improvements for drinking and appliance use, with many expressing they resent spending money on bottled water or that they drink from their rainwater tank.

**Our customers had much to say about aspects of water quality such as taste, smell, appearance and hardness:**

*"Port Fairy drinking water tastes disgusting, and we can't use to it for drinking. Can this be improved? It's ridiculous" – Port Fairy*

*"Sometimes it tastes bad and has a muddy taste" – Warrnambool*

*"Good tasting water should be a right; every Wannon Water customer should have the same quality."*

*"The water quality is a critical issue for our town" - Penshurst*

Based on our engagement results, some 21% of customers are likely using private rainwater tanks as a source of drinking water across our serviced towns, rather than the safe potable supply delivered by Wannon Water.

The Australian Drinking Water Guidelines regard appearance, taste and odour as aesthetic parameters, stating a requirement that drinking water be safe to drink for people in most stages of normal life, that it should contain no harmful concentrations of chemicals or pathogenic microorganisms, and ideally it should be aesthetically pleasing in regard to appearance, taste and odour.

The guidelines also state, though, that the taste and odour of drinking water should not be offensive to most consumers, and that it is clearly unsatisfactory for a water corporation to be supplying water that is objectionable in taste and odour to consumers. We know from routine customer satisfaction surveys that around half the customers in our groundwater towns are not satisfied with the taste and odour of their potable supply.

## **Major customer demand uncertainty**

A high percentage (13%) of Wannon Water's revenue is for services provided to a very small number (7) of major customers. Those customers operate in highly competitive international markets (e.g. food and fibre, aluminium production, pharmaceuticals) and have historically displayed wide variations between predicted and actual demand for water and trade waste services.

Wannon Water has active and robust relationships with each of our major customers, and is basing the forecast capital improvements and changes in operating expenses on the predictions provided to us by this customer group and our analysis of trends in these industries. During engagement to inform the development of this plan, our major customers told us they value the level of service, technical support and expertise we provide them and that they have individual and complex needs. They also told us that they would value investment in sewage/trade waste treatment infrastructure, water quality improvements and easier entry processes for new businesses to promote regional prosperity.

We recognise that Portland Aluminium has no confirmed business path beyond 2021, that the dairy industry is in a period of significant change, and that Midfield International has ambitious plans for expansion. This provides significant challenges when forecasting demand for our services.

## **Delivering timely information about restoration of services**

Our customers value the speed of restoration of their services when there is an interruption and routinely report high levels of satisfaction with the time taken to restore their services. Customers have also told us that they would like additional contemporary options for interaction with us. We interpret this to mean we should continue to meet our historic maintenance performance levels, and there are opportunities for new channels of communication to inform customers when a service interruption is occurring and when it is restored. Our challenge is that if there are interruptions to the supply of our services, customers will receive timely information about the restoration of their service.

*In our Customer Value Survey 2017, 16% of customers indicated that their water supply had been interrupted in the last 12 months as a result of an issue beyond their property boundary.*

*Among these customers, 83% were satisfied with the way that Wannon Water dealt with the service interruptions over the 12 months.*

## **Introduction of health-based targets**

The fourth challenge area relates to increased regulatory standards, and the introduction of a health-based targets framework which will take effect during this Price Submission period. An analysis of our supply systems against this new framework indicates that most systems are already compliant, but some require further improvement. Specifically, the Otway system, which includes our largest city of Warrnambool, will require additional barriers to maintain the level of compliance we achieve against the current Safe Drinking Water Regulations.



## **Our initiatives and measurables:**

### **1. Provide drinking water that continues to meet high water quality standards**

Indicator	Measure(s)	Current Performance	2023 Target
Provision of safe drinking water	Mandatory notifications to customers of non-compliance with ADWG and Safe Drinking Water Regulations  <i>*Note this excludes regulated supplies</i>	No notifications	No notifications

Our priority and obligation remains to provide safe drinking water to our customers every day.

We will upgrade a number of our water treatment works and will continue to refine our maintenance programs during this period. This will have the benefit of improving the taste and smell of drinking water supplies.

We will invest \$7 million in capital improvement upgrades to our water treatment infrastructure during this period.

### **2. Provide customers with great tasting water**

Indicator	Measure(s)	Current Performance	2023 Target
Customer satisfaction with taste, smell, clarity and hardness of drinking water	Percentage of customers satisfied with water quality	88%*  <i>*Customer Value Survey 2017</i>	Improving trend

Our customers tell us that the taste of water in Portland, Port Fairy and Macarthur/Heywood is not satisfactory. Whilst it is safe, we recognise that taste is an important factor in customer acceptance of our product. It impacts their consumption, which has a link to their general health and wellbeing. It also has a significant impact on their willingness to pay and their perceived value of the service they receive.

During this pricing period we are committed to planning works that will improve the quality of drinking water for our customers. We will consult with communities and in partnerships develop investment plans which take into account both economic and social impacts. Additionally, we plan to scope and design infrastructure solutions. An amount totalling \$338,000 has been allocated in this Price Submission period for these initiatives.

### 3. Appropriately manage unplanned water supply interruptions

Indicator	Measure(s)	Current Performance	2023 Target
Customer satisfaction with management of water service interruptions	Percentage of customers who experienced water service interruptions that are satisfied with our management of the interruption	83%*  <small>*Customer Value Survey 2017</small>	83%

We have a great history of supplying fit-for-purpose water to our major industrial and manufacturing customers. We supply potable, non-potable and recycled water where practical and where this suits their business need. To ensure the reliability of customers' water supply we need to maintain, repair and replace assets.

We will continue to invest in new infrastructure required due to population and industrial growth. As well as our treatment and network assets, our operational systems and processes are supported by complex IT systems. These require ongoing maintenance and development to ensure that service is maintained at a reliable level into the future.

We plan to invest \$20 million in our water supply renewal programs during the period. Our focus on proactive maintenance of assets will minimise the frequency and duration of unplanned water supply interruptions. This requires ongoing improvements in maintenance planning and the completion of renewal works in a more efficient manner than previously undertaken.

The management of our water services can be measured by specific network performance indicators. From a customer's perspective however, we understand that our network performance is unlikely to impact a significant number of our customers. We propose to measure our performance based on a holistic management of interruptions indicator which takes into account not only frequency and duration, but communication and the manner in which rectification occurred. This is applicable for other customer satisfaction indicators in this Price Submission.

During the pricing period we will be implementing a contemporary customer communication program, introducing methods such as SMS and email alerts specifically for service outages, be they planned or unplanned. There are broader benefits that can be realised from this approach, including establishing new links to our customers for ongoing communication and consultation. The program will build on our recent work to establish a proactive social media presence, and will be a pilot for broader opportunities including online billing and access for developers.

#### Related GSL – see section 7.7

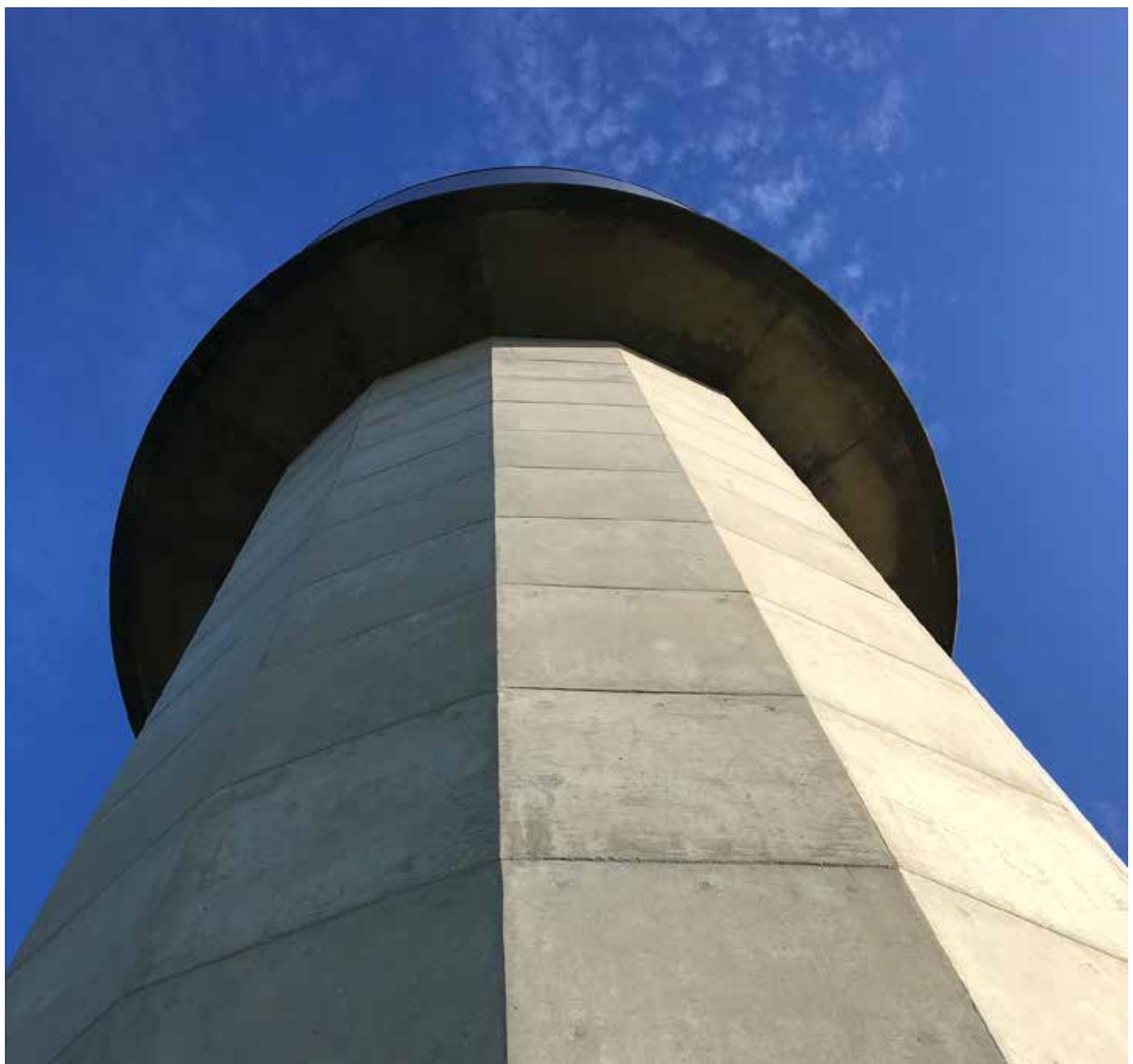
If there are more than two unplanned interruptions to the service supplying water to the customer's property in any 12-month period, the customer will be entitled to a GSL rebate of \$100.

Capital investment relating to this outcome totals \$52 million



**Projects relevant to the outcome that are among Wannon Water's top 10 capital projects:**

- Wangoom Road water tower and pump station - \$4.33 million
- Warrnambool Water Treatment Plant UV - \$2.78 million
- Wollaston Road water tower and pump station - \$2.55 million
- Hamilton Water Treatment Plant new clear water storage - \$1.33 million



## 7.2 PROVIDE SEWERAGE SERVICES THAT PROTECT PUBLIC HEALTH AND THE ENVIRONMENT

### We will protect public health and the environment:

Customers can expect that the sewerage service to their homes and businesses work reliably and efficiently. If there are interruptions to their service, they will receive timely information about restoration.

The provision of sewerage services to communities is founded in the protection of human and environmental health. Victoria's environmental protection legislation is directed at controlling pollution and ensuring Victoria has clean air, land and water. The *Environment Protection Act 1970* establishes a clear link between environmental health and human health and wellbeing.

Protection of public health and the environment is a responsibility shared by all levels of government and industry, business, communities and the people of Victoria. Wannon Water is a public health business and this is displayed in part through our commitment to protecting the environment and enhancing our environmental performance. Doing our part to ensure the ongoing health of the environment in south-west Victoria contributes directly to public health outcomes for those who live work learn and play in our region.

Wannon Water has provided for considerable ongoing investment in sewer pipe renewals and sewer maintenance programs over the past 10 years. This has helped ensure ongoing service reliability across our networks. The number of priority one spills (those that pose a public health concern or significant damage to the environment) is decreasing, and the number of blockages per 100 kilometres of sewer main and the number of spills within a customer's property were both below average for regional urban water corporations in 2015/16. Our customers have very few sewer spills in their properties – although we recognise that one is probably too many. We see an increasing trend of sewer blockages in our networks largely due to the intrusion of tree roots, and we know that this needs further attention but that it has not impacted on household services.

Wannon Water achieved 95.5% compliance with our EPA licence during 2015/16, which reflects the quality of our infrastructure and competence of our operational staff. We have also recently achieved beneficial modifications to our EPA licence for three sites which recognise the quality of the reclaimed water being achieved and which has enabled a significant reduction in capital expenditure for those sites.

Major customers are essential to the economic prosperity of our region, and we continue to provide high quality and affordable trade waste services to this critical customer group.

Delivering this level of performance is the result of continued appropriate investment in our people, systems and infrastructure to maintain, expand and improve our sewerage systems from collection to recycling. The results are consistent with customer expectations and the commitments we made in Water Plan 3.

**86% of customers surveyed said they were satisfied or very satisfied with Wannon Water's Price Submission proposals relating to quality water and sewerage services for now and the future**

Through the broad community engagement approach adopted to inform this Price Submission, our customers told us that they are satisfied with most of our existing approaches and service levels. Further, they told us that ensuring sewerage is restored quickly after an interruption is their second highest priority, and that they value Wannon Water working to protect the natural environment. We feel proud that our customers recognise our performance and the results we have achieved.

And, we know we can continue to improve.

Based on customer feedback and changes in our regulatory environment, Wannon Water has identified four key challenges for the period 2018-2023.

1. Industrial and residential growth;
2. Maintaining and replacing an ageing network of pipes and infrastructure;
3. Customer perceptions of the fixed cost of services; and
4. Delivering timely information about restoration of services.

### ***Industrial and residential growth***

The Warrnambool WRP is currently approaching its capacity. Through growth in both population and industry, the load on the plant is expected to significantly increase into the future. Our engagement to inform the development of proposals to expand the Warrnambool WRP revealed strong community acceptance of the planned upgrade. Our customers told us they trusted Wannon Water's proposed approach and our industrial customers and local government stakeholders welcomed the news. We recognise that availability and flexibility of sewerage (and water) services can increase investment in the region.

### ***Maintaining and replacing an ageing network of pipes and infrastructure***

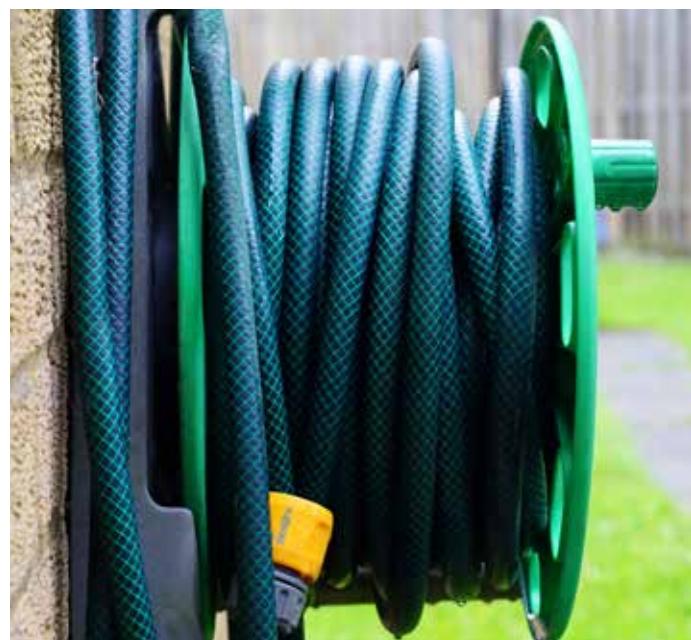
To ensure the reliability of customers' sewerage services we need to maintain, repair and replace assets. Our aim is to increase our proactive works so that our reactive works are not as frequent.

A large proportion of maintenance professionals' time is spent attending and rectifying bursts and leaks. Fundamentally, however, we recognise that the more time we spend on proactively maintaining our network of assets, as opposed to undertaking reactive work, the more efficient our service delivery will be in the long run. Our maintenance professionals' time has evolved, and will continue to evolve, from mostly reactive work to mostly proactive work.

We plan to invest \$15 million in our sewer network renewal programs during 2018-2023 and plan on investing \$2.25 million in continued proactive CCTV monitoring of assets to inform our renewals program and proactive sewer cleaning program into the future.

### ***Customer perceptions of the fixed cost of services***

During our engagement we found that customers had little awareness about what happens with their waste after it leaves their property. There is, however, an expectation that it is just taken care of and a widely held view that the fixed sewerage service charge is high. Therefore, a customer's lack of awareness is a challenge for us to overcome.



## **Delivering timely information about restoration of services**

When there are interruptions to the supply of our services, customers expect to receive timely information about the restoration of their service. Our customers told us that they value the speed of restoration of their services when there is an interruption and routinely report high levels of satisfaction with the time taken to restore their services. Customers have also told us that they would like additional contemporary options for interaction with us. We interpret this to mean that we should continue to meet our historic maintenance performance levels, and there are opportunities for new channels of communication to inform customers when a service interruption is occurring, and to let them know when it is restored.

### **Our initiatives and measurables:**

#### **1. Maintain the reliability our network of sewer pipes and infrastructure**

Indicator	Measure(s)	Current Performance	2023 Target
Customer satisfaction with management of sewer spills	Percentage of customers who experienced sewer spills on or within their property are satisfied with our management of the spill	NA*  <small>* Not currently measured</small>	Improving trend

The upgrade and expansion of capacity at Warrnambool's WRP will enable forecast residential and industrial growth to occur. This is our largest ever capital investment. Construction is expected to begin in 2019 and is expected to be completed in 2021.

We will continue to invest in new infrastructure required due to population and industrial growth. As well as our treatment and network assets, our operational systems and processes are supported by complex IT and logistical systems. These require ongoing maintenance and development to ensure that service is maintained at a reliable level into the future.

Wannon Water's established community education program and communications activities will continue to provide informative and accessible educational material to customers across the service region, consistent with our Statement of Obligations and Community Strategy. Our extensive engagement for this Price Submission told us there is low customer awareness of the extent of the sewerage services they receive for the money they pay. It also showed there is an appetite from customers to learn more about the fundamental nature of our core services, so an opportunity exists to increase our customers' sense of value in the services they receive by increasing their understanding of what we provide. In fact, the engagement process itself was successful, in part, in further educating those we engaged with.

Over the Price Submission period we will increase our focus on telling this story more broadly through an Education Plan, Communications Plan and ongoing engagement activities. This will involve partnering with other agencies on education, reshaping the way we communicate to highlight the benefits of the services we provide our customers, and expanding our suite of communication tools, particularly through digital engagement, to expand our reach to a broader audience.

### **Related GSL – see section 7.7**

Subject to exclusions (see page 52) if there is a sewerage spill in a customer's house the customer will be entitled to a GSL rebate of \$500.

Subject to the exclusions (see page 52), if there is a sewerage spill on a customer's property the customer will be entitled to a GSL rebate of \$100.

Capital investment relating to this outcome totals \$76 million



#### **Projects relevant to the outcome that are among Wannon Water's top 10 capital projects:**

- Warrnambool Water Reclamation Plant augmentation project - \$37.98 million
- New biosolids drying area in Hamilton - \$3.49 million
- Refurbish Camperdown biosolids facility - \$2.8 million
- Hamilton Water Reclamation Plant effluent reuse upgrade - \$1.53 million



## 7.3 ENSURE THE LONG-TERM RESILIENCE OF OUR SERVICES

**We will plan for the long term to deliver secure, sufficient and resilient water services for the region:**

**Customers can expect us to take into account climate change, their expectations regarding water availability and the needs of future generations.**

Past investments in water supply networks and vigilant management of water resources have meant our customers have not faced water restrictions since the Millennium Drought. For customers in the southern part of our service region, the period without restrictions has been even longer than this.

Significant investments in infrastructure have secured water supplies for towns in the northern part of our service region. The pipeline from Rocklands Reservoir enables water transfers for Hamilton and district, as does the pipeline connecting Casterton, Coleraine, Merino and Sandford to the Tullich borefield.

Whilst water supplies are plentiful in south-west Victoria – water restrictions for all customers haven't been required since 2001 – sustainable management principles are a key focus of our Urban Water Strategy. The streams and aquifers which underpin the south-west's water supply also sustain natural systems which are vital to the liveability of our region. These natural systems will also experience the stresses of climate change.

Our Urban Water Strategy does not foresee any major investment in water supply infrastructure as our projections indicate sufficient supplies of water for the demand expected. The strategy outlines a number of initiatives supported by our customers, including a willingness to pay for measures that promote water savings in the home. Our customers also told us that they support the use of innovative water sources (roof water harvesting, stormwater harvesting and reuse, rebates for efficient appliances, education programs, etc.) for water security.

Wannon Water has an asset base of \$775 million, and managing and replacing these into the future is essential for Wannon Water to continue to provide resilient water services.

Wannon Water has undertaken robust asset renewal planning and has identified a capital asset replacement budget to ensure our assets continue to maintain the levels of service our customers are satisfied with.

Based on customer feedback and analysis of future supply and demand, Wannon Water has identified three key challenges for 2018-2023:

1. Ensure appropriate water supply for customers/community:
  - a. Glenthompson System supply;
  - b. Connecting rural primary producers for supply in times of water shortages;
  - c. Integrated Water Management Plans.
2. Industry expansion/new entrants and population dynamics
3. Resilience in changing and uncertain times.



## **Glenthompson System supply**

The security of supply for Glenthompson is dependent on the access arrangements to the 58-megalitre Bulk Entitlement in Grampians Wimmera Mallee Water's Willaura system and to water from the borefield that provides additional security to this system. The capacity of this gravity system is limited and, consequently, supply is limited.

## **Connecting rural primary producers for supply in times of water shortages**

Typically in south-west Victoria, dairy and livestock production has largely relied on regular and consistent rainfall for pasture growth, and rainfall runoff to provide flows in rivers and replenish groundwater reserves. River and shallow groundwater extractions are used by primary producers for stock watering, dairy processing and for a limited amount of pasture irrigation. As the climate dries, the security of these systems will decrease. As seen during the dry 2016 spring/summer period, primary producers look to Wannon Water to provide additional water supplies during times of shortage. Currently, there is little to no infrastructure to cater for these supplies.

## **Integrated Water Management (IWM) Plans**

Better IWM planning would be achieved through all agencies responsible for the management of the urban water cycle having a commitment to collaboration, a vision for shared outcomes, and using shared data to work positively together to implement integrated solutions.

This can be achieved through IWM Forums – arranged by the state government – which will bring together water corporations, local government and catchment management authorities, as well as planning authorities, traditional owners and other relevant entities.

These forums will identify the opportunities in which to use an IWM approach, and coordinate their investigation and development into IWM plans. Examples of opportunities are expected to include growth area servicing, urban renewal projects, infrastructure renewals and urban greening projects.

The forums will also strengthen connections between state, regional and local planning.

Wannon Water will be an active member of these forums and work with local governments and others in our region to develop IWM plans.

## **Industry expansion/new entrants and population dynamics**

Due to high international demand for Australian dairy, the potential for expansion of the dairy industry processing within Wannon Water's region is significant. The potential increases in trade waste loads is also significant, and can propose great challenges in our regional areas, where the existing WRPs have relative low capacities and generally require substantial capital investment to cater for the growth in industrial demand.

A steady increase in population is occurring (and is expected to continue) in Warrnambool. Coupled with potential growth in the dairy and meat production sector, expansion of Warrnambool's WRP is required, as mentioned earlier.

In smaller communities, declining populations present the opposite challenge for managing assets. The expectation is that services should continue to be provided to serviced communities. Infrastructure is rarely scalable downwards, so maintaining existing infrastructure is usually the only option. Whilst not cost effective, this is subsidised by the larger communities.

South-west Victoria is a focal point for international, interstate and intrastate tourists, resulting in a significant increase in the number of people using Wannon Water's services who are not 'paying' customers. In some instances, such as peak seasons or key events, treatment plants are required to take two to three times the load they normally would. This provides challenges for both treatment and resourcing.

## **Resilience in changing and uncertain times**

We understand that as an essential service provider, our community expects continuity of water and sewer services.

Climate change brings not only the challenge of mitigation by reducing emissions, but also the challenge of adaptation. Forecasts of more frequent extreme events, reductions in streamflow, and migration of communities and business to areas less impacted all need consideration. Wannon Water's Urban Water Strategy provides the overall planning framework to inform our business of these implications.

The potential impacts of emergency situations (floods, bushfires, energy and telecommunication outages) are also at the forefront of our planning. Service interruptions from adverse weather conditions, emergencies or telecommunication outages have been experienced in recent years. Whilst it is not feasible to plan for all eventualities of these type of events, Wannon Water has in place robust management plans for events that are more likely to occur, including more extreme weather events and security of supplies, systems and data. These plans help us prepare, respond and recover in a structured approach to all manner of circumstances. This approach assists in maintaining or restoring services in a timely way and providing the community with confidence in our organisation.

### **Our initiatives and measurables:**

#### **1. Ensure appropriate water supply for customers / community**

Indicator	Measure(s)	Current Performance	2023 Target
Demonstrate clear, efficient and consistent asset management work processes	Asset Management Customer Value benchmarking result	In top quartile of benchmark group	Maintain top quartile ranking within benchmark group

Wannon Water is committed to becoming a more sustainable business to ensure we continue to deliver great value to our community. During this Price Submission period we will continue our efforts to implement asset management processes and practices that support continual improvements across all our operations.

Through developing, maintaining and applying our asset management systems, we will achieve the following:

- condition assessment and inspection of assets to provide an understanding of their condition and performance;
- more proactive maintenance and less reactive maintenance;
- long-term reductions in service delivery costs, while maintaining, and where appropriate, improving levels of service;
- better capture and retention of asset knowledge, easy access to this information and increasing use of reliable data for robust decision making;
- significant improvements in planning asset-related activities and reductions in unplanned asset-related events/situations; and
- a workforce that is proactive, knowledgeable, skilled and expert in delivering sustainable asset management outcomes.

## 2. Managing supply and demand

Indicator	Measure(s)	Current Performance	2023 Target
Our customers experience no water restrictions	Number of towns placed on water restrictions in a year	Nil	Nil

Our Urban Water Strategy highlights that our supply / demand balance is forecast to remain positive during this Price Submission period, meaning there is no new investment required in new raw water sources.

We will undertake works totalling \$280,000 to provide a more secure supply for Glenthompson. The installation of booster pumping will double the delivery capacity of water for Glenthompson, allowing for better access to the current 58-megalitre bulk entitlement in Grampians Wimmera Mallee Water's Willaura system.

*More than 60% of customers who responded to our December 2016 survey believed that water restrictions every 20 or so years was "about right"*

The groundwater production bore at the Port Campbell WTP provides potable water for Port Campbell, Peterborough and Timboon. This water supply system is a stand-alone system and is not connected to any other Wannon Water supply system.

The bore was installed in 1997 and is at least half way through its expected operational life. In addition, there is no standby bore available in the case there is a sudden bore failure or other infrastructure issues.

Wannon Water has identified the installation of a second bore as a priority to provide redundancy and improve security of supply for this important tourism area by staggering when the bores will be due for renewal. These works will occur during this Price Submission period.

Our Urban Water Strategy outlines a program of targeted actions that will positively impact water extractions, supply and demand, such as:

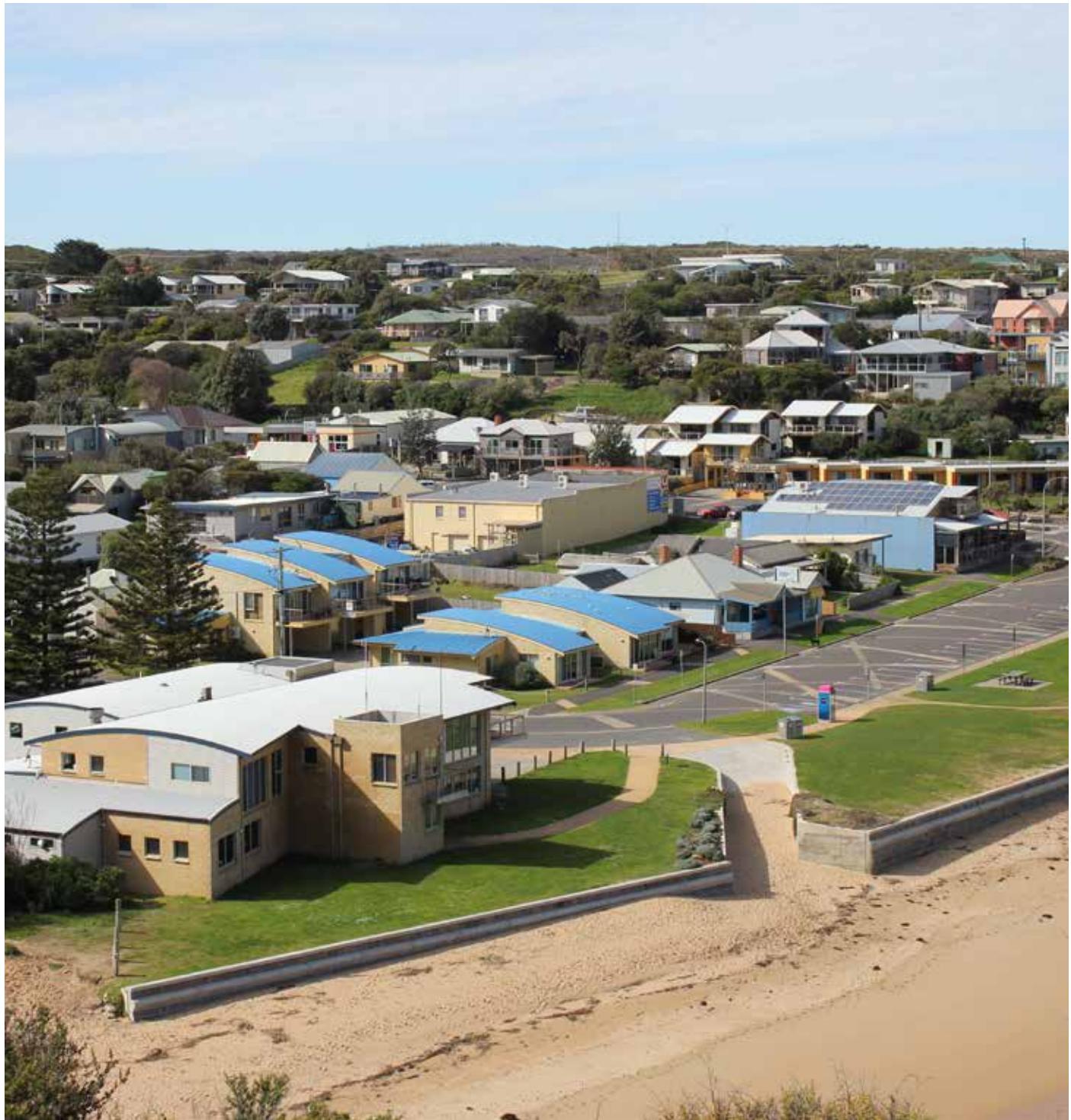
- exploring options to reduce the summer flow stress on the Gellibrand River, which will ensure that natural systems are not deprived by urban water extractions;
- decreasing water use, including the *Target Your Water Use* campaign, assisting in achieving our supply / demand balance;
- identifying and fixing water leaks to ensure we are supplying as much of the water that we extract and treat to our customers as possible; and
- increasing water harvested from the Russells Creek growth corridor, which provides 100% of the water needs for residents in the growth corridor while not adding to catchment flood risk, thus providing significant community benefit.

Capital investment relating to this outcome totals \$5 million



**Project relevant to the outcome that is among Wannon Water's top 10 capital projects:**

- Second bore at Port Campbell - \$1.94 million



## 7.4 BE RESPONSIVE AND WILLING TO ADAPT AS THEIR NEEDS CHANGE

### We will listen and act on customer requests, queries or suggestions in a genuine way.

Customers can expect us to continually provide opportunities for them to tell us what they want from our services. They can expect that we will keep the existing modes of customer communication, but also expand the ways they can interact with us to be more contemporary.

Wannon Water exists to serve its customers and community. Changing and adapting to what our customers value is critical to ensure we are delivering upon our reason for being.

Embedding genuine and ongoing customer engagement that demonstrates this customer-centric approach and responding to the key issues for customers are vital in ensuring we are responsive and willing to adapt as needs change.

During this price submission engagement, a theme we heard from customers was that they like our existing customer service modes. However, they also have interest in Wannon Water providing them access to more contemporary customer service options.

Wannon Water has performed well in the areas of customers service, such as phone calls and face-to-face. In recent times, Wannon Water has been making improvements to the way we do business. We have added email billing, online smart forms, conducted extensive community engagement for major capital works projects, introduced social media and undertaken extensive engagement in developing this Price Submission.

Amongst Victorian water businesses, we have consistently ranked highly for phone response times and call centre performance. In the ESC's 2015/16 Water Performance Report, Wannon Water was identified as providing the third best call centre performance. Along with Yarra Valley Water, Wannon Water displayed the best agent manner. Also, Customer Service Benchmarking Australia has consistently ranked Wannon Water in the top three water businesses for call centre performance.

***85% of customers surveyed said they were satisfied or very satisfied with Wannon Water's Price Submission proposals relating to being open and responsive to deal with.***

Each day many transactions are completed between customers and Wannon Water. These include routine tasks such as issuing a bill and receiving a payment through to the more complex transactions such as entering into water supply agreements and provision of new water and sewerage infrastructure for new developments. For these contacts, we currently offer traditional customer service interfaces, i.e. face-to-face, phone, email and some internet e-forms. Other water businesses and utilities provide extended services to customers such as online portals, online chat facilities, e-forms and via social media. Recent engagement conducted with our customers indicates that they would appreciate a similar level of service, whilst also retaining the existing customer service options. Customers have also indicated interest in more communication with them when there is an unplanned service interruption.

Wannon Water is committed to pursuing these contemporary customer service options. It is also important to note that some of these new options may also deliver additional efficiencies for the business, thereby further magnifying the customer value.

Whilst we will deliver on these identified improvements during this pricing period, being committed to adapt as customers' needs change requires a dynamic system of two-way interaction

between customers and Wannon Water. Fostering genuine processes of working with customers to build capacity, strengthen relationships and inform decisions within our business will allow for this to occur. Robust community and customer engagement, coupled with proactive attention to incorporating customer feedback into our continuous improvement planning, will provide the platform for ensuring our business can continually adapt to what customers value. This will thereby guarantee the delivery of our primary role: to serve our customers and community.

Based on customer feedback, Wannon Water has identified three key challenges for the period 2018-2023:

1. Balancing customer expectations;
2. Engagement with all subsections of our customer base; and
3. Improving customer service.

### **Balancing customer expectations**

A key challenge for Wannon Water is to implement contemporary customer services that meet the changing needs and expectations of a broad customer demographic, whilst maintaining the high level of service provided through our existing modes of interaction.

Customer expectations invariably rise based on experiences they have with other service providers. As an essential service provider, the need to have cutting edge technology to interact with our customer base is lower than those competing for market share. Customers' expectations nevertheless are that when they need to contact us, they expect to be able to do so in a way that best suits them. In short, we need to keep pace with communication technology trends.

Any changes must be implemented in such a way that allows Wannon Water to adapt easily to changing customer needs, changes in technology and changes implemented by other water businesses and utilities. Further, changes implemented must ensure that Wannon Water is well positioned for the next five to 10 years, not just the immediate future.

*"Whenever Wannon Water put a survey or engagement out they are really interested - it's true and real" - Deliberative Forum representative*

### **Engagement with all subsections of our customer base**

Engagement during this Price Submission has been comprehensive. However, engaging our younger customers proved to be challenging. For the 2016 Customer Survey, 79% of all respondents were aged 50 years or older – similar to the 2015 survey. For the 2017 Customer Value Questionnaire, we tried to address this imbalance, but still only received 13% of responses from customers aged 18 to 34. Overall, 52% of responses were from customers aged 60 years or older. We would expect the majority of residential homeowners would be 35 years or older. However, we believe a large segment of our customer base is in the 18 to 34 age bracket.

It will continue to be a challenge to garner meaningful feedback from all subsections of our customer base. Telling our story in an interesting way and ensuring we show that we have acted on feedback will assist in the uptake of opportunities to provide feedback.

### **Improving customer service**

Our customers experience high standards of traditional customer service and have told us that they value these methods of communication, especially for those vulnerable customers experiencing financial hardship.

Customers told us that they appreciated the interaction they had with us in developing this Price Submission. Our challenge is to improve on this base level of communication and engagement and to ensure that feedback results in meaningful changes within our business that subsequently improve customer service.

## **Our initiatives and measurables:**

### **1. Performance Stewardship**

Indicator	Measure(s)	Current Performance	2023 Target
There is ongoing engagement with our customers and community to build capacity, strengthen relationships and which informs continuous improvement of our services	Number of instances of two-way engagement	Varies year on year	At least 500 instances of two-way engagement per annum

Our customers told us overwhelmingly that they valued the opportunity to engage with us in an open way about planning for the next five years. New, smarter methods of interaction would facilitate and expand on this in the future. Major customers and developers told us in the deeper engagement round that they would value regular forums with Wannon Water.

We will ensure an ongoing program of engaging with all of our customer types and ensuring their feedback informs decision-making and continuous improvement activities in the business.

### **2. Develop and enhance our online engagement**

Indicator	Measure(s)	Current Performance	2023 Target
Our customers are transacting with us using an online portal	Number of customers using online portal	NA	Improving trend

In line with feedback received, we are committed to pursuing contemporary customer service options during this Price Submission period. We will continue to develop and enhance our online and digital engagement with customers each year.

We will increase our presence on social media, providing us with an opportunity to improve our customers' experience on a channel they are familiar with and using every day.

**Capital investment relating to this outcome totals \$0.8 million**



#### **Capital project relevant to this outcome:**

- Contemporary Customer Service - \$862,949

## 7.5 PROTECT AND ENHANCE THE ENVIRONMENT IN LINE WITH COMMUNITY EXPECTATIONS

### We will take opportunities to protect and improve the environment:

Customers can expect us to do this in line with government and community expectations and with future generations in mind.

Protecting the environment is a responsibility shared by all levels of government and industry, business, communities and the people of Victoria.

Wannon Water recognises our obligations outlined in the Sustainable Management Principles for Water Corporations under section 93 of the Water Act 1989 and the principles of environmental protection under sections 1B to 1L of the *Environmental Protection Act 1970*. Our Policy framework demonstrates that we are also committed to going beyond compliance to take a leadership role in environmental protection and improvement in our region.

We have a strong record of delivery in protecting and improving the environment. Our extraction of water from the environment has been managed within well-considered 50-year plans that have balanced supply and demand, and we operate within regulatory and licensing requirements set up to ensure the water sources used to supply our growing customer base are sustainable. We have undertaken the necessary capital works to ensure that environmental flow obligations in the Grampians are being met consistently; completed a detailed risk assessment for the Dilwyn Aquifer, which supplies groundwater for a significant customer base, including Portland Aluminum; and are currently an active partner in the Gellibrand Summer Flows Improvement Project, which aims to improve the ecological health of this river system.

The way we proactively maintain sewerage reticulation assets, treat sewage and trade waste, and use and return recycled water to the environment responsibly provides our customers with an environmentally sustainable method of dealing with their waste. In turn, this enables the economic prosperity of our region without compromising its environmental character. Our relationships with major industries

enables us to plan for their future needs, and our trade waste policy and pricing principles are designed to protect the environment and encourage waste minimisation, cleaner production, pre-treatment of higher strength trade waste and sustainable business practices.

We have invested heavily in capital, management systems and the capability of our employees to improve the performance and capacity of our water reclamation plants, and the prevention of pollution is a key element of our certified Environmental Management System. We have begun providing services to Parks Victoria to improve the environmental performance of the sewage treatment plant at the 12 Apostles Visitors Centre, and are helping to identify an environmentally sustainable, long-term solution to support the Shipwreck Coast Master Plan, which will provide significant regional and state economic benefit.

Beyond the environmental considerations implicit in these traditional core services, Wannon Water has also been proactive in enhancing the health of natural capital (water, biodiversity, soil and air) within our region. We have partnered with our regional catchment management authorities to deliver mutually beneficial outcomes in landscape and catchment protection, and have co-invested in enhancing the condition and extent of biodiversity on sites under our management control. We recognise that our customers consider that these activities deliver multiple benefits, and our investment has been more than 50% externally funded to deliver affordable outcomes.

We have worked actively to reduce the pollution that we generate as a business, and have received certification for our initiatives in this area. We know that reducing waste also increases business efficiency,

which helps us to further improve affordability for our customers.

We have worked actively for a decade to reduce our carbon emissions, achieving a 19% reduction in annual greenhouse gas emissions compared to our initial 2006/07 base year. We have shown leadership by committing to build innovative and cost effective renewable energy projects, such as the wind turbine at Portland and recently installed solar energy projects at Hamilton and Warrnambool. In addition to our own emissions reductions we also generated and sold Australian Carbon Credit Units from our Victorian Carbon Sequestration project in June 2014. This ongoing project will contribute to our recent commitment to further reduce our greenhouse gas emissions by no less than 40% by 2025 compared to our 2011-2016 baseline, in line with the new Statement of Obligations (Emission Reduction) implemented to support the Victorian Government's aspirations to be carbon neutral by 2050. By taking greater action now to reduce our emissions we can help smooth our transition to a low carbon future and reduce the long term costs of meeting our emission reduction targets.

**73% of customers surveyed said they were satisfied or very satisfied with Wannon Water's Price Submission proposals relating to doing more for the environment**

Through our engagement for this Price Submission, our customers told us they value Wannon Water working to protect the natural environment. Further, when we asked our customers to comment on our proposed commitment to reducing greenhouse gas emissions, 21% said that achieving carbon neutrality by 2050 should be one of our highest priorities and 55% said to prioritise it to a degree that is consistent with meeting the 2050 target.

We feel proud that our customers recognise our performance, the results we have achieved and support the leadership position we are taking on the environment for current and future generations.

We have identified three key challenges in protecting and improving the environment in line with government and community expectations and with future generations in mind. These are:

1. Environmentally responsible service provision;
2. Progressing carbon neutrality without impacting affordability; and
3. Building commercially responsible strategic partnerships to improve the environment.

***Environmentally responsible service provision***

This challenge overlaps with the provision of safe and reliable water supplies (8.1), providing sewerage services that protect public health and the environment (8.2) and planning for the long term to deliver secure, sufficient and resilient water services (8.3), specifically in planning and implementing appropriate infrastructure to support customer demand whilst enhancing the health of natural capital within our region.

The commercial challenge is to balance the current cost of spare capacity in water and sewerage systems with the availability of that capacity to be able to respond in a timely way for major customers wishing to secure new market opportunities. Wannon Water needs to provide environmentally responsible solutions for industry to meet our regulatory obligations and policy commitments whilst protecting the sustainability credentials for the products our customers sell, primarily to export markets.

***88% of customers surveyed in our 2017 Customer Value Survey said Wannon Water's role in the region includes caring for the natural environment.***

***"As a leader, the community look to Wannon Water. Keep up the good work, seeking new and improved ways to continue this leadership."***

Infrastructure planning for water supplies has been informed by our Urban Water Strategy, which incorporated future demand forecasts from our major customers, and a sensitivity analysis to allow for unexpected divergence in demand or new entrants to our region. For trade waste services, we have committed funds to expand the Warrnambool WRP to directly support significant growth in the dairy and meat processing sector, along with forecast residential growth.

With respect to environmentally responsible water extraction, we rely on a healthy Gellibrand River to supply water to customers in the eastern section of our service area. By managing demand effectively, and using groundwater and harvested roof water over the past decade, we have reduced extractions from the Gellibrand River and helped maintain natural system diversity. Continuing to focus on water use efficiency and use of alternate water sources will minimise the impact of extractions from the river.

Wannon Water is coordinating an investigation into using groundwater as a substitute to extracting water from the Gellibrand River during summer low flow periods. This investigation, identified in the Western Region Sustainable Water Strategy, involves partnering with Corangamite Catchment Management Authority, Southern Rural Water and DELWP to achieve a good environmental outcome for the river and estuary. Wannon Water will continue to work with these stakeholders to determine the best substitution option for reducing extractions over the summer low flow period and assist in its implementation.

## **Progressing carbon neutrality without impacting affordability**

Our long-term objective is to achieve zero net greenhouse gas emissions before 2050, and we are committed to reducing our emissions by no less than 40% by 2025 compared to our 2011-2016 baseline.

We have heard from our customers that they support our commitment and that they would like to see us achieve this at minimal cost impact to them.

## **Building commercially responsible strategic partnerships to improve the environment**

Wannon Water understands there are multiple benefits to be derived from ongoing investment in catchment and landscape protection work and enhancing the natural capital in our region. For example, strategic investment in nutrient management, fencing and revegetation within the Gellibrand River catchment will help deliver better water quality for our customers and downstream stakeholders, enhance biodiversity and contribute to on-farm efficiencies. We recognise that, whilst our customers value Wannon Water working to protect the natural environment, where there are multiple beneficiaries then there is a strong case for shared investment. We also recognise that the capacity and capability to deliver these outcomes may reside beyond Wannon Water and within other organisations in our region.

We have made provision for an ongoing investment partnership through our regional catchment management authorities of \$40,000 per annum. These relationships have provided significant leverage of our historical investments and have demonstrated the ability to deliver activities at a scale that make a tangible difference. We are also planning for an ongoing community partnerships fund that will include support for community scale activities that enhance the natural environment as one of the themes that Wannon Water has identified as being most important to the region we service.

**61% of customers surveyed in our 2017 Customer Value Survey said Wannon Water's role in the region includes reducing carbon emissions.**

**"Meet the carbon neutrality by 2050, but not at a significant cost to the water purchaser."**

**"All very nice to be carbon neutral but all good things come at a cost [2050 I won't be here]."**

**"Must be cost effective, not just "feel good". Taxpayers already contribute a huge amount to carbon neutral projects."**

**"Prioritise carbon neutrality to meet 2050 target but NOT charge customers for doing so."**

## **Our initiatives and measurables:**

### **1. Environmentally responsible service provision**

Indicator	Measure(s)	Current Performance	2023 Target
Our Environmental Management System is effective	Managing our impacts on the environment in line with broad community expectations	95.5% compliance with Amalgamated EPA Licence	100% compliance with Amalgamated EPA Licence
Our water extractions are sustainable	Managing our water extractions in line with broad community expectations	Compliance with bulk entitlement and groundwater licences in line with community expectations	Compliance with bulk entitlement and groundwater licences in line with community expectations

Wannon Water will continue to work with Corangamite Catchment Management Authority, Southern Rural Water and DELWP to determine the best substitution option for reducing extractions from the Gellibrand River over the summer low flow period and assist in its implementation. We have committed \$1.8 million to implement findings from this project in this Price Submission period. We will also undertake a number of Urban Water Strategy actions relating to environmentally responsible water demand and supply. These include proactive communication, educating and promoting water efficiency behavior and working in partnership to identify opportunities for water saving with the five local government bodies.

### **2. Move towards carbon neutrality by 2050, reducing our greenhouse gas emissions by 40% by 2025.**

Indicator	Measure(s)	Current Performance	2023 Target
Reduce Scope 1 and 2 Greenhouse Gas Emissions by 40% by 2025.	Percentage emissions reduction compared to baseline	8.8%	24.5%

Wannon Water is committed to a 40% reduction without impacting customer affordability. Our objective is that our initiatives do not increase tariffs during the 2018-2023 pricing period. We believe this honours the strong feedback from customers to take action whilst recognising that some customers strongly believe this should not impact on pricing.

We have developed a detailed Carbon Neutrality Action Plan, which focusses our effort using a Carbon Neutrality Prioritisation Framework. The initiatives have been costed and included in our submission. They will support our community's transition to a low-carbon economy while delivering multiple benefits to our region. Undertaking accelerated action to reduce our emissions can help smooth our transition to a low carbon future and reduce the long-term costs of meeting our emission reduction targets. Consistent with our vision of going beyond water for stronger communities, Wannon Water will use the changes we make to enhance our community's capabilities, strengthen regional energy resilience and provide new job opportunities.

We will invest \$2.1 million in initiatives that will reduce our carbon emissions. This investment will save \$1.2 million in operating costs. The impact on customer bills is 15 cents per annum. We believe this reflects customer feedback to not impact customer bills significantly to achieve carbon neutrality.

Beyond 2023, if required, we will commit to transition enough grid-supplied electricity to renewable sources to ensure we deliver on our overall pledge. The ClimateWorks analysis commissioned by DELWP to support the development of pledges by water corporations demonstrates that the marginal cost of renewable sources will be readily affordable at that time.

**Capital investment relating to this outcome totals \$5.4 million**



**Project relevant to the outcome that is among Wannon Water's top 10 capital projects:**

- Substitution works to improve summer flows in the Gellibrand - \$1.85 million

**Other relevant capital projects/programs relevant to this outcome:**

- Carbon Reduction Program - \$2.11 million
- Warrnambool roof water harvesting trunk mains and detention tanks - \$518,000



## 7.6 PARTNER WITH THEIR COMMUNITIES AND HELPING OUR REGION FLOURISH

**We will influence outcomes that benefit regional prosperity – the economy, people and quality of life in the region:**

**Customers can rely on us to use our capabilities responsibly and establish strategic partnerships to improve outcomes for their communities.**

Wannon Water is a major employer in south-west Victoria, employing just over 200 employees, including engineers, scientists, maintenance, operations, finance, environmental and administrative professionals.

As a provider of an essential public service, we have always had an implicit social role, which includes enhancing the growth and prosperity within our region. The services we provide are integral to all aspects of life in our region. We are part of the rich social and economic fabric that form the diverse communities within our service area. We recognise and embrace this.

Our region is important to the Victorian economy. We provide services to some of the most important groups in our communities, including households, schools, hospitals and business. The agriculture, forestry, education, manufacturing, tourism and healthcare sectors together contribute more than \$5 billion in gross regional product each year.

Tourism alone attracts around \$1.9 billion in regional visitor expenditure – the highest tourist visitation and income generation rates of any region in the state in dollar value, attracting more than five million people each year (2014 figures).

Our customers and employees live in south-west Victoria and make up the myriad of communities that exist in the region. Therefore, we believe that building stronger communities is inextricably linked with building value for our customers.

We can contribute to positive change through continuing to understand the needs of our communities.

Working within our organisation and in partnership with others we will seek to deliver outcomes that improve regional prosperity, education, training and volunteering, health and wellbeing and the natural environment. Underpinning all of these areas, however, is the role we can play in building the capacity of our communities and contributing to regional leadership, advocacy and strategy.

We believe we have a leadership and advocacy role to support our region. Our approach to regional prosperity and partnerships is built on our core capabilities and our expertise in water management and service provision. To be effective our approach must be aligned to corporate as well as community objectives.

**83% of customers surveyed said they were satisfied or very satisfied with Wannon Water's Price Submission proposals relating to strengthening communities.**

Wannon Water has a history of working with its communities in partnership. However, since the Board introduced a new vision for the business – ‘beyond water for strong communities’ – in 2016, there has been a sharper focus on developing strategic partnerships in areas that will create shared value for our regional communities. Importantly, this new vision was driven by, and continues to be supported through, extensive engagement with customers and sister organisations with our service region.

Importantly, this new approach is not about allocating additional revenue for reactive community support.

It is about facilitating a new community orientation for our organisation, fostering greater understanding of our customers' and region's needs, and translating this new understanding to align our capabilities so we can contribute to improved outcomes for communities, customers and individuals in our service region.

Whilst they vary enormously in impact, scope and maturity, in the past 18 months we have commenced multiple community partnership initiatives for our service region. Some examples of these partnerships are listed below.

Theme:	Examples of community strengthening initiatives commenced in 2016/17:
<b>Regional Prosperity</b>	<input type="checkbox"/> Partnering to implement the Great South Coast Food and Fibre Strategy.
<b>Education, training and volunteering</b>	<input type="checkbox"/> Participating in the Great South Coast Beyond the Bell initiative, aiming to improve the low rates of year 12 or equivalent attainment in the region.
<b>Health and wellbeing</b>	<input type="checkbox"/> Delivering great tasting water at Portland District Health to support removal of sugary drinks. <input type="checkbox"/> Providing increased public access to drinking fountains to support the Gener8 Change program fighting childhood obesity.
<b>Natural environment</b>	<input type="checkbox"/> Commencing a project to make our land available for community use. <input type="checkbox"/> Working with the catchment management authorities on partnership opportunities for catchment health.

We have also undertaken extensive engagement in our region (see chapter 6 on Engagement), commissioned research on the 'state of the region', led the development of numerous innovative projects relating to water and sewerage services (i.e. feasibility study on new measures of drugs and alcohol through wastewater monitoring, implementation of great tasting water at Portland District Health, provision of fire plug maintenance and supported chlorine management for some of our regional sister organisations, stock water security investigation in Corangamite) and implemented a new strategic approach for communications and community education about our services.

Yet we see that this work has only just commenced. The more we engage and understand our customers and our region, the more opportunities we see to support and work with our communities sensibly and strategically to improve the value our customers get from Wannon Water.

The most challenging and 'wicked' social problems of

*88% of customers surveyed in the 2017 Customer Value Survey said Wannon Water has a role to play in engaging with the community to understand community needs.*

*There was strong support for Wannon Water to play a role in community initiatives as well as providing water and sewerage services, including:*

- *Providing public access to drinking water (90%)*
- *Engaging with the community to understand community needs (88%)*
- *Educating the community of water-related matters (88%)*
- *Helping the region's economy to thrive (75%)*
- *Subsidising water for greening public spaces and sports grounds (75%)*
- *Supporting individuals in the region to have healthy lives (67%)*

7 Rittel W.J. & Weber M.M "Dilemmas in a general theory of planning" Policy Sciences 4 (1973), 155-169

our century require long-term ‘whole of community’ effort to positively bring about change. Complex problems require complex solutions, with each individual, organisation and sector all doing their part in service of the same goal – either individually, or in partnership with others.

However, measuring change in relation to wicked problems is not conventional. For example, a positive shift in a social issue may have been brought about only though a myriad of separate interventions and by multiple organisations. Our customers recognised this and suggested we shouldn’t be left to make change alone and that partnering with other organisations is advised. Additionally, change in this space is usually not evident in the short term and requires a medium to long-term outlook. Despite the challenges this presents, Wannon Water is committed to playing its part in this landscape of collective impact.

Our customers have told us that they value our support of local communities and think we should do more. Around 90% of our customers surveyed think it is important Wannon Water is an active part of its communities, but many perceive us as being less active in their communities than they would like us to be. However, customers said there still should be a ‘reasonable limit’ on the amount we spend on this.

Informed through extensive engagement with our communities, consideration of the available evidence and Wannon Water’s capabilities, the following diagram provides direction for Wannon Water’s community focus from 2018-2023:

Community Strategy Themes				
STATE OF THE REGION	Regional prosperity	Education, training and volunteering	Health and wellbeing	Natural environment
	Employment creation and employment pathways	Apprenticeships and traineeships pathways	Regional infrastructure	Integrated land and asset planning and management
	Food and fibre futures	Regional education provision and curriculum	Liveability and wellbeing	Water and waste management solutions
	Productivity and a growing economy	Community capacity building	Social policy and responsibility	Climate change resilience
	Investment attraction	Regional water industry skills	Co-ordination and planning	Aboriginal partnerships and cultural heritage
	Research and development	Innovation and technology	Public health and water	Management of biodiversity
<b>LEADERSHIP. ADVOCACY. PARTNERSHIPS. CAPABILITY. STRATEGY.</b>				

We believe that we can influence the outcomes that benefit regional prosperity by:

1. Expanding our strategic community partnerships;
2. Introducing a program to subsidise water for public spaces;
3. Building on our relationships with our customers and other stakeholders; and
4. Meeting the needs of diverse and vulnerable people in our region.

## **Our initiatives and measurables:**

### **1. We will expand our strategic community partnerships to strengthen our communities**

Indicator	Measure(s)	Current Performance	2023 Target
Customer satisfaction with our performance partnering with communities to help our region flourish	Percentage of customers satisfied with our performance partnering with communities to help our region flourish	NA	Improving trend
Regional stakeholder satisfaction with our performance partnering on areas of regional priority.	Percentage of regional stakeholders satisfied with our performance partnering on areas of regional priority.	NA	Improving trend

We will introduce a ‘Water for Community’ program to subsidise water for public spaces, including community, non-profit sports fields, swimming pools and drinking fountains. We expect to subsidise over \$300,000 per annum for this initiative, equating to \$7.43 per annum per water customer.

We will work towards meeting the needs of diverse and vulnerable people in our region

For instance, Wannon Water has recently accepted an invitation to be one of 30 leading businesses and organisations across Australia to develop a Financial Inclusion Action Plan (FIAP). Financial inclusion and equity is considered critical in achieving the UN sustainable development goals and fostering a more prosperous society for all. Our FIAP will foster financial inclusion and resilience for our customer, employees, suppliers and communities. This is sorely needed in our region (see the next section on challenges) and demonstrated in our existing performance data in relation to hardship. For example:

- We currently have 10.5 instalment plans per 100 customers, which is the second highest number in the state and well above the average of eight plans per 100 customers; 40% of our residential customers accessed Victorian Government concessions, which assist low income households with water and sewerage bills at their principal place of residence. This was the equal second highest percentage in the state.
- We also record a relatively high rate of Utility Relief Grant Scheme (URGS) uptake at six per 1000 customers.
- URGS is a one-off financial contribution towards a bill of a customer experiencing payment difficulties. In 2015/16, 256 customers received hardship grants worth \$61,728. This equates to 0.7 per 100 customers at an average of \$239 per grant paid to customers.

**1. We will build on our relationships with our customers and other stakeholders to keep the conversation open about our planning and decision-making.**

Indicator	Measure(s)	Current Performance	2023 Target
There is ongoing engagement with our customers and community to build capacity, strengthen relationships and inform decision making.	Number of instances of two-way engagement to inform the development of each annual corporate plan	Varies year on year	At least 500 instances of two-way engagement per annum
	Percentage of customers who engaged with Wannon Water satisfied with the engagement process	NA	Improving trend

**Related GSL - see section 7.7**

If Wannon Water restricts the water supply of, or takes legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, the customer will be entitled to a GSL rebate of \$300.



## 7.7 ENSURE WE PROVIDE GREAT VALUE

### We will provide services that customers consider great value:

Customers are provided with quality information about the benefits of our services and why they cost what they do.

The concept of value is different for every customer. To help ensure that all of our customers view their service as providing value, our future plans must acknowledge this.

In our 2017 Customer Value Survey, 21% of customers believed that Wannon Water's services represent excellent value for money. A further 63% believed that Wannon Water's services represent satisfactory value for money.

When engaging with customers, we have learnt that there is a general lack of understanding about our services. This is likely to heavily influence customers' perceptions of value. Our challenge is to tell our story better than we ever have before. Our commitment to ongoing engagement, implementing more contemporary communication options and reporting on our performance will all assist in enhancing our customers' knowledge and, therefore, their ability to assess the value they derive from our services.

Another key challenge in value creation is achieving the right balance between the level of service our customers receive and the price they pay. Understanding and meeting our customers' expectations has to be balanced while ensuring that bills remain affordable, especially during the current economic climate where household incomes are under pressure and the cost of operating our business is increasing.

Our customers have told us that they value our current service levels and we don't plan to change these. We provide a high level of service and are often recognised for our performance compared to our peers in the ESC's annual performance reports.

Wannon Water has demonstrated in recent years that delivering affordable services is at the forefront of our minds. Our successful approach to identifying

and implementing initiatives that reduce costs of operating have resulted in customers experiencing lower than expected bills.

On two occasions we have not increased customer bills by the maximum allowed. In 2011/12 we passed on a 1% tariff benefit to our customers, which was followed in 2016/17 by a 2% tariff benefit. Additionally, Wannon Water provided one of the highest Government Efficiency Rebates, \$70 per annum, to residential customers for each of the past four years.

Customers' perceptions of value have been influenced historically by our fixed service charges. The top two suggestions for improvement provided by customers in our 2017 Customer Value Survey were:

- Reduce fixed charges/reduce the service fee; and
- Reduce the price in general.

A large proportion of our customers surveyed indicated that their total bill should be more dependent on use. Many customers told us that they would like to see a greater variable component on their bills, reflecting a widely held customer view that they want the opportunity to influence their water bills. We also heard the principle of fairness being identified by customers when discussing this. Customers were conscious of the effect that a change would have on tenants and high water users and that a change may increase the risk for those that could least afford it. Some customers changed their opinion on whether Wannon Water should change the fixed: variable structure when the adverse impact on these customer groups was presented.

Our major customers told us that they would appreciate certainty about future prices as this would assist them to plan with confidence.

We have heard a desire to change our tariff structure. However, without total support for a change that would adversely impact on some segments of our customer base, for this pricing period we will maintain the current fixed: variable ratio for water bills.

At present, residential customers who use 155 kilolitres per annum (i.e. the average water user) have influence over 64% of the water component of their bill, 24% of their total bill. This differs for 8% of our residential water use customers in the towns of Peterborough, Port Campbell, Timboon, Casterton, Coleraine, Dartmoor, Macarthur, Merino and Sandford where average use is 130 kilolitres. These customers have influence over 38% of the water component of their bill, and 15% of their total bill.

Any change in the fixed: variable ratio shifts tariffs from one customer segment to another. Changes to the variable component of the water bill has an adverse effect on customers who are tenants, and high-water users. A change to the fixed: variable ratio to 30:70 for water bills results in annual tenant bills increasing by \$20 by 2022/23, a 28% increase on current tariffs. Larger annual impacts of over \$100,000 by 2022/23 for major customers using 850,000 kilolitres per annum would occur. The higher the variable proportion of the ratio, the higher the impact on these customer groups.

A change benefits 96% of residential household owners and 71% of non-residential customers who use less than 300 kilolitres. The benefit comes from reducing the fixed water service charge. A residential home owner would have to double water use to offset the impact of a reduced fixed service charge.

Customers linked changing the proportion of their bill to having an impact on water consumption. There is no evidence available to suggest that a marginal change in variable pricing affects consumption of water. In fact, Wannon Water believes that the vast majority of water consumed is required to sustain general health and hygiene.

Wannon Water believes the current block tariff structure (three tiers of water usage) addresses this issue in that water users are rewarded for saving water and penalised for using high amounts of water.

Through our engagement, customers encouraged us to continue our support for those who find it difficult to pay their bills. As an essential service provider, Wannon Water offers flexible, responsive payment options and develops solutions to assist our most vulnerable customers.

Our rural water surcharge was introduced to the Otways system in 2004/05 to mitigate against the uncontrolled growth in rural water consumption and to ensure these major systems could remain sustainable. The surcharge is incurred when a customer exceeds their allocated limit. The surcharge was extended to other systems in 2008.

We receive a small number of complaints each year from customers impacted about the level of the surcharge, especially in drier years when water use increases in these rural areas.

In 2018/19 we will review the Rural Water Surcharge tariff. The review will include extensive customer engagement and in recognition of this, we propose in this Price Submission that the tariff will remain stable (in nominal terms). Pending the outcome of the review, any amendments to the Rural Water Surcharge tariff from 2019/20 will not exceed the current Rural Water Surcharge tariff.

Also early in this Price Submission period, we will review Minor Trade Waste charges. The review will include extensive engagement with customers, with outcomes likely be incorporated into the following regulatory period.

For this Price Submission, we propose that Minor Trade Waste customers in Warrnambool (Group 1) will receive 3.8% real increases in their tariff. This is a reduction from the current 12% real increases per annum. Hamilton (Group 2) Minor Trade Waste customers' tariff will rise by CPI only. All other customers' (Groups 3, 4 & 5) Minor Trade Waste tariff will remain stable in nominal terms. These proposed tariff movements will continue the path towards consistent Minor Trade Waste tariffs for all groups.

## **Our initiatives and measurables:**

### **1. Further improvement in customer satisfaction levels**

Indicator	Measure(s)	Current Performance	2023 Target
Customer overall satisfaction	Customer satisfaction with value for money	84% satisfied or very satisfied	Improving trend

Overall customer satisfaction is a reflection of our services. Our strategies and investments described under the other outcomes in this Price Submission are made to improve our products and services. We believe that this will lead to an increase in overall customer satisfaction levels.

We will continue to provide support for our customers who find it difficult to pay their bills. We will continue our strong performance in this area during the Price Submission period by:

- Increasing capability and capacity to improve support for victims of family violence; experiencing financial hardship; and
- Implementing a Financial Inclusion Action Plan (FIAP).

A FIAP is designed to strengthen financial resilience for people experiencing exclusion and hardship with a specific focus on:

- Economic wellbeing, especially of women and young people, people with disabilities and from diverse backgrounds;
- Increasing engagement and partnership;
- Innovative solutions; and
- Cross-sector cooperation.

### **Guaranteed service levels**

Our commitment to customers in the areas of water supply reliability, sewerage service reliability and hardship guarantee remains with Guaranteed Service Levels (GSL) outlined below. We have not included an allowance for any of the above GSLs in our operating costs as we believe they should not be funded by our customer base. They are, in principle, a penalty borne by us for not delivering the level of service expected by our customers.

#### **Water Supply Reliability**

Subject to exclusions<sup>8</sup>, if there are more than two unplanned interruptions to the service supplying water to the customer's property in any 12-month period, the customer will be entitled to a GSL rebate of \$100.

Wannon Water proposes to decrease the number of unplanned interruptions from 'more than five' to 'more than two' and double the rebate amount from \$50 to \$100. Our current performance in this area is good. Based on 2016/17 data, a total of 55 customers had more than two unplanned water supply interruptions.

#### **Sewerage Service Reliability**

Subject to exclusions<sup>9</sup>, if there is a sewerage spill in a customer's house the customer will be entitled to a GSL rebate of \$500.

We recognise that any sewerage spill within a house is unpleasant, so we propose to remove the condition regarding containment time (i.e. remove the words 'that is not contained within one hour of notification to Wannon Water') from the current GSL.

Subject to exclusions<sup>9</sup>, if there is a sewerage spill on a customer's property the customer will be entitled to a GSL rebate of \$100.

This is a new GSL that has not previously been offered by Wannon Water. We recognise that any sewerage spill is unpleasant, whether it is within the house or within the customer's property.

<sup>8</sup> The following exclusions apply to the payment of a GSL rebate:

(a) where a property or house is occupied by a tenant and the tenant is a customer, only the tenant's account will be credited for the failure to meet a guaranteed service level;  
 (b) Wannon Water will not apply a GSL rebate for failure to meet a guaranteed service level if an event is caused by, or is the responsibility of, the customer or a third party.

## **Hardship Guarantee**

If Wannon Water restricts the water supply of, or takes legal action against, a residential customer prior to taking reasonable endeavors to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, the customer will be entitled to a GSL rebate of \$300. This GSL is unchanged from the current regulatory period.

We are committed to undertaking a FIAP which may have an outcome that sees the implementation of an additional GSL in the hardship area.

**Capital investment relating to this outcome totals \$16 million**



## 8 WHAT THE PLAN WILL COST

This section provides an overview of the revenue required by Wannon Water to meet its obligations and deliver services over the Price Submission period. Operating expenditure including efficiency initiatives, capital expenditure, return on regulatory asset base and return of capital through regulatory depreciation allowance are included in this section. Refer to the Wannon Water Financial Model for detailed information.

Over the five years of the Price Submission period Wannon Water requires a total revenue requirement of \$355.28 million, an average of \$71.06 million per annum. This level of revenue requirement results in tariff increases of CPI only for the five-year period.



The annual movement in revenue requirement during the period is driven by increases in the Return on Assets and Regulatory Depreciation. The table below demonstrates the trends for each segment within the revenue requirement.

	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expenditure	44.35	44.84	44.05	43.70	43.70
Return on assets	13.45	14.33	15.65	16.59	16.83
Regulatory depreciation of assets	9.90	10.48	11.26	12.54	12.93
Adjustments from last period	0.14	0.14	0.14	0.13	0.13
<b>Total Revenue Requirement</b>	<b>67.84</b>	<b>69.79</b>	<b>71.10</b>	<b>72.96</b>	<b>73.59</b>

## 8.1 OPERATING EXPENDITURE

Operating expenditure is the largest component of the revenue requirement.

A baseline controllable operating expenditure of \$35.61 million has been established comprising efficient recurring controllable costs from 2016/17 baseline. Baseline controllable operating expenditure excludes one-off or non-recurring expenditure items totaling \$0.70 million. It also includes ongoing cost saving and efficiency commitments, including those efficiency savings identified in the 2014 Fairer Water Bills efficiency review.

Adjustments to the baseline controllable operating expenditure are the result of:

- New initiatives identified to deliver customer outcomes;
- Market forces impacting electricity tariffs;
- Rising software maintenance and licence costs;
- Our 2016 Enterprise Agreement, which includes wage increases beyond assumed CPI;
- New operating expenditure from newly constructed capital works;
- One-off project related expenditure; and
- Efficiency initiatives.

We believe the controllable operating cost increases beyond baseline expenditure, along with the balance of our forecast operating expenditure, is at a prudent and efficient level.

### 8.1.1 New initiatives to deliver customer outcomes

New expenditure supported by customers to achieve customer outcomes have been identified in relevant sections above. They include \$328,000 per annum for our Water for Community program and \$100,000 per annum for programs to increase beneficial community and natural environment outcomes.

## 8.1.2 Electricity tariffs

We believe the cost of electricity is the largest risk in terms of cost increases to our business during the regulatory period. Forecasting electricity prices is challenging due to the current uncertainty in the electricity industry.

Our current agreement for the sale of electricity ends on 30 June 2018. This agreement includes increases effective from 1 July 2017 for peak and off-peak charges of 6.58% and 3.41% respectively.

There are varying opinions on how the electricity market will react to the recent closure of Hazelwood power station. The Victorian wholesale market has become a more concentrated market and as a result, there may be more opportunities for market power to be exercised, pushing prices up.

Any price rise may be short-lived as an ACCC inquiry into power prices has been announced and the Australian Energy Market Commission, which makes the rules for the energy market, has stated that more renewable energy supply is expected to reduce wholesale electricity prices. In more recent times, the Australian Government has intervened, meeting with Australian electricity retailers to discuss with them how prices can remain affordable.

Our procurement method for electricity beyond 30 June 2018 at the time of submission is unknown. A number of Victorian water corporations are undertaking a trial, buying their electricity directly from the spot market whilst hedging for the inherent risk of price shocks. This trial is in its early days and, as such, reasonable data to evaluate its expected outcomes is not conducive to making longer term decisions regarding procurement methods.

What is known:

- A new arrangement for the supply of electricity to Wannon Water will be required effective from 1 July 2018;
- Electricity tariffs are almost certain to be higher than the current contract rates; and
- Wannon Water has reduced our demand by implementing ‘behind the meter’ energy generating systems and by operating plants more effectively to reduce our demand from electricity retailers.

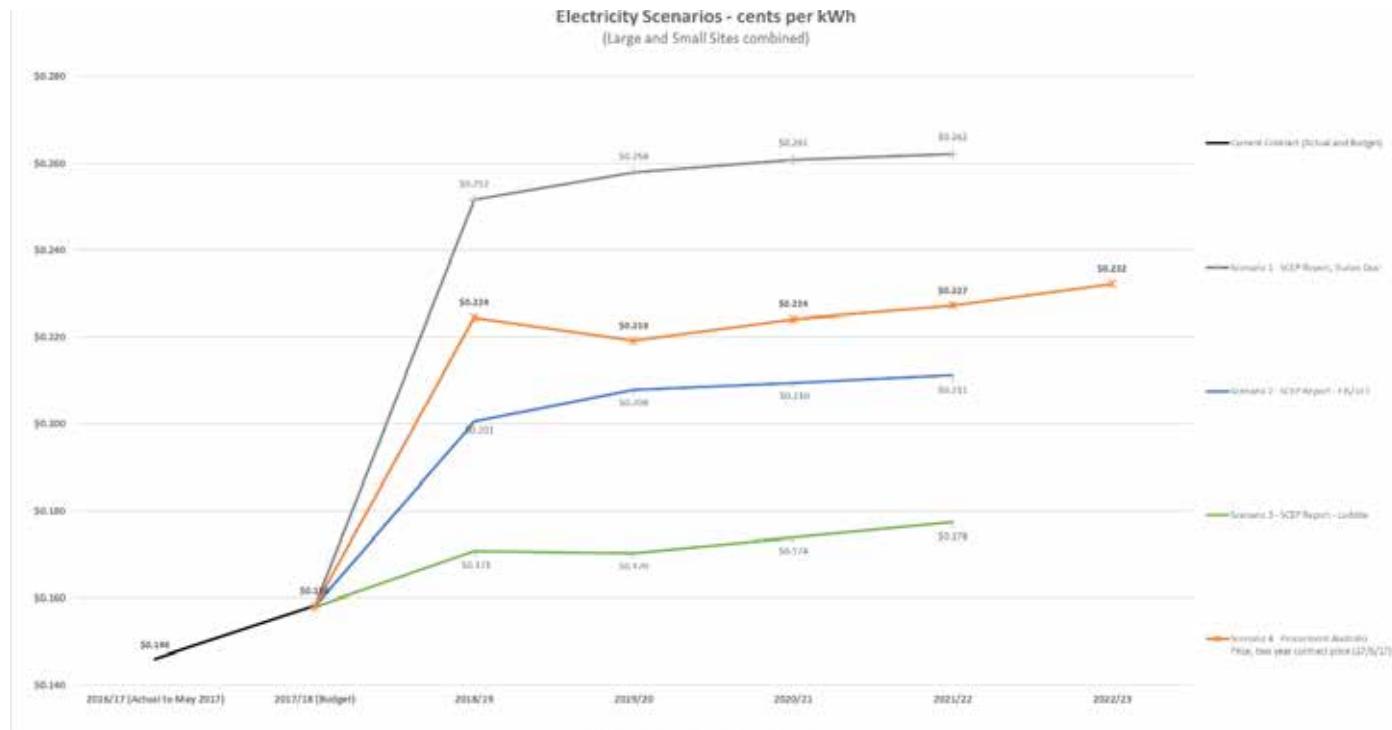
What is unknown:

- Our procurement method from 1 July 2018 onwards; and
- The position of the electricity market, and therefore the tariffs charged, at the time an agreement will need to be reached.

For this Price Submission we have undertaken an analysis of:

- VicWater’s Supply Chain Excellence Program 5-Year Electricity Price Forecast Report June 2017 (SCEP Report); and
- Procurement Australia’s future contract tariff prices.

The SCEP Report provides for three scenarios and subsequent tariffs until 2022 and Procurement Australia provided indicative tariffs until 2020. The below graph highlights the broad range of potential outcomes from these four scenarios:



Scenario 3 – SCEP Report – Luddite is an unlikely option as it would require withdrawal from international commitments by the Government, and further Government intervention in the form of direct investment into coal fired generation.

Scenario 1, 2 and 4 all indicate a significant increase in cents per kWh effective from 1 July 2018. Tariffs then flatten out, or reduce, in years beyond that.

Scenario 4 is based on an indicative tariff from Procurement Australia for 2018/19 and 2019/20. We consider this scenario the best available estimate. The scenario assumes no increases beyond 2019/20. Although unlikely, this approach is consistent with the other scenarios.

Our electricity operating expenditure for this Price Submission period have been based on scenario 4 and movements in our demand for energy over time.

In comparison to our baseline our electricity expenditure is forecast to increase by a total \$4.73 million during this pricing period. This is not solely due to retail and network price changes, however. The below breakdown shows this.

	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Total increase compared to 2016/17 baseline</b>	<b>\$1.296</b>	<b>\$0.801</b>	<b>\$0.805</b>	<b>\$0.915</b>	<b>\$0.913</b>
<b>Driver</b>					
Consumption increase - Warrnambool WRP Upgrade				\$0.116	\$0.119
Consumption Increase - Small Sites (New Assets)			\$0.020	\$0.030	\$0.040
<i>Implementation of Carbon Action Plan</i>					
Consumption decrease - Solar and Wind Projects	\$(0.010)	\$(0.260)	\$(0.260)	\$(0.260)	\$(0.260)
Consumption decrease - Warrnambool WRP	\$(0.004)	\$(0.009)	\$(0.025)	\$(0.041)	\$(0.056)
Retail and Network Prices Changes	\$1.310	\$1.070	\$1.070	\$1.070	\$1.070

Offsetting the electricity tariff increases are demand reductions. These are as a result of implementing a number of renewable energy projects, including solar PV projects and commissioning a wind energy project at Portland. Energy reduction projects at the Warrnambool WRP are also expected to significantly reduce our consumption at that site.

We have not opted to use a cost pass through mechanism for this forecast increase. Our customers told us they value certainty of pricing and utilising this mechanism is not consistent with stability in pricing.

### 8.1.3 Software maintenance and licencing

Technology software maintenance and licence costs are expected to continue to rise during the Price Submission period. Increases have averaged 11% in the past three years and are attributable to increasing licence costs from suppliers and the introduction of new technology and digital solutions. Much of the spend on digital technology has been used to increase our ability to improve customer experience while simultaneously improving productivity and risk management.

New technology has contributed to significant productivity gains and this trend is expected to continue. Gains in productivity have historically been used to counter increased resourcing requirements to undertake compliance related activities, undertake specific projects or to backfill short-term vacant positions.

Strengthening cyber security capabilities is an area contributing to rising technology costs. The risk of a cyber-attack, which impacts our ability to provide safe water and do no harm to the environment, is significant.

Increasing maintenance and licence costs are difficult to counter in most circumstances, especially where the software provider is the sole supplier of maintenance and licences for their product. Where appropriate, Wannon Water tests the market to ensure costs are competitive and ensures whole-of-life costing analysis is undertaken when new technology is brought into the business.

This Price Submission includes the introduction of an online portal for customers to transact with us, an integrated works management system to support ongoing high levels of service delivery to our customers, and a regular program of technology system updates and/or replacing outdated technology. Additional maintenance and licence costs are expected as a result.

Wannon Water's server infrastructure is due for replacement in the first year of this Price Submission. We have assumed that a gradual move towards the cloud environment will occur during this Price Submission period. This has the impact of lower capital investment (less on-site infrastructure required) and higher operating costs (increased access, maintenance and licence fees for using external hosted cloud services). For customers this would mean an immediate negative impact on tariffs,

rather than a longer term allocation of costs over the useful life of the infrastructure. Decisions regarding transformation to the cloud environment will be made as they arise. However, for pricing purposes, only a small increase in maintenance and licence costs has been made for this.

This Price Submission includes \$330,000 per annum (a 17% increase) from the baseline, for additional software maintenance and licence cost. Of this increase, \$220,000 has been incurred from 2017/18 largely due to a forced change in supplier for our Microsoft licence fees.

#### 8.1.4 2016 Enterprise Agreement

Our average annual growth in total labour costs is forecast to be 1.11% beyond CPI during this Price Submission period.

The rise is largely reflective of our 2016 Enterprise Agreement which provides wage increases of 3.25% ending in the 2019/20 year. Increases for the final two years of this price submission period have been assumed at 3.00%, lower than the current Government wage inflation projections for those years (3.813%).

The balance of the increase is attributable to filling vacant roles during 2016 and 2017. At 30 June 2017, the end of our baseline year, there were a number of vacant positions, some long term. Filling these added \$500,000 to our labour costs.

Significantly, however, we are not proposing to increase the number of full time equivalent positions during the Price Submission period. We believe that increased regulatory obligations and servicing our population and major industry growth can be absorbed through ongoing business efficiencies.

#### 8.1.5 New operating costs from capital investment

Ongoing costs associated with new infrastructure projects have been included in the Price Submission, totaling \$1.70 million over the five years.

Significant new expenditure during the period is attributable to:

- Warrnambool Water Reclamation Plant

upgrade - \$0.68 million (excluding electricity); and

- Biosolids Management - \$0.43 million.

#### 8.1.6 Operating projects

Expenditure for recurring projects that occur on a cyclical nature or for one-off projects also influence operating expenditure movements when compared to baseline expenditure.

Given the nature of the projects movements compared to baseline are both upwards and downwards, totaling \$2.42 million over the five-year period. During the first three years of this Price Submission, additional expenditure of \$2.06 million is required to de-sludge sewer lagoons. The majority of these projects were deferred, assessed as an efficiency gain, during the 2014 Fairer Water Bills Initiative. They are now required works and have been re-scheduled into the organisations de-sludging program appropriately.

#### 8.1.7 Environment Contribution Levy

Non-controllable expenditure includes the Environmental Contribution Levy (ECL).

The ECL is paid to the State Government under legislation. Wannon Water's ECL is currently \$2.56 million per annum. The ECL will increase to \$3.31 million for 2018/19 and 2019/20 years. It is assumed the ECL will be reassessed effective from 1 July 2020. For this Price Submission, the ECL forecast is based on CPI only tariff revenue increases using the current ECL rates (5% urban, 2% rural).

#### 8.1.8 Efficiency initiatives

Wannon Water has historically shown that it can provide services in a more efficient and effective manner. Identifying better ways of doing things is an aspect of our culture that drives operating costs efficiencies.

Our Maintenance Excellence program has reduced the cost of delivering maintenance activities. Identification of water losses has resulted in lower water treatment costs. We have invested in solar PV infrastructure and, along with operating our energy using assets more effectively, this has reduced our

electricity consumption and lowered our energy bills at these sites. We are proactive in our approach to procurement and have achieved operational savings through this approach. We are committed to participating in collaborative procurement opportunities that benefit Wannon Water and the water industry as a whole.

This Price Submission includes efficiency initiatives of \$2.6 million. We will achieve \$1.2 million by implementing our carbon action plan, therefore reducing our demand for electricity from retailers. Our forecast cost efficiency improvement rate is 1%. This equates to average operational cost savings of \$282,000 per annum during the Price Submission period. We are confident that we can achieve this level of savings.

## 8.2 CAPITAL INVESTMENT PROGRAM

**“Wannon Water’s asset management ‘Vision’ is to provide the best possible life cycle management of its assets that yields**

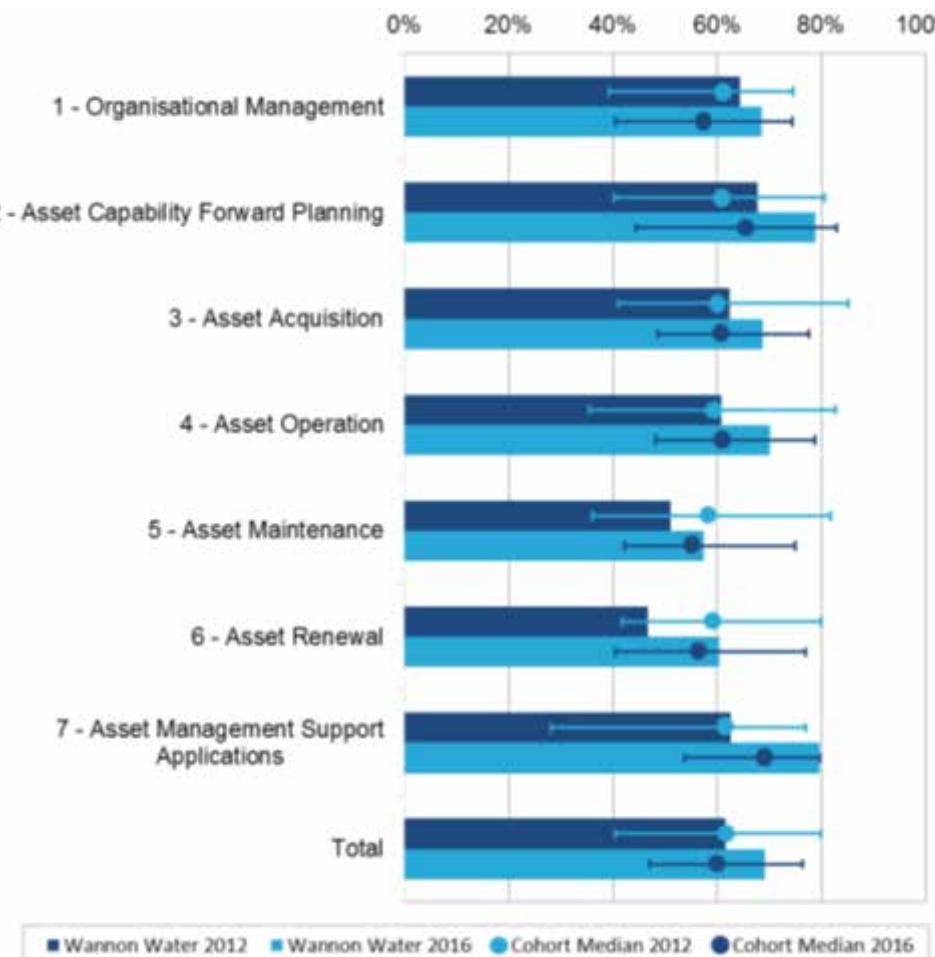
**sustainable provision of water supply and sewerage services at optimal life cycle costs while protecting environmental and social values?”**

Wannon Water’s Asset Management Policy provides a framework under which assets are to be managed.

Wannon Water operates and maintains an Asset Management System which is consistent with the principles contained within the international (ISO) standard for Asset Management, the ISO 55000:2014 series. These principles reflect customer-centric and value management approaches to deliver services.

During 2016 Wannon Water participated in the WSAA Asset Management Customer Value Benchmarking Project. We participated in this project in 2012 also. Whilst direct comparisons between past results should be treated cautiously as the methodology changed, pleasingly our performance indicates a positive shift from 2012. Below highlights the shift across all seven function areas and significantly the improved performance compared to the cohort median.

9 Wannon Water Asset Management Strategy 2014



Our Asset Management approach during this Price Submission period will not differ from the aforementioned vision. Our approach is expected to continue to mature and will include further maturity in lifecycle assessment modelling which will maximise asset utilisation and ultimately deliver value to our customers.

## 8.2.1 Development

The development of the capital investment program was undertaken over 12 months. The following outlines the rigorous process undertaken:

- Each business group prepared an improvement plan for their business area. In preparing the improvement plan, officers considered business needs such as:
  - Maintaining adequate levels of service;
  - Improving levels of service where deficient;
  - Complying with regulatory requirements;
  - Improving efficiency of operation – with associated reduction in operating costs;
  - Satisfying growth in demand for service;
  - Consideration of customer and community feedback; and
  - Meeting corporate objectives and strategies of the business.
- Proposed capital works projects were then identified and entered into a project database.
- The following information was included within the project database:
  - The reasons for the project;
  - The project driver (regulatory, new system, level of service, growth, asset replacement, corporate, OHS risk reduction or efficiency improvement);
  - A risk assessment before and after the project;
- Identification of the risks of implementing the project;
- If the project was new or was “Business as Usual” in nature (e.g. meter replacements, vehicle replacements and software maintenance);
- The detailed cost estimate of the project including P50 cost assumptions, ongoing operating costs and/or savings and any funding (government and landowner contributions); and
- Listing of other references or further information such as functional design reports, improvement plans or project business cases.
- A working group consisting of the relevant business group representatives was formed to review and refine the proposed project listing. This working group met multiple times and reviewed the complete project listing to form a Project

### Content of Business Cases:

- 1) Executive Summary
- 2) Introduction
- 3) Background and Project Outline
  - a. Drivers and Risk Assessment
  - b. Project Strategic Objectives
  - c. Project Scope
  - d. Consultation and Communication with Stakeholders
- 4) Option Analysis
  - a. Options Overview
  - b. Supporting Information to the Options Analysis
  - c. Conclusions from Option Analysis
- 5) Procurement Strategy and Delivery
- 6) Recommendation

**Investment Plan.** In selecting the projects to be included within the Project Investment Plan and, subsequently, this Price Submission, the working group considered the robustness of projects, including:

- The financial cost / benefit of any efficiency driven projects. Projects that, when compared with ‘the do nothing option’, make a return on the capital employed to implement the project shall be considered for adoption;
  - Business-as-usual activities such as meter replacements, vehicle replacements and maintenance of software capability;
  - Business cases (projects over \$250,000 in value have a documented business case based on Department Treasury & Finance’s business case model);
  - Project risk ratings, including relativity assessments of risk ratings;
  - Interdependency with other projects;
  - Preferred timing for the various projects according to the risk rating and any financial limitation of annual capital and operating budgets; and
  - Temporary measures that if adopted would allow projects to be deferred while still addressing the primary risk.
- After the above analysis, projects with an extreme, very high or high inherent risk rating were included within the Project Investment Plan.
  - Where projects had an equal risk rating of medium, priority was given to projects according to the following order of importance driver:
    1. Regulatory Compliance
    2. OHS Risk Reduction
    3. Level of Service
    4. New Systems
    5. Growth

6. Asset Replacement
7. Corporate Services
8. Efficiency improvement.

- Given the impact of the significant capital investment program, the Board considered the impact on financial sustainability and provided direction to the working group regarding the quantum of capital works which would be achievable during the Price Submission period.
- Using the criteria above, the working group agreed on a draft Project Investment Plan that satisfied the Board’s direction. The draft Project Investment Plan was submitted to the Executive Committee and Board where it was assessed and challenged.

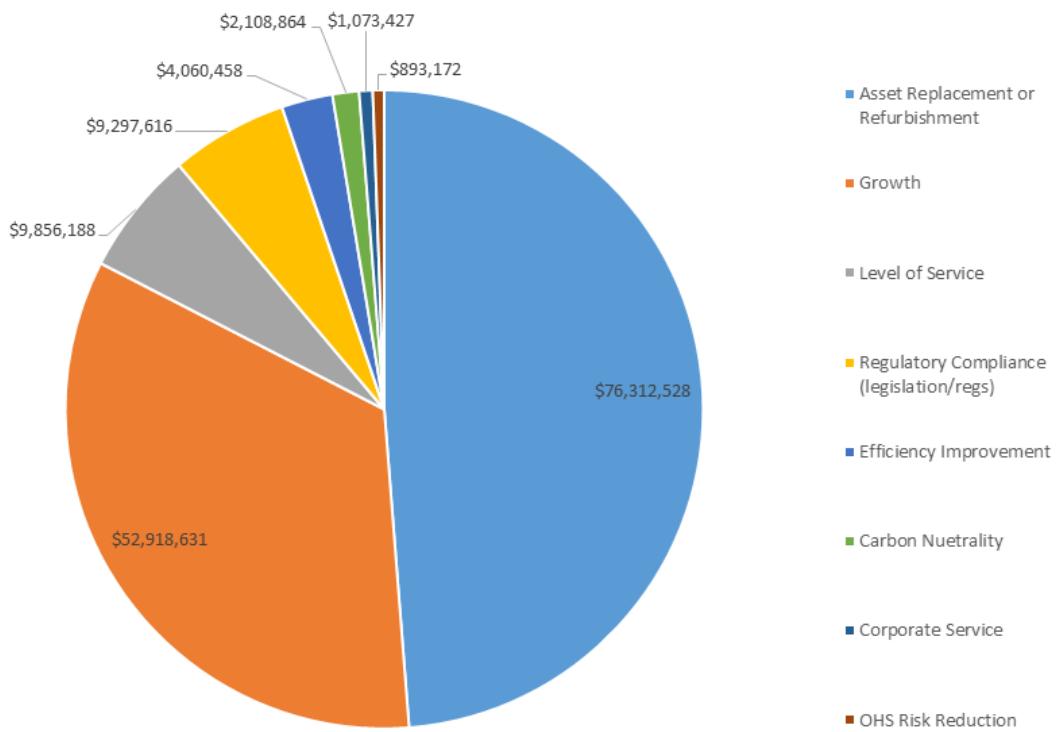
The output from this improvement plan process was a listing of all projects proposed over the five years of the Price Submission and the five years beyond (that is, for a 10-year period).

## 8.2.2 Description of capital investment program

The total prescribed capital expenditure proposed for the 2018-2023 pricing period is \$156.53 million.

	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Water</b>					
Headworks	3.22	4.98	5.80	5.56	1.58
Pipelines/Network	3.55	2.81	2.54	3.15	2.87
Treatment	1.20	2.51	3.92	4.58	1.07
Corporate	3.66	3.55	3.61	2.30	1.92
<b>Sewerage</b>					
Headworks	-	-	-	-	-
Pipelines/Network	4.23	5.23	3.58	4.07	3.69
Treatment	5.43	20.40	24.40	3.51	2.31
Corporate	3.51	3.06	4.51	2.25	1.97
<b>Total prescribed capital investment</b>	<b>24.80</b>	<b>42.54</b>	<b>48.36</b>	<b>25.42</b>	<b>15.41</b>

Total Prescribed Capital Expenditure by Project Driver 2018 - 2023



In preparing the Capital Works Investment Plan, the following key business drivers have been used:

- Asset Replacement or Refurbishment - Maintaining adequate levels of service;
- Levels of Service - Improving levels of service where deficient;
- Regulatory Requirements - Complying with regulatory requirements;

- Efficiency Improvement - Improving efficiency of operation – with associated reduction in operating costs;
- OH&S Risk Reduction – Improving OH&S risk to acceptable level
- Carbon Neutrality – Action required to meet the 2025 Carbon Neutrality Pledge
- Growth - Satisfying growth in demand for service; or
- Corporate service - Meeting the Corporate Objectives and Strategies of the business

### 8.2.3 Top ten capital projects

A summary of the top 10 capital projects are shown in the below table.

PROJECT	CAPEX (\$M)	SCOPE	DRIVER	OUTCOMES	YEAR 1 (\$M)	YEAR 2 (\$M)	YEAR 3 (\$M)	YEAR 4 (\$M)	YEAR 5 (\$M)
Warrnambool -WRP augmentation project	\$37.98	Construction of anaerobic digester and associated works	Growth	Provide sewerage services that protect public health and the environment	\$0.71	\$15.32	\$20.42	\$1.53	\$0
Warrnambool - Wangoom Road water tower and pump station	\$4.33	Construction of high-level water tower	Growth	Provide safe and reliable water supplies	\$0.22	\$0.54	\$1.66	\$1.91	\$0
Hamilton – New biosolids drying area	\$3.49	Construct new drying beds at the Hamilton WRP	Growth	Provide sewerage services that protect public health and the environment	\$2.61	\$0.88	\$0	\$0	\$0
Camperdown - Refurbish Camperdown biosolids facility	\$2.80	Refurbish drying beds at site	Asset replacement / refurbishment	Provide sewerage services that protect public health and the environment	\$0	\$2.10	\$0.70	\$0	\$0
Warrnambool WTP – Install UV	\$2.78	Install a UV disinfection system	Regulatory compliance	Provide safe and reliable water supplies	\$0	\$0.20	\$2.58	\$0	\$0
Warrnambool - Wollaston Road Tower and WPS	\$2.55	Construction of high level water tower	Growth	Provide safe and reliable water supplies	\$0	\$0.41	\$2.14	\$0	\$0
Port Campbell - Second bore	\$1.94	Construct and equip a second bore at the Port Campbell WTP	Level of service	Ensure the long term resilience of our services	\$0	\$0	\$0.15	\$1.79	\$0
Substitution works to improve summer flows in Gellibrand River	\$1.85	New bore to allow groundwater extraction in lieu of stream extraction	Regulatory Compliance	Protect and enhance the environment in line with community expectations	\$0.15	\$0.82	\$0.06	\$0.82	\$0
Hamilton WRP -Effluent reuse upgrade	\$1.53	Expand storage capacity and irrigation infrastructure	Level of service	Provide sewerage services that protect public health and the environment	\$0	\$0.15	\$1.38	\$0	\$0
New clear water storage for Hamilton WTP	\$1.33	Construct a second clear Water Storage to allow decommissioning of Raw Water storage No. 2	Level of service	Provide safe and reliable water supplies	\$0.10	\$1.23	\$0	\$0	\$0
<b>TOTAL</b>	<b>\$60.58</b>				<b>\$3.79</b>	<b>\$21.65</b>	<b>\$29.09</b>	<b>\$6.05</b>	<b>\$0</b>

### *8.2.3.1 Warrnambool WRP augmentation*

The most significant project in the program is the Warrnambool WRP Upgrade at an amount of \$37.98 million. This project accounts for 24% of the total capital expenditure program for this Price Submission.

The Warrnambool WRP treats a combination of domestic and industrial wastewater from the Warrnambool and surrounding region. The plant is reaching capacity with flows and loads into the plant forecast to increase as a result of predicted domestic growth, increased trade waste loads from existing industries, and the potential establishment of new industries in the region. To accommodate these increases, foster growth in the region, continue to protect the environment and continue to comply with our EPA discharge licence, the plant needs to be upgraded. Using historical information and projected growth rates for industry and domestic growth for a 25-year forecast period, an approximate 50% increase in plant capacity is required.

A range of potential upgrade options were considered. These broadly included additional IDEA tanks (i.e. an expansion of the existing process), membrane based processes (MBR and MABR), anaerobic processes, continuous activated sludge processes and more novel granular sludge and fixed film processes.

These options were evaluated using a multi-criteria assessment (MCA) that included various economic, environmental, social and technical criteria selected and weighted by the project working group, comprising key stakeholders from Wannon Water and consulting engineer GHD's core project team.

As a result of these assessments, four options were taken forward for further investigation:

1. Additional IDEA tanks;
2. MBR – New MBR reactors;
3. MBR retrofit – Conversion of the existing process into an MBR based process; and
4. Anaerobic pre-treatment (Midfield Meat trade waste).

These options were then investigated in further detail to refine key infrastructure requirements, opportunities for staging, cost footprint risks and flexibility for future expansion.

The options were further assessed through a second, more detailed, MCA process. This process adopted criteria and weightings as informed by the projects community based stakeholder reference group.

It was identified that the option for the construction of additional IDEA process tanks was the highest scoring option. It was also assessed that the IDEA option provides the greatest level of flexibility to accommodate future changes in operating costs or flow/load growth in the catchment.

The IDEA process is the preferred option for the upgrade of the Warrnambool WRP, and this option has been progressed into the Functional Design stage.

Our contracted engineering consultants GHD have assisted in developing the business case and cost estimates and a Quantity Surveying and Cost Management firm prepared an independent cost estimate of the project. The assessment indicated that our cost estimate is accurate to an adjusted confidence level of 80% (i.e. P80).

Given that our capital investment plan is dominated by this project (it is 24% of the total capital investment plan), we believe that this high level of confidence in the project estimate is justified. It ensures that the risk of cost increases has been effectively minimised for customers.

### *8.2.3.2 Water Towers – Warrnambool growth corridors*

We have adopted a conservative approach with regards to growth in the Warrnambool area, which has resulted in the exclusion of one major growth related project from this Price Submission period.

There are three growth corridors in Warrnambool, all requiring water supply infrastructure works including the construction of three water towers. It is possible that this will occur. However, in developing the capital investment program we have assumed that not all three water towers will be required in this Price Submission period.

Projects to construct water towers in the north-east (Wangoom Rd) and north-west (Wollaston Rd) growth corridors represent \$6.88 million. These growth areas are being developed in stages and Wannon Water will construct a supply network, including high level water towers, for developments in an appropriately staged manner.

#### ***8.2.3.3 Biosolids management facilities***

Totalling \$6.29 million, projects at Hamilton and Camperdown to manage biosolids are within the capital investment program.

Biosolids from the Warrnambool and Port Fairy Water Reclamation Plants (WRPs) are transported to the Camperdown Industrial WRP where they are dried and stockpiled for three years prior to farm application. A review of the current practice concluded that developing a new biosolids management facility closer to Warrnambool is the preferred long-term solution. It is anticipated that this will take a number of years to implement this strategy, so there is a need to provide sufficient drying and stockpiling capacity for projected biosolids production in the short term.

The existing drying and stockpiling area at the Camperdown WRP is currently overloaded. It has been identified that there are cost savings associated with transporting Port Fairy biosolids to Hamilton, with Warrnambool biosolids continuing to be managed at Camperdown. This approach will be pursued in the short term and, in the event that a new biosolids management facility closer to Warrnambool cannot be identified, this approach would become the long-term strategy as it reduces operating costs and provides a level of redundancy for Wannon Water i.e. two biosolids handling sites. However, it has been identified that the existing Camperdown Industrial WRP primary drying and stockpiling area (Lagoon 1) requires refurbishment within the next two years.

Therefore, in addition to providing additional area at Hamilton to manage biosolids from the Port Fairy WRP in the short term (and potentially long term), there is also a need to provide sufficient biosolids drying and stockpiling area at Hamilton and Camperdown to manage biosolids while Lagoon 1 at Camperdown is refurbished (expected to occur over a 12 month period).

In summary, the following is proposed in this Price Submission period:

- Construct additional biosolids area at Hamilton in 2018/19 to fully or partially manage Warrnambool and Port Fairy biosolids when the Camperdown site is being refurbished;
- Refurbish Camperdown Lagoon 1 area in 2019/20; and
- Construct additional area at Camperdown or Hamilton to match updated biosolids forecasts (post 2019/20).

Further analysis will be undertaken during this Price Submission period to assess a new biosolids facility closer to Warrnambool and Port Fairy. This will include better understanding and quantifying risks, capital costs and timing with a view to including this in the next Price Submission period.

## 8.2.4 Top ten capital programs

A summary of the top ten Capex programs are shown in the attached table.

PROJECT	CAPEX (\$M)	SCOPE	DRIVER	OUTCOMES	YEAR 1 (\$M)	YEAR 2 (\$M)	YEAR 3 (\$M)	YEAR 4 (\$M)	YEAR 5 (\$M)	HISTORICAL ANNUAL COSTS <sup>1</sup> (\$M)
Sewers & manholes - 2019-2028	\$11.803	Replace/rehabilitate sewer network	Asset Replacement / Refurbishment	Provide sewerage services that protect public health and the environment	\$2.239	\$2.307	\$2.399	\$2.431	\$2.427	\$1.388
Water main replacements - 2019-2028	\$6.401	Replace water mains	Asset Replacement / Refurbishment	Provide safe and reliable water supplies	\$1.229	\$1.234	\$1.273	\$1.311	\$1.354	\$0.752
Vehicle changeover	\$5.394	Replace motor vehicles as required	Asset Replacement / Refurbishment	Ensure we provide great value	\$1.058	\$1.080	\$1.239	\$1.072	\$0.945	\$0.935
WRP renewals - 2019-2028	\$4.980	Replace/rehabilitate assets at WRPs as they come of age	Asset Replacement / Refurbishment	Provide sewerage services that protect public health and the environment	\$0.866	\$0.889	\$0.983	\$1.119	\$1.123	\$0.533
Upgrade SCADA RTU hardware	\$3.702	Upgrade end of life SCADA system hardware	Asset Replacement / Refurbishment	Provide safe and reliable water supplies	\$0	)0.511	\$1.659	\$1.532	\$0	N/A
WTP renewals - 2019-2028	\$3.151	Replace/rehabilitate assets at WTP's as they come of age	Asset Replacement / Refurbishment	Provide safe and reliable water supplies	\$0.489	\$0.624	\$0.709	\$0.712	\$0.617	\$0.387
Storages renewals - 2019-2028	\$2.635	Replace/rehabilitate assets at storages as they come of age	Asset Replacement / Refurbishment	Provide safe and reliable water supplies	\$0.436	\$0.477	\$0.538	\$0.610	\$0.574	\$0.153
Carbon Reduction Program	\$2.108	Various programs of works to reduce carbon emissions	Carbon Neutrality	Protect and enhance the environment in line with community expectations	\$0.557	\$1.343	\$0.066	\$0.076	\$0.066	N/A
Water Transfer - Unspecified Renewals - 2019 - 2028	\$1.888	Replace/rehabilitate water transfer assets as they come of age	Asset Replacement / Refurbishment	Provide safe and reliable water supplies	\$0.315	\$0.357	\$0.394	\$0.429	\$0.393	N/A <sup>2</sup>
Sewer Pump Station Renewals - Authority Wide - 2019 - 2028	\$1.788	Replace/rehabilitate sewer pump station assets as they come of age	Asset Replacement / Refurbishment	Provide sewerage services that protect public health and the environment	\$0.299	\$0.353	\$0.372	\$0.383	\$0.381	\$0.422
<b>TOTAL</b>	<b>\$43.850</b>				<b>\$7.488</b>	<b>\$9.175</b>	<b>\$9.632</b>	<b>\$9.675</b>	<b>\$7.880</b>	

<sup>1</sup> Average costs over the past four years

<sup>2</sup> Included in water main replacements - 2019/2023

The majority of these programs are ‘unspecified renewals’. Unspecified renewals are allocations for renewal of assets (as a group) that are reasonably expected to fail and/or reach the end of their economic life within the planning horizon. The program also includes specified renewals on particular assets. These have been excluded from the asset pool when developing unspecified renewal requirements.

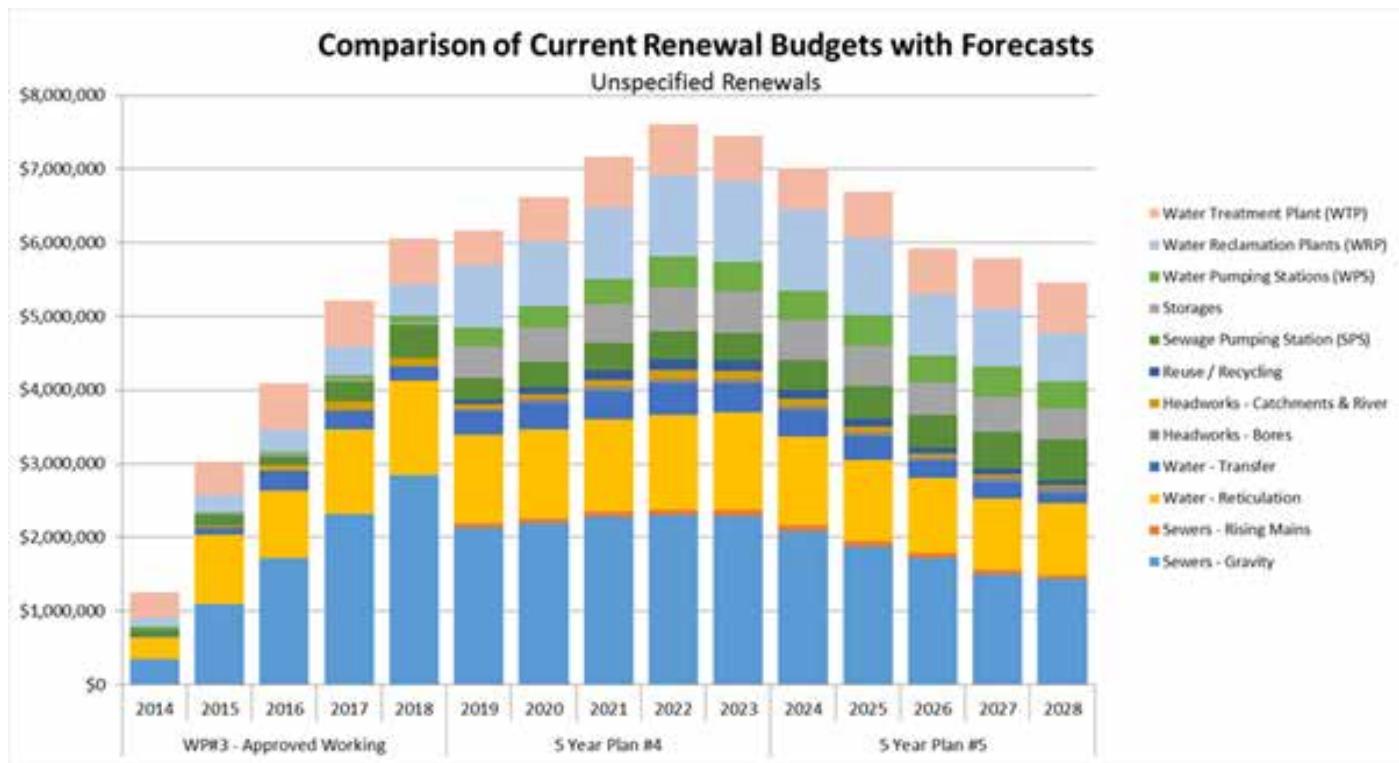
A detailed business case has been prepared for asset renewals. The asset renewal program is based on the following drivers:

- Continue to meet agreed levels of service including water quality and security of supply;
- Minimise risk to the business and the customers;
- Maintain capacity which will allow continued development and growth;
- Comply with all legislative and operating code requirements; and
- Continue to meet OH&S requirements.

An independent review of the renewal business case was undertaken. It found “From a financial perspective, the costs contained within the Renewal Business Case have been subject to a rigorous process, are consistent with historical norms and accommodate more recent trends”.<sup>10</sup>

The review concluded “The general conclusion from our assessment is that the renewal program contained within Wannon Water’s Business Case is generally suitable for inclusion in the businesses next five (5) year Water Plan”.<sup>10</sup>

In summary, expenditure on unspecified renewals is increasing from previous historic expenditure levels. This is due to the increase in number of these assets reaching the end of their useful lives. The increase is depicted below



10 Independent Review of the Water Supply and Wastewater Asset Renewal Business Support Case, June 2017 – Strategic AM Pty Ltd

## 8.2.5 Project uncertainty

Project uncertainty has been dealt with in a number of ways.

### 8.2.5.1 Timing

Where the project uncertainty related to timing requirements of a project, Wannon Water has approached this from a conservative viewpoint (i.e. from the customer tariff impact perspective). An example of this approach relates to growth related infrastructure for new housing developments in Warrnambool. Wannon Water has made an assessment on the likelihood of all the identified development growth occurring in the next five years. Although we have identified it is possible for this to occur, we have not included all of the development related projects in this Price Submission period. A number of the development growth projects have been moved to years 6 & 7.

### 8.2.5.2 Cost

Cost estimates have been prepared based on the best information available. Where available and relevant, local historical costs have been adopted.

Experienced engineering consultants have assisted in developing cost estimates for major projects.

Cost contingencies have been applied to cost estimates according to the level of uncertainty. Where the level of certainty and confidence was higher, a lower contingency amount has been adopted.

For the largest project within the Project Investment Plan (Warrnambool WRP Upgrade) a third party review of the prepared cost estimate was carried out to verify the accuracy and confidence in the estimate.

For the unspecified renewals projects (\$48.18 million), no contingency has been applied to the cost estimates. We have assumed that any uncertainty would be absorbed within the final scope of the work completed within the unspecified renewals. Where available, existing contract rates have been applied. In developing costs, efficiency in delivery has been taken into account. Our delivery mechanism will remain centralised whereby works will be tendered

in appropriately sized packages which deliver procurement efficiency. We will continue to ensure that the work package sizes do not adversely exclude local contractors from tendering. Due to the level of capital expenditure for unspecified renewals, the unspecified renewals business case was reviewed by an external third party.

### 8.2.5.3 Delivery

As we have demonstrated previously, we expect to deliver the investment plan in full.

Despite the quantum of the program being significantly higher than previous regulatory periods, the number of projects in the program is similar. An allowance for project management has been made for the Warrnambool WRP upgrade, and we anticipate delivering the plan within our current resource capacity.



## 8.3 REGULATORY DEPRECIATION OF ASSETS

Regulatory depreciation has been calculated consistent with the approach adopted in previous regulatory periods, i.e. fixed assets have been depreciated using a straight line approach over the economic useful life of the asset.

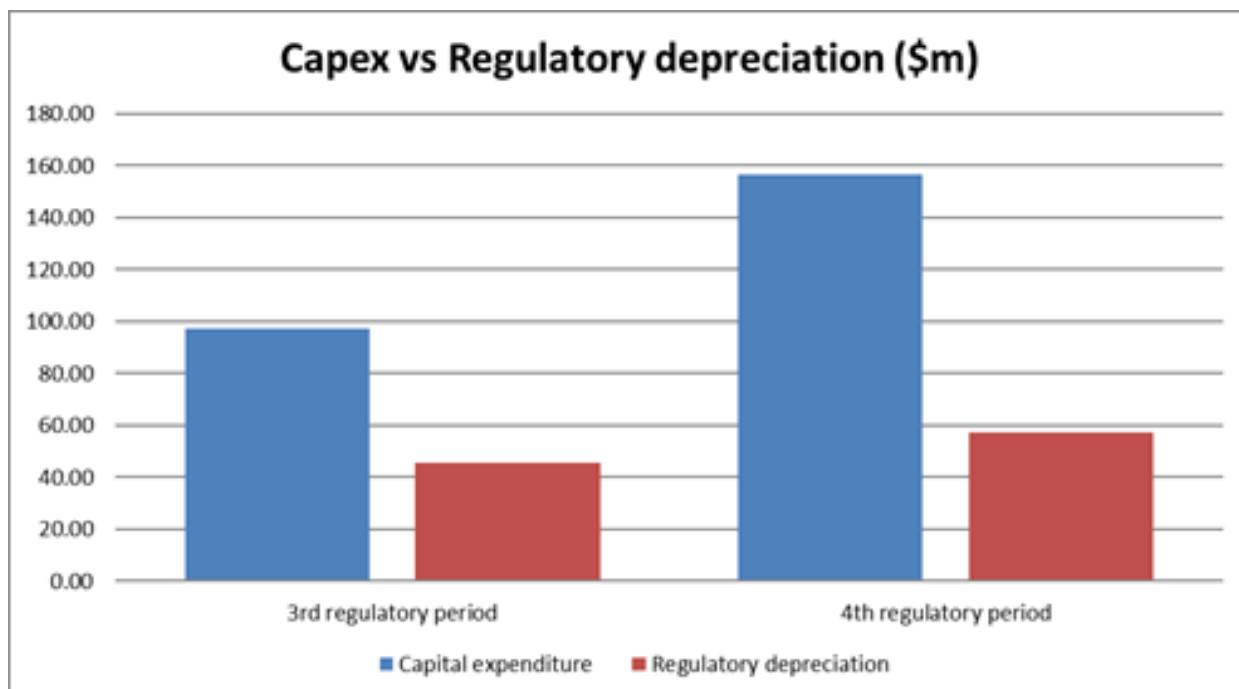
Depreciation of new assets is calculated on the following economic useful lives.

CLASS	USEFUL LIFE (YEARS)
Bores, Weirs, Water Towers & Storage Tanks	40
Reticulation Network & Trunk Sewers	100
Communication & Computer Equipment & Software	3
Office Equipment & Plant & Equipment	20
Pumping Stations	40
Reservoirs & Service Basins	100
Treatment Plants	80
Water Meters	20

Regulatory depreciation totaling \$57.1 million is reflective of depreciation on existing assets and new assets.

	2018/19	2019/20	2020/21	2021/22	2022/23
Regulatory Depreciation - Existing Assets	9.25	8.54	7.73	7.23	6.82
Regulatory Depreciation - New Assets	0.65	1.94	3.53	5.31	6.11
<b>Closing asset base</b>	<b>9.90</b>	<b>10.48</b>	<b>11.26</b>	<b>12.54</b>	<b>12.93</b>

With the significant increase in capital expenditure during this Price Submission period, compared to the 3<sup>rd</sup> regulatory period, the allowance for regulatory depreciation increases.



## 8.4 REGULATORY ASSET BASE

The value of the Regulatory Asset Base (RAB, or Regulatory Asset Value (RAV), at the start of the Price Submission period has been calculated based on actual outcomes for 2013-2017 and the forecast outcome for 2017/18. Wannon Water is confident the estimated gross capital expenditure of \$20.39 million (net capital expenditure of \$19.34 million) for 2017/18 are accurate and deliverable.

The table below provides the proposed opening and closing RAB for the 2018-2023 period. It also includes forecasts for government contributions, customer contributions, proceeds from disposals and regulatory depreciation.

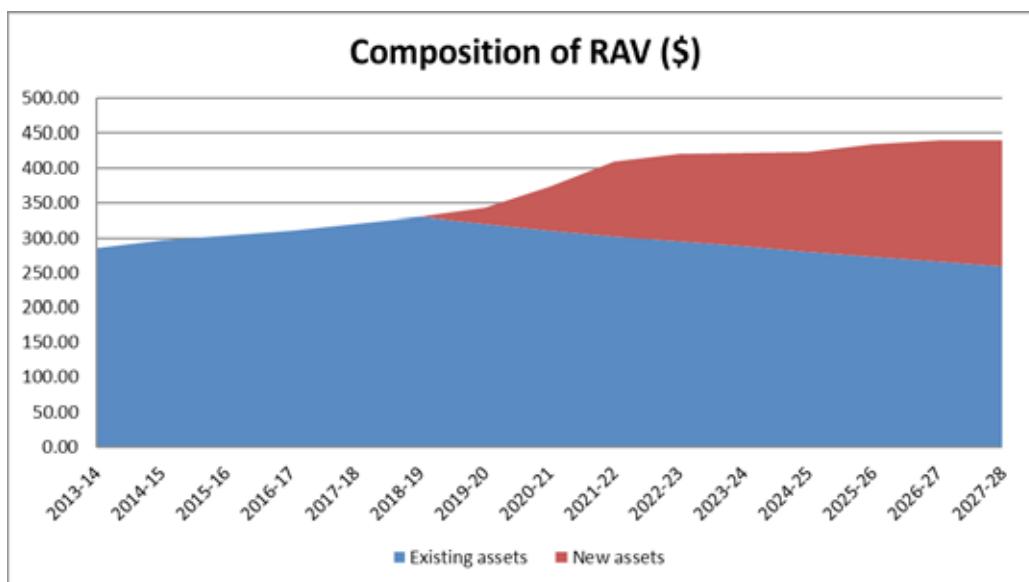
Government contributions reflect amounts forecast as a contribution towards the construction of an asset.

Customer contributions are derived from new and existing customers contributing to the costs of connecting to existing water and sewer networks, also known as New Customer Contributions (NCCs).

Proceeds from asset disposals predominantly relate to the changeover of Wannon Water's motor vehicle fleet.

The table provides forecast capital expenditure, contributions, proceeds and depreciation for the 2017/18 year.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Opening asset base	320.20	329.61	343.00	373.45	408.97	420.35
plus Gross capex	20.39	24.80	42.54	48.36	25.42	15.41
less Government contributions	0.05	0.02	0.24	0.20	0.13	-
less Customer contributions	1.00	0.99	0.87	0.87	0.88	0.89
less Proceeds from disposals	0.50	0.50	0.50	0.50	0.50	0.50
less Regulatory depreciation	9.43	9.90	10.48	11.26	12.54	12.93
<b>Closing asset base</b>	<b>329.61</b>	<b>343.00</b>	<b>373.45</b>	<b>408.97</b>	<b>420.35</b>	<b>421.44</b>



## 8.5 REGULATORY RATE OF RETURN

Comprising two components – a return on equity and a cost of debt – the return on assets is calculated at 4% (real) per annum.

Our aggregated score for overall PREMO rating is 10. This equates to an outcome of 4.5% (refer to section 3) and informs 40% of the return on equity component.

The cost of debt at 3.66% is informed by the 10-year trailing average cost of debt of 6.04%. This equates to 60% of the return on equity component.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Cost of debt - 10 year trailing average (Nominal)</b>													
Cost of debt	7.0%	7.4%	6.9%	7.4%	7.0%	6.3%	5.3%	7.1%	5.4%	5.3%	4.91%	4.91%	
Re-financing weightings - average 10 yrs	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cost of debt - 10 year trailing average											6.50%	6.29%	6.04%

The 10-year trailing average cost of debt will change annually. As such, there is a requirement to adjust prices on an annual basis to reflect movements in the average.

We propose to continue our current price adjustment mechanism (price control formula) for the period of this Price Submission. In addition, we commit to incorporating annual changes in the cost of debt to all tariffs.

## 8.6 TAX ALLOWANCE

The ESC's model to determine the revenue requirement allows Wannon Water to recoup the costs of company tax (payments under the National Tax Equivalent Regime) during the Price Submission period. Wannon Water is carrying forward considerable taxation losses and will therefore not be liable to make NTER payments during this Price Submission period. As such, this component of the revenue requirement is zero for the Price Submission period.

Forecasting indicates that Wannon Water will be in a tax payable situation by 2024/25. Given this is somewhat uncertain, and doesn't affect this Price Submission period, for modelling purposes this has been excluded from the next regulatory period.

# 9 DEMAND

The financial model provides detailed demand forecasts for tariffs and tariff categories.

## 9.1 WATER

Wannon Water's demand forecasts for this Price Submission period have been projected on the basis of the 2017-2065 Urban Water Strategy. The methodology used is consistent with previous approaches, including:

- Climate-corrected base year (2015/16); and
- Analysis of trends and incorporation of population forecasts as described in section 10.1 below.

With the exception of 2015/16 (an abnormally dry year) demand estimates in the current regulatory period have been within 0.1% of actual total water demand. This provides a level of confidence that the methodology and the demand projections may be relied upon.

The 2017-2065 Urban Water Strategy projects a relatively consistent increase in water demand for the period of this Price Submission.

Residential and non-residential demand is based on the number of connections and demand per connection.

Growth in connections is derived from *Victoria in Future 2015* and this growth is applied to both residential and non-residential connections. An average growth rate of 0.81% has been applied to water connections and 0.86% for sewerage connections for the Price Submission period. Average connection growth during the four years to date of the current regulatory period has been 0.75% and 1.02% for water and sewerage connections respectively.

Immediate prior years' residential and non-residential water use does not give a strong indication of future trends. Consumption in 2015/16 was 431 megalitres more than the average of the previous three years. During 2016/17, consumption dropped significantly (10.4%) to 10,643 megalitres. This was due to higher than normal rainfall.

Forecast consumption for 2017/18 is 11,527 megalitres, 0.7% higher than the average of the three years from 2012 to 2015. While this is slightly optimistic, we have used this as our baseline to apply annual movements in demand as outlined in the 2016-2065 Urban Water Strategy.

Year	2017/18 (forecast)	2018/19	2019/20	2020/21	2021/22	2022/23
Residential (ML)	5,223	5,264	5,304	5,346	5,386	5,428
Non-residential (ML)	6,304	6,382	6,443	6,554	6,630	6,706
<b>Consumption (ML)</b>	<b>11,527</b>	<b>11,646</b>	<b>11,747</b>	<b>11,900</b>	<b>12,016</b>	<b>12,134</b>
<b>Change per annum</b>		<b>1.03%</b>	<b>0.87%</b>	<b>1.30%</b>	<b>0.98%</b>	<b>0.98%</b>

Annual movements in forecast demand for residential connections includes a 6% efficiency applied to new residential connections in Warrnambool. Analysis of the water use for relatively new subdivisions in Warrnambool showed that these connections were 6% more water efficient than in Warrnambool as a whole. Additional measures to reduce customers' water consumption are outlined in the 2017-2065 Urban Water Strategy. These have been included in the demand forecasts.

Major customers account for 25% of total water consumption. In consulting with major customers regarding consumption, the following was revealed:

- Plans for major expansion of the milk and food processing industry;
- Plans to implement water use efficiency initiatives; and
- Uncertainty about the ongoing future of one major water user towards the end of this pricing period.

Major customer demand is historically dependent on the commodity market they operate within. Due to difficulties in arriving at accurate long-term forecasts of market demand, it is not possible to project major customer demand for water supply with any certainty. For this reason, major customer usage has been assumed to be steady for Price Submission purposes. This Price Submission also assumes that all the existing major customers continue to remain operating for the regulatory period.

Wannon Water has a large rural customer base, typically used for livestock watering, plant and dairy yard wash-down, and domestic supply. Wannon Water will only take on new rural customers where spare capacity exists. Capacity is currently constrained across some systems. Overall rural use per connection has been stable over the last three years. Forecasts for rural water demand reflect this stability.

## 9.2 RECYCLED WATER

Demand for recycled water in Wannon Water's service area is primarily driven by industry and agricultural reuse to land. The climate within Wannon Water's region has good rainfall in a normal year; hence, the requirement for irrigation is not as high as in other parts of Victoria.

Wannon Water expects agricultural demand for recycled water to remain similar to that experienced during the current regulatory period.

Current industrial customer demand for recycled water is forecast to remain stable throughout the regulatory period, subject to the individual investment

decision of industrial customers. There are no new projects planned to increase the current level of industrial reuse.

Forecasts for recycled water revenue remain stable for the five years of this Price Submission.

## 9.3 TRADE WASTE

Variation in trade waste demand is difficult to predict but does occur as a result of:

- Steady growth in minor trade waste customers;
- Production variation of major trade waste customers as they strive to meet market demand;
- Market entry and/or exit of major trade waste customers;
- Major production investment of existing or new major trade waste customers; and
- Recycling initiatives of major trade waste customers.

Production variation of major trade waste customers is often conditional on global market forces and supply contacts. No allowance has been included in future trade waste forecasts to account for this market volatility. This Price Submission assumes that all the existing major customers continue to remain operating for the regulatory period.

Minor trade waste customer growth has been aligned with the growth of non-residential customers.

Total trade waste revenue is assumed to grow by 2% per annum on the average of the 2012-2016 years.

## 9.4 CLIMATE MODELS

The impact of climate variability has been considered for each of our supply systems by modelling four climate change demand futures. Low, medium and high impact projections on water availability from climate-dependent sources, plus a step-change scenario have been modelled. Our 2017-2065 Urban Water Strategy provides further detail and subsequent outcomes. There is no material effect on this Price Submission.

## 10 TARIFFS

Wannon Water is proposing tariff increases of CPI only for the period of this Price Submission. In fact, Wannon Water is aiming for CPI-only tariff increases for the next 10-year period. Our financial modelling indicates this is achievable and is supported by our customers' feedback for stable tariffs.

For this regulatory period, we believe CPI only increases provides sustainable revenue streams. In light of the significant capital investment program, we will require additional debt during the period and therefore incur increases in borrowing costs. Our forecast financial indicators indicate we can accommodate this.

A price cap regime is favoured by Wannon Water as this provides pricing certainty for Wannon Water customers year on year. Our customers, especially our major customers, told us they value pricing certainty as it assists them to plan their business operations into the future with some confidence.

Our tariff structures have been simplified over the past five years. The merger of some groups of both water and sewerage tariffs was endorsed by customers and carried out in the final year of the current regulatory period. From 1 July 2018 our water tariff groups will reduce from four to two groups (A and B) and our sewerage service tariff will reduce from three groups to a single consistent tariff across the region. Our water and sewerage tariffs will be easier to understand and will be easier to administer.

We propose to retain our tiered water use tariff structure for residential customers and to phase out the Government Efficiency Rebate for tenants. We will provide a \$35 rebate to tenant customers in the 2018/19 year.

Major Trade Waste tariffs will continue to rise by 2% plus CPI per annum. The current major trade waste pricing principles will remain unchanged.

New Customer Contribution (NCC) charges were developed in accordance with the ESC principles outlined in the guidance paper. For this Price Submission NCC charges will rise by CPI only,

with current sewer NCC charges for Portland and Hamilton customers reducing by 50%. This will bring those charges into parity with all other towns' sewer NCC charges. In response to feedback from developers, we have committed to a simpler structure for developer construction fees and to implementing a set of principles that will allow for the cost of shared reticulation assets to be shared amongst benefitting landowners.

Miscellaneous charges remain reflective of the cost to provide the services and therefore remain unchanged.

Pricing principles for recycled water remain the same as the current regulatory period.

Other tariff changes noted earlier in this submission relate to Rural Water Surcharge and Minor Trade Waste charges.

Appendix A – Prices & tariff structures provide proposed tariffs and charges.

### 10.1 GOVERNMENT EFFICIENCY REBATE

This rebate ceases effective 30 June 2018, however, we will phase out the rebate for tenant customers by applying a \$35 rebate to tenant customer bills in the first quarter of the 2018/19 year.

Action taken to reduce customer bills in 2016/17 by 2% more than the approved tariff reduction has had the effect of locking in a proportion of this rebate. In fact residential customer bills would have been \$27 higher from 1 July 2018 if this reduction wasn't provided.

The rebate reflected a mix of efficiency savings, deferred operating expenditure and deferred capital works projects. A portion of the deferred expenditure and capital works projects are included in this Price Submission. These costs, along with the increases outlined earlier for operating cost impacts account for more than the balance of the \$70 rebate.

## **11 MONITORING PERFORMANCE**

We will formally report our results against this Price Submission on an annual basis.

Consistent with our desire to be responsive and willing to adapt as customer needs change, we envisage formal reporting to be tailored to suit the needs of our customers in terms of content, format and delivery mechanisms. This will evolve over the period of this Price Submission.

Initially progress reports will be available on our website in July annually and via our customer communication channels (i.e. email, social media).

In committing to undertaking ongoing engagement with our customers, we will provide informal reporting at appropriate times within the engagement process.

## **12 MEASURING AND SHARING PERFORMANCE**

Whilst we have used the best available information to develop this Price Submission, we understand that the future reality may look different to what we have planned for. The possibility exists that the future financial state of the business may exceed expectations. The possibility also exists that the future may be very different to what we plan. We consider it prudent to consider how we would manage those circumstance in advance.

Wannon Water has a strong record of sharing the benefits of excellent performance with our customers. We recognise the importance of affordability to our customers and we consider this when we have the opportunity to share benefits that arise from excellent delivery of performance.

- In 2012 we reduced tariffs by 1% below the maximum allowed by the ESC, the first instance of a Victorian water corporation doing this;
- In 2016 we again reduced tariffs by 2% below the maximum allowed by the ESC for the benefit of our customers; and
- For each of the last four years we have provided a \$70 rebate to residential water use customers.

These examples demonstrate our attitude to share benefits following the identification and implementation of a range of significant internal business efficiency improvements.

Wannon Water considers that our historical approach of sharing unexpected benefits with current and future customers through approaches including tariff reduction, debt reduction and absorbing unexpected cost increases (such as energy market fluctuations) has been robust. Maintaining this approach throughout the period of this Price Submission is considered appropriate to deliver maximum value.

Should the future hold significant increases in operating costs which have not been allowed for in this plan, the circumstance may arise where we may need to review our proposed tariffs to remain financially viable. While this is highly unlikely, under the circumstance that there is a risk to our financial viability, a tariff review would be undertaken in consultation with our customers and with the ESC.

## **I3 NON-REGULATED BUSINESS**

Non regulated revenue currently consists of:

- Brine receival;
- Property lease income; and
- Recovery of plant specific operating costs.

For this Price Submission period we do not envisage any new classes of non-regulated revenue.

Revenue from brine is generated at Warrnambool from the acceptance of brine from the Mortlake Power Station. Historically, brine has been received from Hamilton's Mineral Separation Plant, but this business has ceased its Hamilton operations and, subsequently, the revenue component will no longer be received.

Property lease revenue is received from various parties who lease land largely for grazing purposes and from various organisations who lease sites for communication devices.

Revenue from the recovery of treatment plant specific operating costs (identified in the table below) is generated from Sun Pharmaceutical, Origin Energy Ltd and Parks Victoria (12 Apostles). We have agreements with each party where we operate infrastructure assets for these organisations and are reimbursed for these costs.

	2018/19	2019/20	2020/21	2021/22	2022/23
Revenue	2.96	3.08	3.12	3.05	2.98
Operating expenditure	2.14	2.16	2.17	2.19	2.19

## **I4 FINANCIAL SUSTAINABILITY**

A key outcome of this Price Submission is the maintenance of a financially viable corporation during and beyond this period.

Wannon Water is forecasting small operating profits and steady cash inflows from operating activities for all five years of this Price Submission.

A mix of cash inflows and new debt will fund our significant capital investment program. Our total borrowings are forecast to increase by \$28 million to \$71 million by the end of this Price Submission period. Cash flow forecasts indicate we can service this increased level of debt and our gearing ratio remains low.

## 15 BEYOND 2023

Wannon Water is forecasting CPI only (0% real per year) tariff increases for the five years beyond 30 June 2023.

It is not expected there will be any items that significantly increase operating expenditure during this period and the Corporation is targeting an annual 1.9% efficiency target during the period.

An average annual customer growth rate of 0.8%, and an average annual growth in demand of 0.91% has been assumed during this period. Revenue requirement during the period is projected to be \$374 million.

	2023/24	2024/25	2025/26	2026/27	2027/28
Operating expenditure	44.90	44.72	44.57	44.41	44.30
Return on assets	16.93	17.26	17.63	17.77	17.77
Regulatory depreciation of assets	12.90	12.80	12.71	12.84	12.99
<b>Total revenue requirement</b>	<b>74.73</b>	<b>74.78</b>	<b>74.91</b>	<b>75.02</b>	<b>75.06</b>

Prescribed capital expenditure totaling \$94 million is forecast for the 2023-28 period. The table below provides the proposed opening, forecasts and closing RAB for the 2023-2028 period. It also includes forecasts for customer contributions, proceeds from disposals and regulatory depreciation.

	2023/24	2024/25	2025/26	2026/27	2027/28
Opening asset base	421.44	425.20	437.80	443.86	444.65
plus Gross capex	18.03	26.77	20.78	15.00	13.61
less Government contributions	-	-	-	-	-
less Customer contributions	0.87	0.87	1.52	0.87	0.88
less Proceeds from disposals	0.50	0.50	0.50	0.50	0.50
less Regulatory depreciation	12.90	12.80	12.70	12.84	12.99
<b>Closing asset base</b>	<b>425.20</b>	<b>437.80</b>	<b>443.86</b>	<b>444.65</b>	<b>443.89</b>

Wannon Water is proposing to reduce debt by \$37 million during this period to total borrowings of \$34 million.

# 16 APPENDIX A - PRICES & TARIFF STRUCTURES

## Regulated Tariffs and Charges

All prices are in January 2018 dollars, CPI to be applied to the stated prices for 2018/ 19, unless otherwise stated

### 1. WATER TARIFFS

<b>Group A</b>	Allansford, Balmoral, Camperdown, Caramut, Carlisle, Carpenteit, Cavendish, Cobden, Dunkeld, Glenthompson, Hamilton, Heywood, Koroit, Lismore/ Derrinallum, Mortlake, Noorat/ Glenormiston, Penshurst, Port Fairy, Portland, Purnim, Simpson, Tarrington, Terang, Warrnambool
<b>Group B</b>	Casterton, Coleraine, Dartmoor, Macarthur, Merino, Peterborough, Port Campbell, Sandford, Timboon
<b>Darlington</b>	Darlington

#### 1.1 Urban Residential, Non-Residential and Rural Water Service Charges (per annum)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Service Charge - Group A</b>						
0-20mm connection	\$165.05	0%	0%	0%	0%	0%
21-25mm connection	\$246.01	0%	0%	0%	0%	0%
26-32mm connection	\$662.01	0%	0%	0%	0%	0%
33-40mm connection	\$1,159.10	0%	0%	0%	0%	0%
41-50mm connection	\$1,821.62	0%	0%	0%	0%	0%
51-80mm connection	\$2,649.99	0%	0%	0%	0%	0%
81-100mm connection	\$3,832.00	0%	0%	0%	0%	0%
101-150mm connection	\$5,352.94	0%	0%	0%	0%	0%
151+mm connection	\$7,071.18	0%	0%	0%	0%	0%
<b>Service Charge - Group B</b>						
0-20mm connection	\$298.24	0%	0%	0%	0%	0%
21-25mm connection	\$444.37	0%	0%	0%	0%	0%
26-32mm connection	\$1,194.88	0%	0%	0%	0%	0%
33-40mm connection	\$2,091.78	0%	0%	0%	0%	0%
41-50mm connection	\$3,287.16	0%	0%	0%	0%	0%
51-80mm connection	\$4,781.74	0%	0%	0%	0%	0%
81-100mm connection	\$6,914.32	0%	0%	0%	0%	0%
101-150mm connection	\$9,658.50	0%	0%	0%	0%	0%
151+mm connection	\$12,758.61	0%	0%	0%	0%	0%
<b>Service Charge - Darlington</b>						
Darlington Service Charge	\$165.05	0%	0%	0%	0%	0%

#### 1.2 Urban Residential Water Usage Charges (per kL)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Usage Charge - Group A</b>						
User Charge Block 1 (0 - 438 litres per day)	\$1.8561	0%	0%	0%	0%	0%
User Charge Block 2 (439 - 822 litres per day)	\$2.2284	0%	0%	0%	0%	0%
User Charge Block 3 (822+ litres per day)	\$3.3427	0%	0%	0%	0%	0%
<b>Usage Charge - Group B</b>						
User Charge Block 1 (0 - 438 litres per day)	\$1.4314	0%	0%	0%	0%	0%
User Charge Block 2 (439 - 822 litres per day)	\$1.7185	0%	0%	0%	0%	0%
User Charge Block 3 (822+ litres per day)	\$2.5777	0%	0%	0%	0%	0%
<b>Usage Charge - Darlington</b>						
Darlington Usage - All usage	\$0.6107	0%	0%	0%	0%	0%

### 1.3 Urban Non-Residential and Rural Water Usage Charges (per kL)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Usage Charge - Group A</b>						
Potable Water	\$2.2284	0%	0%	0%	0%	0%
Non-Potable Water	\$1.8562	0%	0%	0%	0%	0%
<b>Usage Charge - Group B</b>						
Potable Water	\$1.7185	0%	0%	0%	0%	0%
Non-Potable Water	\$1.4314	0%	0%	0%	0%	0%
<b>Usage Charge - Darlington</b>						
Darlington Usage - All usage	\$0.6107	0%	0%	0%	0%	0%

### 1.4 Rural Water Usage Surcharge (per kL)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
All Groups - Surcharge *	\$2.5632	0%	0%	0%	0%	0%

\* Note: CPI does not apply to the Rural Water Surcharge

### 1.5 Un-connected Water Service Charge (per annum)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
All Groups - Service Charge	\$165.05	0%	0%	0%	0%	0%

### 1.5 Un-metered Water Service Charge (per annum)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
All Groups - Service Charge	\$1,414.22	0%	0%	0%	0%	0%

## 2. SEWERAGE TARIFFS

### 2.1 Sewerage Service Charges (per annum)

	(1/1/18 \$)				
	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
All Groups - Connected	\$734.36	0%	0%	0%	0%
All Groups - Un-Connected	\$220.29	0%	0%	0%	0%

### 2.2 Non-Residential Sewage Volume Charge (per kL)

<b>Group 1</b>	Allansford, Koroit, Warrnambool
<b>Group 2</b>	Hamilton
<b>Group 3</b>	Portland
<b>Group 4</b>	Port Fairy
<b>Group 5</b>	Camperdown, Casterton, Cobden, Coleraine, Dunkeld, Heywood, Mortlake, Peterborough, Port Campbell, Simpson, Terang, Timboon

	(1/1/18 \$)				
	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
Group 1 - Volume Charge	\$1.1788	3.8%	3.8%	3.8%	3.8%
Group 2 - Volume Charge	\$1.3681	0%	0%	0%	0%
Group 3 - Volume Charge *	\$1.6378	0%	0%	0%	0%
Group 4 - Volume Charge *	\$1.8424	0%	0%	0%	0%
Group 5 - Volume Charge *	\$1.7988	0%	0%	0%	0%

\* Note: CPI does not apply to Groups 3, 4 and 5

## 3. TRADE WASTE CHARGES

### 3.1 Major Trade Waste Charges

	(1/1/18 \$)				
	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Fixed Charge (per annum)</b>	As per pricing principles/agreement	2%	2%	2%	2%
<b>Volume Charge (per kL)</b>	\$0.5766	2%	2%	2%	2%
<b>Quality Charges (per kg):</b>					
BOD	\$1.3247	2%	2%	2%	2%
SS	\$0.2406	2%	2%	2%	2%
Ammonia	\$1.3877	2%	2%	2%	2%

### 3.2 Minor Trade Waste Charges

<b>Group 1</b>	Allansford, Koroit, Warrnambool
<b>Group 2</b>	Hamilton
<b>Group 3</b>	Portland
<b>Group 4</b>	Port Fairy
<b>Group 5</b>	Camperdown, Casterton, Cobden, Coleraine, Dunkeld, Heywood, Mortlake, Peterborough, Port Campbell, Simpson, Terang, Timboon

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
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#### **All Groups - Fixed Charge (per annum):**

Pre-Treatment Required	\$448.12	0%	0%	0%	0%
No Pre-Treatment Required	\$224.05	0%	0%	0%	0%

#### **Volume Charge (per kL):**

Group 1	\$1.1788	3.8%	3.8%	3.8%	3.8%
Group 2	\$1.3681	0%	0%	0%	0%
Group 3 *	\$1.6378	0%	0%	0%	0%
Group 4 *	\$1.8424	0%	0%	0%	0%
Group 5 *	\$1.7988	0%	0%	0%	0%

\* Note: CPI does not apply to Groups 3, 4 and 5

## 4. FIRE SERVICE CHARGES

### 4.1 Fire Service Charge - All Groups (per annum)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
0-20mm connection	\$49.70	0%	0%	0%	0%	0%
21-25mm connection	\$74.01	0%	0%	0%	0%	0%
26-32mm connection	\$198.88	0%	0%	0%	0%	0%
33-40mm connection	\$348.10	0%	0%	0%	0%	0%
41-50mm connection	\$546.99	0%	0%	0%	0%	0%
51-80mm connection	\$795.66	0%	0%	0%	0%	0%
81-100mm connection	\$1,150.48	0%	0%	0%	0%	0%
101-150mm connection	\$3,447.43	0%	0%	0%	0%	0%
151+mm connection	\$4,557.43	0%	0%	0%	0%	0%

## 5. NEW CUSTOMER CONTRIBUTIONS

### 5.1 New Customer Contributions (per lot)

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Warrnambool Growth Areas</b>						
Water	\$4,645.00	0%	0%	0%	0%	0%
Sewer	\$884.00	0%	0%	0%	0%	0%
<b>Warrnambool Roof Water Harvesting Areas</b>						
Water	\$2,212.00	0%	0%	0%	0%	0%
Sewer	\$884.00	0%	0%	0%	0%	0%
<b>All other Areas</b>						
Water	\$884.00	0%	0%	0%	0%	0%
Sewer	\$884.00	0%	0%	0%	0%	0%

## 6. MISCELLANEOUS CHARGES

	(1/1/18 \$)	Price 1 July 2018	PPM 2019-20	PPM 2020-21	PPM 2021-22	PPM 2022-23
<b>Water Tapping Fee (per tapping and including fire services)</b>						
20mm Connection	\$269.00	0%	0%	0%	0%	0%
25mm Connection	\$304.00	0%	0%	0%	0%	0%
<b>Water Meter Fee (per meter)</b>						
20mm Water Meter	\$119.00	0%	0%	0%	0%	0%
25mm Water Meter	\$185.00	0%	0%	0%	0%	0%
<b>Water Disconnection Fee (per disconnection)</b>						
All sizes	\$237.00	0%	0%	0%	0%	0%
<b>Sewer Cut in (per cut in)</b>						
Cut in < 150mm	\$702.00	0%	0%	0%	0%	0%
Cut in 151mm - 225mm	\$824.00	0%	0%	0%	0%	0%
<b>Sewer Connection Application (per application)</b>						
Residential	\$106.00	0%	0%	0%	0%	0%
Residential < One Business Day	\$215.00	0%	0%	0%	0%	0%
Non-Residential	\$145.00	0%	0%	0%	0%	0%
<b>Sewer Disconnection Application (per application)</b>						
All service types	\$140.00	0%	0%	0%	0%	0%
<b>Information Statement (per statement)</b>						
Information Statement request	\$75.00	0%	0%	0%	0%	0%
Information Statement request < One Business Day	\$145.00	0%	0%	0%	0%	0%
<b>Meter Reading (per read)</b>						
Meter Reading Fee	\$44.00	0%	0%	0%	0%	0%

APPENDIX B - INDICATIVE TARIFF AND BILL IMPACTS BY KEY CUSTOMER GROUPS

AVERAGE RESIDENTIAL CUSTOMER - OWNER										AVERAGE RESIDENTIAL CUSTOMER - TENANT										AVERAGE NON RESIDENTIAL CUSTOMER									
WARRNAMBOOL & CAMPERDOWN										WARRNAMBOOL & CAMPERDOWN										WARRNAMBOOL & CAMPERDOWN									
(Projected Average Water Consumption 2013 - 2028: 146KL per annum)										(Projected Average Water Consumption 2013 - 2028: 146KL per annum)										(Projected Average Water Consumption 2013 - 2028: 376KL per annum)									
Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Government	Total %	%	Rebate	BILL Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Government	Total %	%	Rebate	BILL Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Change
2013/14	\$786	\$171	\$280	-0.8%	-\$70	\$1,158	-6.5%			2013/14	\$280				\$280				\$280	2013/14	\$786	\$171	\$867	2013/14	\$1,824	\$1,824			
2014/15	\$777	\$171	\$280	-0.9%	-\$70	\$1,146	-1.0%			2014/15	\$280				\$280				\$280	2014/15	\$777	\$171	\$864	2014/15	\$1,812	\$1,812		-0.7%	
2015/16	\$768	\$170	\$279	-0.9%	-\$70	\$1,112	-3.0%			2015/16	\$279				\$279				\$279	2015/16	\$768	\$170	\$862	2015/16	\$1,800	\$1,800		-0.7%	
2016/17	\$744	\$166	\$272	-2.8%	-\$70	\$1,100	-1.1%			2016/17	\$272				\$272				\$272	2016/17	\$744	\$166	\$842	2016/17	\$1,752	\$1,752		-2.7%	
2017/18	\$734	\$165	\$271	-1.0%	-\$70	\$1,100	-1.1%			2017/18	\$271				\$271				\$271	2017/18	\$734	\$165	\$838	2017/18	\$1,737	\$1,737		-0.8%	
2018/19	\$734	\$165	\$271	0.0%	-\$70	\$1,170	6.4%			2018/19	\$271				\$271				\$271	2018/19	\$734	\$165	\$838	2018/19	\$1,737	\$1,737		0%	
2019/20	\$734	\$165	\$271	0.0%	-\$70	\$1,170	0.0%			2019/20	\$271				\$271				\$271	2019/20	\$734	\$165	\$838	2019/20	\$1,737	\$1,737		0%	
2020/21	\$734	\$165	\$271	0.0%	-\$70	\$1,170	0.0%			2020/21	\$271				\$271				\$271	2020/21	\$734	\$165	\$838	2020/21	\$1,737	\$1,737		0%	
2021/22	\$734	\$165	\$271	0.0%	-\$70	\$1,170	0.0%			2021/22	\$271				\$271				\$271	2021/22	\$734	\$165	\$838	2021/22	\$1,737	\$1,737		0%	
2022/23	\$734	\$165	\$271	0.0%	-\$70	\$1,170	0.0%			2022/23	\$271				\$271				\$271	2022/23	\$734	\$165	\$838	2022/23	\$1,737	\$1,737		0%	

HAMILTON										(Projected Average Water Consumption 2013 - 2028: 146KL per annum)										
Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Rebate	BILL	Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Rebate	BILL	Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Change
2013/14	\$778	\$207	\$373			\$1,358		2013/14	\$373			\$373			\$373	2013/14	\$778	\$207	\$798	\$1,783
2014/15	\$771	\$197	\$347	-3.2%	-\$70	\$1,244	-8.4%	2014/15	\$347			\$277			\$277	2014/15	\$771	\$197	\$741	\$1,708
2015/16	\$763	\$186	\$322	-3.3%	-\$70	\$1,201	-3.4%	2015/16	\$322			\$252			\$252	2015/16	\$763	\$186	\$688	\$1,638
2016/17	\$741	\$174	\$292	-5.1%	-\$70	\$1,137	-5.4%	2016/17	\$292			\$222			\$222	2016/17	\$741	\$174	\$624	\$1,539
2017/18	\$734	\$165	\$271	-3.0%	-\$70	\$1,100	-3.2%	2017/18	\$271			\$201			\$201	2017/18	\$734	\$165	\$579	\$1,478
2018/19	\$734	\$165	\$271	0.0%		\$1,170	6.4%	2018/19	\$271	0.0%		-\$35			-\$35	2018/19	\$734	\$165	\$579	\$1,478
2019/20	\$734	\$165	\$271	0.0%		\$1,170	0.0%	2019/20	\$271	0.0%						2019/20	\$734	\$165	\$579	\$1,478
2020/21	\$734	\$165	\$271	0.0%		\$1,170	0.0%	2020/21	\$271	0.0%						2020/21	\$734	\$165	\$579	\$1,478
2021/22	\$734	\$165	\$271	0.0%		\$1,170	0.0%	2021/22	\$271	0.0%						2021/22	\$734	\$165	\$579	\$1,478
2022/23	\$734	\$165	\$271	0.0%		\$1,170	0.0%	2022/23	\$271	0.0%						2022/23	\$734	\$165	\$579	\$1,478

### AVERAGE RESIDENTIAL CUSTOMER - OWNER

PORTLAND							(Projected Average Water Consumption 2013 - 2028: 146kl per annum)													
Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change		
2013/14	\$761	\$171	\$280	-0.3%	\$70	\$1,213	2013/14	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2013/14	\$761	\$171	\$867	\$1,800		
2014/15	\$759	\$171	\$280	-0.4%	\$70	\$1,199	-1.1%	2014/15	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2014/15	\$759	\$171	\$864	\$1,794	
2015/16	\$756	\$170	\$279	-0.4%	\$70	\$1,134	-0.4%	2015/16	\$279	\$279	-0.3%	\$70	\$209	-0.4%	2015/16	\$756	\$170	\$862	\$1,788	
2016/17	\$739	\$166	\$272	-2.3%	\$70	\$1,107	-2.4%	2016/17	\$272	\$272	-2.3%	\$70	\$202	-3.1%	2016/17	\$739	\$166	\$842	\$1,746	
2017/18	\$734	\$165	\$271	-0.5%	\$70	\$1,100	-0.6%	2017/18	\$271	\$271	-0.5%	\$70	\$201	-0.6%	2017/18	\$734	\$165	\$838	\$1,737	
2018/19	\$734	\$165	\$271	0.0%	\$1,170	6.4%	2018/19	\$271	\$271	0.0%	\$35	\$236	17.4%	2018/19	\$734	\$165	\$838	\$1,737		
2019/20	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2019/20	\$271	\$271	0.0%	\$271	\$14,8%	2019/20	\$734	\$165	\$838	\$1,737			
2020/21	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2020/21	\$271	\$271	0.0%	\$271	0.0%	2020/21	\$734	\$165	\$838	\$1,737			
2021/22	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2021/22	\$271	\$271	0.0%	\$271	0.0%	2021/22	\$734	\$165	\$838	\$1,737			
2022/23	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2022/23	\$271	\$271	0.0%	\$271	0.0%	2022/23	\$734	\$165	\$838	\$1,737			
All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$						

### AVERAGE RESIDENTIAL CUSTOMER - TENANT

PORTLAND							(Projected Average Water Consumption 2013 - 2028: 146kl per annum)													
Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change		
2013/14	\$761	\$171	\$280	-0.3%	\$70	\$1,213	2013/14	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2013/14	\$761	\$171	\$867	\$1,800		
2014/15	\$759	\$171	\$280	-0.4%	\$70	\$1,199	-1.1%	2014/15	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2014/15	\$759	\$171	\$864	\$1,794	
2015/16	\$756	\$170	\$279	-0.4%	\$70	\$1,134	-0.4%	2015/16	\$279	\$279	-0.3%	\$70	\$209	-0.4%	2015/16	\$756	\$170	\$862	\$1,788	
2016/17	\$739	\$166	\$272	-2.3%	\$70	\$1,107	-2.4%	2016/17	\$272	\$272	-2.3%	\$70	\$202	-3.1%	2016/17	\$739	\$166	\$842	\$1,746	
2017/18	\$734	\$165	\$271	-0.5%	\$70	\$1,100	-0.6%	2017/18	\$271	\$271	-0.5%	\$70	\$201	-0.6%	2017/18	\$734	\$165	\$838	\$1,737	
2018/19	\$734	\$165	\$271	0.0%	\$1,170	6.4%	2018/19	\$271	\$271	0.0%	\$35	\$236	17.4%	2018/19	\$734	\$165	\$838	\$1,737		
2019/20	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2019/20	\$271	\$271	0.0%	\$271	14.8%	2019/20	\$734	\$165	\$838	\$1,737			
2020/21	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2020/21	\$271	\$271	0.0%	\$271	0.0%	2020/21	\$734	\$165	\$838	\$1,737			
2021/22	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2021/22	\$271	\$271	0.0%	\$271	0.0%	2021/22	\$734	\$165	\$838	\$1,737			
2022/23	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2022/23	\$271	\$271	0.0%	\$271	0.0%	2022/23	\$734	\$165	\$838	\$1,737			
All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$						

### AVERAGE NON RESIDENTIAL CUSTOMER

PORTLAND							(Projected Average Water Consumption 2013 - 2028: 146kl per annum)													
Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change		
2013/14	\$761	\$171	\$280	-0.3%	\$70	\$1,213	2013/14	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2013/14	\$761	\$171	\$867	\$1,800		
2014/15	\$759	\$171	\$280	-0.4%	\$70	\$1,199	-1.1%	2014/15	\$280	\$280	-0.3%	\$70	\$209	-25.3%	2014/15	\$759	\$171	\$864	\$1,794	
2015/16	\$756	\$170	\$279	-0.4%	\$70	\$1,134	-0.4%	2015/16	\$279	\$279	-0.3%	\$70	\$209	-0.4%	2015/16	\$756	\$170	\$862	\$1,788	
2016/17	\$739	\$166	\$272	-2.3%	\$70	\$1,107	-2.4%	2016/17	\$272	\$272	-2.3%	\$70	\$202	-3.1%	2016/17	\$739	\$166	\$842	\$1,746	
2017/18	\$734	\$165	\$271	-0.5%	\$70	\$1,100	-0.6%	2017/18	\$271	\$271	-0.5%	\$70	\$201	-0.6%	2017/18	\$734	\$165	\$838	\$1,737	
2018/19	\$734	\$165	\$271	0.0%	\$1,170	6.4%	2018/19	\$271	\$271	0.0%	\$35	\$236	17.4%	2018/19	\$734	\$165	\$838	\$1,737		
2019/20	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2019/20	\$271	\$271	0.0%	\$271	14.8%	2019/20	\$734	\$165	\$838	\$1,737			
2020/21	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2020/21	\$271	\$271	0.0%	\$271	0.0%	2020/21	\$734	\$165	\$838	\$1,737			
2021/22	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2021/22	\$271	\$271	0.0%	\$271	0.0%	2021/22	\$734	\$165	\$838	\$1,737			
2022/23	\$734	\$165	\$271	0.0%	\$1,170	0.0%	2022/23	\$271	\$271	0.0%	\$271	0.0%	2022/23	\$734	\$165	\$838	\$1,737			
All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$						

### PETERBOROUGH & TIMBOON

PETERBOROUGH & TIMBOON							(Projected Average Water Consumption 2013 - 2028: 108kl per annum)													
Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change		
2013/14	\$786	\$309	\$160	-0.8%	\$70	\$1,255	2013/14	\$160	\$160	-0.3%	\$70	\$90	-44.0%	2013/14	\$786	\$309	\$642	\$1,737		
2014/15	\$777	\$308	\$160	-0.9%	\$70	\$1,175	-1.0%	2014/15	\$160	\$160	-0.3%	\$70	\$89	-0.5%	2014/15	\$777	\$308	\$640	\$1,725	
2015/16	\$768	\$306	\$159	-2.8%	\$70	\$1,164	-1.0%	2015/16	\$159	\$159	-0.3%	\$70	\$86	-0.2%	2015/16	\$768	\$306	\$638	\$1,713	
2016/17	\$744	\$299	\$156	-1.0%	\$70	\$1,129	-3.0%	2016/17	\$156	\$156	-2.3%	\$70	\$86	-2.2%	2016/17	\$744	\$299	\$623	\$1,667	
2017/18	\$734	\$298	\$155	-0.8%	\$70	\$1,117	-1.1%	2017/18	\$155	\$155	-0.7%	\$70	\$85	-1.3%	2017/18	\$734	\$298	\$619	\$1,652	
2018/19	\$734	\$298	\$155	0.0%	\$1,187	6.3%	2018/19	\$155	\$155	0.0%	\$35	\$120	41.8%	2018/19	\$734	\$298	\$619	\$1,651		
2019/20	\$734	\$298	\$155	0.0%	\$1,187	0.0%	2019/20	\$155	\$155	0.0%	\$155	29.3%	2019/20	\$734	\$298	\$619	\$1,651			
2020/21	\$734	\$298	\$155	0.0%	\$1,187	0.0%	2020/21	\$155	\$155	0.0%	\$155	0.0%	2020/21	\$734	\$298	\$619	\$1,651			
2021/22	\$734	\$298	\$155	0.0%	\$1,187	0.0%	2021/22	\$155	\$155	0.0%	\$155	0.0%	2021/22	\$734	\$298	\$619	\$1,651			
2022/23	\$734	\$298	\$155	0.0%	\$1,187	0.0%	2022/23	\$155	\$155	0.0%	\$155	0.0%	2022/23	\$734	\$298	\$619	\$1,651			
All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$							All amounts are stated in 1/1/18\$						

### PETERBOROUGH & TIMBOON

PETERBOROUGH & TIMBOON							(Projected Average Water Consumption 2013 - 2028: 376kl per annum)											
Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change	Rebate	BILL	Financial Year	Sewer Fixed	Water Fixed	Variable	% Change




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### AVERAGE RESIDENTIAL CUSTOMER - OWNER

CASTERTON & COLERAINE (Projected Average Water Consumption 2013 - 2028: 121kl per annum)							CASTERTON & COLERAINE (Projected Average Water Consumption 2013 - 2028: 121kl per annum)							AVERAGE NON RESIDENTIAL CUSTOMER							
Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Government Rebate	Total BILL	% Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Government Rebate	Total BILL	% Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Government Rebate	Total BILL	% Change
2013/14	\$778	\$348	\$221		\$1,346			2013/14	\$221			\$221			2013/14	\$778	\$348	\$495	\$1,620		
2014/15	\$771	\$336	\$209	-2.2%	-\$70	\$1,246	-7.4%	2014/15	\$209			\$70			2014/15	\$771	\$336	\$469	\$1,576	-2.7%	
2015/16	\$763	\$325	\$198	-2.3%	-\$70	\$1,216	-2.4%	2015/16	\$198			\$70			2015/16	\$763	\$325	\$443	\$1,531	-2.9%	
2016/17	\$741	\$308	\$183	-4.2%	-\$70	\$1,162	-4.4%	2016/17	\$183			\$70			2016/17	\$741	\$308	\$411	\$1,460	-4.6%	
2017/18	\$734	\$298	\$173	-2.1%	-\$70	\$1,136	-2.3%	2017/18	\$173			\$70			2017/18	\$734	\$298	\$388	\$1,421	-2.7%	
2018/19	\$734	\$298	\$173	0.0%	\$1,206	6.2%		2018/19	\$173	0.0%		-\$35			2018/19	\$734	\$298	\$388	\$1,421	0.0%	
2019/20	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2019/20	\$173	0.0%					2019/20	\$734	\$298	\$388	\$1,421	0.0%	
2020/21	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2020/21	\$173	0.0%					2020/21	\$734	\$298	\$388	\$1,421	0.0%	
2021/22	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2021/22	\$173	0.0%					2021/22	\$734	\$298	\$388	\$1,421	0.0%	
2022/23	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2022/23	\$173	0.0%					2022/23	\$734	\$298	\$388	\$1,421	0.0%	

All amounts are stated in 1/1/18\$

All amounts are stated in 1/1/18\$

### AVERAGE RESIDENTIAL CUSTOMER - TENANT

CASTERTON & COLERAINE (Projected Average Water Consumption 2013 - 2028: 121kl per annum)							CASTERTON & COLERAINE (Projected Average Water Consumption 2013 - 2028: 121kl per annum)							AVERAGE NON RESIDENTIAL CUSTOMER							
Financial Year	Sewer Fixed	Water Fixed	Variable	Change	Government Rebate	Total BILL	% Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Government Rebate	Total BILL	% Change	Financial Year	Sewer Fixed	Water Fixed	Variable	Government Rebate	Total BILL	% Change
2013/14	\$778	\$348	\$221		\$1,346			2013/14	\$221			\$221			2013/14	\$778	\$348	\$495	\$1,620		
2014/15	\$771	\$336	\$209	-2.2%	-\$70	\$1,246	-7.4%	2014/15	\$209			\$70			2014/15	\$771	\$336	\$469	\$1,576	-2.7%	
2015/16	\$763	\$325	\$198	-2.3%	-\$70	\$1,216	-2.4%	2015/16	\$198			\$70			2015/16	\$763	\$325	\$443	\$1,531	-2.9%	
2016/17	\$741	\$308	\$183	-4.2%	-\$70	\$1,162	-4.4%	2016/17	\$183			\$70			2016/17	\$741	\$308	\$411	\$1,460	-4.6%	
2017/18	\$734	\$298	\$173	-2.1%	-\$70	\$1,136	-2.3%	2017/18	\$173			\$70			2017/18	\$734	\$298	\$388	\$1,421	-2.7%	
2018/19	\$734	\$298	\$173	0.0%	\$1,206	6.2%		2018/19	\$173	0.0%		-\$35			2018/19	\$734	\$298	\$388	\$1,421	0.0%	
2019/20	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2019/20	\$173	0.0%					2019/20	\$734	\$298	\$388	\$1,421	0.0%	
2020/21	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2020/21	\$173	0.0%					2020/21	\$734	\$298	\$388	\$1,421	0.0%	
2021/22	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2021/22	\$173	0.0%					2021/22	\$734	\$298	\$388	\$1,421	0.0%	
2022/23	\$734	\$298	\$173	0.0%	\$1,206	0.0%		2022/23	\$173	0.0%					2022/23	\$734	\$298	\$388	\$1,421	0.0%	

All amounts are stated in 1/1/18\$

All amounts are stated in 1/1/18\$

## 18 APPENDIX C - OUTCOMES, MEASURES AND TARGETS

OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
<b>Provide safe and reliable water supplies</b>	Provision of safe drinking water	Mandatory notifications to customers of non-compliance with ADWG and Safe Drinking Water Regulations • Note this excludes regulated supplies	No notifications	No notifications
<b>Provide sewerage services that protect public health and the environment</b>	Customer satisfaction with taste, smell, clarity and hardness of drinking water	Percentage of customers satisfied with water quality	88% <sup>1</sup>	Improving trend
	Customer satisfaction with management of water service interruptions	Percentage of customers who experienced water service interruptions that are satisfied with our management of the interruption	83%	83%

<sup>1</sup> Customer Value Survey 2017

<sup>2</sup> Not currently measured. A benchmark will be set by 30 June 2018

OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
<b>Ensure the long-term resilience of our services</b>	Demonstrate clear, efficient, effective and consistent asset management work processes	Asset Management Customer Value benchmarking result	In top quartile of benchmark group	Maintain top quartile ranking within benchmark group
	Our customers experience no water restrictions	Number of water restrictions placed on customers	Nil	Nil
<b>Be responsive and willing to adapt as their needs change</b>	There is ongoing engagement with our customers and community to build capacity, strengthen relationships and which informs continuous improvement of our services	Number of customers engaged each year	Varies year on year	At least 500 instances of two-way engagement per annum
	Our customers are transacting with us using an on-line portal	Number of customers using an on-line portal	0	Improving trend
<b>Protect and enhance the environment in line with community expectations</b>	Our Environmental Management System is effective	Managing our impacts on the environment in line with broad community expectations	95.5% Compliance with Amalgamated EPA Licence	100% Compliance with An amalgamated EPA Licence
	Our water extractions are sustainable	Managing our water extractions in line with broad community expectations	Compliance with bulk entitlement and groundwater licences in line with community expectations	Compliance with bulk entitlement and groundwater licences in line with community expectations

OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
	Reduce Scope 1 and 2 Greenhouse Gas Emissions by 40% by 2025	Percentage emissions reduction compared to baseline <sup>3</sup>	8.8%	24.5%
	Customer satisfaction with our performance partnering with communities to help our region flourish	Percentage of customers satisfied with our performance partnering with communities to help our region flourish	NA <sup>4</sup>	Improving trend
<b>Partner with their communities and helping our region flourish</b>	Regional stakeholder satisfaction with our performance partnering on areas of regional priority	Percentage of regional stakeholders satisfied with our performance partnering on areas of regional priority	NA <sup>4</sup>	Improving trend
	There is ongoing engagement with our customers and community to build capacity, strengthen relationships and inform decision making	Number of instances of two-way engagement to inform the development of each annual corporate plan	Varies year on year	At least 500 instances of two-way engagement per annum
		Percentage of customers who engaged with Wannon Water satisfied with the engagement process	NA <sup>4</sup>	Improving trend
<b>Ensure we provide great value</b>	Customer overall satisfaction	Customer satisfaction with value for money	84% satisfied or very satisfied	An increasing trend

<sup>3</sup> Baseline of 31,626 tCO2-e, which is the average emissions (Scope 1 and 2) reported for the 5 years from 2011-2016

<sup>4</sup> Not currently measured. A benchmark will be set by 30 June 2018

## 19 APPENDIX D - PREMO ASSESSMENT

Engagement	Guiding questions	WW comment	Self-Assessment	References
To what extent has the business justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers?	<p>WW has undertaken a number of engagement activities, completing 3,000 instances of engagement, 505 of which were in-depth. This included:</p> <ul style="list-style-type: none"> <li>● 22 small group community discussion across 10 towns with 218 participants;</li> <li>● Engagement with its stakeholder reference group on the Warrnambool Treatment Plant Upgrade</li> <li>● 177 key stakeholder meetings and interviews with councils, family groups, environmental groups, regional organisations, recycled water customers, developers and major customers;</li> <li>● A deliberative forum with seven towns represented and five issues deliberated;</li> <li>● Community events;</li> <li>● 2,304 survey responses, via phone, online and in person at events; and</li> <li>● the deliberative forum held with members of the CAC, which asked members to deliberate on five key themes for the price submission.</li> </ul>	We believe that we have demonstrated we have undertaken significant engagement for a business of our size. The various engagement activities evidence a program that has sought to not only allow all customers to participate, but also to have a series of targeted engagement sessions with different customer groups on issues of priority to them.	Advanced	<ul style="list-style-type: none"> <li>● Section 6 – Engagement</li> <li>● Price Submission 2018-23: Final Engagement Report</li> </ul>
To what extent has the business demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement?	The appendices to the Price Submission 2018-23: Final Engagement Report detail the information provided to customers for each stage of engagement. This includes survey instruments, fact sheets, pre-reading and presentation for the deliberative forum, Warrnambool Water Reclamation Plant (WWRP) newsletter for neighbours of the WWRP, large printed maps and plans for drop-in session for the WWRP, pre-reading and presentations for WWRP stakeholder reference group, presentation for small group discussions (tailored to audience, e.g., one for community groups, one for local government executives etc.), presentations for developers forum, presentations for major customer forum.	We believe we have documented and demonstrated that we have provided significant information to customers during each round of engagement.	Advanced	<ul style="list-style-type: none"> <li>● Price Submission 2018-23: Final Engagement Report</li> </ul>

<b>Engagement</b>	<p>To what extent has the business demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?</p> <p>The first two rounds of engagement sought to understand customer values and priorities, to ensure that customer feedback developed and shaped the nature and themes of what we engaged upon in subsequent rounds. These first two rounds established a set of 'principles', which determined alignment with our corporate strategic objectives:</p> <ul style="list-style-type: none"> <li>● Value for Customers – balancing the needs of current and future customers; providing safe, reliable and responsive services that our customers value; no price shocks</li> <li>● Stronger Communities – strengthening communities and business in south west Victoria; protecting and enhancing the environment</li> <li>● Organisational Capability – providing a safe, diverse and inclusive workplace for our people;</li> <li>● Business Excellence – balancing economic outcomes with social, environmental and cultural needs</li> </ul> <p>These principles were then used to shape the content for a deeper dive on issues raised, and those of importance to the development of the price submission. This allowed us to establish a set of customer insights.</p> <p>Customer insights formed the nucleus for the fourth round of engagement, which sought to test and refine these insights, and to inform the development of proposals.</p> <p>Draft proposals were tested in the final round of engagement with customers.</p> <p>Overall, engagement content included various projects, willingness to pay trade-offs, tariffs, building blocks components and the entire submission.</p> <p>We believe we have significantly demonstrated that we have engaged on issues of most importance to customers, and that we have engaged on issues that have the largest influence on services provided and prices charges.</p> <p>We believe we have demonstrated how we sought to understand customer values and priorities, and used this to not only shape the issues for engagement, but also outcomes, outputs and proposals contained within the price submission.</p>
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Engagement	<p>To what extent has the business explained how it decided when to carry out its engagement?</p> <p>Engagement has occurred over a 22 month period, beginning December 2015, prior to the commencement of our price submission working group and project investment committees.</p> <p>This ensured that engagement findings were present in the planning and development of the price submission from the outset.</p> <p>We completed five discrete rounds of engagement:</p> <ul style="list-style-type: none"> <li>● Stakeholder Perceptions round (December 2015);</li> <li>● Early round (April 2016);</li> <li>● Broad round (capturing a wide variety of customers) (November 2016);</li> <li>● Deep round (probing deeper on the themes arising in the earlier rounds) (February 2017);</li> <li>● Feedback on proposals for the price submission (June 2017).</li> </ul> <p>We believe we have clearly demonstrated that we sought to engage customers prior to the development of the price submission, to determine their values and priorities.</p> <p>We believe we have evidenced that each stage of engagement was undertaken to reflect the learnings from the prior stage, and to test the proposals to be contained within the submission.</p>
	<p>Leading</p> <ul style="list-style-type: none"> <li>● Price Submission 2018-23: Final Engagement Report</li> <li>● Section 6 – Engagement</li> </ul>

<b>Engagement</b>	<p>To what extent has the business demonstrated how its engagement with customers has influenced its submission?</p>	<p>Our fourth round of engagement sought to test and refine customer insights, and to inform the development of proposals. Draft proposals were then tested in the final round of engagement with customers.</p> <p>Feedback sought from our customers on how well our price submission reflects the outcomes determined. Between 73% -86% of customers were either satisfied or very satisfied that our proposals reflected the outcomes that they wanted delivered.</p> <p>Within Section 7, we have detailed the various activities that we will undertake to support the delivery of each outcome.</p> <p>We believe we have demonstrated that feedback learned through engagement has influenced its proposals, especially outcomes.</p>	<p><b>PREMO scoring system</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #e67e22; color: white; padding: 2px;">Outcomes</td><td style="padding: 2px;">Confident the element is 'Advanced'</td><td style="padding: 2px;">3.25</td></tr> </table> <p><b>Guiding questions</b></p> <p>Has the business provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?</p>	Outcomes	Confident the element is 'Advanced'	3.25	<ul style="list-style-type: none"> <li>● Price Submission 2018-23: Final Engagement Report</li> <li>● Section 6 – Engagement</li> <li>● Section 7 – Outcomes</li> </ul> <p>We have documented the following process to support that outcomes reflect customer views:</p> <ul style="list-style-type: none"> <li>● Early rounds of engagement sought to understand customer values and needs, and to agree a set of principles to overlay subsequent rounds of engagement and to inform issues for engagement;</li> <li>● These principles were then used to shape the content for a deeper dive on issues raised, and those of importance to the development of the price submission. This allowed us to establish a set of customer insights.</li> <li>● Each of these insights were tested through quantitative research surveys, with the results used to develop its outcomes</li> <li>● We then completed further quantitative research to determine customer views on whether our draft proposals adequately reflected the customer outcomes to be deliver. 73% -86% of customers were satisfied or very satisfied</li> </ul> <p>We believe we have clearly demonstrated that the outcomes proposed have taken into account the views, concerns and priorities of customers.</p>
Outcomes	Confident the element is 'Advanced'	3.25					

<b>Engagement</b>	<p>Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?</p> <p>Overall, our operating expenditure forecast profile has not been allocated to align with outcomes. This would have been an arbitrary apportionment in some cases.</p>	<p>For each outcome within Section 7, we have qualitatively discussed the activities that we will undertake to support the delivery of outcomes. We have detailed the level of expenditure related to new activities and major capital projects/programs that relate to the outcomes.</p> <p>Our current cost structure is weighted heavily towards providing safe and reliable water supplies and providing sewerage services that protect public health and the environment. We believe this reflects feedback from our customers that they value our current levels of service.</p> <p>We will begin to track costs against our outcomes during this price submission period. This will allow us to demonstrate a re-prioritisation of expenditure should customer priorities change during this price submission period.</p>	<p>Has the business proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?</p>	<p>Standard</p> <ul style="list-style-type: none"> <li>● Section 7 – Outcomes</li> <li>● Financial Model</li> </ul>
				<p>Standard</p> <ul style="list-style-type: none"> <li>● Section 7 – Outcomes</li> <li>● Appendix C</li> </ul>
				<p>We believe the measures reflect an appropriate mix of customer satisfaction and measures that impact the service customers will receive at a suitably high level.</p> <p>We note that we have not included any network performance indicators. Based on our historic performance we believe these are not experienced by the far majority of our customers, and therefore are meaningless to them. Additionally, our customers told us they value prompt communication about supply interruptions and restoration. Current network performance indicators do not take this aspect of managing the interruption into account.</p> <p>We believe the satisfaction measures will measure our overall performance in achieving the outcomes.</p>

<b>Engagement</b>				
Has the business provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?	For each of the performance indicators identified, ten identify an improvement in the level of performance with six maintaining current high levels of performance.	Standard	<ul style="list-style-type: none"> <li>● Section 7 – Outcomes</li> <li>● Appendix C</li> </ul>	
Has the business demonstrated a process to measure performance against each outcome and to inform customers?	We have committed to report annually to customers. The content and methods of communication has not been developed . It is suggested that feedback from customers over time will drive this.	Standard	Section 11 – Monitoring performance	
<b>PREMO scoring system</b>	<b>Very confident the element is 'Standard'</b>	<b>2.5</b>		

Management	WW comment	Self-Assessment	References
Guiding questions			
To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?	<p>To support the prudence of our opex forecast, we have selected the most recent year of actual opex (2016-17) to form the baseline, and made adjustment to exclude any one-off costs incurred during that year that are non-recurring. We have identified a series of adjustments to the baseline to account for cost variations to deliver customer outcomes, new capex, and to account for increases (over and above CPI) in energy costs, wages, technology software maintenance and licence costs, new operating costs from new capital investment and cyclical operating costs not represented in the baseline.</p> <p>We have undertaken a top down estimate on opex, validated through a bottom up annual process.</p>	Standard	<ul style="list-style-type: none"> <li>Section 8 – What the plan will cost</li> <li>Financial Model</li> </ul>
	<p>We have comprehensively document the basis of our capital forecasts and have business cases available for capital investments over \$250,000.</p>		
To what extent has the business justified its commitment to cost efficiency or productivity improvements?	<p>We have documented examples of current efficiency initiatives which are built into our baseline as demonstration of our cost efficient culture, for example our benchmarking of maintenance costs against the private sector.</p> <p>We have committed to a one per cent annual productivity improvement on baseline opex.</p>	Standard	<ul style="list-style-type: none"> <li>Section 8 – What the plan will cost</li> <li>Financial Model</li> <li>2016/17 Corporate Plan</li> </ul>
	<p>We have a demonstrated history of delivering efficiencies and pricing below maximum prices (by 1% in 2012 and by 2% in 2016).</p> <p>Our significant renewals capital investment program incorporates costs assuming efficiency gains from bundling works packages for delivery.</p>		

<p>To what extent has senior management, including the Board, demonstrated ownership and commitment to the proposals in its submission?</p> <p>The Board have endorsed the Board Attestation Statement as included in the Guidance Paper.</p>	<p>We have documented the internal project governance process we adopted, including:</p> <ul style="list-style-type: none"> <li>• The Board's oversight and decision making role, including how often it convened to discuss the price submission. Copies of meeting minutes are available to confirm what was presented to them including the decisions it made during the submission's development. Examples include tariffs, capital investment program, customer engagement, financial sustainability, outcomes and carbon neutrality.</li> <li>• Our internal project governance arrangements, including the role of the Board Strategic Issues Steering Committee, Executive leadership, the Price Submission Working Group and use of internal and external subject matter experts.</li> </ul>	<p>Standard</p> <ul style="list-style-type: none"> <li>• Section 2 – Board assurance statement</li> <li>• Section 5 – Our development approach</li> </ul>
<p>To what extent has the business justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?</p>	<p>We believe our submission and financial template are complete, consistent and free from material error or omission.</p> <p>We believe we have documented the processes, and/or can provide evidence that we have, undertaken to support attestation of each of the three conditions contained with the Guidance Paper, including:</p> <ul style="list-style-type: none"> <li>• That information is reasonably based, complete and accurate;</li> <li>• That forecasts are our best estimate, by documenting major forecasting assumptions and methods (e.g. we have used a P80 estimate for the Warrnambool WRP project, independent cost estimates, adoption of current market rates, independent econometric demand forecasts, opex price increases, FTEs, energy consumption, efficiency savings etc.); and</li> <li>• Compliance with the detailed requirements of the Guidance Paper.</li> </ul> <p>Independent advisors have been utilised where appropriate, including to review our two largest capital investment business cases.</p>	<p>Standard</p> <ul style="list-style-type: none"> <li>• Section 5 – Our development approach</li> <li>• Section 8 – What our plan will cost</li> <li>• Capital investment plan business cases and supporting documents</li> <li>• Financial Model</li> </ul>

To what extent has the business provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?	Our internal governance process is a clear demonstration that there is ownership and commitment by the Board, senior executives and working group members to the sub-mission and its outcomes.	Standard	<ul style="list-style-type: none"> <li>• Section 2 – Board assurance statement</li> <li>• Section 5 – Our development approach</li> </ul>
PREMO scoring system	Confident the element is 'Standard'	2.25	
<b>Rating: STANDARD</b>	<b>Aggregate PREMO Score:</b>	<b>10</b>	<b>Return on Equity: 4.5%</b>

## 20 APPENDIX E - LEVELS OF SERVICE

Service Standards	Water Plan 3 Target	Water Plan 3 average to 30 June 2017	Price Submission Target
<b>Water</b>			
Unplanned water supply interruptions (per 100km)	9.2	6.6	9.2
Average time taken to attend bursts and leaks (priority 1) (minutes)	21	10	21
Average time taken to attend bursts and leaks (priority 2) (minutes)	30	29	30
Average time taken to attend bursts and leaks (priority 3) (minutes)	85	79	85
Unplanned water supply interruptions restored within 5 hours (%)	98	96	98
Planned water supply interruptions restored within 5 hours (%)	96	96	96
Average unplanned customer minutes off water supply (minutes)	5	5	5
Average planned customer minutes off water supply (minutes)	2	6	2
Average frequency of unplanned water supply interruptions (number)	0.06	0.05	0.06
Average frequency of planned water supply interruptions (number)	0.02	0.03	0.02
Average duration of unplanned water supply interruptions (minutes)	80	98	80
Average duration of planned water supply interruptions (minutes)	135	158	135
Number of customers experiencing more than 5 unplanned water supply interruptions in the year (number)	0	0	0
<b>Sewerage</b>			
Sewerage blockages (per 100km)	12 <sup>1</sup>	26	31
Average time to attend sewer spills and blockages (minutes)	40 <sup>18</sup>	38	35
Average time to rectify a sewer blockage (minutes)	101 <sup>18</sup>	124	117
Spills contained within 5 hours (%)	99	98	99
Customers receiving more than 3 sewer blockages in the year (number)	0	4	0
<b>Customer Service</b>			
Complaints to EWOV (per 1000)	1.2	0.8	1.2
Telephone calls answered in 30 seconds 1300 926 666 (%)	96	99	96

(Footnotes)

<sup>1</sup> Target does not include the change from 1 July 2014 to include house connection blockages