Coliban WATER

18 May 2023

Chairperson and Commissioners
Essential Services Commission
Level 8, 570 Bourke Street
**MELBOURNE VIC 3000**

*Via email:* [redacted];
[redacted]

Dear Chairperson and Commissioners,

**Response to Coliban Water Price Submission draft decision**

On behalf of the communities that we serve, we are pleased to provide a response to the Essential Services Commission (ESC) draft decision on the Coliban Water 2023-2028 Price Submission. Our proposal will ensure the ongoing delivery of our core business which is to provide safe drinking water, recycled water, sewage and rural water services for public health and the environment so that our communities can sustain themselves. Our extensive customer engagement program has found consistent support for the need to deliver reliable services in the face of climate change, ageing assets and population growth.

As is the expectation of the ESC, our Price Submission was our 'best offer' as we seek to deliver for customers today and into the future. Our price submission will enable the delivery of the water services our communities need while balancing intergenerational equity considerations of debt and customer prices. Our Board carefully considered their fiduciary duties in proposing modest price increases. As is a key feature of the regulatory approach within which we operate, debt funding to support our Big Water Build is a necessary feature of the 2023-2028 period with debt forecast to rise above $750 million by 2028 ($9,000 per household).

We welcome the draft decision on our submission noting the ESC is supportive of our Big Water Build capital program, operating expenditure and the associated revenue requirement. In good faith we have left no stone un-turned in exploring options to satisfy concerns raised in your draft decision. A summary of our final response is as follows:

**Customer Prices**

In response to the draft decision, we are proposing average household customer bills that are in real terms slightly less than our original submission:

| *$ 2022-23* | Usage | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|
| Submission | 192 kL | $1,367 | $1,393 | $1,421 | $1,456 | $1,492 | $1,529 |
| Draft decision response | 192 kL | $1,367 | $1,381 | $1,416 | $1,451 | $1,487 | $1,524 |
| Change | - | - | -$12 | -$5 | -$5 | -$5 | -$5 |

Coliban WATER

**Regulatory Depreciation**
On 27 April, we wrote to you outlining the financial sustainability risks and concerns that we hold in the event that a 30 year regulatory life was immediately applied to our Regulatory Asset Base (RAB). While these concerns remain, we have developed an alternative approach that we propose to adopt in relation to regulatory depreciation that we believe addresses the concerns raised in your draft decision.

For the majority of assets we have adopted regulatory depreciation in line with actual remaining asset lives. For the remainder of assets for which we proposed and the ESC approved a 16 year straight line regulatory life in 2018, we continue this approach into the 2023-2028 regulatory period. This means all assets constructed after 2018, and the majority of all assets, have regulatory depreciation that reflects actual remaining asset lives. Financial indicators were pushed to the limit of Director tolerance as we mitigated customer bill increases as much as possible. Any major reduction to regulatory depreciation will undermine Directors' compliance with their fiduciary duties.

Further reform is needed to reset our RAB. We have commenced discussions with relevant government stakeholders and will work with the ESC and other relevant parties to achieve a reset RAB that will overcome the current regulatory depreciation 'work-around' that is required as a result of an inadequate opening RAB.

**New Customer Contributions**
We have compelling evidence to underpin our proposal to adopt a new approach to NCCs that is better than the current approach for both developers and existing customers. Our submission outlined a prudent, efficient and deliverable plan for $500 million of capital expenditure over the next five years. We are encouraged by the positive audit undertaken by FTI Consulting that affirmed our overarching plans.

Of this program, we have conservatively assigned $90 million as being attributable to growth. Our implementation of the NCC principles then results in approximately $39 million being collected from NCCs over the period. In the event that only CPI is applied to NCCs over the period, the amount collected drops further to $28 million.

Our response to the draft decision outlines the many aspects of our NCC proposals that were directly influenced by developers and customers, including discounts or direct provision of sewer pump stations, phasing in of the required levels of NCCs and inclusion of a budget for 'linking up' legacy water networks. Our extensive engagement program affirmed developer support for all these aspects of our plans.

As proposed in our presentation to the ESC's draft decision Public Forum, we have undertaken further engagement with developers and customers. To provide independence and assurance, this engagement has been facilitated by engagement experts *Insync*. The full report is available in Attachment 2 of our response, and a recording of our final engagement session is also available for ESC review (https://youtu.be/zUB2AD7PpYY).

Individual interviews occurred with developers and consultants to ensure all voices could be heard, and a group session was held with members of our three Customer Advisory Groups to incorporate feedback from existing customers. We are thankful to the community members and the developers that contributed to this process.

In response to this engagement we have made changes to our proposed approach:

- **Small lot infill NCC**: Introduction of a new charge for small scale small lot subdivisions in established areas. This NCC is proposed to increase only with inflation for the regulatory period.
- **Water NCC**: Increasing the rate of smoothing so that annual increases are aligned to the sewer increase of 20% per annum, instead of 10%. The correct rate of NCC is then reached in 2027 instead of the following regulatory period, achieving cost-reflectivity as supported by the Consumer Action Law Centre.

After undertaking further engagement and review, other aspects of our submission are retained.

We have confidence in the Average Incremental Cost (AIC) model and note this represents best value for developers. In the event the ESC rejects the AIC model, our fall-back position is to continue the application of the current Net Cash Flow (NCF) approach to NCCs. Under this approach, NCCs will be higher than under the proposed AIC approach and the co-designed complementary elements of the AIC model developed through this process may be a missed opportunity to improve the NCC approach in our service region. However, as an act of good faith, we would consider how we could cap overall NCCs at the levels implied by our AIC model. We would welcome the opportunity to work with the ESC regarding implementation of this fall-back approach so that overall fairness is retained between current and new customers.

In proposing the AIC approach, we have heard from developers about the need for greater transparency regarding capital plans and delivery on an ongoing basis. Consistent with our innovative sewer growth capital expenditure guarantee, we will convene an annual forum of developers and advisors to outline the capital works undertaken in the prior year and to assess whether a sewer growth capital expenditure rebate applies.

We have also responded to developer feedback seeking more information on how capital expenditure is apportioned to NCCs. The percentage split by project/program and by regulatory period has been provided to developers. In addition, our Board has also endorsed principles for how these apportionments should occur.

### Inflation and price levels

Overall, we are proposing a revenue requirement consistent with the draft decision. This is $3 million less than our original submission. In consideration of how to apply this reduction, we have stretched our financial risk appetite to the limit of Board tolerance in discharging our fiduciary duties. We are proposing that as much of this reduction as possible is assigned to the 2023-24 year to reduce the burden on customers while inflation remains high. This approach should be considered in the context of the doubling of investment in our Coliban Assist hardship program to $570,000 per annum to ensure that any customer experiencing vulnerability will be supported.

| *Price movement, excl inflation* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|
| Submission: Urban price path | 1.90% | 1.90% | 2.50% | 2.50% | 2.50% | **11.8%** |
| Draft decision response: Urban price path | *0.96%* | *2.50%* | 2.50% | 2.50% | 2.50% | ***11.3%*** |
| Rural price path | -1.20% | -1.20% | 0.00% | 0.00% | 0.00% | **-2.4%** |

We strongly believe that our response to the draft decision maintains the integrity of delivering the nine recommendations of the Community Deliberative Panel that was instrumental in the development of our price submission along with other extensive engagement approaches that informed our approach.

We thank you for consideration of our response to your draft decision. As we are raising significant issues in this response, we would value the opportunity to present this response to the Commissioners.

Yours sincerely,

Bob Cameron.

**Bob Cameron**
**Chair**

cc Damian Wells, Managing Director

37–45 Bridge Street
Bendigo Victoria 3550

PO Box 2770
BENDIGO DC VIC 3554

TEL › 1300 363 200
FAX › 03 5434 1341

WEB › www.coliban.com.au
ABN › 96 549 082 360

# Price Submission draft decision response

## 2023–2028

# TABLE OF CONTENTS

# SUMMARY

On behalf of the communities that we serve, we are pleased to provide a response to the Essential Services Commission (ESC) draft decision on the Coliban Water 2023-2028 Price Submission. Our proposal will ensure the ongoing delivery of our core business which is to provide safe drinking water, recycled water, sewage and rural water services for public health and the environment so that our communities can sustain themselves. Our extensive customer engagement program has found consistent support for the need to deliver reliable services in the face of climate change, ageing assets and population growth.

As is the expectation of the ESC, our price submission was our 'best offer' as we seek to deliver for customers today and into the future. Our Price Submission will enable the delivery of the water services our communities need while balancing intergenerational equity considerations of debt and customer prices. Our Board carefully considered their fiduciary duties in proposing modest price increases. As is a key feature of the regulatory approach within which we operate, debt funding to support our *Big Water Build* is a necessary feature of the 2023-2028 period with debt forecast to rise above $750 million by 2028 ($9,000 per household).

We welcome the draft decision on our submission noting the ESC is supportive of our *Big Water Build* capital program, operating expenditure and the associated revenue requirement. In good faith we have left no stone un-turned in exploring options to satisfy concerns raised in your draft decision. A summary of our final response is as follows:

**Customer Prices**

In response to the draft decision, we are proposing average household customer bills that are in real terms slightly less than our original submission:

| *$ 2022-23* | Usage | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|
| Submission | 192 kL | $1,367 | $1,393 | $1,421 | $1,456 | $1,492 | $1,529 |
| Draft decision response | 192 kL | $1,367 | $1,381 | $1,416 | $1,451 | $1,487 | $1,524 |
| Change | - | - | -$12 | -$5 | -$5 | -$5 | -$5 |

**Regulatory Depreciation**

On 27 April, we wrote to the ESC outlining the financial sustainability risks and concerns that we hold in the event that a 30 year regulatory life was immediately applied to our Regulatory Asset Base (RAB). While these concerns remain, we have developed an alternative approach that we propose to adopt in relation to regulatory depreciation that we believe addresses the concerns raised in your draft decision.

For the majority of assets we have adopted regulatory depreciation in line with actual remaining asset lives. For the remainder of assets for which we proposed and the ESC approved a 16 year straight line regulatory life in 2018, we continue this approach into the 2023-2028 regulatory period. This means all assets constructed after 2018, and the majority of all assets, have regulatory depreciation that reflects actual remaining asset lives. Financial indicators were pushed to the limit of Director tolerance as we mitigated customer bill increases as much as possible. Any major reduction to regulatory depreciation will undermine Directors' compliance with their fiduciary duties.

Further reform is needed to reset our RAB. We have commenced discussions with relevant government stakeholders and will work with the ESC and other relevant parties to achieve a reset RAB that will overcome the current regulatory depreciation 'work-around' that is required as a result of an inadequate opening RAB.

**New Customer Contributions**

We have compelling evidence to underpin our proposal to adopt a new approach to NCCs that is better than the current approach for both developers and existing customers. Our submission outlined a prudent, efficient and deliverable plan for $500 million of capital expenditure over the next five years. We are encouraged by the positive audit undertaken by FTI Consulting that affirmed our overarching plans.

Of this program, we have conservatively assigned $90 million as being attributable to growth. Our implementation of the NCC principles then results in approximately $39 million being collected from NCCs over the period. In the event that only CPI is applied to NCCs over the period, the amount collected drops further to $28 million.

Our response to the draft decision outlines the many aspects of our NCC proposals that were directly influenced by developers and customers, including discounts or direct provision of sewer pump stations, phasing in of the required levels of NCCs and inclusion of a budget for 'linking up' legacy water networks. Our extensive engagement program affirmed developer support for all these aspects of our plans.

As proposed in our presentation to the ESC's draft decision Public Forum, we have undertaken further engagement with developers and customers. To provide independence and assurance, this engagement has been facilitated by engagement experts *Insync*. The full report is available in *Attachment 2*, and a recording of our final engagement session is also available for ESC review (https://youtu.be/zUB2AD7PpYY).

Individual interviews occurred with developers and consultants to ensure all voices could be heard, and a group session was held with members of our three Customer Advisory Groups to incorporate feedback from existing customers. We are thankful to the community members and the developers that contributed to this process.

In response to this engagement we have made changes to our proposed approach:

- **Small lot infill NCC**: Introduction of a new charge for small scale small lot subdivisions in established areas. This NCC is proposed to increase only with inflation for the regulatory period.
- **Water NCC**: Increasing the rate of smoothing so that annual increases are aligned to the sewer increase of 20% per annum, instead of 10%. The correct rate of NCC is then reached in 2027 instead of the following regulatory period, achieving cost-reflectivity as supported by the Consumer Action Law Centre.

After undertaking further engagement and review, other aspects of our submission are retained.

We have confidence in the Average Incremental Cost (AIC) model and note this represents best value for developers. In the event the ESC rejects the AIC model, our fall-back position is to continue the application of the current Net Cash Flow (NCF) approach to NCCs. Under this approach, NCCs will be higher than under the proposed AIC approach and the co-designed complementary elements of the AIC model developed through this process may be a missed opportunity to improve the NCC approach in our service region. However, as an act of good faith, we would consider how we could cap overall NCCs at the levels implied by our AIC model. We would welcome the opportunity to work with the ESC regarding implementation of this fall-back approach so that overall fairness is retained between current and new customers.

In proposing the AIC approach, we have heard from developers about the need for greater transparency regarding capital plans and delivery on an ongoing basis. Consistent with our innovative sewer growth capital expenditure guarantee, we will convene an annual forum of developers and advisors to outline the capital works undertaken in the prior year and to assess whether a sewer growth capital expenditure rebate applies.

We have also responded to developer feedback seeking more information on how capital expenditure is apportioned to NCCs. The percentage split by project/program and by regulatory period has been provided to developers. In addition, our Board has also endorsed principles for how these apportionments should occur.

**Inflation and price levels**

Overall, we are proposing a revenue requirement consistent with the draft decision. This is $3 million less than our original submission. In consideration of how to apply this reduction, we have stretched our financial risk appetite to the limit of Board tolerance in discharging our fiduciary duties. We are proposing that as much of this reduction as possible is assigned to the 2023-24 year to reduce the burden on customers while inflation remains high. This approach should be considered in the context of the doubling of investment in our *Coliban Assist* hardship program to $570,000 per annum to ensure that any customer experiencing vulnerability will be supported.

| *Price movement, excl inflation* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|
| Submission: Urban price path | 1.90% | 1.90% | 2.50% | 2.50% | 2.50% | **11.8%** |
| Draft decision response: Urban price path | *0.96%* | *2.50%* | 2.50% | 2.50% | 2.50% | ***11.3%*** |
| Rural price path | -1.20% | -1.20% | 0.00% | 0.00% | 0.00% | **-2.4%** |

We strongly believe that our response to the draft decision maintains the integrity of delivering the nine recommendations of the Community Deliberative Panel that was instrumental in the development of our price submission along with other extensive engagement approaches that informed our approach.

We thank you for consideration of our response to your draft decision. As we are raising significant issues in this response, we would appreciate the opportunity to present this response to the Commissioners.

Signed:

Bob Cameron

**Bob Cameron**
Chairperson, Coliban Water

18/05/2022

**Damian Wells**
Managing Director, Coliban Water

18/05/2022

# 1 Summary of Issues

Table 1 lists the issues that the Essential Services Commission has raised in its *Draft Decision* and is seeking our response. We have sought to directly respond to each recommendation and/or question.

*Table 1: Draft Decision Response Reference Guide.*

| Issue | Section of this response document |
|---|---|
| Outcomes and service standards | Section 2 – Outcomes and service standards |
| Operating expenditure | Section 3 – Revenue Requirement |
| Capital expenditure | Section 3 – Revenue Requirement |
| Regulatory Depreciation | Section 3 – Revenue Requirement |
| Cost of debt | Section 3 – Revenue Requirement |
| Demand | Section 4 – Demand |
| New Customer Contributions | Section 5 – New Customer Contributions (NCCs) |
| Inflation | Section 6 – Inflation |
| PREMO | Section 7 – PREMO |
| Price modelling and customer impacts | Section 8 – Pricing outcomes |

# 2 Outcomes and Service Standards

### Summary of our response

- We have populated the Commission's standard Outcomes Reporting Template (Attachment 1) consistent with the Guidance.
- We have begun the process of working with our rural customers to develop appropriate rural service standards to apply from late 2023.

As part of its *Draft Decision*, the Commission rated our Outcomes Advanced under the PREMO framework. It noted that "Coliban Water's intentions are clear and its measures and targets will provide a sound basis to track performance and delivery against each outcome", and that proposed targets "suggest an overall improvement in customer value".

In its *Draft Decision*, the Commission raised two issues for us to address:

- Population of the Commission's standard Outcomes Reporting Template.
- Submission of proposed rural service standards.

## 2.1 Outcomes reporting template

We are pleased that the Commission considers most of our proposed Performance Measures meet requirements, as evidenced by the Commission's confirmation of our *Advanced* self-rating for the Outcome PREMO measure.

Some of the proposed measures require refinement to ensure they are measurable, appropriately defined and unambiguous. We have liaised with the Commission to confirm its views on these measures and have proposed amendments in the *Outcomes Reporting Template 2023–28* (Attachment 1). We will continue to work with the Commission to refine all measures to ensure they are relevant, measurable, clearly defined and unambiguous, have targets set for each year and are easy for our customers to understand ahead of introduction from 1 July 2023.

## 2.2 Rural service standards

Clause 1.5 of the *Water Industry Standard – Rural Customer Service* specifies that a water business must define and specify targets for the following services:

a) Assessing and/or processing licencing and other administrative applications;

b) Responding to correspondence or complaints and providing information for each applicable service;

c) Providing a reliable water supply; and

d) Any other customer-related areas.

We note the urban and rural standards were released by the Commission on 27 September 2022, three days prior to lodgement of the *Price Submission*. Coliban Water's rural system is unique compared to others in Victoria, with a relatively small number of customers, many of whom are now peri-urban with a low average demand for lifestyle purposes rather than agriculture. This is the first time Coliban Water has been required to develop service standards that apply to our rural systems and customers.

We have since met with the Commission to confirm their expectations for the development of new rural service standards. Commission representatives noted their preference for Coliban Water to work with customers to develop appropriate service standards, with customer involvement more important than having standards in place by 1 July 2023. Given this feedback, we will work with our rural customers via existing rural customer groups and further targeted engagement to develop new rural service standards to apply. To allow appropriate time for engagement, we anticipate we will propose rural service standards to apply from October 2023, in line with the commencement of the 2023–24 rural water season.

# 3 Revenue Requirement

### Summary of our response

- We propose to capitalise end-of-term contract review cost adjustments.
- We propose to maintain the proposed baseline adjustment to account for changes to the superannuation guarantee levy.
- The benefits of digital metering are currently reflected in the cost of our metering program, in avoided bulk water purchases, in avoided customer billing costs, in our operating expenditure efficiency commitment and in the achievement of customer outcomes.
- We accept the *Draft Decision* for the deferral of forecast water purchases costs, from 2027–28 into the following regulatory period.
- We are lowering our forecast Environment Contribution by $1.1 million to reflect the higher prevailing inflation.
- We are amending our approach to regulatory depreciation, resulting in a weighted average asset live of 34.6 years.

Following submission and audit of the substantial body of evidence and documentation that supported our proposals, the *Draft Decision* only provided for minor adjustments to:

- Operating expenditure (-0.9%)
- Capital expenditure (-1.1%)

These minor adjustments demonstrate the prudency and efficiency of the forecasts and the value proposition being presented to customers.

Given the Commission's feedback, we have reconsidered our approach and propose an alternative approach to regulatory depreciation. The following sections detail our response to the issues raised by the Commission in its *Draft Decision* and our final proposals.

## 3.1 Operating expenditure – end of term contract review

### 3.1.1 Our initial proposal

During the upcoming pricing period, we have five major outsourced contracts reaching end-of-term. Collectively, the future value of these contracts exceeds $1 billion, including:

1. AQUA 2000 BOOT
2. Campaspe Water Reclamation Scheme (CWRS) BOOT
3. Operations & Maintenance Service Agreement
4. Goldfields Superpipe Contract
5. Engineering Services Agreement

These outsourcing arrangements vary by way of partial outsource, being operations and maintenance only, to full-outsource, being Build, Own, Operate and Transfer (BOOT) schemes. An end-of-term arrangement review requires comprehensive analysis to consider the ongoing viable service delivery model options for evaluation. Each delivery model review needs to consider an implementation strategy including the determination and execution of an appropriate procurement approach.

Appropriate resourcing to manage these end of term arrangements has been included in the *Price Submission* and is essential to ensure successful implementation of the preferred approach and to achieve value for money (Table 2).

*Table 2: End of contract review – Proposed baseline adjustment.*

| *FY* | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | Total |
|---|---|---|---|---|---|---|
| Justified Adjustment ($M 2022–23) | +1.14 | +0.81 | +1.39 | +1.07 | +0.06 | **+4.47** |

Expenditure related to the end of term arrangements is less than 1% of the total cost of contracts being renewed.

### 3.1.2 FTI Review

FTI stated within its report to the Commission that the provided information clearly outlines a series of categories for this spending. However, the FTI report did not clearly articulate sufficient detail regarding how these costs were estimated, nor did it provide the required detail around what activities will be undertaken.

FTI notes that we have already incurred costs of $0.94 million in the 2021–22 base year and that resources are required for these contract reviews. However, FTI was unconvinced that the justification for such a large step change has been made. As such, they recommended an adjustment to the operating expenditure allowance to remove $4.47 million over the next regulatory period.

### 3.1.3 Draft Decision

The Commission accepted the advice of FTI and removed the $4.47 million baseline adjustment related to end-of-contract review costs.

### 3.1.4 Our response

We maintain our initial position that we require an adjustment of $4.47 million over the next regulatory period to recover the prudent and efficient costs for reviewing end-of-term contracts.

A detailed breakdown of the activities for reviewing/updating these contracts and the associated resourcing requirement and resourcing cost, is documented in a commercially confidential attachment to this response.

*Capitalisation*

While we have proposed to remove this operating expenditure baseline adjustment, we instead seek to capitalise the additional costs to reflect alignment with the term of the agreements. Details on this proposal can be found in Section 3.4.

*Table 3: Final proposal for the end-of-contract review baseline adjustment.*

| *FY* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|
| **Initial PS23 forecast ($M 2022–23)** | +1.14 | +0.81 | +1.39 | +1.07 | +0.06 | **+4.47** |
| **Amended PS23 operational forecast ($M 2022–23)** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.00** |
| **Adjustment ($M 2022–23)** | -1.14 | -0.81 | -1.39 | -1.07 | -0.06 | **-4.47** |

## 3.2 Operating expenditure – Superannuation Guarantee Levy

### 3.2.1 Our initial proposal

The superannuation guarantee is the minimum rate employers need to pay into employee superannuation funds. Starting from 10% in 2021–22, superannuation rates will increase to 12% by 2026.

We proposed a step change of $1.80 million to account for the superannuation guarantee minimum rate for employers increasing from 10% in 2021–22 to 12% by 2026 (Table 4).

*Table 4: Superannuation guarantee level – Proposed baseline adjustment.*

| *FY* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|
| **Justified Adjustment ($M 2022–23)** | +0.21 | +0.32 | +0.42 | +0.42 | +0.42 | **+1.80** |

### 3.2.2 FTI Review

FTI completed a review of the information provided and determined that this step change provides sufficient justification for the proposed increase.

As a result, FTI stated that this proposed step change meets the criteria for prudency and efficiency and that it complied with new, or changed, legislative or regulatory obligations.

### 3.2.3 Draft Decision

Within its *Draft Decision*, the Commission requested that we explain how forecast increases in inflation will not cover increases in the superannuation guarantee levy.

### 3.2.4 Our response

We maintain our initial position. We require a baseline adjustment of +$1.8 million over the next regulatory period to recover the prudent and efficient costs that comply with legislative obligations.

Consistent with the Commission's guidance, our base-step forecasting approach provides a top-down estimate of required operating expenditure. It does this by taking expenditure reflected in the base year, adjusting it to account for non-recurring or normally recurring costs, extrapolating that baseline to account for growth and efficiency and providing for annual baseline adjustments to account for changes to policy and obligations (amongst other things).

Understanding this approach, we:

- Have included within the base year a quantum of superannuation consistent with a superannuation guarantee levy of 10%, applied to the existing labour force and its cost (based on current costs).
- Are not proposing to apply any rate of escalation above/below inflation to base year superannuation, in accordance with the Commission's model, noting that this avoids highly complex estimations of different cost category escalations. It is assumed that inflation is a reasonable proxy for the average escalation rate across all cost categories, noting some may be higher and some may be lower. (For example, the Victorian Default Offer for electricity in 2023-24 is up 31.1% for the average household). As such, existing base year superannuation costs will be escalated by inflation.
- Require a baseline adjustment (i.e. step change) to account for the change in legislative requirements to increase the superannuation guarantee levy to 12%, consistent with the Commission's guidelines for justified step changes. The baseline adjustment reflects the additional 2% superannuation that we must contribute under law.

With acknowledgment that our workforce will fluctuate over the regulatory period and given the high demand for expertise resulting in labour shortages as the Australian economy recovers post-Covid, superannuation increases have been applied on baseline full time equivalents (FTE) as opposed to labour growth assumptions.

The risk of the legislative obligation on FTE growth throughout the *Price Submission* period is a further $1.4 million. This adjustment has not been proposed as a baseline adjustment.

## 3.3 Operating Expenditure – Digital metering cost savings

### 3.3.1 Our initial proposal

We have completed four out of five stages of the digital metering rollout across our network. The final stage involves most meters in Bendigo and this stage is underway. While 35,500 digital meters have been installed, there are currently delays of 12–18 months being experienced due to global supply chain impacts on the procurement of electronic hardware.

The digital metering program enables several benefits:

- *Quantitative benefits*: avoided meter replacement costs, avoided special meter reading costs, network and on-property leakage reduction, resulting in avoided bulk water purchases, deferred growth capital expenditure and reduced bad debts resulting in lower billing costs. Water savings also result in a reduction of carbon emissions due to lower energy costs of treating and transporting water.
- *Qualitative benefits*: enables monthly billing which will improve affordability, improved customer experience, more accurate billing, supports delivery of Customer Outcomes, enhanced consumption decisions, reduced OH&S incidents, reduced greenhouse gas emissions.

Several of these benefits have been realised and are reflected in our baseline operating expenditure. Based on our experience to date, we anticipate a saving of 1.5% on residential demand attributed to digital metering. This saving has been reflected in our demand forecasts and offsets increases in demand due to a warmer climate.

Due to the mix of quantitative and qualitative benefits, we maintain our original proposal that savings are built into and enable the achievement of the 1.4% efficiency factor.

### 3.3.2 Draft Decision

Within its *Draft Decision*, the Commission requires us to quantify the cost savings to customers delivered from the digital metering project rollout across the current period and demonstrate how these savings are reflected in the financial model and hence passed through to customers.

### 3.3.3 Submissions to the Draft Decision

The Commission received two responses from customers Alanna Moore and Janobai Smith about their concerns related to the public health and environmental impact of digital meters and the prudency of the project.

### 3.3.4 Our Response

Digital metering data provides high-resolution insights into consumption patterns in our systems and insights into our network operations. We have successfully used this data to mitigate the impacts of recent flooding incidents, which was a benefit not anticipated in the business case.

Firstly, digital metering data provided detailed insights into the progress of network flushing during a boiled-water advisory in the Cohuna low pressure system. The data enabled us to precisely time the moment that all water had been flushed from the system through customer taps. This data minimised the duration of the disruption to customers.

Data from our digital water meters also enabled us to monitor the Rochester and Echuca water networks for damage caused by floods. The digital water meters were able to keep functioning even though they were submerged. The data showed that flooding contributes to bursts and leaks and increases the volume of leakage caused by movements of saturated soils.

More recently, digital metering data enabled a detailed analysis of the impact of water outages by analysing flow patterns during the incident and identifying customers that were impacted by the disruption. In this scenario, the customers who received an outage were those of a specific elevation. This analysis assisted us in determining GSLs and other customer gestures to customers who had experienced service outages (Figure 1).

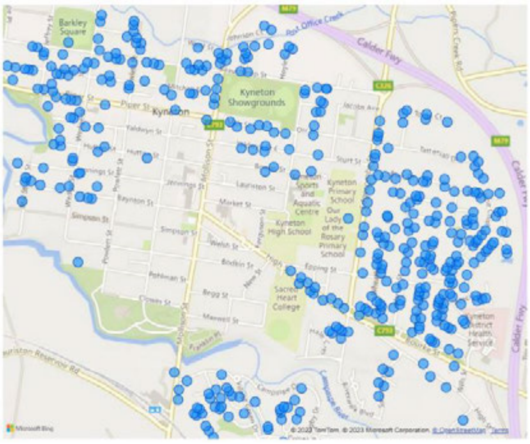



*Figure 1: Analysis of properties that were not impacted by the water supply disruption using digital meters*

Digital metering data has become an indispensable part of our toolset to manage water networks. The high-resolution consumption data provides insights otherwise not achievable with traditional means of measurement.

There are a range of mechanisms by which the benefits from digital metering are being passed through to customers in this current regulatory period, each of which is discussed below.

*Avoided Meter Replacement Costs*

Avoided meter replacement costs have flowed through our metering capital program costs. For the duration of the 2018–2023 pricing period, we have not undertaken any planned water meter replacements. Water meters are only replaced when failure is evident (Figure 2). This saving was achieved by extending the technical life of water meters by five years. Digital metering data allows us to monitor data quality and thus extend the life of water meters without sacrificing reliability. Planned replacements will recommence in the next regulatory period. We will be doing more work on the optimal life of water meters over the coming regulatory period.

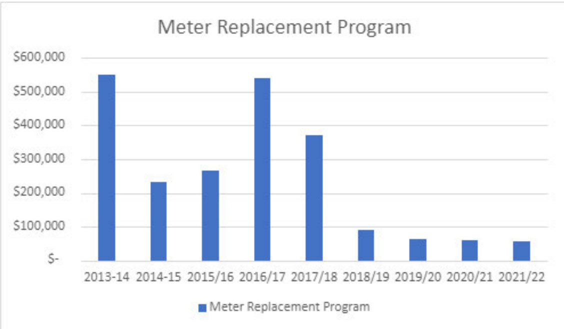



*Figure 2: Customer water meter replacement program actual expenditure 2013–2022.*

Furthermore, all new connections are fitted with a data logger by default. The cost of the new water meters, including data loggers, are included in the pricing for new connections.

*Leakage Reduction*

Leakage reduction is reflected in our bulk water purchase costs and partially offset increases in demand due to climate change.

Since August 2020, we have notified 1,758 customers of leaks on their properties (Figure 3). Of these, 1,264 customers have confirmed that the leak has been repaired (the remainder of notifications are pending customer notifications or have been resolved without confirmation).

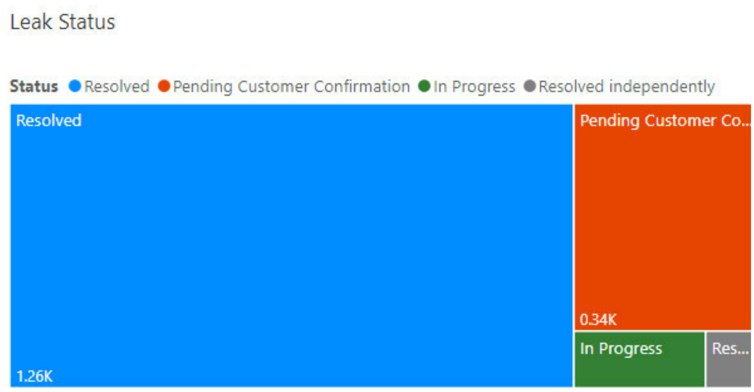



*Figure 3: Status of leak notification cases (2020–2023).*

Leak notifications have resulted in estimated savings of up to 447 ML (average leak greater than 100 litres per hour). Customers have repaired more than $1 million in leaks upon being notified by us.

*Occupational Health & Safety*

Digital metering almost eliminates the need to visit water meter locations. Meter reading is one of the most hazardous activities for Coliban Water employees and its contractors. Most common hazards are uneven ground, traffic and animals (dogs, snakes and spiders). Reduced OH&S incidents results in improved employee wellbeing and will eventually lead to reduced WorkCover premiums. Our data shows a significant reduction in hazards and incidents reported in relation to meter reading activity, which is a direct result of the reduced number of physical meter reads (Figure 4).

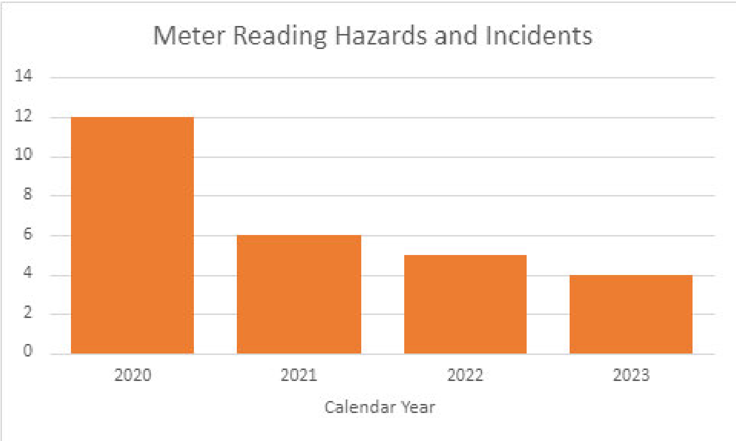



*Figure 4: Number of OH&S hazards and incidents related to meter reading.*

*Enhanced Customer Experience*

Digital metering also enhances the customer experience and supports our customer outcome "Be Easy to Deal With".

We provide customers with plumbing leak notifications if the detected leak is greater than 60 litres per hour. Through automation utilising the new Salesforce platform, we are targeting to increase from 90% notified leaks in 2023–24 to 100% in 2027–28.

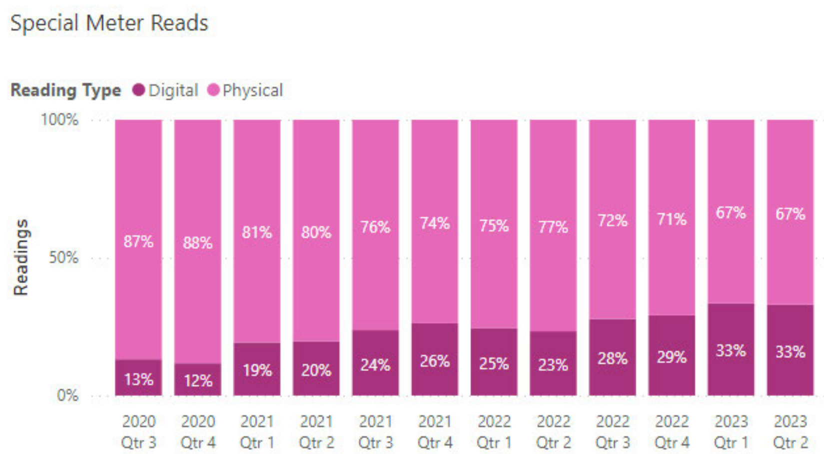



*Figure 5: Proportion of digital versus physical special meter reads*

Digital metering reduces our meter reading costs for special meter reads by using digital reads instead of travelling to the location to read the meter. Currently around 33% of special meter reads are undertaken digitally (Figure 5), which represents a current saving of $57,750 per year. This number is anticipated to reach 99% after the program is completed. Special digital meter reads also provide greater benefits to customers as we can respond much faster to any requests for a read.

Once the entire digital metering program is completed, this data will enable us to achieve further savings, such as deferred growth capital expenditure. We continuously monitor benefits achieved through digital metering due to our data analytics.

*Public Health and Environmental Impact of Digital Meters*

Digital water meters do not pose a health risk to the community or to the natural environment. The data logger transmits hourly through low level radiofrequency waves, which are well within Australian safety standards. The Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) states that: *There is no established scientific evidence that the low-level RF EME exposure from smart meters causes any health effects*[1].

While there is no evidence of negative health impacts, we offer the option to opt-out of the program for concerned customer who contact us directly. Since the start of the project, 38 customers have opted out of the program, out of the 35,500 installed meters (0.1%). This approach will be retained for as long as we use radio devices to record water consumption.

*Project Governance*

Coliban Water has commissioned three independent peer reviews following the Department of Treasure and Finance Gateway process.[2] Reviews were undertaken for the *Business Case* (Gate 2, 2016), *Implementation Plan* (Gate 5, 2017) and a *Mid-Stage Program* review (Gate 5, 2019). All three reviews received a green confidence assessment, which means that the program is on track for success.

## 3.4 Operating Expenditure – Environment contribution

### 3.4.1 Our initial proposal

In accordance with the Guidance, we proposed the environment contribution to remain fixed in nominal terms over the regulatory period.

### 3.4.2 Draft Decision

The *Draft Decision* approved Coliban Water's operating expenditure which included the Environment Contribution.

### 3.4.3 Our Response

We are proposing the following adjustments to the environment contribution to reflect the proposed higher rates of inflation.

[1] ARPANSA, Smart Meters and Health.
[2] Department of Treasury and Finance (2019). *Gateway Review Process Overview.*

*Table 5: Final proposal – Environment contribution.*

| FY | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|
| Initial PS23 forecast ($M 2022–23) | 5.57 | 5.41 | 5.25 | 5.09 | 4.94 | **26.26** |
| Amended PS23 forecast ($M 2022–23) | 5.36 | 5.18 | 5.00 | 4.83 | 4.67 | **25.04** |
| Adjustment ($M 2022–23) | -0.21 | -0.23 | -0.25 | -0.26 | -0.27 | **-1.22** |

## 3.5 Capital Expenditure: Capitalisation of end-of-contract review costs

### 3.5.1 Our response

We propose a revised approach to capitalise the step change in end-of-term expenses within the regulatory model to accurately represent the period of the outsourced arrangements to be entered into and the alignment of the activities to our capital base and future capital investments (Table 6).

*Table 6: Final proposal – End-of-contract review capital expenditure.*

| FY | 21–22 | 22–23 | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|---|---|
| Initial PS23 forecast ($M 2022–23) | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Amended PS23 forecast ($M 2022–23) | | | +1.14 | +0.81 | +1.39 | +1.07 | +0.06 | **+4.47** |
| Adjustment ($M 2022–23) | | | +1.14 | +0.81 | +1.39 | +1.07 | +0.06 | **+4.47** |

This additional expenditure on end-of-term arrangements will ensure prudent and efficient operations for many years to come. Therefore, in a regulatory sense, it is reasonable for these costs to be capitalised for regulatory purposes rather than being treated as operating expenditure.

This level of expenditure will not be recurring in the future; it is a lumpy or short-term expense that provides ongoing expenditure and should be capitalised for regulatory purposes.

This proposal demonstrates our commitment to ensure that customers today are not unreasonably paying for future benefits.

## 3.6 Capital Expenditure: 2027–28 water share purchases

### 3.6.1 Our initial proposal

Across the nine local government areas we serve, the population is growing quickly as people are attracted to the liveability of our region. The population of our largest city, Bendigo, is forecast to grow by over 30% by 2036. The southern and Calder Corridor towns of Trentham, Kyneton, Castlemaine, Harcourt and surrounds are growing strongly, a trend forecast to continue. The Murray River focal point town of Echuca is significantly increasing in population, as are the surrounding small towns in the north of our service region. Additional capital expenditure will ensure we are ready for this customer growth.

In addition to strong growth, our region is experiencing step-change impacts from climate change, as evidenced by a 53% reduction in inflows to our Coliban River storages since 1997 (Figure 6).

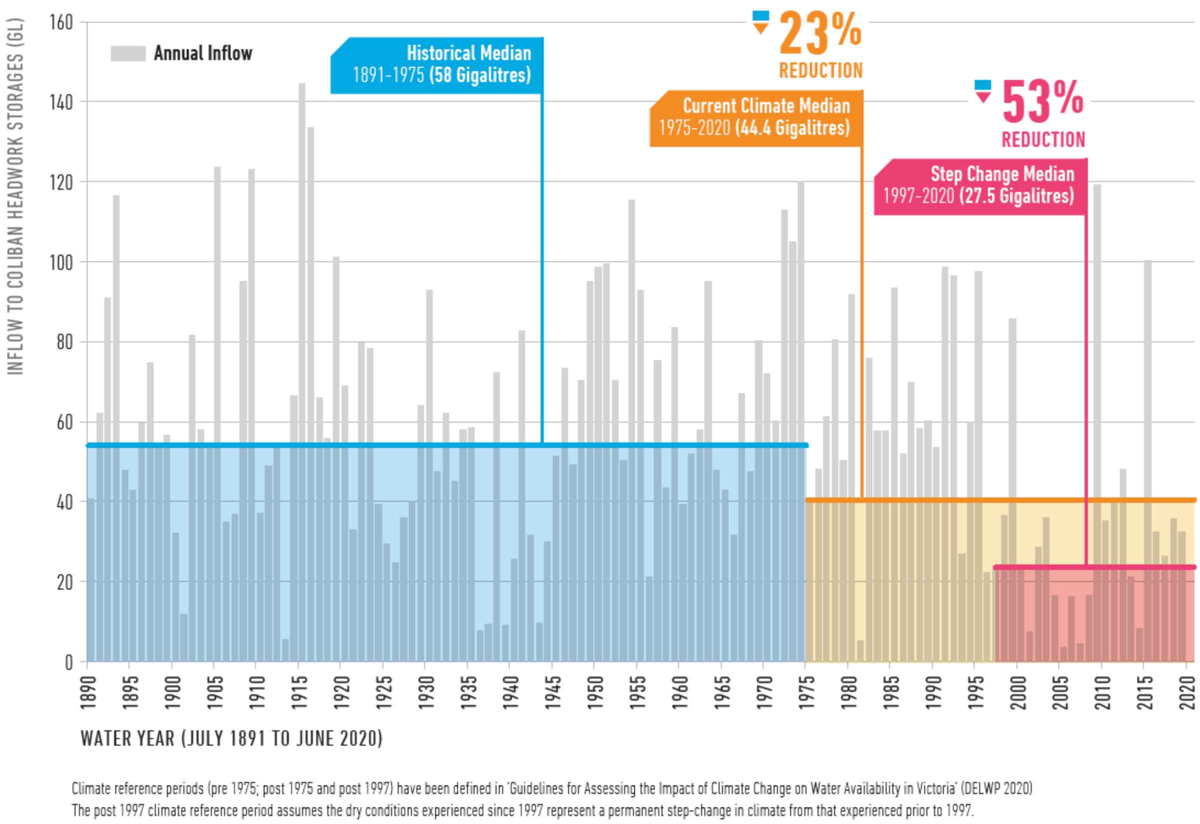



*Figure 6: Coliban Storages Annual Inflow.*

Our climate adaptation approach will ensure water security by acquiring new permanent water entitlements and investing in innovative Integrated Water Management projects, including managed aquifer recharge, groundwater and water reuse.

We will partner with government and customers to modernise the Coliban rural system to generate water savings and improve customer service.

*Deliberative Panel feedback*

Our Deliberative Panel made nine recommendations covering seven themes that we have fully incorporated into our Customer Outcomes and other *Price Submission* initiatives. More specifically, the following two recommendations directly related to water security:

- *More investment in new water resources as our dry region continues to feel the effects of climate change.*
- *Retaining the promise to have no towns on water restrictions (beyond Permanent Water Saving measures).*

To maintain water security, we proposed to invest in the purchase of water shares (Table 7).

*Table 7: Water share purchase – Proposed costs.*

| FY | 21–22 | 22–23 | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|---|---|
| Total ($M 2022–23) | | | 1.1 | 0.0 | 0.0 | 5.8 | 5.8 | **12.7** |

We are investigating opportunities to diversify supply sources to provide greater operational flexibility and increased water security. This includes groundwater exploration for Trentham and Kyneton, supplying Castlemaine from Lake Eppalock via pipeline, a pipeline from Waranga Western Channel to Echuca and managed aquifer recharge in Bendigo.

### 3.6.2 FTI Review

FTI recommended an adjustment to forecast expenditure for the 2027–28 year for the purchase of water shares. FTI stated that our proposed approach to water share purchases is appropriate and justified as the most efficient way to address these emerging water resource reliability challenges.

However, given the uncertainty in relation to growth and climate conditions, FTI recommended that forecast 2027–28 capital expenditure for purchasing water shares be deferred to the 2028–33 regulatory period. It also noted that water share purchases to address the closer timing of augmentation needs expected for the Murray and Trentham water supply systems can still be met with the planned purchases in 2023–24 and 2026–27.

### 3.6.3 Draft Decision

The *Draft Decision* recommended retaining the permanent water share purchases proposed for 2023–24 and 2026–27, but deferring the $5.8 million proposed for 2027–28, the final year of the regulatory period, into the beginning of the 2028–33 period.

It noted that it will then be able to review this expenditure in our 2028 price review.

### 3.6.4 Our response

While we recognise the importance of purchasing water shares to provide water security to our region, we are not proposing to reverse the *Draft Decision* to defer the timing of recovery of these purchases to the 2028–33 regulatory period (Table 8).

*Table 8: Final proposal – water share purchase proposed capital expenditure.*

| FY | 21–22 | 22–23 | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | Total |
|---|---|---|---|---|---|---|---|---|
| Initial PS23 forecast ($M 2022–23) | | | 1.1 | 0.0 | 0.0 | 5.8 | 5.8 | 12.7 |
| Amended PS23 forecast ($M 2022–23) | | | 1.1 | 0.0 | 0.0 | 5.8 | 0.0 | 6.9 |
| Adjustment ($M 2022–23) | | | - | - | - | - | -5.8 | -5.8 |

## 3.7 Regulatory Depreciation

### 3.7.1 Our initial proposal

Coliban Water proposed a 6.3% average rate of depreciation for existing assets, equivalent to 15.87 years.

This approach was driven by two factors:

1. Maintaining the asset life approved by the Commission in the 2018 final decision.
2. To directly respond to the recommendations of the deliberative panel, as supported by quantitative evidence gathered through the bill simulator.

*The 2018 Price Decision*

The reasons for increasing our rate of depreciation for the 2018-23 period was to achieve a smoother price path (reflecting customer preferences for stable prices and bills) and recover depreciation amounts deferred from the 2013–18 period.

Also, we noted the depreciation forecast was not premised on halving asset lives.

On this basis, the Commission's final decision accepted our forecast regulatory depreciation.

*Deliberative Panel Findings*

The first recommendation of our deliberative panel relates to intergenerational equity and regulatory depreciation is how we have been able to accept the panel's clear recommendation.

> *Recommendation 1: Intergenerational debt:*
>
> *To avoid unnecessary burden and deferment of cost to future generations, we must take responsibility for the current financial position, requiring a rise in water costs to minimise future price burden, allowing future generations to respond to future circumstances. The alternative is leaving future generations with little choice but to shoulder heavy debt.*[3]

### 3.7.2 Draft Decision

In its *Draft Decision*, the Commission was of the view that we had not justified why 16 years reflects a reasonable assumption about asset life. Nor did the Commission consider that we had sufficiently justified that its assumption for asset life will best achieve intergenerational equity as compared to alternative assumptions.

Its preliminary view is that our approach means today's customers will pay more than an efficient cost of providing services than will future customers, which runs counter to objectives associated with intergenerational equity and the efficiency objectives of the Water Industry Regulatory Order 2014 (WIRO).

In forming this decision, the Commission considered that:

[3] *Panel Report: Coliban Water Price Submission*, 19 March 2022, [Coliban Water Community Panel Report (amazonaws.com)]

- Our assumed asset life of 16 years for existing assets is around 30 years less than the average adopted by regional Victorian businesses on average, for the 2023–28 regulatory period (around 47 years).
- Our assumed asset life is around 14 years lower than the next lowest asset life proposed by a water business in the current price review.
- the context for the 2018 and 2023 water price reviews are different, most notably in terms of the real price increases proposed and likely high inflation being added to 2023–24 real prices and customer bills, compared to the real price reductions it proposed in 2018.

In response to the *Draft Decision*, the Commission has requested that we either propose an asset life for existing assets of at least 30 years or provide more information to justify our approach to regulatory depreciation.

### 3.7.3 Our response

We have considered the *Draft Decision* and propose an alternative solution which leverages the precedent established for assets constructed prior to 2018 (where the Commission approved a 16-year asset life) and a longer asset life for all assets constructed during the current regulatory period (2018–23) and beyond.

What this approach does is three-fold:

1. Reverts the rate of regulatory depreciation to align with asset lives for three significant investments (Goldfields Superpipe, Harcourt Rural Modernisation and Water Shares).
2. Ensures that all other assets constructed prior to 2018-19 are fully depreciated on a straight-line basis over 16 years in accordance with the approach endorsed by the Commission in 2018.
3. Applies a longer 45-year life to all assets constructed from 2018-19 onwards (i.e., the start of the current regulatory period). This is more consistent with the industry average and is longer than that proposed by the Commission in its *Draft Decision*.

This approach results in three outcomes:

1. Ensures financial sustainability sufficient to meet the Board's fiduciary duties.
2. Reflects technical asset lives and prior decisions.
3. Achieves the Community Deliberative Panel recommendations relating to modest price increases for achieving intergenerational equity.

*Financial Indicators*

Were we to adopt a 30-year regulatory life, it would reduce regulatory depreciation by $84.2 million over the regulatory period and result in an average price path of CPI – 1.90% per annum, holding all else equal. Revenue would be approximately 20% lower in 2027-28 than the revenue proposed in the *Price Submission*.

This would have material consequences on our short-term financial sustainability:

- Net Debt/RAB (Gearing): dips slightly before increasing above 75%.

- FFO Interest cover: falls below the 1.5 target across the regulatory period (1.24 in 2027–28) compared to the initial proposal remaining above 1.5 (Figure 9).
- FFO/Net Debt: significantly below the 10% threshold (1.5% in 2027–28) and is lower than the initial proposal.
- Internal financing ratio: declines over the period and remains below the 35% threshold (10.4% in 2027–28) whereas the *Price Submission* showed improvements toward the end.

Under our proposed updated approach to regulatory depreciation, our short to medium term financial sustainability is secured:

- Net Debt/RAB (Gearing): similar position to our proposal. It is worth noting that regulatory depreciation barely effects the Net Debt/RAB ratio. This is because any easing in the rate of regulatory depreciation raises the RAB by collecting less revenue. All else being equal, this leads to a commensurate increase in debt (plus interest), leaving the Net Debt/RAB ratio materially unchanged. (Figure 7)
- FFO Interest cover: maintains interest cover above 1.5 across all years (Figure 9).
- FFO/Net Debt: remains below the 10% threshold but is improved on the 30 year proposal (Figure 9).
- Internal financing ratio: falls below the 35% threshold but is improved on the 30 year proposal (Figure 10).

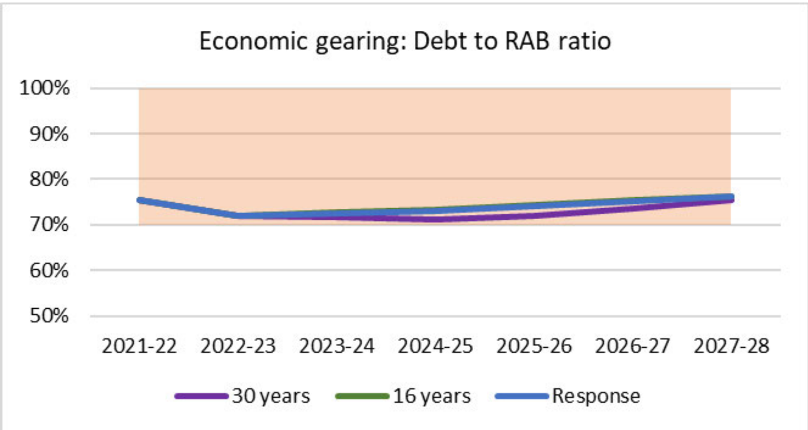



*Figure 7: Economic gearing: Debt to RAB ratio.*

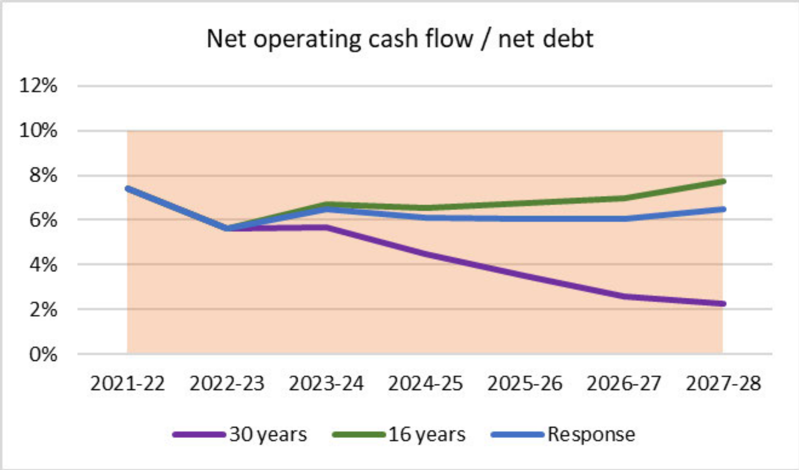



*Figure 8: Net operating cash flow / net debt.*

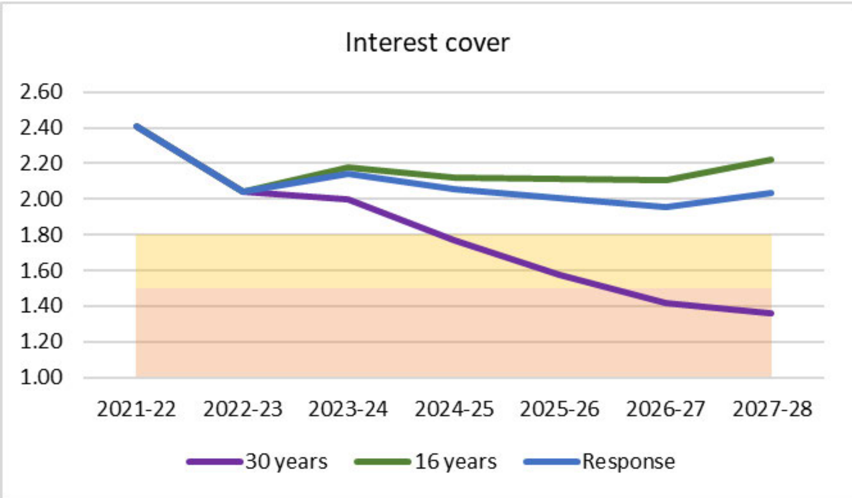



*Figure 9: Interest cover.*

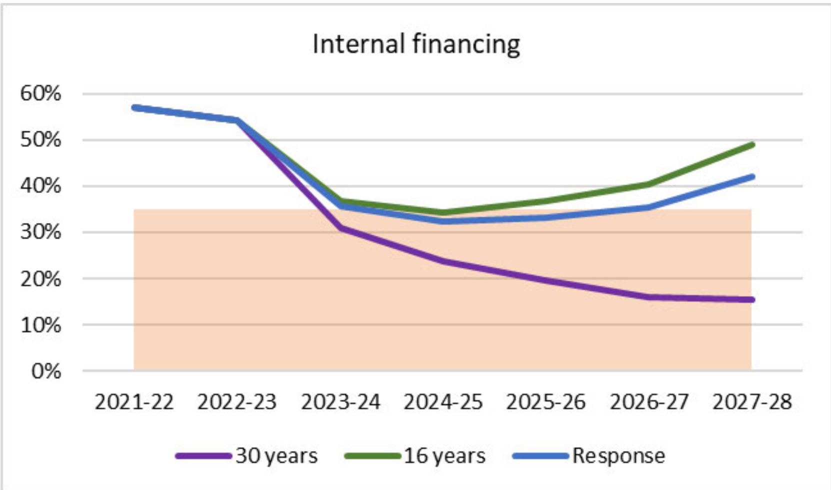



*Figure 10: Internal financing.*

*New Approach*

We have adopted an approach that is consistent with the 2018 Price Determination, reflects technical asset lives and considers contributions and non-depreciating assets.

This approach proposes depreciation over the following four categories:

- Recovery of investments for specific assets, namely Harcourt Rural Modernisation, the Goldfields Superpipe and the purchase of water shares;
- All other asset constructed prior to 2018–19;
- Assets constructed from 2018–19 to 2022–23 split into infrastructure and IT investments;
- New investments.

*Recovery of Investments for Specific Assets*

We have identified three significant investments since 2005–06 that are being recovered from today's customers. In total, the regulatory depreciated value of these investments as of 1 July 2023 is $98.3 million.

We have calculated the depreciated value based on the regulated value, an allocation of contributions (both government and new customer) and regulatory depreciation allowances (i.e., including years where it would have been depreciated as part of existing assets). In the financial template, we have split these assets into different asset categories where applicable. Overall, these investments were:

- Goldfields Superpipe: $139.1 million invested and $87.2 million of capital contributions ($79.7 million in capital and $7.4 million in allocated customer) received across 2006-07 and 2007-08, a depreciated value of $18.4 million on 1 July 2023 for pipes with an average remaining asset life of 84.0 years and $3.9 million for pump stations with an average remaining asset life of 9.0 years.

- Harcourt Rural Modernisation: $53.1 million invested in 2015–16, a depreciated value on 1 July 2023 of $31.2 million and a weighted average remaining asset life of 75.7 years. This has been split into three asset categories – Channel ($26.9 million depreciated over the next 93 years), Tanks ($1.9 million depreciated over the next 73 years) and Buildings, Pump Stations and Pressure Reducing Valves ($8.0 million depreciated over the next 17.8 years).

- Water shares purchases: $84.7 million invested from 2005–06 and an allocation of customer contributions of $8.0 million, a depreciated value on 1 July 2023 of $39.3 million and we propose to maintain the remaining value as a non-depreciating asset.

*All Other Assets Constructed Prior to 1 July 2018*

Consistent with the 2018 Price Determination, all other assets constructed prior to 1 July 2018 will be depreciated from 1 July 2018 with an asset life of 16 years. The value of the assets at 1 July 2018 was $552.8 million, less the depreciation over the last five years ($173.7 million) and the value of specific assets ($98.3 million), resulting in a depreciated asset value at 1 July 2023 of $280.7 million with a remaining life of 11 years given the five years elapsed since the 16-year straight line depreciation was endorsed in the 2018 Final Decision.

*Assets Constructed from 1 July 2018 to 30 June 2023*

In the 2018 Price Determination, our assets constructed during the regulatory period were depreciated with average useful life 36.0 years for infrastructure and 7 years for IT. This reflected the technical asset lives at the time and average expected useful life for IT investments (including the billing system replacement) that have been capitalised.

The remaining net capital expenditure (i.e., gross capital expenditure, less contributions, proceeds and disposals) to be depreciated is:

- For infrastructure, $180.6 million with an average remaining life of 36.0 years.

- For IT, $12.5 million with an average remaining life of 4.5 years.

This information can be summarised in the following table:

*Table 9: Final proposal – Breakdown of regulatory depreciation*

| Original submission | | *Draft Decision* response | | |
|---|---|---|---|---|
| **Asset** | **Regulatory life** | **Asset** | **Regulatory life** | **Value @ 30/6/23** |
| Assets post 1/7/2023 | As per actual asset life | Assets post 1/7/2023 | As per actual asset life | *NA* |
| Assets constructed pre 30/6/2023 | 16 years | Water shares | NA – no more depreciation | $39 M |
| | | Superpipe – pump stations | 9 years | $4 M |
| | | Superpipe – pipes | 84 years | $18 M |
| | | Harcourt – channel | 93 years | $27 M |
| | | Harcourt – tanks | 73 years | $2 M |
| | | Harcourt – pump stations & PRV | 18 years | $8 M |
| | | All other pre 30/6/2018 assets | 11 years | $281 M |
| | | 2018-2023 IT capital expenditure | 4.5 years | $12 M |
| | | 2018-2023 Other assets | 36 years | $181 M |
| | | ***All assets constructed pre 30/6/2023*** | **25 years (avg)** | **$572 M** |

*Overall Remaining Asset Life on Existing Assets*

Across these three categories for existing assets, the weighted average remaining life is 24.5 years as shown in the RollForward_FO tab of our financial template.

*Table 10: Final proposal – Regulatory depreciation*

| ***FY*** | **23–24** | **24–25** | **25–26** | **26–27** | **27–28** | **Total** |
|---|---|---|---|---|---|---|
| **Initial PS23 forecast ($M 2022–23)** | 35.91 | 35.91 | 35.91 | 35.91 | 35.91 | **179.57** |
| **Amended PS23 forecast ($M 2022–23)** | 34.71 | 34.71 | 34.71 | 34.71 | 33.24 | **172.09** |
| **Adjustment ($M 2022–23)** | -1.20 | -1.20 | -1.20 | -1.20 | -2.67 | **-7.49** |

*All options have been considered*

No stone has been left unturned as we have explored all options available to us to mitigate the price increases that are implied by this rate of regulatory depreciation. To mitigate price increases, we have:

- Excluded uncertain projects for pricing purposes, like the Castlemaine Link.
- Managing projects as programs to generate efficiencies.
- Only included planning costs for some projects that are uncertain.
- Managed electricity price increases within existing budgets.
- Proposing to debt fund the majority of capital works rather than fund through cash flow.
- Deferring uncertain water share purchases into the 2028 regulatory period.

We are also thankful of the recommendations of the Community Deliberative Panel that met over five full days in 2022. Customers recommended price increases commensurate with the proposed level of regulatory depreciation. There was widespread understanding of the notion of intergenerational equity – that higher debt now leads to higher prices later and customers accepted the need for the current generation to bear some of the burden of the upcoming *Big Water Build.*

Financial indicators were pushed to the limit of Director tolerance as we mitigated bill increases as much as possible. Any major reduction to regulatory depreciation will undermine Directors' compliance with their fiduciary duties and will undermine the customers who invested their time in the Deliberative Panel process.

## 3.8 Cost of debt

In communications received from the Commission on 3 May 2023, the updated Cost of Debt (CoD) for the 2023 Water Price Review is 6.7608%. We have updated our financial template (submitted as part of this response) to reflect these changes, in each of the forward years to 2032–33.

## 3.9 Inflation assumption (for cost of debt purposes)

We have adopted the Commission's long-term inflation estimate of 3.50%. As such, we have updated the key assumptions in the financial template.

We note that the Commission's communication dated 3 May 2023 stated that the *"update reflects the expected inflation consistent with the methodology set in the Guidance Paper"*. The Commission's Guidance (section 3.13.1) states that forecast inflation is the midpoint between the:

- RBA geometric mean using the RBA forecast for the first two years and the midpoint of the RBA target range for years three to ten, i.e., 2.5%; and
- 'bond breakeven' implied inflation rate between the 10-year nominal and indexed Commonwealth Government Securities.

We have not reconciled the application of this approach with the estimate provided by the Commission.

It would be valuable if the Commission in its Final Decision documented the methodology used and input assumptions that underpin the forecast inflation of 3.50%. This will allow us and the industry to better estimate forecast inflation in the future and to incorporate these estimates within customer engagement.

# 4 DEMAND

## SUMMARY OF OUR RESPONSE

- Maintain our demand forecasts as proposed in the *Price Submission* noting these are more appropriate for our region than the *Victoria in Future* forecasts

## 4.1 DRAFT DECISION

In response to our *Price Submission* and in accepting our proposed demand forecasts, the Commission noted that since lodgement, updated *Victoria in Future* (VIF) Victorian Government population and dwelling forecast have been made available to water businesses.

In its *Draft Decision*, the Commission asked to demonstrate how we have considered these updated estimates and, if required, identify and justify any changes to demand forecasts (including any updates to the financial template submitted in response to the *Draft Decision*).

## 4.2 OUR RESPONSE

In November 2022, the State Government released its updated population and household projections. These revised projections, based on data from the 2021 census, provide for an overall increase in growth as compared to the previous VIF update (July 2019), summarised in Table 11.

*Table 11: Victoria in Future: Growth forecast Greater Bendigo*

| | No. Households (Greater Bendigo) | 2021–26 average growth % |
|---|---|---|
| VIF (2019 projection) | 55,508 | 1.79% |
| VIF (2022 projection) | 56,285 | 1.89% |

Growth rates for some individual towns in our region have changed significantly in the VIF 2022 update compared to 2019 (Table 12). We note that the updated VIF projections forecast an increase in the underlying growth rate in our region, bringing the VIF numbers closer to our *Price Submission* forecasts. This further supports our initial forecasts.

*Table 12: Comparison of adopted growth forecast & VIF growth forecasts 2021–26.*

| *VIFSA District* | VIF 2019 | VIF 2022 | CW long-term |
|---|---|---|---|
| Echuca | 0.89% | 0.78% | 1.77% |
| Greater Bendigo (Rural) | 1.55% | 2.48% | 2.17% |
| Castlemaine | 1.21% | 1.70% | 1.35% |
| Rochester | 0.28% | 0.58% | 0.63% |
| *CW Region (overall)* | | | *1.90%* |

Rather than using VIF numbers in our planning, we use a projection based upon our long-term connection history. This is because the areas covered by VIF and our water and sewer networks are quite different (Figure 11). As an example, part of Huntly and all of Marong, two of Bendigo's largest growth fronts, are included in the VIFSA zone Greater Bendigo Rural which captures a predominantly rural area of the City of Greater Bendigo (COGB) zone. This will have the effect of underestimating growth for these two areas as the projected growth rate will be impacted by mostly rural customers growing at a near zero growth rate.

This can effectively be seen in the changes between VIF 2019 and VIF 2022, which has seen a major increase in growth for this district. By using our internal rate, this expected high rate of growth has already been factored into our planning.

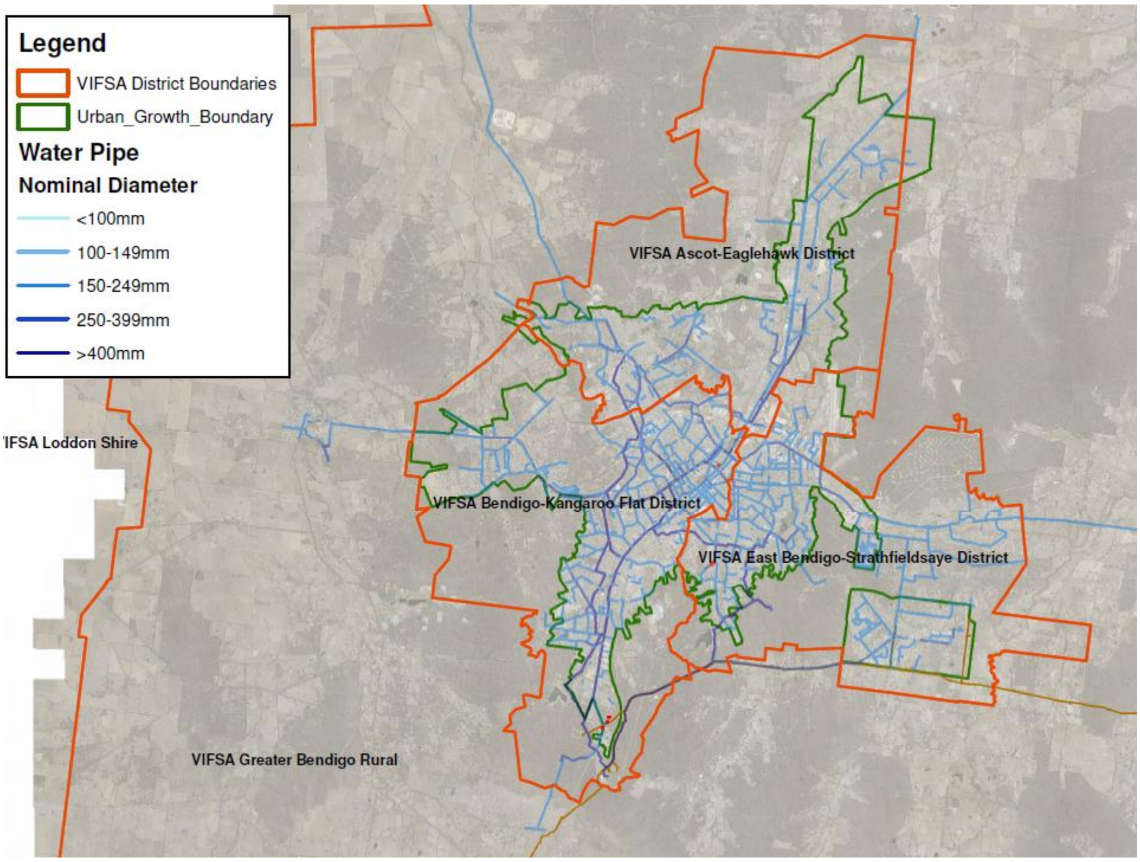



*Figure 11: VIFSA Districts against existing water mains.*

The growth rates used within the *Price Submission* for the Coliban North region (which is equivalent to the COGB local government area), were 2.06% for water connections and 2.02% for sewer connections.

For the July 2019 to July 2021 period, equivalent to the timing of the VIFSA update, we experienced annualised net growth in water connections of 1.79%. When looking at a two-year period, changes such as this can occur as the growth rate does fluctuate over time, but this is worth monitoring and will be factored into our long-term planning to occur for the 2028 *Price Submission* when a revised rate will be used based upon updated information.

# 5 New Customer Contributions (NCCs)

### Summary of our response

- In response to the Draft Decision, we undertook a new round of independently facilitated engagement so that our response can incorporate all customer views. (See Attachment 2 for the full engagement report).
- Fairness between current customers and new customers has been the core consideration of our NCC approach.
- We propose to update the rate at which water NCCs increase to 20% per annum in response to customer feedback.
- We propose to introduce a new Small Lot Infill NCC and hold the level of this charge with inflation over the regulatory period.
- We maintain that the AIC model is the best and most transparent model for applying NCCs.
- Capital expenditure is apportioned to NCCs in accordance with Board endorsed principles.
- Extensive engagement with developers has fundamentally shaped our proposals, including the provision of budget for water main link-ups and cost concessions regarding sewer pump stations.
- Consistent with our sewer Growth Capital Expenditure Guarantee, we will introduce a framework of annual reporting and engagement with developers to ensure that all developers and their advisors have confidence in how we are apportioning growth capital expenditure to NCCs.

## 5.1 Our initial proposal

During the current regulatory period, as part of a larger industry cohort we worked with VicWater to review the appropriateness of the current approach to forecasting NCCs. This review adopted a principled, evidenced, transparent and consultative reform process. The VicWater review along with our design both of our proposed NCCs and their transitional arrangements has been extensive since beginning in September 2021. This has included consultation with the Commission, Urban Development Institute of Australia (UDIA) and developers.

The overarching objective was to consider approaches that not only manage the uncertainty surrounding future growth, but also to establish a pricing methodology that better meets the Commission's principles and is consistent with customer expectations.

The output of this review was a strong case to change the methodology for forecasting NCCs – the adoption of an average incremental cost (AIC) approach to calculating standard NCCs.

*Concerns with the Current Approach*

The VicWater NCC review identified several issues with the current net cashflow (NCF) NCC approach that were potentially distorting NCC pricing outcomes:

- Across a significant number of the participants, the current net cashflow approach was resulting in systemically low NCCs, in some cases $0 NCCs, that were not commensurate with the level of growth-related expenditure businesses were delivering. This outcome of the net cashflow approach raised material concerns around fairness to existing customers and the long-term sustainability of the approach.
- The current approach allows the inclusion of sunk assets in its calculation of NCCs. It is important to us, given the inherent uncertainty associated with our recent development boom, that we can levy NCCs that provide signals to developers about the costs associated with connecting to our systems and encourage efficient development timing decisions.
- The WIRO also requires us to levy prices that are transparent and easy to understand. The VicWater review identified feedback from developers on the complexity of the current approach and difficulty in understanding the basis for their NCCs. The NCF approach is not intuitive and is difficult to communicate to both our broader customer base and our developers.
- The complexity associated with the current approach results in administrative costs that are not proportionate to the benefits.
- Businesses had experienced issues with the operation of the Commission's current NCF model. The model which is publicly available on the Commission's website has circularity issues embedded in its formulation that can impact on the resulting calculations. This circularity is generated by the model's tax allowance calculator and relates to the continual iteration of NCC revenue and the resulting tax liability.
- The Commission's NCF model incorporates a terminal value in its net revenue and cost calculations that is referenced in the resulting NCC charge. The Commission has not outlined conceptually the purpose of this value and its rationale for inclusion in the NCCs. Typically, terminal values in discounted cash flow analysis are intended to represent the expected value of all future cash flows beyond the forecast period. However, we do not consider terminal values appropriate within the context of NCC price setting, where future cost and revenue forecasts are calculated based on simple compounding growth rates and as such increase or decrease exponentially over the very long term. The exponential nature of the cash flows can sometimes result in large terminal values that do not reflect realistic cost or revenue outcomes. We note that of the three businesses whose proposed standard NCCs the Commission has accepted in its *Draft Decision* two businesses with NCCs based on AIC that do not incorporate a terminal value and one other business with NCCs based on the NCF approach that does not appear to have referenced the model's terminal value.
- The use of both positive and negative values to create net cashflow value is highly sensitive to assumptions. This volatility detracts from the certainty that should be expected within a robust model.

*Options Considered and Our Preferred Approach*

The VicWater review adopted an options-based analytical process that identified a comprehensive set of alternative approaches (options) for the setting of NCCs. Each of these options (including the current net cashflow approach) was qualitatively assessed against good practice assessment criteria. The assessment also included a quantification of the shortlisted options. The options considered were:

1. *Net Cashflow*: Commission approach (Status Quo). A net cashflow approach that applies the Commission estimator model on a postage stamp basis. The approach incorporates $0 standard NCCs with negotiated NCCs based on the bring forward costs of out of sequence development.
2. *System based Net Cashflow*: A net cashflow approach that applies the Commission estimator model on a system/town basis. All other aspects of the option are consistent with status quo.
3. *Forward looking Net Cashflow (excluding sunk assets)*: A system based net cashflow approach that excludes revenues and costs associated with sunk assets from the cashflow calculations.
4. *Net Cashflow – Excluding consumption*: A system based net cashflow approach that excludes expenditure and revenue associated with consumption-based prices.
5. *Net Cashflow – Consumption Offset*: System based net cashflow approach that excludes variable revenue net of the long run marginal cost (LRMC) of consumption. The option is aimed at addressing efficiency issues that may occur where postage stamp prices for water or wastewater do not reflect the LRMC in that system.
6. *Direct Cost – Long Run Marginal Cost (LRMC)*: A system based direct cost approach based on the long run marginal cost of connection.
7. *Direct Cost – Average Incremental Cost (AIC)*: A system based direct cost approach based on the average incremental costs of connection.
8. *Hybrid 1*: NCF excluding sunk assets and consumption. A hybrid option that incorporates the forward looking Net Cashflow (excl sunk assets) option with the Net Cashflow – Excluding consumption option.
9. *Hybrid 2 – NCF excluding sunk assets and consumption offset*: A hybrid option that incorporates the forward looking Net Cashflow (excl sunk assets) option with the and net cashflow excluding consumption option.

An AIC approach was identified as the preferred option on the basis that it scored highest across the assessment criteria. AIC delivers several benefits relative to the current approach:

- The ability to send developers efficient pricing signals and incentivise efficient development decisions. AIC is a stronger approximation of the marginal cost of connection than the current approach. It clearly aligns the charge to the incremental costs associated with the connection and excludes sunk assets from the calculation of the charge.
- Ease of understanding: AIC is a more intuitive approach than the current approach. The relative simplicity of the approach will enhance the effectiveness of the charge in incentivising efficient development decisions.
- The ability to send clear signals to developers is fundamental to the management of demand risk associated with our growth boom. Risk is best placed with those whose actions are capable of changing risk outcomes, through their development decisions.

*Average Incremental Cost Based NCCs*

The proposed AIC based NCC is a direct cost approach based on the average incremental costs of connection. Core elements of our implementation of this option are:

- Standard NCCs based on the AIC of connection associated with high growth expenditure.
- Separate NCCs for water and sewerage based on the costs of each service.
- Separate NCCs for recycled water, capped at 50% of the water rate to incentivise new recycled water connections.
- Inclusion of shared sewer pump stations within the Sewer NCC (as favoured by developers) and a discount to the Sewer NCC where a developer has privately provided a sewer pump station that is standalone for their development.
- Inclusion of budget for "linkups" of water networks so developers do not need to pay for all legacy link-up issues.
- Introduction of a sewer Growth Capital Expenditure Guarantee, which will see us rebate sewerage NCCs by 20% in the year following a period where we have underspent sewer growth capital expenditure by at least 20%.
- Capping annual increase at 10% per annum for water or 20% per annum for sewerage.

AIC-based NCCs are set based on the net present values of a minimum 20-year forward estimation of cost and growth. The long-term nature of these calculations raises issues regarding the alignment of the period used to generate NCCs and our proposed five-year regulatory pricing period.

We are proposing that the NCC price paths are subject to periodic review every five-year regulatory period. These reviews would focus on adjusting the NCCs to account for:

- Changes in forecasted connections growth.
- Any bring forward of planned works that had occurred during the period.
- Material changes in the capital program associated with the NCC.

This approach allows us to account for and recover growth related expenditure over a reasonable timeframe while providing continuity in NCCs over time. It also avoids potentially large step increases and decreases in NCCs due to the large lumpy nature of capital expenditure that would occur over shorter five-year price paths.

A discounted sewer NCC will apply where a new development requires a standalone pump station to be built at the developer's expense. The maximum discount of $1,500 per lot will apply where this additional cost is equal to or greater than $1,500 per lot.

Because of additional complexities and capital costs of pressure sewer systems, the NCC charged for new pressure sewer connections will be based on actual costs.

*Table 13: Price Submission NCCs 2023–2028.*

| *$ 22–23* | 22–23 | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 |
|---|---|---|---|---|---|---|
| **Water (per lot)** | | | | | | |
| Treated & Untreated | $1,790 | $2,148 | $2,362 | $2,599 | $2,858 | $3,144 |
| Recycled | $895 | $1,074 | $1,181 | $1,299 | $1,429 | $1,572 |
| **Sewer (per lot)** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Standard | $1,790 | $2,148 | $2,577 | $3,092 | $3,711 | $4,453 |
| Discounted* (min. charge) | | $648 | $1,077 | $1,592 | $2,211 | $2,953 |
| Pressure | | *Actual cost + 10%* | | | | |

**Maximum discount $1,500 per lot*

## 5.2 Draft Decision

The *Draft Decision* does not accept our proposed NCCs as it felt that we had not provided it with adequate information or justification for the Commission to be satisfied that the approach complies with its guidance requirements.

In response to the *Draft Decision*, the Commission has sought for us to:

- Provide further information to enable it to assess if growth related costs have been appropriately apportioned between NCCs and charges paid for the general customer base.
- Explain our transition plan towards achieving full cost reflectivity for each service including the timeframes of this plan and provide reasons for adopting this transition plan and its timing.
- Set out how we propose to fund any shortfall in revenue from NCCs, compared to the estimated costs of providing the service.
- Explain how we considered setting NCCs that distinguish between infill and greenfield growth areas and reasons for not proposing charges to reflect this distinction.
- Provide information regarding how the proposed cap on NCCs has not caused the contributions to fall below avoidable costs.
- Ensure that proposed NCC charges and connection numbers by service reconcile between the NCC model and financial model.

Alternatively, in response to the *Draft Decision*, the Commission stated that we may recalculate NCCs using the Commission's current methodology.

## 5.3 Our response

The following seeks to address each of the queries raised by the Commission in its *Draft Decision*. To provide a clear point of reference the analysis and discussion set out in this section is based on the NCC charges and growth capital program proposed in our *Price Submission*.

Subsequent amendments to our proposal in response to the *Draft Decision* are outlined in section 5.4.

*Apportioning Growth Related Capital Expenditure Between New and Existing Customers*

Our proposal has sought to ensure NCCs fairly reflect the costs associated with growth, between existing and new customers. We adopted a structured, staged process for apportioning capital costs at the level of individual capital projects and programs. The first stage in the process was to categorise all proposed capital expenditure as either 100% growth, 0% growth or shared.

- *100% growth*: These projects and programs were fully apportioned to NCC growth capital expenditure. These expenditures are triggered by growth (i.e., in the absence of growth, they would not occur). They are also solely apportioned to growth as do not benefit existing customers. That is, existing customers do not draw capacity from the works or benefit in their levels of service.

- *0% growth*: These projects and programs were excluded from NCC growth capital expenditure on the basis that they were not triggered by growth and relate solely to either renewals or improvement/compliance drivers.
- *Shared*: Shared expenditures are those that have multiple cost drivers (such as growth and renewals and/or improvement/compliance). These expenditures were apportioned on a project by project or program by program basis.

Shared expenditure was apportioned for individual projects or programs based on a range of criteria that included:

- For network related capital programs, we adopted the relative geographical shares of water infrastructure.
- For renewals capital programs, the growth apportionment was based on the costs associated with the upsizing of assets and the construction of linking assets, on the basis that these expenditures were aimed at facilitating growth.
- For treatment capital programs, the growth apportionment was based on the costs of upsizing treatment assets to growth.
- For most works associated with the Bendigo Reclamation Plant, our apportionment was based on the cost of upsizing assets for growth. These costs were estimated based on the difference between the estimated renewals/replacement costs associated with current assets that have been built to service existing customers and the costs associated with the Reclamation Plant that has been built to cater for both new and existing customers.
- For capital project expenditure associated with Health-Based Target water quality upgrades, we adopted a 10% apportionment. Given the primary driver for this expenditure is compliance, we adopted a precautionary approach that only apportioned half the growth rate to the project over a ten-year period (ten times 1%).
- For the remaining shared capital projects, we adopted a growth apportionment based on a simple ten-year extrapolation of historical growth rates at a town/system level as a proxy for the capacity share between new and existing customers. The rationale for this proxy was that we size our assets to cater for 10-years of growth.

A detailed accounting of our cost apportionment approach was provided to the Commission on 10 May 2023 in response to an FTI information request.

The *Draft Decision* proposed a reduction of $5.8 million for the purchase of water shares during the *Price Submission* period. We have accepted this and included it in our revised capital program.

The *Draft Decision* also questioned our proposed approach to the apportionment of capital expenditure related to water share purchases. In response, we are proposing to include these expenditures in the 100% growth expenditure category and fully apportionment them to growth on the basis that these entitlements have been purchased solely for the purpose of meeting security of supply for new customers. While our existing yield from entitlements are sufficient to meet demand from existing customers within this pricing period, demand from new customers necessitates the augmentation of current entitlements. We provided the Commission with supporting documentation, including the full business case for the purchase of the entitlements in its information request.

We have benchmarked the percentage of capital expenditure that is apportioned to NCC calculations. Across the industry, our rate of 18% is more than a third lower than the industry overall rate of 28%. This provides additional context for our assertion that our apportionment methodology is reasonable.

*Transition plan and achieving avoidable cost*

We are acutely aware of the potential impact of reform to NCCs on both developers and on new customers. To mitigate these impacts, we proposed in the *Price Submission* to transition in the introduction of AIC based NCCs over a seven-year period for water and recycled water and a five-year period for sewerage. The transitions we proposed in our submission were profiled as follows:

- *Water and recycled water NCCs*: 20% real increase in 2023–24 followed by a 10% per annum increase in NCCs thereafter (in real dollar terms). The NCC will be $3,144 in 2027–28 and will reach full cost recovery ($3,964) by 2030-31.
- *Sewerage*: 20% increase in NCCs (real terms) per annum to reach full cost recovery in 2028-29 at $4,841.

This transition profile is outlined in Table 14. It is important to note that in response to the *Draft Decision* and general customer feedback we are proposing to change the profile for water and recycled water to 20% per annum from 2023-24 onwards until cost recovery is reached. This change is detailed in section 5.4.

The transition period reflected the outcomes of consultation with developers. There were specific stages of our engagement program with developers that targeted the issue of implementation of AIC NCCs. A consultation session was held on 4 August 2022 to discuss options for introducing AIC based NCCs, after a week of open sessions in June 2022. Rather than a step-increase in NCCs, developers clearly indicated a preference to phase in NCC changes of 20% per annum for sewer and 10% for water. In addition to the consultation session, we distributed a survey for developers to vote on their preferred option for NCCs, as agreed at the additional information session. The transition arrangements proposed in our *Price Submission* were overwhelmingly approved by developers[4].

*Impact of Transitioning on the Broader Customer Base*

The NCC revenue foregone by the proposed transitioning arrangements in our *Price Submission* are outlined in Table 14. Given the proposed NCCs do not incorporate operating expenditure, the revenue foregone through transition would result in net present value of $22.4 million being rolled into our regulatory asset base and recovered from both new and existing customers through water, recycled water and sewerage prices.

*Table 14: Transition NCC foregone revenue.*

| *$M 2022-23* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | 28-29 | 29-30 |
|---|---|---|---|---|---|---|---|
| Water | 2.67 | 2.40 | 2.08 | 1.72 | 1.30 | 0.82 | 0.26 |
| Sewerage | 4.01 | 3.45 | 2.72 | 1.79 | 0.62 | 0.00 | 0.00 |
| Recycled water | 0.04 | 0.04 | 0.02 | 0.01 | -0.02 | 0.00 | 0.00 |
| Total | **6.73** | **5.88** | **4.82** | **3.52** | **1.91** | **0.82** | **0.26** |

[4] Survey results from 21-29 July 2022 indicated 100% support for a staged increase over several years, with 43% preferring transition over 5 years and 57% over 10 years.

Foregone revenue is calculated as the forward revenue from full cost recovery NCCs less forward revenue from transitioning NCCs.

Our proposed transition was aimed at addressing the WIRO requirement that prices consider the interests of customers. Our transition struck a balance between the interests of existing customers, which were met by the phased adoption of an AIC based NCC that send appropriate incentives for efficient development, and developers, who have already made investment decisions with long lead times based on the previous NCC approach.

In its *Draft Decision*, the Commission raised the issue of our proposed transitional arrangements and potential cross subsidisation between developers and existing customers. We note that the issue of cross subsidisation within the context of development is complex. Developers in practice do not consume water and sewerage services, rather they are seeking connection to our network. The issue of cross subsidisation relates primarily to the costs associated with the ongoing provision of water and sewerage services to new customers relative to existing customers. It is important to note that we have in place a postage stamp pricing approach that does not differentiate prices for ongoing water and sewerage services between towns and separate systems, even where these systems have different cost profiles.

The changes incorporated in our revised proposal will reduce the level of funding required from our broader customer base. This seeks to address concerns raised by the broader customer base and their advocates (e.g., a submission lodged by the Consumer Action Law Centre stated that "existing customers should not cross-subsidise developers"[5]).

Given our broader postage stamp pricing approach and recognition of the benefits that existing customers will realise through the promotion of more efficient investment in growth expenditure facilitated by AIC NCCs, we believe our proposal struck an appropriate balance between the interests of existing customers and new customers. AIC is accepted as an appropriate approximation of avoidable cost. We acknowledge that the revenue shortfalls associated with the original transitional arrangements resulted in our NCCs temporarily not achieving avoidable cost. However, the quantum of this shortfall was lower than that currently in place and would converge to full cost recovery in 2030-31.

*Infill vs Greenfield*

In its *Draft Decision*, the Commission noted that we had not provided it with enough information to assess how we distinguished between infill and greenfield growth areas and our reasons for not proposing charges to reflect this distinction. In response to the *Draft Decision*, we have separately identified the expenditures related to infill and greenfield developments and estimated separate NCCs for based on these distinctions.

We have defined infill as development occurring on land that has previously been developed and is being either repurposed or redeveloped. Greenfield refers to land that has not yet been developed or is in the process of being developed. Based on these definitions, approximately 63.5% of development across our systems and towns have been defined as infill. Based on these definitions, infill and greenfield development accounts for approximately $4.03 million and $16.66 million in growth capital expenditure, respectively.

We note that the profile and nature of growth in a regional context makes identification of infill and greenfield development problematic. There are large areas of land under development on the edges

[5] Consumer Action Law Centre, *Feedback on standard draft decision: 2023 Water Price Review*, May 2023, p. 3

of our network that have large growth frontages and can potentially be classified as either infill or greenfield. In the interests of exploring all options, we calculated infill and greenfield NCCs both on a system/town basis and on a postage stamp basis. The resulting NCCs are outlined in Table 15 and Table 16.

*Table 15: System-based infill and greenfield NCCs.*

| *$ 2022-23* | Water NCC | Sewer NCC | Total per property |
|---|---|---|---|
| Coliban North – Infill (incl Campaspe) | $2,499 | $7,702 | **$10,201** |
| Coliban North – Greenfield (incl Campaspe) | $2,990 | $8,614 | **$11,604** |
| Coliban South +Trentham | $9,694 | $3,317 | **$13,011** |
| Elmore, Goulburn, Loddon Wimmera, Murray | $770 | $509 | **$1,279** |

*Note: Estimated NCCs are not transitioned and reflect the full cost of servicing growth. Infill and greenfield NCCs are calculated for major growth areas (Coliban North and Campaspe). Non-differentiated NCCs are calculated for the remaining growth areas. The NCCs outlined in the table are based on the expenditures as proposed in our Price Submission and include the expenditure related to Water Share purchases which has subsequently been removed from growth, see section 4.2.5.*

The above system-based infill and greenfield NCCs vary materially from the proposed NCCs. On a total per property level (water and sewerage):

- Coliban South and Trentham system water NCCs are 203% higher than the proposed NCCs in 2023–24, trending to 71% higher for 2027–28.
- Water NCCs for Elmore, Goulburn, Loddon, Wimmera and Murray are lower than proposed NCC at 30% in 2023–24 through to 17% in 2027–28.

*Table 16: Postage stamp-based infill and greenfield NCCs.*

| *$ 2022-23* | Water NCC | Sewer NCC | Total per property |
|---|---|---|---|
| Infill | $3,890 | $4,757 | $8,647 |
| Greenfields | $4,381 | $5,669 | $10,050 |

*Note: Estimated NCCs are not transitioned and reflect the full cost of servicing growth.*

The above postage stamp-based infill and greenfield NCCs also vary from the proposed NCCs. At a total per property level (water and sewerage):

- Infill NCCs are approximately double in 2023-24 reducing to approximately 14% higher in 2027–28
- Greenfield NCCs are 134% higher in 2023-24 reducing to 32% higher in 2027–28.

In response to the *Draft Decision,* we have consulted developers and our customer advisory groups on the potential application of infill and greenfield NCCs.

One purpose of the engagement was to compare support for a single set of charges instead of differentiating between infill and greenfield development. The developers and Customer Advisory Group (CAG) members were provided with a “Consult” level of influence on the IAP2 spectrum of public participation. This includes the promise that Coliban Water will “keep you informed, listen to and acknowledge concerns and aspirations and provide feedback on how public input influenced the decision.”

Ten interviews were held with developers between 1 May and 5 May and an online workshop with 20 CAG members was held on 4 May. Both cohorts were asked whether there should be one set of NCCs or whether there should be separate NCCs for greenfield developments.

Of the nine developers who expressed a view, two (22%) supported differentiated charging for greenfield sites. Two more (22%) indicated that the cost would need to be “significantly different” to justify a separate NCC for greenfield areas. Five (55%) interviewees preferred a single charge for all development sites. One developer abstained from responding until further information could be provided from Coliban Water.

In contrast to just two strong developer votes in favour of differentiated pricing (and two conditional votes), 78% of CAG members wanted separate NCCs for greenfield areas. Only 11% of members said they would support a single charge that does not differentiate between greenfield areas and other development sites and 11% said they did not know or had no opinion.

Based on the developer consultation outcomes and the inherent difficulties in identifying infill development, we are not proposing to broadly differentiate scheduled NCCs for infill and greenfield developments. We also note the lack of regulatory precedent for infill and greenfield NCCs for regional water businesses. Based on our research, Barwon Water is the only other regional water business that has adopted and infill and greenfield based NCCs. Barwon Water services Geelong and faces a more urban development profile that Coliban Water.

As a follow-up to the consultation and in consideration of social housing in built environments, our Revised Proposal in section 5.4 includes an allowance for two and three lot small subdivisions.

*Customer Engagement*

We have extensively engaged our broader customer base and developers.

- Consultation with the broader customer based occurred through deliberative forums. Feedback from the forums noted that for fairness reasons developers need to pay their own way without passing costs onto residential customers (noting the deliberative panel chose not to form a formal “Recommendation” of the Panel).
- Consultation occurred with developers during the 2018-2023 regulatory period and specifically in the lead up to the *Price Submission*. We met with developers in November 2021, March, June, July and August 2022. Table 27 in our *Price Submission* summarises engagement and communication with the land development community. Along with participating in the VicWater project with other Victorian water businesses to develop a consistent methodology for calculating NCCs, we have reviewed and revised our proposals in line with ongoing feedback from developers.

Our full engagement program for developers is outlined in Table 17. This includes engagement undertaken as early as August 2021.

*Table 17: Developer engagement program.*

| Date | Form of engagement | Outcomes | Impact on our proposal |
|---|---|---|---|
| ***Price Submission*** | | | |
| 4 Aug 2021 | Pre-engagement survey sent to all developers and consultants | Key issues for discussion identified | |
| 23 Nov 2021 | In person forum with key developers to discuss issues identified | | |
| Oct 2021 – April 2022 | VicWater project. Industry wide approach to NCC calculation | Identification of AIC methodology for NCC calculation | Project updates given at developer and consultant regular meetings |
| 21 – 23 Jun 2022 | Information sessions held with developers to discuss outcomes of VicWater project | Discussion about AIC approach and how that impacts on NCC's for 2023-28<br><br>Differential pricing vs Postage stamp and Low-growth town pricing all discussed, with postage stamp the preferred outcome. | Adoption of the AIC approach discussed, impact of stepped change and a smoothing approach presented<br><br>Postage stamp approach adopted |
| 19 Jul 2022 | Post information session survey sent to all developers and consultants | Key questions asked about:<br><br>Transition or Step change (100% for staged increases) For Shared SPS or All SPS to be included in NCCs (85% for all SPS's)<br><br>Should there be a discount for SPS for 1 development (100% said yes) | Idea created for the inclusion of Shared SPS, all SPS and water main link ups discussed during engagement. Options investigated for August engagement. |
| 4 Aug 2022 | Additional information session held with developers to discuss survey and options | Detailed presentation on key options presented as developed from the July session | Options consulted on, with preferred options selected from survey results |
| 4 Aug 2022 | Options survey sent to developers | 8 August survey closed<br><br>Full endorsement of water main linkups 100% Supported. 91% support for inclusion of shared sewer pump stations with a rebate for SPS's servicing 1 only unique development | Inclusion of Shared SPS and water main link ups<br><br>Transition methodology and discount for SPS for single development included |
| 14 Sep 2022 | Information pack sent to developers asking for final feedback | Developers are aware of what we were proposing for NCCs in our *Price Submission* | Survey responses of 5/7 votes for an 80% GCE guarantee, with 100% of responses indicating support for the GCE rebate |

In response to the *Draft Decision*, we have re-engaged with key stakeholders to get their input and feedback on some of the key elements being reviewed. We were mindful of the short turnaround and have tried to maximise the opportunities for participation. A summary of these engagement activities can be found in Table 18.

We identified the following key stakeholder groups that we needed to consult with:

- Key developers and the consultants that do high volumes of work with us.
- Broader customer base who are likely to be impacted by any phased pricing of NCCs.
- Consultants registered with us that do low volumes of work with us.
- The UDIA.

We engaged an independent consultant, Insync, to facilitate one on one interviews with key developers and consultants. This process introduced new information and showed additional NCC data and calculations for transparency.

We have heard from 20 members of our existing customer advisory groups in an online session which was also facilitated by Insync. There was diverse representation within the group which gave us their opinions on the introduction of development charges.

We emailed all consultants and asked them for their opinion on some of the key matters being reconsidered. They were encouraged to provide feedback online via our engagement platform Connect Coliban. Strong feedback included the following:

> "Coliban Water's fees have not kept pace with the value of the land. Fees should have increased before now to keep pace…I have no problem with the fees, the only issue is if developers have to pay upfront, then it is a hindrance." Don Erskine (YourLand)

From our engagement with both customers and developers, we looked at balancing the transition period for consistency, with both water and sewer increasing at 20% until actual cost is reached. This was provided back to our stakeholders on 11 May 2023, as well as a different way of considering infill for social housing with a revised infill definition and fixed rate.

Insync contacted the state office of the UDIA and offered an interview to share the new information being discussed with developers. The state office of the UDIA did not respond to our offer to share new information.

For ease of assessment, Attachment 4 outlines our response to other submissions to the ESC, noting we highlight some clarifications in relation to matters of fact.

Insync's full engagement report regarding our most recent engagement is included as Attachment 2. Overall, 7 out of 8 developers/consultants and 15 out of 18 customers considered our process fair and authentic.

All developer and Customer stakeholders we engaged in this process were part of a closing the loop session on 15 May 2023, before which we supplied a comprehensive summary of the proposal, as attached in Attachment 5. The session was a balanced and open discussion with both developers and customers, where we reflected on how our revised proposal (Section 5.4) had been changed based on the outcomes of our customer and developer engagement.

*Table 18 - Draft Decision Engagement Program*

| ***Date*** | ***Form of engagement*** | ***Outcomes*** | ***Impact on our proposal*** |
|---|---|---|---|
| ***Draft Decision* Response** | | | |
| 12 Apr 2023 | Commission *Draft Decision* received | Insync engaged to facilitate developer and customer feedback | Material and key questions on transition and infill/greenfield developed, Connect Coliban site prepared |
| Late Apr 2023 | Discussions with Commission about *Draft Decision* and potential response | Information supplied to Commission on the alternatives under investigation that we took to developers | AIC transition vs actual cost, NCF and system-based charges refined for discussion with stakeholders |
| 1 May 2023 | Commission public forum held in Bendigo and online | Feedback from development community | Capital Program details included in the planned developer engagement |
| 4 May 2023 | Forum with 20 customers to obtain feedback on NCC impacts on them and broader customer base | Sentiment received in relation to how NCCs should be implemented | We will transition Water NCCs quicker in line with Sewer NCCs to reach actual costs this pricing period<br><br>Consideration of small lots such as for social housing to have a lower NCC charge |
| 1-5 May 2023 | Additional engagement with developers, including interviews with key developers | Individual feedback on how charges will impact and should be introduced | Support for a transitional approach current |
| 15 May 2023 | Information session for customers and developers to explain our revised proposal. | Recording of session: https://youtu.be/zUB2AD7PpYY A transcript of this session is also included in Attachment 3. | None – Closing the loop |

In response to the *Draft Decision* and to the feedback we have received from developers in drafting our response, we plan to establish an ongoing engagement program with the development community where we will explore opportunities to:

- Report annually on the delivery of capital program and progress of growth-related projects.
- Redevelop online content so that it is more engaging and user friendly.
- Undertake tours of key assets and/or projects being delivered.
- Hold further workshops with developers on specific issues or areas of interest.

We will finalise the format and timing of these activities post the Commission Determination.

*Reconciling the NCC Model with the Commission Financial Template*

In its *Draft Decision*, the Commission asked us to ensure that proposed NCC charges and connection numbers by service reconcile between the NCC model and financial model. The following reconciles each of the main parameters in the NCC calculation and NCC model to the Commission's financial template as proposed in our *Price Submission*.

It is important to note that our revised proposal incorporates several changes to both expenditure and the revenue profile for NCCs. These changes are outlined in section 5.4 and are not incorporated into the following reconciliations.

*Growth Capital Expenditure*

The difference between the financial template growth capital expenditure results from the apportionment approach adopted for NCCs as proposed in our *Price Submission* as outlined above. The supporting data was provided to the Commission in response to an FTI information request. The NCC growth expenditure is fully reconcilable to the Commission template once the apportionments for shared capital expenditure have been accounted for. Each of the 100% and shared apportionments are outlined in Table 19.

*Table 19: NCC growth capital expenditure.*

| *$M 2022-23* | 2023–24 to 2027–28 | | | 2028–29 to 2032–33 | | |
|---|---|---|---|---|---|---|
| | Water | Sewer | Recycled | Water | Sewer | Recycled |
| **100% apportioned** | | | | | | |
| Growth | $23.2 | $20.3 | $0.0 | $37.3 | $35.4 | $0.0 |
| **Shared apportionment** | | | | | | |
| Compliance | $0.8 | $16.7 | $0.0 | $7.4 | $38.7 | $0.0 |
| Renewals | $0.0 | $0.4 | $0.0 | $2.1 | $4.4 | $0.0 |
| Improvement | $2.5 | $17.8 | $2.5 | $0.4 | $18.1 | $0.0 |
| Other | $12.6 | $0.0 | $0.0 | $25.0 | $0.0 | $0.0 |
| **Total** | **$39.2** | **$55.2** | **$2.5** | **$72.1** | **$96.6** | **$0.0** |

*NCC revenue*

The difference between *Price Submission* financial template NCC revenues and the NCC model revenues is outlined in Table 20. This difference reflects the application of the transitional arrangements on the NCCs in the Commission's financial template. The NCC revenue is fully reconcilable to the Commission's template once the transitional arrangements have been accounted for over the 2023–24 to 2027–28 regulatory period.

For the subsequent 2028–29 to 2032–33 regulatory period, proposed NCC revenues exceed those in the Commission's template. In response to the *Draft Decision*, we have amended the proposed NCC revenues in 2028–29 to 2032–33 to align with our proposed NCCs. The Commission's template revenues are referenced in the model's Capex_FO input sheet. We note that the model's price cap sheet does not include connection numbers of NCCs and therefore does not generate a revenue for comparison.

*Table 20: Reconciliation of NCC revenue.*

| *$M 2022–23* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 | 28–29 | 29–30 | 20–31 | 21–32 | 22–33 |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial template NCC revenue | $5.6 | $6.7 | $8.0 | $9.6 | $11.5 | $11.7 | $12.0 | $12.2 | $12.5 | $12.8 |
| Transitional NCC revenue (proposed NCCs) | $5.6 | $6.7 | $8.0 | $9.6 | $11.5 | $13.3 | $14.3 | $14.9 | $15.2 | $15.6 |
| No transitional NCC revenue | $12.3 | $12.6 | $12.8 | $13.1 | $13.4 | $13.7 | $14.0 | $14.3 | $14.6 | $14.9 |

### *New Customer Connections*

The NCC model connection forecasts (Table 21) align with those in the Commission's financial template for the 2023–24 to 2027–28 regulatory period. The below connections are used to derive the transitional revenues outlined in Table 14. Given the revenue reconciles for the regulatory period and the prices are as proposed, it follows that the underlying connections also reconcile. The connections for the subsequent regulatory period 2028–29 to 2032–33 do not reconcile.

In response to the *Draft Decision*, we have amended our proposed NCC revenues to align both with our proposed NCCs and the connections underlying our NCC calculations.

*Table 21: New connections.*

| *Connections* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 |
|---|---|---|---|---|---|
| Water | 1,469 | 1,497 | 1,526 | 1,555 | 1,585 |
| Sewerage | 1490 | 1522 | 1553 | 1586 | 1620 |
| Recycled water | 111 | 122 | 135 | 148 | 163 |

### *Tax, Gifted Assets and Discount Rates*

We have responded to separate requests for information from FTI and the Commission regarding reconciliation of the following elements of *Price Submission* NCC calculation:

- *Tax*: Our proposed NCCs do not incorporate a positive tax allowance. We are not in a tax paying position and will not be for many years. The rate of tax and the inputs to this tax calculation, do not affect either NCC levels or general price levels. Accordingly, we have not modified the assumptions within the Financial Template
- *Gifted Assets*: We are not incorporating a tax allowance in the NCC model, therefore the NCC model does not reference gifted assets in the NCC calculation.
- *Discount Rate*: A discount rate of 2.29% was incorporated in the NCC Model. This is the simple average of the five years Regulatory Rate of Return in the financial model. This discount rate varies from the 2023-24 real rate of return of 2.55%. We chose the proposed discount rate of 2.29% on the basis that the five-year average is more appropriate given the long-term nature of the calculation (noting this figure is now updated).

*Application of the Commission's Net Cashflow Model*

In its *Draft Decision*, the Commission stated that our response could potentially recalculate NCCs using the existing net cashflow approach. While we are not proposing to adopt net cashflow based NCCs, it is important to acknowledge the alternative NCCs that we would have proposed were we to maintain the current approach. These NCCs provide valuable context for our proposal for the Commission, our new and existing customers and developers.

*Table 22: NCC calculated based on the current net cashflow approach.*

| *$ 2022-23* | Water NCC | Sewer NCC | Total per property | % increase from current NCCs |
|---|---|---|---|---|
| Net Cash Flow NCCs | $2,830 | $8,187 | $11,017 | 208% |

*The percentage increase on current NCCs is calculated as the percentage growth relative to the current NCC total per property for Standard Growth Areas. It is important to note that these NCCs are greater than those currently levied on Low Growth Areas and that the percentage increase on these NCCs will be higher. Calculated NCCs do not incorporate recycled water expenditure.*

As outlined in Table 22, maintaining the current net cashflow approach to calculating NCCs results in material increases in NCCs for the 2023 regulatory period of approximately 208%. These increases exceed those proposed in our *Price Submission* under our AIC NCC methodology. Relative to our proposed NCCs, on a total per property basis (water plus sewerage), net cashflow NCCs are approximately 156% higher in 2023–24 through to 37% higher in 2027–28.

The primary driver for these Increases is a material rise in growth related capital expenditure over the current regulatory period (2018 to 2023), relative to the preceding regulatory period (2013 to 2018). These growth capital expenditures impact NCCs through the level of sunk assets incorporated in the net cash flow calculation. The NCC revenue over the current regulatory period has not been sufficient to recover growth capital expenditure, which results in a material increase in the residual unrecovered growth expenditure which forms the basis for sunk assets.

To address the uncertainty surrounding inflation over the regulatory period we have calculated net cashflow NCCs in real dollar terms. We have done this by excluding inflation from the Commission's NCC estimator model and incorporating a real discount rate of 2.52% (updated to incorporate the most recent estimation of our regulated rate of return). We also note that we have concerns with the Commission's current estimator model that applies a nominal discount rate to the net cashflow numerator and a real discount rate to the denominator in the NCC calculation. It is our understanding the net present value calculations of ratios (such as, the net cashflow to connections ratio that underlies the NCC calculation) should apply a common discount rate to both numerator and denominator to maintain the mathematical integrity of the ratio. Adopting a real approach avoids these concerns and is consistent with the regulatory accounting approach of the broader price review where all expenditures are treated in real terms. It also is consistent with Barwon Water's net cashflow proposal that has been accepted by the Commission.

To meet WIRO principles around efficient pricing, our proposed AIC-based NCC approach excludes sunk assets from its calculation. The difference in net cash flow NCCs and our proposed NCCs is outlined in Table 23: Outcomes from the NCC options we have considered.

Given the potential for material sunk asset values and the resulting high net cash flow based NCC to distort efficient timing decisions by developers and impact adversely on our new customer base, we are proposing to maintain the AIC methodology for NCCs, as documented in the *Price Submission*.

However, as an act of good faith, if the NCF model was to be endorsed for our NCCs, we would consider how we could cap overall NCCs at the levels implied by our AIC model. We would welcome the opportunity to work with the Commission regarding implementation of this fall-back approach so that overall fairness is retained between current and new customers.

*Summary of options considered*

Table 23 outlines some of the options we considered in response to the Draft Decision. These options include our *Price Submission* NCCs along with the potential NCC outcomes for each of the options raised by the Commission in its *Draft Decision*, system based NCCs, infill and greenfield NCCs and a continuation of the current net cashflow approach.

*Table 23: Outcomes from the NCC options we have considered*

| ***NCC option ($2022–23)*** | **23–24** | **24–25** | **25–26** | **26–27** | **27–28** |
|---|---|---|---|---|---|
| 1. *Price Submission* | | | | | |
| Water NCC | 2,148 | 2,362 | 2,599 | 2,858 | 3,144 |
| Sewer NCC | 2,148 | 2,577 | 3,092 | 3,711 | 4,453 |
| Sewer NCC (discounted) | 648 | 1,077 | 1,592 | 2,211 | 2,953 |
| Recycled Water NCC | 1,074 | 1,181 | 1,299 | 1,429 | 1,572 |
| 2. Non-transitioned NCCs | | | | | |
| Water NCC | 3,964 | 3,964 | 3,964 | 3,964 | 3,964 |
| Sewer NCC | 4,841 | 4,841 | 4,841 | 4,841 | 4,841 |
| Sewer NCC (discounted) | 3,341 | 3,341 | 3,341 | 3,341 | 3,341 |
| Recycled Water NCC | 1,476 | 1,476 | 1,476 | 1,476 | 1,476 |
| 3. Infill and greenfield NCCs | | | | | |
| Water NCC Infill | 3,890 | 3,890 | 3,890 | 3,890 | 3,890 |
| Sewer NCC Infill | 4,757 | 4,757 | 4,757 | 4,757 | 4,757 |
| Water NCC Greenfield | 4,381 | 4,381 | 4,381 | 4,381 | 4,381 |
| Sewer NCC Greenfield | 5,669 | 5,669 | 5,669 | 5,669 | 5,669 |
| Recycled Water NCC | 1,476 | 1,476 | 1,476 | 1,476 | 1,476 |
| 4. System based NCCs | | | | | |
| Zone 1 Water | 2,743 | 2,743 | 2,743 | 2,743 | 2,743 |
| Zone 1 Sewer | 8,182 | 8,182 | 8,182 | 8,182 | 8,182 |
| Zone 2 Water | 9,694 | 9,694 | 9,694 | 9,694 | 9,694 |
| Zone 2 Sewer | 3,317 | 3,317 | 3,317 | 3,317 | 3,317 |
| Zone 3 Water | 770 | 770 | 770 | 770 | 770 |
| Zone 3 Sewer | 509 | 509 | 509 | 509 | 509 |

| *NCC option ($2022–23)* | 23–24 | 24–25 | 25–26 | 26–27 | 27–28 |
|---|---|---|---|---|---|
| 5. System infill and greenfield | | | | | |
| Zone 1 Infill Water | 2,499 | 2,499 | 2,499 | 2,499 | 2,499 |
| Zone 1 Infill Sewer | 7,702 | 7,702 | 7,702 | 7,702 | 7,702 |
| Zone 1 Greenfield Water | 2,990 | 2,990 | 2,990 | 2,990 | 2,990 |
| Zone 1 Greenfield Sewer | 8,614 | 8,614 | 8,614 | 8,614 | 8,614 |
| Zone 2 Water | 9,694 | 9,694 | 9,694 | 9,694 | 9,694 |
| Zone 2 Sewer | 3,317 | 3,317 | 3,317 | 3,317 | 3,317 |
| Zone 2 Water | 770 | 770 | 770 | 770 | 770 |
| Zone 2 Sewer | 509 | 509 | 509 | 509 | 509 |
| 6. Net Cashflow NCCs | | | | | |
| Water | 2,830 | 2,830 | 2,830 | 2,830 | 2,830 |
| Sewer | 8,187 | 8,187 | 8,187 | 8,187 | 8,187 |

*Note: Infill and greenfield NCCs are calculated for major growth areas (Coliban North and Campaspe). Non-differentiated NCCs are calculated for the remaining growth areas. The NCCs outlined in the table are based on the expenditures and transitional arrangements as proposed in our Price Submission and include the expenditure related to Water Share purchases.*

## 5.4 Coliban Water revised proposal

In response to the *Draft Decision* and the outcomes of our subsequent engagement with our broad customer base and developers, we propose to revise our *Price Submission* NCC proposal on the following basis.

*Proposed growth capital program*

Approximately $5.8 million in expenditure associated with the purchase of water shares has been excluded from our proposed capital growth program for the purposes of NCC calculations in response to the *Draft Decision* in both the 2023-2028 and 2028-2033 periods.

*Transition Period*

Our proposed NCCs are in the long-term interests of our customers as they provide for an approach that will incentivise efficient development decisions and provide us with an ability to manage the risk associated with our regional growth. The adoption of the new AIC model requires a transitioning approach that takes into consideration the impacts of our NCC reforms on new customers and developers. We recognise developers and new customers have made investment decisions based on our current net cashflow based NCCs.

We recognise the Commission's concerns regarding the potential impact of transitioning on the broader customer base. This theme also emerged from the customer engagement with our broad customer base. We note that our proposed transitioning to the new model significantly reduces the risk of current customers cross subsidising new customers and a faster rate of transitioning for the Water NCC is proposed which further reduces this cross subsidy. Our revised proposal is to amend the transition period such that all NCCs are transitioned to full AIC based NCCs by the commencement of the 2028 regulatory pricing period. Our amended transition rates are:

- Water NCC to increase 20% year on year until the calculated rate is reached in 2026-27, in line with the proposed Sewer NCCs.
- Recycled water NCCs to be capped at 50% of the Water NCC until the calculated rate is reached in 2025-26.
- Sewer NCCs will be in line with the calculated rate from the start of 2027-28.
- Small Lot Infill NCC (see below) will be held at inflation for the regulatory period.

*Infill and Greenfield differentiation*

We also recognise the Commission's concerns regarding NCCs accounting for differences in the cost of development between infill and greenfield sites. This theme also emerged from our customer advisory group engagement where customers were generally supportive of increased charges for greenfield areas but did not consider it fair for these charges to be applied to "mum and dad" developers subdividing an inner city lot.

We have directly incorporated this feedback into our revised approach.

Our introduction of a Small Lot infill NCC will provide differentiation between infill and greenfield developments while reflecting the fact that small lot subdivisions generally require less shared growth infrastructure than larger lots.

The eligibility criteria for the Small Lot Infill NCC are as follows:

- Each lot created is less than 450sqm;
- No more than two new created lots from an existing lot;
- Excluding major greenfield areas: Bagshot, Huntly, Maiden Gully, Marong or Strathfieldsaye;
- No unserviced lot created.

Based on past experience, we estimate 352 new lots will be eligible for Small Lot Infill NCC in 2023-24.

*Revised NCCs*

Our revised NCCs are outlined in Table 24. These prices are a coordinated package that has been directly influenced by customer engagement.

*Table 24: Response proposed NCCs.*

| *NCC option ($2022–23)* | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 |
|---|---|---|---|---|---|
| Water NCC | $2,148 | $2,577 | $3,092 | $3,597 | $3,597 |
| Sewer NCC | $2,148 | $2,577 | $3,092 | $3,711 | $4,453 |
| **Regular water and sewer per property** | **$4,295** | **$5,154** | **$6,185** | **$7,308** | **$8,050** |
| Sewer NCC – discounted | $648 | $1,077 | $1,592 | $2,211 | $2,953 |
| Small Lot Infill NCC – Water | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 |
| Small Lot Infill NCC – Sewer | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 |
| Recycled NCC | $1,074 | $1,289 | $1,476 | $1,476 | $1,476 |

The following attributes as favoured by developers are also included as part of our NCC package:

- Phasing in of NCCs instead of upfront implementation of new model, as strongly supported by developers.
- Exclusion of costs relating to Castlemaine, Axedale and Trentham as suggested by developers.
- Inclusion of shared sewer pump stations within the Sewer NCC as suggested by developers.
- Discount to the Sewer NCC where a developer has privately provided a sewer pump station that is standalone for their development, as suggested by developers.
- Inclusion of budget for “linkups” of water networks so developers do not need to pay for all legacy link-up issues, as suggested by developers.
- Introduction of a sewer Growth Capital Expenditure Guarantee, which will see us rebate sewerage NCCs by 20% in the year following a period where we have underspent sewer Growth Capital Expenditure by at least 20%, as supported by developers.

In the event that our AIC approach is not supported in the Commission’s Final Decision, we propose that the above attributes are also not included within the Final Decision. These attributes were proposed as part of a major reform package and are contingent on endorsement of the AIC model.

*Updating NCCs for the latest inflation and debt data*

Our revised NCC proposal is based on the discount rate proposed in our price submission (2.29%). We have not adjusted the discount rate to reflect the most recent available CPI and cost of debt.

An updated discount rate (2.52%) results in NCCs of $3,621 for water and $4,884 for wastewater. These NCCs are slightly higher than NCC levels which underpinned our extensive customer engagement program. The higher discount rate results in higher NCCs as it has a bigger impact on connections relative to capex due to the different timing profiles of capex and connections and how they interact with the discount rate.

However, to uphold the integrity of the customer engagement process, we are not proposing to increase NCCs by this small amount (approx. 1%). Rather, we are acknowledging that while a higher rate is justified, we are choosing not to enact it. There is no material impact on existing customers’ bills as a result of honouring the figures we shared with developers and customers during our engagement.

*Freezing NCCs for the 2023 Regulatory Period*

Commission staff have foreshadowed that if a non-compliant response is provided by Coliban Water, one alternative for the ESC is to hold NCCs in real terms.

Freezing our NCCs at their 2018 determined rates is not appropriate for the following reasons:

- NCCs that were forecast in 2018 do not reflect the material changes in our growth capital expenditure profile that have occurred since 2018 or our latest capital expenditure forecasts for the 2023 regulatory period. The 2018-determined NCCs will also not reflect the changes we have experienced in actual connection growth over the current regulatory period or that forecast for the 2023 regulatory period. This would not be cost reflective.

- Freezing NCCs at current rates with CPI escalation will impose on Coliban Water and our customer base a schedule of standard NCCs that do not comply with the Commission's NCC pricing principles regarding incremental cost and revenue (all of which have changed since 2018) or avoidable and standalone costs (which have also changed since 2018). We note that outdated and non-cost reflective NCCs will also not meet the WIRO principles for efficiency.
- Outdated NCCs will unnecessarily exacerbate the cross-subsidisation of development by the broader customer base that the Commission raised in relation to our proposed transition.

We also note that our negotiated NCC framework (See Attachment 6) does not provide us with sufficient capacity to address the issues associated with an NCC price freeze. Negotiated NCCs are intended to provide an ability for us to respond to developments that have unique infrastructure requirements or associated costs that are not addressed through the standard NCCs. For the negotiated NCC framework to operate effectively it needs to reference an agreed method for the calculation of NCCs. Price freezing (as opposed to updating our net cashflow NCCs) implies a lack of confidence in the current NCC method making its application to negotiated NCCs inappropriate.

If the Commission does not approve our AIC based NCCs, it should determine to apply the net cashflow NCCs that we have calculated in this response (as requested in the *Draft Decision* and outlined as option 6 in Table 23). We also request that we be provided an opportunity to confirm the NCF forecasts given the sunk assets used in the calculations were developed as part of the VicWater NCC review and may need to be updated. This would be a more appropriate option for continuation of our current pricing approach.

We also note that under the Commission's regulatory framework a continuation of the current pricing approach would not require us to adopt transitionary arrangements. A continuation of current pricing would also preclude our proposed Small Lot Infill NCCs and our Sewer Discounted NCCs. Both proposals have been developed as an integrated part of our broader AIC NCC framework and are not intended to function under a net cashflow NCC framework.

*An industry wide NCC review*

We are supportive of an industry-wide review of NCC frameworks and implementation being conducted by the Commission. However, the most appropriate timing of implementation of any framework reforms would be to feed into the next regulatory period rather than implementing (for example) a short term NCC price freeze followed by mid period implementation.

Any review should incorporate the following:

- The ability of the current net cashflow approach (method and principles as outlined in the guidance) to meet the regulatory principles outlined in the WIRO (including those relating to efficiency).
- The operational and practical differences between regional and metropolitan water businesses, with specific reference to the different growth profiles and uncertainty that regional businesses face.
- The appropriateness of cost apportionments within the context of price setting.
- Cross subsidisation between existing and new customers.
- The costs and benefits that businesses and customers face due to the administrative requirements associated with different NCC options.
- The impact of review outcomes on businesses that have undergone extensive reform over the course of this regulatory period.

# 6 INFLATION

### SUMMARY OF COLIBAN WATER'S RESPONSE

- We acknowledge the real impact of inflation on our customers at this time.
- We propose to retain pass-through of inflation in 2023-24 to ensure financial sustainability.
- However, we are responding to the challenge of inflation by reducing our 2023-24 general price increase.
- Our Coliban Assist Program will double in value to ensure that no customer experiencing vulnerability is left behind.

## 6.1 DRAFT DECISION

Within its *Draft Decision*, the Commission stated that we must consider the inflation environment and the impact on customer prices and bills.

The Commission noted we proposed to increase prices in real terms over the 2023–28 regulatory period. Given the currently high rate of inflation, the Commission asked water businesses to provide information illustrating how they intend to address the impacts of inflation on proposed.

The Commission noted that while the annual outcome for the March Quarter 2023 CPI is likely to be high[6], noting the rate is expected to fall through 2023 and 2024.

The Commission has noted that many of the drivers of higher inflation (such as fuel, food and travel) are not major cost items for water businesses. Some high-cost growth areas specific to the water sector such as insurance and chemicals have been accounted for in uplifts to their opening base costs for the 2023–28 regulatory period.

## 6.2 OUR RESPONSE

Victoria's water pricing framework is designed to allow for the recovery of the efficient costs of service provision. Within Appendix D of the Commission's 2023 water price review *Guidance Paper*, it notes that the regulatory framework provides for the indexation of prices to ensure that "water businesses remain fully responsible for management of controllable costs and that it does not need to bear the full risk associated with general price inflation".

There are several elements of the regulatory framework where CPI is applied, including:

- The conversion of the nominal rate of return to a real rate of return.
- The trailing average cost of debt.
- Escalation of the regulatory asset base.
- The conversion of the nominal tax allowance.
- Estimates of financial indicators.

[6] Coliban Water notes the March 2023 index value is 132.6, for annual inflation rate of 7.02%

Seeking to estimate the actual escalation rate of our cost base would be a time consuming and resource-intensive exercise, which could not be resolved in five weeks (the time allowance for responding to the *Draft Decision*). Even if there was adequate time, it may create unintended future consequences were we to seek to apply a different rate of escalation than CPI.

We note that the 2023 inflation figure of 7.0% is significantly higher than the previous low inflation environment and is significantly above the 2.6% average since 1992 (when the RBA began setting annual inflation targets). Nevertheless, despite above-average CPI results in 2022 and 2023, the average inflation rate over the period from 2015 is in line with this post-1992 average (average 2.6%). While our customers are facing a high inflationary environment now, it follows a persistent period of very low inflation (Figure 12).

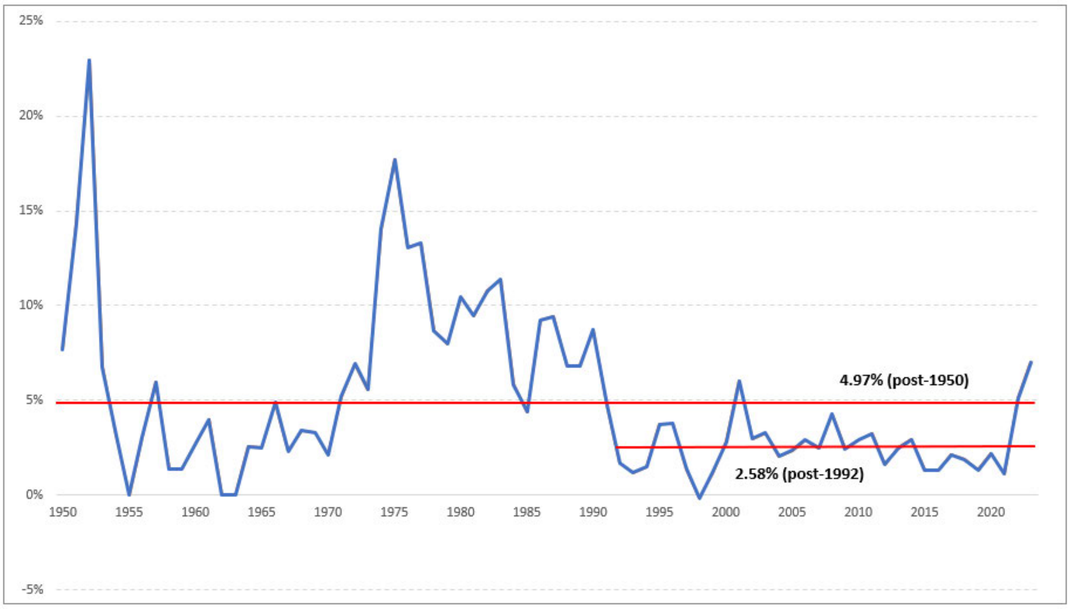



*Figure 12: Australian annual CPI 1950–2023.*

We are unable to pass through anything less than the full rate of inflation in each year of the PS23 regulatory period. Providing 1% relief from inflation in 2023-24 would only lower the average household bill by 27 cents per week but would reduce revenue by $1.5 million in 2023-24 and over $7.5 million for the full regulatory period. This would add straight onto debt and would not be recoverable through the RAB in the future. Given the necessary expenditure for the regulatory period, we contend that many cost drivers are overall in line with or exceed the rate of inflation.

Some examples of significant increases in input costs for various services over the past two years include:

- Chemical costs: up 52%[7]
- Heavy and civil engineering construction: up 16%[8]
- Electricity: up 50%[9]

With inflation impacting most of the elements of the regulatory framework and operating costs typically tied to the inflation rate, any reduction in revenue would 100% flow through to increased debt and an increased financial burden on future customers.

[7] Australian Bureau of Statistics (ABS), Series A3343980X *Basic chemical and chemical products*
[8] Australian Bureau of Statistics (ABS), Series A85219099L *Heavy and civil engineering construction Australia*
[9] Australian Bureau of Statistics (ABS), Series A2309192C *Electricity*

However, there is one area we can offer immediate relief to customers. As our revised revenue requirement is $3 million less than originally proposed, we have chosen to apply as much as possible of a reduction to 2023-24 prices while maintaining smooth prices for the balance of the period. This results in a reduction in prices of 1% compared to our original submission.

We also note our customer supported programs for those experiencing vulnerability. By doubling the funding for our Coliban Assist Program to $570,000 per annum, we will ensure that customers can get the support they need from us when they need it. We are pleased the submission by the Consumer Action Law Centre[10] notes and supports our increased investment in our programs that provide financial assistance for our customers who need it most.

[10] Consumer Action Law Centre, *Feedback on standard draft decision: 2023 Water Price Review*, May 2023, p. 3

# 7 PREMO

**SUMMARY OF COLIBAN WATER'S RESPONSE**

**Seek for the Commission to reconsider its assessment of Risk as Basic and to reinstate a Standard rating.**

## 7.1 DRAFT DECISION

The *Draft Decision* rated Coliban Water's *Price Submission* as 'Standard' under PREMO, which affirms Coliban Water's self-rating.

*Table 25: PREMO rating.*

| | Overall PREMO rating | Performance | Risk | Engagement | Management | Outcomes |
|---|---|---|---|---|---|---|
| Coliban Water's self-rating | Standard | Advanced | Standard | Advanced | Standard | Advanced |
| Commission draft rating | Standard | *Standard* | *Basic* | Advanced | Standard | Advanced |

## 7.2 OUR RESPONSE

We are encouraged that the Commission has affirmed our overall PREMO rating for our *Price Submission*.

In particular, we are encouraged the Commission recognised our deep efforts in truly engaging with various customer sectors, including the use of a deliberative panel for the first time and the acceptance of all nine recommendations. In addition, our targeted engagement with hard-to-reach customers groups such as those experiencing vulnerability and first nations groups ensured that our submission was genuinely inclusive of the needs of our diverse communities.

*Performance*

While we contend that the increase in baseline expenditure during the current regulatory period was largely in response to changes that were happening in our operating environment (many of which could not be foreseeable), we accept the *Draft Decision*.

*Risk*

We contend that we have adopted multiple risk positions that have sought to minimise the impact of our investment requirements, on customer bills:

- The adoption of P50 estimates for all capital projects.
- A proposed 1.4% efficiency factor, which is 0.3% higher than the average commitment for all other regional water authorities.
- A forecast growth rate of 1.9%, higher than the most recent VIF forecast for the Greater Bendigo Statistical Area.
- A revised depreciation rate, such that all assets constructed from 2018–19 onwards have an average asset life of 40 years.
- Not seeking to recover all forecast end-of-contract review costs, accepting $630,000 of risk on behalf of our customers.
- Deferring recovery of the balance of major contract end of term costs by capitalising these costs.
- Meeting our 2025 electricity zero net emissions target without passing additional costs onto customers.
- Accepting the risk of deferral of $5.8 million in water entitlement purchases, noting if this is needed within the regulatory period then the costs will not be recovered from customers until the next regulatory period.
- Environment Contribution held in nominal terms during the period. The scheduled reset of the Environment Contribution in 2024 is not being incorporated into prices before the change is announced.
- Accepting and internalising potential wage / FTE growth due to legislative obligations ($1.4 million over the *Price Submission* period).

Based on these risk strategies, we propose that the Commission reconsiders our Risk rating and assess it as Standard.

*Table 26: Our revised PREMO self-assessment.*

| | Overall PREMO rating | Performance | Risk | Engagement | Management | Outcomes |
|---|---|---|---|---|---|---|
| Coliban Water's self-rating | Standard | Advanced | Standard | Advanced | Standard | Advanced |
| Commission draft rating | Standard | ***Standard*** | ***Basic*** | Advanced | Standard | Advanced |
| Revised self-rating | Standard | Standard | **Standard** | Advanced | Standard | Advanced |

# 8 Pricing outcomes

As a result of our revised positions, there has been an impact on the overall revenue requirement and our price path. These are summarised in the following tables.

*Table 27: Revenue Requirement by year, 2023–24 to 2027–28.*

| *$M 2022–23* | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 |
|---|---|---|---|---|---|
| Operating expenditure | 88.7 | 88.3 | 87.9 | 88.1 | 88.5 |
| Return on assets | 14.4 | 15.4 | 17.2 | 19.2 | 21.3 |
| Regulatory depreciation | 35.6 | 37.2 | 38.9 | 42.7 | 45.2 |
| **Revenue Requirement** | **138.7** | **141.0** | **144.0** | **150.0** | **155.0** |

Overall, our revenue requirement is $2.7 million less than our original submission:

*Table 28: Revenue Requirement overall changes.*

| *$M 2022–23* | 2023–2028 |
|---|---|
| **Price Submission** | 731.4 |
| Draft Decision | 727.4 |
| Revised Response | 728.7 |
| **Overall change** | **-2.7** |

Faced with the choice of how to apply this revenue reduction over the regulatory period, we paid careful attention to the current high rates of inflation. We were also cognisant of promises we had made to our Community Deliberative Panel in accepting all their recommendations.

Accordingly, we decided to maintain the capping of annual price increases in any given year by 2.5%. This maximises our objective of having price movements smooth over the regulatory period.

However, we have also tried to incorporate as much of the revenue requirement reduction into the first year of the regulatory period – 2023-24. This will provide some relief for customers in this currently high inflationary environment.

Consistent with our original submission, we are retaining our increase in expenditure to assist customers experiencing vulnerability. By more than doubling current levels of direct financial assistance to $570,000, we will ensure that no customer experiencing vulnerability is left behind as a result of the price increases we are proposing.

The table of proposed annual customer bills is outlined in the following table.

*Table 29: Proposed annual customer bills, 2023–2028, excluding inflation.*

| ***$ 2022–23*** | **Usage** | **2022–23** | **2023–24** | **2024–25** | **2025–26** | **2026–27** | **2027–28** |
|---|---|---|---|---|---|---|---|
| *Urban price path* | | | *0.96%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| *Rural price path* | | | *-1.20%* | *-1.20%* | *0.00%* | *0.00%* | *0.00%* |
| Household: average use | 192 kL | $1,367 | $1,381 | $1,415 | $1,450 | $1,487 | $1,524 |
| Household: high use | 300 kL | $1,614 | $1,630 | $1,671 | $1,713 | $1,755 | $1,799 |
| Household: low use | 80 kL | $1,111 | $1,122 | $1,150 | $1,179 | $1,208 | $1,238 |
| Renter: average use | 192 kL | $439 | $443 | $455 | $466 | $478 | $489 |
| Non-res: high use | 2,000 kL | $7,291 | $7,361 | $7,546 | $7,734 | $7,928 | $8,126 |
| Non-res: medium use | 907 kL | $3,760 | $3,797 | $3,891 | $3,989 | $4,088 | $4,191 |
| Non-res: low use | 100 kL | $1,157 | $1,168 | $1,197 | $1,227 | $1,258 | $1,289 |
| Rural Unmod: medium | 3.1 ML | $1,851 | $1,829 | $1,807 | $1,807 | $1,807 | $1,807 |
| Rural Mod: medium use | 4.4 ML | $2,857 | $2,823 | $2,789 | $2,789 | $2,789 | $2,789 |

# Attachment 1: Coliban Water – Outcomes – 2023-2028

*In this document, the water business provides a summary report of its actual performance against each of its outcome commitments for the 2023-2024 reporting year. The business has given itself a "traffic light" rating (green = met target, red = not met, yellow = close or largely met) for its performance on each measure, outcome and an overall rating. The business has provided its own comments about its performance on each outcome and overall.*

## Summary table

| Outcome | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 | Overall for the period to date |
|---|---|---|---|---|---|---|
| 1. We will supply high quality water you can trust | | | | | | |
| 2. We will provide services to meet the needs of our customers now and into the future | | | | | | |
| 3. We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations | | | | | | |
| 4. Our investment will support the economic prosperity of our region | | | | | | |
| 5. We will support customers in need | | | | | | |
| Overall, for reporting year | | | | | | |

## Business comments

## Outcome 1: We will supply high quality water you can trust

| Output | Unit | | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|---|
| a. Water quality samples that are non-compliant with Schedule 2 of the *Victorian Water Quality Regulations (2015)* | No. samples | Target | | 0 | 0 | 0 | 0 | 0 |
| | | **Actual** | | | | | | |
| b. Water supply systems with greater than 20 metres pressure at least 90% of the time | No. water supply systems (19 total) | Target | | 14 | 15 | 16 | 17 | 18 |
| | | **Actual** | | | | | | |
| c. Water supply systems with 95% of water quality samples meeting *Australian Drinking Water guidelines (2011)* parameters | No. water supply systems (19 total) | Target | | 15 | 16 | 17 | 18 | 19 |
| | | **Actual** | | | | | | |
| d. Average customer minutes off water supply (unplanned only) | Ave. minutes per customer | Target | | 15 | 14 | 13 | 12 | 11 |
| | | **Actual** | | | | | | |
| e. Towns on water restrictions (not including *Permanent Water Saving Rules*) | No. towns | Target | | 0 | 0 | 0 | 0 | 0 |
| | | **Actual** | | | | | | |

How is CW tracking for outcome 1 in the regulatory period so far?

## Business comment

## Outcome 2: We will provide services to meet the needs of our customers now and into the future

| Output | Unit | | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|---|
| a. Impacted customers (with digital metering) notified when persistent leak above 60 litres per hour | % impacted customers | Target | | 90% | 95% | 100% | 100% | 100% |
| | | **Actual** | | | | | | |
| b. Impacted customers notified ahead of time of a planned water outage | % impacted customers | Target | | 100% | 100% | 100% | 100% | 100% |
| | | **Actual** | | | | | | |
| c. Inbound customer contacts that experience first-call resolution | % inbound calls | Target | | - | - | - | 60% | 75% |
| | | **Actual** | | | | | | |
| d. Customers opting to receive digital bills | % of customers | Target | | 25% | 30% | 35% | 42% | 50% |
| | | **Actual** | | | | | | |

How is CW tracking for outcome 2 in the regulatory period so far?

## Business comment

## Outcome 3: We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations

| Output | Unit | | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|---|
| a. Biodiversity enhancement measures undertaken, including pest plant & animal control and strategic native revegetation | Hectares of land | Target | | 20 | 25 | 30 | 35 | 40 |
| | | **Actual** | | | | | | |
| b. Sewer mains inspected and cleaned | Km sewer mains | Target | | 270 | 290 | 310 | 330 | 350 |
| | | **Actual** | | | | | | |
| c. Reduce net greenhouse gas emissions from electricity consumption (decreased consumption, use of offsets, Green Power, etc) | Tonnes CO2-e from electricity consumption | Target | | 19,000 | 0 | 0 | 0 | 0 |
| | | **Actual** | | | | | | |
| d. Completion of annual catchment improvement works (fencing, weed control, other activities) | % annual works plan | Target | | 100% | 100% | 100% | 100% | 100% |
| | | **Actual** | | | | | | |
| e. Water saving and efficiency education provided to customers, including via school visits, community events, survey responses and website tracking | No. people reached | Target | | 2,500 | 3,100 | 3,750 | 4,400 | 5,000 |
| | | **Actual** | | | | | | |

How is CW tracking for outcome 3 in the regulatory period so far?

### Business comment

## Outcome 4: Our investment will support the economic prosperity of our region

| Output | Unit | | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|---|
| a. Support local employment through inclusion of 'local benefit' evaluation criterion in open tenders | % open tenders | Target | | 100% | 100% | 100% | 100% | 100% |
| | | **Actual** | | | | | | |
| b. Delivery of proposed capital budget for *Big Water Build* over the regulatory period *±10% any year, ±5% full regulatory period* | % budget capital works | Target | | 100% | 100% | 100% | 100% | 100% |
| | | **Actual** | | | | | | |

How is CW tracking for outcome 4 in the regulatory period so far?

## Business comment

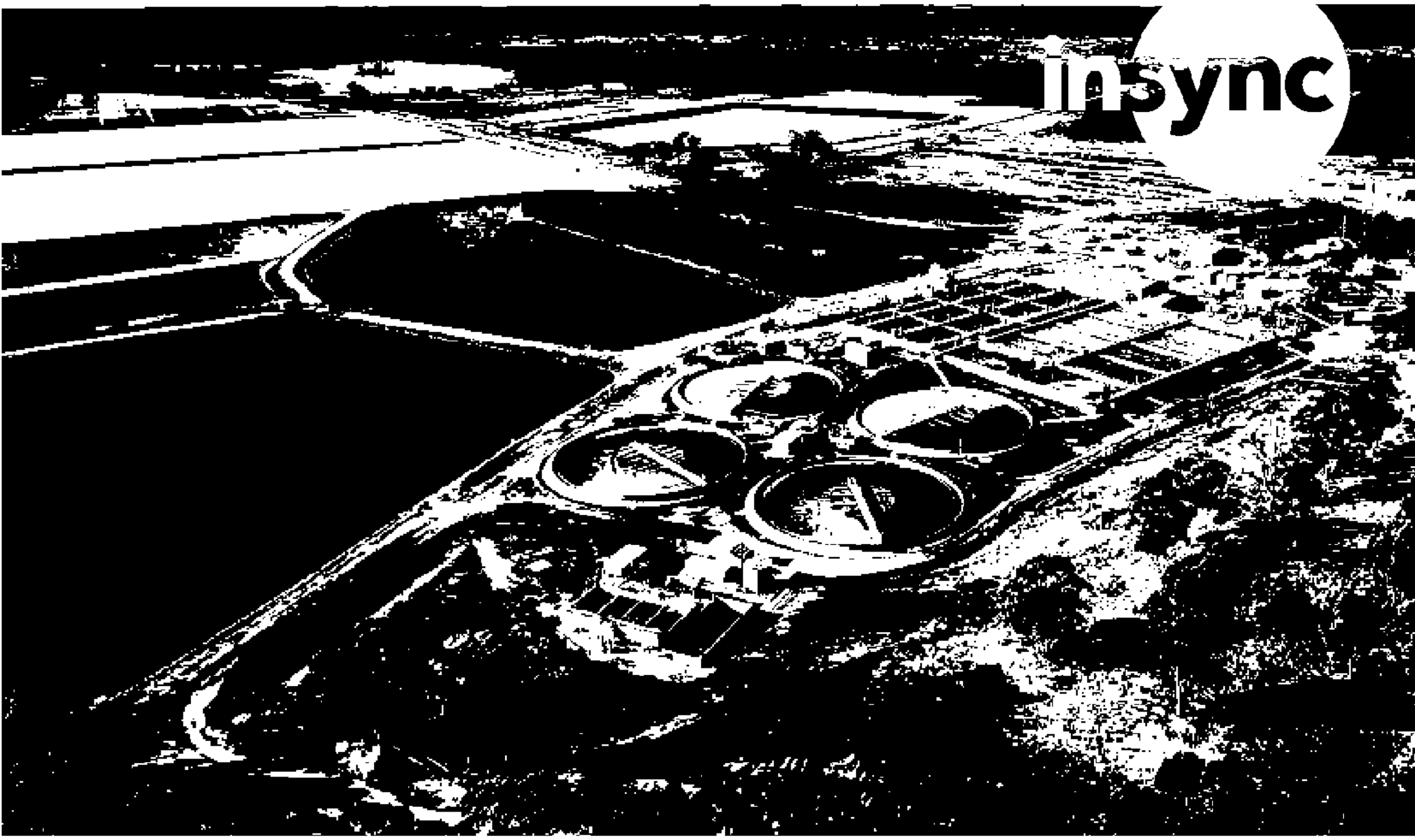
## Outcome 5: We will support customers in need

| Output | Unit | | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 |
|---|---|---|---|---|---|---|---|---|
| a. Financial support requests (Utility Relief Grants and Coliban Assist program) processed within 2 business days | % of requests | Target | | 90% | 90% | 95% | 95% | 95% |
| | | **Actual** | | | | | | |
| b. Customers surveyed in annual Customer Satisfaction Survey are aware of financial assistance support available | % of surveyed customers | Target | | 62% | 64% | 66% | 68% | 70% |
| | | **Actual** | | | | | | |
| c. Financial assistance provided to customers in need via the Coliban Assist program | $ (nominal) | Target | | $570,000 | $570,000 | $570,000 | $570,000 | $570,000 |
| | | **Actual** | | | | | | |

How is CW tracking for outcome 5 in the regulatory period so far?

## Business comment

Attachment 2




# Coliban Water

# New Customer Contributions Engagement Summary Report

16 May 2023

## Contents

# Executive Summary

The Essential Services Commission (ESC) has published its draft determination in relation to Coliban Water's 2023-2028 Price Submission.

The ESC's New Customer Contribution (NCC) framework remained unchanged from its development in 2013, and "Water businesses must establish their NCCs in accordance with the approach and principles established by the Commission"[1]. In 2023, Coliban Water had proposed to:

- "increase its new customer contributions for water services from $1,790 to a capped $3,144 per lot (a 76 per cent increase) and for sewer services from $1,790 to a capped $4,453 (a 149 per cent increase) between 2022-23 and 2027-28
- phase in the new customer contributions until it reaches the $3,144 cap per lot for water services and $4,453 cap for sewer services in 2027-28
- continue to set the new customer contributions for recycled water services at 50 per cent of the new customer contributions for water services causing these to also increase by 76 per cent between 2022-23 and 2027-28
- provide an annual rebate to wastewater new customer contributions if its wastewater growth capital expenditure falls materially short of proposals
- provide a discount to developers who are required to fully fund a pump station to service their own development."[2]

However, the ESC's draft decision does "not accept Coliban Water's proposed new customer contributions as Coliban Water has not provided us with adequate information or justification for us to be satisfied that its approach complies with our guidance requirements."[3]

In addition to lack of information, the ESC noted that submissions from MG Estates and the UDIA claimed that Coliban Water had not engaged sufficiently. In particular, that it had not provided sufficiently detailed information. Coliban Water provided the ESC with details of its engagement, resulting in a reappraisal which removed criticisms regarding the style of engagement, leaving only the substance of the engagement at issue. [4]

This criticism is highly aligned to the ESC previous guidance that "customers should be provided with full details of the manner in which prices have been calculated and any new, renewed or renegotiated contractual agreements with customers should indicate that the prices to apply are subject to any determination made by the Commission."[5]

However, we also note that one of the three drivers of Coliban Water's changes was "a perceived lack of transparency in the rationale and calculation for current NCCs. Developer feedback has consistently highlighted that the provision of more information would enhance understandability of the NCC approach."[6]

---

[1] Essential Services Commission 2016, Water Pricing Framework and Approach: Implementing PREMO from 2018, October, p37
[2] Essential Services Commission 2023, *Coliban Water draft decision: 2023 Water Price Review*, 12 April, p48
[3] Ibid: p49
[4] Ibid: p53
[5] Essential Services Commission 2016, Water Pricing Framework and Approach: Implementing PREMO from 2018, October, p39
[6] Coliban Water2023, *2023-2028 Price Submission, section 14.4.1*

In the draft determination, the ESC asked Coliban Water to provide additional information in relation to NCCs, specifically to:

- "provide further information to enable us to assess if growth related costs have been appropriately attributed between new customer contributions and charges paid for the general customer base
- explain its transition plan towards achieving full cost reflectivity for each service including the timeframes of this plan and provide reasons for adopting this transition plan and its timing
- set out how it proposes to fund any shortfall in revenue from new customer contributions, compared to the estimated costs of providing the service
- explain how it considered setting new customer contributions that distinguish between infill and greenfield growth areas and its reasons for not proposing charges to reflect this distinction
- information regarding how its proposed cap on new customer contributions has not caused the contributions to fall below avoidable costs
- ensure that its proposed new customer contribution charges and connection numbers by service reconcile between its new customer contributions model and financial model."[7]

In addition to these technical requests, the ESC noted "We are also interested in feedback from developers and customers regarding the proposed new customer contributions."

**Approach**

Coliban Water considered a number of methodologies for its engagement with developers and residential customers.

Although the ESC had ultimately been satisfied with the manner of engagement with developers, Coliban Water noted that a developer had been critical of the process. As such, a different approach was required. A town hall style meeting would have been simpler, but Coliban Water elected to hold a set of independently facilitated one on one meetings with major developers. This provided stakeholders with a safe space to explore the topic and respond frankly.

Coliban Water considered three methodologies for customer engagement. The first was an online survey, which was rejected due to the complexity of the topics under consideration. The second was a set of one on one interviews with members of the newly formed Customer Advisory Group (CAG). This was rejected because in the one on one situation, customers would not be able to listen and learn from one another during the process – potentially leading to less well informed responses. Coliban Water elected to invite all CAG members to an in-depth workshop.

[7] Essential Services Commission 2023, *Coliban Water draft decision: 2023 Water Price Review*, 12 April, p54

**Purpose**

The purpose of the engagement was defined as:

1. To compare support for a phased approach versus immediate implementation of the new NCC regime,
2. To compare support for a single set of charges instead of differentiating between infill and greenfield development, and
3. Noting their sophistication, to provide the development community with the additional detail which they had sought.

**Reducing or eliminating cognitive bias**

Coliban Water was aware that authority bias could prejudice the responses of the Customer Advisory Group members. First coined by Milgram in the 1960s, authority bias means that people are more likely to agree with a message coming from an authority. It has been well researched since: Van Bavel et al found in 2016 that people were more likely to accept information from authority figures than from peers, even when the information was identical. Coliban Water wanted to ensure that CAG members did not agree with the proposed single set of NCCs simply because that was the corporation's proposal.

Therefore, to address the threat of authority bias, Coliban Water representatives did not reveal which of the two options it had proposed in its price submission.

**Level of Influence**

The developers and CAG members were provided with a "Consult" level of influence on the IAP2 spectrum of public participation. This includes the promise that Coliban Water will "keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision."[8]

**Implementation**

Ten interviews were held with developers between Monday 1st and Friday 5th May. An online workshop with 20 CAG members was held on Thursday 4th May.

**Feedback on the proposal to phase in the NCC charges over five years**

Nine out of 10 (90%) developers supported phasing in the new NCC regime over five years. One developer abstained from responding until further information could be provided from Coliban Water.

On the other hand, only 32% of CAG members supported the phased introduction. In contrast, 58% preferred that the new charges be introduced in full from 1 July 2023. The remaining 11% said they didn't know or had no opinion.

[8] International Association for Public Participation 2023, *Quality Assurance Standard for Community and Stakeholder Engagement*, p11

**Feedback on whether there should be one set of NCCs, or whether there should be separate NCCs for greenfield developments**

Of the nine developers who expressed a view, two (22%) supported differentiated charging for greenfield sites. Two more (22%) indicated that the cost would need to be "significantly different" to justify a separate NCC for greenfield areas. Five (55%) interviewees preferred a single charge for all development sites. One developer abstained from responding until further information could be provided from Coliban Water.

In contrast to just two strong developer votes in favour of differentiated pricing (and two conditional votes), 78% of CAG members wanted separate NCCs for greenfield areas. Only 11% of members said they would support a single charge that does not differentiate between greenfield areas and other development sites, and 11% said they didn't know or had no opinion.

**Opinions of the engagement**

Lastly, eight of the developer interviewees and all CAG members were asked whether they thought the engagement exercise was loaded and leading, or fair and authentic. Seven out of eight developer interviewees said the exercise was fair and authentic, while 80% of CAG members also said the process was fair and authentic.

One developer said the process was "somewhere in the middle", rather than loaded and leading, because of "the specific questions" they were asked. One CAG member said the process was rushed and "Not a great forum for airing all thoughts and concerns."

There are three parts to this report. The first chapter describes the content of the interviews and the CAG meeting, the second chapter describes the findings in detail, and the final chapter provides a written record of the materials used.

# Engagement process

## Overview of proceedings

The engagement process involved three key elements:

1. Dedicated page on the ConnectColiban website,
2. Interviews with developers and the Urban Development Institute of Australia (UDIA), and
3. Online meeting with Customer Advisory Group (CAG) members.

**Dedicated page on the ConnectColiban website**

Coliban Water prepared a dedicated page on the ConnectColiban website for this engagement. The Land Development page can be viewed here. The web page provided an overview of:

- the ESC's draft decision in relation to NCCs,
- Coliban Water's justification for phasing in new NCC prices,
- the distinction between infill and greenfield areas,
- clarification on how the proposed methodology and previous methodology differ, and
- an explanation of the re-calculation of NCCs using the old methodology.

The web page also included hyperlinks to the NCC summary provided to developers in September 2022, the NCC proposal summary from the Price Submission 2023-2028, a regional map, the NCC greenfield growth zones, the full Price Submission 2023-2028, as well as a summary of previous engagement with developers.

There were also two questions about whether the community would support:

1. New NCC charges being phased in over five years between 2023-2028 or introduced upfront in full from 1 July 2023, and
2. A specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong.

Lastly, the web page was sent to 50 consultants on Coliban Water's database on Friday 28th April. As of Monday 9th May, one response was received to the two questions at the end of the web page.

**Interviews with developers**

Coliban Water sent invitations to 13 developers and 10 interviews were conducted between Monday 1st May to Friday 5th May. The interviews were facilitated by Jeremy Summers (Chief Executive Officer, Insync) and supported by subject matter experts, Tessa Laing (Development Engineering Manager, Coliban Water) and Rick Nudl (Development Services Manager, Coliban Water). All interviewees were sent a link to the Land Development page on the ConnectColiban website on Friday 28th April as pre-reading.

The interviews ran for 30 minutes each and started with Jeremy setting context around the ESC's draft determination of Coliban Water's Price Submission for 2023-2028. Jeremy noted that Coliban Water was "Consulting" with interviewees on their feedback to the NCCs. This was followed by a 10 minute update from

Tessa and Rick on the proposed changes to the NCCs. After the interviewees had a chance to ask questions, Jeremy posed two main questions:

1. Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023?
2. Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong?

Once these questions had been answered, the interviewees had the opportunity to provide any further comments and were then asked to reflect on whether the process had been loaded and leading, fair and authentic, or somewhere in the middle.

The full interview guide can be viewed in Appendix B and the interview transcripts can be found in Appendix C.

**Online meeting with Customer Advisory Group members**

Coliban Water sent invitations to all 50 members of the Customer Advisory Group to attend a one-hour online meeting about the proposed changes to the NCCs. Twenty-two customers accepted the invitation, and 20 members attended the meeting on Thursday 4th May. Some short pre-reading was also sent to CAG members which defined NCCs and briefly explained the different charges (see Appendix A for pre-reading materials).

The meeting was hosted by Jeremy Summers and supported by subject matter experts, Jarrah O'Shea (Executive General Manager Strategy, Coliban Water) and Tessa Laing. Two moderators from Insync assisted Jeremy with the facilitation of the online meeting, and two members of the Coliban Water project team observed the meeting.

The following agenda was prepared for the meeting:

| Time | Agenda item |
|---|---|
| **1:00pm** | **Welcome and introductions** (Jeremy Summers) |
| **1:05pm** | **Context setting** (Jeremy Summers) |
| **1:10pm** | **Update on New Customer Contributions** (Jarrah O'Shea and Tessa Laing) |
| **1:20pm** | **Facilitated Q&A** (Jeremy Summers, Jarrah O'Shea and Tessa Laing) |
| **1:35pm** | **Group discussion about new charges** (Jeremy Summers) |
| **1:45pm** | **Group discussion about greenfield areas** (Jeremy Summers) |
| **1:55pm** | **Thanks and next steps** (Jarrah O'Shea) |
| **2:00pm** | **Close** (Jeremy Summers) |

During the customer meeting, the agenda was altered slightly so that the update on NCCs came before Jeremy set the context around the ESC's draft determination. However, once this was done, Jeremy reiterated to the participants that Coliban Water was "Consulting" them on their feedback to the NCCs.

After the group had the opportunity to ask questions of Coliban Water about the proposed changes, three polls were run with the follow response options:

| | Question: | Response options: |
|---|---|---|
| **Poll 1** | Would you support New Customer Contribution charges being: | • Introduced upfront in full from 1 July 2023<br>• Phased in over five years between 2023-2028<br>• Don't know/no opinion |
| **Poll 2** | Would you support a system that has a different, greenfield NCC for Huntly, Strathfieldsaye, Maiden Gully and Marong, rather than a single charge which does not differentiate between greenfield and other development sites? | • Yes<br>• No<br>• Don't know/no opinion |
| **Poll 3** | How did you find this exercise? | • Fair and authentic<br>• Loaded and leading – trying to get you to answer in a certain way<br>• Don't know/no opinion |

Once the polls were complete[9], the facilitator thanked the group and formally closed the meeting.

The presentation slides for the CAG meeting can be viewed in Appendix D and the meeting notes can be found in Appendix E.

Lastly, a summary of proceedings of the close the loop information session with developers and CAG members can be found in Appendix F.

[9] Lack of familiarity with online meeting software meant that some participants responded in the chat function instead.

## Who we heard from

Coliban Water heard from 20 customers who attended the CAG meeting, one consultant who responded to the survey questions on the Land Development web page, and 10 developers who participated in the interviews. The full list of interviewees has been provided in Table 1 below.

Damian Tangey from Birchgrove Property was joined by David Heeps for his interview. Matthew Elliot from Tomkinson Group was joined by Andrea Tomkinson (representing the local UDIA) and Alex Reid.

An invitation for an interview was also sent to Matthew Kandelaars at UDIA Victoria but no response was received.

**Table 1** – List of developer interviewees

| Interviewee/s | Title | Organisation | Interview date |
|---|---|---|---|
| [redacted] | General Manager – Bendigo | Villawood Properties | Monday 1st May |
| | Director | Ella Pty Ltd | Monday 1st May |
| | Development Manager | Huntly Property Holdings | Thursday 4th May |
| | Managing Director | YourLand | Thursday 4th May |
| | Managing Director | Terraco Pty Ltd | Thursday 4th May |
| | Managing Director | Total Property Development (VIC) Pty Ltd | Thursday 4th May |
| | Managing Director (Damien) | Birchgrove Property | Friday 5th May |
| | Regional Manager – Central (Matthew) | Tomkinson Group | Friday 5th May |
| | Managing Director | Kevin Wiseman Pty Ltd | Friday 5th May |
| | General Manager – Bendigo, Ballarat & Shepparton | Spiire | Friday 5th May |

## Engagement findings

### Should New Customer Contribution charges be phased in over five years or introduced in full from 1 July 2023?

In the interviews, the developers were asked whether they would prefer the new charges to be phased in over five years between 2023-2028, or that the new charges be introduced in full from 1 July 2023. Nine interviewees supported a phased approach, while one interviewee (Villawood Properties) preferred to abstain from answering until further information could be provided by Coliban Water.

When asked why they preferred a phased approach, most interviewees explained it would be more practical from a cash flow perspective, and that introducing the charges in full would be too steep an increase in cost. A few interviewees also noted they would like more information and transparency about the change in costs, as this would allow them to provide a more informed response to the question.

A summary of the feedback has been provided in Table 2 below. The full interview transcripts have also been included in Appendix C.

**Table 2** – Developer feedback on new NCC charges

**Support for a phased approach:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Ella Pty Ltd | *"It would be more practical if they [the new charges] were staged."* |
| | Huntly Property Holdings | *"Increased NCCs will be a hit to our cash flow…I would lean towards phasing but would suggest a review at the two-year mark when hopefully some of the challenges to the industry have been alleviated."* |
| | YourLand | *"Coliban Water's fees have not kept pace with the value of the land. Fees should have increased before now to keep pace…I have no problem with the fees, the only issue is if developers have to pay upfront, then it is a hindrance."* |
| | Terraco Pty Ltd | *"I would have thought transitioning, but I would like to see the numbers and have time to digest."* |
| | Total Property Development (VIC) Pty Ltd | *"I would want the incremental change as the step change would be a steep increase in cost. The developer community wants to understand what the increase covers (which projects) and that it is transparent upfront."* |

| | | |
|---|---|---|
| [redacted] | Birchgrove Property | *"Indicatively the shock should be balanced (transitioned). But would like to understand more detail in order to fully respond to the question."* |
| [redacted] | Tomkinson Group | *"The transitional approach seems to make sense, but we would like to model the impacts on specific sites to provide a more informed response."* |
| [redacted] | Kevin Wiseman Pty Ltd | *"I think the transition approach (gradual increase) is the fairest. It allows developers to adjust their pricing accordingly."* |
| [redacted] | Spiire | *"A transition is obviously the best for developers from a cash flow perspective. The issue of concern was more about the quantum of the pricing increase and what has driven it."* |

**Other comments:**

| **Interviewee/s** | **Organisation** | **Response** |
|---|---|---|
| [redacted] | Villawood Properties | *"Prefer not to answer without more information."* |

One response was received to this question via the ConnectColiban web page, although the respondent voted for "don't know/no opinion".

Furthermore, in the CAG meeting, customers were shown the cost impact to customer bills of phasing in the charges over five years versus introducing the charges in full from 1 July 2023.

Some key questions arose from this presentation, including:

***"In terms of the options, are these the only two options that we have? Is there no room for a variation of the options?"***

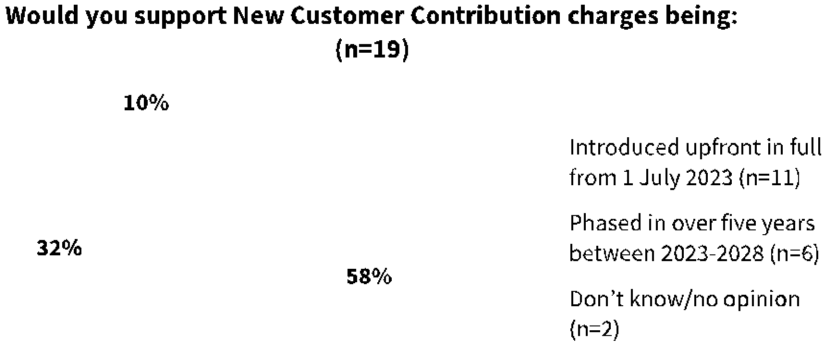
***"Does this proposal also include other growth areas in Victoria as well?"***

***"What do other water corporations do? Is there any research or information as to what other water corporations are doing in this area?"***

***"If other areas are charging less for developers, could making significant changes to this deter developers from coming to this region?"***

Once these questions were answered, the participants were asked to respond to a poll that asked about which option they would prefer. The results of the poll are shown in Chart 1 below. More than half of the participants (58%) supported introducing the new charges in full from 1 July 2023. About one-third of participants (32%) supported the charges being phased in over five years, while the remaining 10% said they either didn't know or had no opinion.

**Chart 1** – CAG poll results on new NCC charges[10]




When asked why they would prefer a phased approach, a couple of participants advised:

> *"It's pretty easy to look at big developers and say they should be paying. But if you have a family that is putting in a granny flat, then their increase is going to be quite big compared to $4 per year for every customer. If there was a difference between big developers and small developers, then it might be different. It's fairer for people to have a bit more time."*

> *"It's fairer for big developers to pay upfront. But I believe the government rules are changing and first home buyers are allowed to split, so siblings or friends are allowed to purchase together now. I think there will be more people who will want to add another kitchen or bathroom out the back. I think the huge upfront cost for those sorts of people is a bit rough. Big developers make squillions when they sell their land off and they can incorporate that figure into a new development. I wish it could be split, so you pay less if you want to put your parents in a granny flat out the back, compared to if you're a huge developer that will make lots of money from selling off the land. The impact should be different."*

On the other hand, when asked why they would support charges being introduced in full, another participant said:

> *"The $6,000 for a new block of land upfront is a pittance for a developer. It can be covered quite easily for both the developer and the potential purchaser. The issue of granny flats out the back is totally different. Maybe it needs to be considered by Coliban Water, but I don't think it is an issue. The numbers are there to warrant consideration."*

[10] One participant had technical difficulties responding to the poll.

Lastly, some general discussion was held about who should pay for the NCC charges. A few sample quotes have been included below and the full meeting notes can be found in Appendix E.

*"Developers need to pay their fair share of costs."*

*"The prices of lots have increased so dramatically over the last five years. That cost is already being factors into the sale price, but without them paying it. It's the same as cutting one lot into two lots. It's a massive increase in the value of that piece of land. A contribution of $9,000 to chop off the back lot is reasonably insignificant. But the commitment from Coliban Water to provide the service is not insignificant."*

*"This cost will probably get past onto individuals purchasing the property. We don't want to cap growth in Bendigo, or this region, compared to other areas. Where it puts Bendigo as an area to invest in, as opposed to other areas, should be a consideration."*

*"Yes, the increase may be small, but it may be enough to push some people over the edge with all the other costs going up over time."*

*"Given rising interest rates, another factor is the impact on Coliban of servicing the loans. This is an important consideration."*

## Should there be a different New Customer Contribution charge for greenfield sites or a single charge for all development sites?

In the interviews, developers were asked whether they would support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong. Huntly Property Holdings and YourLand were the only two interviewees which supported a specific NCC for greenfield areas. Five other interviewees preferred a single charge for all development sites. While one interviewee (Villawood Properties) preferred to abstained pending further information from Coliban Water. The final two interviewees said the cost would need to be "significantly different" to justify an NCC for greenfield areas.

When asked why they preferred a single charge for all development sites, most interviewees explained that a consistent NCC across the region would be the fairest approach. Similar to the aforementioned reasoning, Tomkinson Group explained they would prefer a single charge unless the difference in actual costs was more than 30%.

A summary of the feedback has been provided in Table 3 below. The full interview transcripts have also been included in Appendix C.

**Table 3** – Developer feedback on a different NCC charge for greenfield areas

**Support for a different NCC charge for greenfield sites:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Huntly Property Holdings | *"Yes. I would support charges to be applied where they are incurred…You [Coliban Water] need to recover your costs and I think the proposal is fair."* |
| | YourLand | *"I would on the basis that there is very little infill land left in Bendigo and there needs to be a lot more greenfield development to meet the future (population) growth."* |

**Support for a single charge for all development sites:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | erraco Pty Ltd | *"I think across the board is the easiest way to do it, but I would be interested to see the projects that make up these figures."* |
| | otal Property evelopment (VIC) Pty Ltd | *"No. I would prefer a consistent NCC over the entire region. Across the board is a fairer way rather than subsidisation."* |
| | omkinson Group | *"No, unless there is a significant difference between the actual costs, say more than 30%, in which case it does make sense."* |

| | | |
|---|---|---|
| [redacted] | Kevin Wiseman Pty Ltd | *"No. All things considered, it's probably fair that the NCC applies equally across the board."* |
| | Spiire | *"No. Because I would sooner see a transition approach which would make it non-applicable."* |

**Other comments:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Villawood Properties | *"Prefer not to answer without more information."* |
| | Ella Pty Ltd | *"If you went down that path you would need to break them down for each of those areas. They should be significantly different."* |
| | Birchgrove Property | *"It depends on a cost assessment and how to differentiate what the actual costs are for the different types of development."* |

One response was received to this question via the ConnectColiban web page, although the respondent voted for "don't know/no opinion".

In the CAG meeting, Coliban Water explained that the current NCC applies to all development sites, whether it is a subdivision of established land, or a completely new development (i.e. greenfield development). The organisation went on to explain that the capital projects specific to greenfield development will be located in the growing areas of Huntly, Strathfieldsaye, Maiden Gully and Marong.

Some key questions arose from this presentation, including:

***"Inglewood, Bridgwater, Wedderburn, they are small communities. Is the development charge in these towns the same as the development charge in large areas like Bendigo?"***

***"How does the water infrastructure costs compare to other services like electricity?"***

***"Are costs the same across the board to provide services or is it smaller for small usage i.e. just an extra bathroom and kitchen?"***

Once these questions were answered, the participants were asked to respond to a poll that asked whether they would support a system that has a different, greenfield NCC for Huntly, Strathfieldsaye, Maiden Gully and Marong, rather than a single charge which does not differentiate between greenfield and other development sites. The results of the poll are shown in Chart 2 below. More than three-quarters of participants (78%) said they would support a system that has a different NCC for greenfield areas. Eleven percent of participants said they wouldn't support a different NCC for greenfield areas, while the remaining 11% said they either didn't know or had no opinion.

**Chart 2** – CAG poll results on a different NCC charge for greenfield areas[11]

**Would you support a system that has a different, greenfield NCC for Huntly, Strathfieldsaye, Maiden Gully and Marong, rather than a single charge which does not differentiate between greenfield and other development sites? (n=18)**

**11%**

**11%**

Yes (n=14)

No (n=2)

Don't know/no opinion (n=2)

**78%**

When asked why they would support a different NCC for greenfield areas, one participant advised:

> *"Developers that choose Greenfield areas that should not be developed should be charged much higher. For example, I'm thinking about the area that is being developed in Huntly and down towards the railway station. I don't think that should be developed whatsoever. Part of the reason for that is that all the flood water, all the rain water, is going to go downhill. Tough luck for people at the bottom of the hill. There should be areas that should not be developed whatsoever."*

One the other hand, when asked why they would not support a different NCC for greenfield areas, two other participants said:

> *"There should be no difference with any of the sites, all developments need to have the same amounts. For the large developers, I don't think it is enough."*

> *"It should be consistent. If somebody had to put electricity on, they wouldn't question the price, they would just pay it because they have to do it. So it just has to be the same with water I think."*

[11] Two participants had technical difficulties responding to the poll.

Lastly, some general discussion was held about who should pay for the NCC charges. A few sample quotes have been included below and the full meeting notes can be found in Appendix E.

> *"You would want the developer to meet the cost of the greenfield site extensions. So long as they know early enough that they can calculate it in their proposal, then it shouldn't cause them a major problem. If they already had a subdivision and they were starting to sell blocks off, then introducing a one-off, full cost recovery – when it hasn't been flagged with them before so they can account for that in their planning – would be a little unfair. From my point of view, you need to have a look at smaller communities and whether or not you will charge that full $6,000 per subdivision allotment or not. Because in a town like Wedderburn, that would be prohibitive to a development going ahead."*

> *"Developers should be contributing because the price they pay is negligible when compared to what they will be charging."*

> *"Coliban would want to be getting as much money upfront and borrowing less with interest rates and inflation. Customers will need to pay one way or another."*

> *"For many customers they should be able to pay the $5."*

## Was this exercise loaded and leading or fair and authentic?

At the end of the interviews, the developers were asked whether they thought the exercise was loaded and leading, fair and authentic, or somewhere in the middle. Seven interviewees said the process was fair and authentic, while a few noted "there were a lot of numbers to consume[12]". One interviewee (Terraco Pty Ltd) said the process was somewhere in the middle of loaded and leading and fair and authentic, due to the specific questions that were asked. Coliban Water explained that the questions were raised by the Essential Services Commission.

Moreover, it should be noted that the interview guide was updated after the first two interviews were completed. This meant that Villawood Properties and Ella Pty Ltd were not asked this question[13]. However, Villawood Properties did acknowledge the time pressures that Coliban Water was under and the impact this had on the engagement process.

A summary of all feedback has been presented in Table 4 below.

**Table 4** – Developer feedback on loaded and leading or fair and authentic

**Fair and authentic:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Huntly Property Holdings | *"Fair and authentic."* |
| [redacted] | YourLand | *"The process was fair and reasonable but there were a lot of numbers to consume."* |
| [redacted] | Total Property Development (VIC) Pty Ltd | *"Fair and authentic, but would like to see the numbers and have time to digest them."* |
| [redacted] | Birchgrove Property | *"Fair and authentic given the time pressures."* |
| [redacted] | Tomkinson Group | *"Fair and authentic."* |
| [redacted] | Kevin Wiseman Pty Ltd | *"Fair and authentic and really appreciate the effort that went into it."* |
| [redacted] | Spiire | *"Fair."* |

[12] Coliban Water carefully considered the level of detail that was appropriate for developers. Considering that lack of detail was one of the three drivers for changing the NCCs system, and that feedback on the Price Submission and feedback in the ESC Forum both requested more information, Coliban erred on the side of transparency and detail. Juxtaposed against this feedback that there was too much detail is the response from Villawood that requested more.
[13] Coliban Water did offer to re-interview Villawood Properties and Ella Pty Ltd, but a suitable time could not be agreed due to time constraints and limited availability during the interview window.

**Somewhere in the middle:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Terraco Pty Ltd | *"Somewhere in the middle, because of the specific questions."* |

**Other comments:**

| Interviewee/s | Organisation | Response |
|---|---|---|
| [redacted] | Villawood Properties | At the end of the interview Julian noted, *"Appreciate the time pressures that impacts the process."* |

At the end of the CAG meeting, participants were asked if they thought the session was loaded and leading or fair and authentic. The results of the poll are shown in Chart 3 below. More than three-quarters of participants (80%) said the session was fair and authentic, while 20% said it was loaded and leading.

**Chart 3** – CAG poll results on how they found the exercise[14]

**How did you find this exercise?**
**(n=15)**

**0%**
**20%**
**80%**

Fair and authentic (n=12)

Loaded and leading – trying to get you to answer in a certain way (n=3)

Don't know/no opinion (n=0)

When asked why they thought the meeting was loaded and leading, one participant explained:

> ***"Rushed process. A bit leading. Not a great forum for airing all thoughts and concerns."***

[14] Five participants had technical difficulties responding to the poll or left the online meeting before this question was asked.

# Appendices

## Appendix A: Pre-reading materials

**The following pre-reading was sent to the developer interviewees:**

The full list of pre-reading materials can be viewed on the ConnectColiban web page here: https://connect.coliban.com.au/land-developer-engagement

Coliban WATER Connect Coliban

Home Projects Connect with us Login Join


**Home** Land Developer engagement

**26 April 2023**

**The Essential Services Commission (ESC) has issued a draft decision in relation to Coliban Water's Price Submission (PS23).**

The ESC has requested additional information from Coliban Water in relation to its proposed new system of Customer Contributions (NCC) specifically:

Justification for phasing in the new NCC prices, due to potential impacts on the general customer base

1. Definition of infill and greenfield areas and why we didn't propose charges to reflect this distinction
2. Clarification on how the proposed methodology and previous methodology differ
3. Comparison with a re-calculation of the new customer contributions using the old methodology

For a summary of what we proposed for NCCs in our Price Submission for 2023-2028, please click on the yellow button on the right - New Customer Contribution proposal 2023-2028.

We want to consult with you to help shape our response to the ESC, so please read the information below and provide us with any feedback that you have.

Note that all feedback will be considered as part of our response to the ESC, but we may not be able to implement all of your suggestions.

**1. Justification for phasing in the new NCC prices, due to potential impacts on the general customer base**

Our transition strikes a balance between the interests of existing customers which are met by the adoption of an Average Incremental Cost (AIC) based NCC, that can send appropriate incentives for efficient development and smoothing over time, and lessen the potential impact on developers and new customers who may have already made investment decisions based on the previous NCC approach.

**New Customer Contribution Summary provided to developers in September 2022**

**New Customer Contribution proposal summary from the Price Submission2023-2028**

**Regional Map**

**NCC Greenfield Growth Zones**

**Read the full Price Submission 2023-2028**

**Summary of previous engagement with developers**

| 2023 Pricing Submission - with transition | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Water NCC | $2,148 | $2,362 | $2,599 | $2,858 | $3,144 |
| Sewer NCC | $2,148 | $2,577 | $3,092 | $3,711 | $4,453 |
| Sewer NCC - discounted | $648 | $1,077 | $1,592 | $2,211 | $2,953 |
| Recycled NCC | $1,074 | $1,181 | $1,299 | $1,429 | $1,572 |
| **Total per property water and sewer** | **$4,295** | **$4,939** | **$5,691** | **$6,569** | **$7,597** |
| **% increase from current prices** | 20% | 38% | 59% | 84% | 112% |

| Option with no transition | Water NCC | Sewer NCC | TOTAL per property | Sewer NCC - Discounted | Recycled NCC | % increase from current prices |
|---|---|---|---|---|---|---|
| 2023 Pricing Submission - no transition | $3,979 | $5,112 | $9,092 | $3,612 | $1,990 | 154% |

**2. Definition of infill and greenfield areas and why we didn't propose charges to reflect this distinction**

In its Draft Decision the ESC noted that we had not provided them with enough information to assess how we distinguished between infill and greenfield growth areas and its reasons for not proposing charges to reflect this distinction. In response to the Draft Decision we have separately identified the expenditures related to infill and greenfield developments and estimated separate NCCs based on these distinctions.

We have calculated two separate approaches to area specific NCCs which look at the defined growth areas with greenfield specific capital investment - Huntly, Strathfieldsaye, Maiden Gully, and Marong (see NCC Greenfield Growth Zones in the right hand column), and system specific NCC charges for 3 supply zones of Coliban North with Campaspe, Coliban South with Trentham, and the balance of the region (See Regional Map in yellow tab in right hand column).

*On the basis of the developer consultation outcomes and the inherent difficulties in identifying infill development, we did not propose to differentiate scheduled NCCs for infill and greenfield developments. The calculation of the infill/greenfield NCC's returned values that were higher than the proposed NCC cap in the transition.*

**3. Clarification on how the proposed methodology and previous methodology differ**

Average Incremental Cost (AIC) based NCCs are set based on a minimum 20-year forward estimation of cost and growth. The NCC will reflect the net present value of these forward estimates. The long-term nature of the NCC calculation raises issues regarding the alignment of the period used to generate NCCs and the five-year regulatory pricing periods proposed in the Price Submission.

These price paths are subject to review after the first five-year regulatory period. The review would focus on adjusting the NCC to account for:

- Changes in forecasted connections growth;
- Any bring forward of planned works that had occurred during the period; and
- Material changes in the capital program associated with the NCC

This approach will allow us to account for and recover growth related expenditure over a reasonable timeframe and provide continuity in NCCs over time. It will also avoid potentially large step increases and decreases in NCCs due to the large lumpy nature of capital expenditure that may occur over a shorter five-year price path.

*Maintaining the current net cashflow approach to calculating NCCs results in material increases in contributions for the 2023-2028 regulatory period. These increases exceed those that are being proposed under our AIC NCC methodology. The primary driver for these increases is a material rise in growth related capital expenditure over the current regulatory period (2018 to 2023) relative to the preceding regulatory period (2013 to 2018). These growth capital expenditures impact NCCs through the level of sunk asset incorporated in the net cash flow calculation. The NCC revenue over the current regulatory period has not been sufficient to recover growth capital expenditure which results in a material increase in the residual unrecovered growth expenditure which forms the basis for sunk assets.*

In order to meet Water Industry Regulatory Order (WIRO) principles around efficient pricing our proposed AIC based NCC approach excludes sunk assets from its calculation.

**4. Comparison with a re-calculation of the new customer contributions using the old methodology**

We have calculated the NCC's using the Net Cash Flow (NCF) approach using the ESC published model, which was the previously adopted methodology for NCC calculations.

*The calculations produced Water and Sewer NCCs that were higher than our proposed cap in our Price Submission.*

Under the status quo of using the NCF method we would not be applying a transition method, as it is our current approach for NCC calculation. The transition pricing is in response to adopting the AIC methodology.

All alternatives that were investigated were above our transitional cap pricing. In the event that the transition is not supported, we will reconsider whether to adopt a NCF approach or differential pricing.

Open

Please let us know what you think is fairest for the whole community.

**Your answers are anonymous unless you choose to identify yourself.**

**Would you support new NCC charges being: -**

Phased in over 5 years between 2023-2028
Introduced upfront in full from 1 July 2023
Don't know/no opinion

**Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong?**

Yes
No
Don't know/no opinion

**Please provide any additional feedback you have here**

**The following pre-reading was sent to members of the Customer Advisory Group:**

**New Customer Contributions (NCC)**

The ESC have requested additional information about what we are proposing for New Customer Contributions (NCC).

A NCC is a contribution toward the cost of the operation, maintenance and growth of our drinking water and sewerage networks. The NCC is paid by someone developing land whether a single existing block is being sub-divided, or a new tract of land is being developed with multiple allotments. An NCC is charged for each separate allotment being created.

For a customer-funded organisation like Coliban Water, the New Customer Contribution is critical if we are to support the region's growth. The NCC charge impacts small or one off developers right up to the big developers who create new housing estates.

We are proposing to increase New Customer Contributions from 1 July 2023, from current charges for Water and Sewer of up to $3,580 per allotment, to proposed new charges of up to $7,597 per allotment.

The reason for the increase is that our population is growing, our existing assets are ageing, and our climate is changing.

Since 2018, we have invested $45 million of customer money in assets to support new suburbs, new development and regional growth, but only collected $23 million in New Customer Contributions.

The new contribution structure will ensure we continue to meet the needs of our growing customer base and share the costs of new infrastructure with those set to benefit financially.

We would like to speak to you about the fairest way to implement these charges.

**Different New Customer Contribution charges**

We could consider having different NCCs for specific circumstances and/or areas.

The current NCC applies to all development whether it is for established land or a completely new development which is referred to as 'greenfield'.

Greenfield development is generally on the edges of the existing network and is more costly and places a greater burden to invest in extending or upsizing assets to cope with the increased demand.

We could consider a separate NCC for greenfield developments that is more cost reflective of the specific capital investment required to service it. In our next pricing period the forecast capital projects specific to greenfield development lies solely with in Strathfieldsaye, Huntly, Maiden Gully and Marong areas.

## Appendix B: Developer interview guide

| Time and personnel | Script |
|---|---|
| Jeremy Summers<br>(5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. The ESC is the price regulator which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices.<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? |
| Tess Laing & Rick Nudl<br>(10 mins) | Coliban Water to provide update on NCCs. |
| Jeremy Summers<br>(5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? |
| | …what are the main reasons for your answer? |
| Jeremy Summers<br>(5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? |
| | …what are the main reasons for your answer? |
| Jeremy Summers<br>(5 mins) | …and is there anything else you would like to add? |

| | |
|---|---|
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br>If not, then we might still use the quote, but simply attribute it to a “land developer” or “land development consultant”. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? |
| Jeremy Summers | Thanks for your time. |

## Appendix C: Developer interview transcripts

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **General Manager – Bendigo** |
| **Organisation:** | **Villawood Properties** |
| **Date and time:** | **Monday 1st May 2023 from 4:00pm-4:30pm** |

| **Time and personnel** | **Script** | **Interviewee responses** |
|---|---|---|
| Jeremy Summers (2 mins) | Before we proceed, I would like to acknowledge that you may not have had enough time to review the pre-reading provided by Coliban Water on Friday and you have the right to request additional time and reschedule this interview for tomorrow or Wednesday. I understand that you are happy to proceed now – can you please confirm? | Happy to proceed but haven't reviewed the materials yet. |
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.** | Happy to proceed and no questions at this point. |

| | | |
|---|---|---|
| | We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br>I'll ask you at the end whether you're happy for your responses to be on the record. It would be really helpful if we are on the record, because then Coliban Water can use what you've said in its response to the ESC.<br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | Prefer not to answer without more information. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | Prefer not to answer without more information. |
| | ….what are the main reasons for your answer? | |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | Can't respond to the questions above with the current amount of information and level of understanding. Would like more time to verify and understand the numbers. |
| Jeremy Summers | Great, and are you happy for your comments to be on the record? | Yes. |
| Jeremy Summers | And finally, is there any way that we could have improved the way that we engaged with you? | No. Appreciate the time pressures that impacts the process. |
| Jeremy Summers | Thanks for your time. | |

| Interviewee name: | [redacted] |
|---|---|
| Title: | Director |
| Organisation: | Ella Pty Ltd |
| Date and time: | Monday 1st May 2023 from 4:45pm-5:15pm |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (2 mins) | Before we proceed, I would like to acknowledge that you may have not had enough time to review the pre-reading emailed by Coliban Water on Friday and you have the right to request additional time and reschedule this interview for tomorrow or Wednesday. Would you like to proceed or reschedule? | Haven't read all of the provided information but have read some of it and happy to proceed. |
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.** | Fine to proceed. No questions. |

| | | |
|---|---|---|
| | We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>I'll ask you at the end whether you're happy for your responses to be on the record. It would be really helpful if we are on the record, because then Coliban Water can use what you've said in its response to the ESC.<br><br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | From a developer's point of view, it would be more practical if they [the new charges] were staged. But it would be good if the costs – where the funds will be expended – were broken down further. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | If you went down that path you would need to break them down for each of those areas. They should be significantly different.<br><br>[Whether I would support NCCs being varied by area] would depend on the pricing breakdown. |
| | ….what are the main reasons for your answer? | It is difficult to understand what is within each NCC and there needs to be more open sharing of the model and what goes into it. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | Not at the moment. |
| Jeremy Summers | Great, and are you happy for your comments to be on the record? | Yes. |
| Jeremy Summers | Thanks for your time. | |

Coliban WATER

insync

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **Development Manager** |
| **Organisation:** | **Huntly Property Holdings** |
| **Date and time:** | **Thursday 4th May 2023 from 9:30am-10:00am** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br><br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also | No. |

| | | |
|---|---|---|
| | okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | From a developer point of view, I understand that the assets need to be paid for and be fully funded. Increased NCCs will be a hit to our cash flow. We need to reduce costs to maximise our cash flow. The economic environment has changed since the conversation started. Profit margins are eroding.<br><br>As such I would lean towards phasing but would suggest a review at the two-year mark when hopefully some of the challenges to the industry have been alleviated. |
| | …what are the main reasons for your answer? | I have always supported that you (Coliban Water) need to charge what you need to and developers need to manage cashflow.<br><br>If we were in a growth environment [we] would be happy to receive costs upfront, but in the current environment it's not possible to change prices to reflect the increase. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | Yes. I would support charges to be applied where they are incurred. |
| | …what are the main reasons for your answer? | Those who create the charge should pay for it. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | You (Coliban Water) need to recover your costs and I think the proposal is fair. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br><br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |

| | | |
|---|---|---|
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair and authentic. |
| Jeremy Summers | Thanks for your time. | |

Coliban WATER

insync

| Interviewee name: | [redacted] |
|---|---|
| Title: | **Managing Director** |
| Organisation: | **YourLand** |
| Date and time: | **Thursday 4th May 2023 from 10:30am-11:00am** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the | No. |

| | | |
|---|---|---|
| | quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | I understand both perspectives (developer's and Coliban Water's).<br><br>Coliban Water's fees have not kept pace with the value of the land. Fees should have increased before now to keep pace. Now you (Coliban Water) are trying to catch up.<br><br>I have no problem with the fees, the only issue is if developers have to pay upfront, then it is a hindrance.<br><br>*Tessa confirmed that charges apply at Certificate of Compliance (not upfront).* |
| | …what are the main reasons for your answer? | I feel that Coliban Water are still behind (in terms of the value of NCC increases), in comparison to property prices that developers are receiving. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | I would on the basis that there is very little infill land left in Bendigo and there needs to be a lot more greenfield development to meet the future (population) growth. |
| | …what are the main reasons for your answer? | Prices are escalating for everything. CPP increase rate is close to 12-13%. The price of land is likely to keep increasing. Greenfield sites should be wearing a higher rate than infill sites. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | *In response to a question from [redacted]essa confirmed that figures presented are exclusive of CPI.*<br><br>The only other concern would be that there is a push for industrial land (in Marong), but the uptake is nowhere near what it is for residential land. I would be concerned if there is a push from the council to develop that area at the expense of other greenfield sites. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes? | Yes. |

| | | |
|---|---|---|
| | If not, then we might still use the quote, but simply attribute it to a “land developer” or “land development consultant”. | |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | The process was fair and reasonable but there were a lot of numbers to consume. |
| Jeremy Summers | Thanks for your time. | |

Coliban WATER

insync

| Interviewee name: | [redacted] |
|---|---|
| Title: | **Managing Director** |
| Organisation: | **Terraco Pty Ltd** |
| Date and time: | **Thursday 4th May 2023 from 3:00pm-3:30pm** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | No. |

| | | |
|---|---|---|
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | I would have thought transitioning, but I would like to see the numbers and have time to digest. |
| | …what are the main reasons for your answer? | There is a lot of information to absorb. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | I think across the board is the easiest way to do it, but I would be interested to see the projects that make up these figures. |
| | …what are the main reasons for your answer? | I understand the issues with the different numbers but would like time to consider. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | No. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Somewhere in the middle, because of the specific questions.<br>*Rick explained that the questions were raised by the Essential Services Commission.* [redacted] *understood.* |
| Jeremy Summers | Thanks for your time. | |

Coliban WATER

insync

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **Managing Director** |
| **Organisation:** | **Total Property Development (VIC) Pty Ltd** |
| **Date and time:** | **Thursday 4th May 2023 from 4:00pm-4:30pm** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br><br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then | No. |

| | | |
|---|---|---|
| | we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | I would want the incremental change as the step change would be a steep increase in cost. The developer community wants to understand what the increase covers (which projects) and that it is transparent upfront. |
| | …what are the main reasons for your answer? | Inflation is affecting everything including NCCs, but I am comfortable if the increases are reflecting growth. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | No. I would prefer a consistent NCC over the entire region. |
| | …what are the main reasons for your answer? | Across the board is a fairer way rather than subsidisation. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | No, not really. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br><br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair and authentic, but would like to see the numbers and have time to digest them. |
| Jeremy Summers | Thanks for your time. | |

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **Managing Director** |
| **Organisation:** | **Birchgrove Property** |
| **Note:** | **Joined by** [redacted] |
| **Date and time:** | **Friday 5th May 2023 from 9:30am-10:00 am** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028.<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is | No. |

| | | |
|---|---|---|
| | also okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | Indicatively the shock should be balanced (transitioned). But would like to understand more detail in order to fully respond to the question. |
| | …what are the main reasons for your answer? | I have seen a lot of information today that I will need to unpack and better understand. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | It depends on a cost assessment and how to differentiate what the actual costs are for the different types of development. |
| | …what are the main reasons for your answer? | Again, I would like to see the detail behind the numbers. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | Comes down to how the costs are calculated because the increase was a bit of a shock to the developer sector.<br><br>I need to understand the detail behind the numbers (specifically the projects that are inputs) that have been presented today.<br><br>*Following the interview, Damien provided the following by email:*<br><br>Developing greenfield area based on postage stamp specific standard NCC's would not be needed if Coliban Water was to enter into negotiated NCC's in these areas as allowed for in the ESC framework. I believe that this was the initial intent of the framework not necessarily the use of standard NCC's. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br><br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |

| | | |
|---|---|---|
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair and authentic given the time pressures. |
| Jeremy Summers | Thanks for your time. | |

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **Regional Manager – Central** |
| **Organisation:** | **Tomkinson Group** |
| **Note:** | **Joined by** [redacted] **nd** [redacted] |
| **Date and time:** | **Friday 5th May 2023 from 10:30am-11:00 am** |

| **Time and personnel** | **Script** | **Interviewee responses** |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then we might | No. |

| | | |
|---|---|---|
| | still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br>Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | The transitional approach seems to make sense, but we would like to model the impacts on specific sites to provide a more informed response. |
| | …what are the main reasons for your answer? | |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | No, unless there is a significant difference between the actual costs, say more than 30%, in which case it does make sense. |
| | …what are the main reasons for your answer? | |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | We need more information to answer these questions. We accept the headline figures but would like to understand how the costs have been modelled. What percentage of projects are due to growth versus existing compliance.<br>We need more time to consider the information presented. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair and authentic. |
| Jeremy Summers | Thanks for your time. | |

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **Managing Director** |
| **Organisation:** | **Kevin Wiseman Pty Ltd** |
| **Date and time:** | **Friday 5th May 2023 from 2:00pm-2:30 pm** |

| **Time and personnel** | **Script** | **Interviewee responses** |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028.<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant".<br><br>Any questions before we begin? | No. |

| | | |
|---|---|---|
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | I think the transition approach (gradual increase) is the fairest. |
| | …what are the main reasons for your answer? | It allows developers to adjust their pricing accordingly. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | No. All things considered, it's probably fair that the NCC applies equally across the board. |
| | …what are the main reasons for your answer? | It's a tricky balancing act but overall it's probably fairest to have a single charge for all. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | No, covered everything very well. |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair and authentic and really appreciate the effort that went into it. |
| Jeremy Summers | Thanks for your time. | |

| | |
|---|---|
| **Interviewee name:** | [redacted] |
| **Title:** | **General Manager – Bendigo, Ballarat & Shepparton** |
| **Organisation:** | **Spiire** |
| **Date and time:** | **Friday 5th May 2023 from 4:00pm-4:30pm** |

| Time and personnel | Script | Interviewee responses |
|---|---|---|
| Jeremy Summers (5 mins) | Coliban Water have received a draft determination from the Essential Services Commission (ESC) in relation to its Price Submission for 2023-2028. (if necessary, add "the ESC is the price regulatory which, among other things, ensures customers receive the services they want from Coliban Water at the best possible prices")<br><br>In the draft determination, the ESC has asked Coliban Water to provide additional information in relation to New Customer Contributions (NCCs), specifically:<br>• Justification for phasing in the new NCC prices, due to potential impacts on the general customer base,<br>• Definition of infill and greenfield areas and why Coliban Water didn't propose charges to reflect this distinction,<br>• Clarification on how the proposed methodology and previous methodology differ, and<br>• Comparison with a re-calculation of the NCCs using the old methodology.<br><br>**In response, Coliban Water is Consulting you to obtain your feedback on its decisions, and commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.**<br><br>We're joined by Tessa Laing and Rick Nudl from Coliban Water who will provide you with an update on the NCCs before we move into some questions.<br><br>We may choose to quote what you say in this interview. But at the end, I'll ask whether it is also okay to attach your name and organisation to the quote. If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | No. |

| | | |
|---|---|---|
| | Any questions before we begin? | |
| Tess Laing & Rick Nudl (10 mins) | Coliban Water to provide update on NCCs. | Tessa presented slides and spent time explaining the financial impact of the various pricing structure options in particular. |
| Jeremy Summers (5 mins) | Would you prefer that the new NCC charges get phased in over 5 years between 2023-2028, or would you rather they were introduced upfront and in full from 1 July 2023? | A transition is obviously the best for developers from a cash flow perspective. The issue of concern was more about the quantum of the pricing increase and what has driven it. |
| | …what are the main reasons for your answer? | I would like to understand the drivers of the numbers. |
| Jeremy Summers (5 mins) | Would you support a specific NCC for greenfield areas such as Huntly, Strathfieldsaye, Maiden Gully and Marong? | No. |
| | …what are the main reasons for your answer? | Because I would sooner see a transition approach which would make it non-applicable. |
| Jeremy Summers (5 mins) | …and is there anything else you would like to add? | In principle it all looks really good. The $96 million should be for growth assets but I understand that is hard to forecast. I think it looks fair and reasonable (the whole principle that has been applied). |
| Jeremy Summers | Great, and is it okay if we attach your name and organisation to any of your quotes?<br>If not, then we might still use the quote, but simply attribute it to a "land developer" or "land development consultant". | Yes. |
| Jeremy Summers | Finally, do you think this exercise has been fair and authentic, or loaded and leading (trying to get you to answer in a certain way), or something in the middle? | Fair. |
| Jeremy Summers | Thanks for your time. | |

## Appendix D: Customer Advisory Group meeting presentation


## Context for today's meeting

Coliban Water is Consulting the Customer Advisory Group to obtain your feedback on its decisions.

It commits to keeping you informed, listening to you, acknowledging your concerns, and providing feedback on how your input influenced the decision.

# Our Price Submission 2023-2028

**UPDATE AND NEXT STEPS**

**PRESENTED BY TESSA LAING**

Water to live, grow & enjoy

Coliban WATER

On 11 April, the **Essential Services Commission (ESC) released its Draft Decision** on our Price Submission 2023-2028.

Pleasingly, they have **supported the key elements** of our Price Submission, with only a few outstanding matters requiring clarification.

## Developing a fair approach for **New Customer Contributions**

**WHAT IS A NEW CUSTOMER CONTRIBUTION?**

A New Customer Contribution is a **contribution toward the cost of the operation, maintenance and growth** of our drinking water and sewerage networks.

The contribution is paid per allotment, whether a single existing block is being sub-divided, or a new tract of land is being developed with multiple allotments.

For a customer-funded organisation like Coliban Water, the New Customer Contribution is **critical if we are to support the region's growth.**

## We propose to increase charges for **New Customer Contributions** from 1 July 2023

**AS WE ARE FOR ALL CUSTOMERS**

| charges | |
|---|---|
| Water: | $1,790 |
| Sewer: | $1,790 |
| Recycled water: | $894 |

| Proposed charges | |
|---|---|
| Water: | $3,144 |
| Sewer: | $4,453 |
| Recycled water: | $1,572 |

**Why the increase for New Customer Contributions?**

Our population is growing, our existing assets are ageing, and our climate is changing.

Since 2018, we **have invested $45 million** of customer money in assets to support new suburbs, new development and regional growth, **but only collected $23 million in New Customer Contributions.**

The new contribution structure will ensure we continue to meet the needs of our growing customer base and share the costs of new infrastructure with those set to benefit financially.

## The **original proposal**

In our Draft Price Submission we proposed to **phase-in the increase** in New Customer Contributions, smoothing the impact for land developers and property owners sub-dividing their land.

**Water:** **20% year one, then 10% increase per year** until the new amount is reached in the next pricing period.

**Sewerage:** **20% increase per year** until the new amount is reached in the next pricing period.

The remaining costs:

While the increase for New Customer Connections was phased in, the entire Coliban Water customer base would subsidise the New Customer Contributions (on average $2.12 per year).

## Is this the **fairest way** to pass-on the proposed increase?

As part of its review process, the Essential Services Commission has asked us to consult with our customer base.

## The **options** for your consideration

1

**PHASE-IN NEW CUSTOMER CONTRIBUTION INCREASES**

This is the approach we have proposed in our Price Submission, avoiding 'bill-shock' for land developers and those sub-dividing land for sale.

- Customer subsidy would decrease by $1.75 pa over five years.
- Developer bills would increase by $4,018 per allotment, spread over five years. This is a 112% increase.

## The **options** for your consideration

2

**FULL UP-FRONT COST INCREASE**
**IN FULL FROM 1 JULY 2023**

**This would mean that developers pay the full cost upfront and the broader customer base would not subsidise these contributions through their bills.**

- **Customer subsidy would decrease by $5.58 pa over five years.**
- **Developer bills would increase by $5,513 per allotment. This is a 154% increase**

## The **impacts** of each option

| Phased approach | Full cost up-front |
|---|---|
| Customer bills increasing by 1.9% to 2.5% above inflation each year. | Customer bills still increase, but by a little less. Bills are about $6 per year lower by 2028. |
| In 2023/24, this is about $2.50 per week, including inflation. | |
| Customer subsidy decreases by $1.75pa | Customer subsidy decreases by $5.58pa |
| Developer bills increase gradually from $3,580 to $7,598 per lot | Developer bills increase overnight on 1/7/2023 from $3,580 to $9,093 per lot |

## **Greenfield** development

The current New Customer Contribution applies to all development whether it is a subdivision of established land, or a completely new development, which we refer to as a 'greenfield' development.

Greenfield development is generally located on the edges of the existing network. It is more expensive to service and typically requires us to extend or upsize assets to cope with increased demand.

Between 2023-2028 capital projects specific to greenfield development are located in the growing Huntly, Strathfieldsaye, Maiden Gully and Marong areas.

We could consider a separate, higher New Customer Contribution for greenfield developments that reflects the specific capital investment required to service it.

## For your consideration

**SHOULD THERE BE A SEPARATE NEW CUSTOMER CONTRIBUTION FOR GREENFIELD DEVELOPMENTS?**

- Yes
- No
- Not sure


Thank you for your consideration and feedback.
Coliban WATER

Appendix E: Customer Advisory Group meeting notes

# Customer Advisory Group Meeting Notes
# 4 May 2023

## Should New Customer Contribution charges be phased in over five years or introduced in full from 1 July 2023?

**Questions:**

- In terms of the options, are these the only two options that we have? Is there no room for a variation of the options?
- Does this proposal also include other growth areas in Victoria as well?
- What do other water corporations do? Is there any research or information as to what other water corporations are doing in this area?
- If other areas are charging less for developers, could making significant changes to this deter developers from coming to this region?

**General comments:**

- Developers should pay. There is no logical reason for existing customers to pay for new development. They make money, they should pay for it.
- Existing customers should not need to pay.
- Developers need to pay their fair share of costs.
- Whilst I agree broadly with some of the sentiment already, this cost will probably get past onto individuals purchasing the property. We don't want to cap growth in Bendigo, or this region, compared to other areas. Where it puts Bendigo as an area to invest in, as opposed to other areas, should be a consideration.
- The prices of lots have increased so dramatically over the last five years. That cost is already being factors into the sale price, but without them paying it. It's the same as cutting one lot into two lots. It's a massive increase in the value of that piece of land. A contribution of $9,000 to chop off the back lot is reasonably insignificant. But the commitment from Coliban Water to provide the service is not insignificant.
- Given the prices charged for the land, the water infrastructure fee is negligible and should be borne by the developer when providing serviced land.
- If you're someone doing work in your backyard, if you've already started making plans, and you suddenly have to spend twice as much on this, it will make a big difference to them. The difference for the customer is like $4 per year, so I would have thought that raising it over time is fair for everyone.

- Yes, the increase may be small, but it may be enough to push some people over the edge with all the other costs going up over time.
- Developers make this money back when they sell the land off at the end of the development. They have a way of making the money back. Others don't.
- What about inflation? Public perceptions in the media. No matter how small the increase, it will be seen as a black mark against Coliban. I would charge developers as much as you can get away with. The poor existing customer is being slugged.
- I think when you think of one allotment costing this, it's palpable. But when you think of hundreds of allotments, it has the potential to deter developers coming to our area. We need to be thinking long term, considering area growth, and without the developers coming to the region, that economic growth could deteriorate. Such a fine line without the crystal ball.
- Developers should cover the costs and Coliban should not cover those costs for the next five years.
- Given rising interest rates, another factor is the impact on Coliban of servicing the loans. This is an important consideration.

**Reasons why customers voted for a phased approach:**

- It's pretty easy to look at big developers and say they should be paying. But if you have a family that is putting in a granny flat, then their increase is going to be quite big compared to $4 per year for every customer. If there was a difference between big developers and small developers, then it might be different. It's fairer for people to have a bit more time.
- It's fairer for big developers to pay upfront. But I believe the government rules are changing and first home buyers are allowed to split, so siblings or friends are allowed to purchase together now. I think there will be more people who will want to add another kitchen or bathroom out the back. I think the huge upfront cost for those sorts of people is a bit rough. Big developers make squillions when they sell their land off and they can incorporate that figure into a new development. I wish it could be split, so you pay less if you want to put your parents in a granny flat out the back, compared to if you're a huge developer that will make lots of money from selling off the land. The impact should be different.
- I would support the phasing in over five years of 2023-2028. This would be a fairer way of proceeding.

**Reasons why customers voted for charges to be introduced in full:**

- The $6,000 for a new block of land upfront is a pittance for a developer. It can be covered quite easily for both the developer and the potential purchaser. The issue of granny flats out the back is totally different. Maybe it needs to be considered by Coliban Water, but I don't think it is an issue. The numbers are there to warrant consideration.

**<u>Should there be a different New Customer Contribution charge for greenfield sites rather than a single charge for all development sites?</u>**

**Questions:**

- Inglewood, Bridgwater, Wedderburn, they are small communities. Is the development charge in these towns the same as the development charge in large areas like Bendigo?
- How does the water infrastructure costs compare to other services like electricity?
- Are costs the same across the board to provide services or is it smaller for small usage i.e. just an extra bathroom and kitchen?

**General comments:**

- You would want the developer to meet the cost of the greenfield site extensions. So long as they know early enough that they can calculate it in their proposal, then it shouldn't cause them a major problem. If they already had a subdivision and they were starting to sell blocks off, then introducing a one-off, full cost recovery – when it hasn't been flagged with them before so they can account for that in their planning – would be a little unfair. From my point of view, you need to have a look at smaller communities and whether or not you will charge that full $6,000 per subdivision allotment or not. Because in a town like Wedderburn, that would be prohibitive to a development going ahead.
- Developers should be contributing because the price they pay is negligible when compared to what they will be charging.
- Coliban would want to be getting as much money upfront and borrowing less with interest rates and inflation. Customers will need to pay one way or another.
- For many customers they should be able to pay the $5.

**Reasons why customers voted for a different NCC for greenfield sites:**

- Developers that choose Greenfield areas that should not be developed should be charged much higher. For example, I'm thinking about the area that is being developed in Huntly and down towards the railway station. I don't think that should be developed whatsoever. Part of the reason for that is that all the flood water, all the rain water, is going to go downhill. Tough luck for people at the bottom of the hill. There should be areas that should not be developed whatsoever.

**Reasons why customers voted for a single charge:**

- There should be no difference with any of the sites, all developments need to have the same amounts. For the large developers, I don't think it is enough. Development in the suburbs should be slowed. There is the chopping up of lovely quarter acre blocks.
- It should be consistent. If somebody had to put electricity on, they wouldn't question the price, they would just pay it because they have to do it. So it just has to be the same with water I think.

## Was this exercise loaded and leading or fair and authentic?

**Reasons why customers voted for loaded and leading:**

- Rushed process. A bit leading. Not a great forum for airing all thoughts and concerns.

## Other comments and questions:

- Development is critical to the long-term wellbeing of the smaller regions and special consideration is needed to enable them to proceed.
- There will always be people against it, whatever the decision made. Is there a way to enforce the decision that is made?
- As a general rule, I believe that the principle that user pays should apply. If a parcel of land is opened up, the developer(s) should pay for the bulk of services to that development. This cost would probably be absorbed into the purchase price in one shape or form anyway.
- Some feedback on the session, if at all valuable, is that it would have been nice to understand the picture beyond Coliban Water – the broader economical impacts these increases may have, and what considerations you made to get to the scenarios you presented today. For example, I felt that the people who were able to talk today, didn't seem to be considering the additional infrastructure costs that would be associated with supplying water to a Greenfields site, vs established/metro type areas (it wasn't made clear if there are considerations like that to take into account). Perhaps an opportunity to submit questions prior to a session like this might be helpful too, as I feel our poll responses weren't reasonably well informed, and were more about our preferences around billing, rather than our preferences based on the bigger picture impacts. I hope that makes sense. Regardless, great to see you guys involving the community in your decision making processes. Thank you for the opportunity to partake in your research.

## Appendix F: Close out information session – overview of proceedings

### Overview of proceedings:

Coliban Water invited all developers who were interviewed to attend a two-hour information session to close the loop on the revised NCCs proposal. Coliban Water also invited all 45 CAG members to the information session. The meeting was set up as a hybrid event so that participants had the option to attend in person or virtually.

The meeting was held on Monday 15th May, and 10 developers attended the session (six in person and four online – see page 64 of this report for the full list of developer attendees), as well as four CAG members (two in person and two online). Coliban Water also provided a summary of its responses to the ESC ahead of the information session (see the pre-reading materials online here).

The meeting was hosted by Jeremy Summers with presentations by Damian Wells, Jarrah O'Shea and Tessa Laing. A moderator from Insync assisted Jeremy with the facilitation of the online meeting. One director and six members of the Coliban Water executive team/project team observed the meeting in person. Two consultants from Utilities Regulatory Advisory also attended the online meeting.

The following agenda was prepared for the meeting:

| Time | Agenda item |
|---|---|
| **12:00pm** | **Welcome and introductions** (Jeremy Summers) |
| **12:10pm** | **Background** (Damian Wells) |
| **12:20pm** | **Presentation on revised proposal to the ESC** (Jarrah O'Shea) |
| **12:40pm** | **Facilitated Q&A** (Jeremy Summers, Jarrah O'Shea, Tessa Laing & Damian Wells) |
| ***1:20pm*** | ***Extra time for facilitated Q&A if needed*** |
| **1:55pm** | **Thanks and next steps** (Damian Wells) |
| **2:00pm** | **Close** (Jeremy Summers) |

At the start of the meeting, Jeremy Summers reminded participants that the purpose of the meeting was to Inform the developer community and CAG members of the revised NCC proposal to the ESC.

Next, Damian provided some background on the ESC's draft decision, he explained that the ESC did not accept Coliban Water's proposed NCCs, and touched on what had been done in response to provide additional information to the developer community and seek further feedback.

In addition, Jarrah's presentation summarised the findings from the recent engagement with developers and CAG members, including what the organisation heard about how NCC charges should be introduced and levels of support for a different greenfield NCC (see the presentation on pages 65-74 of this report). Jarrah also outlined what had and hadn't changed in Coliban Water's revised proposal to the ESC. The presentation concluded by explaining how developer and community engagement had directly influenced Coliban Water's revised submission.

After the presentation, Jeremy facilitated a Q&A discussion with Jarrah, Tessa and Damian. The Q&A session ran for approximately 30 minutes until all questions had been answered from participants in the room and online (see the full list of questions on page 75 of this report).

Once the Q&A was finished, Damian thanked the group and Jeremy formally closed the meeting. The meeting finished at approximately 1:10pm.

The next section of this report includes a list of developers who attended the information session, a copy of the slides presented at the information session, as well as a summary of the questions asked by participants.

**Developer attendees:**

The following developers attended the information session on Monday 15th May:

| Name/s | Organisation | Attendance |
|---|---|---|
| [redacted] | Birchgrove Property | In person |
| | Terraco Pty Ltd | In person |
| | Tomkinson Group and UDIA local representative | In person |
| | Total Property Development (VIC) Pty Ltd | In person |
| | Villawood Properties | In person |
| | YourLand | In person |
| | Huntly Property Holdings | Online |
| | Tomkinson Group | Online |
| | Consultant | Online |
| | Consultant | Online |

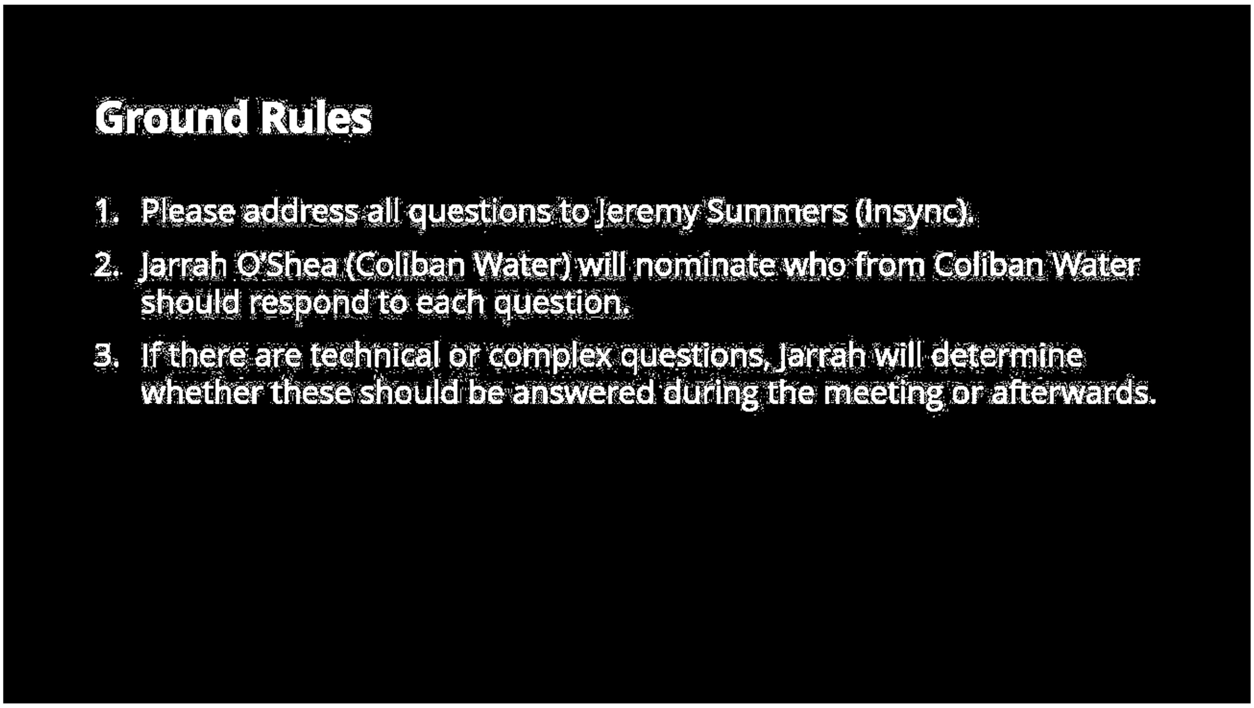
Presentation:


## Agenda

1. Welcome and introductions
2. Background
3. Final proposal to ESC
4. Facilitated Q&A
5. Closing remarks

## Purpose

- The purpose of today's meeting is to Inform you of Coliban Water's revised New Customer Contribution (NCC) proposal to the Essential Services Commission.


Ground Rules
1. Please address all questions to Jeremy Summers (Insync).
2. Jarrah O'Shea (Coliban Water) will nominate who from Coliban Water should respond to each question.
3. If there are technical or complex questions, Jarrah will determine whether these should be answered during the meeting or afterwards.


Our Price Submission 2023-2028
ESC Draft Decision
Presented by Jarrah O'Shea
Executive General Manager Strategy
Water to live, grow & enjoy
Coliban WATER

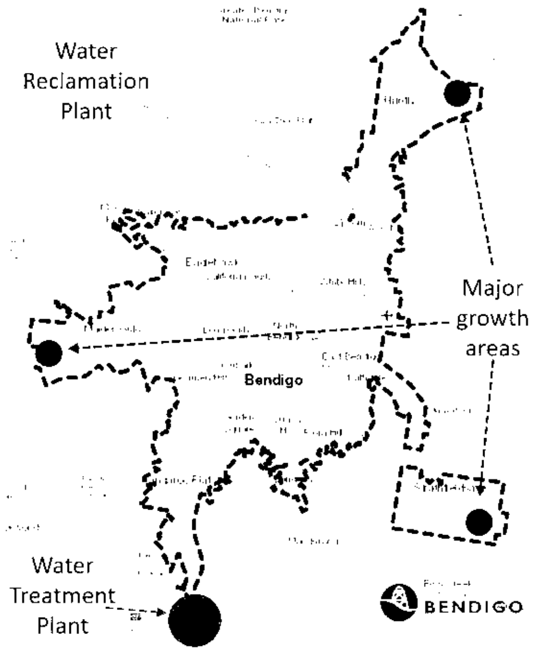
On 11 April, the **Essential Services Commision (ESC) released its Draft Decision** on our Price Submission 2023-2028.

The ESC has **supported the key elements** of our Price Submission, and requested additional information on a few outstanding matters.

## What are New Customer Contributions?

A New Customer Contribution (NCC) is a charge levied on those creating and connecting a new property to our current water and sewer networks.

Developers and those who subdivide property get a benefit from connection to water and sewer and the cost incurred by water utilities needs to be paid by the beneficiaries.



## Developing a fair approach for **New Customer Contributions**

**NEW CUSTOMER CONTRIBUTIONS**

Since 2018, we have invested $45 million of customer money in assets to support new suburbs, new development and regional growth, but only collected $23 million in New Customer Contributions (NCC).

Growth related capital expenditure will continue to increase in the coming five years.

Our focus is to ensure the costs of new infrastructure are borne by those who benefit.

The ESC did not accept our proposed approach to NCC on the basis that we needed to provided further information and justification for adopting the Average Incremental Cost model, and seek additional feedback from developers and customers.

## Average Incremental Cost (AIC)

**NEW CUSTOMER CONTRIBUTIONS**

The proposed AIC based NCC is a direct cost approach based on the average incremental costs of connection.

NCCs under this approach are set based on the net present values of a 20 year forward estimation of costs and growth.

As prices are set every five years, we will commence a review into NCCs in 2026-2027 that will determine the level of NCCs to apply from 2028-2033.

In the event that the AIC methodology is not accepted we will revert to the current "Net Cash Flow" approach which would result in higher NCCs with no phased approach.

## Further consultation

ADDDITIONAL ENGAGEMENT

Following our considerable engagement efforts in 2021 and 2022, we have further engaged with customers and developers in finalising our proposal.

We held 10 independently facilitated one on one meetings with major developers and consultants. This enabled us to provide further information and gave stakeholders space to explore the topic and respond.

20 members of our three Customer Advisory Groups (CAGs) participated in an in-depth workshop and provided us with valuable feedback in relation to NCCs.

## What we heard

ADDDITIONAL ENGAGEMENT

**How should NCC charges be introduced?**
Phasing was supported by developers
Upfront was supported by the majority of customers

**Would you support a different NCC for greenfield areas?**
Not supported by developers
Supported by customers

**How did you find this exercise?**
The majority of both groups indicated that they thought the process was **fair and authentic.**

## What's changing and what isn't

**Proposed Sewer NCCs for 2023 - 2028**

In our Price Submission, we proposed to phase in the increase to NCCs. The proposed increase of Sewer NCC is capped at 20% per annum.

We understand the need to allow customers and developers the time to adapt to changing prices. For this reason, we have proposed to retain phasing in NCCs for sewer by capping the increase at 20% per annum.

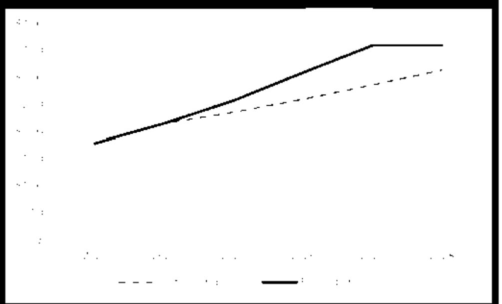
| | |
|---|---|
| Original NCC proposal | Sewer NCC will increase by 20 per cent each year, before CPI. |
| Revised NCC proposal | No change |

## What's changing and what isn't

**Proposed Water NCCs for 2023 - 2028**

In balancing feedback for the Water NCC, we recognised that the increase in charges takes too long to reach cost recovery.

Therefore, we have altered our Water NCC increase to align to the Sewer NCC increase (20% per annum) until the correct charge is reached in 2026-27.



| | |
|---|---|
| Original NCC proposal | Water NCC will increase by 20 per cent in 2023-24, then 10 per cent each year, excluding inflation. |
| Revised NCC proposal | Water NCC to increase in line with sewer NCC (20 per cent increase per year) until actual cost reached, excluding inflation. |

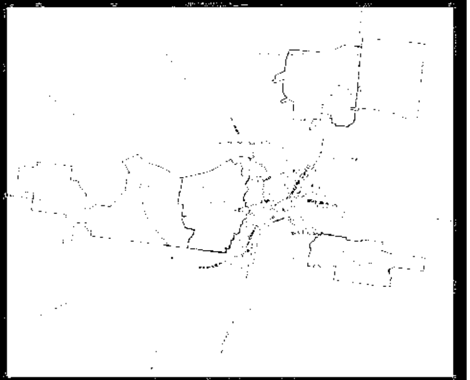
## What's changing and what isn't

**Infill vs Greenfield development**

The ESC draft decision noted that Coliban Water hadn't adopted a different rate for infill and greenfield development.

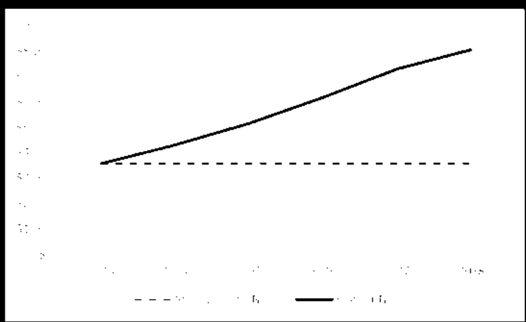
Following engagement with existing customers, we have adopted a Small Lot Infill NCC:

- Area of each lot less than 450 sqm
- No more than two new lots created
- No unserviced lots created
- Not located in the Bendigo greenfield growth areas: Bagshot, Huntly, Maiden Gully, Marong, Strathfieldsaye



## What's changing and what isn't

**Infill vs Greenfield development**



| | |
|---|---|
| Original NCC proposal | No distinction between infill and greenfield development. |
| Revised NCC proposal | A lower Small Lot Infill NCC that provides distinction between infill and greenfield development. For water, sewer and recycled water that complies with the Small Lot Infill NCC criteria, fees only increase with inflation for the next pricing period. |

## What's changing and what isn't

**Sewer Growth Capital Expenditure (GCE) guarantee**

In our Price Submission, we proposed to be clear about the levels of investment we will be making in growth assets.

We are increasing the level of NCCs in recognition of our *Big Water Build*. If we fall materially short of delivering growth capital expenditure, we will provide a rebate to the following year's NCC.

| | |
|---|---|
| Original NCC proposal | A sewer GCE Guarantee rebate of 20% is provided if we fall at least 20% short of our capital investment targets. |
| Revised NCC proposal | No change |

## Engagement with developers and customers has **shaped** our submission

**We have an obligation to ensure that our services meet the needs of our growing communities. We remain committed to transparency around capital cost-sharing between existing customers and NCCs.**

**Developer and community engagement directly influenced our submission in many ways:**

- **Discontinuation of low growth town discount**
- **Phasing in NCCs compared to up front implementation**
- **Inclusion of shared sewer pump stations within NCCs**
- **Rebate for private sewer pump stations**
- **Inclusion of water network link-up costs for legacy network reasons**
- **Exclusion of certain costs related to Axedale, Castlemaine, Trentham from NCC**
- **Introduction of new Growth Capital Expenditure Guarantee**
- **Small Lot Infill NCC**

**Our proposal to the ESC will be for NCCs based on the AIC model which includes the features listed above. Our fallback is to continue application of the NCF model under the current approach.**


Thank you for your
input that has shaped
our submission.
Coliban
WATER

## Meeting notes:

**The following questions were asked during the facilitated Q&A session:**

- Coliban Water have invested $45m in assets, but only collected $23m. What makes up the difference overall?
- Infill NCCs will generate less revenue. Has that been recalibrated in the model?
- Why do you think infill will have less impact on your network over time?
- Are upgrades to the current network part of the capital program?
- How do the rebates take effect if the service hasn't been delivered?
- There was a negotiation framework included in the original submission. What has happened to that framework, and will it be included in the final submission to the ESC?
- With the rebate review, will that be conducted independently or by Coliban Water?
- I have done previous work with South East Water to introduce water saving techniques. Will there be similar opportunities with Coliban Water to introduce innovative techniques?
- Is it possible to review Coliban Water's scope and costings for projects for growth ($90M) and the calculation to justify the percentage contribution to development (i.e. what are the actual projects included in the NCCs?). At this stage we have only seen grouping of capital works (not individual projects) and only a percentage contribution (not a justification on how that percentage was determined).
- So, we can't see what the development industry are proposed to pay for?
- What other Water Authorities have had a proposed 100% increase in NCCs?
- In Bendigo, the major corridors are in the east, north and west. What determines what projects get priority?
- What connection/nexus does, for instance, the Cohuna Water Reclamation Plant capacity increase have to growth development within Bendigo?
- The AIC model that has been put forward to the ESC doesn't include sunk costs. But does the new NCF model seek to recover those sunk costs?
- The calculations that sit behind the rebates for pumping stations and water main links. How are they calculated? And what processes/transparency will there be around the calculations?
- Are we catching up now because of historical costs that we haven't recouped?

**The following comments were received during the information session:**

- Good to see that we have proposed to treat infill and greenfield differently.
- Developers represent future clients. We have a finger on the pulse for industry. We would like to be more involved and engaged, and better understand the details at the project level and contribute to the submission.

# ATTACHMENT 3: DEVELOPER NCC CLOSE OUT SESSION - MONDAY 15 MAY 2023
## Material transcript

| Time | Who | Q&A |
|---|---|---|
| 25.42 | David | Overall charges of $45M, $23M NCC's. What makes up the difference? |
| 26.22 | Jarrah O'S | We recognise that there is some degree of benefit when a new customer joins the network that is ultimately built into the cost recovery model. In accordance with the model proposed by the ESC, ultimately it is a debt funded model. Coliban Water has over $400M debt at the moment which is about $5K per household. It is a balancing act.<br>Essentially, of the NCC contributions we proposed 5 years ago, we have had actually more growth capital expenditure than we were planning. So, there has been more expenditure for Coliban Water to respond to and to enable both in our region. That is certainly part of it and overall we just want to make sure we are striking the right balance.<br>Is it working?<br>It's working!<br>We recognise making big shifts overnight can lead to impacts. You've got customers and businesses to consider when you make decisions and you allow the time to factor those prices into their future plans, this is what we think is the fairest. |
| 28.28 | Damian C/Jeremy<br>Split over two Q | A reduction in infill costs has now been proposed and will this reduce revenue overall, has that been included in to the business case? |
| 29.22 | Jarrah O'S | Yes, it has been factored into our proposals and the difference in NCC revenue as a result of the slightly higher water phasing and also the reduction for small infill. We anticipate that will reduce NCC revenue by $2M over the five years, $41M to down to $39M, so it has a very small impact overall. |
| 29.52 | Damien C | The second part of the question was … If you get enough infill work, then it is going to push costs to other parts of the network. I am curious as to how this is going to have less impact over time when it clearly a policy or down to a policy is Councils want to seek more from development and the livelihood of that to get off the ground because of that. |
| 30.18 | Jarrah O'S | You are absolutely correct. Councils do like infill development. It's so much easier for Councils to provide services to a population in condensed form rather than a population that is spread out. Likewise, for ourselves as a business, there |

| | | |
|---|---|---|
| | | is significant growth and development in Bendigo inner-city in our region that is ultimately easier to service. One big pipe can get you a lot further in the city than pipes that extends many kilometres in different directions. |
| 30.59 | Andrea T | Are upgrades to the current network part of the capital program? |
| 31.10 | Jarrah O'S | Yes, it is. All the growth capital expenditure we are proposing is included there within that $90M. It is also worth noting though that we are doing expenditure that results in improvements to services for current customers and also new customers. Where there is a growth element and where there is a compliance element we have generally applied a rule of about 10 years' worth of growth as the percentage. So, if Bendigo is growing at 2% per year, we have assumed that 20% of the cost would be attributable to growth and 80% would be attributable to existing customers as a general rule. Some of the existing pipes are very old pipes… 1893, there are some very old assets beneath the ground. |
| 32.21 | Andrea T | Do you know where that one is? (referring to the old pipe) |
| | Jarrah O'S | I believe that is in High Street. |
| 32.37 | Danny McL | Confirmed. |
| 33.00 | Don E | You mentioned rebates if you haven't delivered service - how do the rebates take effect? |
| 33.20 | Jarrah O'S | Part of what we are committing to as part of the continued and ongoing engagement is essentially we will be having annual check-ins with developers. So we will be saying and reporting publicly to developers and the rest of our community each year on the growth assets we have constructed and the cost of those assets. In the first year, I think from memory the figure is $9M and at that point if we are 20% short of our growth capital expenditure on sewer in 2023-24, we will be applying the 20% rebate to the following year's NCCs. That would then carry on in the period by the $5^{th}$ year, 2028, if we are 20% short over the first four years combined, will be providing a 20% rebate to the 5th year's NCC. It's a rolling tally. It's a period to date measure. But ultimately we recognise that with higher prices comes higher responsibility and we also think that it's the right thing to do, to be properly informing developers and the general community of how we are going on delivering our commitments to capital expenditure. Because these higher |

| | | |
|---|---|---|
| | | NCCs are based on higher capital expenditure, it's only fair we should be providing a rebate if we don't hit the mark in terms of our delivery. |
| 34.55 | Damien/Jeremy | With the original submission to the ESC there was a negotiation framework included. Damian is curious as to what has happened to that framework and does it still apply? |
| 35.35 | Jarrah O'S | Yes, we have a negotiation framework and we will be submitting that back to the ESC. It still applies and anyone in our region anyone can call on that negotiation framework. It can cover things such as the timing of certain expenditures rather than just the dollar value. Ultimately, fairness is certainly well delivered with a broad base of revenue keeping charges low for everyone. Ultimately any customer and developer can call on the NCC negotiation framework to apply. It doesn't mean that prices will be lower, but certainly it means they can run through the process. |
| 36.36 | Julian P | With the rebate review will that be conducted independently or by Coliban Water? |
| 38.06 | Jarrah O'S | We are working through the process of what that would look like. I think you are clearly suggesting with that question that you prefer some form of audited process. We will take that feedback on board. |
| 38.30 | Damian Wells | We were talking about that this morning. We need to say clearly say what that process is. It needs to be able to be interrogated. We need to close the books off at the end of the financial year. And I think consistent with part of that process we are happy to consult with you on what is fair and reasonable. This needs to be a swift process early in the financial year. |
| 39.22 | Julian P/Jeremy | Second part of the question…There is an example where we have partnered with South East Water to introduce lots of water saving techniques and wondering where there might be opportunity to similarly partner with Coliban Water around innovations? |
| 39.40 | Jarrah O'S | Absolutely we know the cost of providing raw water, water entitlements. We need to grow new water entitlements. If there are any initiatives that developers might like to introduce that would reduce that burden, then I think those initiatives we would be supportive of. We do have to be careful though, however. We would not like to have the situation of an undersized pipe going into a development because it is 7 star efficient, then suddenly it was not 7 star efficient, and the pipes are too small and those customers would have reduced pressure. There are some practical |

| | | |
|---|---|---|
| | | concerns around that but I am sure we would be very supportive of any innovative approaches to apply to reduce the costs further for existing and new customers. |
| 40.70 | [redacted] | Is it possible to review Coliban's Water scope and costing for projects for growth ($90M)? and the calculation to justify the percentage contribution to development? What are the actual projects included in the NCC's.<br>At this stage we have only seen grouping for capital works and not individual projects and not a percentage contribution, so not a justification on how the percentage was determined? |
| 42.15 | Jarrah O'S | Essentially, we recognise the role of the ESC in terms of their role for approving our prices and for approving the capital expenditure that underpins the prices we are proposing. The ESC has already run the auditors through our top ten capital projects and our major programs and they have asserted and confirmed the reasonableness of the assumptions we have made within that. The project approval role is held by the ESC in its role as sector regulator.<br>By and large, the percentage that is attributed to NCCs is in most cases, where there is no unusual circumstance going on, it is 10 yrs of the annual growth rate of that area. That means if there is a town such as Bendigo with a 2% growth then essentially 20% of any projects that have a growth contribution would be deemed to be growth.<br>Essentially, we would be replacing assets. For example, we might replace an 1893 water main but we might be making it larger at the same time. It is so much more efficient to do that rather than build two pipelines side by side, one which is a replacement and one which is an expanding service. We have provided information. We have provided all our growth rates by towns. We have provided for all our major projects and major programs the dollars that are there. We know that overall for our $500M program we are attributing $90M to growth. Also on our website we do have available some of the upcoming augmentations we have got in particular growth areas. That would be another source for looking at individual projects we have. And also, lastly to finish, we are proposing as I touched on before more in-depth engagement with developers throughout the period over the next five years. That would include the annual performance where we present back growth capital expenditure for the year prior and work back through that. We do know that there is more engagement that we will have with developers over the period. |
| 45.14 | [redacted] | So, we can't see what the development industry are proposed to pay for? |
| 45.22 | Jarrah | We have made clear our major projects and programs. We have also got various infrastructure upgrades in our growth areas that are also on our website. |

# ATTACHMENT 3: DEVELOPER NCC CLOSE OUT SESSION - MONDAY 15 MAY 2023
## Material transcript

| | | |
|---|---|---|
| 45.37 | [redacted] | So, what have other water authorities have proposed a 100% increase in their NCC's? |
| 45.47 | Jarrah | All Water Corporations have different challenges, different assets and different situations, no two Water corporations are alike. I do know that Central Highlands Water has proposed significant increases in their NCCs but there are also others as well. However, we are here today to talk about Coliban Water and our customers, and the ESC website has all the NCCs and all the Price Submissions from all Water Corporations right across Victoria. |
| 46.15 | [redacted] | Bendigo major growth corridor are the North, East and West. What determines what projects/works get priority? |
| 46.52 | Jarrah O'S | We consider a whole range of things when determining the prioritisation of our assets and our works, because of the things we have such as treatment plants, pipes etc. We just need to make sure that because our funds are limited, and as much as we are proposing an increase, we need to be very careful as to how we are assigning our capital. Risk is one factor that is considered and also the benefit. So we look at those factors when making a decision about which projects we want to prioritise. |
| 47.33 | Eryn B | We also cover off on compliance, regulatory requirements, renewals compliance and risk. |
| 47.56 | Damian Wells | Things change. For instance, proposed investment in the Bendigo employment precinct in Marong, for instance. If some of these things need to come forward they will. If some things slow down somewhere else then we will respond accordingly and that is what we will do. That is how we manage the Capital Program. One of the things we are also mindful of in this deliverability challenge is the availability of contractors and suppliers. As well, there is a whole bunch of other things to be considered. But ultimately we want to deliver the projects when required and not get caught behind with communities experiencing poor water pressure. Some of these issues will occur if the budget and sequencing is not managed property. |
| 48.42 | [redacted] | What connections/nexus for instance the Cohuna WRP capacity increase to growth have to do with Bendigo? |
| 49.20 | Jarrah O'S | We have a top 10 project in our submission to upgrade the Cohuna WRP. It's about an $8.9M project and we have assumed 10% attributed to growth because Cohuna is growing at 1% per year. Overall, we are talking of $0.9M out of sewer growth capital expenditure of $150M over 10 years. Because we are applying the NCC increases equally to Cohuna and to Bendigo, it is right that Cohuna is about 1% of our customers and Cohuna has also got about 1% of our |

| | | |
|---|---|---|
| | | growth capital expenditure. So it's not true to say that cost is coming back to Bendigo. Firstly, it is a very small proportion of the costs. Secondly, in Cohuna, there is new growth and we are seeing a lot of growth in those Murray towns. Ultimately, we think that applying the NCC fairly across our region is the fairest approach. So, no, those costs will not be borne by Bendigo. |
| 51.33 | Damien T | Jarrah explains Damien T's question.<br>Explain if sunk costs are not being included in our AIC model but included within the NCF model. |
| 51.40 | Jarrah O'S | We are not proposing to recover sunk costs in the AIC model. It's a forward-looking model. The net cash flow model is the incumbent model that does allow sunk costs to be included and incorporated within the NCCs. It essentially recovers from the shortfall from the previous period. |
| 53.06 | Jeremy/Damien T | Developers represent future clients and as such have finger on the pulse within their industry. More involved and engaged so they can understand better and also be able to contribute better to the pricing submission in a detailed and project level. There would be interest in receiving more information in the discussion in the detail. The level of detail hasn't satisfied my curious mind. |
| | Jeremy | We will place that in the parking lot |
| 55.00 | Jeremy | What are the calculations that sit behind the rebates for pumping stations and water main linkups. The second point was what policies will you have in place and how are they calculated and what transparency will be around the calculations? |
| 55.45 | Jarrah O'S | Our revenue from NCCs is a little bit lower within the model and that then flows through. That is accounted for and is included within the $41M or $39M are proposing to collect from NCCs over the period. In terms of the policies, these are new initiatives. We don't know if the ESC will accept them. Certainly, we are looking to create policies and provide more guidance around those matters subject to ESC approval.<br>Tessa have you got something to add? |

| | | |
|---|---|---|
| | Tessa L | Yes, that $1500 discount isn't included in the calculation of the NCC. It's passed through to the expected revenue. So, we are still having a capped NCC but passing the reduction in revenue through to the financial model. In terms of the policy work, we will develop that once we have an approved model. |
| 57.00 | [redacted] Jeremy | Are we in catch-up mode due to historical costs that we haven't recouped? |
| 57.35 | Damian Wells | Yes, we have been absolutely clear in our submission and all of the engagement with customers around the challenges of ageing assets, climate change and population growth. Definitely, on some of our ageing assets, I've talked about the licence breach we had in Kyneton for example. Our WRP has significant renewals is in the system. That is what the proposal includes at the macro capital level. But certainly, as it relates to growth it's a $90M growth proposal out of that $500M total proposal. So we have been clear we are dealing with ageing assets - some of which are in WRPs in the next 5 years. There will need to be water treatment plant investments in the future. And certainly, our underground assets in terms of sewer and water networks need investment too. We are super clear and happy to be scrutinised and have been scrutinised and audited by the ESC in relation to what we're attributing to growth for the next 5 years, which feeds into the New Customer Contributions. |
| 59.50 | Damian's close out statement. | I sincerely want to thank everybody on-line and in person for continuing to work with us and participate in these processes. I recognise that there has been some bumps in this process. We do want an ongoing productive relationship with the development community, as I have said this at previous meetings clearly the development community is underpinning ongoing growth and prosperity in our region and we really respect the role that you play. Certainly, as I said at the outset, we focused on ensuring that those who should be bearing the cost of growth are bearing the cost. We know in terms of debt, customers are incurring a significant component servicing debt. Of the customer's bill, it is in the order of $350 to $400 per average annual Coliban customer bill. That is why we are focused on it. Anything that is under recovered is funded through debt and gets directly passed through to customers via their bill. We have clearly sought to address what we see is an imbalance the way things have previously been executed. But we do appreciate the way you have been working with us and we want to continue the relationship in a way where we can have these open conversations. We want to be able to encourage that innovation where these items can be executed. So, as we said, and just to be super clear with where we are in the process, Coliban Water Board will consider management recommendations. On Thursday we will be submitting the ESC final proposal. Then the ESC will do their job as the pricing regulator and make a determination where the final decision lands. As we said, our fall-back proposal is that if the AIC model is not supported by the ESC, we will continue to run with the NCF model. Now of course I would say this, |

| | | |
|---|---|---|
| | | but we think that the AIC model is not only actually only fair for existing customers, but we actually think it is a superior model for developers. I realise that this may be received with some scepticism but we have rerun the numbers - we think the phasing in of the model and also not having some of those sunk costs attributable in the existing model. We think over time, and that with the way we are proposing to phase it in, it is a superior model and fairer. This is really why we have proposed it in the first place. |

# Attachment 4: Stakeholder Issues Response

## New Customer Contributions (NCCs)

Coliban Water is a customer focused business and we value the input of stakeholders, both within the context of price reviews and our day-to-day operations.

Our response to the Draft Decision addresses many of the issues raised by these stakeholders. To support both the ESC and our stakeholders, this attachment references each of the issues raised in these submissions to the relevant section of our response.

There are a small number of issues raised in the stakeholders' submissions that are not addressed in the body of our response. Where this is the case, we have set out the rationale for our response.

*Table 1 - Consumer Action Law Centre Submission*

| ***Key Issue Raised*** | ***Coliban Water response reference*** |
|---|---|
| Existing Customers should not cross-subsidise developers. | Our response discusses the balanced trade-offs we have made between existing and new customers and their impact on our ability to achieve full cost recovery in section 5.3.<br>Our revised proposal outlined in section 5.4 includes a proposed increased transition rate to be 20% year on year for Water to be in line with the Sewer. Actual cost is now reached for Water in year 4.<br>See 5.4 for details of our Revised Proposal. |

*Table 2 - Villawood Submission*

| ***Key Issue Raised*** | ***Coliban Water response reference*** |
|---|---|
| Historical NCC revenue and funding for the growth program | We note our growth CAPEX expenditure was $45M in the last pricing period, with $23M collected in NCCs. |
| That most development over the last 20 years has been infill and as such had no burden on the existing system. | Significant growth in the last 20 years has been in greenfields areas including Maiden Gully, Marong, Strathfieldsaye, Huntly and Epsom. Note, however, that Epsom is now more appropriately considered "infill" as it is now largely developed.<br>Incremental increases in infill do account for increased capacity needs at the water and treatment plants and the trunk transfer infrastructure. Our response addresses the treatment of infill and greenfield development within NCCs in section 5.3. |
| Annual transparent performance reporting | Ongoing reporting for developers is addressed in section 5.3 of the response. |

*Table 3 - UDIA Submission*

| ***Key Issue Raised*** | ***Coliban Water response reference*** |
|---|---|
| That funds were being used for Headwords upgrades that should have been already been collected. | We note the Headworks category for CAPEX is not for capital construction but to ensure Water Shares are purchased for the additional demands new connections put on our water security. |
| It is not clear what happened to the previous decades of NCCs (circa $3000$4000/per Lot at 1000 lots/pa for 10 years equalling $30M-$40M)? Shouldn't this be available for growth considering CW have acknowledged investment into the headworks has been minimal? | We note our growth CAPEX expenditure was $45M in the last pricing period, with $23M collected in NCCs.<br><br>NCCs have not kept pace with growth capital expenditure. Our proposal phases in achievement of cost reflectivity and minimises cross subsidies. |
| Long term sustainability. | Our response discusses the balanced trade-offs we have made between existing and new customers and their impact on our ability to achieve full cost recovery in section 5.3. |
| Development Contributions Plan comparison | Our response focuses on the method and calculation of NCCs. By undertaking closer engagement with developers, this will provide better understanding of the assets that need to be constructed to respond to growth. |
| ESC intervention | Our response addresses the ESC's proposed freezing of NCCs in section 5.4. |
| Why is it that CW NCCs need to ramp so significantly when other water authorities can maintain an increase in line with their existing customer increase circa South East Water or Yarra Valley Water? | Our response does not reference proposed NCC across other regional water businesses. Our proposal is based on what we believe are the prudent and efficient costs associated with our growth infrastructure and our unique development profile.<br><br>We note that a significant number of regional water businesses are proposing increases in NCCs.<br><br>We also note that there are significant differences between the cost and growth profile of development between regional growth centres like Bendigo and Metropolitan Melbourne that make direct comparisons problematic. |
| Has CW's planning for growth been inadequate over the past decades? | Our capex performance over the current regulatory period and our capital planning process are outlined in section 3.2 of our Pricing Submission. |
| PREMO Assessment – further CW engagement post-forum | Our response details our engagement in section 5.3. We note that the state office of UDIA was offered attendance at the one-on-one engagement sessions and the Close the Loop session but did not attend.<br><br>Our response also includes a commitment to ongoing reporting with developers in section 5.3. |

*Table 4 MG Estate submission*

| ***Key Issue Raised*** | ***Coliban Water response reference*** |
|---|---|
| MG Estates for some time has been seeking a negotiated NCC agreement with Coliban Water. To date Coliban Water have refused to participate in a negotiation process. | Our response does not identify individual customers or issues associate with individual customers. We note that this is an open matter that we are currently working through with MG Estates. We have not declined MG Estate's request for entering a negotiated agreement. |
| a. Proposed method for calculating NCCs | Our methodology is set out in detail in the price submission. The differences between our AIC approach and the current net cashflow approach are also addressed in the price submission.<br>The issue of incorporating terminal values in a net cashflow NCC calculation are addressed in section 5.3.<br>Our consideration of the benefits accruing to existing customers from investment in growth is outlined in section 5.3 and is a key element of our capital allocation approach.<br>We are not in a tax paying position and we do not expect to be in the coming regulatory period. |
| b. PREMO Assessment | Extensive engagement with industry is detailed in Table 17 and Table 18 (section 5.3) of our response, including how we amended our NCC proposal throughout the engagement process in direct response to developer feedback. |
| c. Insufficient time to amend and engage | Our response aligns with ESC requirements and comprehensively addresses each of the issues the ESC has identified in its Draft Decision.<br>Our response has met the ESC's request to explain our new methodology and align our cost input assumptions with those in the price submission template and revise our prices.<br>Although not required by the ESC we have also calculated NCC based on the net cashflow method outlined in the Guidance Paper<br>Our full NCC response is provided in section 5.<br>We note that an Information summary was sent to industry and customers on 11 May with our revised proposal reflecting the session feedback. This was the last stage out of many stages of engagement with developers over the last two years. |
| d. A possible interim solution | Our revised proposal is outlined in section 5.4 of the response. Our proposal is based on an appreciation of the costs involved with negotiating NCCs and the need to adopt scheduled standard NCCs to deliver an efficient pricing outcome.<br>An interim solution of CPI only increases would result in high cross subsidies and disadvantage our existing customers. |

| *Key Issue Raised* | *Coliban Water response reference* |
|---|---|
| e. Recommended longer-term solution | If the ESC was to undertake a review, it is important that the review considers:<br>• Deep industry engagement so that new guidance can apply from the start of the 2028-2033 regulatory period (not within the 2023-2028 regulatory period).<br>• The ability of the current NCC net cashflow approach framework (method and principles as outlined in the guidance) to meet the regulatory principles outlined in the WIRO (including those relating to efficiency).<br>• The operational and practical differences between regional and metropolitan water businesses, with specific reference to the different growth profiles and uncertainty that regional businesses face.<br>• The appropriateness of cost allocators within the context of price setting.<br>• Cross subsidisation between existing and new customers.<br>• The costs and benefits that businesses and customers face due to the administrative requirements associated with different NCC options.<br>• The impact of review outcomes on businesses that have undergone extensive reform process over the course of this regulatory period.<br>We note that extensive documentation outlining the reform process undertaken by the VicWater review was provided to the ESC in 2022. This process was comprehensive and designed to align with regulatory best practice. |
| f. Request summary | Our revised proposal is outlined in section 5.4. |

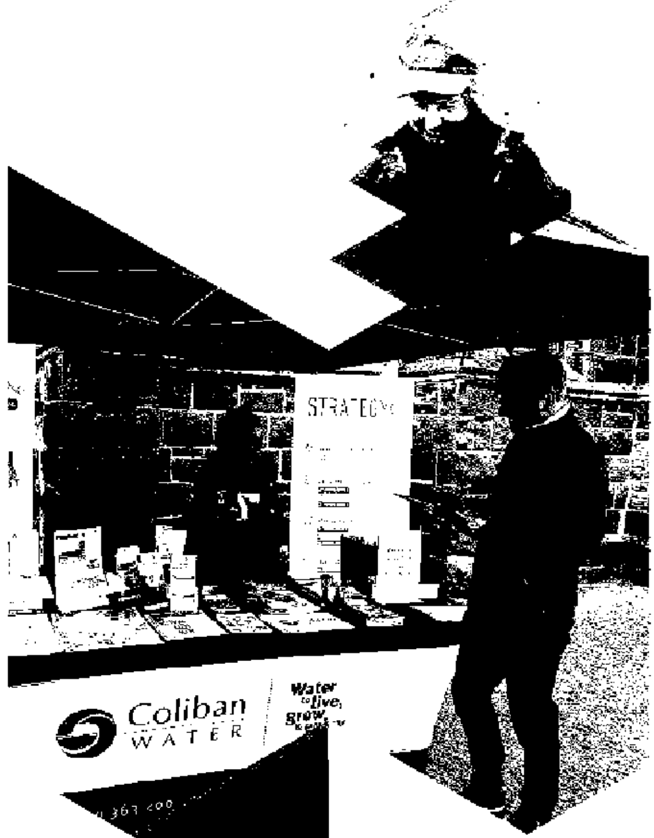
Attachment 5

Coliban
WATER

# New Customer Contributions
# **Revised** proposal summary

May 2023

Price Submission 2023-2028



# New Customer Contributions

## Our revised proposal

### Our context

Coliban Water has several key challenges that we need to address so that we can continue to provide high quality services to our communities now and into the future. Many of our assets are ageing and need renewal. Climate change is impacting our region and we need to invest to ensure we have reliable water security. Our population is growing as more people move to our region to share in our great lifestyle.

We need to strike the right balance between what customers pay today and what debt we pass onto to future generations. The important question is *'How do we prepare for tomorrow, while being fair to customers today?'*

We are planning to increase capital expenditure in the next pricing period (2023-2028) to respond to these major challenges. Growth Capital Expenditure (GCE) is set to increase significantly compared to historical levels.

In Bendigo, the primary water supply point is located at Sandhurst Reservoir, and the main receival point for sewage is at Epsom.

It is efficient to provide water and sewer services to a city in a valley centred around the Bendigo Creek – natural gravity is sufficient for the optimal provision of both water and sewer services.

However, in recent years the Bendigo Creek valley has become increasingly full and little large-scale residential development remains.

Development is occurring to the north (Huntly), east (Strathfieldsaye) and west (Maiden Gully and Marong). As growth radiates outwards, we incur capital costs for asset upsizing right along the networks, as well as upgrades at storages and treatment facilities. Required pump stations also add to operating costs and carbon emissions.

During the last five years, the towns of Echuca, Castlemaine, Kyneton and Trentham have grown in response to COVID-19 and we have implemented strategic growth plans in these towns. This is necessitating upgrades to treatment facilities.

### Our submission

As a result, we're proposing to increase the level of New Customer Contributions (NCCs). As the level of GCE increases, it becomes more unsustainable to pass these costs on to existing customers.

This is a theme we received strong feedback on during the extensive customer engagement that shaped our 2023-2028 Price Submission.

Following the engagement process, we are proposing that, for the first time, we will have all shared pump stations now included within NCCs. Furthermore, any developer that needs to build their own sewer pump station to service their own development will receive a partial rebate on their sewer NCCs, up to a maximum of $1,500 per lot. And if we fail to deliver the sewer GCE that we're committing to, we will rebate the level of NCCs we charge all developers.

### Our response

The Essential Services Commission (ESC) draft decision required us to reconsider various elements of our NCC proposals. This includes the differentiation between greenfield and infill areas, and the degree to which we phase in the required increases in NCCs.

In response to the draft decision, we participated in the ESC's public forum where we continued dialogue with developers. We then reconsidered our financial modelling and held one-on-one meetings with developers and consultants, independently facilitated by engagement experts, Insync. We also held a forum with our Customer Advisory Groups to seek their input, and we discussed the need for cost reflective developer charges with the Consumer Action Law Centre.

In recognition of feedback received, we revised our approach. We are proposing to increase the rate at which water NCCs increase so that the transition to full cost for water is achieved in the next pricing period. We are also introducing lower fees for small developments in infill areas.

# Engagement summary

## Timeline

### August 2021: Pre-engagement survey

On 4 August 2021 we sent out a preliminary survey to help us design and develop content for future conversations with the land development community, helping identify key issues for engagement.

### November 2021: Land development workshop

On 23 November 2021 we held a forum with developers and consultants to share information and had some great discussions and received some valuable feedback.

### October 2021 to April 2022: VicWater research project

Between October 2021 and April 2022, VicWater led a project to look at an industry-wide approach to calculating New Customer Contributions.

### June 2022: Developer information sessions

Between 21-23 June 2022, we held information sessions with developers to discuss what the outcomes of the VicWater research will mean for pricing and service.

### July 2022: Post information session survey

On 19 July 2022 we sent a survey to everyone to get feedback from people who couldn't attend the information sessions.

### August 2022: Additional information session

On 4 August 2022 we held an additional session to discuss options for how New Customer Contributions could be calculated and charged.

### August 2022: Options survey

On 4 August 2022 we distributed a survey for key developers to vote on a preferred option for New Customer Contributions, as agreed at the additional information session.

### September 2022: Information pack

On 14 September 2022 we provided a pack containing additional information, and sought further input on part of our final position to developers.

### April 2023: ESC draft decision

On 11 April 2023 the ESC provided a preliminary response in relation to our proposed Price Submission.

### April 2023: Engagement with ESC

In late April 2023, we have worked closely with the ESC to discuss and understand the draft decision.

### May 2023: ESC Public Forum

On 1 May 2023 the ESC hosted a public forum at Bendigo Library, with people participating in person and online.

### May 2023: Additional engagement with developers

Between 1-5 May 2023 we spoke to developers about the draft decision and the need to provide them with additional information, and obtain feedback.

### May 2023: Customer forum

On 4 May 2023 we engaged with our Customer Advisory Group members -about NCCs and their impact on the broader customer base.

## Where we are now

### May 2023: Provide response to stakeholders

On 15 May 2023 we will hold a meeting for key developers and customers to share our revised proposal and response to the ESC.

### May 2023: Submit revised proposals to the ESC.

We will formally submit our revised proposal to the ESC.

### Close the loop

We will continue to communicate with our customers and stakeholders when the ESC has released its final decision on our Price Submission.

### Ongoing engagement

We will hold annual forums with the development community providing information regarding the delivery of growth capital expenditure within the year.

# What are New Customer Contributions (NCCs)?

A New Customer Contribution is a contribution toward the cost of the operation, maintenance and growth of our drinking water, sewerage and recycled water networks.

NCCs are a one-off, up-front charge applied to all new allotments connected (or to be connected) to Coliban Water networks. NCCs require the owner to contribute costs for the supply of water, sewer or recycled water networks (as applicable) to account for the increase in use of these services resulting from additional lots or further development of existing lots.

The charge reflects the cost of connection for new customers, particularly in new development areas (known as greenfield), for water corporations to provide assets. Pumps and pipes are very expensive, especially where large distances need to be covered to connect new customers to existing networks.

For a customer-funded organisation like Coliban Water, NCCs are critical to support growth in our region and ensure fairness where developers that create new lots, whether small lots or large-scale sub-divisions, pay their fair share of the costs required to service these new lots.

## How are NCCs calculated?

Before 2013, NCCs were set at an arbitrary level across Victoria. However, since then water corporations have been allowed to propose different levels based on their own costs. The ESC is then responsible for approving the water corporations' proposed prices.

NCC calculations include growth-related capital projects or those with a component attributable to growth. These include upgrades to existing infrastructure such as treatment facilities, trunk infrastructure and occasional augmenting (upsizing) of assets provided by developers as part of their provision of services to new developments.

The current model for calculating the levels of NCCs - Net Cash Flow (NCF) - uses a combination of future capital expenditure, past capital expenditure, future prices, future water consumption, future inflation, future operating costs and future efficiency rates.

As part of our Price Submission preparation, we participated in an industry review led by VicWater, focused on assessing the appropriateness of the current NCF model. The review considered different options to manage the uncertainty surrounding future growth, but also established a pricing methodology that better meets the principles outlined by the ESC and is consistent with customer expectations.

The VicWater review considered nine options as alternative approaches for the setting of NCCs. Each of these options, including the current NCF approach, was qualitatively assessed against the following seven assessment criteria:

- Regulatory consistency
- Revenue adequacy
- Efficiency
- Equity
- Ease of understanding
- Flexibility
- Administrative costs

The Average Incremental Cost (AIC) option was identified as the preferred option on the basis it scored the highest across the assessment criteria.

## Current NCF model verses proposed AIC model

| | Benefits | Limitations |
|---|---|---|
| **Net Cash Flow (NCF) method**<br><br>Current approach | • Maintain status quo in methodology (but not outcome).<br>• Low administrative cost.<br>• Pre-approved use of this model by the regulator. | • Can include sunk assets in the calculation.<br>• Complex to understand and communicate. Model is not intuitive.<br>• Can generate NCCs that are not reflective to the level of growth-related expenditure being delivered.<br>• Model highly sensitive to changes in various inputs. |
| **Average Incremental Cost (AIC) method**<br><br>Proposed approach | • Provide developers with efficient pricing signals & incentivise efficient development decisions.<br>• Clear alignment of incremental costs associated with the connection and excludes sunk assets from the calculation.<br>• More intuitive, providing greater clarity to developers.<br>• Greater fairness for all customers, reducing the level of cross subsidies.<br>• Cost reflective. | • A new model, although it has completed 12 months of testing and review.<br>• Takes capital expenditure as the primary driver of NCCs.<br>• Not the ESC's current calculation methodology. |

## The Average Incremental Cost (AIC) approach

The proposed AIC based NCC is a direct cost approach based on the average incremental costs of connection. Through the planned implementation of this model, key features in our new NCC framework will include:

- Standard NCCs based on connections reflective of high growth capital expenditure.
- Separate NCCs for water and sewer based on the costs of each service.
- Separate NCCs for recycled water, capped at 50 per cent of the water rate, to incentivise new recycled water connections.
- Inclusion of shared sewer pump stations within the Sewer NCC.
- A discount to the Sewer NCC where a developer needs to build a sewer pump station that is standalone for their development.
- Inclusion of budget for 'link-ups' of water networks, so developers don't need to pay for all legacy link-up issues.
- Support for infill development through a new small lot charge that will apply throughout our region, excluding growth areas around Bendigo.
- Introduce a sewer Growth Capital Expenditure Guarantee, which will see a 20 per cent rebate provided for sewer NCCs in the year following where we have not reached 80 per cent of our planned expenditure.
- Capping any annual increase at 20 per cent per annum for water, sewer and recycled water. This differs from our initial proposal and was decided to balance the various feedback we received during final customer and developer engagement.

NCCs under this approach are set based on the net present values of a 20 year forward estimation of costs and growth. As prices are set every five years, we will commence a review into NCCs in 2026-2027 that will determine the level of NCCs to apply from 2028-2033.

This will ensure that NCCs continue to reflect the capital expenditure required in our investment programs.

### Proposed increase to New Customer Contribution charges from 1 July 2023

Our population is growing, our existing assets are ageing, and our climate is changing. To address these challenges, we are planning for a *Big Water Build*, with a planned capital program of $435 million over the next five years.

We have proposed a price increase across our entire customer base to help fund this investment.

Since 2018, we have invested $45 million of customer money in assets to support new suburbs, new development and regional growth, but only collected $23 million in NCCs.

The new NCC approach will ensure we continue to meet the needs of our growing customer base and share the costs of new infrastructure with those set to benefit from the infrastructure.

As we implement a new NCC approach, we will transition to higher charges over several years to reduce the sudden impact on the development community. This acknowledges that many developments take several years from start to finish and provides a fairer opportunity for developers to plan and budget for the changes. The transition aims to also reduce the cross subsidies incurred by existing customers as time progresses.

# Infill vs Greenfield development

We recognise the ESC's concerns regarding NCCs accounting for differences in the cost of development between infill and greenfield sites, essentially small lot subdivisions compared to large-scale multi-lot subdivisions. We held an engagement session with our Customer Advisory Groups to explore this issue further. Of the 20 customer representatives who participated, the majority supported a separate NCC for infill areas.

We are proposing a new Small Lot Infill NCC for water, sewer and recycled water for lots of no greater than 450sqm. These lots account for approximately 24 per cent of our current created lots.

The following criteria apply to our Small Lot Infill NCC:

- Area of each lot less than 450sqm.
- No more than two new created lots (that is, 1 lot into 2, or 1 lot into 3).
- Not located in the five greenfield growth areas identified – Maiden Gully, Strathfieldsaye, Marong, Huntly and Bagshot; and
- Excludes scenarios where un-serviced lots are being created as part of the subdivision.

This revised approach balances feedback received from customers and developers as we propose to introduce a new lower Small Lot Infill NCC that comply with the above criteria. For the Small Lot Infill NCC, we are proposing to only increase the level of NCCs by inflation through to 2028.

### What's Changed?

| | |
|---|---|
| Original NCC proposal | No distinction between infill and greenfield development. |
| Revised NCC proposal | A lower Small Lot Infill NCC that provides distinction between infill and greenfield development. For water, sewer and recycled water that complies with the Small Lot Infill NCC criteria, fees only increase with inflation for the next pricing period. |

## Proposed NCCs for 2023-2028

In our Price Submission, we proposed to phase in the increase in NCCs, which would smooth the impact for land developers and property owners planning to sub-divide their land.

### Sewer NCCs

The proposed level of Sewer NCCs is capped at 20 per cent increases per annum, as outlined in the table below:

| (excluding inflation) | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|---|
| Sewer NCC – standard | $1,790 | $2,148 | $2,577 | $3,092 | $3,711 | $4,453 |
| Sewer NCC – discounted (min) | N/A | $648 | $1,077 | $1,592 | $2,211 | $2,953 |
| Sewer Infill NCC <450sqm, 2-3 lot subdivision | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 |

In accordance with feedback from the development community, we propose that shared sewer pump stations will now be fully funded by Coliban Water with the cost being recouped through these NCCs.

Where a private pump station needs to be built by a developer to service their own land, we will charge a discounted Sewer NCC up to $1,500 less per lot compared to the standard fee. So, while the level of NCCs is increasing, there are additional inclusions to ensure a fairer playing field for developers.

### What's Changed?

| | |
|---|---|
| Original NCC proposal | Sewer NCC will increase by 20 per cent each year, before CPI. |
| Revised NCC proposal | Remains as originally proposed (20 per cent increase per year), with inclusion of an additional small lot NCC. |

## Water and Recycled Water NCCs

The proposed level of Water NCCs is also increasing at 20 per cent per annum. However, when the Water NCC reaches the cost recovery amount determined within the model, the Water NCC will remain at the same level in real terms (only increasing with inflation):

| (excluding inflation) | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|---|
| **Water NCC** | $1,790 | $2,148 | $2,577 | $3,092 | $3,597 | $3,597 |
| **Water Infill NCC <450sqm, 2-3 lot subdivision** | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 | $1,790 |
| **Recycled Water NCC** | $895 | $1,074 | $1,289 | $1,476 | $1,476 | $1,476 |

Originally, we had proposed that Water NCCs would increase by 20 per cent in 2023-24 then 10 per cent per annum, excluding inflation. Through further engagement with the development community and our broader customer base, there was a view to see full costs be recovered sooner. We have adjusted the transition rate to be in line with the sewer NCC at 20 per cent per annum until the full cost of the NCCs is reached in 2026-27.

Continuing the current approach, Recycled Water NCCs will continue to be set at a level of 50 per cent of the Water NCC until the cap is reached in 2025-26.

## What's Changed?

| | |
|---|---|
| Original NCC proposal | Water NCC will increase by 20 per cent in 2023-24, then 10 per cent each year, excluding inflation. |
| Revised NCC proposal | Water NCC to increase in line with sewer NCC (20 per cent increase per year) until actual cost reached, excluding inflation |

## Growth Capital Expenditure (GCE) Guarantee - Sewer

While the NCCs outlined above will partially fund the expanded capital program, most of the program will continue to be debt funded and paid for by existing customers.

We recognise that with the increased NCC levels, we also have a heightened responsibility to provide assets that service growth – now and in the future.

We have proposed to invest the following levels of sewer GCE. For each year, we can calculate the proposed period to date sewer GCE.

| Base Case Plus Rebate | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|
| Sewer GCE | $9.3m | $11.0m | $11.8m | $11.1m | $12.0m |
| Sewer GCE period to date | $9.3m | $20.3m | $32.1m | $43.2m | $55.2m |

For example, our proposed 2023-24 Sewer GCE is $9.3 million (excluding inflation). Our sewer GCE guarantee is that if we underspend on our sewer GCE by 20 per cent or more (delivering less than 80 per cent of sewer GCE), we will provide a matching rebate to sewer NCCs of 20 per cent in the following year.

The GCE guarantee would work as follows:

| 2023-24 | NCCs will be $2,148 (no rebate) OR as low as $648 (full private pump station rebate) | | | | |
|---|---|---|---|---|---|
| 2024-25 | If Sewer GCE | In 23-24 | <80% proposed GCE | ($7.5m) | We will rebate 2024-25 Sewer NCCs by 20% |
| 2025-26 | If Sewer GCE | In 23-24 and 24-25 | <80% proposed GCE | ($16.3m) | We will rebate 2025-26 Sewer NCCs by 20% |
| 2026-27 | If Sewer GCE | From 23-24 to 25-26 | <80% proposed GCE | ($25.7m) | We will rebate 2026-27 Sewer NCCs by 20% |
| 2027-28 | If Sewer GCE | From 23-24 to 26-27 | <80% proposed GCE | ($34.6m) | We will rebate 2027-28 Sewer NCCs by 20% |
| 2028-29 | To be proposed in our Price Submission 2028. | | | | |

Note that all figures in the above table exclude inflation.

As the GCE guarantee is introduced in conjunction with higher NCCs, the GCE guarantee will not apply to the Small Lot Infill NCC as this will be already significantly lower than the standard sewer NCC by 2024-25.

## What's Changed?

| | |
|---|---|
| Original NCC proposal | A sewer GCE Guarantee rebate is provided if we do not meet our capital investment targets each year. |
| Revised NCC proposal | Remains as originally proposed (GCE guarantee included). |

## Forecast growth rates

For planning purposes, the long-term rate of growth is generally assumed. This is calculated over twenty years. The short-term growth rates are also included below as a comparison.

| Town | Water Growth Rate | | Sewer Growth Rate | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| Axedale | 2.8% | 5.8% | 3.5% | 6.8% |
| Bendigo | 2.2% | 1.7% | 2.3% | 2.2% |
| Castlemaine (incl Harcourt) | 1.4% | 1.8% | 2.8% | 2.3% |
| Kyneton | 1.8% | 1.7% | 3.0% | 2.2% |
| Trentham | 3.4% | 3.7% | 4.0% | 4.9% |
| Echuca | 1.8% | 1.4% | 1.9% | 1.7% |
| Cohuna | 1.0% | 1.3% | 0.7% | 1.1% |
| Goornong | 1.1% | 2.0% | NA | NA |

## Key capital projects

The key capital projects that have been costed and included in the next pricing period are listed below.

There are a range of reasons these projects have been selected as part of our capital delivery portfolio for the next five years, with *catering for growth* a key driver. These projects have been fully factored into the proposed NCCs.

Further to the feedback received from the development community, we have outlined the growth component of these projects to help provide a better understanding of how the NCCs have been calculated. Our website includes proposed growth capital projects in key greenfield areas so that developers and customers can have confidence in our plans.

Where the primary driver for the project is growth, the full cost of the project has been included in the NCC calculation. Examples include water pipe upgrades in Marong and Maiden Gully. Projects like this would not be needed if there was no growth.

One exception is the Trentham Water Treatment Plant. In response to developer feedback, we acknowledge the community will benefit from the provision of a newer treatment plant and, therefore, only a proportion of the costs have been assigned to the NCC.

Where there are multiple drivers for upgrades, the majority of the cost is assigned to existing customers. Across our remaining portfolio of $336 million, only $41 million of projects with a primary driver other than growth are assigned to NCCs. In order to reflect the influence of growth, the percentage adopted is proportional to the growth rate in the relevant area. In those areas where the growth is less than 1 per cent per annum, no cost of the project has been applied to NCCs.

Our program includes the following growth-related capital expenditure:

- $91 million in the 2023-2028 pricing period
- $162 million in the 2028-2033 pricing period; and
- $27 million beyond 2033.

This revised proposal will see us collect $39 million from NCCs in the next pricing period. The remaining amount will be funded from existing customer bills and debt.

Capital expenditure attributable to growth in each of the next two pricing periods:

| Sewer Capital Projects | 2023-2028 | | | 2028-2033 | | |
|---|---|---|---|---|---|---|
| **Project Name** | **Capital cost** | **Cost in NCCs** | **% Growth** | **Capital cost** | **Cost in NCCs** | **% Growth** |
| **Developer Shared Assets - Sewer** | $7.9 m | $7.9 m | 100% | $15.6 m | $15.6 m | 100% |
| **SCADA Hardware** | $3.3 m | $0.1 m | 3% | $6.4 m | $3.2 m | 50% |
| **Sewer Network Renewals** | $12.1 m | $0.3 m | 2% | $23.9 m | $1.2 m | 5% |
| **Water Reclamation Plant Renewals** | $20.4 m | $2.9 m | 14% | $40.4 m | $12.1 m | 30% |
| **Integrated Water & Sewer Planning - sewer** | $3.2 m | $3.2 m | 100% | $6.3 m | $6.3 m | 100% |
| **Sewer Network Growth** | $4.5 m | $4.5 m | 100% | $8.9 m | $8.9 m | 100% |
| **Sewer Network Improvements/Compliance** | $19.4 m | $2.0 m | 11% | $38.3 m | $11.5 m | 30% |
| **Water Reclamation Plant Growth** | $1.3 m | $1.3 m | 100% | $2.5 m | $2.5 m | 100% |
| **Water Reclamation Plant Improvements/Compliance** | $14.4 m | - | - | $28.5 m | $8.5 m | 30% |
| **Bendigo Trunk & Outfall Sewer Growth & Compliance Upgrade** | $26.3 m | $5.8 m | 22% | $20.7 m | $4.6 m | 22% |
| **Bendigo Water Reclamation Plant Upgrades & Tertiary Filter Expansion** | $14.6 m | $7.3 m | 50% | $36.2 m | $18.1 m | 50% |
| **Bendigo WRP Sludge Handling Upgrade** | $52.7 m | $10.5 m | 20% | - | - | - |
| **Castlemaine WRP Upgrades** | $25.3 m | $3.5 m | 14% | $15.3 m | $2.1 m | 14% |
| **Cohuna WRP Capacity Increase** | $8.9 m | $0.9 m | 10% | - | - | - |
| **West Bendigo Sewer Growth & Compliance** | $25.2 m | $5.0 m | 20% | $9.9 m | $2.0 m | 20% |
| | **$239.2 m** | **$55.2 m** | **23%** | **$252.9 m** | **$96.6 m** | **38%** |

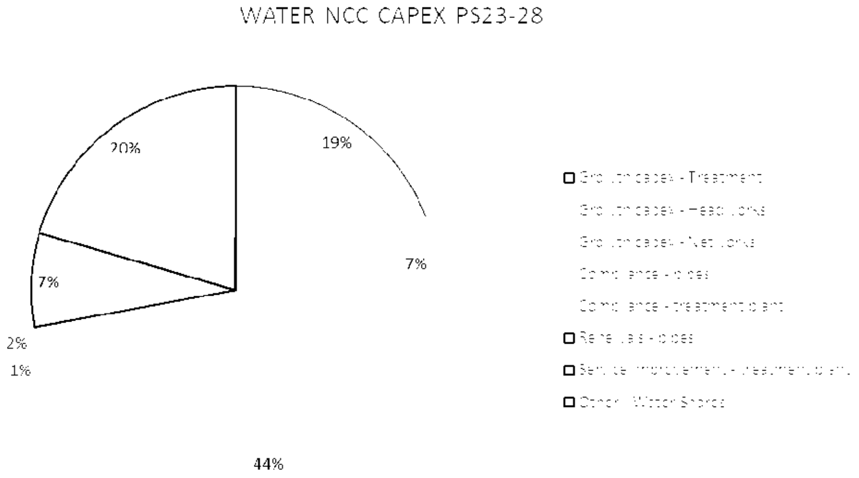
| Water Capital Projects | 2023-2028 | | | 2028-2033 | | |
|---|---|---|---|---|---|---|
| **Project Name** | **Capital cost** | **Cost in NCCs** | **% Growth** | **Capital cost** | **Cost in NCCs** | **% Growth** |
| **Bendigo, Castlemaine and Kyneton WTP Water Quality Upgrades** | $11.3 m | $1.1 m | 10% | - | - | - |
| **Goornong Treated Water Supply Upgrade** | $13.6 m | $1.4 m | 10% | $3.8 m | $0.4 m | 10% |
| **Trentham WTP Capacity Upgrade** | $15.8 m | $4.4 m | 28% | - | - | - |
| **Purchase Water Shares** | $6.8 m | $6.8 m | 100% | $30.8 m | $18.3 m | 59% |
| **Water Main Renewals** | $15.6 m | - | - | $30.9 m | $1.7 m | 5% |
| **Water Treatment Plant Renewals** | $5.0 m | $0.6 m | 13% | $9.9 m | $2.0 m | 20% |
| **Headworks Growth** | $2.2 m | $2.2 m | 100% | $4.4 m | $4.4 m | 100% |
| **Integrated Water & Sewer Planning - water** | $3.2 m | $3.2 m | 100% | $6.3 m | $6.3 m | 100% |
| **New Development** | $5.3 m | $5.3 m | 100% | $10.5 m | $10.5 m | 100% |
| **Water Network Growth** | $6.2 m | $6.2 m | 100% | $12.3 m | $12.3 m | 100% |
| **Water Network Improvements/Compliance** | $19.0 m | $0.2 m | 1% | $37.6 m | - | - |
| **Water Network Renewals Other** | $2.3 m | - | - | $4.5 m | $0.4 m | 9% |
| **Water Treatment Growth** | $2.0 m | $2.0 m | 100% | $3.9 m | $3.9 m | 100% |
| **Water Treatment Improvements/Compliance** | $18.3 m | - | - | $36.2 m | $5.4 m | 15% |
| | **$126.4 m** | **$33.4 m** | **26%** | **$178.5 m** | **$65.4 m** | **37%** |

Growth capital expenditure can also be expressed by region:

| | 2023-2028 | | | 2028-2033 | | |
|---|---|---|---|---|---|---|
| **Water** | **Water** | **Sewer** | **Recycled** | **Water** | **Sewer** | **Recycled** |
| **Campaspe** | $1.4 m | - | - | $0.3 m | - | - |
| **Coliban Northern** | $20.4 m | $47.3 m | $2.5 m | $43.1 m | $89.1 m | - |
| **Coliban Southern** | $4.1 m | $7.1 m | - | $18.4 m | $7.3 m | - |
| **Elmore** | $0.0 m | - | - | $0.1 m | - | - |
| **Goulburn** | $0.1 m | - | - | $0.2 m | - | - |
| **Loddon/Wimmera** | $0.1 m | - | - | $0.1 m | - | - |
| **Murray** | $1.8 m | $0.9 m | - | $2.7 m | $0.2 m | - |
| **Trentham** | $5.4 m | - | - | $0.4 m | - | - |
| | **$33.4 m** | **$55.4 m** | **$2.5 m** | **$65.4 m** | **$96.6 m** | **-** |

While the majority of the growth capital expenditure is in Bendigo, so is the majority of the growth. For this reason, we have decided to retain our single "postage stamp" approach to NCCs. Note above, however, that we have proposed to introduce a Small Lot Infill NCC so that small subdivisions in small town have a lower NCC than larger subdivisions.

# Key projects with a growth element by town




### Axedale Water Reclamation Plant upgrade

These works will involve a new reuse system and lagoon upgrades to cater for a greater number of customers in this network.

### Bendigo Water Reclamation Plant upgrades

This is a significant upgrade to our wastewater treatment capacity and facilities that will be delivered over the next two pricing periods. A total project cost of $144 million will be spent in upgrades to treatment assets, odour omissions and sludge processing. This is a critical project to cater for growth. Only $51 million of these costs are included within the NCCs.

### Bendigo Sewage Network upgrades

The large sewer collection mains across Bendigo urgently require upgrades. These upgrades will be delivered over the next two pricing periods. All upgrades are a result of ongoing growth in Bendigo, in particular Marong, Maiden Gully, Strathfieldsaye and Huntly, as well as trunk mains to cater for the ongoing growth in areas such as Golden Square.

### Bendigo Water Treatment Plant upgrade

To continue to support growth and meet demand on our water treatment plant, the membranes that treat drinking water for the Bendigo region need to be duplicated. The design component for this project will be delivered in the next pricing period, with the works scheduled for 2028-2033 pricing period.

### Bendigo Water Network upgrades

Water supply networks are currently being expanded across major growth fronts in Huntly, Strathfieldsaye and Maiden Gully/Marong. This will continue for ten years (PS23 and PS28). In PS23 we will complete the upgrade and expansion of the Maiden Gully/Marong network. Further investments in Huntly and Strathfieldsaye will follow in PS28.

### Castlemaine Water Reclamation Plant upgrade

The Castlemaine Water Reclamation Plant is at capacity and urgently requires upgrading to meet growth and compliance at the site. This plant also services surrounding towns such as Maldon, Newstead, Campbells Creek and Harcourt.

### Castlemaine Sewage Network upgrades

The large sewer mains across Castlemaine require upgrades as a result of growth and compliance. Upgrades in the next price period will focus on Campbell's Creek, Chewton and Newstead.

### Castlemaine Water Treatment Plant upgrade

To continue to support growth and meet the growing demand on our water treatment plant, the membranes that treat drinking water for the Castlemaine region need to be duplicated. The design component for this project will be delivered the next pricing period, with the works scheduled for PS28. This plant also supplies treated water to the surrounding areas such as Newstead, Maldon, Harcourt, Taradale, Guildford and Elphinstone.

### Kyneton Sewage Network upgrades

The large sewer mains and pump stations across the Kyneton network require upgrading as a result of growth within the township, and satellite towns like Trentham.

### Kyneton Water Treatment Plant upgrade

To continue to support growth and meet the growing demand on our water treatment plant, the membranes that treat drinking water for the Kyneton region need to be duplicated. The design component for this project will be delivered in the next pricing period, with the works scheduled for PS28.

### Goornong Water Treatment Plant upgrade

To support growth and continue to provide safe drinking water, the Goornong Water Treatment Plant will be augmented with a supply from Bendigo. This project is driven by both the condition of the treatment plant and the growth in the area. The proposed pipeline from Bendigo will enable the long-term growth of this community.

### Echuca and Cohuna Water Treatment Plant upgrades

Both the Cohuna and Echuca Water Treatment Plants require upgrades to accommodate continued growth in the area. Cohuna will need a completely new treatment plant in the coming decade. However, works in the next five years will focus on the expansion of the plant's ability to meet demand and improve water quality.

Similarly, works in Echuca will improve water quality but are also designed to assist in meeting the demands of the expanding community.

### Trentham Water Treatment Plant upgrade

To support the growing community of Trentham, the water treatment plant needs to be more than 50 per cent larger than its current capacity.

# Summary

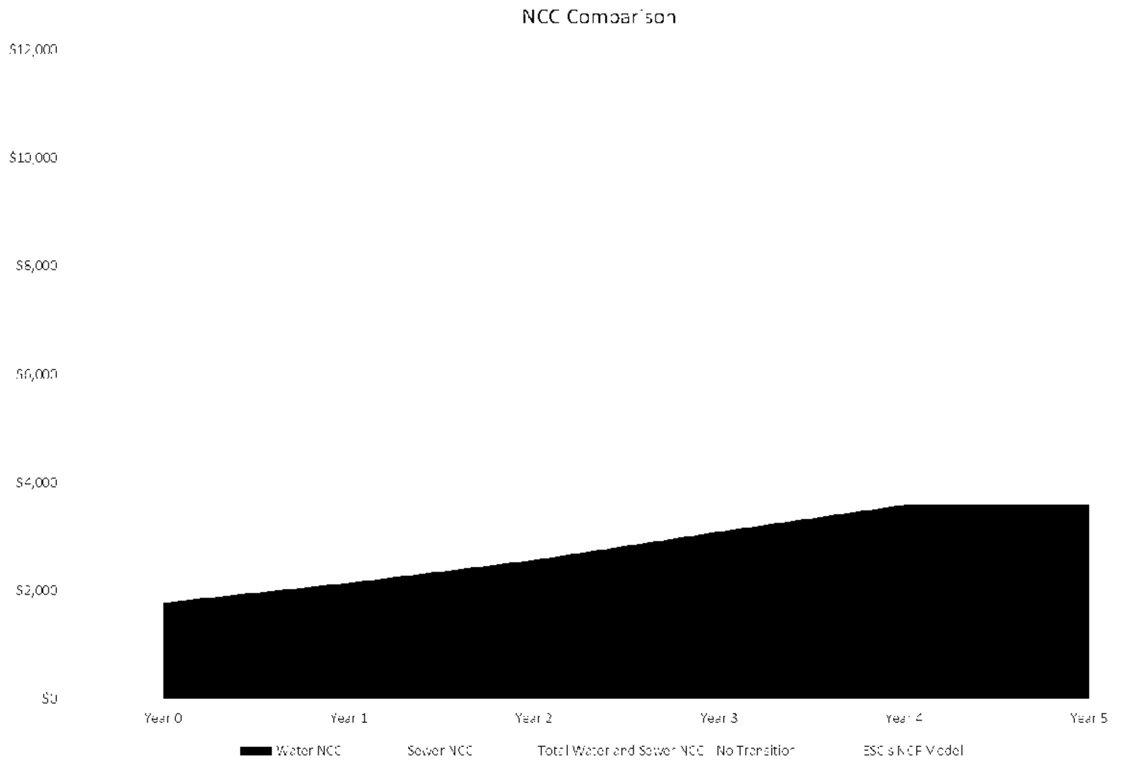
Our revised NCC proposal will be submitted to the ESC in May for its consideration. We are proposing a new AIC methodology be used in the calculations of NCCs, which we believe provides greater transparency and flexibility in response to customer growth in our region.

We are proposing to increase NCCs to better reflect the increase in capital expenditure:

- Water, Sewer and Recycled Water NCCs will increase by 20% each year for the next pricing period until the actual cost is reached. Sewer NCCs will reach the actual cost in the 2028-2033 period.
- A sewer GCE Guarantee rebate will apply where we do not deliver 80 per cent of the planned sewer GCE.
- A Small Lot Infill NCC will be introduced where the following criteria are met:
  - Area less than 450sqm
  - No more than two new created lots (1 into 2 or 1 into 3)
  - Not located in the five greenfield growth areas– Maiden Gully, Strathfieldsaye, Marong, Huntly, Bagshot
  - Excludes scenarios where un-serviced lots are being created as part of the subdivision.

The ESC will publish a determination on our submission in June 2023.

Should our revised proposal based on the AIC model not be accepted by the ESC, the fallback position would be to revert to the legacy NCF model. This would result in a total NCC higher than that calculated by the AIC model.




In response to the draft decision and to the feedback we have received from developers in drafting our response, we plan to continue building an ongoing engagement program with the development community where we will explore opportunities to:

- Report annually on the delivery of our capital program and progress of growth-related projects
- Redevelop online content so that it is more engaging and user friendly
- Develop tours of key assets and/or projects being delivered
- Hold further workshops with developers on specific issues or areas of interest

We will finalise the format and timing of these activities in early 2023-24.


## CONNECT WITH US

You can contact us by telephone, email, mail or in person.

24-HOUR FAULTS AND LEAKS
AND GENERAL ENQUIRIES
**1300 363 200**

EMAIL > **coliban@coliban.com.au**

ONLINE FORM > **www.coliban.com.au**
Use our form at coliban.com.au to ask a question or provide feedback.

CUSTOMER COMMUNICATION
ASSISTANCE IS AVAILABLE FOR

Non English speaking customers **13 14 50**

Speech and hearing-impaired customers **13 36 77**

HAVE YOUR SAY
connect.coliban.com.au



PLEASE RECYCLE

Attachment 6

Coliban WATER

# New Customer Contributions

## NCC Negotiating Framework

1300 363 200 : www.coliban.com.au

# Application of Negotiating Framework

This Negotiating Framework forms a part of Coliban Water's approved pricing submission.

This Framework applies to both Standardised New Customer Contribution (NCC) Charges (standardised charge for Connection Applicants wishing to connect to Coliban Water's System) and Non-standard/Negotiated NCC Charges (applies in addition to the Standardised NCC Charge in non-standard situations due to the nature and/or locality of the development).

~~Shared cost assets such as sewer pump stations required to service a development where there is a considerable upsize component to service future growth may trigger a Non-standard/Negotiated NCC. This would also impose a higher Non-standard/Negotiated NCC on benefitting developers utilising the capacity of that asset.~~

**Commented [A1]:** Shared sewer pump stations are now included within the standard NCC so recovered within that rather than being treated separately.

~~A Non-standard/Negotiated NCC is applied to non-traditional sewer servicing strategies where pressure sewer is utilised rather than traditional gravity sewer connection. The Non-standard/Negotiated NCC is to be paid by the applicant/developer for each lot created or serviced by pressure sewer and is in addition to the provision of reticulated infrastructure required to be provided by them. The Non-standard/Negotiated NCC collected by Coliban Water funds the supply and installation of onsite assets such as tank, pump & control systems facilitating connection to our services when application is made.~~

**Commented [A2]:** We have included standard pressure sewer NCC's in the PS23 pricing submission so this interim measure can be removed

Coliban Water's *Land Development Manual* provides further information about the application of Standardised and Non-standard/Negotiated NCCs.

# 2. Purpose

This Negotiating Framework:

- Sets out procedural and information requirements relevant to services to which developer charges (New Customer Contributions) apply, as defined in the Water Industry Regulatory Order (WIRO). New Customer Contributions (NCC) are levied when new connections are made to the water corporation's water, sewerage and recycled water networks.
- Requires Coliban Water and any Connection Applicant to negotiate in good faith to agree the price, standards and conditions of services to be provided.
- It also provides for transparent information to enable the Connection Applicant to understand the reasons for decisions made by Coliban Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in or imposed under the *Water Act 1989,* the *Planning & Environment Act 1987* (including under any planning scheme or permission), the *Subdivision Act 1988*, subordinate regulation under the described legislation as well as the *Land Development Manual*, or any other relevant legislation or instruments (the "Regulatory Instruments").

In the case of inconsistency between the Regulatory Instruments and this negotiating framework, the relevant Regulatory Instruments will prevail.

This Negotiating Framework does not alter the rights of a Connection Applicant to seek a review of a Coliban Water decision by the Victorian Civil and Administrative Tribunal (VCAT).

# 3. Who this negotiating framework applies to

This Negotiating Framework applies to Coliban Water in dealing with any property owner – generally a property developer – that is a Connection Applicant who requests connection to Coliban Water's works in accordance with section 145 of the *Water Act 1989* ("Application").

It also applies to Coliban Water in responding to such requests from a Connection Applicant.

# 4. No obligation to provide service, good faith obligation

Nothing in this negotiating framework imposes an obligation on Coliban Water to allow the Connection Applicant to connect to Coliban Water's works or provide services to the Connection Applicant.

Coliban Water can:

- Consent to an application
- Consent subject to any terms and conditions that Coliban Water thinks fit, as provided under section 145(3) of the *Water Act.*
- Refuse its consent to an application.

Coliban Water and the Connection Applicant must negotiate in good faith the price, terms and conditions for services sought by the Connection Applicant.

# 5. Process

Coliban Water and the Connection Applicant / Developer will use their reasonable endeavours to the timeframes and procedures outlined in the Land Development Manual, Shared Asset Procedure, Developer Installed Works Process and this Framework.

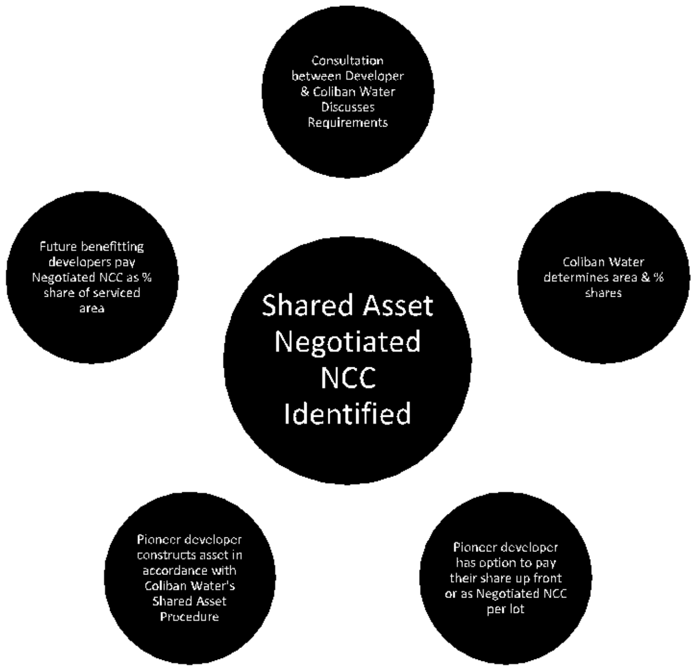
## 5.1. Shared Asset & Future Benefitting Developer

5.1.1. Coliban Water identifies the need for a large asset required to service a broad catchment area during augmentation planning for future growth areas during the set pricing period. A pioneer developer initiates the requirement for that asset by application to subdivide and provision of services to a development area.

5.1.2. Coliban Water initiates consultation with the developer in accordance with the procedures identified above to fund a share of the required asset that is larger than what is required for the developer's proposal. In summary, Coliban Water funds the upsizing of the asset to cater for future growth or greater catchment area. The principle of the developer funding the asset size to cater for their development applies.

5.1.3. Future Benefitting Developers utilising the excess capacity of the asset will be advised upon application of the % share calculation of the constructed asset that will apply to their development proposal. This will be applied as a Non-standard/Negotiated NCC for each stage of development within the identified catchment area.

**Commented [A3]:** This was essentially included to cater for sewer pump stations now included within the standard NCC. It may still apply to other upsizing so in principle can remain.



## ~~5.2. Pressure Sewer Servicing~~

~~5.2.1. Pressure sewer is an alternative to typical gravity sewer. It requires the installation of reticulated infrastructure and onsite property assets to pump waste water into Coliban Water's sewer network.~~

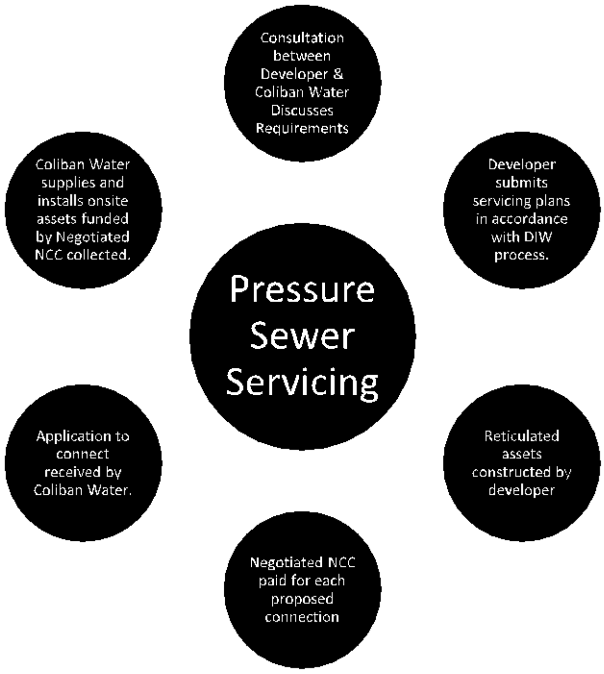
~~5.2.2. The applicant/developer is required to fund by Non-standard/Negotiated NCC the supply and installation of the required onsite assets by Coliban Water's appointed contractor.~~

~~5.2.3. These will be installed by Coliban Water after receiving an application to connect.~~

**Commented [A4]:** This interim measure can be deleted as we have included pressure sewer NCC's for PS23

**Formatted:** Strikethrough

**Formatted:** Strikethrough



# 6. Bring Forward Calculations

Financing costs relating to bring forward connections are calculated in accordance with the approved formula as detailed in the ESC's final determination.

The ESC requires that Water Corporations intending to levy 'bring forward' charges will have prepared development servicing plans. These are described as augmentation plans and are accessible via the Coliban Water website.

The formula for calculating these remains unchanged from the 2013-2018 pricing period as per below:

Incremental financing costs

Incremental financing costs (IFC) should be calculated using this formula:

$$IFC = \left(1 - \left[\frac{1}{(1+r)^n}\right]\right) \times \text{cost of capital being provided sooner than planned}$$

where: r  estimated pre-tax regulatory rate of return

n  the number of years the asset is required sooner than planned.

# 7. NCC Definition

NCCs are a one-off, upfront charge applied under sections 145(3), 268 and/or 269 of the *Water Act 1989* to all new allotments connected (or to be connected) to Coliban Water's water, sewer or recycled water networks. Payment of NCCs can be initiated by a new development, subdivision or application to connect.

NCCs include Standardised and, where applicable, Non-standard/Negotiated NCC charges.

The payment of Standardised NCC's for each additional connection to Coliban Water's water, recycled water or sewer services which includes the following:

(a) Any new lot on a plan of subdivision

(b) Any new or separate premises that is or can be separately metered

(c) Any apartment, townhouse, unit or premises including multi storey developments that is or can be separately metered regardless of whether or not it is subdivided.

(d) Specialised non subdivisional or higher water/sewerage usage developments – See Note

**Note:**

Specialised non subdivisional or higher water usage developments are charged based on an equivalent lot calculation. This is a measure of the demand that a connection will place on Coliban Water infrastructure in terms of water consumption and discharge compared to an average residential dwelling. A single equivalent lot will utilise a 20mm water tapping & meter.

These include but are not limited to:

- Caravan parks
- Commercial or industrial businesses
- Hotels, motels or accommodation premises
- Hospitals or private hospitals
- Nursing homes

- Public open space
- Schools or other non-rateable properties
- Sporting grounds/complexes

Coliban Water's *Land Development Manual* provides further information about the application of Standardised and Non-standard/Negotiated NCCs. In most cases, where a Non-standard/Negotiated NCC is required, the Standardised NCC will also be payable.

# 7. Provision of information by Connection Applicant

The Connection Applicant must provide sufficient information to enable Coliban Water to assess the Application and determine the service requirements and costings for the development. The information generally required by Coliban Water is detailed in the *Land Development Manual*.

The level of information required by Coliban Water, and the detail of its response, will vary depending on the complexity and size of the development. As stated above, additional information may be sought by Coliban Water in the event of a Non-standard/Negotiated NCC Charge being sought.

# 8. Provision of information by Coliban Water

After consideration of servicing requests, Coliban Water may provide an offer, via letter, draft agreement and/or notice ("Offer"). The Offer will include specific requirements for the particular development and also include various standard conditions and other information including charges and fees to achieve connection to Coliban Water assets. This includes New Customer Contributions (NCC's).

In the case of a Non-standard/Negotiated NCC triggered by infrastructure installed by Pioneer Developers to service future growth, this higher NCC will be communicated Future Benefitting Developers when formally advising requirements for the provision of services to their development.

The information relating to the Offer is detailed in the *Land Development Manual*.

The Offer is provided by Coliban Water pursuant to the Regulatory Instruments.

# 9. Pricing Principles

*5.1 New Customer Contributions*

Coliban Water's NCC charges will:

(a) Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;

(b) Have regard to the incremental future revenues that will be earned from customers at that connection; and

(c) Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

In setting charges, Coliban Water will also comply with:

(a) The regulatory principles set out in clauses ~~14~~ 8 and 11 of the Water Industry Regulation Order 2014 (WIRO); and

(b) Specific pricing principles approved or determined by the Essential Services Commission as part of Coliban Water's Price Determination applying at the relevant time.

# 10. Developer Installed Works

## 10.1 Reticulation assets

When seeking consent to connect to Coliban Water services, the connection applicant must provide all of the reticulation assets required to service any new lot, separate occupancy or other non-subdivisional development. This includes any assets that need to be located in road reserves or within other properties and allow the development to connect to Coliban Water's works.

Reticulation assets are to be fully funded by the connection applicant and vested to Coliban Water.

Coliban Water may require the connection applicant to upsize the reticulation assets in order to provide a whole of catchment solution to allow for future development. Any requirement to upsize the reticulation assets will be based on the most cost effective whole of life servicing solution required by Coliban Water's design criteria.

Upsizing refers to an increase in the size of the reticulation assets. Any incremental costs associated with upsizing the reticulation assets shall be agreed between Coliban Water and the connection applicant. Coliban Water will provide details of the agreed reimbursement process.

Upsizing does not include changes to depth or alignment of reticulation assets required by Coliban Water to achieve the most effective and efficient whole of life servicing solution. Any such changes are to be fully funded by the connection applicant.

## 10.2 Shared assets

When seeking consent to connect to Coliban Water's works, the connection applicant must provide all shared assets required to service any new lot, separate occupancy or other non-subdivisional development. This includes any assets that need to be located in road reserves or within other properties and allow the connection applicant to connect to Coliban Water's works.

Shared assets are to be fully funded by the connection applicant and vested to Coliban Water. Any upsizing of those shared assets will be either:

- Treated as described within "reticulated assets" – section 10.1.
- A Non-standard/Negotiated NCC may be implemented by Coliban Water depending on funding model alternatives that may be available for significant assets such as sewer pump stations. These specific requirements will be discussed with the Pioneer Developer and Future Benefitting Developers subject to a higher Non-standard/Negotiated NCC to utilise the excess capacity installed to service their development and discussed with an applicant on a case by case basis. Published augmentation plans will also highlight a potentially higher NCC for development in that area.

# 11. Consultation with affected parties

If Coliban Water considers that persons other than the Connection Applicant may be affected by proposed connection services, then:

(a) Subject to legal confidentiality requirements, Coliban Water may share any necessary information with others potentially affected to assess impacts; and

(b) Parties will allow sufficient time for reasonable consultation with affected parties to occur.

# 12. Payment of Coliban Water's costs

All developments of land requiring new or upgraded connection to Coliban Water's system will incur associated fees and charges payable to Coliban Water.

Fees and charges levied by Coliban Water are subject to approval processes under the *Water Act 1989* and/or as approval by the ESC. Our Schedule of Fees and Charges can be found on our website.

Should the particular Application require a Non-standard/Negotiated NCC Charge, in addition to the Standardised NCC Charge, this will arise from the relevant negotiation, subject to the Regulatory Instruments in place at the time.

# 13. Termination of negotiations

The Connection Applicant may elect not to continue with its Application and may end the negotiations by giving Coliban Water written notice of its decision to do so. Any costs incurred or committed by Coliban Water may be charged to the Connection Applicant.

Coliban Water may terminate a negotiation under this Negotiating Framework by giving the Connection Applicant written notice of its decision to do so where:

(a) Coliban Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation in good faith; or

(b) Coliban Water reasonably believes that the Connection Applicant and the particular development will not be able to receive a service from Coliban Water; or

(c) An act of insolvency occurs in relation to the Connection Applicant; or

(d) Coliban Water reasonably believes that the Connection Applicant has provided false or misleading information to Coliban Water.

# 14. Dispute resolution

In the event of a dispute between parties, Coliban Water will continue attempts to resolve the matter by negotiation.

After Coliban Water provides its Offer, if the Connection Applicant does not accept the Offer and attempts to resolve the matter by negotiation are unsuccessful, generally the Connection Applicant has particular rights to seek a review in the Victorian Civil and Administrative Tribunal ("VCAT") of the terms and conditions of connection and the NCC charge applied. These VCAT review rights, including various time lines, rights and process are set out in the *Water Act 1989* and the *VCAT Act 1998*.

# 15. Giving notices

The address for correspondence and notices is:

Coliban Water
PO Box 2770
BENDIGO DC VIC 3554

landdevelopment@coliban.com.au

A notice must be:

(a) In writing and signed by a person duly authorised by the sender; or

(b) Sent via email to the recipient's address for Notices, as varied by any Notice given by the recipient to the sender

(c) If given or received under any Regulatory Instruments or other statute of regulation, must be given under the requirements of that relevant instrument, or other statute or regulation.

# 16. Terms and abbreviations

**Coliban Water** – A water corporation established pursuant to Part 6 of the *Water Act 1989*.

**Connection Applicant** – The person making application to connect to the Coliban Water system pursuant to Section 145 of the *Water Act 1989*.

**DIW** – Coliban Water's developer installed works process

**Future Benefitting Developer** – Is a developer that utilises the excess capacity constructed in larger shared assets.

**Land Development Manual** – Coliban Water's Land Development Manual (as updated from time to time), which outlines policies and guidelines for customers to connect to water and sewerage services, available at www.coliban.com.au.

Non-standard/**Negotiated NCC Charge** – This charge, derived from the NCC principles developed by Coliban Water will apply in non-standard situations due to the nature and/or locality of the development or arising out of negotiation with the Connection Applicant. In most cases, if a Non-standard/Negotiated NCC is applicable, the Standardised NCC Charge will also be payable.

**Pioneer Developer** – This is the 1st developer within an area that may trigger the requirement for upsized assets to cater for a greater catchment or growth area.

**Shared Asset Procedure** – Coliban Water's internal process for implementing a shared funding arrangement with developers for assets identified as servicing a greater catchment or growth area than an individual development

**Standard NCC Charge** – This is the standard charge for most Connection Applicants wishing to connect to the Coliban Water System. In most cases, if a Non-standard/Negotiated NCC is applicable, the Standardised NCC Charge will also be payable.