



Price Submission 2023–2028





TABLE OF CONTENTS

Board Attestation.....	3
1 Executive Summary	4
2 PREMO Rating	11
3 Performance Over the 2018–2023 Regulatory Period.....	14
4 Risk	28
5 Engagement	36
6 Management	53
7 Capital Expenditure	55
8 Regulatory Asset Base	71
9 Operating expenditure	73
10 Demand and Growth.....	82
11 Customer Outcomes	87
12 Service Standards	95
13 Guaranteed Service Levels (GSLs)	97
14 Prices	100
15 Regulatory Period.....	115
16 Tax Allowance.....	116
17 Financial Position	117
18 Attestation Process	118
Appendix A: Letters of Support.....	119
Appendix B: Top 10 Capital Projects and Current Economic Conditions.....	119
Appendix C: Sequana Final Attestation Advice.....	119
Appendix D: Letter to Environment Protection Authority.....	119



BOARD ATTESTATION

The directors of Coliban Water, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2023 water price review:

- Information and documentation provided in the Price Submission and relied upon to support Coliban Water's Price Submission is reasonably based, complete and accurate in all material respects;
- Financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used; and
- The Price Submission satisfies the requirements of the *2023 Water Price Review Guidance Paper*, issued by the Essential Services Commission, in all material aspects.

Furthermore:

- This submission builds on existing planning and customer engagement undertaken by the business.
- This Price Submission has regularly featured on board agendas since November 2020, and all material assumptions have been presented to board.
- The board has been kept updated on specific engagement processes and outcomes associated with this submission.
- Following approval of this submission, the board will monitor price and service outcomes, as well as delivery of improvement initiatives, via regular ongoing reporting.

Signed:

Bob Cameron

Chairperson, Coliban Water

29/09/2022

Damian Wells

Managing Director, Coliban Water

29/09/2022



1 EXECUTIVE SUMMARY

CHAPTER SUMMARY

- *Standard* overall PREMO rating proposed.
- Our Capital Replacement Ratio has been below the industry benchmark of 1.5 for most of the last decade, leading to major compliance issues.
- Our Price Submission details the delivery of the *Big Water Build* with a direct capital expenditure of \$435 million (excluding regulatory adjustments). We have been increasing our capital expenditure in recent years and plan to deliver the *Big Water Build*.
- We have utilised a Deliberative Panel for the first time and collaborated with customers through various forums. We have endorsed and will implement all recommendations from the Deliberative Panel.
- The average annual residential customer bill is forecast to increase from \$1,367 to \$1,529 (plus inflation) by 2028.
- We have received letters of support from several key business and community stakeholders in our region.

1.1 OUR CONTEXT

Coliban Water's core business is providing safe drinking water, sewerage and rural water services for public health and environmental protection so that the communities we serve can sustain themselves. Therefore, our areas of focus for the next regulatory period are intrinsically linked to the objectives of Traditional Owners that we have engaged with, and we are pleased that this submission is backed by a letter of support from Djaara (see Appendix A: Letters of Support).

This Price Submission conveys our approach to delivering great value for our customers and how we will sustainably balance improved customer service and regulatory compliance with modest price rises. As a result, the average annual residential customer bill is forecast to increase from \$1,367 to \$1,529 (plus inflation) by 2028, as customers in our Deliberative Panel recommended.

Our region spans central and northern Victoria and comprises 49 towns across 8 water systems. Like many other regional areas, growth rates are high due to COVID-19 related migration, as well as the delivery of critical local government strategic growth projects. Coupled with the impacts of climate change, ageing assets and advancing regulatory standards, we are acting now to guarantee customer service standards, ensure water security and enhance the natural environment.

We operate in an environment of very high uncertainty, instability, and change. While the global pandemic has delivered many challenges and much change, we must maintain a relentless focus on adapting to climate change and population growth while renewing ageing assets and becoming an increasingly digital utility, as desired by customers.

Over the past decade, we have deferred capital works and held too much environmental risk. In several instances, these risks were ultimately realised as ageing assets have started to fail. Coliban Water was prosecuted by the EPA in 2021 for unlicensed river discharges from the Kyneton Water Reclamation Plant in 2019. Coliban Water remains subject to an Undertaking (commonly referred to as a good behaviour bond) handed down by the Magistrate and is now subject to amplified and retrospective sanctions for any future breaches. In 2022, the Bendigo Water Reclamation Plant was



not compliant with licence conditions as plant discharge volumes exceeded licence limits. Furthermore, in 2021, a large sewer main in the Bendigo system collapsed, resulting in an eight-metre deep excavation in a customer's backyard. An incident team was set up and reactive works took weeks to complete with, total reparative costs exceeding \$1.3 million. Timely and proactive renewals of our networks will avoid these costs and customer interruptions in the future.

Our customers expect us to deliver our core business, and it is simply unacceptable for these asset and plant failures to continue. We must act now to deliver environmental and sustainability outcomes as recommended by our customers and outlined in our *Environment and Sustainability Policy*.

1.2 HOW WILL WE MEET CUSTOMER EXPECTATIONS?

To understand our customer needs, we undertook earlier, broader and deeper customer engagement than any previous Price Submission (chapter 5). For the first time, we ran an independently facilitated Deliberative Panel. The 32 panel members identified issues and opportunities that we have embedded in our submission as we act to address our current shortfalls. We rigorously analysed how we can efficiently fund our response to these challenges to ensure the sustainability of our core services. This submission proposes what our panel considers a modest increase to customer bills. Balanced with the sustainable utilisation of long-term debt, we will continue our recent trajectory of increasing capital expenditure and fund a time-critical asset augmentation and renewal program along with business transformation needed to enable the change.

Our 2018 Price Submission led to a real 10% price reduction since 2017–18, driven by deferring infrastructure investment. Now we must pivot to greater capital investment and we are proposing urban prices increase by CPI plus 1.9% for 2023–24 and 2024–25 and then CPI plus 2.5% thereafter (chapter 14).

This approach defers some of the real bill increases for customers and better aligns prices with the delivery of outcomes realised through our capital program (chapter 7). Prices will return to the same point had CPI only applied since 2014. Despite our challenges and dry climate, the average Coliban Water bill is below the national average, and we intend for it to remain this way. We will support and care for customers experiencing vulnerability by avoiding bill shock and significantly increasing direct financial support to these customers.

1.3 HOW HAVE WE INCORPORATED CUSTOMER AND STAKEHOLDER VIEWS?

Our Deliberative Panel explored the question *How does Coliban Water prepare for tomorrow while being fair to customers today?* Our customers provided excellent advice and insight regarding the challenges our region is facing. As a result, we propose to implement all recommendations including modest price rises above inflation and doubling financial support to \$570,000 per annum for customers experiencing vulnerability. We have a strong track record in supporting customers when they need assistance, demonstrated through the COVID-19 pandemic. This view is supported by agencies in our region, including the Salvation Army (Appendix A: Letters of Support).

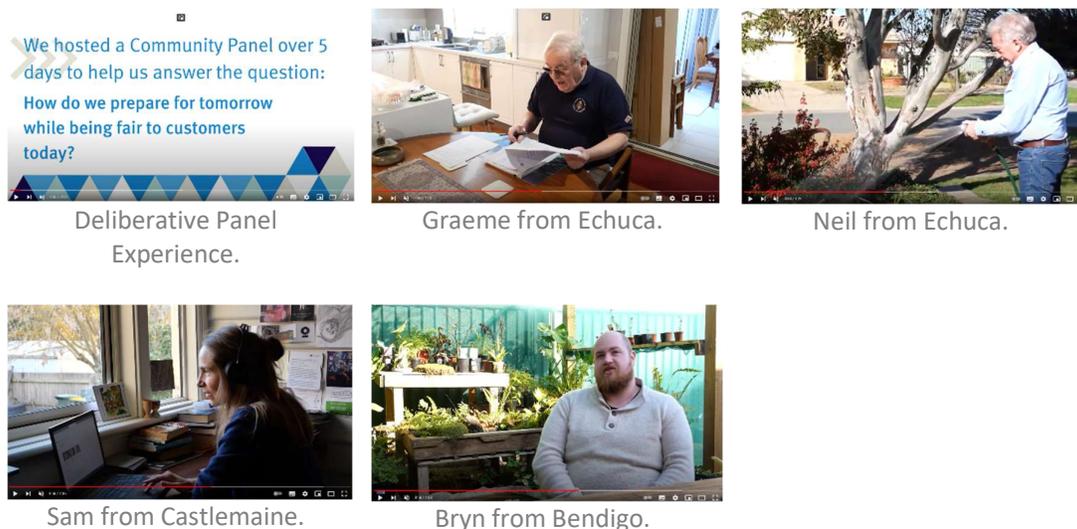


Figure 1: Screenshots of summary video with testimonials from Deliberative Panel participants (Click on any image to view video).

Prior to the Deliberative Panel, we utilised our *Voice of the Customer* to incorporate the views of customers into decision-making on an ongoing basis. *Voice of the Customer* includes data from past engagement activities, customer feedback and demographic data to provide a comprehensive picture of customer sentiment.

In addition, we undertook broader engagement across all customer segments compared to previous submissions. This engagement included one-on-one phone calls, online surveys, bill inserts, social media, customer advisory groups, drop-in sessions and media briefings to include all voices in our deliberations. An extensive background engagement report was then provided to the deliberative panel to ensure that all customers' views and voices could be deeply considered as part of the deliberative process.

We are pleased that our Price Submission has received letters of support from community and business stakeholders, including Be.Bendigo (Bendigo's peak business body), the City of Greater Bendigo, City of Greater Bendigo Youth Council, Djaara (Dja Dja Wurrung), Hepburn Shire Council, Macedon Ranges Shire Council, Coliban Water's Rural Customer Advisory Group and the Salvation Army. These letters are provided in Appendix A.

After releasing the Community Draft in July, we received 455 contributions from the community, with 86% of respondents supportive of the proposal. A further 10% requested some more information and 4% had a different view to share.

1.4 HOW WILL OUR PROPOSALS IMPACT CUSTOMERS?

Our Price Submission details the delivery of the *Big Water Build* with direct capital expenditure more than doubling to \$435 million (excluding regulatory adjustments). We will become a genuinely digital utility that delivers efficient operations supporting a great customer experience. Current debt levels will be managed sustainably to increase from the current level of \$410 million (total assets currently \$2.0 billion) to \$757 million (anticipated assets \$2.6 billion) in 2027–28. We will continue to work with our lender, Treasury Corporation of Victoria, to optimise our debt portfolio over time. We have undertaken a deliverability assessment (Section 7.8) to meet this challenge.



Indicative annual customer bills for different consumption levels are shown below.

Table 1: Proposed annual customer bills, 2023–2028, excluding inflation.

\$ 22–23	Usage	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
<i>Urban price path</i>			1.90%	1.90%	2.50%	2.50%	2.50%
<i>Rural price path</i>			-1.20%	-1.20%	0.00%	0.00%	0.00%
Household: average use	192 kL	\$1,367	\$1,393	\$1,420	\$1,455	\$1,492	\$1,529
Household: high use	300 kL	\$1,614	\$1,645	\$1,676	\$1,718	\$1,761	\$1,805
Household: low use	80 kL	\$1,111	\$1,132	\$1,154	\$1,183	\$1,212	\$1,243
Renter: average use	192 kL	\$439	\$448	\$456	\$467	\$479	\$491
Non-res: high use	2,000 kL	\$7,291	\$7,430	\$7,571	\$7,760	\$7,954	\$8,153
Non-res: medium use	907 kL	\$3,760	\$3,832	\$3,905	\$4,002	\$4,102	\$4,205
Non-res: low use	100 kL	\$1,157	\$1,179	\$1,201	\$1,231	\$1,262	\$1,294
Rural Unmodernised: medium use	3.1 ML	\$1,851	\$1,829	\$1,807	\$1,807	\$1,807	\$1,807
Rural Modernised: medium use	4.4 ML	\$2,857	\$2,823	\$2,789	\$2,789	\$2,789	\$2,789

We will deliver on our customer expectations by achieving the following Customer Outcomes (chapter 11):

1. *Water quality and reliability:* We will supply high-quality water you can trust.
2. *Be easy to deal with:* We will provide services to meet the needs of our customers now and in the future.
3. *Enhance the environment:* We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations.
4. *Regional prosperity:* Our investments will support the economic prosperity of our regions.
5. *Fair price:* We will support customers in need.

While our *Big Water Build* will reduce the risk and occurrence of catastrophic asset failure, it will also result in measurable improvements to direct customer service levels. We have analysed each performance indicator to ensure that every possible improvement is captured in our proposed service levels.

Our Deliberative Panel made nine recommendations covering seven themes we have fully incorporated into our Customer Outcomes and other Price Submission initiatives:

1. *Intergenerational Equity:* Modest price increases now to ensure future prices remain sustainable. This is achieved via regulatory depreciation.
2. *Community Contribution:* Better investment in services that lead to better community outcomes, including better environmental performance and awareness, green open spaces and access to fresh drinking water in parks and gardens.
3. *Water Security:* More investment in new water resources as our dry region continues to feel the effects of climate change.
4. *Customers Experiencing Vulnerability:* Doubling of support to \$570k per year for customers experiencing vulnerability who struggle to pay their bills.



5. *Innovation*: Ensuring we remain at the cutting edge to implement new technology that's fit for purpose for our region.
6. *Education*: Extra focus on community education relating to water security and customers experiencing vulnerability.
7. *Optional Support Payments*: Implementation of system enhancements to enable customers to voluntarily provide extra support for customers experiencing vulnerability.

1.5 HOW WILL WE RESPOND TO THE CHALLENGES?

We have identified and proposed responses to the three key challenges: climate change, population growth, and ageing assets. In addition, the political, social and economic environment presents further threats and opportunities. By undertaking a whole-of-business transformation, we will actively embrace these opportunities for the benefit of our customers while we progress our plans for ensuring regulatory compliance.

1.5.1 Climate Change

Our region has already experienced step-change impacts from climate change, as evidenced by a 53% reduction in inflows to our Coliban River storages since 1997. Water quality in the Murray River and Goulburn River source catchments is declining. 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. We will be carbon neutral by 2030 as we respond to customer expectations to be a community leader.

1.5.2 Population Growth

Across the nine local government areas we serve, the population is growing fast as people are attracted to the liveability of our region (chapter 10). 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, 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.

1.5.3 Ageing assets

Our ageing assets, including several large Water Reclamation Plants (WRPs), operate beyond their design life and capacity. Our water and sewer distribution networks need extensive renewal with some networks being serviced by pipes installed over a century years ago. A vital feature of these renewal investments is increasing the capacity of our treatment plants and networks to support our growing population. Our Capital Replacement Ratio has been below the industry benchmark of 1.5 for most of the last decade. This submission remedies this lack of investment by starting an investment program that will last beyond the next regulatory period.

Ageing assets have led to regulatory compliance issues. This submission outlines plans for ensuring we meet our Directors' statutory obligations relating to regulatory compliance. The regulators governing us on behalf of the community continue to raise the bar for our performance expectations. Coliban Water will deliver time-critical environmental compliance investments at our WRPs and in our networks and operations to ensure compliance with our EPA licences. We will also invest in our Water



Treatment Plants to ensure we can reliably meet customer needs and health regulation requirements for the provision of safe drinking water.

1.5.4 How are we embracing opportunity?

On the back of a worldwide pandemic, we have seen changes to how we work, shortages of skilled labour, major delays in our supply chain and significant cost increases. In addition, the pandemic has fundamentally altered the way we do business.

Leveraging new ways of working realised through the pandemic, we are undertaking a *Coliban of the Future* transformation program to position our core business at the heart of our organisation. This transformation will involve a more collaborative and flexible workplace culture, directing the right resources towards the right problems at the right times and adaptively managing our approach.

We embrace the opportunities of the digital age presents, as new technologies and tools continually emerge. These opportunities significantly benefit Coliban Water and our customers through greater convenience, control and efficiencies.

We are already well on the way to preparing our business to deliver our \$435 million *Big Water Build*. Since 2017–18, we have delivered a planned 50% increase in direct capital expenditure. This track record of delivery will hold us in good stead into the next regulatory period.

We will embrace the opportunities presented by the Victorian 2026 Commonwealth Games, where Bendigo will co-host the event.

1.6 OUR PRICE SUBMISSION PREMO RATING

We proposed an *Advanced* PREMO rating for our 2018 Price Submission, which the Commission endorsed. We have predominantly met the 2018 Customer Outcomes, although some aspects of this were a stretch.

For this submission, we are proposing a *Standard* PREMO rating as our new stretch is affordably scaling up our *Big Water Build* and delivering our core business (chapter 2). In addition, the *Performance*, *Engagement* and *Outcomes* elements have been individually self-assessed as Advanced.

1.7 BOARD ATTESTATION AND ASSURANCE

Our Board knows the challenges we are facing. The issues driving our Price Submission and the formulation of our proposed approach have been the overwhelming focus of the Board for the past two years. This focus includes key capital works, our proposed price path and financial strategy, our customer and stakeholder engagement and our *Coliban of the Future* transformation that is necessary to deliver our core business.

Our Price Submission is our best offer to customers. We have listened to our customers and will deliver to their expectations. This submission will provide enhanced value while ensuring sufficient investment for high-quality services in the face of climate change, growth and ageing assets.

Board and management ownership and commitment have been the cornerstone of the production of this Price Submission. In conjunction with this, we have also implemented a more rigorous independent assurance process than any previous submission.



We appointed Sequana Partners as an independent attestation auditor to guide the process of developing this submission (chapter 18). Sequana Partners is a specialist advisory firm to the water industry with extensive experience in financial, risk and asset management and other assurance disciplines.

Management enhanced the scope of the Sequana attestation brief beyond the minimum requirements of the Commission's guidance. The enhanced scope is warranted because the transformative nature of this Price Submission requires a higher level of scrutiny given price increases and a significant increase in capital expenditure.

The attestation process resulted in final advice from Sequana Partners (reproduced in Appendix C).

1.8 HOW TO READ THIS DOCUMENT

This Price Submission has to be read in conjunction with the financial model. This submission is consistent with the data provided in the model. Where there is any discrepancy between the Price Submission and the financial model template, the data in the model has precedence.

Most chapters contain references to salient background documents and supporting documents. Background Documents (coded BG) are detailed outlines of each workstream used to develop this Submission. A workstream covers one or more chapters of the *2023 Water Price Review Guidance Paper*. Supporting Documents (coded SP) consist of detailed workings, engagement reports and consultancies used in this submission. Any references to "QA Docs" related to our certified integrated Quality Management System. The Commission can be provided with access to any Background Documents and Supporting Documents on request.



2 PREMO RATING

CHAPTER SUMMARY

- **Standard** overall PREMO rating proposed.
- We are proposing **Advanced** for the *Performance, Engagement and Outcomes* elements.
- We are proposing **Standard** for the *Risk and Management* elements.

2.1 OVERALL PREMO RATING

We are proposing a *Standard* PREMO rating. We proposed *Advanced* for our 2018 Price Submission, which was endorsed by the Commission.

We consider this Price Submission to be our *best* offer to our customers. The proposals in this submission will provide real value to our customers while ensuring sufficient investment to enable us to continue to deliver high quality services in the face of growth, future uncertainty and climate change.

We are proud of our many achievements over the 2018–2023 regulatory period. We have delivered results for Outcomes in line with customer expectations, with three years *Green* rating and one *Amber*. While we have had several major asset failures, our Customer Outcomes have remained mainly on track. GSL payments have reduced and customer sentiment for the quality of our services, trust and value for money has shown a strong positive trend – particularly in the Commission’s quarterly customer survey results.

The PREMO rating for each element was assessed using Appendix E of the Commission’s Guidance Paper, with our rating and response to guiding questions included in the relevant chapters. Figure 2 below summarises scoring for each of the five PREMO elements.

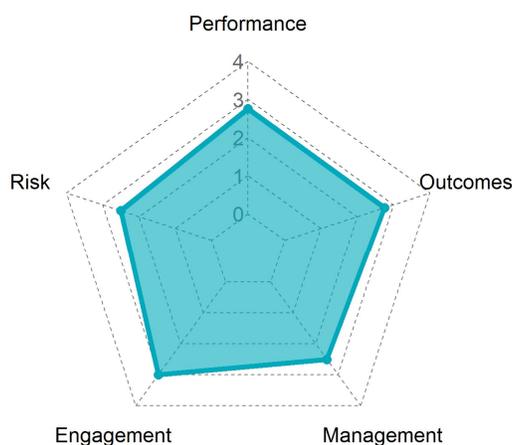


Figure 2: PREMO rating self-assessment.



2.2 PERFORMANCE

We are proposing *Advanced* for the *Performance* element of PREMO. Coliban Water proposed an *Advanced* rating for our 2018 submission, and we consider this to have been met. In accordance with the Guidance, meeting *Advanced* PREMO from the previous review translates to an *Advanced* rating for the *Performance* element in this price review.

Each year, we have presented performance of our Customer Outcomes to an Annual Customer Forum and utilised their performance recommendations within our self-assessment. We have broadly achieved our Customer Outcomes over this regulatory period.

Capital expenditure was \$52m above levels set in the 2018 Determination, primarily to address areas of non-compliance. Some major assets, particularly sewer treatment and networks, have breached EPA licence conditions and required additional expenditure.

Refer to chapter 3 for more details on our performance.

2.3 RISK

We are proposing *Standard* for the *Risk* element of PREMO. We have identified key risks to the achievement of the objectives and assumptions in this submission. We have developed management strategies for all risks rated Medium and High, in accordance with our *Risk Management Framework*. We have considered whether risk being borne by the business, customers or a shared approach is most appropriate. A key element in this submission to address risk is the \$435m portfolio of direct capital investment for the *Big Water Build*. We have been upfront with our customers that higher prices are needed to rectify historical under-investment to meet compliance obligations and to invest for future growth and climate change adaptation. We have ensured uncertain works are not included in prices and instead bolstered our uncertain and unforeseen events mechanism.

Refer to chapter 4 for more details on risk.

2.4 ENGAGEMENT

We are proposing *Advanced* for our *Engagement* program. For the first time, we collaborated with customers via an independently facilitated deliberative process to develop key recommendations for this submission and for the future of services provided by Coliban Water. The Deliberative Process was positioned as Collaborate on the *IAP2 Public Participation Spectrum*. The 32 members of the panel, representing a cross-section of our customer base, were empowered to answer the question *How do we prepare for tomorrow while being fair to customers today?* The panel deliberated on six separate occasions between February and June 2022, with key speakers and information provided based on panel requests. The deliberative process delivered nine recommendations to Coliban Water to consider in developing this Price Submission. We have adopted all recommendations.

We tested the panel's recommendations by publishing a full summary of our submission as the Community Draft on 5 July 2022 and embarked on a major campaign to share broadly and encourage as much customer input as possible. Based on feedback from customers, we are confident the recommendations, including real price increases, reflect broader community sentiment.

We again empowered customers in Lockington and Elmore regarding their preferred price / service mix to reflect the level of service they receive with the STED (Septic Tank Effluent Disposal) sewer



systems in place. We have also listened to clear customer sentiment and dissatisfaction with water pressure performance in some of our smaller systems, with prioritised works during the 2023–2028 regulatory period to deliver improved performance.

Refer to chapter 6 for more details on engagement.

2.5 MANAGEMENT

We are proposing *Standard* for the *Management* element of PREMO. The *Big Water Build* will deliver a transformational level of capital investment in the 2023–2028 regulatory period and beyond to ensure continued high-quality services in the face of high growth, climate change risks and ageing assets.

Adoption of *P50* estimates of Major Projects for pricing purposes means we can deliver a large investment portfolio while constraining real price increases for customers. While we consider these cost projections to be credible and based on real-world, independently sourced information, we must acknowledge the current business environment is creating extreme cost uncertainty and risk of cost exceedances for large capital projects. Further information can be found in our deliverability assessment (section 7.8).

To help support deliverability and to avoid excessive cost risks, we have included an expanded scope for *uncertain and unforeseen* events in this submission. This will ensure key projects will not be included in prices until they are built.

We are proposing a 1.4% annual efficiency target for operating expenditure in line with the Commission's expectations for a *Standard* submission. This efficiency will only be possible with the investments we're making in our assets and technology.

Our *Coliban of the Future* transformation project will create the foundations for an *Advanced* or *Leading* rating for *Management* in future Price Submissions.

Refer to chapters 6–11 for more details regarding the Management aspects of this submission.

2.6 OUTCOMES

We are proposing *Advanced* for *Outcomes*.

We have further refined the Customer Outcomes, Outputs and Performance Measures adopted for the 2018–2023 regulatory period based on a review of existing customer feedback, recommendations from the Deliberative Panel and direct engagement with a cohort of informed customers. New performance measures better reflect the service areas our customers value and where the business can influence performance. Targets set are challenging but achievable.

Refer to chapter 11 for more details on Outcomes.

2.7 REFERENCES

- PS23_BG_14: *PREMO Rating Background Paper*.
- PS23_SP_03_80: *Price Submission Community Draft*



3 PERFORMANCE OVER THE 2018–2023 REGULATORY PERIOD

CHAPTER SUMMARY

- **Advanced** PREMO rating for *Performance*.
- Members of the Customer Forum involved to assess performance annually. Overall achievement of Outcomes across the 2018–2023 regulatory period.
- Positive trend in customer sentiment on value for money and trust in 2022.
- Emerging risks saw changes to our capital delivery program with +\$52m (+23%) delivered above 2018 Determination.
- Operating expenditure was 6.5% above forecast, driven by unforeseen compliance and service needs.

3.1 PREMO RATING – PERFORMANCE

We have rated the *Performance* PREMO element *Advanced*. Performance is assessed across the 2018–2023 regulatory period delivering Customer Outcomes, customer sentiment and actual operating and capital expenditure against targets. While capital expenditure was 23% higher than proposed, this is demonstrably *prudent and efficient* given the drivers for increased investment, in particular compliance obligations across our sewer network and treatment plants. Each year our capital expenditure has been reset as part of our Corporate Plan process, and the last three of the four actual financial years we have been able to achieve the annual planned amounts. Our portfolio is dynamic in nature to respond to changes in priorities therefore projects have been progressed on that basis.

Based on this assessment, as well as the views of our customers at annual forums, we have delivered on our promise. Table 2 summarises our performance during the current pricing period. The following sections provide further detail on each of the four dimensions of performance.

Table 2: Performance summary.

Element	Performance
Capital expenditure	Actual and forecast expenditure \$272m, \$52m (23%) higher than Determination. The majority of this increase (\$41m) is in 2021–22 and 2022–23. We have already commenced a ramp up that will continue into the next period as we sustainably increase our capital expenditure to address growth and compliance requirements.
Operating expenditure	Controllable operating expenditure across first four years \$287m vs Determination \$267m (+6.5%). Compliance obligation costs have also increased significantly. Industry evidence suggests that requirements relating to reporting, assurance, attestation and auditing have become more onerous, contributing to this cost increase.
Customer Outcomes	We have delivered on our Customer Outcome commitments, reporting <i>Green</i> (met) for years 1–3 and <i>Amber</i> (mostly met) in year 4. Our performance was discussed, and ratings confirmed, with informed customers at annual customer forums. Changing business priorities have resulted in <i>Amber</i> or <i>Red</i> performance for certain Outcomes. We have openly discussed this with customers and been transparent where we are unlikely to meet expectations.



Element	Performance
Customer sentiment	We saw a noticeable lift in positive customer sentiment in the Commission’s quarterly customer perception survey. Starting from well below the Victorian industry average in 2018, customer sentiment improved over time and is now in line with state averages for trust and value for money. We have also seen consistently high overall satisfaction with the quality of tap water.
Overall	Our performance over the 2018–2023 regulatory period is in line with our customers’ expectations. We are therefore rating it as <i>Advanced</i> in line with our 2018 Price Submission.

3.2 CAPITAL EXPENDITURE

Total capital expenditure in the 2018–2023 regulatory period (including forecast 2022–23) is \$272m, \$52m (23%) higher than the Determination. We operate a dynamic portfolio prioritisation process where investment decisions are made according to risks changing or being realised. With most of the additional investment across 2021–22 and 2022–23 to address compliance, we have already commenced the *Big Water Build*.

Coliban Water was convicted in 2021 for breaches of the *Environment Protection Authority (EPA) Act (2017)* as a result of non-compliant discharges to the environment in 2019 from the Kyneton Water Reclamation Plant (WRP). A proposed Top 10 project was for upgrade works at the Kyneton WRP to reduce this risk. However, to ensure current and future compliance, the scope of works needed to significantly expand, adding a further \$11m to achieve compliance. We redirected significant internal resources and funds to this project as a priority, meaning other projects were delayed or deferred.

Our 2018 Price Submission proposed to pay down debt and reduce prices. It became evident that these goals carried too much ongoing risk of unsatisfactory service to our customers and harm to the environment, particularly in relation to sewerage system performance, ageing and poor condition assets and growth requirements. We can no longer tolerate deferral of works that would compromise our ability to remain compliant with our obligations and provide the level of service our customers and stakeholders expect of us. We need to strengthen and solidify the level of trust our customers and stakeholders have in us and minimise the risk of further regulatory sanctions. The capital spend requirement has therefore gradually increased over the five-year period, exceeding what was in the 2018 Determination. Having delivered this increased program of works demonstrates that Coliban Water is already on a trajectory of scaling up its delivery of an increasing capital program. This increase will continue into the 2023–2028 regulatory period and beyond. This was transparently communicated to our Annual Customer Forum and customers were supportive of prioritising asset investment over debt repayment.

Table 3: Total actual/forecast capital expenditure compared to 2018 Determination.

\$m 22–23	2018–19	2019–20	2020–21	2021–22	2022–23	Total
2018 Determination	41.2	41.7	43.2	47.7	47.2	221.0
Actual / estimated	40.5	48.6	48.5	62.5	71.4	271.6



3.2.1 Investment by service

To address risks that could adversely impact the environment and customers, capital expenditure in most service categories will exceed 2018 Determination levels (Table 4). The increased recycled water investment is mainly to supply rural customers from the upgraded Kyneton WRP to ensure compliance with licenced discharges to the local waterway (\$14m).

Table 4: Investment by service, 2018 Determination vs actual.

\$m 22–23	2018–19		2019–20		2020–21		2021–22		2022–23	
	Det.	Actual	Det.	Actual	Det.	Actual	Det.	Actual	Det.	Forecast
Water	20.9	19.8	27.0	24.6	25.1	24.5	22.6	33.6	25.3	43.3
Sewerage	17.5	18.4	11.6	20.6	15.7	17.7	21.2	21.8	21.1	19.1
Recycled	2.0	0.8	0.9	0.9	0.2	5.2	2.3	4.5	0.2	7.3
Rural	0.8	1.6	2.1	2.5	2.2	1.2	1.6	2.6	0.6	1.8
Bulk water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	41.2	40.5	41.7	48.6	43.2	48.5	47.7	62.5	47.2	71.4

3.2.2 Investment by driver

Total expenditure for renewals, improvements and compliance drivers are above 2018 Determination values due to risk of asset failure and compliance requirements (Table 5).

Growth was underspent (\$6m) mainly due to project reprioritisation and the decision to delay the finalisation of the Western Bendigo Water Network Augmentation project. Majority completion of this project and reduced customer complaints enabled us to prioritise other more pressing needs.

In addition, many projects were initiated for compliance but are ultimately sized for future growth. This means that significant expenditure for growth is included within the values for other categories as this table is compiled on the basis of the primary driver.

Significant additional expenditure has gone into Compliance.

Table 5: Investment by driver.

\$m 22–23	2018–19		2019–20		2020–21		2021–22		2022–23	
	Det.	Actual	Det.	Actual	Det.	Actual	Det.	Actual	Det.	Forecast
Renewals*	18.7	11.9	19.4	9.3	18.0	11.6	16.7	10.9	16.7	14.4
Growth	9.8	1.0	13.9	3.4	14.0	13.4	11.0	14.8	14.0	23.7
Improvements & compliance*	12.7	27.6	8.4	35.9	11.2	23.5	20.0	36.9	16.5	33.3
Total	41.2	40.5	41.7	48.6	43.2	48.5	47.7	62.5	47.2	71.4

* BOOT expenditure was reclassified from Renewals in the 2018 Submission to Compliance in our annual Regulatory Accounts. This has significantly altered the totals for each category.



3.2.3 Delivery of Major Projects

Of the Top 10 nominated Major Projects, six have achieved their outcomes and been completed or will be completed by June 2023. The remaining four Major Projects include one that is mainly complete and three that remain in progress but have been delayed due to changed priorities as we focussed on ensuring compliance at Kyneton WRP and in other areas.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Kyneton WRP compliance works	2021–22	2021–22	\$7.6m	\$19m

Works forming the original scope are complete which included domestic plant refurbishing and reinstating the existing trickling filter. Trade-waste lagoon - installing additional aeration, inlet works, primary treatment and odour control.

Coliban Water was convicted for breaches of the *Environmental Protection Act 2017 (Vic)* in 2021 as a result of non-compliant discharges to the environment from the Kyneton WRP. This prosecution resulted a two-year undertaking (good behaviour bond). The original scope of work was expanded to fully address deficiencies.

Additional scope includes a Class C to Class B recycled water treatment plant, two additional lagoons and a 14km recycled water pipeline. All additional works are complete except for the pipeline which is scheduled for completion within the 2018–2023 regulatory period.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Western Bendigo water network augmentation	2021–22	2023–24	\$15m	\$11m

Most elements of the project, including the Marong tank, booster pump station and Sterry Rd pipeline, are complete this regulatory period. Construction of the pipeline from Specimen Hill Reservoir to Edwards Rd is due for completion by end of 2022–23. With most works complete, reduced customer complaints gave us additional time to complete the remaining elements. A further \$4.6m is estimated for the 2023–2028 regulatory period to complete the project.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Bendigo WRP sludge processing upgrades	2023–24	2026–27	\$13m	\$1.0m

This project was delayed due to prioritising higher priority works (e.g. Kyneton WRP), the impact of COVID-19 on key consultants and identification of the need to expand the scope. The initial scope was limited to upgrading the sludge handling system however other critical issues have since been identified, namely the condition and capacity of the site dewatering facility and the safety of the electrical switchboard and transformer. For ease of management, these separate issues will be instead resolved by a new Top 10 project in the 2023–2028 regulatory period. A two-stage tendering process will commence in 2022–23, with a further \$52.7m estimated for the 2023–2028 regulatory period.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Strathfieldsaye water network augmentation	2021–22	2022–23	\$10m	\$3.7m

The originally selected option involved a pipeline through a National Park whose construction may have impacted on a species listed under the Federal *Environment Protection and Biodiversity Conservation Act (1999)*. The alternative solution involved tanks with more energy intensive booster pumping – both options



had the same multi-criteria score. Further investigation within the regulatory period concluded that approvals would be more complex than first thought, so the tank solution was chosen. Cost comparisons of the two options considered the upfront costs as well as operating expenditure and further works in the future. In summary, this project will be complete this regulatory period at a reduced cost compared to that forecast in 2018.

Castlemaine WRP sludge handling upgrades	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
	2022–23	2025–26	\$6.3m	\$0.6m

This project was delayed due to prioritisation of projects with more immediate risk of non-compliance, including Kyneton WRP. The design phase has begun with delivery to occur in the 2023–2028 regulatory period with a forecast of \$7.3m.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Rollout of digital metering	2022–23	2023–24	\$5.6m	\$5.1m

Phases 1–4 are complete (28,000 devices) with 4,700 devices installed to date in Bendigo (Phase 5, final phase). Current delays of 12–18 months are being experienced due to global supply chain impacts on the procurement of electronic hardware. Total estimated costs have increased because of global supply chain issues and enhanced scope due to the inclusion of frost protectors within this project to reduce the risk service disruptions. Benefits highlighted in the Business Case are already being realised, including the notification of customers of significant leaks, reduced bill shock and reduced contractor expenditure. Budget allocated for 2023–2028 regulatory period is \$3.8m.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Echuca West tank	2021–22	2020–21	\$4.7m	\$5.4m

Completion of this project has resulted in improved water pressure and security of supply in the Echuca West area. The cost increase resulted from the cost of glass-fused tanks increasing compared to prior installation experience.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Heathcote WRP compliance works	2021–22	2020–21	\$4.5m	\$0.1m

The outcome of this project was to ensure the WRP continues to meet compliance requirements. However, we implemented an innovative solution and achieved this outcome via alternative means. The waste stream from the Heathcote Water Treatment Plant (WTP) placed a significant load on the WRP. Upgrades to the WTP reduced the waste stream significantly and planned works for the Heathcote WRP were not required in this regulatory period. Customers benefitted from this deferral as the funds were reallocated to other priority projects. The actual cost of \$0.1m was for preliminary work.

Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Echuca WTP additional clear water storage	2022–23	2022–23	\$3.2m	\$11m

Following the 2018–2023 Price Submission, this project was combined with other works at the WTP to obtain better value for money and address other issues at the site. Works were also brought forward from the 2023–2028 regulatory period to improve water quality and treatment plant efficiencies. The tank component cost has increased due to the cost of glass-fused tanks increasing compared to prior installation experience.



Project	Completion		PS18 Costs	
	Proposed	Actual / forecast	Proposed	Actual / forecast
Epsom Huntly water mains augmentation	2022–23	2022–23	\$2.9m	\$4.0m

Two separate projects were combined to enable design and construction efficiencies. Originally estimated at a combined total cost of \$4.8m, this project has been delivered ahead of budget.

3.2.4 Capital expenditure impacts on Customer Outcomes

Compliance became our major focus during the 2018–2023 regulatory period. This caused a reprioritisation of some capital investments. Outcomes related to improvements to the Coliban Main Channel and investments in Taste and Odour improvements were not prioritised, meaning underperformance in those areas. Additional investment resulted in a net increase to debt, meaning we did not meet our promise to pay down debt (and associated improvement to credit rating).

Overall, we are confident that our actual capital expenditure achieved better Customer Outcomes than the capital portfolio proposed in our 2018 Price Submission.

3.3 OPERATING EXPENDITURE

Note that all figures from 2018-19 through 2020-21 are consistent with approved regulatory accounts and 2021-22 is consistent with final draft but unapproved regulatory accounts.

3.3.1 Actual vs Forecast

Table 6 outlines operating expenditure from the 2018 Determination and actual operating expenditure over the 2018–2023 regulatory period. This includes reconciliation of statutory operating expenditure to controllable regulatory operating expenditure.

Table 6: Comparison of operating expenditure.

\$m 22–23	2018–19	2019–20	2020–21	2021–22*
2018 Determination operating expenditure	75.5	75.1	75.4	74.8
less non-controllable	-8.6	-8.5	-8.3	-8.2
2018 Determination: Controllable operating expenditure	66.9	66.7	67.0	66.6
Statutory Corporate Plan operating expenditure	90.2	88.3	84.9	90.7
Less Non-Prescribed	-5.7	-3.5	-2.7	-2.1
Less Regulatory adjustments	-4.8	-6.7	-3.1	-6.9
Total regulatory operating expenditure	79.7	78.0	79.2	81.7
Less Non-controllable	-8.3	-8.1	-8.8	-8.8
Actual: Controllable regulatory operating expenditure	71.4	69.9	70.4	72.9
Variance**	+4.5	+3.2	+3.3	+6.3

*All prior years are consistent with approved Regulatory Accounts except 2021–22.

**These variances are due to unforeseen variances as listed below in Table 8: Summary of unforeseen operating expenditure variances 2018–2022 by driver.



The regulatory adjustment figure of -\$6.9m in 2021–22 is consistent with prior years, and is predominantly due to:

- Cloud computing: regulatory capitalisation of \$2.2m of cloud IT expenditure in accordance with the methodology assumed in the 2018 Price Submission.
- Accounting capital reversals: reversal of a \$3.3m addition to operating expenditure due to historical capital expenditure not leading to a commissioned asset. This adjustment lowers our base year operating expenditure and hence reduces the revenue requirement.
- Biosolids desludging: regulatory capitalisation of \$2.1m biosolids desludging in line with 2018 Price Submission Methodology.
- Operating leases: representation of operating lease expenditure \$0.8m in accordance with the methodology assumed in the 2018 Price Submission.

Table 7: Actual operating expenditure 2018–2022 by regulatory category.

\$m 22–23	2018–19	2019–20	2020–21	2021–22	Total PS18 (2018–2022)
Operations and maintenance	26.0	22.4	21.6	22.7	92.7
Bulk charges	2.3	2.3	2.4	2.3	9.4
Treatment	28.2	30.3	31.7	30.4	120.7
Customer service and billing	2.3	2.2	6.6	8.2	19.2
GSL payments	0.1	0.0	0.0	0.0	0.1
Licence Fees	0.3	0.3	0.3	0.4	1.4
Corporate	14.7	14.8	10.3	11.5	51.3
Environmental contribution	5.6	5.6	6.1	6.0	23.3
Other operating expenditure	0.1	0.1	0.1	0.1	0.5
Total regulatory operating expenditure	79.7	78.0	79.2	81.7	318.6

A reclassification of certain expenditure in 2020-21 from corporate to customer service and billing has affected the relativities of both categories.

Key variances between the 2018 Determination and actual controllable regulatory operating expenditure for four years of known operating expenditure are driven mainly by compliance, which includes additional expenditure for new procurement requirements, safe recreational use of water storages, management of sanitary drains, and superannuation increases.

Table 8: Summary of unforeseen operating expenditure variances 2018–2022 by driver.

\$m 22–23	2018–19	2019–20	2020–21	2021–22
Asset and Climate Resilience	3.2	2.1	4.0	3.0
Pandemic	0.0	0.4	0.7	0.2
Compliance	1.2	0.4	0.6	1.0



Cyber Security	0.1	0.1	0.1	0.1
Environmental Projects	0.5	0.4	0.3	0.3
Transformation Preparation	0.0	0.0	0.0	1.4
Total unforeseen variations	5.1	3.4	5.8	6.1

The total level of expenditure on unforeseen operating expenditure items has exceeded total variance in controllable regulatory operating expenditure. This means that if expenditure on these unforeseen items had not been required, we would have bettered our assumed operating expenditure from the 2018 Determination.

3.3.2 Operating expenditure efficiency

We included a 1.5% annual operating expenditure efficiency target for the 2018–2023 regulatory period. The total unforeseen variations to operating expenditure exceeded the actual variations to controllable operating expenditure (Table 6). This means that aside from these unforeseen expenditures, Coliban Water would have exceeded the efficiency target.

Our future operating expenditure proposals ensure that efficiencies can be achieved while simultaneously providing the uplift in services required to meet growth and compliance obligations.

Figure 3 shows that our total operating expenditure per connected property (water and sewerage services) is below the national average for comparable water utilities.

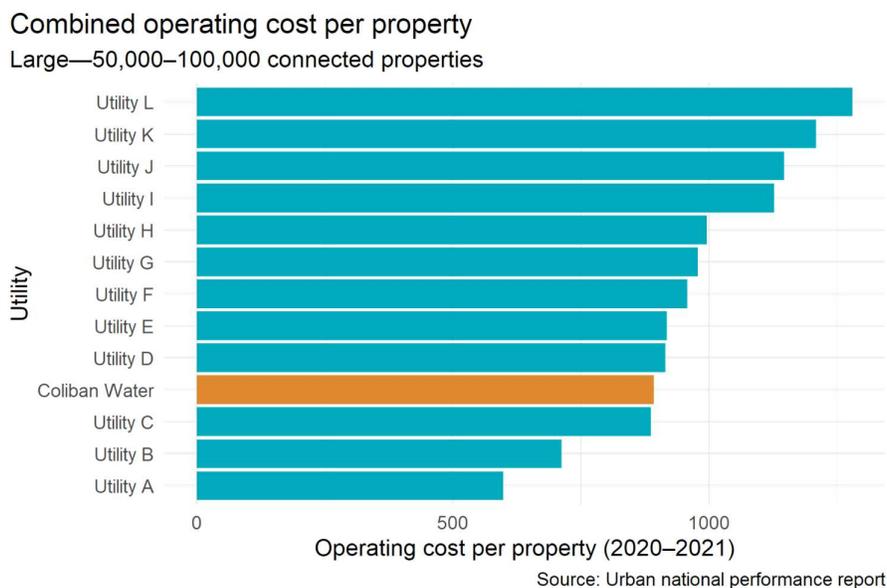


Figure 3: Operating expenditure per connection, large water utilities.

3.3.3 Operating expenditure impacts on Customer Outcomes

Real reductions in operations and maintenance (network) expenditure over the last five-years has not negatively contributed to the achievement of our Customer Outcomes (see chapter 11). However, several significant asset failures have occurred due to ageing assets. For example, a sewer pipeline in



the Bendigo system collapsed leaving an eight-metre deep hole in a customer’s backyard. The necessary cost of remediation led to capital expenditure in excess of \$1.3m. These incidents are indicative of the fact that we hold a large amount of risk in ageing assets.

Chapter 9 details our proposals to increase proactive maintenance to avoid catastrophic sewer collapses of ageing assets.

3.4 CUSTOMER OUTCOMES

We adopted five Customer Outcomes with 27 performance measures in 2018. These were developed in consultation with customers to best reflect service areas that mattered the most to them.

We have performed strongly for Customer Outcomes across the 2018–2023 regulatory period to date. In consultation with our customers through annual customer forums, we rated our overall performance Green (met) for the first three years and Amber (mostly met) in 2021–22.

Some measures were developed on an optimistic or aspirational basis and we could not realistically meet them (e.g. 90% for the *Coliban Water System Customer Index*, Zero annual SDWA non-compliances). Changed investment priorities or updated risk analysis meant certain measures would not be achieved in the regulatory period, including fencing around major catchments, Coliban Main Channel renewal, debt repayment and business credit rating improvement. This resulted in our first reported Red performance for Customer Outcome 5 in 2021–22.

Some measures adopted were not necessarily the best choice to reflect the service area. Given the innovative nature of outcomes and learnings over the past four years, this has been reflected in the revised Customer Outcomes and performance measures proposed in this submission.

Table 9: Overview of past performance on Customer Outcomes.

Customer Outcome	18–19	19–20	20–21	21–22
Supply high quality water you can trust	Green	Amber	Green	Green
Provide infrastructure and services to meet the needs of our customers now and into the future	Green	Green	Green	Green
Reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations	Green	Green	Green	Green
Open and transparent with customers about affordable pricing, service disruptions and repairs	Amber	Amber	Green	Green
Support the liveability in the region	Green	Green	Amber	Red
Overall	Green	Green	Green	Amber



3.5 GUARANTEED SERVICE LEVELS

The GSLs adopted for the 2018–2023 regulatory period included 15 customer- and four community GSLs. This was the largest GSL commitment made by a Victorian water business. We were an industry leader in proposing innovative community GSLs, where the community impacted by a reduced service level event receives payment to a cause of value to that community.

The level of GSLs paid has reduced from 2019 to 2022. As previously advised to the Commission, the majority of the 2018-19 GSL was a single water outage in White Hills (Bendigo) lasting more than five hours, caused by third-party damage to a water main. More than 1,000 customers were impacted resulting in payments totalling \$57,000. In that year we also paid community GSLs for a significant sewer spill, poor pressure performances and short-term water quality issues

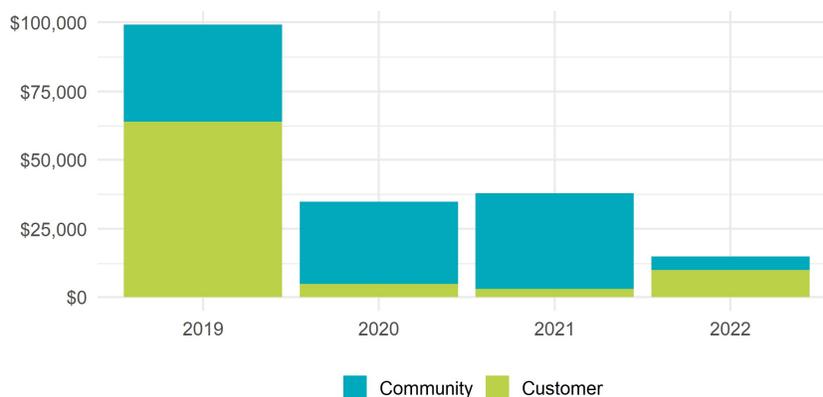


Figure 4: Value of GSL payments by year.

The number of GSLs by type paid in each year are shown in Table 10 and below. The increased focus on these service areas from having GSLs in place and customer engagement has resulted in increased business scrutiny and therefore improved performance.

Engagement ahead of the 2018–2023 regulatory period gave us insight into customer views on our performance. This included concerns around water pressure in smaller systems where no upgrade works were prioritised. Based on this feedback, we implemented a community GSL for poor pressure performance. With a small number of systems qualifying for this GSL repeatedly, we have proposed capital works for the 2023–2028 regulatory period to address poor pressure in each identified system, as well as including a customer pressure GSL. This is an example where customer engagement and additional performance scrutiny has directly resulted in improved service outcomes for our customers.



Table 10: Number of Customer GSLs by year.

Customer GSL	2018–19	2019–20	2020–21	2021–22
Sewer intrusion (blown seal)	24	20	19	27
Sewer intrusion (shorter than 1 hour)	5	1	-	3
Sewer intrusion (longer than 1 hour)	-	1	1	4
Special Meter Read late	19	4	2	20
3+ sewer blockages	10	1	9	1
4+ water interruptions	55	-	-	30
Longer than 5-hour water interruption	1,146	34	-	37
Correspondence later than 10 days	-	2	-	-
Planned water outage peak times	-	-	-	-
Rural water allocation %	-	-	-	-
Customer restriction <i>reasonable endeavours</i>	-	2	-	-
Customer restriction removed >24 hours	-	-	-	-
Ongoing water quality issue	-	-	-	-
High priority inspection >2 days	-	-	-	-
High priority mains inspection > 10 days	-	-	-	-
Total Customer GSLs	1,259	65	31	122

Table 11: Number of Community GSLs by year.

Community GSL	2018–19	2019–20	2020–21	2021–22
Large sewer spill	1	-	-	-
Poor water pressure / flowrate	2	3	3	-
Boil water / do not consume notice issued	-	-	1	1
Short-term water quality issue	1	3	3	-
Total Community GSLs	4	6	7	1



3.6 SERVICE PERFORMANCE

Coliban Water has overall exceeded the performance standard targets over the first four years. The average duration of unplanned interruptions and subsequently the number of customers experiencing more than five unplanned interruptions was exceeded but has reduced significantly in following years.

Table 12: Water supply service standards performance 2018–2022.

Water Service Standard	Units		18–19	19–20	20–21	21–22
Number of customers experiencing more than five unplanned water supply interruptions in the year	No.	Target	5	5	5	5
		Actual	15	17	0	0
Average time taken to attend bursts and leaks (priority 1)	Min.	Target	32	32	32	32
		Actual	25	23	30	24
Average time taken to attend bursts and leaks (priority 2)	Min.	Target	80	80	80	80
		Actual	51	52	61	59
Average time taken to attend bursts and leaks (priority 3)	Hours	Target	1,140	1,140	1,440	1,440
		Actual	796	915	864	935
Average duration of unplanned water interruptions	Min.	Target	140	140	140	140
		Actual	141	111	110	111

All service standard targets for sewerage were met or exceeded in the first four years. All GSLs paid for multiple sewer blockages were for exactly 3 blockages (zero 4+ sewer blockages).

Table 13: Sewerage service standards performance 2018–2022.

Sewer Service Standard	Units		18–19	19–20	20–21	21–22
Number of customers receiving more than three sewer blockages in a year	No.	Target	2	2	2	2
		Actual	0	0	0	0
Average time to attend sewer spills and blockages	Min.	Target	30	30	30	30
		Actual	27	30	28	26
Average time to rectify a sewer blockage	Min.	Target	80	80	80	80
		Actual	64	64	66	67
Spills contained within five hours	%	Target	99	99	99	99
		Actual	100	100	100	100



3.7 CUSTOMER SENTIMENT

Our reputation with customers improved significantly over the 2018–2023 regulatory period. Results from the Commission’s quarterly *Customer Perception Survey* show that the trend for both *trust* and *value for money* has been positive, with a noticeable lift in positive customer sentiment. Latest results show us sitting in line with the industry average after being below average for much of the period (Figure 5).

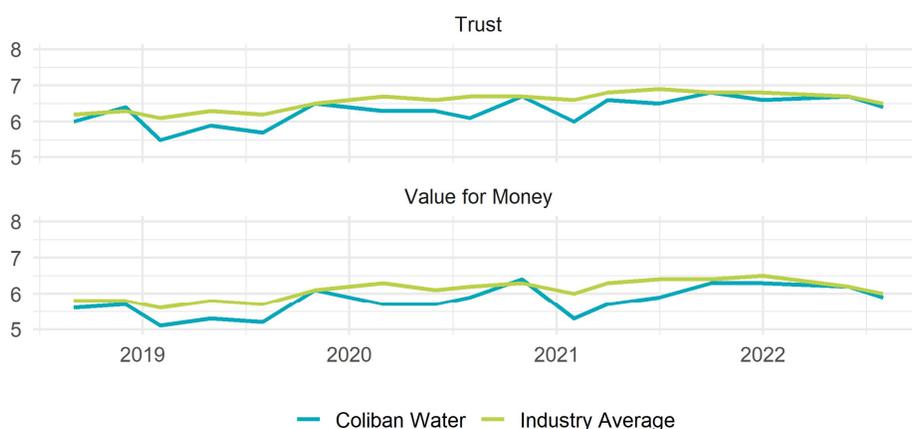


Figure 5: Trust and Value for Money Scores (ESC Customer Perception Survey).

Coliban Water participates in the annual *Customer Satisfaction Survey* with a cohort of other Victorian water businesses. This telephone survey canvases the opinion of 400 random customers in each service region on their perception of tap water quality. Satisfaction with the quality of drinking water has remained consistently high, with all results greater than 84% (Table 14).

Table 14: Annual customer satisfaction survey scores.

Year	2018–19	2019–20	2020–21	2021–22
Customer satisfaction with tap water quality	87%	84%	88%	88%

3.8 REVENUE REQUIREMENT AND PRICES

Actual revenue across the first four years is \$6.4m (-1.2%) below the revenue requirement. Revenue in 2018–19 exceeded revenue requirement, driven by hot, dry conditions, with household water demand peaking at average 210 kL. Demand has since moderated with total revenue below revenue requirement in each following year.

Table 15: Revenue Requirement vs Actual Revenue, 2018–19 to 2021–22.

\$m 22–23	2018–19	2019–20	2020–21	2021–22	Total
Revenue Requirement	133.8	134.6	135.9	136.6	541.0
Revenue (actual)	138.1	134.5	131.8	130.3	534.5
Variance (%)	+3.2%	-0.1%	-3.0%	-4.7%	-1.2%



Prices for most services have fallen in real terms across the 2018–2023 regulatory period. By 2022–23, prices were about 10% lower than 2017–18 prices. This was due to prescribed price movements of 6.7% and debt adjustments of 3.2%.

Table 16: Average annual price change.

	2018–19	2019–20	2020–21	2021–22	2022–23
Annual price change (%)	-1.9%	-1.8%	-2.2%	-2.2%	-1.9%

3.9 PERFORMANCE PREMO RATING SUMMARY

Guiding Question	Score	Justification
To what extent has the business demonstrated delivery of its Customer Outcomes commitment over the current regulatory period? Did its customers get what they paid for?	3.00	We discussed Outcomes performance with customers at annual forums where they helped determine our ratings. Customers agree we have provided service in line with their expectations. We delivered Green performance years 1–3 and Amber in year 4.
How does actual operating expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	2.75	Actual operating expenditure 6.5% higher than the Determination to end 2021–22. This has been despite unforeseen costs being greater than our overall variation, and challenges regarding the pandemic and the current business environment.
How does actual capital expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	2.50	We have spent or committed \$51m (23%) more capital investment than in the Determination. This has been largely to address non-compliance events (actual and risk), including at the Kyneton WRP. Customers are better off by our commencement of the <i>Big Water Build</i> within this regulatory period.
To what extent does customer sentiment demonstrate satisfaction in the business’s performance over the current regulatory period? Are customers happy with the value they receive from their water business?	2.75	Customer sentiment over regulatory period clearly trended up as seen in Commission’s quarterly survey results for <i>Trust</i> and <i>Value for Money</i> . In 2022, we have improved to be in line with the industry average. Customer satisfaction with tap water consistently high at 87–89% approval.
Final score (average)	2.75	Reasonably confident element is <i>Advanced</i>.

3.10 REFERENCES

- PS23_BG_04: *Outcomes Background Document*
- PS23_BG_05: *Service Standards Background Document*
- PS23_BG_06: *Guaranteed Service Levels Background Document*
- PS23_BG_08: *Opex Background Document*
- PS23_BG_09: *Capex Background Document*



4 RISK

CHAPTER SUMMARY

- Rated *Risk* element as **Standard**.
- Significant compliance risk has materialised in recent years owing to the age and condition of our assets.
- A significant business capacity uplift is required to respond to the challenges of climate change, growth and ageing assets.
- Customer engagement has shown understanding for the need for a balance between modest price increases and increased debt.
- Mitigation plans are in place for key business and customer risks.

4.1 PREMO RATING – RISK

We have rated *Risk* as *Standard* for our 2023 Price Submission.

A key theme in this submission is the need to address non-compliant and ageing assets. Low capital renewals and the presence of extreme asset risks has increased the risk rating of our *Asset Confidence* strategic risk to Very High. For example, the clear water storage at the Bendigo Water Treatment Plant is ageing and at risk of failure, with a project to remedy this extreme risk currently underway. Ageing assets at the Bendigo WRP have failed multiple times, resulting in an EPA licence non-compliance in 2021-22.

4.1.1 Key Risks

Our *Environmental Performance* strategic risk has been rated Extreme due to unsatisfactory levels of EPA-notifiable sewer spills and the imposition of a two-year undertaking (equivalent to a good behaviour bond) issued by the Magistrates' Court in March 2021. The undertaking and a significant financial penalty were imposed due to breaches of environmental laws as a result of the Kyneton WRP having insufficient capacity and discharging into the Campaspe River beyond licence requirements. It was Coliban Water's third prosecution for environmental offences in its service region since 2016. Other significant environmental risks continue to be held where assets are unable to keep pace with demand.

4.1.2 Our Response

Our response to these asset risks is for high priority investment to meet growth, climate change and ageing and degrading assets. With a renewed and carefully considered capital prioritisation process, we have ensured that high priority works are programmed within our *Big Water Build*. Our rigorous master planning and externally assured Monte-Carlo *P50* cost estimates provide a solid base for increased capital expenditure and mitigate the risk of cost overestimation or underestimation. Business cases for all Major Projects demonstrate the prudence of the program. Capital projects are all subject to approval at Board or Management level depending on their size and complexity.

We are aware of increased capital deliverability risk in this economic climate. We have restructured our organisation and begun a robust business transformation program to ensure we can achieve the necessary investment levels. This includes a complete overhaul of our Project Management Office function and identifying the optimal business model to deliver the capital program to ensure



maximum value for customers. Recreating our business model from the ground up has put us on the best path towards **transforming** our business while we also **run** our assets and simultaneously **grow** our capability: our *Run – Grow – Transform* approach.

From 2019 to 2022, we have successfully planned and delivered a doubling of direct capital expenditure to \$44m in 2021–22. We are on track to increase this to \$55m in 2022–23. We have a well-established track record of delivery and we will continue this trajectory through the coming regulatory period.

We have conducted our most rigorous engagement program ever to understand customer needs and wants. Outcomes of this engagement are intrinsic to this submission, including our increased focus on water security, support for customers experiencing vulnerability and being a community leader. We will fully implement the recommendations of the Deliberative Panel other than price levels (our submission proposes lower price increases than those recommended by the panel). For more information on our customer engagement, please see chapter 5.

By ensuring most of the capital expenditure is debt funded, we have reduced the risk of customers bearing the burden of capital expenditure this period. Our proposed price increases contribute only \$55m to cash flow. This is a small proportion of our overall \$435m direct capital portfolio expenditure, with the balance covered by general cash flows and new debt.

Finally, we have engaged independent experts to support development of this submission, including providing assurance on the completeness and quality of all information presented. Our overarching assurance program has been undertaken by Sequana Partners, involving a review of the submission and independent assurance to our Board.

4.2 CORPORATE RISK MANAGEMENT FRAMEWORK

Coliban Water's *Risk Management Framework* is based on the eight risk management principles outlined in the Risk Management Standard AS/NZS ISO 31000:2018. All risks are assessed within the envelope of the Coliban Water Risk Appetite Statement, which identifies areas where the business actively seeks reward if risks can be effectively mitigated.

Scenario analyses for risks, including an assessment of the nature and scale of risk and probability of occurrence, have been undertaken in developing this Price Submission.

Our corporate risk framework outlines the key risks to the entity. Periodic assessments of these risks occur, and Board receives and discusses a monthly risk report with objective traffic light assessments of all Key Risk Indicators. An example monthly Board report is shown in Figure 6.

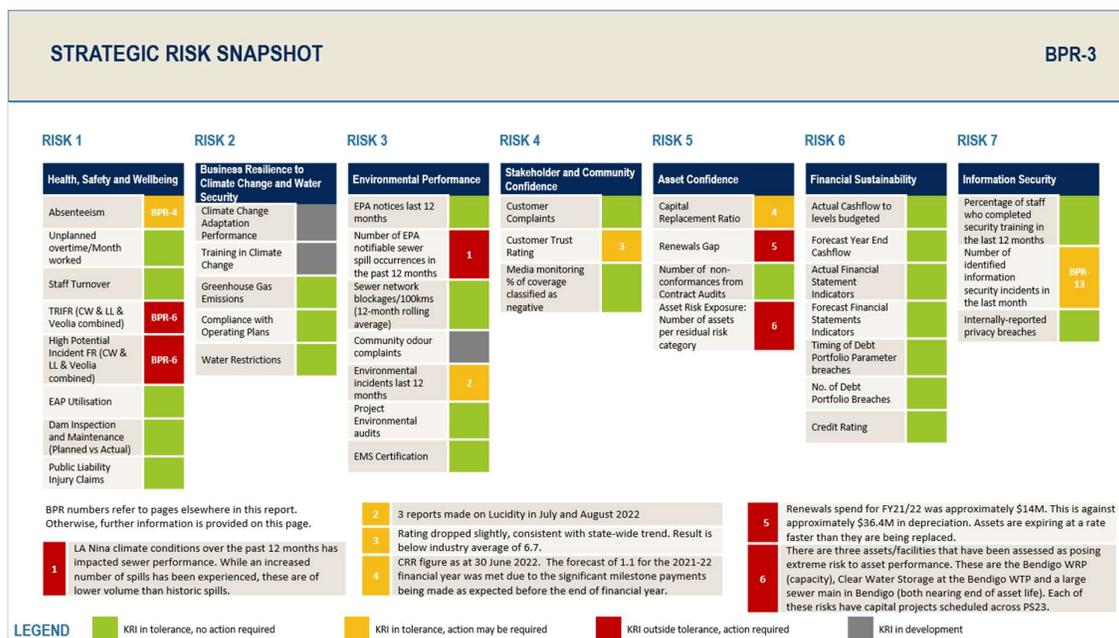


Figure 6: Risk assessment Board snapshot, August 2022.

4.3 RISK ALLOCATION BUSINESS AND CUSTOMERS

We are proposing real price increases to ensure customers and developers pay a fair share of the *Big Water Build* in the next period and beyond following the principle of intergenerational equity supported by customers. This position has been supported by our Deliberative Panel and verified by broad customer engagement. This is a reversal of the previous risk allocation where Coliban Water under-invested in infrastructure to constrain short-term price rises and pay down debt.

The proposed price increases are back-ended to reflect the fact that customers will receive better service levels as the period progresses. Also, lower price rises in years 1 and 2 will reduce the financial impacts on our customers before we return to lower inflation by the end of the regulatory period as forecast by the Reserve Bank of Australia.

4.4 KEY RISKS

Key risks to customer prices and service levels have been identified for the 2023 regulatory period consistent with Appendix D of the Guidance. Where a risk has been assessed as high or medium (of adverse price movements or poor service outcomes), a mitigation strategy has been determined along with an assessment of the share of risk between Coliban Water and customers.



Customers experiencing vulnerability

Risks	More than one third of Coliban Water customers have an active concession card. We are acutely aware of the need to increase support to these customers. While bill increases of 1.9% to 2.5% may be modest to some customers, we know this will risk customer disengagement and financial hardship for customers experiencing vulnerability.
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Mitigation	<p>We will significantly increase financial support offered to our customers as recommended by our Deliberative Panel.</p> <p>We have invested in the Experian Mosaic customer segmentation product to proactively identify residential customers at risk of financial hardship who may choose to not engage with Coliban Water.</p> <p>We will maintain the current fixed / variable split for our services. This means customers have some incentive to manage their bills while reducing the likelihood of summer bill shock as consumption doubles or triples during dry summers.</p> <p>The rollout of digital metering has enabled us to proactively detect leaks which are a source of unexpected high bills. We have engaged plumbers to assist customers make repairs to reduce leaks. To date, customers have resolved up to \$600,000 worth of leaks upon being notified by us. Digital metering will also provide opportunities for innovative billing approaches. We will implement monthly billing during this regulatory period to further reduce bill shock and enhance affordability.</p>
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Operational risk: Non-compliant treatment plants

Risks	We are at risk of non-compliance with EPA licence conditions at a number of our WRPs, such as Bendigo, Castlemaine and Cohuna. In 2021, the Magistrates' Court convicted Coliban Water for Kyneton (2019) and placed Coliban Water on a two-year Undertaking (good behaviour bond). In 2021–22, the Bendigo WRP was non-compliant with its licence due to exceeding the discharge volume limit. For the Cohuna WRP, we are addressing some integrity issues for two treatment lagoons where seepage was occurring. Further works are prioritised to fully address non-compliance issues.
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Mitigation	<p>We have commenced a significant program of works at the Bendigo WRP to reduce risk of further licence breaches. We will invest \$53m in a sludge handling project and \$62m in additional works at this site (\$26m in the 2023-2028 regulatory period) to ensure this end-of-life asset is upgraded to respond to the threats of climate change and customer growth. Both are Top 10 projects in this submission. While we are carefully planning these works to optimise customer value, we are undertaking a corporate restructure to ensure better visibility of operational risks at this plant.</p> <p>The Cohuna WRP Upgrade Project, a Top 10 project, will result in the remaining two lagoons being upgraded to address lagoon seepage. Additional storage will be built to meet the overall water balance requirements for the site and accommodate growth. Various other capital works are proposed for WTPs and WRPs to ensure current and ongoing compliance with EPA and DoH requirements.</p> <p>In addition to undertaking capital upgrades at the Kyneton WRP, we are also investigating incorporating an environmental offset into an amended EPA licensed discharge to the river. The environmental offset consists of extensive riparian works upstream of the discharge point to reduce nutrient inputs into the Campaspe. The works consist of the removal of willows, replanting these areas, fencing to restrict stock access to the waterway, and installing off-stream watering points. Coliban Water is also investing in a comprehensive waterway health monitoring program, which is designed to show whether the riparian works that have been undertaken actually reduce nutrient levels in the waterway and improve overall waterway health.</p>
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Operational risk: Ageing networks

Risks	<p>Ageing water and sewer pipes in many systems mean increased risk of poor service for customers (blockages, bursts and leaks and intrusions).</p> <p>For example, in 2021 an ageing sewer pipe collapsed leaving an 8 metre deep hole in a customer's backyard. For the duration of remediation, trucks and maintenance crews were active in a residential street and customer backyards. The total cost of repair was over \$1.3 million. This incident is emblematic of the age and condition of our sewer networks.</p>
Mitigation	<p>We will expand our mains renewal programs this regulatory period. This will reduce the risk of catastrophic sewer collapses and water mains failures across our networks. We have implemented and will optimise procedures to identify at-risk mains for maintenance or renewal prior to failure occurring. This includes prioritising mains with persistent issues for renewal and/or cleaning.</p> <p>We will continue to offer GSLs where we do not meet minimum levels of service. We are proposing to increase the values of most customer GSLs.</p>

Inflow to catchments

Risks	<p>Three of our nine water supply systems are single source with a heightened risk of water deficit or water restrictions. This risk is exacerbated by climate change which has already reduced inflows to Coliban storages by 53% since 1975. Our system was once amongst the most reliable in Victoria but now it is amongst the most unreliable.</p>
Mitigation	<p>Management rules proactively switch Bendigo supply to the more expensive Lake Eppalock and Goulburn systems in dry conditions to ensure sufficient ongoing supply for Castlemaine and southern towns. Due to growth and climate change, a much higher percentage of Bendigo's supply will be sourced from Lake Eppalock and the Goulburn system in the future.</p> <p>Our <i>Urban Water Strategy</i> notes likely need for the Coliban Southern Interconnector (Castlemaine Link) during the 2023–2028 regulatory period. However, we have removed this expenditure from our revenue requirement and will only include these costs in prices once the drought trigger conditions are met for construction of this asset.</p> <p>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.</p> <p>In alignment with the recommendations of the Deliberative Panel, Coliban Water will continue to purchase additional Goulburn and Murray water entitlements to meet demand growth. We will continue to sell surplus water allocations to offset the RAB and mitigate future prices.</p> <p>Rural customers will continue to receive a GSL via a rebate to fixed charges if we are unable to allocate 100% of entitlements in any season (GSL-08 in Table 52 on page 95).</p>



Capital estimation and deliverability

Risks	A continued increase in capital delivery is needed to respond to the threats of climate change, growth and ageing assets. Significant additional resourcing is required to deliver the full program in the proposed timeframes. Many key inputs (materials, skilled labour) are becoming scarce and face price increases, adding to the degree of difficulty.
Mitigation	<p>All Major Projects are fully scoped and subject to an options assessment process. Business cases have been written with proposed dates reviewed for feasibility of delivery. A rigorous process has ensured that only the highest need projects have been prioritised. Board and executive buy-in is assured as projects are only included within this submission following a rigorous internal approval process.</p> <p>Major project costings are estimated on a <i>P50</i> Monte Carlo basis, resulting in a significant reduction in contingency costs being passed through to customers. Project costings were reviewed in mid-2022 to ensure currency and accuracy of forecasts. Our Net Present Value (NPV) methodology ensures that both capital and operating costs are considered when determining the best value solution for customers.</p> <p>Since 2018, we have doubled direct capital expenditure to respond to pressing needs. We will continue this steady build-up in coming years. A corporate restructure is enabling business transformation that will leave us best placed to deliver our portfolio. We are reviewing our capital delivery models to ensure we can access a tight market to achieve our customer objectives.</p> <p>The total portfolio management approach means we reprioritise projects to better meet customer needs and address high risks. Any additional works subsequently reprioritised will not be charged to customers this regulatory period apart from those that are a specified as an Uncertain or Unforeseen project (see section 14.3.1).</p>

Peak water demand

Risks	Population growth and climate change have put increased strain on water networks. While most systems can adequately supply average day demand, peak demand on hot days can result in some customers experiencing poor flow rates when they need it most.
Mitigation	<p>System augmentation will continue to occur where required for demand growth. However, in the short-term customers may continue to experience poor peak day flow rates until these works occur.</p> <p>Based on feedback from our customers, Coliban Water has commenced a program of pressure augmentation with booster pumps in small systems with known pressure issues. We are increasing the level of GSLs in the event of poor ongoing pressure performance.</p> <p>We will look for opportunities with the rollout of digital meters to elicit demand-side response on peak days, e.g. large non-residential customers in stressed systems that could reduce supply during times of system stress in exchange for a payment or bill rebate.</p>



Electricity costs

Risks	<p>Electricity prices for the 2023–2028 regulatory period are uncertain due to recent volatility in the electricity market as society shifts to renewable energy sources and coal generation is decommissioned.</p> <p>Coliban Water may also experience significant electricity demand volatility, with high levels of pumping in persistent dry conditions meaning total electricity costs can vary by up to 30% in any year.</p>
Mitigation	<p>While electricity prices have increased recently, our move to the centralised State Purchasing Contract will cushion the impact.</p> <p>We have been an industry leader in participating in demand-response schemes and we will continue this.</p> <p>To ensure prices reflect the most up-to-date forecasts of electricity prices, we have assumed electricity will increase in line with CPI only over the period. A revised update will be provided in response to the Draft Decision once an industry electricity cost review is complete in early 2023.</p>

Growth and demand forecasting

Risks	<p>If actual growth and demand differs significantly from forecasts, we may see revenue and cost variances over the regulatory period.</p>
Mitigation	<p>The business is well-placed to manage this risk as cost savings would partially offset revenue reductions (and vice versa).</p> <p>We have used internal long-term growth forecasts which are higher than <i>Victoria in Future</i> (VIF) figures. These forecasts best balance the long-term trend of steady growth and the short-term experience of a significant growth spike. Growth forecasts have been consistently applied across capital expenditure, revenue and operating expenditure.</p> <p>Demand modelling has been based on system-specific growth figures with demand for pricing purposes consistent with the model used for water resource planning. This includes consideration of both wet years and dry years.</p>

Customer Outcomes performance

Risks	<p>Poor business performance against the various measures adopted (service standards, Customer Outcomes, etc) may mean our customers may not receive good value for money, or levels of services provided may not meet their needs or expectations.</p>
Mitigation	<p>Customer Outcomes and performance measures proposed for the 2023–2028 regulatory period are based on feedback from customers. Outcomes proposed in this submission are more reflective of service areas and levels that our customers value. We will continue to collaborate with customers to assess our performance against these measures. The introduction of Regional Advisory Groups as part of our Customer Engagement Strategy will provide us additional opportunities to regularly test our performance with customers.</p> <p>GSLs proposed for the 2023–2028 regulatory period have been revised to better reflect areas of performance our customers value. In most instances, the proposed GSL levels have been increased. These will provide a strong reputational incentive for Coliban Water to continue to deliver high quality performance.</p>



Pandemic impacts	
Risks	COVID-19 has led to profound changes in how we work and live. The pandemic and governments' responses have affected our customer growth rates and the supply of labour. Water use within homes is higher while non-residential use is lower. Some customers are in better financial positions while others are struggling. Some non-residential customers are now experiencing financial hardship and this is affecting their livelihoods.
Mitigation	<p>The pandemic is affecting how we operate as a business and reshaping how we serve our customers, and its impacts are broad and varied. In undertaking this risk assessment, we felt that mitigation measures for pandemic-related impacts are best categorised with the individual impacts.</p> <p>Some other pandemic related impacts, such as customer growth and supply chain issues, have been referenced in this chapter. As a business, we have plans to transform how we operate to leverage opportunities that were accelerated by the pandemic.</p>

4.5 RISK PREMO RATING SUMMARY

Guiding question	Score	Justification
To what extent has the business demonstrated a robust process for identifying risk, and how it has decided who should bear these risks? i.e. such that customers are not paying more than they need to.	2.25	The Coliban Water Risk Management Framework complies with Australian Standard AS/NZS ISO31000:2018. The costs for all Major Projects were estimated using Monte Carlo simulations to determine the P50. A risk register was established during the development process of the submission to capture and assess risks.
To what extent does the proposed guaranteed service level (GSL) scheme provide incentives for the business to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?	3.00	Current useful GSLs have been maintained and the dollar value increased as they demonstrably helped to improve performance. Proposed GSLs were reviewed at 2022 Annual Customer Forum. Coliban Water annually reports on performance against these and we are implementing new reporting via Regional Advisory Groups. Refer to chapter 5 for details.
Final Score (average)	2.50	Very confident the element is <i>Standard</i>.

4.6 REFERENCES

- Coliban Water Risk Management Framework (QA Docs)
- PS23_BG_01: Price Submission Risk Register



5 ENGAGEMENT

CHAPTER SUMMARY

- Rated *Engagement* as **Advanced**.
- Undertook our first Deliberative Panel process to help us develop our vision for the future and deliberate on our future challenges of ageing infrastructure, customer growth and climate change.
- Shifted to embedding engagement as standard business with targeted engagement to address identified gaps with topics and customer groups.
- Engaged with Traditional Owners and customers at risk of hardship.
- Customers support our *Big Water Build* as means to address performance concerns and to manage future uncertainty.

5.1 PREMO RATING – ENGAGEMENT

We have rated our *Engagement* as *Advanced*. For the first time, we engaged a Deliberative Panel to help develop this Price Submission. The panel provided a genuine opportunity for us to collaborate with our customers in setting our goals and outcomes for the next regulatory period. We have also further strengthened our commitment to more in-depth customer engagement with the planned establishment of customer advisory groups.

Our region is at a critical point with challenges to our water supply, increasing demand and ageing water and sewerage infrastructure. A comprehensive engagement program with customers, local communities and other stakeholders was required to increase awareness of the challenges we face. We knew we needed to further enhance our already strong engagement practices and facilitate new ways to involve all stakeholders in the decision-making process.

From the start of planning this submission, we committed to achieving an *Advanced* Engagement rating for work we consider critical to the future health, wellbeing, success and prosperity of customers and communities across our region, local businesses, and Coliban Water itself. Subsequently, we've completed our most comprehensive, evidence-based engagement program to date. The outcomes of the engagement process give us confidence that all stakeholders understand the need for intergenerational investment and consider proposed changes to our pricing fair for all.

5.2 GOALS FOR ENGAGEMENT PROGRAM

Our primary objectives through our Engagement Program were to:

- Design a program that follows the principles of universal and inclusive engagement
- Ensure we understand what's important to our customers
- Make our plans reflect customer and community needs today
- Involve all sections of our community as we ready our business for transformational change to upgrade and renew ageing assets, secure our water supply as our climate changes and further support members of our community who need a hand
- Maximise collaboration so prices set for the 2023 Price Period are fair for customers today, while enabling us to be well prepared for the future



5.3 OUR ENGAGEMENT PROGRAM AT A GLANCE

Running from April 2021 to August 2022, our 2023 Price Submission engagement was built on the vast pool of engagement feedback already available to us. Sophisticated stakeholder involvement includes developers, councils and key government and regulatory bodies.

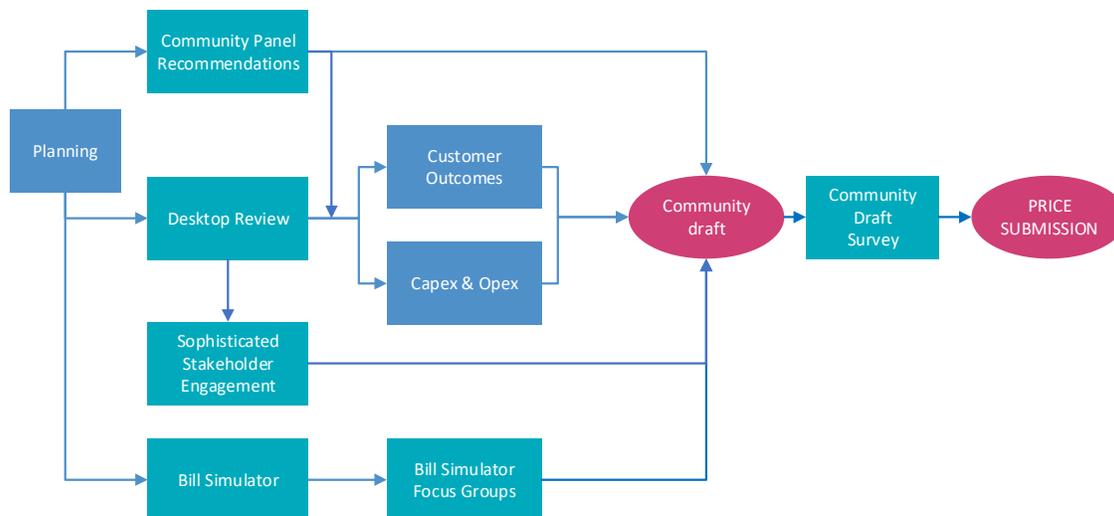


Figure 7: Summary of the engagement process.

Table 17: Engagement Process Steps.

Step	Summary
Started with what we knew	An internal review of previous engagement activities meant we analysed approximately 14,000 individual items of customer data, interaction and feedback received over the past 10 years. This review provided a baseline for engagement, captured feedback sentiment and identified existing gaps.
Fit-for purpose engagement	To achieve <i>Advanced</i> for engagement, we adopted the <i>International Association for Public Participation</i> (IAP2) framework and set out to involve, collaborate with, and empower different parts of our community in the engagement program. Comprehensive stakeholder mapping ensured all segments of our community had the opportunity to participate.
Used multiple channels for broader reach	We used a variety of engagement tools and channels, including face-to-face meetings, workshops, forums and focus groups, interactive online and social media, print, mail, emails to customers, hardcopy and online surveys, and community events to connect with customers through the channel of their choice. Our flexible approach and ability to deliver across multiple channels allowed us to better cater for customers’ engagement preferences that have evolved with the onset of COVID-19.
Bespoke engagement with customer groups	We developed targeted communication and engagement plans for different categories of customers. In particular, we took time and care to communicate and engage sensitively with: <ul style="list-style-type: none"> Traditional Owner groups



Step	Summary
	<ul style="list-style-type: none">• Customers experiencing financial vulnerability or family violence (and the Community Groups that support them) <p>Where appropriate, we sought opportunities for deeper engagement and genuine collaboration that empowered these groups.</p> <p>Face-to-face conversations with all key customer groups provided the opportunity to close the loop and confirm findings throughout the consultation period.</p>
Established a Deliberative Panel to represent our customers	A 32-member Deliberative Panel was established for the first time to deep-dive into key areas and empower a representative group of customers to drive real business change. All nine recommendations from the panel have been adopted and included in our Price Submission.
Proactively shared our Community Draft	<p>We summarised the 2023 Price Submission process in an easy-to-understand Community Draft, which was also translated and made available in an Easy English version. This document makes it easy for customers to understand:</p> <ul style="list-style-type: none">• Coliban Water’s role as a 100% customer-funded organisation• How the money from their bills is spent• Our proposed pricing roadmap and planned projects and what it means for them• What Coliban Water does to engage with the community and understand customer needs• How they can provide feedback and have their say in the decision-making process• What we heard from specific stakeholder and customer segments, including Traditional owners, indigenous customers and people experiencing vulnerability. <p>The Community Draft was circulated widely throughout July 2022. It was made available:</p> <ul style="list-style-type: none">• In hard copy from our office, local libraries and neighbourhood houses• Online at connect.coliban.com.au for interactive feedback• Via social media• Through local media activity and newspaper and online advertising• At local community ‘pop-ups’ and events• Through targeted communications with key customer groups to ‘close the loop’ on previous engagement• Via targeted communications with key stakeholders by Coliban Water’s Executive Leadership Team <p>While the formal feedback period concluded on 31 July, we will continue to keep customers up to date prior to the commencement of the new price period.</p>

5.4 OUR DELIBERATIVE PANEL PROVIDED DEEPER CONSULTATION

A Deliberative Panel was established for the first time to provide an opportunity for deeper consultation. With the help of independent engagement and research companies, Mosaic Lab and InSync, a 32-member group was carefully selected to represent the broadest possible cross-section of our customers. We considered age, geographic location and experience in the selection process to ensure that the panel was demographically representative of the whole community.



With an independent chair and facilitator in place to ensure an unbiased process, the Deliberative Panel gathered for five full days between February and June 2022 to evaluate Coliban Water’s performance, services and pricing.

Using the principles of deliberative democracy, panellists were given information about Coliban Water, the challenges facing our region’s water infrastructure, details about our catchment area, the changing environment and demographic information. They were also given the opportunity to request additional information and presentations to become fully informed, including nominating independent experts that they wanted to hear from.

The Deliberative Panel played an invaluable role, with members reviewing our plans and bringing a unique perspective to the decision-making process. A recall day held at the end of the process with the panel allowed them to provide feedback on how we interpreted and planned to implement their recommendations.

Table 18 summarises the nine recommendations of the Deliberative Panel and a brief description of our response. All have been adopted by Coliban Water, including funding to support them incorporated in this Price Submission. More detailed information is available in our *Response to Recommendations* supporting document.

Table 18: Deliberative Panel Recommendations and Coliban Water responses.

Deliberative Panel Recommendation	Our Response
We support an equitable increase to bills for both today’s community and future generations	The capital investment portfolio for the <i>Big Water Build</i> is partially funded by real price rises now (1.9% years 1-2 and 2.5% thereafter) and by increasing debt. This approach balances responsibility for paying for investment between customers now and in the future.
Take a larger or leading role in community contribution and collaboration	Expand how we collaborate with local councils and other groups to promote awareness of integrated water management.
Be a leader in the provision of water for community benefit	Invest in additional water stations to provide better access to fresh water in parks, gardens and other community locations.
Ensure adequate expenditure to secure water supply during periods of drought	Investigate and roll-out initiatives to secure water supply for all communities in the region.
Increase financial support programs for customers experiencing financial hardship	Double the budget available and increase awareness of the Coliban Assist Program and hardship support.
Introduce a voluntary contribution option to support customers experiencing financial hardship	Undertake work that will allow us to implement changes in our billing system to support bill-rounding and other contribution types.
Increase education about Coliban Water services for customers experiencing financial hardship	Raise the profile of the Coliban Assist Program with specific external support agencies and the community more broadly.
Expand and refocus general education programs	Included an outcome to increase reach of our educational program.
Invest in innovations to ensure water availability	Deliver innovative projects that contribute to our carbon reduction targets, including the low energy reedbed trial at Castlemaine Water Reclamation Plant.



The Deliberative Panel also submitted three minority reports, which were considered by Coliban Water but ultimately not adopted (Table 19).

Table 19: Deliberative Panel Minority Reports.

Minority Report	Our response
100% customer funding is unconscionable. Water is our constitutional right and should not be owned and allocated by foreign interests	Coliban Water cannot implement this recommendation. The principle of beneficiaries paying for water and sewerage services has long been embedded in government legislation.
Investigate an opt-in program similar to Green Energy for Coliban Water customers	With Coliban Water on the path to net zero carbon emissions from electricity consumption, we feel this option adds an unnecessary layer for customers.
Move from a deliberative panel process to a jury process, which is more fit for purpose	The deliberative process is well regarded and used by many water businesses, government and private organisations.

5.4.1 Feedback from Deliberative Panel members

'The Community Panel members sought to recommend measures that would achieve the difficult task of balancing prices to its customers, now and in the future. Coliban's main challenge is to replace, repair and upgrade the pipes which bring water to customers, and remove the waste water. Some of these items are more than 100 years old... I am pleased Coliban Water has accepted our nine recommendations.'

Graeme (Echuca)

'(The process) acknowledges future uncertainty including climate change, strong population growth and ageing infrastructure. The region requires an adaptive and flexible approach to future planning and implementation to ensure a constant supply of clean safe water. Extensive community consultation has concluded an increase over five-years will enable Coliban Water to guarantee future generations a stable safe water environment. Coliban Water understands that supporting the vulnerable is essential to ensure the entire community is nurtured.'

Diana (Kyneton)

'Coliban Water has gone through an extensive pricing process that considers the significant issues in our region, and is fair to the many people who live and work here. As a Community Panel member, I was impressed by the integrity and genuine enthusiasm for safeguarding this most precious resource.'

Samantha (Castlemaine)

'(The process) was a comprehensive learning and discussion process. I think the Price Submission is fair and reasonable for both Coliban Water and its customers.'

Don (Bendigo)

5.5 OUR BILL SIMULATOR TESTED CUSTOMER APPETITE AND PRICING IN REAL TIME

We built a Bill Simulator in preparation for engagement. We emailed the Bill Simulator directly to 40,000 customers and promoted it on customer bills, social media and via other engagement channels. 2,600 subsequent interactions with this online tool allowed us to test our customers' opinions on key topics, including:



- Intergenerational equity
- Drought preparedness
- Community contributions and the environment
- Support for customers experiencing vulnerability

Survey outcomes from the Bill Simulator were a key input of the Deliberative Panel, who considered other customers’ views about these topics.

5.5.1 Data from the Bill Simulator

The following tables summarise the outcomes of the Bill Simulator, sorted by response popularity. On the question of **intergenerational debt**, more than half of respondents opted for our investment to be funded mainly through a combination of price rises and debt (Table 20). We reflected this preference in the proposed modest price rises.

Table 20: Bill Simulator feedback on intergenerational debt.

What we tested	Options provided	Users who agreed
Intergenerational debt Do you support gradually charging customers now to replace and upgrade assets for generations to come? Or, do you prefer costs be delayed as long as possible leading to larger bills for future generations?	Fund mainly through price rises	38%
	Fund mostly with debt	23%
	Fund almost as much as possible with debt	14%
	Fund as much as possible with price rises	13%
	Fund as much as possible with debt to delay price rises	12%

Regarding our **preparedness for droughts**, most respondents opted for a lower to slightly lower chance of water restrictions, funded through an increase in their bills (Table 21). Coliban Water is proposing a significant investment in purchasing water shares to maintain water security.

Table 21: Bill Simulator feedback on drought preparedness.

What we tested	Options provided	Users who agreed
Drought preparedness How much extra should be spent to reduce the likelihood of water restrictions keeping in mind the frequency and severity of drought is unknown?	Slightly lower chance of water restrictions during droughts (bill increase)	22%
	Use of groundwater in some towns to avoid/delay water restrictions (bill increase)	21%
	Lower chance of water restrictions during droughts (bill increase)	20%
	Higher chance of water restrictions during droughts (bill increase)	16%
	Much higher chance of water restrictions during droughts (status quo)	11%
	Lowest chance of water restrictions during droughts (bill increase)	10%



Over 60% of respondents suggested that we should take a larger or leading role with respect to our **contributions to the community** (Table 22).

Table 22: Bill Simulator feedback on Community Contributions.

What we tested	Options provided	Users who agreed
Community contributions How important are community contributions to you?	Take a larger role (bill increase)	41%
	Maintain current investment (status quo)	27%
	Take a lead role (bill increase)	21%
	Reduce Coliban Water’s role (bill decrease)	11%

Over half of respondents supported that we increase our **support to vulnerable customers** (Table 23). Coliban Water has opted to double our assistance to vulnerable customers.

Table 23: Bill Simulator feedback on Support for Customers Experiencing Vulnerability.

What we tested	Options provided	Users who agreed
Support for customers experiencing vulnerability What level of support do you think is appropriate for the future?	Maintain current level of support (status quo)	41%
	Double support (bill increase)	28%
	Increase support to \$1 million per year (bill increase)	15%
	Increase support to \$3 million per year (bill increase)	9%
	Reduce support (bill decrease)	7%

5.6 SPECIFIC ENGAGEMENT WITH TRADITIONAL OWNERS AND CUSTOMERS EXPERIENCING VULNERABILITY

We knew focussed and tailored communication and engagement was required for Traditional Owners and for customers experiencing vulnerability.

Time and care were taken to engage sensitively with these members of our community, and with the community groups that support them.

The engagement strategies used were designed to create deeper engagement and genuine collaboration that empowered these groups to take part in our decision-making process. The activities can be summarised as follows:



5.6.1 Customers experiencing vulnerability

Engagement with customers experiencing vulnerability and their support agencies consisted of conversations, two workshops with support agencies and the establishment of a community sector network (Table 24). We have received a letter of support from the Salvation Army in response to our engagement.

Coliban Water is to be commended for their focus on supporting the community, they demonstrate this in their planning and consideration of what supports they can offer customers experiencing vulnerability.

Troy West, Salvation Army

Table 24: Engagement with customers experiencing vulnerability.

With customers experiencing vulnerability	Face-to-face conversations	12% of customers have a payment arrangement in place for their account and 28% of customers have applied concessions. We engaged directly with 18 customers currently part of our Coliban Assist Program to gauge their feedback. This process helped us evaluate whether our program currently meets their needs or if gaps exist.
	Workshop 1 With support agencies	We met with key support agencies from across the region to seek feedback on areas of support we are delivering well and where we can do better. The workshops provided an additional opportunity to raise awareness of current support available.
	Workshop 2 With support agencies	A subsequent workshop focussed on new collaborative approaches to support customers experiencing vulnerability, including referral channels.
	Established a Community Sector Network	Following the success of Workshop 1 and Workshop 2, the Salvation Army has established a Community Sector Network. Coliban Water will be an ongoing member of this group that will meet regularly to share learnings and resources that help break-down barriers to support.
	Letters of support	Feedback from Community Groups following the engagement process are attached in Appendix A.
What we learnt	<ul style="list-style-type: none"> • While water bills can be the smallest utility bill, they can still be expensive. • There are pockets of increased demand for support services due to pandemic-related isolation, compounded by limited in-person contact. • There is a need to increase awareness of our own support programs and support available through partnerships and agencies. • Customers experiencing vulnerability typically found us easy to deal with and understanding of their individual circumstances. • Support agencies commended our proactive engagement with customers who may need support. 	
Key outcome	Direct consultation with customers experiencing vulnerability and their support agencies, in addition to feedback received from our Deliberative Panel and other engagement activities, affirms the need to maintain and enhance the level of support we provide. Also acknowledging the cost of living pressures facing these members of our community, Customer Support Programs will be increased to \$570k per year for residential and business customers who may need assistance.	



5.6.2 Traditional Owners

Engagement with Traditional Owners consisted of conversations with indigenous customers and regular meetings with their support organisations (Table 25). A letter of support from Djaara shows its support for our Price Submission.

Investment needs to meet the needs of the region. The cost should be shared over the generations. No generation should be disadvantaged. Supporting those who need help while ensuring that those who 'can' meet the cost of climate adaptation 'do' pay.

Rodney Carter, Chief Executive Dja Dja Wurrung (Djaara)

Table 25: Summary of Traditional Owner Engagement.

With Traditional Owners	Face-to-face conversations	We carried out interviews with five indigenous customers. Their use of our Pricing Simulator during the interviews provided an opportunity to test pricing scenarios with this group.	
	Djaara Dja Dja Wurrung Aboriginal Corporation	We meet with Djaara regularly. Our partnership approach allows us to identify issues early and find solutions that align with Traditional Owners.	
		Letter of support	Feedback from Djaara following the engagement process is attached in Appendix A.
	Bendigo and District Aboriginal Cooperative	We met face-to-face with the BDAC Chairperson to discuss challenges and how we can work together to reduce the potential barriers to support.	
	Local Aboriginal Network	We met with the Department of Premier and Cabinet's local Aboriginal Community Development Broker with a focus on relationship building strategies.	
	Yorta Yorta Nation Aboriginal Corporation	Our consultation with these groups increased awareness of our support programs and will assist our work to break-down barriers for Traditional Owner customers.	
	Njernda Aboriginal Corporation Echuca		
Taungurung	We discussed our plans with Taungurung Water Management Officer to ensure we incorporate cultural values, improve ecological outcomes and remove barriers to access.		
What we learnt	<ul style="list-style-type: none"> • Building strong relationships with Traditional Owner groups in our region will be an ongoing process if we are to reflect their needs and expectations. • Traditional Owner groups appreciate the opportunity to provide advice early – we embrace the opportunity to work together. • Water security for Djaara means we must be conscious of upper catchment health and productivity. 		
Key outcome	We commit to consulting with Traditional Owners on decisions that impact their Traditional Lands and waters. Aboriginal businesses will continue to be given the opportunity to tender for ongoing work.		

5.7 ENGAGEMENT RESULTS

When we started our 2023 Engagement Program, we knew we would only be successful if we received a meaningful level of participation and unbiased feedback.



We also knew the process must deliver on the engagement objectives and commitments, properly consider feedback, and incorporate all relevant feedback into our ongoing plans.

We're proud of the results achieved and look forward to building on the foundations and positive feedback achieved through our Engagement Program as we implement our plans for the Regulatory Period. We will look for opportunities to implement what we learned into our business-as-usual engagement activities and look to incorporate positive outcomes in ongoing engagement forums.

We have also received letters of support from various groups including Dja Dja Wurrung, Be.Bendigo, City of Greater Bendigo Farming Advisory Committee, Salvation Army and the Rural Customer Advisory Group (Appendix A).

We received 456 contributions from the community in relation to the Community Draft with 86% of respondents supportive of what is being proposed. A further 10% requested some more information and 4% had a different view to share.

5.7.1 Featured contributions from Connect Coliban

"I think it's great you're providing the community with information. Its important people know what's going on. Keep up the good work."

"With the rising cost of living and growing population in central Victoria means more money needs to be allocated to meet growth needs. While the documents are informative, most people just want to know what the new cost will be. A streamlined process would be easier to navigate."

"Consider the need for future green spaces and the impact of demographic changes, and the current usage by customers in growth population areas and small rural towns. This can benefit the community and add to people's wellbeing."

"I think you're on the right track."

"You need to be planning for more water storage."

"You need more assistance for pensioners and low-income earners."

"I think a term like water assuredness or continuity of reliable supply needs to be a specific goal as the impacts of climate change on community utilities grows. We can then plan for the future of the region knowing quality water will always be available."

"I agree with fair pricing, but also think it's important to look after the 19th century heritage assets you manage. They are part of our shared story living in Central Victoria."

"You need to look at efficiency gains to fund improvements, and not forever increase the prices of water."

5.7.2 Tangible ways we've responded in our Price Submission

Key findings from our Engagement Program are incorporated in this Price Submission and planned projects and initiatives, including:

- A \$435m direct capital program of works for local water and sewerage treatment plants and pipelines
- Customer support programs will be increased to \$570k per year to support residential and business customers who may need financial assistance
- Complete roll-out of digital metering and an automated leak alert program
- A continuation of initiatives to grow our renewable energy portfolio and target net zero emissions by 2030
- Improved access to high quality recycled water



- Increased the level of NCCs so that households and business are not bearing all the costs of growth
- Enhanced face-to-face and online education and awareness programs, including water literacy
- Increased Community Rebate Program to assist with the development of further green open spaces and efficient water infrastructure

5.8 DETAILS OF OUR PS23 ENGAGEMENT PROGRAM

An overview of the individual components of our Engagement Program are outlined in Table 26.

Table 26: Summary of engagement activities.

Who We Reached	Residential	Vulnerable	Traditional Owners	Business	Trade Waste	Rural	Councils	Developers	Community Groups	Government	Regulators
Direct engagement (meetings etc)	■	■	■	■	■	■	■	■	■	■	■
Deliberative Panel	■	■	■	■	■		■				
Social Media	■	■							■		
Online @ Connect Coliban	■	■	■	■	■	■	■	■	■	■	■
Community Events	■	■									
Customer Committees and Forums	■	■				■			■		
Community Connect	■			■					■		
Annual Customer Forums	■										
Education	■								■		
Customer Satisfaction Survey	■										
Project Engagement	■		■	■	■	■	■	■	■	■	
Online Bill Simulator	■	■	■	■							
STED Sewer Forums	■			■							

5.8.1 Engagement Channels

Direct engagement	Completed with major customers, Traditional Owners, agencies supporting vulnerable members of our community, Councils, land developers, business and trade waste customers. Each engagement was individually designed to suit their needs, enhance collaboration, break down barriers, and increase awareness.
	With the agencies supporting vulnerable members We held a series of workshops with support agencies and carried out some focus groups and interviews with customers experiencing vulnerability. The workshops led to the creation of a Community Sector Network, of which we will be an ongoing foundation member.



	With land developers	Engagement sessions were timed to link to VicWater’s NCC project. Outcomes and impacts were summarised and shared with all parties. Group meetings and one on one conversations have been held to work through these proposals.
	With Traditional Owner groups	Meetings were held with Traditional Owners groups, indigenous customers and the local Aboriginal Cooperative. We successfully adjusted our engagement techniques for these groups, using one-on-one sessions rather than focus groups for the best engagement outcomes.
	With youth representatives	As we were not successful in recruiting a youth representative for the Deliberative Panel, we knew it was critical to have a youth voice in this process. We connected with the City of Greater Bendigo Youth Council on two occasions, and will continue to meet with them at regular forums.
	With small to medium-sized businesses	Busy with other pressures during the pandemic, this customer group proved more difficult to connect with directly. We used existing business groups like Be.Bendigo and contacted local business councils as our connection point to engage in addition to email communications.

Social media	We used our Facebook, Twitter and LinkedIn channels to inform and interact with customers throughout our Engagement Program, providing details and proactive opportunities for users to engage online and link to more information on Coliban Water’s other online platforms.	
Online @ Connect Coliban	Launched in April 2021, our online engagement platform Connect Coliban was the ideal platform to deliver information and provide a place for customers and other stakeholders to engage and provide feedback on different topics and at different times throughout the Engagement Program.	
Local media activity and advertising	We’ve proactively engaged and informed customers and the community throughout our Engagement Program using <i>earned</i> and <i>paid</i> media, including paid advertisements, media releases and media briefings to allow us to share our activities more broadly and grow understanding.	
Community pop-ups, festivals and events	Our Community Pop-up program offered informal face-to-face opportunities for our staff to meet customers and community members. Individual sessions provided localised feedback on issues, pain-points and priorities allowing us to consider these in our Price Submission.	
Customer committees and forums	Designed to help us understand and respond to current and emerging issues and to explore opportunities to work together. Specific customer committee sessions and existing local groups were an invaluable way to tap-in to the customer experience and understand customer sentiment and values.	
	Rural Customer Advisory Group	This group was engaged at quarterly meetings to focus on rural prices, services, operations, water trading rules, urban/rural equity and seasonal forecasts.
	Farming Advisory Committee	This City of Greater Bendigo group was consulted and invited to provide feedback on challenges and opportunities for rural communities in the greater Bendigo area.
Community Connect	We work to establish relationships with existing community groups and associations, and we try to meet with them face-to-face when possible, and online during COVID restrictions, to gain feedback and insights into the customer experience. Sessions cover	



	local customers' needs, ideas and improvements, and ways to improve community outcomes.
COVID Wellbeing and Support Survey	In April 2020, 1,250 customers responded to our COVID-19 Wellbeing and Support Survey that was sent to inform them of support options, identify additional needs and deliver assistance required. The survey was aimed at making people aware that there was additional support available and that they should contact us to discuss their circumstances if they needed help.
Annual customer forums and focus groups	Each year we engage a group of customers to test our performance against our Customer Outcomes. This helps inform our reporting to the Commission. Where service delivery is impacted due to changing circumstances, feedback from customers during these forums also assists in determining the best strategies to communicate with customers. The forum was also used to review the Customer Outcomes for the new pricing period and has helped shape the Outcomes, Outputs and Performance measures proposed for the 2023–2028 regulatory period.
Education	Interactive and informative face-to-face and online education programs are delivered for kindergartens, school and broader community audiences. Recent sessions have covered water literacy, financial support and Coliban Water service delivery and pricing.
Customer Satisfaction and other surveys	We use an independent engagement and research specialist, InSync, to complete an annual Customer Satisfaction Survey with 400 randomly selected customers. The survey measures customer satisfaction with our service delivery, water quality and performance. We also use data and insights from the Commission's customer perception survey. While results for value for money and trust remained unchanged across much of the water industry, Coliban Water's results over the 2018–2023 regulatory period show a steady improvement in these ratings.
STED Sewer forums	We revisited customers in Elmore and Lockington to again Empower these communities to select their preferred price / service option to reflect the additional costs and service implications of their STED sewer systems. Based on feedback from 2017, we provided these communities with additional opportunities to vote on their preferred option, including mailed ballots and the ability to vote online as well as during the forums. Community engagement was significantly higher this time with more than 30% of customers in both towns voting. Elmore customers again voted for a rebate to their sewer access charges, while Lockington customers voted for septic cleanouts organised and paid for by Coliban Water.

5.8.2 Engagement with developers for New Customer Contributions (NCCs)

A constant theme that kept arising throughout our general customer engagement was that if growth is contributing to capital costs, then developers need to pay more of their fair share of total costs.

Coliban Water has engaged extensively with developers during the 2018 regulatory period and specifically in the lead up to this submission. We met with developers in November 2021, March, June, July and August 2022. We have been consistent with our message that current NCCs are not covering growth costs and this shortfall will be exacerbated in the coming regulatory period.

Table 27 summarises engagement and communication with the land development community over the past year to support developing the 2023 Price Submission. 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.



Table 27: Summary of engagement activities with developers, 2021–22.

Date	Engagement
4 August 2021	<p><i>Pre-engagement survey</i></p> <p>We sent out a preliminary survey to developers to help us design and develop content for future conversations with the land development community, including identifying key issues.</p>
23 November 2021	<p><i>Land development workshop</i></p> <p>Forum with developers and consultants to share information and receive feedback. A presentation on augmentation plans and growth trends. Discussions on alignments for particular projects.</p>
25 November 2021	<p><i>Post-Workshop Survey</i></p> <p>We obtained feedback on the best form of engagement.</p>
October 2021 – April 2022	<p><i>VicWater research project</i></p> <p>VicWater-led project to look at industry-wide approach to calculating New Customer Contributions.</p>
21-23 June 2022	<p><i>Developer information sessions</i></p> <p>We held information sessions with developers to discuss outcomes of the VicWater research and what it will mean for pricing and service. Agreed to provide a survey to capture results.</p>
21 July 2022	<p><i>Post information session survey</i></p> <p>We sent survey to the land development community to get feedback from people who couldn't attend the information sessions. Discussion centred around the rate of increase per annum, and the nature of the sewer pump stations inclusion to be paid for by Coliban Water.</p>
4 August 2022	<p><i>Additional information session</i></p> <p>We held an additional session to discuss options for how New Customer Contributions could be calculated and charged. Rather than an overnight increase in NCCs, we agreed to phase in increases at 20% per annum for sewer and 10% for water. Link ups for water were included in the water NCC with a new rate proposed. Developers requested transparency relating to the projects to be included and the rate of growth occurring in particular catchments.</p>
4 August 2022	<p><i>Options survey</i></p> <p>We distributed a survey for key developers to vote on their preferred option for New Customer Contributions, as agreed at the additional information session. Options were overwhelmingly approved. A later letter sought to vary the rate of increase per annum.</p>
14 September 2022	<p><i>Information pack</i></p> <p>We provided a pack containing additional information about projects included and rates of growth, as requested by developers. We sought further input on part of our final position to developers. A growth capital guarantee was added to the package</p>



Date	Engagement
	as a form of assurance that funds raised through the NCCs would be used for the growth-related projects.
14 September 2022	<i>Final Survey</i> <i>We distributed a final survey to collect feedback from developers.</i>
Post-submission	<i>Close the loop</i> We will continue to communicate with developers after the 2023 Price Submission has been submitted and approved by the Commission.

In July–August 2022, as part of our broader engagement process, we allowed the development community to vote on a preferred pricing option. While feedback was not universal, we are pleased to have implemented the preferred option. This includes us providing for all shared sewer pump stations and resolves many concerns shared by developers over many years.

These proposed changes to inclusions are broadly supported by the development community and result in developers paying more but receiving offsetting asset construction in some situations. However, developers have advised they are seeking these inclusions without paying any extra charges. Unfortunately, to ensure that developers are paying their fair share, we are unable to include lower fees for this higher service within our submission. In response to developer feedback, we have agreed to phase in the increases in price rather than implement immediately from 1 July 2023.

We believe that the sharp increase in capital expenditure with a growth driver over the 2023–2028 regulatory period justifies higher fees for developers rather than passing on even higher costs to existing customers.

There is some extra management complexity in managing the NCC discount for private sewer pump stations and additional staffing will be required. This is included within our operating expenditure.

We are proposing to introduce an innovative **Growth Capital Guarantee** as it relates to growth capital expenditure for sewer assets. We recognise that higher capital costs for growth assets are contributing to higher NCCs. To ensure that developers receive value for money for the higher NCCs they will be paying, we sought feedback from developers about whether they would support us guaranteeing to invest in growth sewer assets, or provide a rebate to NCC levels in the forthcoming years.

Based on near-universal developer support, we are proposing a 20% rebate apply to the next year’s NCCs if our actual sewer growth capital expenditure over the period of the 2023-2028 regulatory period is 80% or less of the target amount. More information can be provided to the Commission upon request.

The capital level required before the Guarantee applies is based on apportioned costs across multiple drivers (eg Growth and Improvements/Compliance) and forecasts by systems by growth percentages. This information, covering the next two regulatory periods, has been provided to developers during the engagement process.

Based on the extensive engagement process undertaken, we are proposing the following elements.

Table 28: Proposed changes to NCCs based on developer engagement.



Theme	Proposed NCC elements
Calculation method	Average incremental cost (Change from PS18 Net Cash Flow)
NCC Water (Currently: \$1,790)	20% real increase in 2023–24 then 10% real increase yearly Fee reaches \$3,144 by 2027–28 Note change in water inclusions below
NCC Recycled water (Currently: \$895)	50% of water NCC (As the water NCC is higher, the recycled water NCC is also commensurately higher)
NCC Sewer (Currently: \$1,790)	20% real increase yearly Fee reaches \$4,453 by 2028 Note change in sewer inclusions below
Developer contributed works	Developers responsible for all works for their development
Water inclusions	Coliban Water to contribute network link-up costs due to legacy network arrangements
Sewer inclusions	All shared pump stations funded by Coliban Water A discount in NCCs to be provided (up to \$1,500 per lot) where a developer needs to build their own private sewer pump station
Low growth town NCC discount	Discontinued in PS23
Pressure sewer installations	Will continue to be based on actual cost, plus 10% to cover administrative overheads.
Growth Capital Guarantee	A 20% fixed rebate on the sewer NCC where our period-to-date sewer capital expenditure is less than 80% of the specified target amount.

5.9 ENGAGEMENT PREMO RATING SUMMARY

Guiding Question	Score	Justification
To what extent has the business justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers?	3.25	Our engagement approach has been independently assessed in a Critical Friend Review. Letters of support for various groups attest to the depth and breadth of our engagement program for this submission.
To what extent has the business demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement?	2.75	The Deliberative Panel was provided with background information and instructions in succinct booklets. They were empowered to request presentations from external parties on matters of interest.



Guiding Question	Score	Justification
To what extent has the business demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?	3.00	Customer engagement informed our decision to maintain service levels. The outcomes agreed with customers have been determined through the engagement program. The outcomes are based on ongoing engagement with customers in the current pricing period, the Deliberative Panel and feedback from members of the annual Customer Forum.
To what extent has the business explained how it decided when to carry out its engagement?	3.00	Engagement commenced in April 2021 and closed on 31 July 2022. Early engagement consisted of a longitudinal review of various existing customer data and the establishment of the Deliberative Panel. Further engagement was undertaken when a community draft became available.
To what extent has the business demonstrated how its engagement with customers has influenced its submission?	3.00	Evidence of customer influence on the feedback we received is evident throughout this submission, e.g. capital investment, outcomes, service standards and Guaranteed Service Levels.
To what extent has the business demonstrated that its engagement was inclusive of consumers experiencing vulnerability?	3.00	We have ongoing relationships with support agencies for vulnerable customers. A letter of support from the Salvation Army demonstrates our commitment to assisting this customer segment.
To what extent has the business demonstrated that its engagement was inclusive of First Nations people?	3.00	We have ongoing relationships with First Nations people. A letter of support from Djaara attests to our engagement with them.
Final score (average)	3.00	Satisfied the element is <i>Advanced</i> .

5.10 REFERENCES

- PS23_BG_03: Customer Engagement Background Paper.
- PS23_SP_03_01: Strategic Engagement Plan.
- PS23_SP_03_10: Coliban Water Bill Simulator Focus Groups
- PS23_SP_03_15: Community Draft Feedback
- PS23_SP_03_27: Deliberative Panel – Recommendations
- PS23_SP_03_37: Deliberative Panel - Response to Recommendations
- PS23_SP_03_50: Elmore and Lockington STED service options - customer feedback
- PS23_SP_03_70: Price Submission online advertising insights
- PS23_SP_21_05: NCC Pre-engagement survey 2021-08-16
- PS23_SP_21_06: Post NCC workshop survey 2021-11-25
- PS23_SP_21_07: Post NCC information session survey 2022-07-21
- PS23_SP_21_08: NCC Options survey 2022-08-04
- PS23_SP_21_09: Final NCC Survey 2022-09-20



6 MANAGEMENT

CHAPTER SUMMARY

- Rated *Management* as **Standard**.
- The *Big Water Build* will see significant increase in capital investment and operating expenditure to address compliance, growth, ageing infrastructure and climate change adaptation.
- Proposed operating expenditure efficiency target of 1.4%.
- Increased use of *uncertain expenditure* provision to minimise risk of customers paying for works that may not take place.
- Extensive engagement process to confirm customers understand and support our proposals, including impact on water bills.
- Customer Outcomes and Outputs, Performance Measures and GSLs were reviewed internally and with customers to better align with customer values and service performance.

It should be noted that this chapter is intentionally brief. We consider the *Management* element of PREMO to be addressed throughout the whole submission. However, for the purposes of completeness we have added a separate short chapter related to the *Management* PREMO element.

6.1 PREMO RATING - MANAGEMENT

Coliban Water is proposing a *Standard* rating for *Management*. This element assesses the prudence and efficiency of operating expenditure (Chapter 9) and capital expenditure (chapter 7), the basis used for growth and demand (chapter 10) and cost forecasting, and the quality of the submission itself. Despite our operational challenges, we have nevertheless increased our trust ratings (Figure 5 on page 26).

Our proposed capital investment for the 2023–2028 regulatory period represents a continuation in trajectory of increased capital expenditure, but step-change compared to our previous Price Submission. We consider the proposed expenditure prudent and efficient, with clearly expressed drivers for the additional investment. As noted in this submission, environmental compliance for our sewer WRP and network assets is the most significant driver for the proposed investment. We have also provided the Commission with our assessment of deliverability to provide confidence that we have the capacity to deliver the additional capital works (section 7.8). Further, some projects that may be required in the 2023–2028 regulatory period have been included as uncertain expenditure to reflect their current status (section 14.3.1).

Operating expenditure proposed for the 2023–2028 regulatory period is similarly higher than previously, however, is also demonstrably prudent and efficient. Despite the increase proposed in controllable operating expenditure, we are adopting an annual efficiency target of 1.4%, in line with the Commission’s expectations for a *Standard* submission (chapter 9).

We are confident this submission is consistent and free of known or material errors. Background and supporting documentation are available to justify all proposals. All requirements in the Commission’s Guidance Paper have been met. Coliban Water’s Board have attested to the quality and accuracy of the submission (chapter 18).



We are amid an organisational transformation. We have doubled direct capital expenditure since 2018 and will continue this increasing trajectory as we deliver a capital investment program to address key compliance risks, renew ageing assets, meet the challenges of growing communities and respond to the impacts of climate change. At the same time, we will meet our health and environmental regulatory duties. Moreover, our physical, economic and political environments are becoming increasingly unpredictable, meaning we need to become more adaptive, flexible and innovative (chapter 1).

The Coliban Water Board has been kept informed monthly through progress reports between November 2021 and September 2022. Refer to chapter 18 for more details on the attestation process.

6.2 MANAGEMENT PREMO RATING SUMMARY

Guiding Question	Score	Justification
To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?	2.25	\$435m direct capital investment portfolio for the <i>Big Water Build</i> prioritised to address high risks, particularly with compliance matters. Supported by business cases and P50 Monte Carlo estimates.
To what extent has the business justified its commitment to cost efficiency or productivity improvements?	2.25	Operational expenditure efficiency target of 1.4% has been adopted, in line with Commission expectations for a Standard submission. Extensive use of Uncertain Events for uncommitted capital projects. We will in first instance look for opportunities to deprioritise existing projects if no longer required to avoid increasing total capital spend.
To what extent has the business justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?	2.50	The attestation process has been supported by Sequana who has been involved with the development of the submission. They have advised the Board about progress and quality of the submission.
To what extent has the business provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?	3.00	The senior management level ps23 project team reported to the executive level steering committee throughout the project. The attestation process included regular progress updates to monthly Board meetings for the last two years. Directors and the Managing Directors were involved with the engagement process.
To what extent has the business demonstrated its Price Submission is an “open book”?	3.00	In addition to the document and the financial template, additional background documents are referenced and available to the Commission upon request.
Final Score (average)	2.50	Very confident the element is <i>Standard</i> .



7 CAPITAL EXPENDITURE

CHAPTER SUMMARY

- The *Big Water Build* will see direct capital investment of \$435m over 5 years, nearly double the previous period.
- Significant investment is required to meet our customers' expectations and to address current and future compliance risks, particularly with major Water Reclamation Plants (WRPs) and sewer networks.
- Other key drivers for investment are an ageing asset profile and poor asset condition, climate change and growth.
- Key business commitment to deliver improved environmental services, water quality, invest to reduce risk of future restrictions and improve water pressure performance in smaller towns
- We will scale up expenditure over time to support successful deliverability and minimise price increases.

This 2023 price submission outlines a continuation of increased capital expenditure that commenced this regulatory period. Our *Big Water Build* is a long-term, ambitious program of investment. We have undertaken extensive engagement with our customers to understand the areas of most importance to them, as well as ongoing reviews to examine the water service needs of our region. This work examined key challenges to which we must respond. The major risk drivers impacting water services in our region include climate change, population growth and asset condition. These drivers are giving rise to near-term environmental compliance risks that must be addressed.

We are proposing to nearly treble our annual capital investment program over the next decade in order to meet the challenges that we have identified. We are acting now. We have already commenced a large infrastructure renewal and augmentation program funded through additional debt ahead of this Price Submission. We are seeking to modestly increase customer bills above inflation, which is supported by customers as evidenced by the feedback on the Community Draft (section 5.7). We are also taking on further debt in order to sustainably fund the proposed program. Debt levels will be managed sustainably to increase from the current level of \$435m (with total assets currently \$2.0 billion) to approximately \$800m (with anticipated assets of \$2.7 billion) in 2027–28.

The *Big Water Build* will see \$435m direct investment in the 2023–2028 regulatory period, plus \$73m capitalised BOOTs and adjustments. This is more than double investment in the 2018–2023 regulatory period. This investment program will continue into the 2028 regulatory period and beyond as we transform into a more resilient business with the capacity to deal with future uncertainty. We will also be investing in our people and systems to build long-term capacity and knowledge to deliver our promise.

7.1 CAPITAL EXPENDITURE DRIVEN BY CUSTOMER INPUT

We actively engage with customers on all projects where there is a customer impact. Furthermore, we utilise historical feedback from customers at an early stage of project development.

Investment decisions are driven by customer needs and feedback. While the required categorisations include compliance, growth and renewals, the ultimate driver of our capital program is the need to be responsive to customer input in providing assets that meet core requirements. In addition to customer



needs, most proposed projects are driven by legislative and/or regulatory requirements and are aligned to our Risk Management Framework.

As we embark on our *Big Water Build*, we are establishing Regional Advisory Groups to incorporate customer feedback on a more granular and project-specific level. This will build on the work already undertaken by our Community Deliberative Panel.

7.1.1 Capital expenditure by Customer Outcome

Project staff review our database of engagement findings, or undertake targeted engagement where required, to understand local sentiment for a problem to be addressed. Business Cases include this information as part of the justification process.

While the views of customers are key drivers of investment decisions, we still own the responsibility and fiduciary duty to deliver investment that is needed for compliance, growth and climate change. Failure to invest appropriately will put future service delivery at risk. Conveying the need for increased investment to deliver these key outcomes was core to the Deliberative Panel, including panellists' views on the appropriate price / debt mix for adoption.

We also note that Bendigo is one of the regional cities selected to host the 2026 Commonwealth Games. This provides added impetus to deliver resilient assets, including for the added attention this international event will provide.

Most of the proposed capital investment is directly related to providing improved outcomes to our customers and reducing our environmental footprint. Figure 8 shows the level of investment for each outcome and output. Refer to chapter 11 for more details on outcomes and outputs.

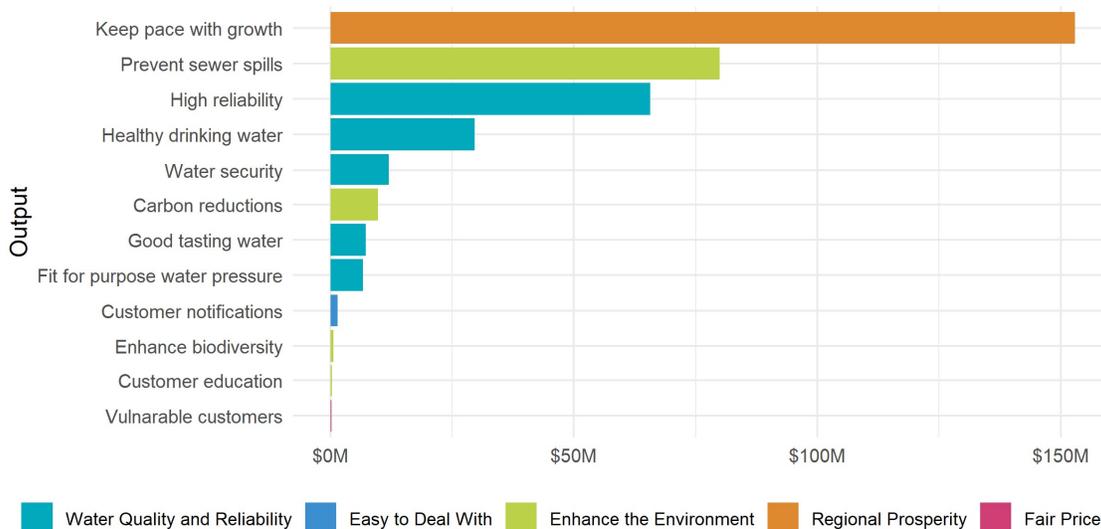


Figure 8: Capital Investments by Customer Output.

7.2 COMPLIANCE DRIVING INVESTMENT

The current high risk of future non-compliance, in particular with our sewer treatment and network assets, is the key driver for our proposed capital investment program. Coliban Water has been relying on the capacity and asset condition from past investments and was sweating its assets in order to be



as affordable as possible. However, recent events show we are holding too much risk with respect to environmental sustainability and service levels.

Issues encountered at the Kyneton WRP (refer to section 3.2.3 above) and significant sewer main spills to the environment in Bendigo including a collapsed outfall sewer highlighted that Coliban Water can no longer tolerate the levels of risk that are apparent. Critical risks identified at other Water Reclamation Plants (WRPs) and sewer networks need to be reduced. To address extreme risks of future non-compliance with key assets, 66% (\$335m) of prioritised capital investment for the 2023–2028 regulatory period has a primary driver of compliance and improvements.

In a letter from Coliban Water Managing Director Damian Wells to the EPA (Appendix D), it was noted that:

While we are acting without delay, some of these projects will take many years to complete. Until these projects are completed, we will continue to hold environmental compliance risks which we will monitor and report to EPA.

This letter is included in Appendix D

The proposed capital program does not instantly resolve our compliance concerns but our prompt action will ensure that compliance risks are ultimately mitigated as we deliver the customer outcome of enhancing the environment.

We have identified four WRPs that are currently non-compliant with EPA regulations or where it will be challenging to achieve environmental compliance over the coming years, while we deliver the large works program. These plants are located in Bendigo, Castlemaine, Cohuna and Kyneton. While we have nearly completed the \$19m investment program at the Kyneton WRP, we will continue to hold some compliance risk in relation to the water balance for the site while the benefits of the new agricultural re-use pipeline are realised.

The environmental compliance challenges and upgrades required at these WRPs, along with the necessary expenditure profile to mitigate these risks, are summarised below. While we are acting without delay, some of these projects will take many years to complete. Until these projects are completed, we will continue to hold environmental compliance risks which we will monitor and report to EPA. Each site has an operational approach to mitigate compliance risks to the greatest extent possible given current asset condition and capacity.

7.2.1 Major WRP Performance Overview

Bendigo WRP			
Operational Risks		Short Term Mitigation	Long Term Resolution
Capacity constraints	Substantial population growth in Bendigo has meant that key infrastructure at the Bendigo WRP has reached its capacity limits and therefore no longer compliant with the Operating Licence. The asset condition is also poor.	A qualified expert has been engaged to provide key input into development of an Operational Strategy. This Strategy will be implemented across the site to mitigate and reduce the risks while	1. Four Major Projects are to be implemented during the 2023–2028 Regulatory Period. 2. An application will be submitted to the EPA to amend the current licence to increase the daily release into the
Treatment quality pressures			
Population growth			
Asset condition	Capacity constraints are placing additional pressures		



<p>Odour risks</p> <p>Solids handling capacity</p> <p>Priority Waste acceptance / management</p>	<p>on other downstream key treatment processes including the overall water balance for the site, managing odours and meeting the annual release of Class B treated water into the Bendigo Creek.</p> <p>The recent change in Waste Regulations has resulted in uncertainty around the acceptability of particular waste streams associated with the activities of water businesses.</p>	<p>the longer-term works are being implemented.</p>	<p>Bendigo Creek along with the inclusion of identified Priority Waste codes.</p>
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Castlemaine WRP			
Operational Risks		Short Term Mitigation	Long Term Resolution
<p>Population growth</p> <p>Treatment quality pressures</p> <p>Odour risks</p> <p>Solids handling capacity</p>	<p>Substantial population growth in Castlemaine along with the increase in trade waste from one of our largest industrial Customers means key infrastructure at the WRP is reaching its capacity limits.</p> <p>Capacity constraints are placing additional pressures on other downstream treatment processes including reclaimed water quality and solids handling ability. This is directly increasing odour risk for nearby sensitive receptors.</p>	<p>A qualified expert has been engaged to provide key input into the development of an Operational Strategy.</p> <p>The Strategy will be implemented across the site to mitigate and reduce the risks whilst the longer-term works are being implemented.</p>	<p>Capital works have been identified through the <i>Castlemaine WRP 2020 Master Plan</i>, including on Major Project. Coliban Water has committed to upgrading critical infrastructure at the site in the 2023 Price Submission.</p>

Cohuna WRP			
Operational Risks		Short Term Mitigation	Long Term Resolution
<p>Lagoon integrity</p> <p>Capacity constraints</p>	<p>Integrity of a portion of the lagoons at the Cohuna WRP is compromised causing seepage issues. The following steps are required:</p> <ol style="list-style-type: none"> 1. Upgrade two additional lagoons to address integrity issues. 2. Construct additional storage to meet the overall water balance for the site and accommodate growth. 	<p>Additional groundwater monitoring is being carried out to monitor groundwater levels around the Cohuna WRP with a particular focus on monitoring quality.</p>	<p>Capital investment has been approved to address lagoon integrity issues. In addition, we are currently working through a process to acquire additional land required for extra lagoon storage to ensure the sites water balance is achieved.</p> <p>We have committed</p>



			to addressing the risks in the 2023 Price Submission.
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Kyneton WRP			
Operational Risks		Short Term Mitigation	Long Term Resolution
<p>Lagoon and treatment capacity</p>	<p>Substantial population growth in Kyneton along with significant trade waste inflows from one of our largest industrial customers meant critical infrastructure and additional offsite reuse is required to meet site treatment needs, overall water balance and EPA licence requirements.</p> <p>In 2019 we released treated water from the Kyneton WRP to the Campaspe River that did not comply with the requirements of the EPA licence for the site. The EPA prosecuted Coliban Water for this breach of licence conditions. We were found guilty, fined and placed on a two-year Undertaking.</p>	<p>Two additional storage lagoons approx. 260ML were constructed in the current regulatory period as part of the \$20m upgrade at the Kyneton WRP.</p> <p>An agreement has been reached with a new offsite customer to sustainably reuse 350-500ML of recycled water annually.</p> <p>Prior to the reuse commencing, a recycled water pipeline is being constructed this year to connect the Kyneton WRP with the offsite reuse customer.</p>	<p>Until the pipeline is complete (due prior to the 2023 Price Submission), we will continue to manage water at the site to avoid uncontrolled releases to the environment.</p> <p>We have commenced the process to amend the EPA licence for the Kyneton WRP. The amendment will reflect current infrastructure changes at the site along with conditions that meet current environmental standards.</p>

7.3 CAPITAL PLANNING AND GOVERNANCE

We have adopted a project management approach based on best practice management principles, based on the Project Management Body of Knowledge. Our *Project Management Manual* ensures a consistent, centralised approach to managing the delivery of key infrastructure programs, including guidance on project definition, lifecycle stages, classification and management across key areas.

Projects are classified as Simple / BAU, Medium, Complex or Major and assessed based on risk, solution difficulty, stakeholder impact, urgency, financial impacts and any dependencies.

7.3.1 Internal Approvals and Governance

Coliban Water employs a robust internal governance process to approve projects, including inception, procurement, delivery gateways and for any variations required. These are subject to Coliban Water’s *Procurement Policy, Procedure* and the *Instrument of Delegations*.

7.3.2 Capital Prioritisation

The *Capital Expenditure Prioritisation Process* used for the 2018 Price Submission has been reviewed and improved. The revised process primarily ranks all projects and programs on risk exposure



(previously reduction) but also includes other factors beyond risk alone, including strategic drivers for the business (risk tolerance, government directives, Customer Outcomes etc).

7.4 ASSET MANAGEMENT

Coliban Water’s Asset Management System includes key documents for the *Asset Management Policy* and the *Strategic Asset Management Plan*. We employ a continuous improvement approach to meet mandatory requirements of the Victorian Government’s Asset Management Accountability Framework (AMAF). This follows the *Plan, Do, Check, Act* methodology.

Coliban Water included a summary of the AMAF Maturity Assessment in its 2021 Annual Report (p. 54). We are aligned and compliant with the principles and framework of ISO55000 and are considering seeking full certification in the longer term (beyond the 2023–2028 regulatory period).

7.5 CAPITAL EXPENDITURE FORECAST 2023–33

As per the Commission’s Guidance, we have provided forecasts for capital expenditure for the 2023–2028 regulatory period as well as for the five-year period beyond to 2032–2033.

7.5.1 Total Capital expenditure

We are proposing \$435m capital investment for direct capital projects and a further \$73m for capitalised expenditure for *Build-Own-Operate-Transfer* (BOOT) contracts, biosolids and adjustments. The total \$508m proposed capital expenditure is 87% higher than total expenditure within the 2018 price period. We are forecasting total capital expenditure of \$570m for 2028–2033, 12% higher than the 2023–2028 regulatory period.

Table 29: Total capital investment per year.

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Direct capital projects	70.4	82.9	89.3	93.0	99.4	435.0
BOOT contracts and adjustments	16.5	15.7	15.7	15.3	9.4	72.5
Total capital expenditure	86.8	98.6	104.9	108.3	108.8	507.5

This level of investment balances addressing extreme and very high risks, keeping prices to a level acceptable to our customers and a realistic view of deliverability.

Key assets are ageing and reaching the end of their useful life. We have deferred capital investment to pay down debt and deliver real price cuts. Low levels of capital expenditure are no longer sustainable, as evidenced by Coliban Water’s conviction for breaches of the *Victorian Environmental Protection Act (2017)* in 2019 and our current low investment-to-asset value ratio. Many of our assets are operating at or beyond the limits of their design life, are in poor condition and have insufficient capacity. Our water and sewer networks need large-scale renewal, with some pipelines installed over a century ago, well beyond their expected life and critical to servicing many customers where the impact of failure would be unacceptable. Increased levels of investment will need to continue well beyond this regulatory period as we work towards a sustainable level of asset renewals.



Population is growing quickly and will accelerate. Recent customer growth is increasing and has been exacerbated by the pandemic, particularly in our towns closer to Melbourne and near the Murray River. Over 70% of our customers live in the City of Greater Bendigo which is forecast to grow by over 30% by 2036. In addition, strategic growth projects currently underway and already completed support the expansion of the key growth towns of Bendigo, Echuca, Kyneton and Castlemaine.

Historical under-investment for growth as a result of asset augmentation deferral has resulted in very high to extreme future risk of not being able to provide appropriate levels of service or secure water supplies and increased risk of environmental damage, as highlighted in our various asset Master and Augmentation Plans. The proposed investment will address environmental compliance requirements with the Victorian *Environmental Protection Act (2017)* for our sewer networks and with our EPA Licences at WRPs and ensure customers receive adequate water pressure.

Climate change is a growing risk. Over the past 25 years, inflows to Upper Coliban catchments have fallen by 53%. Investment is needed for more water shares, to investigate alternative sources of water and to reduce system losses, as outlined in our *Urban Water Strategy*.

Raw water quality is also deteriorating, resulting in taste and odour complaints, particularly from Murray and Goulburn River sources. In response to the commencement of on-water recreation at four of our major water storages during the 2018–2023 regulatory period, we reassessed the level of microbial risk associated with each of these storages. As a result, upgrades are needed at several water treatment plants to provide additional treatment controls. Future investment is also needed at other WTPs so we can continue to meet customer needs and health regulation requirements.

7.5.2 Capital expenditure by Service

All service areas except recycled water will see increases to capital investment. The most significant increase is in sewage treatment and transport with nearly triple the expenditure, more than half of the total expenditure proposed.

This investment profile recognises that many of our sewer systems are at regulatory compliance risk. Many of our sewer networks and large Water Reclamation Plants (particularly Bendigo and Castlemaine WRPs) are already operating at or beyond the limit of their design life, are in poor condition and have insufficient capacity. Generational investment at our two largest WRPs, Bendigo and Castlemaine, contributes to 41% of this sewage treatment and transport expenditure and 23% of the entire portfolio.

Table 30: Capital Expenditure by Service.

<i>\$m 22–23</i>	<i>2023–24</i>	<i>2024–25</i>	<i>2025–26</i>	<i>2026–27</i>	<i>2027–28</i>	<i>Total</i>
Water	48.1	40.2	41.5	38.4	30.5	198.7
Sewer	36.7	56.3	61.0	62.4	70.9	287.4
Recycled water	0.0	0.0	0.4	5.5	5.5	11.4
Rural water	2.1	2.1	2.0	1.9	1.9	10.1
Total	86.8	98.6	104.9	108.3	108.8	507.5

Approximately \$10m investment is proposed for rural services. A much larger rural modernisation program has been excluded from this forecast and instead included under Uncertain Events and depends on the business receiving external funding (see 15.3.1).



7.5.3 Capital expenditure by Driver

We need to significantly increase capital expenditure in order to meet ongoing obligations. Several of our assets have become or are at risk of non-compliance due to the previous deferral of infrastructure spend to minimise price increases. The following table outlines the capital expenditure by *primary* driver, but we note in many circumstances that there are two or three drivers to certain projects.

Table 31: Capital Expenditure by Driver.

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Renewals	9.8	14.3	14.4	14.3	14.4	67.3
Growth	13.4	8.9	22.2	26.8	33.6	104.9
Compliance and Improvements	63.6	75.4	68.4	67.1	60.9	335.4
Total	86.8	98.6	104.9	108.3	108.8	507.5

The total spend for Renewals has gone up 42% from the 2018-2018–2023 regulatory period, and Growth up by 57%. Compliance and Improvements investment is over double previous expenditure. Although proposed expenditure for Renewals and Growth is not increasing as significantly as Compliance, many projects whose primary driver is Compliance will also have renewal elements and will be sized to accommodate growth. Several Major Projects that would previously be itemised as Growth are now required to manage compliance issues as these projects were deferred from the previous regulatory period.

It should be noted that higher investment this regulatory period is expected to continue into the 2028-2033 period as the current proposed investment is still lower than the business has identified as needed. Limitations due to pricing implications, capital expenditure deliverability and level of debt has resulted in the current proposed expenditure.

7.6 MAJOR PROJECTS AND PROGRAMS

The Capital Expenditure background document provides a summary of the Scope of Works for each major project. Business Cases for our Top 10 projects are available upon request. The timing of works is a result of a number of inter-related issues such as obtaining planning approvals and scaling up the program due to deliverability risks which are further discussed in section 7.8.

7.6.1 Water Reclamation Plants

Project	Bendigo WRP Upgrades & Tertiary Filter Expansion (\$14.6m)				
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Sewage treatment	Compliance	Growth, Renewals		Keeping pace with growth	
Start date	Completion date				
2024–25	2030–31				
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.0	2.2	6.2	6.2	0.0
Objectives	Upgrades to comply with our EPA Operational Licence obligations and to cater for growth. The project will address issues with wet weather events, asset condition and odour emissions. Outcome is to minimise damage to the environment and improve amenity for the surrounding community.				



Project		Bendigo WRP Sludge Handling Upgrade (\$52.7m)			
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Sewage treatment	Compliance	Growth, Renewal		Keeping pace with growth	
Start date			Completion date		
2021–22			2026–27		
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	13.1	22.9	16.7	0.0	0.0
Objectives	This project is needed to meet the conditions of our Operational Licence with the EPA for current and future (growth) production of biosolids and effluent. The project will also address OH&S issues with the associated electrical infrastructure and replace end of life assets due to failures. Outcome is to minimise damage to the environment and provide a safe work place.				

Project		Bendigo WRP Recycled Water Factory Upgrade (\$11.4m)			
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Sewage treatment	Compliance	Growth		Keeping pace with growth	
Start date			Completion date		
2025–26			2028–29		
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.0	0.0	0.4	5.5	5.5
Objectives	Increase reliability of Class A recycled water production. These works will mitigate compliance risks by reducing the volume of treated water discharged to the Bendigo Creek, therefore assist in meeting the licence requirements for the Bendigo WRP. Maximising the production of recycled water will also offset the use of potable water to irrigate public and private open space.				

Project		Castlemaine WRP Upgrades (\$25.3m)			
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Sewage treatment	Growth	Compliance, Renewals		Keeping pace with growth	
Start date			Completion date		
2023–24			2030–31		
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.1	0.0	1.3	8.6	15.2
Objectives	To ensure ongoing compliance with EPA Operating Licence due to growth. The outcome is to minimise damage to the environment.				

Project		Cohuna WRP Capacity Increase (\$8.9m)			
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Sewage treatment	Compliance	Growth, Renewals		Keeping pace with growth	
Start date			Completion date		
2025–26			2028–29		
Capital Expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.0	0.0	1.3	3.0	4.6
Objectives	This WRP has been subject to four EPA enforcement actions from 2013 - 2017 associated with leakage to groundwater and neighbouring property. Stage 1 works on the first two lagoons already completed, Stage 2 works will increase the capacity of the plant and				



	address continued leakage from Lagoons 3 and 4. The outcome is to minimise damage to the environment.
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7.6.2 Trunk Sewers

Project	Bendigo Trunk & Outfall Sewer Growth & Compliance Upgrade (\$26.3m)				
Major Service	Primary Driver	Secondary Driver/s	Customer Output		
Sewage collection	Compliance	Growth, Renewals	Prevent sewer spills		
Start date		Completion date			
2023–24		2029–30			
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.7	3.7	6.3	4.3	11.4
Objectives	To increase capacity of two sewer trunk mains that do not currently comply with EPA's wet weather containment standards, and to cater for future growth. The outcome is to minimise damage to the environment.				

Project	West Bendigo Sewer Growth & Compliance (\$25.2m)				
Major Service	Primary Driver	Secondary Driver/s	Customer Output		
Sewage collection	Compliance	Growth, Renewals	Prevent sewer spills		
Start date		Completion date			
2022–23		2029–30			
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	1.1	3.2	5.2	4.8	10.9
Objectives	To augment sewer network capacity in the Western catchment of Bendigo that does not currently comply with the EPA's wet weather containment standards, and to cater for future growth. The outcome is to minimise damage to the environment.				

7.6.3 Potable Water

Project	Trentham WTP Capacity Upgrade (\$15.8m)				
Major Service	Primary Driver	Secondary Driver/s	Customer Output		
Water treatment	Growth	Renewals	Keeping pace with growth		
Start date		Completion date			
2024–25		2027–28			
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.0	0.1	14.9	0.7	0.0
Objectives	Trentham's raw water supply and WTP require augmentation to meet demand for treated water during peak periods as a result of growth and climate change. Some assets are also reaching the end of service life. The outcome is to provide a safe and secure drinking water supply to customers in Trentham.				

Project	Goornong Treated Water Supply Upgrade (\$13.6m)				
Major Service	Primary Driver	Secondary Driver/s	Customer Output		
Water treatment	Renewals	Growth, Compliance	High Reliability		
Start date		Completion date			
2023–24		2029–30			
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	0.2	6.7	6.7	0.0	0.0
Objectives	To address security of supply risks associated with this poor condition asset that is also creating safety issues. The outcome is to provide a safe and secure drinking water supply to customers in Goornong. Growth in Goornong has accelerated, and there are queries from developers in relation to large scale future developments.				



Project	Bendigo, Castlemaine and Kyneton WTP Water Quality Upgrades (\$11.3m)				
Major Service	Primary Driver	Secondary Driver/s		Customer Output	
Water treatment	Compliance			Healthy drinking water	
Start date			Completion date		
2022–23			2025–26		
Capital expenditure \$m 22–23	23–24	24–25	25–26	26–27	27–28
	4.3	7.0	0.0	0.0	0.0
Objectives	Bendigo, Castlemaine and Kyneton WTPs require an additional treatment barrier to ensure ongoing compliance with Victoria’s <i>Safe Drinking Water Act (2003)</i> . The outcome is to provide a safe drinking water supply to customers in the Bendigo, Castlemaine and Kyneton supply systems.				

7.6.4 Major Programs

Program name	Major service	Primary driver	Customer output	23–24	24–25	25–26	26–27	27–28
WRP Renewals	Sewage Treatment	Compliance	-	2.6	1.6	1.6	6.8	7.8
Renewal and optimisation of WRPs including recycled water treatment to reduce environmental risk by improving the robustness of WRP treatment processes. Works will reduce operations and maintenance costs, operational risk and optimise asset performance and life.								
Water Main Renewals	Water Network	Renewals	High Reliability	2.0	1.2	1.2	5.0	6.1
Renewal of water mains to improve reliability and security of supply. Prioritisation based on number of bursts, number of supply interruptions, duration of interruption of supply, number of customers affected, remaining working life of pipe and social and environmental impacts.								
Purchase Water Shares	Bulk Water	Growth	Keeping pace with Growth	1.1	0.0	0.0	5.8	5.8
Purchase additional water shares to maintain water security. Murray and Coliban North Water Supply Systems and additional groundwater licence volume for Trentham and Kyneton.								
Sewer Network Renewals	Sewage Collection	Renewals	Prevent sewer spills	1.9	1.1	1.1	4.0	4.1
To decrease sewage spills to the environment by reducing the number of sewer collapses or leaks and reducing the number of poor-quality sewer assets. This will reduce the spend on reactive operational budgets. Key service outcomes are reliable network operations, ESC service standards, environmentally sustainable operations and cost-effective service delivery.								
PCRM Capitalisation	Water and Sewage	Renewals	-	1.7	1.8	1.8	1.8	1.9
Planned, Corrective and Reactive Maintenance (PCRM) undertaken on assets. Any major rehabilitation or replacement of assets which meet the capitalisation criteria and cost more than \$1,000 will be allocated to this program. This can include pumps, motors, measurement devices (level, pH, flow, pressure etc), air conditioners, blowers, compressors, dosing pumps, fans, gearboxes, mixers and tanks.								
Developer Shared Assets: Sewer	Sewage Collection	Growth	Keeping pace with growth	1.2	0.6	0.6	2.8	2.8
Coliban Water’s share of costs for trunk sewer infrastructure within new development areas to account for future growth. Other minor works associated with new connections are included in this program.								
SCADA Hardware	Water and Sewage	Renewals	High reliability	1.6	1.6	1.6	1.6	0.3



Program name	Major service	Primary driver	Customer output	23–24	24–25	25–26	26–27	27–28
This Supervisory Control and Data Acquisition (SCADA) Hardware program includes upgrading the SCADA system to deliver various benefits including providing a reliable service. Some equipment is no longer available in the market for replacement.								
Coliban Main Channel Renewals	Rural Water	Renewals	High reliability	1.3	1.3	1.3	1.1	1.1
Maintain the integrity and reliability of the Coliban Main Channel to supply water to Bendigo and to various rural systems.								
WTP Renewals	Water Treatment	Improvements / compliance	Healthy drinking water	0.8	0.8	0.8	1.3	1.5
Focuses on ensuring robust and reliable operations and maintenance, reducing operational risk and optimising asset performance and life to meet our customer water quality and quantity needs.								

7.7 COST ESTIMATION METHODOLOGY

Our *Cost Estimating Guidelines* provide guidance for consistency with estimating project costs in light of uncertainty.

We engaged specialist quantity surveying firm WT Australia to develop Monte-Carlo simulation estimates for all projects above \$5.0m using their extensive database of projects. *P5*, *P50* and *P95* estimates were obtained, with the *P50* estimate used to ensure an appropriate sharing of risk between Coliban Water and its customers. Cost estimation reports are available upon request.

Where a project’s estimated value is below \$5.0m, a simplified process to approximate the Monte-Carlo simulation is used, including for programs made up of several smaller projects.

A cost estimating database has been developed by Coliban Water for the purposes of feasibility-level estimation undertaken in Master and Augmentation Plans. This provides a valuable source of real-world data to enable accurate forecasting for future projects. An average cost of similar projects (appropriately escalated where necessary to account for inflation or other growth factors) is derived and adopted as the *likely cost*.

Uncertainty is the margin of error inherent to the estimation process to allow for uncertainty about quantities and unit rates.

Contingency values incorporate unknowns including risk and uncertain events. It uses a discrete probability distribution in which both the likelihood and consequence (of an event) are determined.

Where there are existing contracts in place, for example water and sewer main renewals programs, unit rates from those are used for estimates. For other routine programs, recent costs are used.

Uncertain projects have not been included in our proposed capital program and will only ever be included in customer prices if strictly necessary. See Section 15.3.1 for further information.

Variations in budget, scope and timing are managed via Coliban Water’s *Instrument of Delegation*. Our capital portfolio is dynamic to respond to any changes that occur to budgets, scopes, timings and risks to ensure that prudent and efficient investment occurs only for projects that are still required.



7.8 ASSESSING *BIG WATER BUILD* DELIVERABILITY

We are transforming Coliban Water so we can deliver this essential capital investment. We do not shy away from the challenge of increasing capital expenditure, and we have been increasing direct capital expenditure from \$24 million in 2018-19 to \$47 million in 2021-22. We are on track to increase this to \$55 million this year.

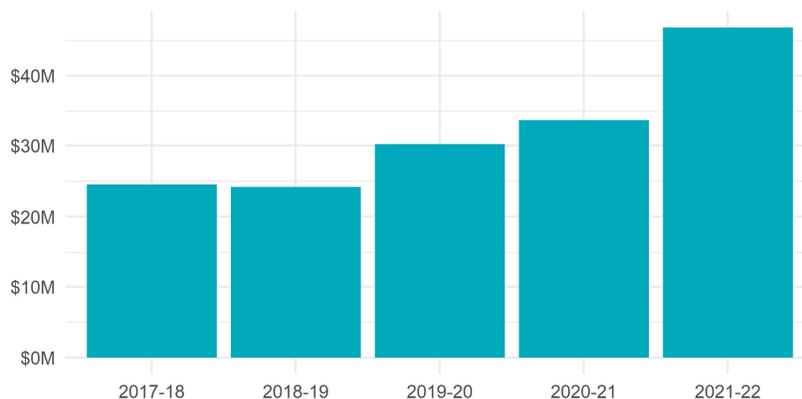


Figure 9: Direct Capital Investment delivery 2017-18 to 2021-22.

With this Price Submission, we are setting ourselves up to deliver an increased capital investment program to address key compliance risks, renew ageing and failing assets, and meet the challenges of our growing communities and the impacts of climate change. This will all be done whilst meeting our health and environmental regulatory duties. Our physical, economic and political environments are becoming increasingly unpredictable, meaning we need to change our organisation and ways of working to be more adaptive, flexible and innovative. An internal restructure has seen the creation of an Executive General Manager Transformation to ensure the best leadership as we continue implementing our transformation.

Coliban Water can demonstrate strong historical performance in the delivery of our capital portfolio, however we acknowledge that our proposed capital investment plan for the *Big Water Build* will be challenging. We require key changes to the way we operate and an uplift in our capability and capacity to deliver an expanded capital portfolio. We are also dealing with a difficult operating environment with key skills shortages, international supply chain constraints and burgeoning costs for labour and inputs.

Transforming our organisation and ways of working will enable us to not only deliver an increased capital program, but also to demonstrate the delivery of outcomes beyond those traditionally focussed on time and cost. It will also enable us to adapt our approach in response to uncertain and unpredictable times.

7.8.1 Historical performance

Total capital expenditure in the 2018–2023 regulatory period (including forecast 2022–23) is \$272m, \$52m or 23% higher than the Determination. We operate a dynamic portfolio prioritisation process where investment decisions are made according to current risks. With most of the additional investment across 2021–22 and 2022–23 to address compliance requirements, we have effectively commenced the *Big Water Build* early.



Coliban Water was convicted in 2021 for 2019 breaches of the *Environment Protection Authority (EPA) Act* as a result of non-compliant discharge to the environment from the Kyneton WRP. A proposed Top 10 project was for upgrade works at the WRP to reduce this risk, however to minimise risk of future discharges the scope of works needed to significantly expand. We redirected significant internal resources to this project as a priority over others, meaning other projects were delayed or deferred.

The capital spend requirement has gradually increased over the five-year period, exceeding what was in the 2018 Determination. This increase is planned to continue into the 2023–2028 regulatory period and beyond.

7.8.2 Deliverability assessment

Coliban Water has taken a two-staged approach to assessing the deliverability of the capital portfolio. Refer to the Capital Investment Background Paper for more detail.

Stage 1 Deliverability Assessment

The outcome of Stage 1 was the selection of a capital program expenditure trajectory and program design which optimally balances delivery risk with infrastructure needs. Four scenarios were comparatively assessed. The preferred scenario increases the number of works extending out beyond 2028 in order to increase the certainty of delivering proposed capital works in the 2023–2028 regulatory period.

The assessment identified and analysed internal and external delivery risk for each scenario with consideration of the following:

- Capability and capacity to deliver the capital program, internally and market based
- Capability and capacity to support the delivery of the capital program, internally and market based
- Ability to make sound, consistent and timely decisions
- Ability for external agencies to make timely approvals
- Adequacy of internal systems and processes to deliver and support the capital program
- Political, economic and physical environment

Stage 2 Deliverability Assessment

Stage 2 included a detailed assessment of the delivery risk for each project and program. This risk assessment was factored into the final prioritisation of projects, programs and the portfolio design.

The assessment considered factors including:

- Size, type and complexity of the projects and programs
- Procurement approach
- Lead time activities including permits, approvals and land purchases
- Current stage of the project
- Current contract status for projects and programs

7.8.3 Delivery risk mitigation strategy

Given the scale and variability in complexity of works within the portfolio, Coliban Water has developed a high-level strategy to mitigate key risks identified for its delivery. These key risks include but are not limited to:



- Market capability, capacity and appetite for risk resulting in a reduced field of tenderers likely to respond and the likely cost of works;
- Complex and lengthy approvals processes having the potential to impact upon the timeliness of delivery; and
- Global supply chain issues impacting upon the timeframe for delivery of key equipment and the associated cost.

7.8.4 Portfolio design

To address these key risks, Coliban Water's 2023–28 capital works program will be delivered through three key work streams.

Major Initiatives work stream covers works at the Bendigo and Castlemaine Water Reclamation Plant's (WRPs) and accounts for approximately \$112m across the PS23 period with further works scheduled for delivery within the 2028–33 regulatory period. The program will be delivered by dedicated teams drawing capabilities from across the organisation. These programs will strategically consider the run, grow and transform aspects of the site and deliver outcomes to the communities of Castlemaine and Bendigo, reduce environmental risk and improve amenity. The approach taken will address the current challenges and the delivery of optimal solutions holistically.

Core Programs are one third of proposed capital budget and include asset renewals, process improvements and routine works. These will continue to be managed by the infrastructure management team and delivered through a suite of Provision of Service contracts.

Bundled Projects are the remainder of the proposed capital budget. We will strategically partner through flexible and scalable contract models, directed at programs that bundle projects of a like type (e.g. the programmatic delivery of a suite of tank and pipeline projects). These may include contracts for the design and delivery of works including water and sewer mains, water and sewer pumping stations and mechanical and electrical works.

7.8.5 Market response

For each of the work streams, the works will be packaged to attract a competitive market response from a broad field of tenderers. Recent tender responses received by both Coliban Water and peer organisations indicate that there has been a significant change in the market's appetite for risk, particularly in relation to the rising cost of materials. In developing these works packages Coliban Water will be investigating options to share these risks to ensure that market responses are optimal. We are also anticipating that our traditional market delivery processes will be tested, and as such are also investigating alternative delivery models.

7.8.6 Planning and approvals

Coliban Water is seeking to approach key stakeholders including councils, regulators and traditional owner groups to provide an early indication of the works that will be undertaken, to ensure where possible these stakeholder groups are appropriately resourced to review our submissions in a timely manner. We are currently engaging additional planning resources to front end planning and approval processes for the proposed program to assist where possible in mitigating approval delays.

7.8.7 Supply chain

Where supply chain issues are likely to impact the delivery of individual projects, we will seek to adopt procurement strategies that will ensure key materials are acquired at the earliest practicable point within the program.



7.8.8 Capability and Capacity

Coliban Water has published a tender to support the forward resource needs required for the scale up in all aspects of capital across major initiatives, core programs and bundled programs, to cover 12 service areas identified as being key to the successful delivery of the program. We anticipate a significant increase in FTEs across the 2023–2028 regulatory period to support the *Big Water Build* (in the order of +20% to the existing workforce).

7.8.9 Systems and processes

Coliban Water has a robust Project Management Manual that provides a clear methodology to project managers for managing projects and Core (BAU) Programs across the organisation. The Project Management Manual and methodology is based on the Project Management Book of Knowledge.

Coliban Water's Portfolio Management Office (PMO) has recently been comprehensively reviewed by a specialised PMO consultancy, PMO Solutions. A high level of engagement was undertaken and clear recommendations within a PMO transformation roadmap are being implemented to raise the maturity levels of the organisation's portfolio, program and project management capability.

This necessitates a broader application of the PMO capability within an Enterprise Portfolio Management Office (EPMO). A well-resourced PMO will be required to continue the implementation of recommendations over 2022–23 to ensure the organisation is set up to successfully deliver the increased investment planned for the 2023–2028 regulatory period. Workforce planning has been targeted to run the PMO, grow the capability and transform the PMO function and governance within the organisation.

An efficient and robust Portfolio, Program and Project Management System (PPPMS) will be required to underpin these activities by ensuring information is effectively managed and communicated across the business. Options for a new PMO digital solution are currently being assessed and will be implemented within the next twelve months, in line with the PMO roadmap.

Coupled with the PMO transformation will be an organisation-wide culture program, driving change in habits, behaviours and ways of working. The program will also focus on accountabilities and leadership settings to drive a high-performance capital delivery function within the business.

7.9 REFERENCES

- PS23_BG_09: *Capital Expenditure Background Document*
- *Project Management Manual* (QA Docs)
- *Procurement Policy* (QA Docs)
- *Instrument of Delegations* (QA Docs)
- *Capital Expenditure Prioritisation Process* (QA Docs)
- *Asset Management Policy* (QA Docs)
- *Strategic Asset Management Plan* (QA Docs)
- *Cost Estimation Guidelines* (QA Docs)



8 REGULATORY ASSET BASE

CHAPTER SUMMARY

- Standard PREMO rating implies 4.1% Return on Equity.
- Overall regulatory depreciation rate lower than previous regulatory period and regulatory depreciation of new assets in line with asset lives.

8.1 RATE OF REGULATORY DEPRECIATION

We are proposing different rates of straight line regulatory depreciation for existing and new assets in line with the approach accepted in our 2018 Determination:

- Existing assets: 6.3% for the opening RAB as at 1 July 2023
- Assets constructed after 1 July 2023: in line with actual asset lives

The effective regulatory depreciation rate averages 5.5% over the 2023–2028 regulatory period. This compares to an effective regulatory depreciation rate of 6.3% for the 2018–2023 regulatory period.

This rate is higher than our weighted average asset life and is required to achieve the pricing objectives of the Deliberative Panel, particularly as it relates to intergenerational equity. This is consistent with the Guidance which notes that businesses may consider the impact on prices over the long-term in setting Regulatory Depreciation. In the long term, we aim for continued reductions in this rate.

The financial template allows two different means to achieve a rate of regulatory depreciation that flows into the revenue requirement – a book value method and a depreciation override method. We have completed both sections of the template but note that the two methods are identical and either method achieves the same outcome.

8.2 COST OF DEBT

Coliban Water is proposing a broad-based application of any Cost of Debt (CoD) adjustment to prices. This is in line with the approach adopted in our 2018 Price Submission, with the inclusion of trade waste charges. Spreading annual CoD adjustment over a larger number of tariffs (i.e. a larger revenue base) will help minimise the magnitude of any tariff changes and help maintain our clear customer preference for smooth annual price changes.

Table 32: Tariff Categories with Cost of Debt adjustment, PS23 Regulatory Period.

Charge Category	CoD changes applied
Water Access and Volume Charges (<i>treated, untreated, recycled</i>)	✓
Sewer Access and Volume Charges	✓
Trade Waste Charges (<i>Excludes Major TW access charges</i>)	✓
Rural Charges (<i>Includes Modernised and Unmodernised</i>)	✓



8.3 RETURN ON EQUITY

The PREMO rating sets the maximum Return on Equity to be applied to the Regulatory Asset Base. The maximum rate for a Standard PREMO rating is 4.1% (real). We are proposing to apply the maximum Return on Equity of **4.1%** for a Standard submission.

8.4 RETURN ON RAB

The formula for determining the real return on the Regulatory Asset Base (RAB) is largely unchanged from the formula used for the 2018–2023 regulatory period.

The Return on RAB is made up of a return on equity (Re) and cost of debt (Rd) as per the formula: *Regulatory rate of return (RRR) = Re (0.4) + Rd (0.6)*.

The cost of debt (Rd) is based on the 10-year trailing average of the RBA 10-year BBB rated corporate bond figure. We understand that the cost of debt and regulatory rate of return will be updated each year to reflect the actual cost of debt, with any change compared to forecast applied to the following year's prices. Table 33 below provides a forecast for Return on RAB for the 2023–2028 regulatory period.

Table 33: Return on RAB, 2023–24 to 2027–28.

%	2023–24	2024–25	2025–26	2026–27	2027–28
Cost of Debt (real) (Rd)*	1.51%	1.19%	1.04%	0.89%	0.78%
Return on Equity (Re)**	4.10%	4.10%	4.10%	4.10%	4.10%
Regulatory Rate of Return (RRR)*	2.55%	2.36%	2.26%	2.17%	2.11%

**Subject to annual adjustment with new cost of debt information*

***Based on the Commission endorsing Standard PREMO rating for this Price Submission*

8.5 FORECAST RAB

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Opening RAB at 1 July	571.9	611.2	659.5	711.1	760.7
<i>Plus</i> Gross capital expenditure	86.8	98.6	104.9	108.3	108.8
<i>Less</i> Government contributions	-	-	-	-	-
<i>Less</i> Customer contributions	-8.6	-9.7	-11.1	-12.8	-14.8
<i>Less</i> Proceeds from disposals	-2.2	-2.2	-2.2	-2.2	-2.2
<i>Less</i> Regulatory depreciation	-36.8	-38.4	-40.1	-43.8	-47.7
Closing RAB at 30 June	611.2	659.5	711.1	760.7	804.8



9 OPERATING EXPENDITURE

CHAPTER SUMMARY

- Growth, climate change and ageing assets all contribute to an increasing operating expenditure trend.
- New development in Bendigo is in hard-to-service areas outside the main Bendigo valley and is costlier to serve.
- Future growth requires additional investment in water resources to ensure current water security is not negatively impacted.
- An operating efficiency of 1.4% per annum is incorporated into forecasts.

9.1 OPERATING EXPENDITURE METHODOLOGY

We have used a five-step methodology to establish a prudent and efficient forecast of operating expenditure across the 2023–2028 regulatory period:

1. Establish adjusted baseline for 2021–22 controllable operating expenditure
2. Forecast the baseline controllable operating expenditure from 2023–24 to 2027–28
3. Adjust the baseline for prudent and efficient variances
4. Add known non-controllable operating expenditure each year
5. Outline which expenditure has been excluded from the revenue requirement to minimise bill impacts on customers

This forecasting methodology is consistent with the Commission’s preferred approach which projects operating expenditure forward from actual expenditure incurred in 2021–22.

9.2 BASELINE CONTROLLABLE OPERATING EXPENDITURE 2021–22

Controllable regulatory operating expenditure for 2021–22 was \$72.9m (see section 3.3.1). From this point, we have established an adjusted baseline controllable operating expenditure for 2021–22.

Table 34: Baseline controllable Operating expenditure 2021–22.

Item	\$m 22–23	Notes
Controllable regulatory operating expenditure 2021–22	72.9	As outlined in section 4.3.1
<i>Less/add non-recurrent expenditure</i>	-0.2	Removal of direct COVID expenditure. While some expenditures were actually lower in 2021–22 due to the pandemic, we have chosen not to include this additional expenditure as a baseline adjustment to minimise customer bill impacts
<i>Less/add baseline adjustment</i>	3.2	\$2.2m is commencement of cloud computing as an operating expenditure item to align to accounting standards. The remaining balance is due to lower pumping expenditure incurred in 2021–22 than is required in a median climatic year, and a high rate of



Item	\$m 22–23	Notes
		vacancies that artificially reduced our operating expenditure.
Adjusted baseline 2021–22 controllable Operating expenditure	76.0	

9.3 FORECAST BASELINE CONTROLLABLE OPERATING EXPENDITURE 2023–24 TO 2027–28

Starting from the adjusted baseline above, we calculate a baseline for each year in the regulatory period using forecasts for efficiency and customer growth.

Table 35: Forecast Baseline Controllable Operating expenditure 2021–22 To 2027–28.

\$m 22–23	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Baseline controllable operating expenditure	76.0	76.0	76.0	76.0	76.0	76.0	76.0
<i>subtract</i> \$ value of forecast cost efficiency		-1.1	-2.2	-3.3	-4.4	-5.4	-6.5
<i>add</i> \$ value of customer growth forecast		1.4	2.9	4.3	5.8	7.3	8.8
Forecast baseline controllable operating expenditure	76.0	76.3	76.7	77.0	77.4	77.8	78.2

9.3.1 Annual Efficiency rate

We are proposing to apply an annual efficiency rate of 1.4% to operating expenditure. This is consistent with a *Standard* rating for the Management element of PREMO. We are targeting this level of efficiency despite the challenges posed by climate change, growth and ageing assets (see section 9.3.2 for the challenges of customer growth).

Achievement of the proposed efficiency target will depend on achievement of as-yet-uncertain cost reductions in the following categories:

- Energy savings from capital expenditure
- Business transformation
- Reduced costs from digital metering
- Refined procurement approaches
- Platform renewals

The sum of these efficiency savings is \$21.8 million over the regulatory period.



9.3.2 Customer Growth

In line with previous regulatory periods, we are proposing that the average rate of customer growth is incorporated into operating expenditure forecasts. Details on customer growth and demand are provided in chapter 10.

While annual growth rates have fluctuated between 1.4% and 3% in a prior year, the current rate of 2.2% has been adopted for Bendigo going forwards. When combined with lower growth towns, the average growth rate of 1.9% is assumed for residential water connections. This growth rate has been utilised for capital expenditure planning as well as revenue and operating expenditure modelling.

We have not seen reductions in operating expenditure per customer driven by growth and believe it would be a false economy to assume this going forward. From an operating expenditure perspective, the majority of new growth in Bendigo is in hard-to-service locations. Once a city in a valley, the valley is now full. New development is occurring many kilometres to the west, east and north requiring significant pumping expenditure and infrastructure requirements to serve it.

No additional operating expenditure arising from capital expenditure projects has been included above the baseline. We expect changes as a result of our capital program can be accommodated for and managed within our growth adjusted baseline. Furthermore, energy efficiencies and consequential energy increases (due to pump stations, extra UV water treatment, etc) arising from capital expenditure projects have also been absorbed within the growth and efficient adjusted baseline.

In our dry part of the world, we are also aware of the impact that climate change has already had on our way of life. The Coliban River catchments have seen a decline of 53% in inflows since 1975. Our communities can no longer fully rely on these storages for their water resources. Each marginal kilolitre of water is pumped from Lake Eppalock or, in dry times, from Colbinabbin (Goulburn system).

9.4 PRUDENT AND EFFICIENT ADJUSTMENTS TO BASELINE

9.4.1 Linking operating expenditure variance themes to Customer Outcomes

We have identified several themes which, despite best practice management, require an increased expenditure allowance over the regulatory period. These are directly related to achievement of our Customer Outcomes and compliance needs. This capability uplift will enable us to succeed in being a modern water utility fully compliant with regulations. Some identified themes link to multiple Customer Outcomes as shown in Figure 10 below.

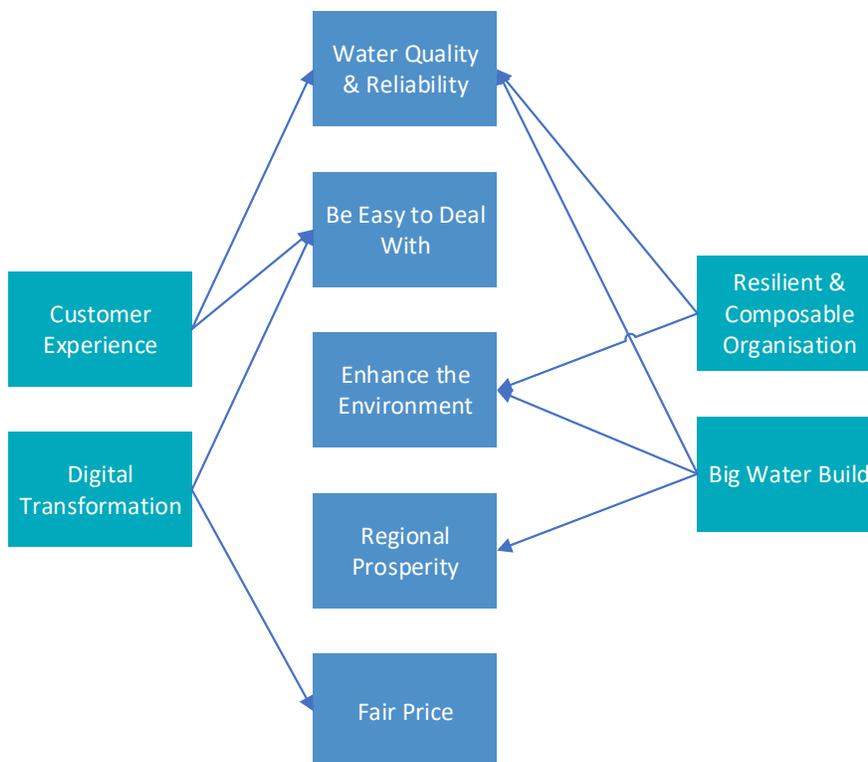


Figure 10: Linkages between major themes and Customer Outcomes.

9.4.2 Explanation for operating expenditure adjustments

Justified explanations for variances in operating expenditure are outlined below. Overall, we are confident that the level of justified and achievable variations in operating expenditure exceed the amounts specified in the financial template. Variations over the five-years are shown below, but annual adjustments for the four key themes are detailed in the financial template.

Table 36: Explanations for variances in operating expenditure.

Theme	Initiative / Program	\$m 22–23	Rationale
Digital Transformation	Cyber security	2.1	<p>Considering the elevated level of cyber threats to critical infrastructure, regulatory assertiveness through various federal and state level legislation, we developed a Cyber Security Strategy and an Information Security Management Framework. Substantial new work must be done to achieve compliance with regulatory frameworks such as three Security of Critical Infrastructure Acts and the Victorian Protective Data Security Framework.</p> <p>Furthermore, we will be changing our Security Operations Centre aligning to the Water Sector Cyber Security Operations Centre (CSOC). The cost incurred to align the Water Sector CSOC increase our current base costs by \$0.2m per year.</p>
	Platform renewals	0.5	<p>Execution of our Digital Strategy will improve our organisational processes, interactions between staff and with external stakeholders. Emergence of new digital technologies will provide opportunities for water utilities to transform and optimise their networks, improve asset management and better meet the growing needs and expectations of customers and communities. Extra</p>



Theme	Initiative / Program	\$m 22-23	Rationale
			investment in platform renewals is a key enabler for our overall operating efficiency target.
Big Water Build	Reduce sewer blockages	1.8	To assure compliance with EPA regulations, we will be spending more on proactive maintenance and monitoring of sewer mains. This expenditure will result in further reductions in our rate of sewer blockages.
	Additional asset readiness and maintenance	1.2	Increased condition assessments, environmental compliance monitoring and maintenance is required to enable readiness for the <i>Big Water Build</i> .
	Sanitary drains	0.7	The regulation on sanitary drains changed to water authority responsibility in 2014-15. Since then, we worked hard to understand the risk these assets represent to our customers. We maintain around 72,000 property connections, growing annually. Many sanitary drain locations are not GPS'ed and their condition not known. This increase will address the risk to level of service we are exposed to and support the development and prioritisation of a new capital renewals program specifically targeting these assets. This program also includes our plumber rebate initiative which since commencing in 2017-18 has seen claims increase from 118 (\$24k) to 497 (\$100k) in 2021-22. This program allows for registered plumbers to identify and/or clean issues with our assets and enables issues to be resolved by a first point of contact. Alternatively, our maintenance crew would be deployed delaying the resolution for the customer. This program is forecast to increase in the coming regulatory period.
	Insurance	0.5	Represents increased cover due to increased asset base. We are part of a joint procurement within the Victorian Water sector. This arrangement aims to provides better coverage for the sector at a lower cost. Construction costs, which have been increasing, are a key input into the cost of premiums within this joint procurement.
	Water quality monitoring	0.8	Extensive reactive and proactive water and reclaimed water quality monitoring is routinely conducted annually across our region of operations. Due to climate change and the increased frequency of algal toxins, increased monitoring is needed so we can prioritise solutions, primarily in the northern region. This includes sampling of the catchment, potable water, non-potable water, reclaimed water, recycled water, soil, groundwater, water bodies (where reclaimed water is discharged), biosolids and trade waste. Monitoring is conducted for compliance assessment, risk assessment, performance evaluation and for long term evaluation.
Resilient and Composable Organisation	End of Term reviews	4.4	Our AQUA 2000 contact with Bendigo Water Services was executed in 1999 and is due to reach its end of term towards the end of the regulatory period. This contract provides water treatment, storage and distribution services to the Bendigo, Castlemaine and Kyneton urban water supply systems servicing approximately 78% of Coliban Water's urban customers. Additionally, our ETE Sewer BOOT and O&M Service Agreement are also reaching end of term in 2027-2028. Appropriate resourcing to manage these end of term arrangements has been included and is essential to ensure successful implementation of the preferred approach and achieve value for money. The total operational cost of these outsourcing contracts is approximately \$200m per regulatory period.
	Transformation foundations	1.6	Additional corporate resourcing required to understand capability requirements through workforce planning, value stream analysis through business analytics and change management to assist in navigating through



Theme	Initiative / Program	\$m 22–23	Rationale
			the transformation to <i>Coliban of the Future</i> , driving future operational efficiencies. Much of the analytical work is being undertaken from 2022–23 with delivery aligned to enable the <i>Big Water Build</i> .
	Superannuation increase	1.8	The superannuation guarantee is the minimum rate employers need to pay into employee super funds. Starting from 10% in 2021–22, superannuation rates will increase to 12% by 2026.
Customer Experience	Direct support for customers experiencing vulnerability	2.2	We will expand our assistance program with an additional \$2.2m on initiatives to support customers experiencing vulnerability. As recommended by the Deliberative Panel and broader customer engagement program, this additional support will directly help vulnerable customers manage their bills and be more water efficient. We will report annually on expenditure related to this item to our new Regional Advisory Groups.
	Community Liveability Contribution	1.5	The Deliberative Panel recommended Coliban Water to take a larger role or a lead role in the community, commensurate with additional expenditure of \$0.3m per annum. We accept this recommendation. We will be expanding our water refiller and water trailer fleet, making more water available for councils to efficiently keep community spaces green, expand our education program and better enable wildlife to utilise land surrounding our channels. We will report annually on expenditure related to this item to our new Regional Advisory Groups.

The following table outlines our expenditure by activity area:

Table 37: Operating expenditure by activity area.

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total PS23
Operations and maintenance	23.5	24.6	25.5	25.5	26.0	125.0
Treatment	34.4	33.2	33.4	33.9	33.0	168.0
Customer service and billing	8.9	8.5	8.9	8.4	8.4	43.0
GSL payments	0.0	0.0	0.0	0.0	0.0	0.0
Corporate	14.7	14.5	13.3	13.5	13.4	69.4
Other operating expenditure	0.1	0.1	0.1	0.1	0.1	0.7
Total controllable operating expenditure	81.6	81.0	81.3	81.4	80.9	406.1

The following table outlines our expenditure by service category.

Table 38: Operating expenditure by service category.

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total PS23
Water	42.7	42.9	43.7	44.3	44.1	217.7



Sewerage and trade waste	32.7	31.8	31.2	30.9	30.8	157.3
Recycled water	2.4	2.4	2.4	2.4	2.3	11.9
Rural services	3.9	3.9	4.0	3.8	3.8	19.3
Total controllable operating expenditure	81.6	81.0	81.3	81.4	80.9	406.1

9.5 NON-CONTROLLABLE OPERATING EXPENDITURE

Our non-controllable expenditure is displayed in Table 39 below.

Table 39: Non-controllable operating expenditure.

<i>\$m 22–23</i>	2023–24	2024–25	2025–26	2026–27	2027–28	Total PS23
Environmental contribution	5.6	5.4	5.3	5.1	5.0	26.3
External bulk water charges	2.4	2.5	2.5	2.6	2.6	12.5
Licence fees	0.3	0.3	0.3	0.3	0.3	1.7
Total non-controllable operating expenditure	8.3	8.2	8.1	8.0	7.9	40.5

External bulk water charges include purchases from both Goulburn Murray Water (GMW) and Grampians Wimmera Mallee Water (GWMWater). We have assumed these charges will escalate in line with inflation, with the quantities of the services we consume increasing in line with our urban growth rate. Following the Draft Decision, we will provide more up-to-date forecasts in place of these current assumptions.

Licence fees for EPA, the Commission and DHHS are all forecast to increase in line with inflation.

Environmental contribution is fixed in nominal terms. Please see section 14.3.1 where we propose that any change to the Environmental Contribution will be dealt with via the uncertain and unforeseen events mechanism.

9.6 EXCLUSIONS OF OPERATING EXPENDITURE WITH UNCERTAIN OUTCOMES

In building a forecast of operating expenditure, we have been careful to exclude uncertain items. This includes several items that we have instead included in section 14.3.1, Uncertain and Unforeseen events.

9.7 TOTAL OPERATING EXPENDITURE

Our total operating expenditure is displayed below.

Table 40: Total operating expenditure.

<i>\$m 22–23</i>	2023–24	2024–25	2025–26	2026–27	2027–28	Total PS23
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Controllable operating expenditure	81.6	81.0	81.3	81.4	80.9	406.1
Non-controllable operating expenditure	8.3	8.2	8.1	8.0	7.9	40.5
Total operating expenditure	89.9	89.2	89.4	89.3	88.8	446.6

9.8 OPERATING EXPENDITURE FOCUS ITEMS

Table 41 outlines our expenditure in key focus items.

Table 41: Operating expenditure in key focus items.

\$m 22–23	PS18 average / year	23–24	24–25	25–26	26–27	27–28	Total PS23	Rationale/Driver
Labour	20.9	23.3	23.1	23.2	22.7	22.2	114.4	The increase is aligned with the capability increases to support a technology uplift and the capacity requirement to support the <i>Big Water Build</i> . In accordance with guidance within the financial template, we note that this line item represents non-capitalised labour.
Technology	2.0*	5.4	5.6	4.7	4.4	4.3	24.3	Represents the technology capability surge we will have over a 3-year period in order to establish strong foundations to support the deliverability of the smart and safe <i>Big Water Build</i> . *PS18 average is representing expenditure exclusive of cloud investments. Throughout PS23, cloud investments will be represented as operational expenditure instead of capital. This aligns with the correct accounting treatment of these costs.
Chemicals	2.2	2.5	2.6	2.7	2.7	2.8	13.3	Due to the current cost of chemicals significantly increasing in recent years. Whilst consumption of chemicals is being optimised where possible. The cost is exceeding these improvements. Chemical costs in the base year totalled



\$m 22–23	PS18 average / year	23–24	24–25	25–26	26–27	27–28	Total PS23	Rationale/Driver
								\$2.6M exceeding the average of PS18.
Contracted Services	18.0	17.3	17.4	17.6	17.7	17.8	87.8	The decrease represents the efficiency and improvements being derived from increased capital expenditure and improvement in proactive maintenance to reduce reactive maintenance
Energy	5.3	4.7	4.7	4.7	4.7	4.7	23.6	Electricity costs have been assumed to increase in line with inflation, with no increase in prices. A revised update will be provided in response to the Draft Decision once an industry electricity cost review is complete in early 2023.
Total	48.4	53.2	53.4	52.9	52.2	51.8	263.4	

9.9 REFERENCES

- PS23_BG_08: *Forecast Operational Expenditure.*
- PS23_08_01: *Compliance Obligations On-Water Recreation.*



10 DEMAND AND GROWTH

CHAPTER SUMMARY

- Residential and non-residential growth have been calculated on the basis of trends from our own connection history data.
- Residential and non-residential customer usage was forecast from our own water usage data; sewer demands are derived from these. Overall growth rates for the 2023–2028 regulatory period is forecast at 1.9%.
- Non-residential demand and connection growth expected to rebound from pandemic levels.
- We will continue to promote efficient water use to reduce demand.

10.1 METHOD

We have undertaken demand and growth forecasting in line with methodologies employed within the business for system planning and water resource management. This best ensures that decisions made for investment are aligned with our expectations for future growth and demand.

The *Victoria in Future* (VIF) projections were compared with historical growth rates from our connections records. Generally, the VIF values have underestimated historic connection rates mainly because the VIF includes areas not currently open for development and farming areas not connected to urban services. For this reason, for growth forecasting we have used our own records with consideration of VIF trends.

A review of areas of future development was undertaken in collaboration with the relevant local government bodies to confirm their expectations; growth boundaries and potential changes in these were considered. A comparison of values, including detailed case studies, is available.

Demand per connection by customer type was reviewed to determine the significant factors. The measured factors included growth rates, price elasticity, temperature and rainfall. This review excluded several years following the Millennium Drought when demand was depressed. There has been a rebound in usage since 2012 following the drought, though not to pre-drought levels. It is noted that temperature has a measurable effect on demand; therefore, climate change is expected to continue to influence consumption. Nevertheless, multivariate analysis found that the growth rate is the most significant factor affecting demand.

We have forecast growth and demand through to 2032–33 for all customer segments and services. These are included in the Financial Template with more information available in the background documents.

10.2 GROWTH RATES

Table 42 summarises the adopted growth rates for this Price Submission. Notably, the residential growth rate has increased from 1.7% in the 2018 Price Submission to 1.9%. The adopted long-term average of connections was generally higher than VIF and accurately reflected the recent trends. This growth rate will be held stable over the regulatory period.



Growth in the last five-years has been robust, influenced most likely by the continued high cost of housing in Melbourne and the change in “working from home” arrangements created by the current pandemic. Growth rates are increasing in each significant growth region as local governments are taking steps to encourage development in their respective areas. We expect that the rate of growth will continue to be strong.

Table 42: Forecast annual growth rates.

Segment	2023–24	2024–25	2025–26	2026–27	2027–28
TREATED WATER					
Residential	1.9%	1.9%	1.9%	1.9%	1.9%
Non-residential	0.9%	0.9%	0.9%	0.9%	0.9%
SEWER					
Residential	2.1%	2.1%	2.1%	2.1%	2.1%
Non-residential	1.1%	1.1%	1.1%	1.1%	1.1%

The growth rates for sewerage services are generally higher as growth boundaries expand into areas with septic tanks, as well as starting from a smaller base (new connections typically in systems with both water and sewerage services). There are expressions of interest from local government for the provision of sewer services to Elphinstone, Taradale, Goornong and Newbridge. These projects are unlikely to proceed within the 2023–2028 regulatory period and have thus been excluded from these projections. The cost of servicing these towns is higher than feasible for individual customers to fund. In the absence of developer or government support, the provision of these services is considered uneconomic. We will continue to engage with these communities to consider options for future management of sewage in these areas.

The growth rate in non-residential connections is particularly volatile in smaller towns where the absolute number of connections is small. The loss of even a few commercial properties, as occurred in the first two years of the pandemic, can have an exaggerated effect. For this reason, the average growth rate has been adopted.

Our largest town, Bendigo, comprises 63% of Coliban Water’s urban water customer base. It has historically had a higher rate of customer growth and overall comprises 75% of new lot creation in any given year. Recently Bendigo’s growth rate has been impacted by delayed sub-division requests, however, this is forecast to resolve in the short term.

While annual growth rates have fluctuated between 1.4% and 3.0% in prior years, the overall rate of 1.9% has been adopted going forwards. This growth rate has been utilised for capital expenditure planning as well as revenue and operating expenditure modelling.

10.3 DEMAND FORECASTING

The adopted growth rates were used to forecast total water demand. We have forecast an average 192 kilolitres per annum for residential customers and average 907 kilolitres per annum for non-residential customers. This is an increase on the 2018 Price Submission figure of 188 kilolitres per residential customer. In addition, the demand assumptions for non-residential customers have been



simplified from the three-tier system adopted in the 2018 Price Submission on the basis that aggregated modelling (larger number of customers) is likely to be more accurate.

Our demand projections are based on the following assumptions:

- No additional new district or town water service areas are planned.
- No significant changes in water demand from major non-residential customers. In particular, the Bendigo Regional Employment Precinct will be subject to separate NCCs, and the cost-of-service provision for this significant development has therefore been excluded. Initial demands arising from this development are expected to detract from non-residential growth in other parts of Bendigo.
- Demand management partially offsets the increases in demand driven by climate change. This is primarily achieved through our digital metering program. The leak detection program notifies customers of suspected leaks in their plumbing. Between July 2020 and July 2022, we have notified 1,100 customers of potential leaks, which has resulted in estimated savings of up to 280 ML (average leak over 100 litres per hour). Based on our experience with digital meters, we anticipate a saving of 1.5% on residential demand attributed to digital metering.
- Growth in demand is also constrained due to new developments with small lot sizes, water tanks, water efficient appliances and limited outdoor space that requires water.

Table 43: Forecast Water demand (kL per annum per connection).

<i>kL per connection</i>	2023–24	2024–25	2025–26	2026–27	2027–28
TREATED					
Residential	192	192	192	192	192
Non-residential	907	907	907	907	907
UNTREATED					
Residential	140	140	140	140	140
Non-residential	260	260	260	260	260
RECYCLED					
Residential	50	50	50	50	50
Non-residential	10,189	10,189	10,189	10,189	10,189

10.3.1 Impact of Price Elasticity

Given the proposed increase in pricing, elasticity was considered in a multivariate evaluation of demand forecasting. Using evidence from the price changes for the Murray towns¹, it was found that demand response to higher prices in that region were insignificant. Therefore, the increasing cost of water should not have a significant dampening effect on demand.

¹ Annual real price increases up to 10% over a number of years as water volumetric prices were harmonised across our region



10.3.2 Impact of Restrictions

The introduction of the Permanent Water Saving Rules following the Millennium Drought has reduced average demand. Although there has been some rebound in demand, it has not returned to pre-drought figures.

The Urban Water Strategy indicates that the purchase of additional shares is required to avoid restrictions. This is a cost which has been incorporated into this Price Submission. Also, our Customer Outcomes include a commitment to not impose water restrictions beyond Permanent Water Saving Rules.

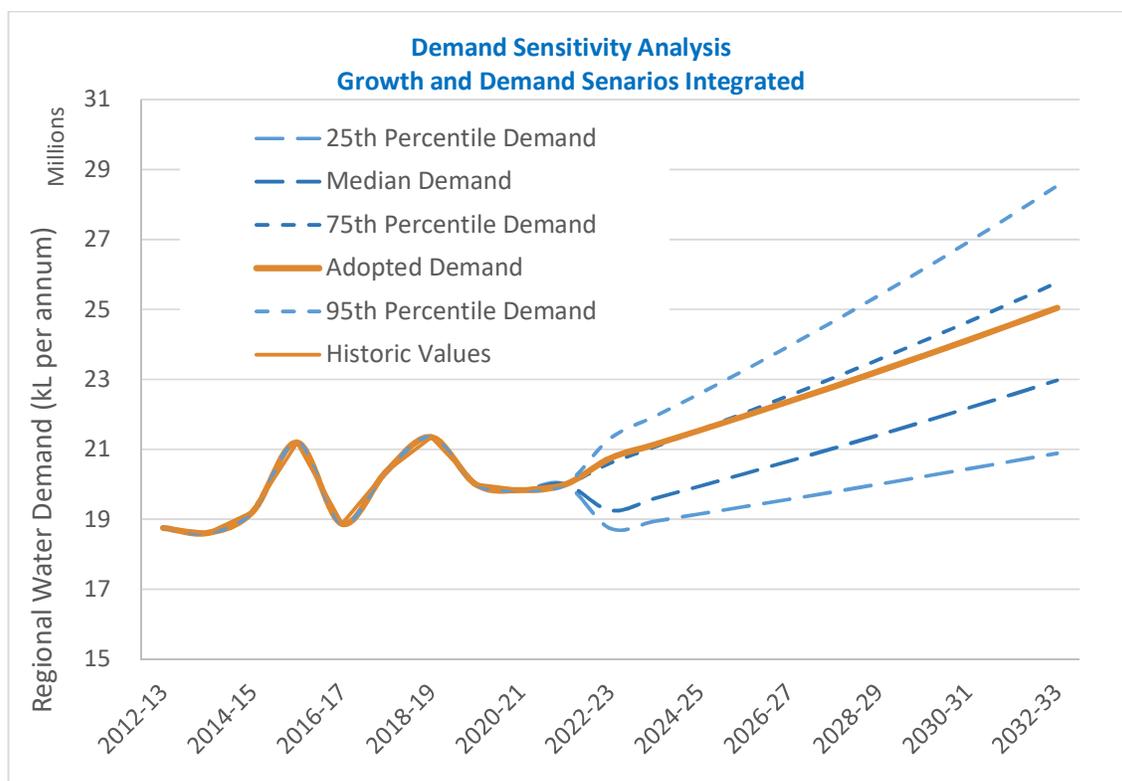


Figure 11: Growth and scenarios, 2023–2028 regulatory period.

10.3.3 Scenario Modelling

The effects of the above-mentioned uncertainties have been combined to model a range of scenarios with the adopted scenario being graphically compared below. The adopted approach reflects the optimistic growth and demand projections and reflects the 95th upper confidence level of the median for the range of resulting demands.

10.3.4 Rural

Growth in the rural system is either zero or negative. Modernised (piped) rural system forecast growth is 0.0% due to capped volumes in these systems. Growth for non-modernised (open channel) systems is estimated to be -1.0% due to increasing urban encroachment on Bendigo’s peri-urban fringes and customers deciding they need less water for their lifestyle properties.



Table 44: Forecast growth for rural services.

%	2023–24	2024–25	2025–26	2026–27	2027–28
Modernised	0.0%	0.0%	0.0%	0.0%	0.0%
Unmodernised	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%

Rural demand for water is highly sensitive to the climate, with high demand in dry years to supplement rainfall. The long-term trend for rural consumption has been declining, with urban encroachment and more lifestyle rural properties.

Table 45: Forecast Rural water demand (kL/licence).

%	2023–24	2024–25	2025–26	2026–27	2027–28
Modernised	4,373	4,373	4,373	4,373	4,373
Unmodernised	3,146	3,146	3,146	3,146	3,146

10.4 INCORPORATING DEMAND INTO OPERATIONAL BUDGETS

Operating expenditure forecasts have incorporated these demand projections as explained in section 9.3.2.

10.5 REFERENCES

- PS23_BG_17: *Growth and Demand Forecasting.*
- PS23_SP_10_01: *Demand and Growth - Growth Evaluation.*
- PS23_SP_10_02: *Demand and Growth – Demand Evaluation.*



11 CUSTOMER OUTCOMES

CHAPTER SUMMARY

- Rated Outcomes as **Advanced**.
- Revised 2018 Outcomes based on detailed review of customer sentiment to better align with areas customers consider important.
- Relevant recommendations from the Deliberative Panel were integrated into Outcomes.
- Customer forums held to confirm their support for revised outcomes and to vote for preferred measures for each.
- Internal review to align performance measures with customer preferences, areas that can be influenced by the business, measurability and alignment with the *Big Water Build*.

11.1 DEVELOPMENT PROCESS

Outcomes define our customer promise for service delivery. They are a public statement about our service commitments. Each outcome has one or more associated Outputs that define the level of service for specific aspects of our offering. Each output has an associated Objective which defines a performance measure and annual targets.

Outcomes are referenced in Coliban Water's Customer Experience Strategy (see below) and inform the brand promise and customer value propositions. Outcomes are what customers can expect Coliban Water to deliver in the areas they have indicated to be most important.

The new outcomes have been developed in parallel with the capital investment program to ensure the *Big Water Build* leads to improved Customer Outcomes (visualised in Figure 8 on page 56).



Figure 12: Customer Experience Strategy summary.

11.1.1 Feedback from Customers

Coliban Water commenced a review of its 2018–2023 regulatory period outcomes and performance measures in early 2022. The process adopted included:

- A data-driven self-assessment of the success (or otherwise) of 2018 outcomes and performance measures, including relevance to the outcome, measurability and degree of business control over performance.



- Review of previous customer engagement to revise and refine Customer Outcomes to better match customer preferences. This included longitudinal research into feedback received from more than 14,000 customers between 2009 and 2021.
- Preliminary performance measures developed for revised outcomes (relevant, measurable, controllable), including recommendations from the Deliberative Panel.
- The following recommendations from the panel were considered as outcomes:
 - Intergenerational Equity: We commit to implementing our capital investment program to build for the future.
 - Community Leader: We are investing in project to enhance public access to our assets. We decided not to include these investments as an outcome as we are still investigating options how to best serve the community and maintain the integrity of our assets.
 - Water Security: Retaining the promise to have no towns on water restrictions (beyond Permanent Water Saving measures).
 - Customers experiencing vulnerability: Commitment to provide \$570k per annum in customer support.
 - Innovation: Our ongoing investments in digital technology will improve how customers interact with us. This recommendation is expressed in several outcomes, including email billing and leak and outage notifications.
- Targeted customer forums in June 2022 to discuss revised Customer Outcomes sought feedback on preferred measures to be adopted.
- Community draft circulated July 2022 for broader community feedback, including on the proposed outcomes.
- The final draft of the proposed outcomes, service standards and Guaranteed Service Levels were provided to the Deliberative Panel.

11.2 PS23 OUTCOMES AND OUTPUTS

This process resulted in the suite of outcomes, outputs and performance measures proposed for the 2023–2028 regulatory period. The proposed Customer Outcomes and Outputs for the 2023–2028 regulatory period are shown in Table 46.

Table 46: Customer Outcomes and Outputs.

Customer Outcome	Outputs
Water quality and reliability <i>We will supply high quality water you can trust</i>	Safe, healthy drinking water
	Fit for purpose water pressure
	Good tasting water
	High reliability
	Access to fit-for-purpose water
Be easy to deal with <i>We will provide services to meet the needs of our customers now and into the future</i>	Proactive customer notifications of leaks and outages
	Customers interact with us efficiently and effectively
	Utilisation of email billing
Enhance the environment <i>We will reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations</i>	Enhance biodiversity
	Prevent sewer spills
	Achieve electricity-related carbon reductions



Customer Outcome	Outputs
	Proactive catchment protection
	Educate customers about water consumption
Regional prosperity <i>Our investments will support the economic prosperity of our region</i>	Promote local employment
	Keeping pace with growth
Fair price <i>We will support customers in need</i>	Support customers experiencing vulnerability

11.3 GENDER EQUALITY OF OUTCOMES

The *Gender Equality Act 2020* outlines that “gender inequality may be compounded by other forms of disadvantage or discrimination that a person may experience based on Aboriginality, age, disability, ethnicity, gender identity, race, religion, sexual orientation and other attributes.” The Commission refers to this concept as “intersectional gender inequality”.

The Act recognises intersectional gender inequality and encourages workplaces to create equitable workplaces. It asks that organisations deliver services where all people are supported to be respected, safe and empowered in environments that are accessible and responsive to their unique and changing needs. While most of these related initiatives may be internally facing, a small portion of the initiatives undertaken in regard to intersectionality may relate to the public and thus may impact the Price Submission.

Coliban Water recognises that marginalised and disadvantaged groups may commonly be among those experiencing financial hardship. Coliban Water’s hardship program is committed to assisting and supporting our customers through financial difficulties.

If customers are having trouble paying their bill, we have a range of options to help including;

- Concession card
- Flexible Payments
- Financial Counselling

The *Family Violence Policy* also includes a commitment to waiving or suspending debt and to work individually with customers:

In addition, the Community Rebate Program aims to reduce water bills for community members who are concession card holders or those who are in financial hardship, including a free water audit.

This commitment to supporting vulnerable groups is expressed in our commitment to deliver services at a fair price (section 11.8).

11.4 WATER QUALITY AND RELIABILITY

Objectives for water quality and reliability relate to our core drinking water services. This set of measures simplifies the current model and covers all aspects of the customer experience with drinking water. The Customer Forum participants suggested measuring water quality performance through



customer surveys. This approach was not adopted due to the dominant influence of Bendigo customers and the fact that most problematic systems are in small towns that are difficult to obtain a representative sample from.

Customers have historically experienced negative taste impacts caused by elevated levels of Geosmin and Methylisoborneol (MIB), mainly in the Murray River systems. Several projects in the proposed capital investment program target improvement to reduce levels of these contaminants in treated water using Powdered Activated Carbon.

The capital investment program also includes commitments to improve pressure performance in some of our smaller systems. These projects include booster pump stations and investment in network monitoring and modelling. This investment was motivated by customer feedback and several small systems qualifying for Guaranteed Service Level payments for pressure.

Our commitment to having no towns on water restrictions beyond Permanent Water Security Rules (PWSR) is backed by an investment in water shares.

Table 47: Water Quality and Reliability Objectives

Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
Safe, healthy drinking water	Samples compliant with Schedule 2 of the <i>Victorian Water Quality Regulations (2015)</i>	% of samples	100	100	100	100	100
Fit for purpose water pressure	Systems with more than 20 metres pressure 90% of the time	No. water systems	14	15	16	17	18
Good tasting water	Systems where 95% of water quality samples meet AWG guidelines for salient parameters	No. water systems	15	16	17	18	19
High reliability	Average customer minutes off water supply (unplanned)	Minutes	15	14	13	12	11
Access to water	Number of towns on water restrictions (not including PWSR)	No.	0	0	0	0	0

11.5 BE EASY TO DEAL WITH

This outcome relates to our interactions with customers. The outputs are based on customer feedback on how we communicate and our investment in digital transformation through a new Customer Experience Platform and digital water meters.

The new Customer Experience Platform provides enhanced capabilities to engage with customers, including automated leak notifications and digital billing. Further investment is planned to enhance the capabilities of these systems to improve our ability to deliver a higher rate of first-call resolutions, which sees the benefits of this technology commence in 2026–27.

Table 48: Be ‘Easy to Deal With’ Objectives.

Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
Proactive customer notifications	Provide customers with plumbing leak notifications if >60 l/hr	% leaks	90	95	100	100	100



Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
	(where digital metering installed)						
	Percentage of customers impacted by planned water outage notified	% impacted customers	100	100	100	100	100
Customers can interact with us efficiently and effectively	Percentage of inbound customer contacts that experience first-call resolution increases	% inbound contacts	-	-	-	60	75
Utilisation of email billing	Percentage of customers receiving digital bills	% customer	25	30	35	42	50

11.6 ENHANCE THE ENVIRONMENT

This Output includes lead and lag indicators. The traditional sewer-related Objectives relate to minimising environmental impact. The Objective to enhance the biodiversity of land proactively improves the natural environment.

A significant part of our capital investment will reduce our environmental impact (Figure 8 on page 56). Besides reducing our impact on the environment, our capital and operational investment proposals also include provisions for enhancing biodiversity and bio-links of our water catchments and other land under our control.

Table 49: Enhance the Environment Objectives.

Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
Enhance biodiversity	Deliver measurable biodiversity enhancement on land we manage each year	hectares	20	25	30	35	40
Prevent sewer spills	Number of kilometres of sewer mains checked and cleaned	km	270	290	310	330	350
Achieve electricity-related carbon reductions	Reduce carbon emissions through electricity consumption	Tonnes eq CO ₂	19k	0	0	0	0
Proactive catchment protection	Undertake catchment improvement works (fencing, weed control and other activities)	% annual works plan	100	100	100	100	100
Educate customers about water consumption	Number of people reached with water education	People reached	2,500	3,100	3,750	4,400	5,000

11.7 REGIONAL PROSPERITY

This outcome relates to our impact on the regional economy through investment, including promoting local jobs and investing in the region. Our procurement processes include strong support for promoting local content. A significant proportion of our investment is triggered by growth in our service region. The outcomes related to capital expenditure is a commitment to transparency



regarding our progress with the *Big Water Build* and ensure intergenerational equity by building assets for now and the future

Table 50: Regional Prosperity Objectives.

Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
Promote local employment	Percentage of open tenders with 'Local Benefit' included in the evaluation criteria	%	100	100	100	100	100
Keeping pace with growth	Completion of capital investment	% annual program	100	100	100	100	100

11.8 AT A FAIR PRICE

The current state of our fleet of ageing assets requires a large investment leading to increased prices. The principle of intergenerational equity results in modest price increases now to ensure future prices remain sustainable. Prices are increasing in real terms to reflect the recommendations from the Deliberative Panel related to intergenerational equity and better investment in services, and to respond to pressing operational asset needs.

We are cognisant of the impact this increase may have on customers experiencing vulnerability, as even flat or declining bills may cause utility stress. Therefore, in response to a separate recommendation from the Deliberative Panel, we have introduced this new outcome to ensure we are tracking and targeting support for customers who may struggle with their bills from time to time.

This outcome relates mainly to assisting customers experiencing hardship and vulnerable customers with paying their water and sewerage bills. These initiatives are enabled through our digital transformation program and investment in technology to target communication to defined customer groups.

The Utility Relief Grant scheme from the Department of Health assists customers who struggle paying overdue utility bills due to temporary personal circumstances. We commit to increase the number of applications we respond to within two days.

Coliban Water will raise awareness of its customer support programs by using customer segmentation data for targeted communication to reach people who are most likely in need of support, including working with local Traditional Owner groups.

Coliban Water has received letters of support from the Salvation Army, Djaara and local government, supporting our assistance to vulnerable customers, acknowledging that moderate price increases are necessary to maintain water services.

In addition to this Outcome, we will also leverage our digital meter fleet to introduce monthly e-billing to reduce the size of bills as smaller more frequent bills are more affordable than lumpy quarterly bills. We will work with our Regional Advisory Groups to prioritise and implement this measure.



Table 51: Fair price Objectives.

Output	Performance Measure	Unit	23–24	24–25	25–26	26–27	27–28
Support Customers Experiencing Vulnerability	Timely processing of Utility Relief Grants and customer support program requests (within 2 days)	%	90	90	95	95	95
	Raise awareness of customer support programs	% surveyed customers	62	64	66	68	70
	Assistance provided, including direct financial support	\$	\$570,000 per annum				

11.9 REPORTING PERFORMANCE TO CUSTOMERS

Coliban Water will continue to discuss and confirm performance against each Outcome and Performance Measure with our customers at the Regional Advisory Groups. These forums ensure that customer views are included in our annual assessment of performance provided to the Commission.

We are also developing an online dashboard on the *Connect Coliban* website where customers can view performance against Outcomes for the whole region and where relevant by town. This report will provide transparent insight into performance.

Where underperformance on outcomes becomes apparent, Coliban Water will review the capital and operational investment programs to reprioritise investment to ameliorate the situation. We will discuss the relevance of these outcomes annually with customers and modify them to respond to changing customer preferences and business priorities.

11.10 OUTCOMES PREMO RATING SUMMARY

Coliban Water is proposing an *Advanced* rating for the Outcomes PREMO element. For our 2023 Price Submission we have again consulted extensively with customers. Using the 2018 Outcomes, Outputs and Performance Measures as a basis, we have further refined them to better reflect service areas that our customers most value, are in our control and strongly align to our core business.

Guiding Question	Score	Justification
Has the business provided evidence that the proposed outcomes have considered the views, concerns and priorities of customers?	3.25	The desktop review uses a longitudinal study between 2009 and 2021 to synthesise the feedback of more than 14,000 customers.
Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?	2.75	The capital investment program includes an indicator to identify projects that deliver specific outcomes and outputs.
Has the business proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?	3.00	All outputs are measurable. Data model has been developed to measure performance, where applicable, monthly by town.
Has the business provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?	2.50	All targets have been reviewed by internal subject-matter experts and, where relevant, targets set using statistical analysis.



Guiding Question	Score	Justification
Has the business demonstrated a process to measure performance against each outcome and to inform customers?	2.50	A Power Bi report is in development to publicly report performance.
Final score (average)	2.75	Reasonably confident the element is <i>Advanced</i> .

11.11 CUSTOMER OUTCOMES REFERENCES

- PS23_BG_04: *Outcomes Background Document*
- PS23_SP_04_01: *Voice of the Customer Desktop Review*.
- PS23_SP_04_02: *Outcomes - Customer Forum 21-22 Report*.



12 SERVICE STANDARDS

CHAPTER SUMMARY

- We are proposing to largely maintain service standards in line with current standards, as supported by our customers.
- Incremental improvements are proposed for some service standards to reflect customer views and higher level of investment in the 2023–2028 regulatory period.
- Customer feedback has highlighted some areas of higher importance. These are reflected in investment priorities and proposed Outcomes and GSLs.

12.1 FEEDBACK FROM CUSTOMERS

A desktop review was undertaken to analyse feedback obtained from more than 14,000 customers during and prior to the 2018–2023 regulatory period. We found that our customers overall remain satisfied with the current service standards relating to reliability and faults. Any specific issues raised by customers in the research are accounted for in the proposed Customer Outcomes and Guaranteed Service Levels (GSLs).

12.2 PS23 SERVICE STANDARDS

The proposed service standards are mostly the same as in the 2018 Price Period. Our ability to do so is underpinned by significant investment in our ageing, and increasingly undersized, assets. Service standards are at risk of decreasing without the proposed investments. Two measures related to attending bursts and leaks and durations of unplanned interruptions see incremental improvements proposed. This improvement in reliability reflects our performance in the previous period (refer to section 3.6 for details).

12.2.1 Water Services

The water service standards proposed relate to customers experiencing water supply interruptions. These are also covered in Customer Outcomes and the GSLs. All but one of these standards are operational and not impacted by capital investment. The focus of the Capital Investment Program is not on projects that should impact these service standards.

We have set targets with incremental improvement for two proposed service standards to reflect customer preferences. We have also shown to consistently outperform current service standards (shown in Table 12 on page 25), which allows for better service promises. Other service standards remain unchanged.

Table 52: Reliability standards for water services.

Service Standard	Units	2023–24	2024–25	2025–26	2026–27	2027–28
Number of customers experiencing more than five unplanned water supply interruptions in the year	No.	5	5	5	5	5



Service Standard	Units	2023–24	2024–25	2025–26	2026–27	2027–28
Average time taken to attend bursts and leaks (priority 1)	Min.	32	32	32	32	32
Average time taken to attend bursts and leaks (priority 2)	Min.	80	80	75	75	70
Average time taken to attend bursts and leaks (priority 3)	Hours	24	24	24	24	24
Average duration of unplanned water interruptions	Min.	130	128	126	124	122

12.2.2 Sewer Services

The major themes for sewerage services standards are for blockages and spills, the areas of most importance for our customers. These themes are also reflected in the *Protect and Enhance the Environment* Customer Outcome and in proposed GSLs.

Sewer measures remain the same as the 2018 targets, as they reflect industry best-practice.

Table 53: Reliability standards for sewerage services.

Service Standard	Units	2023–24	2024–25	2025–26	2026–27	2027–28
Number of customers receiving more than three sewer blockages in a year	No.	2	2	2	2	2
Average time to attend sewer spills and blockages	Min.	30	30	30	30	30
Average time to rectify a sewer blockage	Min.	80	80	80	80	80
Spills contained within five hours	%	99	99	99	99	99

12.3 REFERENCES

- PS23_BG_05: *Service Standards Background Paper*.



13 GUARANTEED SERVICE LEVELS (GSLs)

CHAPTER SUMMARY

- Existing GSLs were reviewed for customer agreement, industry alignment, incentives to improve performance, reputational risk and administrative simplicity.
- Minor changes in favour of customers to some GSLs are proposed.
- Pressure performance now a customer GSL to reflect customer importance.
- New GSL proposed for disruptions caused by *Big Water Build* construction works.
- GSL values increased 10-15% to better reflect customer values and price escalation over the past five-years.

The Guaranteed Service Levels (GSLs) set for the 2018 Price Period have not only been successful at highlighting areas of underperformance, but they have also shaped our investment program.

Our proposed GSLs for the next price period are largely the same as the previous set. The most important change is the removal of community GSLs for consistent low pressure and low palatability. These two indicators resulted in multiple payouts to various communities (Figure 4). These GSLs have focused the attention of the organisation on these two issues in our smaller towns, which has resulted in a program to improve pressure and water taste in several of our smaller systems.

13.1 FEEDBACK FROM CUSTOMERS

Two online customer forums were held in June 2022 on Outcomes and GSLs. Participants highlighted the performance areas that should have GSLs associated with them.

Forum participants showed support for a GSL where Coliban Water does not notify customers of a potential leak detected utilising digital meters. While this has been included as a Performance Measure (Table 48), we have determined *not* to include this as a GSL. We reimburse customers for the cost of water if a leak has gone undetected by either digital metering in place or if it was apparent through visual inspection.

13.2 GUARANTEED SERVICE LEVELS

A detailed internal review of existing GSLs was undertaken in 2021. We reviewed existing GSLs and, based on the review and customer feedback, eliminated several that did not align well with the review criteria. Values for individual GSLs have also been updated to reflect customer views as well as price inflation since 2017.

Customer forums on Outcomes held in June 2022 also included which measures should have associated GSLs. This feedback has been incorporated into the list of GSLs shown below.

Table 54: Individual Guaranteed Service Levels.

Ref.	Description	Reimbursement
GSL-01	Sewer intrusion into property (blown seal)	\$60 first event \$120 subsequent events
GSL-02	Sewer intrusion into property	\$360 (<1 hour)



Ref.	Description	Reimbursement
	(plus compensation for damages)	\$1,200 (>1 hour)
GSL-03	SMR not completed within two business days	Reimburse SMR fee
GSL-04	Greater than three sewer blockages in the past 12 months	\$120
GSL-05	Greater than four water outages in the past 12 months	\$60
GSL-06	Unplanned water supply outage longer than five hours	\$60 each or community GSL \$6,000 if >100 connections
GSL-07	Planned water outage during peak times	\$120
GSL-08	Rural customers less than 100% water allocation	Infrastructure Charge refund (% unallocated)
GSL-09	Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	\$360
GSL-10	Failing to unrestrict water supply within 24 hours after reason for restriction removed	\$360
GSL-11	Ongoing aesthetic water quality issue	25% Water Access charge discount
GSL-12	Ongoing water pressure issues	25% Water Access Charge discount
GSL-13	Negative impact on living amenity due to construction works	Tier 1: Fair and reasonable impact mitigation cost Tier 2: 25% Water Access Charge discount

Table 55: Community Guaranteed Service Levels.

Ref.	Description	Reimbursement
GSL-06	Unplanned water supply outage longer than five hours	\$60 each or \$6,000 community GSL if >100 connections
GSL-14	Boil Water or Do Not Consume notice issued	\$6,000 community GSL
GSL-15	Significant sewer spill to environment	\$10,000 community GSL

GSLs for sewer blockages and water outages (GSL-04 and GSL-05) have been amended to reflect rolling performance over 12 months rather than within a financial year to better reflect the customer experience.

GSL-13 is included to reflect intensified construction works with the *Big Water Build*. This GSL will enable us to compensate customers who are inconvenienced by construction works. This GSL is a formalisation of current practice. Tier 1 relates to instances where people have to leave their homes due to ongoing noise issues. Tier 2 relates to intermittent inconvenience due to construction works.



GSL values in the 2018–2023 regulatory period were not indexed to inflation. To reflect customer values and a general increase in prices, proposed GSLs are 10-15% higher. The views of customers who attended forums in June 2022 were considered in arriving at these price increases.

13.3 GUARANTEED SERVICE LEVELS REFERENCES

- PS23_BG_06: *Guaranteed Service Levels Background Document*.
- PS23_SP_06_01: PS18 Guaranteed Service Levels review.



14 PRICES

CHAPTER SUMMARY

- Forecast revenue requirement \$731 million over five-years.
- Return on assets based on **Standard** PREMO rating.
- Continue price caps form of price control.
- Price path for most tariffs +1.9% years 1–2 and +2.5% thereafter.
- Expanded use of *Uncertain Events* for capital works that may be required in the 2023–2028 regulatory period.

The proposed price increases follow the principle of intergenerational equity but funding our investments partially through debt and partially through bill increases. Price increases are phased to account for timing of realising the benefits of the investments and acknowledging cost-of-living pressures currently present in the economy, but are forecasted to abate over the life of this proposal. We adopted price increases approach in direct alignment with the clear recommendations of the Deliberative Panel. Our increased investment in taking care of customers experiencing vulnerability ensures that those customers are not significantly disadvantaged by any real price increases.

14.1 FORM OF PRICE CONTROL

Coliban Water is proposing to continue with **price caps** for the 2023–2028 regulatory period. Our customers prefer bill certainty with minimal price shocks and smooth annual changes. Continuing to use price caps will support this. We reserve the option to revert to a tariff basket as enabled under the current Determination.

The formulas to implement price caps (and optional tariff basket) are unchanged from the 2018 Determination and are outlined below.

14.2 REVENUE REQUIREMENT

We are proposing a revenue requirement of \$731 million over the 2023–2028 regulatory period. This is accords with WIRO objectives to promote and incentivise efficiency in our operations as well as ensuring the continued financial viability of the business.

Table 56 summarises revenue requirement by year. Further information on the individual elements that underpin the revenue requirement are detailed in those sections of this document

Table 56: Revenue Requirement by year, 2023–24 to 2027–28.

\$m 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Operating expenditure	89.9	89.2	89.4	89.3	88.8
Return on assets	15.1	15.0	15.5	16.0	16.5
Regulatory depreciation	36.8	38.4	40.1	43.8	47.7
Adjustments from last period	-	-	-	-	-



Non-prescribed revenue (offset)	-	-	-	-	-
Tax allowance	-	-	-	-	-
Revenue Requirement	141.8	142.6	144.9	149.1	153.0

14.2.1 Adjustments from last period

No adjustments to the revenue requirement from the 2018 Price Period are proposed.

14.2.2 Non-Prescribed Revenue

As previously endorsed by the Commission in successive Regulatory Accounts, 28.3% of water allocation sales are considered non-prescribed. We are forecasting annual water sales of \$3.0m for the 2023–2028 regulatory period. We are forecasting an additional \$0.5m annual income from treatment plants, rent and grazing licences.

Table 57: Non-prescribed revenue, 2023–24 to 2027–28.

\$m 22–23	23–24	24–25	25–26	26–27	27–28
Water allocation sales	0.9	0.9	0.9	0.9	0.9
Misc. income: treatment plants	0.2	0.2	0.2	0.2	0.2
Misc. income: rental	0.2	0.2	0.2	0.2	0.2
Misc. income: grazing licences	0.1	0.1	0.1	0.1	0.1
Bendigo Groundwater	2.8	2.2	0.0	0.0	0.0
Total non-prescribed revenue	4.1	3.5	1.2	1.2	1.2

14.3 ADJUSTING PRICES

We are proposing to continue price adjustment mechanisms in line with those adopted for the 2018–2023 regulatory period, with expanded use of the *uncertain and unforeseen events* mechanism. The annual price adjustment formula to account for inflation (CPI) and the proposed Prescribed Price Movement (PPM) is given by:

$$P_t = P_{t-1} \times \frac{CPI_t}{CPI_{t-1}} \times (1 + PPM_t)$$

Should matters arise during the 2023–2028 regulatory period that require us to apply to the Commission for amendment to the prescribed price movements and/or price components for the remainder of the regulatory period, we will apply the ‘tariff basket’ formula to ensure that total annual revenue forecasts after the price amendment is no more than the value specified in the 2023 Determination. The tariff basket formula shown below is unchanged from the 2018 Determination.



$$\frac{\sum_{i=1}^n \sum_{j=1}^m P_i^{ij} Q_{i-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m P_{i-1}^{ij} Q_{i-2}^{ij}} \geq \frac{\sum_{i=1}^n \sum_{j=1}^m \alpha P_i^{ij} Q_{i-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m P_{i-1}^{ij} Q_{i-2}^{ij}}, i = 1, \dots, n; j = 1 \dots m$$

14.3.1 Uncertain or Unforeseen Events

Uncertain expenditure has been excluded from the revenue requirement to mitigate price risk for our customers so they are not funding expenditure that may not occur during the 2023–2028 regulatory period.

If any event detailed below occurs, Coliban Water will determine if the event can be absorbed, included as capital or operating expenditure (as appropriate) or the cost reduced to minimise pass through of additional costs to customers. Where applicable, Coliban Water will provide evidence of the cost of the uncertain event to the Commission for inclusion in prices from the commencement of the next year.

To minimise customer costs, a larger number of uncertain events are proposed for the 2023–2028 regulatory period. Further information on each of these is shown below.

Project: Coliban Southern Interconnector	Provisional Cost: ~\$100m
<p>Coliban Water has prepared early stage designs for a pipeline that connects Bendigo to Castlemaine. At present, the Coliban Southern system with Kyneton, Castlemaine and surrounds is climate exposed with only a single source of water – the Coliban storages. Whilst other options are being explored, the preferred option is to connect the Coliban Southern system to Coliban Northern (Bendigo). We know that climate change has more than halved inflows to these storages in recent decades and a spell of three dry springs would present a high risk for water security.</p> <p>The Urban Water Strategy notes that the Coliban Southern Interconnector is inevitable, but the significant cost of this project has not been included in the revenue requirement. The infrastructure required to do this will take a few years to plan, design and construct. The trigger to ensure the project is delivered before it is required is as water restrictions are starting to be implemented. Therefore, in the first instance, the project will not eliminate the need for water restrictions but will ensure there is sufficient water for critical human and economic needs.</p>	
Project: New WRP in Western Bendigo	Provisional Cost: ~\$50–200m
<p>Coliban Water has been working closely with the City of Greater Bendigo and other stakeholders regarding an efficient servicing solution for the Bendigo Regional Employment Precinct (BREP).</p> <p>At the time of submission, it is unknown whether the estimated BREP demand will required a new Water Reclamation Plant in western Bendigo. Expenditure pertaining to this has been excluded from the revenue requirement.</p>	
Project: Rural modernisation	Provisional Cost: Up to \$150m
<p>Coliban Water recently attained funding for the development of a preliminary business case for rural system modernisation, with objectives including a significant reduction in water losses from leaky channels and improved customer service.</p> <p>Subject to any external funding received, it may be the case that any unfunded expenditure will need to be passed through to customer prices in the 2023–2028 regulatory period, following an extensive engagement program with customers.</p> <p>Preliminary capital expenditure of \$2.0m is included within the revenue requirement to enable investigations and project development.</p>	



Project: Additional Kyneton WRP upgrades	Provisional Cost: Up to \$50m
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Coliban Water was prosecuted by the EPA and convicted and fined for licence non-compliance at the Kyneton WRP in 2019. We have applied for an EPA licence variation, and at the time of submission this licence variation is being assessed by the EPA.

Capital expenditure for Kyneton WRP is based on a successful licence variation but if unsuccessful then significant additional capital expenditure may be required.

Issue: Policy changes – climate and environment	Provisional Cost: \$TBC
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Coliban Water is bound by government policy as it relates to carbon emissions, environmental compliance and health and safety. No changes in government policy have been factored into the revenue requirement.

Extra expenditure may be required if a carbon tax is introduced or for other policy changes.

Issue: Victoria’s Environmental Contribution	Provisional Cost: ~\$1.0m
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Coliban Water has assumed the Environmental Contribution (EC) continues at current levels in alignment with the Guidance. If actual EC payable varies, Coliban Water will seek to either pass through savings or extra costs to customers from the following year.

Issue: Dam safety event	Provisional Cost: \$TBC
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Coliban Water maintains various insurance but does not insure dams for dam safety events. We consider self-insurance offers better value to customers than paying for insurance that is unlikely to be called upon.

In the unlikely occurrence of a dam safety incident, Coliban Water may need to recoup costs via an adjustment to pricing within the regulatory period.

14.4 NEW CUSTOMER CONTRIBUTIONS (NCCs)

The current New Customer Contributions (NCC) framework has been in place for two regulatory periods. Over this time, there have been significant changes in the nature of development across the towns serviced by Coliban Water. This is most evident in the accelerating rates of development that have occurred during the COVID-19 pandemic, with significant migration from Metropolitan Melbourne to Regional Victoria.

The proposed New Customer Contributions are provided in Table 64 on page 113.

14.4.1 The case for change

There are three primary drivers for Coliban Water’s NCC reforms.

The first is the demand risk associated with the recent growth boom. Approximately \$200m of assets proposed for the 2023–2028 regulatory period have growth as a primary or secondary driver. If growth forecasts continue rising then additional expenditure will be required.

The second driver is cost reflectivity. In 2018, we introduced a low-growth NCC at a discount to incentivise growth in areas with significant capacity. This incentive was ineffective as it did not create any increase in growth in smaller towns.

The third driver is 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. Furthermore, low NCCs imply the connection of new customers has minimal impact on our cost base, whereas most new customers to our network are connecting outside the traditional Bendigo Creek valley and are costly to serve.

14.4.2 Commission Guidance

The Commission's Pricing Principles apply to both standard and negotiated NCCs and are as follows:

- Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- Have regard to the incremental future revenues that will be earned from customers at that connection; and
- Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

This guidance needs to be read in conjunction with relevant sections of the WIRO. Section 8 requires the Commission to have regard to and to place emphasis on:

- The promotion of efficient use of prescribed services by customers;
- The promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry; and
- The provision to regulated entities of incentives to pursue efficiency improvements.

Section 11 of the WIRO sets out the pricing principles that the Commission must base its approvals on. These include that prices should:

- Enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the way such prices are calculated, determined or otherwise regulated;
- Provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible; and
- Consider the interests of customers of the regulated entity, including low income and vulnerable customers.

14.4.3 NCC reform process

NCCs are fundamental to achieving long-lasting, efficient growth outcomes for our customers. Accordingly, Coliban Water has adopted a principled, evidenced, transparent and consultative reform process.

This process involved participation in the VicWater review of the appropriateness of the current approach to NCCs. The review was undertaken on behalf of a number of regional water businesses. 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.



14.4.4 Average incremental cost based NCCs

$$AIC = NPV \left(\frac{\text{optimal cost servicing connection growth}}{\text{additional connections}} \right)$$

The AIC estimation is:

The proposed Average Incremental Cost (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 Coliban Water’s 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 “link-ups” of water networks so developers don’t need to pay for all legacy link-up issues;
- Regional fairness as all new lots in our region are subject to the same fees, including discontinuation of the discount for low-growth towns;
- Introduction of a sewer Growth Capital Guarantee, which will see us rebate sewerage NCCs by 20% following a period where we have underspent sewer growth capital expenditure by 20%; and
- Capping any annual increase at 10% per annum for water, or 20% per annum for sewerage

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 Coliban Water 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.

14.5 PRICES AND TARIFF STRUCTURES

2023–24 prices represent a 1.9% real increase for most prices (other than rural tariffs, NCCs and new metering connections). We are not proposing changes to existing tariff structures or to the relative split between fixed and variable tariffs. Customers have been consistent in supporting the existing split between fixed and variable charges, noting that any change to this would risk causing hardship to certain customer segments (for example renters if volumetric charges increased).



Our service and volumetric tariffs are applied uniformly across all towns in our region and are consistent with requirements in the WIRO. To further support postage stamp pricing and our commitment to “same price for the same service”, we are again providing a rebate to the sewer access charge in Elmore and undertaking septic cleanouts at our expense in Lockington to account for the STED sewer systems in those towns.

We are not proposing any significant tariff reforms for the upcoming Regulatory Period other than the proposed increases to NCCs. We will introduce a new Medium trade waste category to help better manage these customers. However, the access charge will remain aligned with the Minor trade waste access charge. New trade waste non-compliance charges will come into effect but will only apply in the event of customer non-compliance with their Trade Waste Agreement. Our firm intention is to encourage customers to achieve compliant discharge rather than to apply a non-compliance charge.

14.5.1 Water tariffs

We will retain the existing mix of fixed service charges and variable charges for water services. This equates to a split of approximately one third fixed and two thirds variable for the average household water customer (or one third variable and two thirds fixed charges for the average household customer when also considering sewer access charges).

The split between fixed and variable charges for our main services has been extensively consulted with customers. Ahead of the 2018 regulatory period we tested this split with customers to look at possible alternatives, but changes were not preferred. This feedback has remained consistent ever since.

Feedback from renters indicates they are often in or at risk of financial stress. Without the ability to fix household plumbing, leaks and inefficient usage may result. Higher relative variable charges would result in risk of increased financial stress for this demographic.

A larger share of fixed charges is better reflective of our costs to deliver services. Considering the fixed investment in treatment plants and networks versus the cost to source, transport and treat water, the volumetric component of water charges could be even lower. A very low unit price for water would not however provide an effective signal to customers of the value of water.

Proposed water tariffs are shown in Table 58 below. These apply to residential and non-residential customers.

Table 58: Proposed Water Tariffs.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Volume charges (per kL)					
Treated	\$2.3310	+1.9%	+2.5%	+2.5%	+2.5%
Untreated	\$1.1653	+1.9%	+2.5%	+2.5%	+2.5%
Recycled	\$1.7482	+1.9%	+2.5%	+2.5%	+2.5%
Access charges - treated					
Unconnected vacant land	\$0.00	-	-	-	-
20mm meter or less	\$236.15	+1.9%	+2.5%	+2.5%	+2.5%
25mm meter	\$369.00	+1.9%	+2.5%	+2.5%	+2.5%
32mm meter	\$604.58	+1.9%	+2.5%	+2.5%	+2.5%



40mm meter	\$944.69	+1.9%	+2.5%	+2.5%	+2.5%
50mm meter	\$1,476.09	+1.9%	+2.5%	+2.5%	+2.5%
80mm meter	\$3,778.83	+1.9%	+2.5%	+2.5%	+2.5%
100mm meter	\$5,904.42	+1.9%	+2.5%	+2.5%	+2.5%
150mm meter or greater	\$13,284.98	+1.9%	+2.5%	+2.5%	+2.5%
Access charges – untreated and recycled*					
Unconnected vacant land	\$0.00	-	-	-	-
20mm meter or less**	\$118.07	+1.9%	+2.5%	+2.5%	+2.5%
25mm meter	\$184.50	+1.9%	+2.5%	+2.5%	+2.5%
32mm meter	\$302.29	+1.9%	+2.5%	+2.5%	+2.5%
40mm meter	\$472.35	+1.9%	+2.5%	+2.5%	+2.5%
50mm meter	\$738.04	+1.9%	+2.5%	+2.5%	+2.5%
80mm meter	\$1,889.41	+1.9%	+2.5%	+2.5%	+2.5%
100mm meter	\$2,952.21	+1.9%	+2.5%	+2.5%	+2.5%
150mm meter or greater	\$6,642.48	+1.9%	+2.5%	+2.5%	+2.5%
Access charges – fire services					
32mm meter	\$58.10	+1.9%	+2.5%	+2.5%	+2.5%
40mm meter	\$87.18	+1.9%	+2.5%	+2.5%	+2.5%
50mm meter	\$125.29	+1.9%	+2.5%	+2.5%	+2.5%
80mm meter	\$299.51	+1.9%	+2.5%	+2.5%	+2.5%
100mm meter	\$468.04	+1.9%	+2.5%	+2.5%	+2.5%
150mm meter or greater	\$983.58	+1.9%	+2.5%	+2.5%	+2.5%

*Recycled Water Access Fee is 50% of the Treated Water Access Fee

*Untreated Water Access Fee is 50% of the Urban Water Access Fee

**Residential Recycled 20mm meter or less Access Fee is \$0.00

14.5.2 Sewerage tariffs

No changes are proposed to existing tariff structures for sewerage services. Residential and non-residential customers will continue to pay a fixed access charge. Engagement shows our customers understand the need for fixed charges to reflect high fixed costs to transport and treat sewage. Customers are similarly supportive of maintaining the status quo with who pays these charges, noting equity and potential hardship concerns were renters asked to pay more. Non-residential customers will continue to pay a volumetric charge with an annual 230kL discharge free allowance.

Customers in Elmore selected a rebate on their sewerage access charge as compensation for the hybrid STED sewer system in place. This will continue for the full 2023–2028 regulatory period and will be revisited with customers in Elmore and Lockington ahead of the 2028–2033 regulatory period.



Table 59: Sewerage tariffs.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Volume charges					
Non-residential (per kL)*	\$1.0115	+1.9%	+2.5%	+2.5%	+2.5%
Access charges					
Access fee (residential and non-residential)	\$709.69	+1.9%	+2.5%	+2.5%	+2.5%
Access fee (Elmore STED)	\$583.34	+1.9%	+2.5%	+2.5%	+2.5%

*230 kL annual or 0.63 kL/day free discharge allowance applies

14.5.3 Trade waste tariffs

From 2023 we are introducing the new Medium trade waste category. This category will include customers who do not meet our criteria for Major trade waste, but who need additional oversight or management compared to Minor customers.

Minor trade waste customers will continue to pay an annual access charge to cover costs of compliance and risk management. Medium trade waste customers will pay an annual access charge in line with the Minor tariff. They may also face additional requirements in their Trade Waste Agreements, including additional sampling requirements or pre-treatment. There are no changes proposed for Major trade waste customers other than a single non-compliance charge (see below).

We undertook extensive engagement with our trade waste customers over the period 2018 to 2020 with a view to a mid-period adjustment to categorisation and tariff structures. This would have seen us seek an increase to the Minor trade waste charge and a higher access fee for the Medium trade waste category. With the onset of the pandemic, and in particular concerns about many non-residential customers experiencing hardship, we withdrew our application and we are not introducing these higher charges in this Price Submission.

Coliban Water is proposing non-compliance charges when a trade waste customer does not meet the obligations of its Trade Waste Agreement. In the first instance we will work with the customer to assist them to become compliant. Only in the event of continued failure to comply will the charge apply.

Trade waste customers were consulted prior to and again during the 2018–2023 regulatory period on potential non-compliance charges and changes to trade waste classification. Feedback received was in favour of the proposed changes, with strong agreement that customers who cost Coliban Water more, or present greater risk, should pay more. Non-compliance charges are intended to elicit a customer response to change behaviours that create greater risk to our networks or treatment processes.

Most of the proposed non-compliance charges may apply to customers in any trade waste category. The pH contravention charge applies only to Major trade waste customers where waste discharged is very high or very low pH and outside Trade Waste Agreement guideline values). This will provide a disincentive to discharge very acidic or alkaline waste to the network which can be highly corrosive to pipelines and detrimental to the WRP treatment process. The formulation of this charge means a customer discharging very low pH waste will pay significantly more than for very high pH waste.



Table 60: Trade waste charges 2023–24 to 2027–28.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
MAJOR TRADE WASTE					
Volume charges (per kL)					
Trade waste	\$1.0115	+1.9%	+2.5%	+2.5%	+2.5%
Quality charges (per kg)					
Chemical Oxygen Demand (COD)	\$0.4120	+1.9%	+2.5%	+2.5%	+2.5%
Phosphorus (P)	\$3.3767	+1.9%	+2.5%	+2.5%	+2.5%
Suspended Solids (SS)	\$0.8799	+1.9%	+2.5%	+2.5%	+2.5%
Total Dissolved Solids (TDS)	\$0.0262	+1.9%	+2.5%	+2.5%	+2.5%
Total Kjeldahl Nitrogen (TKN)	\$1.7465	+1.9%	+2.5%	+2.5%	+2.5%
Access charges					
Major trade waste	<i>In accordance with pricing principles</i>				
Non-compliance charges					
pH contravention charge (per kL discharge)					
pH < 6.0	0.2*	+1.9%	+2.5%	+2.5%	+2.5%
pH > 10.0	0.05**	+1.9%	+2.5%	+2.5%	+2.5%
MINOR and MEDIUM TRADE WASTE					
Access charges					
Medium trade waste	\$166.23	+1.9%	+2.5%	+2.5%	+2.5%
Minor trade waste	\$166.23	+1.9%	+2.5%	+2.5%	+2.5%
Non-compliance charges					
Contravention fee (failure to clean or repair) <i>per incident</i>	\$580.00	+1.9%	+2.5%	+2.5%	+2.5%
Asset protection fee (no pre-treatment) <i>Per annum</i>	\$880.00	+1.9%	+2.5%	+2.5%	+2.5%
Unlawful discharge fee <i>per incident</i>	\$280.00	+1.9%	+2.5%	+2.5%	+2.5%
Agreed no asset fee <i>per annum</i>	\$120.00	+1.9%	+2.5%	+2.5%	+2.5%
OTHER CHARGES					
Sampling (per sample)	At cost				

* $0.2 * (6.0 - pH(sample)) * 2^{(6.0 - pH(sample))}$

** $0.05 * (pH(sample) - 10.0) * 2^{(pH(sample) - 10.0)}$



14.5.4 Rural tariffs

Over the first two years, rural customers will see a continuation of their current CPI minus 1.2% price path before reverting to CPI. The reason for this is that the *Big Water Build* is more focussed on urban compliance and growth than rural systems.

Rural modernisation is listed as an uncertain capital project for the 2023–2028 regulatory period and any significant rural modernisation would likely be attached to tariff structure reform. This would occur either within the 2023–2028 regulatory period or the 2028 regulatory period depending on timing.

Table 61: Rural tariffs.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
UNMODERNISED					
Access charges					
Pipeline	\$857.91	-1.2%	+0.0%	+0.0%	+0.0%
Channel	\$482.14	-1.2%	+0.0%	+0.0%	+0.0%
Channel – single shared	\$385.71	-1.2%	+0.0%	+0.0%	+0.0%
Storage access	\$106.89	-1.2%	+0.0%	+0.0%	+0.0%
Infrastructure charge (per ML licence)					
Infrastructure charge	\$166.01	-1.2%	+0.0%	+0.0%	+0.0%
Variable charges (per ML)					
Volume charge	\$262.07	-1.2%	+0.0%	+0.0%	+0.0%
Excess usage	\$3,353.51	-1.2%	+0.0%	+0.0%	+0.0%
Other rural charges					
Outlet fees (per additional outlet)	\$27.56	-1.2%	+0.0%	+0.0%	+0.0%
Rural transfer admin fee (per transfer)	\$64.22	-1.2%	+0.0%	+0.0%	+0.0%
MODERNISED					
Access charges (per meter)					
20mm meter or less	\$228.97	-1.2%	+0.0%	+0.0%	+0.0%
25mm meter	\$357.77	-1.2%	+0.0%	+0.0%	+0.0%
32mm meter	\$586.19	-1.2%	+0.0%	+0.0%	+0.0%
40mm meter	\$915.96	-1.2%	+0.0%	+0.0%	+0.0%
50mm meter	\$1,431.19	-1.2%	+0.0%	+0.0%	+0.0%
80mm meter or greater	\$3,663.87	-1.2%	+0.0%	+0.0%	+0.0%
Infrastructure charge (per ML licence)					
Infrastructure – modernised network	\$224.43	-1.2%	+0.0%	+0.0%	+0.0%
Infrastructure – modernised headwork	\$24.93	-1.2%	+0.0%	+0.0%	+0.0%
Termination fee (per ML)	\$2,244.30	-1.2%	+0.0%	+0.0%	+0.0%



\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Variable charges (per ML)					
Volume charge	\$262.07	-1.2%	+0.0%	+0.0%	+0.0%
Excess usage	\$3,353.51	-1.2%	+0.0%	+0.0%	+0.0%
Other rural charges					
Rural transfer admin fee (per transfer)	\$64.22	-1.2%	+0.0%	+0.0%	+0.0%

14.5.5 Water Meters

Following an efficient market process, we entered into a long-term contract for water meter installation and renewal services during the 2018–2023 regulatory period. This contract with a single service provider replaced the previous *Quick Connect* process, where any of a number of authorised agents could undertake a new meter installation directly with the customer. The new contract offers improved value for money for customers with Coliban Water able to negotiate better rates than individual customers can. It will also deliver vastly improved service outcomes, with the business now in a position to influence the quality of works for new meter connections and obtain clear information on meter and asset locations.

This contract means that for the first time Coliban Water will own the process for providing and connecting new meters, hence including metering and installation charges in our *Schedule of Fees and Charges* for the first time. Because of the service contract in place, the supply, installation and connection of new metering will be charged at actual cost plus 10% to cover administration expenses. All new meters will include digital metering devices and frost protection covers.

Table 62: New meter charges.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Supply, installation and connection of new meter	<i>Actual cost +10%</i>				

14.5.6 Service, Miscellaneous and Other charges

Coliban Water provides several miscellaneous services to customers in addition to standard water and sewer services, as prescribed under the WIRO. No significant changes are proposed to these tariffs, with the principle of cost recovery for these services continuing to apply.

Table 63: Service, Miscellaneous and Other charges.

\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Service fees					
<i>Project management:</i>					
Per development*	\$737.61	+1.9%	+2.5%	+2.5%	+2.5%
Per development* (optional fast tracking)	\$1,106.43	+1.9%	+2.5%	+2.5%	+2.5%
Per lot*	\$98.60	+1.9%	+2.5%	+2.5%	+2.5%
Per lot* (optional fast tracking)	\$147.91	+1.9%	+2.5%	+2.5%	+2.5%
Practical completion* (optional fast tracking)	\$266.02	+1.9%	+2.5%	+2.5%	+2.5%



\$ 22–23	2023–24	2024–25	2025–26	2026–27	2027–28
Other service fees					
Application fee <i>New water or recycled connection, building, renovation or demolition applications, amendments to water or sewer connection</i>	\$79.31	+1.9%	+2.5%	+2.5%	+2.5%
Recycled connection inspection	\$294.20	+1.9%	+2.5%	+2.5%	+2.5%
Mains extension plan resubmission*	\$212.84	+1.9%	+2.5%	+2.5%	+2.5%
Repeat site inspection*	\$212.84	+1.9%	+2.5%	+2.5%	+2.5%
Consent to erect a structure (build over)	\$331.48	+1.9%	+2.5%	+2.5%	+2.5%
Miscellaneous					
Special meter read (manual read)	\$20.55	+1.9%	+2.5%	+2.5%	+2.5%
Special meter read (digital meter)	\$0.00	-	-	-	-
Information statement	\$30.88	+1.9%	+2.5%	+2.5%	+2.5%
Restrictor action	\$112.66	+1.9%	+2.5%	+2.5%	+2.5%
Non-core miscellaneous*	<i>In accordance with pricing principles</i>				
Standpipes / water carting (per kL)					
Treated water	\$2.3310	+1.9%	+2.5%	+2.5%	+2.5%
Untreated water	\$1.1653	+1.9%	+2.5%	+2.5%	+2.5%
Recycled water	\$1.7482	+1.9%	+2.5%	+2.5%	+2.5%
Special testing					
Hydrant flow and pressure test field	\$262.91	+1.9%	+2.5%	+2.5%	+2.5%
Standard pressure information	\$113.67	+1.9%	+2.5%	+2.5%	+2.5%
Other services*					
Meter test (per test)	<i>Actual cost</i>				
Debt collection recovery*	<i>Actual cost</i>				
Fire plugs (all sizes)	<i>Actual cost +10%</i>				
Fire services – sealing	<i>Actual cost +10%</i>				
Fire services – resealing	<i>Actual cost +10%</i>				
Shutdowns and repairs	<i>Actual cost +10%</i>				
Damage to assets (per occasion) *	<i>Actual cost +10%</i>				
Cut ins – large diameter mains	<i>Actual cost +10%</i>				
<i>*Fees for services marked with an asterisk are +GST as required.</i>					



14.5.7 New Customer Contributions (NCCs)

As noted in section 14.4, we are proposing significant increases to New Customer Contributions (NCCs) for the 2023–2028 regulatory period. This will ensure that current customers do not have to bear significant price increases for capital expenditure that is required to accommodate future customers.

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 64: New Customer Contributions (NCCs) 2023 – 2028.

\$ 22–23	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
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						<i>Actual cost + 10%</i>

*Maximum discount \$1,500 per lot

Note that we have included NCCs within the RevenuePriceCap sheet of the financial template so that all tariffs for which approval is sought are listed in one place. We have assigned a nil quantity to these NCCs so that NCC revenue appropriately comes off the RAB as required by the building blocks model.

To reflect the higher demand placed on networks, NCCs for non-residential commercial or industrial developments will continue to be converted to equivalent standard 20mm residential connections based on the meter size required for the development. The equivalent residential connection shown below represents the multiplier for the NCC calculation relative to a standard residential lot (20mm connection). Upsizing of existing meters requires an additional NCC payment equal to the difference between the previously installed meter size and the new meter size multiplied at the prevailing NCC rate.

Meter size	20mm	25mm	32mm	40mm	50mm	80mm	100mm
Equivalent residential connections	1.0	2.0	3.0	6.0	10.0	40.0	70.0

For sewer NCC fees, the equivalent residential connection calculation will continue to be based on the number of plumbing fixture units contained within the development. For the purpose of this calculation, 30 plumbing fixture units is equivalent to a single lot.



14.6 REPRESENTATIVE BILLS

Indicative annual bills for household (owner and tenant), non-residential and rural customers are shown below. This includes estimates for average, high and low water consumption.

Table 65: Proposed annual customer bills, 2023 – 2028.

\$ 22–23	Usage	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
<i>Urban price path</i>			1.90%	1.90%	2.50%	2.50%	2.50%
<i>Rural price path</i>			-1.20%	-1.20%	0.00%	0.00%	0.00%
Household: average use	192 kL	\$1,367	\$1,393	\$1,420	\$1,455	\$1,492	\$1,529
Household: high use	300 kL	\$1,614	\$1,645	\$1,676	\$1,718	\$1,761	\$1,805
Household: low use	80 kL	\$1,111	\$1,132	\$1,154	\$1,183	\$1,212	\$1,243
Renter: average use	192 kL	\$439	\$448	\$456	\$467	\$479	\$491
Non-res: high use	2,000 kL	\$7,291	\$7,430	\$7,571	\$7,760	\$7,954	\$8,153
Non-res: medium use	907 kL	\$3,760	\$3,832	\$3,905	\$4,002	\$4,102	\$4,205
Non-res: low use	100 kL	\$1,157	\$1,179	\$1,201	\$1,231	\$1,262	\$1,294
Rural Unmodernised: medium use	3.1 5ML	\$1,851	\$1,829	\$1,807	\$1,807	\$1,807	\$1,807
Rural Modernised: medium use	4.4 ML	\$2,857	\$2,823	\$2,789	\$2,789	\$2,789	\$2,789



15 REGULATORY PERIOD

Coliban Water is proposing the default *five-year* regulatory period.

The standard regulatory period length is preferred as it provides an appropriate balance between the ability to focus on achieving outcomes and the risk of circumstances changing, rendering outcomes unachievable. It also provides an appropriate balance between the risk of over- and under-recovery of revenue due to future climate uncertainty and customer preferences.



16 TAX ALLOWANCE

Coliban Water is including a tax allowance of *nil* for the 2023–2028 regulatory period due to accumulated historical losses. Coliban Water incurred significant tax losses over the course of the millennium drought. While profitability was restored, current profits have not yet offset historical losses and are unlikely to do so in the short or medium term.

The utilisation of carried forward losses (Deferred Tax Assets) reduces our balance sheet assets. However, we do not intend to include the cost of this asset reduction within our revenue requirement.



17 FINANCIAL POSITION

Outputs from the Financial Template for the four key indicators to determine Coliban Water’s financial position are shown below.

17.1 INTEREST COVER

The interest cover is forecast to hover slightly above 2.0. This level of interest cover is sufficient but not generous.

17.2 DEBT TO RAB

The debt to RAB ratio is forecast to increase from 73% to 79% over the 2023–2028 regulatory period. This is forecast to remain above the Commission’s benchmark 70% figure.

While this level of debt is a concern, it remains serviceable based on the strong forecast growth in our region and the proposed real price increases. We also consider the approach to funding the *Big Water Build* is balanced with both higher real prices and increased debt. Based on our extensive customer engagement, we feel this best meets the views of our customers and ensures smooth price movements into the future.

17.3 FFO TO NET DEBT

The FFO to net debt ratio is forecast to remain below the 10% benchmark for the 2023–2028 regulatory period.

17.4 INTERNAL FINANCING

The ratio is set to fall below the 35% benchmark in 2025–26 before increasing to 44% by 2027–28.

Table 66: Key financial ratios.

Financial Ratio	Benchmark	2023–24	2024–25	2025–26	2026–27	2027–28
Interest cover (FFO + net interest) / net interest	> 1.5 < 1.8 (caution)	2.2	2.1	2.0	2.0	2.1
Debt to RAB (Debt – cash) / RAB	< 70%	73%	74%	76%	77%	79%
FFO to net debt FFO / (debt – cash)	> 10%	7%	6%	6%	6%	7%
Internal financing (FFO – dividends) / Net capital expenditure	> 35%	36%	33%	34%	37%	44%



18 ATTESTATION PROCESS

We appointed Sequana Partners as an independent attestation auditor to guide the process of developing this submission. Sequana Partners is a specialist advisory firm to the water industry with extensive experience in financial, risk and asset management and other assurance disciplines.

Management enhanced the scope of the attestation brief beyond the minimum requirements of the Commission's guidance. The enhanced scope of the Sequana review is warranted because the transformative nature of this Price Submission requires a higher level of scrutiny than by the requirements of the Commission.

The enhanced scope included consideration of:

- Assets' ability to achieve long-term health and environmental compliance
- Reasonableness of customer and consumption growth rates
- Prudence and efficiency of capital investment
- Justification for price rises
- Robustness of customer engagement
- Ongoing communication with Board

Monthly reasonableness assessments were based on the project team's progress reports. These assessments were provided to Board from November 2021. The progress reviews tracked each element of the Price Submission from preliminary position to final position.

A Critical Friend Review of the engagement process was undertaken in April 2022. A Critical Friend Review combines the role of auditor and advisor. This review included documentation regarding the customer engagement for the submission and interviews with internal stakeholders. The findings of the review were used to strengthen the narrative in the Price Submission.

Sequana Partners also reviewed the content of the draft submission and relevant supporting documents during the final assurance phase. The reviewers were provided with full access to the draft submission, and relevant supporting documentation, as they were developed by the project team.

The attestation process resulted in a final advice from Sequana, which is reproduced in Appendix C.



APPENDIX A: LETTERS OF SUPPORT

Letters of support from the following organisations:

- 27 July 2022, Djaara (Dja Dja Wurrung)
- 27 July 2022, Youth Council, City of Greater Bendigo
- 28 July 2022, Be.Bendigo
- 2 August 2022, Salvation Army
- 3 August 2022, Coliban Water Rural Customer Advisory Group (CAG)
- 4 August 2022, City of Greater Bendigo (Farming and Agribusiness Advisory Committee)
- 5 August 2022, City of Greater Bendigo (CEO)
- 4 August 2022, Hepburn Shire Council (CEO)
- 5 August 2022, Macedon Ranges Shire Council (CEO)

APPENDIX B: TOP 10 CAPITAL PROJECTS AND CURRENT ECONOMIC CONDITIONS

APPENDIX C: SEQUANA FINAL ATTESTATION ADVICE

APPENDIX D: LETTER TO ENVIRONMENT PROTECTION AUTHORITY



Price Submission

Appendix A: Letters of Support





27th July 2022

Mr. Damain Wells
Managing Director
Coliban Water

Dear Damian,

Our response to the Coliban Water Pricing Submission 2023

Our first comment is that overall, we want to commend yourself the Coliban Water Board, your team, and the Community Panel for their work. As you would be aware from our continual engagement with you, that djandak is precious and the water that is gifted by Sky Country to it for our benefit needs our constant care and consideration for our own wellness. This need of care for gatjin has never been greater with what we face as a global community with the effects of climate change and now as can be seen sensibly by the Coliban of how we ensure that our infrastructure for distribution of water and the treatment of our waste is protected and improved for future generations to come. A longer-term achievement but something of a high order for us here is to keep working upon the upper catchments productivity and improvement so we are more efficient at gathering water for Djandak and our storages as we endure these many challenges.

We acknowledge the strong relationships that Coliban Water have with Traditional Owner groups in your region. And recognise the amount of engagement before and during this process has been effective and of quality.

We support the desire by Traditional Owner Groups to have a useful responsibility in joint management arrangements for Coliban Water owned land and add that the Dja Dja Wurrung has now experience in governance and operationally as a Land Manager. Further our own commercial arm the Dja Dja Wurrung Enterprises Pty Ltd as an Aboriginal businesses should be positively considered for tender opportunities.

We agree with you that you have a strong established relationship with DJAARA (Dja Dja Wurrung Clans Aboriginal Corporation) and DJANDAK . And our regular meetings are appreciated and assist our needs for the Dja Dja Wurrung

T: (03) 5444 2888 F: (03) 5441 6472
E: info@djadjawurrung.com.au
P.O Box 1026 Bendigo VIC 3552

djadjawurrung.com.au

DJA DJA WURRUNG CLANS ABORIGINAL CORPORATION TRADING AS DJAARA
Located at 13-15 Forest Street, Bendigo Vic 3550
ICN: 4421



Recognition and Settlement Agreement to be implemented and that we can affect decisions that impact on our Traditional Lands.

For simplicity we support these statements upon these extract from the 'Submission Documentation' we have copied (shown as Italics).

Supported by DJAARA: Intergenerational Debt

Investment needs to meet the needs of the region. The cost should be shared over the generations. No generation should be disadvantaged. Supporting those who need help while ensuring that those who 'can' meet the cost of climate adaptation 'do' pay.

Supported by DJAARA: Community Contributions

Need to support waterway health and the environment overall and understand cultural values; and provide access to water for cultural purposes. Educate customers to understand and appreciate water, display mindfulness in usage, and support local and Aboriginal businesses to provide local jobs.

Supported by DJAARA: Protecting Against Drought

We must work together to get better ecological outcomes to find a balance between urbanisation and maintaining healthy waterways. Significant action and investment are needed now for future use of Country.

Supported by DJAARA: Supporting Customers Experiencing Vulnerability

Continue to support customers who need it and engage with them to identify and remove barriers to accessing support. Invest in educating customers to manage their own account and usage. A significant step to building trust is to meet with them in place and develop trust with the leadership group of that community.

Supported by DJAARA and touched upon earlier on our response as a high priority: *Water security for Djaara needs us to be conscious of upper catchment health and productivity. Which requires significant action and investment now, for the future use of Country.*

Supported by DJAARA and that we would want to be a positive contributor to this type of work to add our ideology to assist the 'Creative Mind' upon Gatjin: *A strong technical rigour is applied by Coliban Water, which requires a creative mind to challenge the rigour to be understood in a different context.*

Supported by DJAARA: *Water philosophy approach - education for consumers to understand and appreciate water and display mindfulness in usage.*

Supported by DJAARA and we would add that our vision is for us to be a substantial holder of water at djandak for all community's needs: *Classification of water. We all need to be able to access and have rights, Djaara is no different. All dealing with the same water that falls onto Country.*



Supported by DJAARA and we would never want anyone at Djandak to be disadvantaged to at least have what they need in water to be well: *Those who can afford to pay should pay and those who need support, should not be unfairly disadvantaged.*

We would say here we are in good hands with the Coliban Waters leadership and well on your way in this journey: *Very much in favour of being judged as wise by future customers.*

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Carter'.

Rodney Carter
Chief Executive Officer



Enquiries: Youth Mayor Victoria Tangey

T: [REDACTED]

E: [REDACTED]

27 July 2022

Coliban Water
PO Box 2770
Bendigo DC, VIC 3554

Dear Mr Damian Wells,

Re: Youth Council Letter of Recommendations Regarding Coliban Water Pricing Submission 2023-2028

At the Youth Council briefing on the 12th of July 2022 the Youth Council were presented the Community Draft for the Coliban Water Pricing Submission 2023-2028 by Managing Director of Coliban Water Damian Wells. We would like to extend our appreciation to Mr Wells for taking the time to present to us. The Youth Council was also consulted at the Youth Council Briefing on the 12th of April by Jarrah O'Shea to inform the Coliban Water Pricing Submission 2023-2028 Community Draft.

The City of Greater Bendigo Youth Council appreciates being included in the community consultation. We hope the feedback we provided was beneficial in informing the Community Draft document. Our feedback is as follows:

- **Increase Youth Consultation:** Given that this pricing submission not only affects the next 5 years but also creates debt for future consumers to pay, we believe the amount of youth consultation was not sufficient. The \$435 million Big Water Build, which includes necessary upgrades and investment to service the current and future needs of the 49 towns that Coliban Water services, will largely be debt funded and therefore paid by future Coliban Water customers, many of whom are currently young people who live in these areas. We believe that including young people in the Community panel would have provided valuable insight. In any future community consultation Coliban undertakes we would recommend that you include dedicated positions for young people on community panels.
- **Continue Climate Adaptation Approach:** We are very pleased with the inclusion of the climate adaptation approach to increase water efficiency and reduce environmental impact. Water security and climate will greatly affect our future as young people. We are grateful for organizations like Coliban Water who recognize the need for change and are willing to put the processes in place to protect future generations. We are excited to see the benefits of the climate adaptation approach and encourage Coliban to continue to take steps to protect the planet.

- Increase Information about Payment Support: Payment support being doubled is impressive and so important with inflation and cost of living currently. It is also very easy to find on the Coliban website which makes it easier to access. It would be beneficial to include in the pricing submission information about how the payment support is given, for example if it is means tested. It would also be interesting to see how the payment support is dispersed over the 49 towns that Coliban supply.
- Include Inflation in Annual Price Increase Calculations: The table that explains the price increase is very clear and easy to understand. We appreciate that the weekly increase figure has been provided both with and without inflation. It would be beneficial to see the annual increase calculated in a similar way to allow for ease of understanding. The price increase will be the part of the pricing submission that most consumers will focus on; It could have been more prominent in the Community Draft document in order to increase transparency.

Thank you for your time and consideration of our recommendations. The City of Greater Bendigo Youth Council looks forward to seeing the implementation of the Pricing Submission over the next five years and the increase in water security because of the Big Water Build.

If you would like to discuss this further or have any questions, please feel free to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Victoria Tangey". The signature is written in a cursive style with a horizontal line underneath the name.

Victoria Tangey

City of Greater Bendigo Youth Mayor

Be.Bendigo
www.bebendigo.com.au

Phone - (03) 5442 7816
Email - admin@bebendigo.com.au

276 Hargreaves Mall, Bendigo

PO Box 113
Bendigo Central, Victoria 3552

BE.
BENDIGO

Be.Bendigo (Bendigo Business Council) – letter of support
28/07/2022

To whom it may concern,

On behalf of Be.Bendigo, I provide this letter of support for the Coliban Water Community Draft and intended level of pricing for 2023-28.

Coliban Water provides an essential service to residential, business, rural and development stakeholders across 49 towns throughout North Central Victoria.

Be.Bendigo supports the Community Draft and the proposed pricing for the next 5 years so Coliban Water can continue to invest in water security, upgrade aging assets and cope with population growth across North Central Victoria.

It is important to also note, Coliban Water has a robust hardship program that actively works with individuals who have difficulty meeting their Water bill commitments.

Be.Bendigo looks forward to the new 5 year intended pricing model being adopted, which will underpin business confidence in knowing our future investment for this essential service is secured.

Regards,



Rob Herbert
Chief Executive Officer
Be.Bendigo



02/08/2022

Darren Heritage

Coliban Water

RE : Coliban Water Pricing Submission- Feedback

Having worked alongside Coliban Water hardship team for many years and also taking part in the community engagement process for the recent Pricing Submission, I understand the need for infrastructure spending to cater for the growing population mass of the area and the need for maintenance and upgrades of existing infrastructure, to ensure the continued reliability of water services to the regions.

With any population growth, it puts a strain on existing infrastructure and as it nears capacity there is a need to review and plan for capital works and these are identified in strategic plans and when population growth is rapid, such as what we have seen the regional Victoria. I can understand the need for Coliban Water to take a considered approach to address such works and to review and ascertain the most appropriate funding method to fulfill these requirements.

Acknowledging that Caliban Water has factored this into the community engagement modelling for the community to provide our feedback into what we feel are appropriate and reasonable funding options, with both debt and price increases and the different funding structures to consider to help achieve continued reliable services with price modelling that is sustainable and affordable for all users. This consultation has assisted with addressing the need to minimise impacts on pricing and balancing this between servicing debt levels to support capital and operational works.

Coliban Water have clearly communicated any potential impacts on services to affected areas and genuinely exercised a client centered approach and witnessed an increasing demand for support from vulnerable community members. Coliban Water is to be commended for their focus on supporting the community, they demonstrate this in their planning and consideration of what supports they can offer customers experiencing vulnerability. They have established a highly regarded and skilled hardship team who actively engage community members who may be experiencing financial distress and utilise state government funding supports that these community members are eligible for, such as the Utility Relief Grant and also offer payment matching payment plans to reduce the impact of price increases. Their hardship team work collaboratively with local community services such as Financial Counsellors as additional supports and connection for vulnerable community members.

We value our professional relationship with Coliban Water and their hardship team and acknowledge the great work they do to support our community members experiencing financial distress.

Troy West
Troy West

Acting State Manager – Moneycare Victoria

Founders **William & Catherine Booth**
General **Brian Peddle**

Wherever there is hardship or injustice, Salvos will live, love and fight alongside others to transform Australia one life at a time with the love of Jesus.

3 August 2022

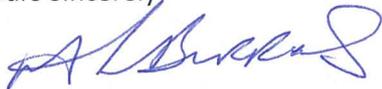
Mr Damian Wells
Managing Director
Coliban Water
Bridge Street
BENDIGO 3550

Dear Damian

We the members of the Rural Customer Advisory Group would like to endorse the approach proposed by Coliban Water in relation to rural pricing for the 2023-2028 regulatory period.

We are enthusiastic about investigations that are underway to try and secure funding to modernise the Coliban Water rural system. We appreciate that pricing will be held steady for rural customers while this takes place. This is important to allow rural customers to control costs and plan for the seasons ahead.

Yours Sincerely,



Malcom Burrows
On behalf of Rural Customer Advisory Group

Mark Browne
Paul Mannes
Charles Thompson
Brian Stephens
Colin Millar
John Vercoe
Jeremy White

Thursday August 4, 2022

Damian Wells,
Managing Director
PO Box 2770
Bendigo DC VIC 3554
[REDACTED]

Dear Mr Wells,

The City of Greater Bendigo's Farming and Agribusiness Advisory Committee endorses Coliban Water's Pricing Submission 2023 – 2028.

The Pricing Submission successfully outlines how water pricing and investment will seek to meet business requirements and deliver fair outcomes for the community, both today and into the future.

It is agreed urban and rural water infrastructure needs significant upgrading over the next five years and, as a result, the Committee understands Coliban Water will need to increase prices for customers.

The Committee applauds Coliban Water's efforts to attract government funding so as customers are not entirely footing the bill for the upgrades

From a rural perspective, the Committee appreciates Coliban Water's commitment to keeping rural prices stable while it investigates these upgrade requirements.

However, it is important that customers remain engaged in determining a fair price to meet their needs going forward.

The value of the agricultural sector in the Bendigo region is estimated at \$748M, with the top commodities being:

- Sheep and lambs (\$158.77m)
- Hay (\$88.34m)
- Pigs (\$71.29m)

These enterprises and others rely on the regular supply of water, which needs to be secured ongoing in the face of climate change impacting primary industry production.

It is the Committee's firm belief that a thriving rural sector starts with a secure water source, to ensure food security for a thriving Greater Bendigo.

Thank you for the opportunity to make a submission to the Pricing Submission 2023 – 2028.

Yours sincerely,



Mayor Cr Andrea Metcalf
Chair, Farming and Agribusiness Advisory Committee

Greater Bendigo City Council
Address: 15 Hopetoun Street, Bendigo
Postal Address: PO Box 733, Bendigo VIC 3552
T: 1300 002 642
E: requests@bendigo.vic.gov.au
W: www.bendigo.vic.gov.au
ABN 74 149 638 164



Enquiries: Steve Hamilton
Telephone: [REDACTED]
Email: [REDACTED]

5 August 2022

Mr Bob Cameron, Chair
Mr Damian Wells, Managing Director
Coliban Water
37-45 Bridge Street
BENDIGO 3550



Dear Bob and Damian

Community Draft Pricing Submission 2023 – 2028

Thank you for the opportunity to provide this submission on Coliban Water's Community Draft Pricing Submission 2023 – 2028 (*The DPS*). Our submission is structured in dot point form with key topics highlighted for ease of reading.

In the main, we understand the infrastructure, funding, pricing and service provision challenges that Coliban faces to provide water and sewer services. We recognise those and are providing general and opportunity-based comments that can be taken further, in partnership, to achieve greater positive outcomes for our communities. Where possible we have recommended inclusions to the DPS for your consideration.

If you require any further information regarding our submission, please do not hesitate to contact us.

- We acknowledge the breadth of community **engagement** undertaken as part of the DPS. The City affirms the importance of meaningful community engagement on a range of topics and we congratulate Coliban in this regard.
- The establishment and incorporation of the **Community Panel** feedback is a positive and significant step in the deliberative engagement process for the DPS. We trust Coliban obtained the necessary feedback you were looking for from this Panel.
- There are a number of **synergies** within the DPS and the City of Greater Bendigo Plan *Mir wimbul*. These are particularly around creating healthy, liveable spaces and places, commitments to the environment and Aboriginal reconciliation – all of which can be further explored by our respective officers. For reference, our key outcomes in *Mir wimbul* are:
 - Outcome 1: Lead and govern for all
 - Outcome 2: Healthy, liveable spaces and places

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- Outcome 3: Strong, inclusive and sustainable economy
- Outcome 4: Aboriginal reconciliation
- Outcome 5: A climate resilient and healthy landscape
- Our community is experiencing the impacts of an increased **cost of living** (which will continue to be challenging), and that the short to medium term outlook for inflation and interest rates will create additional pressure for many members of our community. We understand the challenge and tension this creates when additional infrastructure investments and asset improvements are required to be managed. To this end, similar to the City, maintaining a close eye on external financial pressures and being able to respond in such a way as to alleviate the cost burden to community will be important into the (near) future particularly. Implementing mechanisms to help the vulnerable and financially insecure customers will be important considerations (noting the support in the DPS for vulnerable customers).
- Without a detailed knowledge of the constituent elements at this time, we note the **Big Water Build** program of \$435m, which is a large increase from the current program. The City is willing to work through the scope, scale and timing of this program with Coliban to ensure we align our program works and timing as far as practicable. In addition, highlighting some of the key projects and investments in the DPS would be beneficial for customers to see where the investment is being targeted and what the positive outcomes will be.
- We note a **price rise** of between 1.9% and 2.5% each year plus CPI as outlined in the plan. We note the approach to an equitable increase in pricing for intergenerational investment. The consideration of securing infrastructure for the future is acknowledged and the efforts to reduce bill shock for consumers is positively noted. The ongoing effect of inflation will necessitate careful financial planning across all service based organisations to ensure service delivery is not negatively impacted.
- We know through our previous research that our community values **passive recreation** and using our network of tracks and trails to walk and cycle. Council has committed additional funding to increase this network and we welcome the opportunity to work with Coliban in this regard.
- We encourage Coliban to continue to invest in programs such as '**Choose Tap**' and the installation of drinking water fountains to support the health objectives of the community.
- The City is continuing to plan for ongoing **population growth** and Coliban is represented on the Managed Growth Strategy (MGS) Steering Committee. The importance of future-proofing communities in light of the MGS is critical to ensure we can plan, develop, deliver and maintain all manner of community infrastructure and services into the future. The City of Greater Bendigo population is expected to grow to 200,000 by 2050. We welcome the ongoing partnership with Coliban in working through these challenges. Noting this program in the DPS is recommended.
- The City's **Bendigo Regional Employment Precinct (BREP)** is a significant project within the Bendigo region, which will create jobs and grow the economies of our region. This is a key investment advocacy priority of Council. It is planned that there will be investment in the precinct during the life of this plan and Coliban is being engaged on the project as it is evolving. Noting this project within the DPS is



recommended to acknowledge the strategic priority of the project for the region and for Coliban to contextualise its anticipated role to provide services to enable the project.

- Both of our organisations have commitments to **reconciliation** and supporting our First Nations people. We welcome the opportunity to work in partnership with Coliban and our First Nations people in joint initiatives and projects which support reconciliation and Treaty. Establishing a working group to facilitate this should be explored.
- There is alignment and shared ambitions in Coliban and Council's **climate** management / mitigation strategies and plans to pursue zero carbon. Again, partnering in shared vision outcomes would be an opportunity to capture between Coliban and the City. There is a lot of detail in our respective plans and goals, and we would welcome the opportunity to look for like projects and common solutions that we can implement and that we can also help our communities implement.
- We note that Coliban's plan includes undertaking further work to upgrade **water reclamation** and recycling facilities to deliver more Class A recycled water to agricultural customers, sporting fields and environmental flow. Supporting this, Mir wimbul includes actions around Water Sensitive Bendigo and Reimaging Bendigo Creek. Articulating similar commitments in the DPS (or later version) to provide leadership in these initiatives would be welcomed.

Thank you again for this opportunity to provide a submission to the DPS.

We look forward to working with you and the Coliban organisation into the future on the many exciting projects we have underway for the Greater Bendigo region and addressing challenges along the way in partnership.

It is our view that working together strategically and through careful, collaborative implementation is a key aspect to ensure that our community has and is provided with sustainable infrastructure with minimal impact into the future.

Yours sincerely

Craig Niemann
Chief Executive Officer

Ref: Fol/22/179

4 August 2022

Damien Wells
Managing Director
Coliban Water

Sent via Email: [REDACTED]

Dear Damien,

Re: Water Security for Kyneton and Trentham

Achieving water security for all communities is critically important and an area that is requiring some further planning and investment given climatic changes.

We note through your Community Consultation process around your 5-year pricing plan, reference to continued investment in the resilience of the water treatment plant which services our Trentham community. As highlighted during the extreme weather event experienced in June 2021 across many parts of the state, including the Trentham area, the provision of safe drinking water was challenging. Whilst we are very complimentary of your team's response and support through this period, the vulnerability of the treatment plant was exposed.

Hepburn would like to acknowledge the planned investment in this area to support and further secure the provision of safe drinking water for the Trentham community and compliment the recognition and response to this need.

We look forward to being able to partner with Coliban Water to ensure the long-term resilience of the Water Treatment Plant resulting in improved security of safe drinking water for Trentham and surrounds.

Hepburn values the relationship with Coliban Water and the broader stakeholders when it comes to the Integrated Water Management and this strengthens the long term strategic outcomes for the Hepburn community and all stakeholders.

I would also like to congratulate you and the Coliban Team on a great community engagement process undertaken surrounding your 5-year pricing plan – it was well executed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Bradley Thomas', with a long horizontal flourish extending to the right.

Bradley Thomas
Chief Executive Officer



Our Ref: F759
5 August 2022

Mr Damian Wells
Managing Director
Coliban Water
Via email: [REDACTED]

Dear Damian

Re: Support for Coliban Water – Water Security for Kyneton and Trentham

Thank you for providing a copy of Coliban Water's Community Draft, which highlights the key initiatives in Coliban's Pricing Submission 2023-2028.

It was pleasing that local government had the opportunity to participate in Coliban's pricing submission process, and that an independent Community Panel helped shape the advice for Coliban's future services and that all its recommendations were included in the pricing submission.

Further investment is required to plan for our growing population and the impacts of climate change in the Macedon Ranges Shire. The Shire's population is forecast to grow from around 51,000 to 65,000 people by the year 2036, which is a conservative figure that likely underestimates the significant flow of people from cities to regions over the last few years.

I write in support of Coliban Water's proposals to significantly invest in upgrading aging infrastructure, in particular, investment in water security and safe drinking water for Kyneton and Trentham.

I particularly highlight the following important initiatives in Coliban's pricing submission:

Kyneton and Trentham: Coliban will continue to explore supplementary water resources (noting both towns only have one water source which makes them vulnerable to climate change). Coliban currently has permits from Goulburn Murray Water for some deep groundwater exploration as drought support.

Kyneton: Coliban will invest in additional Safe Drinking Water treatment processes to further strengthen the resilience of the Water Treatment Plant to manage downstream water quality risks associated with climate change and on-water recreation.

Trentham: Coliban will continue to invest in the resilience of the Water Treatment Plant following last year's extreme weather event that exposed some weaknesses in the climate resilience of the asset in supporting the community with on-going safe drinking water.

Should you have any questions in relation to the above matter please do not hesitate to contact me on 5422 0308 or bosullivan@mrsc.vic.gov.au.

Yours sincerely

Bernie O'Sullivan
Chief Executive Officer

Price Submission



Appendix B: Top 10 Capital Projects and Current Economic Conditions



Appendix B: Top 10 Capital Projects and Current Economic Conditions

Coliban Water utilised independent expert support to develop cost estimates for all Top 10 capital projects for the 2023 regulatory period. This has included making use of Monte Carlo estimation techniques to develop the adopted *P50* cost estimates and *P95* (i.e., contingency cost) estimates.

The current economic environment is proving challenging to accurately forecast future costs. CPI inflation is at 5.1% for the 2022–23 financial year, and there is a risk this may remain above the RBA target inflation range in the short term. Conversely, history suggests that conditions may change significantly over the five years as part of a normal economic cycle.

1 IMPACTS OF INFLATION

The ESC's regulatory model sets capital and operating expenditure and prices for the coming regulatory period in *real* terms, excluding inflation. While people are generally aware of the impacts of inflation on prices, they will generally be more comfortable considering *nominal* rather than *real* prices. Thus, when considering costs for our Top 10 capital projects, it should be noted that actual nominal costs of projects will exceed the real costs noted in this submission due to the accrual of inflation.

2 CONTINGENCY COSTS

Prevailing economic conditions suggest that key costs are rising and are likely to remain so for some time. Fuel prices are high which is having a flow-on impact to costs in many industries. Decreased mobility post-Covid and high demand for expertise as the Australian economy recovers are resulting in labour shortages and rising wage costs.

Supply chains remain disrupted, meaning many key inputs are in short supply. Costs for key inputs to our projects are increasing in excess of inflation. Figure 1 below shows Australian Producer Price Indices for **chemical & chemical products** (ABS series A3343980X) and **heavy & civil engineering construction** (ABS series A85219099L). The average increase in chemical costs over the 12 months to June 2022 was 52.4%; for engineering construction it was a 9.0% average increase.

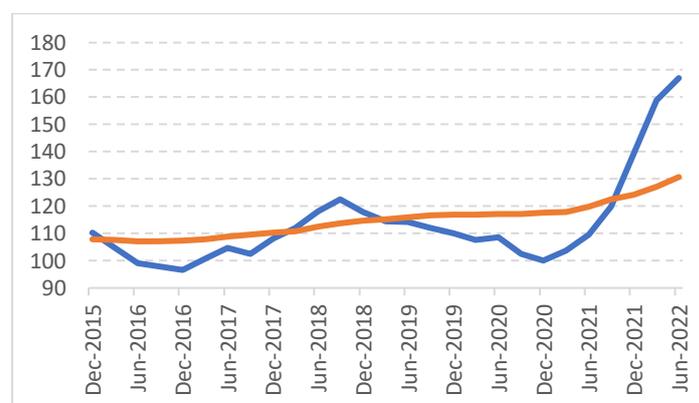


Figure 1. PPI Chemicals & chemical products and Engineering Construction, 2015–2022.

3 DELIVERY DELAYS

The current economic environment has introduced high risk of delays to key projects. Finding and recruiting key personnel has been identified as a critical risk area for delivery of PS23 capital projects, particularly with other Victorian water corporations also seeking to deliver more big capital projects in the 2023 regulatory period. Worldwide supply chain issues mean that key materials may be difficult to obtain or may face significant time delays. While we are confident in our favourable assessment of deliverability, supported by the ramp up of capital investment late in the 2018 regulatory period, this is a key risk that must be considered.

4 POTENTIAL TOP 10 PROJECT COST IMPACTS

We will ensure prudent and efficient cost management within the prevailing market conditions and look for every opportunity to innovate in this regard (e.g. via supplier contracts, procurement, strategic partnerships, etc). It is certainly not a foregone conclusion that P50 costs will be exceeded for any particular major project.

However, some Top 10 projects and programs within the portfolio may be impacted by the current economic environment and be deferred or delayed due to reasons beyond Coliban Water's control. Based on current economic conditions, some key inputs (labour or materials) may see significant price rises above the prevailing rate of inflation.

To model potential impacts of project delays, input cost increases and a high-inflation environment, we have included a 'high' cost estimate for each Top 10 capital project that includes the following:

- Nominal costs shown, with high rate of annual inflation
- P95 costs as per the cost estimation methodology for the 2023 price submission
- Notional 2-year project delay

Table 1 below shows the proposed Top 10 capital projects for the 2023 regulatory period and cost forecasts in real terms (\$22–23) based on P50 estimates and P95 'high' forecasts in nominal terms.

Note that we are not suggesting all project costs are anticipated to increase. This table is intended to illustrate a plausible 'high cost' scenario for each major project in dollars of the day.

Table 1. PS23 Top 10 projects, P50 & P95 'high' scenarios.

Top 10 capital project	P50 (\$m 22-23)	P95 (\$m nom.)
Bendigo WRP RWF upgrade	\$11.4	\$20.3
Bendigo, Castlemaine & Kyneton WTP water quality upgrades	\$11.3	\$17.2
Bendigo trunk & outfall sewer growth & compliance	\$26.3	\$44.3
Bendigo WRP upgrades	\$14.6	\$23.0
Bendigo WRP sludge handling upgrades	\$52.7	\$79.0
Cohuna WRP capacity increase	\$8.9	\$15.4
Goornong treated water supply upgrade	\$13.6	\$22.3
West Bendigo sewer growth & compliance	\$25.2	\$42.5
Trentham WTP capacity upgrade	\$15.7	\$26.2
Castlemaine WRP upgrades	\$25.2	\$41.6

Price Submission



Appendix C: Sequana Final Attestation Advice





13 September 2022

Private and Confidential

Jarrah O'Shea
Executive General Manager Strategy, Economics & Data
Coliban Water
37-45 Bridge Street
Bendigo VIC 3550
[REDACTED]

Dear Jarrah

Subject: PS23 Assurance Review – Final Attestation

Sequana Partners (Sequana) was engaged in October 2021 to provide independent high-level third-party assurance on Coliban Water's development of the Pricing Submission 2023 (PS23) to the Essential Services Commission (ESC) and provide a recommendation to the Board on whether the PS23 Assurance Statement can be attested.

Sequana has conducted an assessment on Coliban Water's Pricing Submission Board Final Draft (August 2022). The assessment is based on a review of the Draft Submission and certain supporting evidence identified and provided by Coliban Water.

Sequana, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2023 water price review:

1. Coliban Water has assessed its assets and needs to achieve long-term health and environmental compliance.
2. Coliban Water's water consumption and customer growth forecasts were reasonably based and consistent in informing the submission.
3. Coliban Water undertook assurance regarding the prudence and efficiency of operating and capital expenditure in line with ESC requirements.
4. Coliban Water's customer price levels are necessary to increase to meet the Board's expectations of long-term financial sustainability.
5. Coliban Water undertook a robust customer engagement process and engagement insights underpin the Pricing Submission.
6. Coliban Water's Board was provided regular updates on progressive achievement of all elements of the ESC Guidance and evidence exists for the status reported each quarter/month.

It is important to note that our review is based on the information provided to Sequana and does not account for any changes made to the documentation, information or forecasts that may occur prior to lodgement with the ESC.

Yours Sincerely

A handwritten signature in blue ink, appearing to read "Mike Walsh".

Mike Walsh
Managing Partner
Sequana Partners Pty Ltd

Price Submission



Appendix D: Letter to Environment Protection Authority



25 May 2022

Mr Lee Miezis
Chief Executive Officer
Environment Protection Authority (EPA) Victoria
GPO Box 4395
MELBOURNE VIC 3001

Via email: [REDACTED]

Dear Lee,

Coliban Water – Large Infrastructure Investment Program commenced while holding existing compliance risks - advice sought

I am writing to inform you of a large infrastructure renewal program that we have commenced at Coliban Water in order to support our growing region. Subject to Essential Services Commission (ESC) approval, the six-year program will deliver over \$400 million in infrastructure renewals and upgrades with ongoing investment beyond this initial period. I am also seeking your advice as to how the EPA will regulate Coliban Water at some sites of concern while we undertake these large investments.

We have undertaken a series of reviews to examine the water service needs of our region. This work examined key challenges to which we must respond. The major risk drivers impacting water services in our region include climate change, population growth and aging assets. These drivers are giving rise to near-term environmental compliance risks that are outlined in this correspondence.

While we manage compliance risks in the coming years as we deliver a large works program, our aspiration is clear and publicly stated. Coliban Water's recently renewed *Environment and Sustainability Policy Statement* articulates our goal to have a regenerative impact on our catchments as a result of being environmental stewards.

In short, we have resolved to nearly treble our annual capital investment program over the next five to ten years in order to meet the challenges that we have identified. We are acting now. We have commenced a large infrastructure renewal and augmentation program funded through additional debt ahead of our next Pricing Submission to the ESC. Noting that Coliban Water is funded by its customers through water bills, we will be seeking approval from the ESC to modestly increase customer bills above inflation while also taking on further debt in order to sustainably fund the proposed program.

We have foreshadowed this generational renewal in our recently submitted Corporate Plan to the Victorian Government. The Corporate Plan details a proposed increase in capital investment that will deliver the large asset renewal program and infrastructure build that is required to meet these challenges for the benefit of our community. Current debt levels will be managed sustainably to increase from the current level of \$410 million (with total assets currently \$2.02 billion) to \$683 million (with anticipated assets of \$2.55 billion) in 2026/27.

As stated above, the full infrastructure program is subject to approval by the ESC following submission of our 2023-2028 Pricing Submission. We recognise that the ESC will ultimately scrutinise our proposal and determine the mix of debt and customer price increases that will underpin the funding of this investment. We believe that the case for change is compelling, as is the urgency with which we must act to support the growth and sustainability of our region.

We have identified four water reclamation plants (WRPs) where it will be challenging to achieve ongoing environmental compliance over the coming years while we deliver the large works program. These are located at Epsom (Bendigo), Castlemaine, Cohuna and Kyneton. While we have nearly completed the \$20 million investment program at the Kyneton WRP, we will continue to hold some compliance risk in relation to the water balance for the site while the benefits of the new agricultural re-use pipeline are realised over the coming 18 months.

Attached is a table summarising the environmental compliance challenges and upgrades required, along with the necessary expenditure profile to mitigate these risks. These investments are being embedded into our ESC Pricing Submission mentioned above.

While we are acting without delay, some of these projects will take many years to complete. Until these projects are completed, we will continue to hold environmental compliance risks which we will monitor and report to EPA. Each site has an operational approach to mitigate compliance risks to the greatest extent possible given current asset condition and capacity.

As you are aware, following the prosecution and associated conviction of Coliban Water for breach of EPA Licence at our Kyneton Water Reclamation Plant we remain subject to an 'Undertaking' that was part of sentencing by the Magistrate. While we are primarily motivated by our higher order aspiration to be environmental stewards, we note this legal instrument and its gravity.

We welcome a discussion about how these sites will be regulated over the coming years while the major upgrades are completed. Is there an approach that may be adopted under the new Environment Protection Act that caters for our circumstance? We are fully prepared to commit to capital project delivery timelines in a statutory instrument if such an option is available.

If you have any questions or wish to discuss our approach to achieving these outcomes, please contact me on [REDACTED] or by email at [REDACTED].

Yours sincerely



Damian Wells
Managing Director

Table 1: Summary of COLIBAN WATER Key Wastewater Reclamation Plant (WRP) Compliance Operational Risks

Operational Risks		Short Term Mitigation	Long Term Resolution
Epsom WRP		Estimated Capital Investment in PS23 \$70+m and PS28 \$80m	
<ul style="list-style-type: none"> • Population Growth • Capacity Constraints • Treatment Quality Pressures • Odour Risks • Solids Handling Capacity • Priority Waste Acceptance/Management 	<p>With the substantial population growth experienced across Bendigo coupled with an aging asset, key infrastructure at the Epsom Wastewater Reclamation Plant is reaching its capacity limits. The capacity constraints are placing additional pressures on other downstream key treatment processes including the overall water balance for the site, managing odours and meeting the annual release of Class B treated water into the Bendigo Creek. The recent change in Waste Regulations has resulted in uncertainty around the acceptability of particular waste streams associated with the activities of water corporations.</p>	<p>A suitably qualified and experienced expert has been engaged to provide key input into the development of an Operational Strategy. The Strategy will be implemented across the site to mitigate and reduce the risks while the longer-term resolution is being implemented.</p>	<ol style="list-style-type: none"> 1. Capital works have been identified through the Bendigo WRP 2021 Master Plan. Coliban Water has committed to upgrading critical infrastructure at the site as part of the 2023-2028 Pricing Submission. 2. An application will be submitted to the EPA to amend the current licence with a focus around increasing the daily release into the Bendigo Creek along with the inclusion of identified Priority Waste codes.
Castlemaine WRP		Estimated Capital Investment in PS23 \$46m	
<ul style="list-style-type: none"> • Population Growth • Treatment Quality Pressures • Odour Risks • Solids Handling Capacity 	<p>With the substantial population growth experienced across Castlemaine along with the increase in trade waste from one of Coliban Water’s largest industrial customer, key infrastructure at the Wastewater Reclamation Plant is reaching its capacity limits. The capacity constraints are placing additional pressures on other downstream treatment processes including wastewater treatment quality and solids handling ability. This is directly increasing odour risk for nearby sensitive receptors.</p>	<p>A suitably qualified and experienced expert has been engaged to provide key input into the development of an Operational Strategy. The Strategy will be implemented across the site to mitigate and reduce the risks whilst the longer-term resolution is in place.</p>	<ol style="list-style-type: none"> 1. Capital works have been identified through the Castlemaine WRP 2020 Master Plan. Coliban Water has committed to upgrading critical infrastructure at the site as part of its 2023-2028 Pricing Submission.

Cohuna WRP		Estimated Capital Investment in PS23 \$10m	
<ul style="list-style-type: none"> Lagoon Integrity Capacity Constraints 	<p>The current integrity of a portion of the lagoons at the Cohuna WRP is compromised. The following steps are required:</p> <ul style="list-style-type: none"> Upgrade lagoons to address integrity issues and prevent rising groundwaters from entering the sewer network. Construct additional lagoon storage to meet the overall water balance for the site. 	<p>Additional groundwater monitoring is being carried out to monitor groundwater levels around the Cohuna WRP with a particular focus on monitoring quality.</p>	<p>Capital investment has been approved by the business to address lagoon integrity issues. In addition, Coliban Water is currently working through a process to acquire additional land required for extra lagoon storage to ensure the sites water balance is achieved. Coliban Water has committed to addressing the risks longer term as part of the 2023-2028 Pricing Submission.</p>
Kyneton WRP		Estimated Capital Investment over past 2 years \$20m (approx.)	
<ul style="list-style-type: none"> Lagoon and treatment capacity 	<p>With the substantial population growth experienced across Kyneton along with significant trade waste inflows from one of Coliban Water's largest industrial customers, critical infrastructure and additional offsite reuse is required to meet the site treatment needs, the overall site water balance and EPA licence requirements.</p>	<p>Two additional storage lagoons of approximately 260 megalitres have now been constructed as part of our nearly \$20 million upgrades at the Kyneton WRP.</p> <p>An agreement has now been reached with a new offsite recycled water customer to sustainably reuse 350-500 megalitres of recycled water annually.</p> <p>Prior to the reuse commencing a recycled water pipeline is required to be installed to connect the Kyneton WRP with the offsite reuse customer.</p>	<p>Work is underway to construct the recycled water pipeline to connect the Kyneton WRP with an offsite reuse customer, with approval now received from the Mount Alexander & Macedon Ranges Shire Councils and is expected to be completed towards the end of 2022. Until the pipeline is complete, Coliban Water will continue to manage water at the site to avoid uncontrolled releases to the environment.</p> <p>Coliban Water has commenced the process to amend the current EPA licence for the Kyneton WRP. The amendment will be updated to reflect current infrastructure changes at the site along with conditions that meet current environmental standards.</p>