



9/09/2021

RM/21/26420

Ms Cath Botta
Chair
North East Water
PO Box 863
Wodonga VIC 3689

By email: [REDACTED]

Dear Ms Botta,

I am writing in relation to the Essential Services Commission's (commission's) mid-period review of North East Water's eight year regulatory period. North East Water's 1 July 2018 – 30 June 2026 price determination (determination) approved prices for an eight year regulatory period to 30 June 2026.¹ However, the determination noted that a mid-period review would decide whether North East Water would continue to operate under the determination for the full eight-year period, or whether the determination would end on 30 June 2023.

The commission's PREMO pricing approach provides flexibility for water businesses to propose a regulatory period of more than five years (which is the default applying under our pricing approach).² The purpose of the mid-period review was to provide the commission with a 'step-in' opportunity (if required) to help ensure the interests of customers were protected should North East Water fall short of performance expectations, or if circumstances changed significantly compared to those prevailing at the time of the determination.

¹ Essential Services Commission 2018, North East Water Determination: 1 July 2018 – 30 June 2026, 19 June

² Essential Services Commission 2016, 2018 Water Price Review, Guidance paper, November, p.21.

The determination listed matters we would consider in the mid-period review, including North East Water's performance against outcomes and targets, financial viability, and whether conditions under which prices were determined had changed sufficiently to warrant a reconsideration of prices earlier than the planned eight-year period. These matters are listed at clause 1.3(c) of the determination and have been addressed below.³

The commission has decided that North East Water is to continue operating under the determination to 30 June 2026; that is, for the full eight year period we approved at the 2018 water price review. The effect of this is that North East Water's maximum prices will continue to be regulated in accordance with this determination which runs to 30 June 2026.

In making this decision, the commission has had regard to the matters referred to in clause 1.3(c) of the determination, taking into account information provided by North East Water in relation to this mid-period review, and the commission's own ongoing monitoring of North East Water's performance during this regulatory period. The key reasons for making this decision are:

- **North East Water is tracking well on its outcome and service commitments.** Key outcomes have been delivered despite unexpected changes in its operating environment (noted below). In particular, as outlined in its outcome reporting to the commission, North East Water has met the commitments it set for itself in relation to affordable prices, reliability and responsive services. These outcomes are highly valued by North East Water's customers. There are some shortfalls in performance, but these are generally small and North East Water confirmed it has projects in place to meet its commitments within the eight year regulatory period.
- **North East Water's financial position remains strong.** A key factor in the commission's decision to approve North East Water's 2018 proposal for an eight year regulatory period was its relative financial strength, providing it with scope to absorb risks associated with revenues or costs on behalf of its customers. This remains the case. While North East Water's expenditure is higher than expected (mainly needed to respond to unexpected strong population growth in its region, and the response to bushfires), revenues are also higher. Key indicators of its financial position including interest cover, remain strong. The financial indicators demonstrate North East Water's capacity to fund its revised works program without a substantial impact on its financial viability.

³ Essential Services Commission 2018, North East Water Determination: 1 July 2018 – 30 June 2026, 19 June, clause 1.3(c).

- **Conditions have changed markedly since North East Water’s 2018 determination, but key outcomes continue to be delivered and the business is managing this within its current prices.** Since the determination, North East Water has faced significant challenges from bushfires, managing the impacts of the coronavirus pandemic, and unexpectedly strong population growth. Nevertheless, North East Water notes a key finding of its recent engagement is that customers are satisfied with its performance and customer outcome priorities. As noted above, indicators of North East Water’s financial position remain sound, providing confidence that it can continue to absorb the impacts of unexpected events on behalf of its customers.

We also note North East Water has continued to engage meaningfully with its customers, including in relation to this mid-point review of the length of its regulatory period. A customer forum was held to inform North East Water’s contribution to our mid-period review. We commend this approach, and as a result of this engagement and its insights, we have not undertaken our own separate consultation to inform the mid-period review. Neither North East Water’s inputs into the commission’s mid-point review, nor the commission’s decision, has any potential to adversely affect the legal or financial interests of North East Water customers.

I would like to thank you for North East Water’s input to the mid-period review. If you have any queries or would like to speak further with me, please call on [REDACTED] or alternatively, the team may wish to contact Marcus Crudden, Executive Director on [REDACTED].

Yours sincerely,



Kate Symons
Chairperson

