



# Essential Services Commission online public forum

East Gippsland Water  
draft decision 2023

1 May 2023

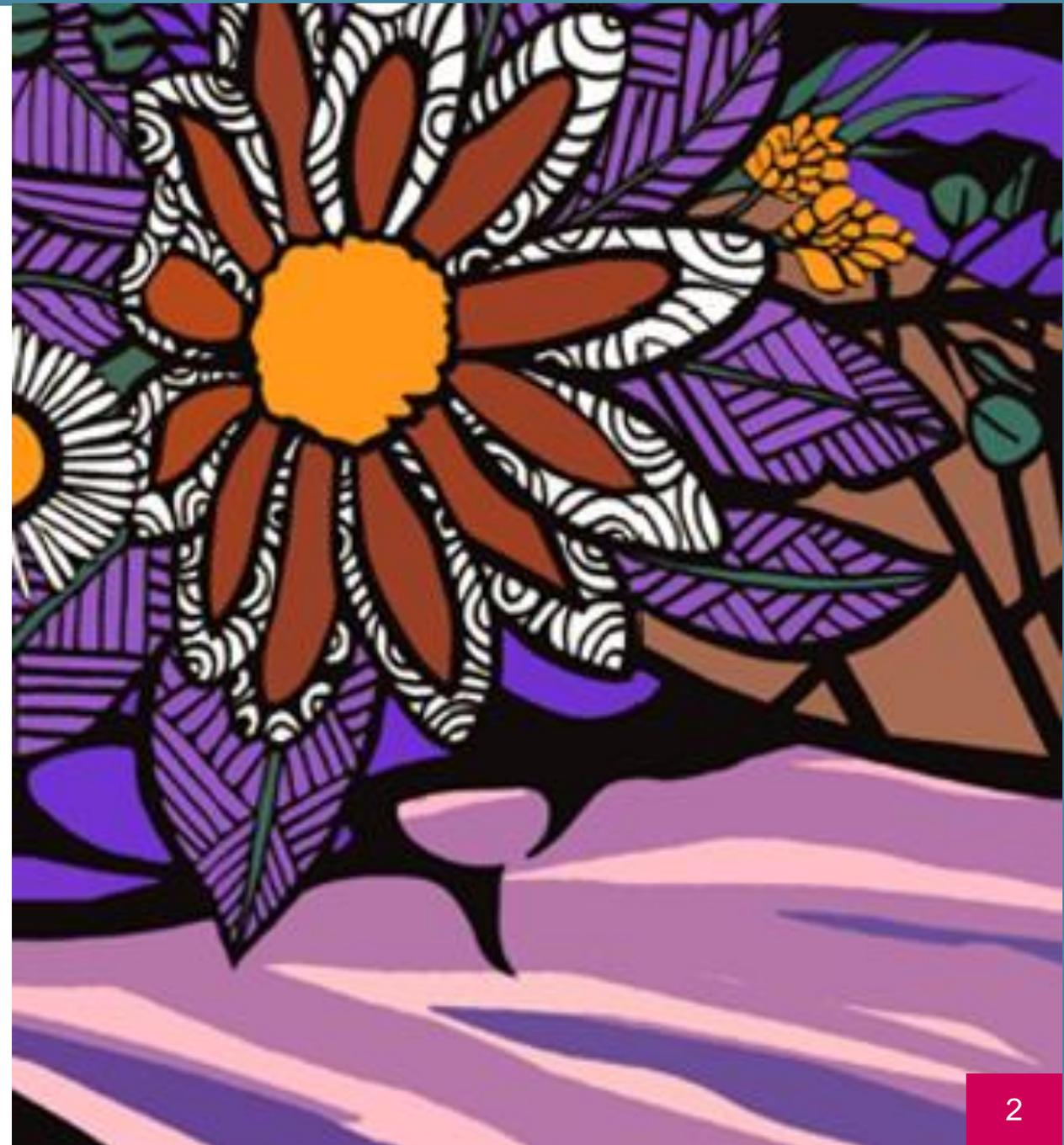


# Acknowledgement of country

**I would like to acknowledge the Traditional Owners of all of the lands wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of East Gippsland Water.**

**I would also like to pay my respects to their Elders, past and present, and extend that respect to all Aboriginal people here today.**

Barring Djinang artwork by Jade Kennedy.  
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# Agenda

- Summary of our role in water price regulation

Simon Corden

**Commissioner, Essential Services Commission**

- How we assessed the price submission and our draft decision

Dean Wickenton

**Senior Regulatory Manager, Essential Services Commission**

- East Gippsland Water's response to our draft decision

Steve McKenzie, **Managing Director**

- Questions from attendees

# About the Essential Services Commission

**Our purpose is to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.**

We regulate Victoria's energy, water and transport sectors, and oversee the Fair Go Rates system. We also administer the Victorian Energy Upgrades program.

We have been regulating water prices more than 20 years.

For the water sector we:

- approve prices and service standards
- monitor and report on performance
- administer customer service codes.

# East Gippsland Water price review process

We assess East Gippsland Water's price submission to ensure it:

- complies with the requirements of the Water Industry Regulatory Order
- meets the requirements in our guidance, including:
  - our expectations on the overall approach
  - application of our incentive (PREMO) framework, where the returns earned are linked to the level of ambition in the price submission
- complies with relevant criteria in the *Water Industry Act 1994* and the *Essential Services Commission Act 2001*.

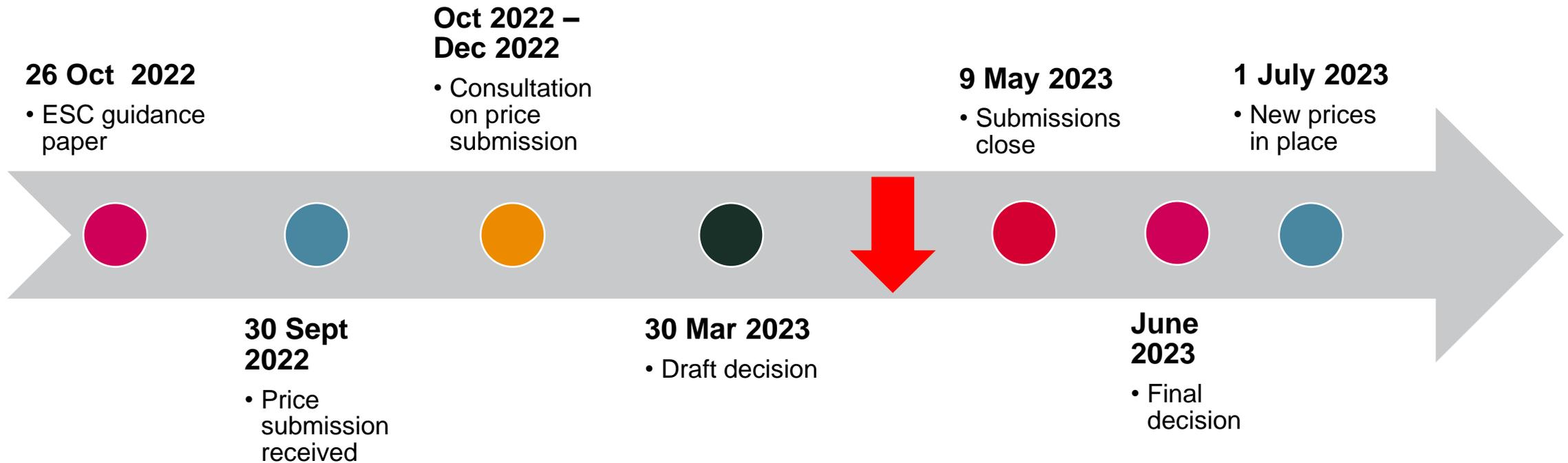
# East Gippsland Water price review process

It is up to East Gippsland Water to propose prices and services consistent with the order, guidance and relevant legislation.

## **Essential Services Commission's draft decision**

Our draft decision indicates what we propose to approve (or not approve), and allows East Gippsland Water– and other stakeholders – to respond before we make our final decision and price determination.

# East Gippsland Water price review process



# We assessed East Gippsland Water's proposals and the reasons for them

We did this by:

- looking at engagement and how East Gippsland Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how East Gippsland Water managed risk and its performance
- reviewing opex and capex costing and timing assumptions to ensure they were reasonable.

We also obtained advice from expert consultants where appropriate.

# Summary of our draft decision

- Accepts 5-year pricing period (prices increasing in real terms over the 5-year period).
- Proposes to accept elements of the price submission including:
  - forecast operating expenditure (with minor adjustments) and capital expenditure
  - proposed tariff structures and forms of price control
  - guaranteed service levels, with the exception of the water efficiency rebate program
- Adopts a revenue requirement of \$187.9 million over a five-year period, slightly lower than the \$189.5 million proposed by East Gippsland Water
- We asked East Gippsland Water to:
  - reflect our proposed adjustment to forecast operating expenditure in its proposed revenue requirement and prices
  - explain how it intends to address the impacts of relatively high inflation on proposed prices and customer bills for 2023-24
  - provide an updated new customer contributions model and supporting information.

# Estimated typical annual water and sewerage bills (proposed)

\*Does not include inflation

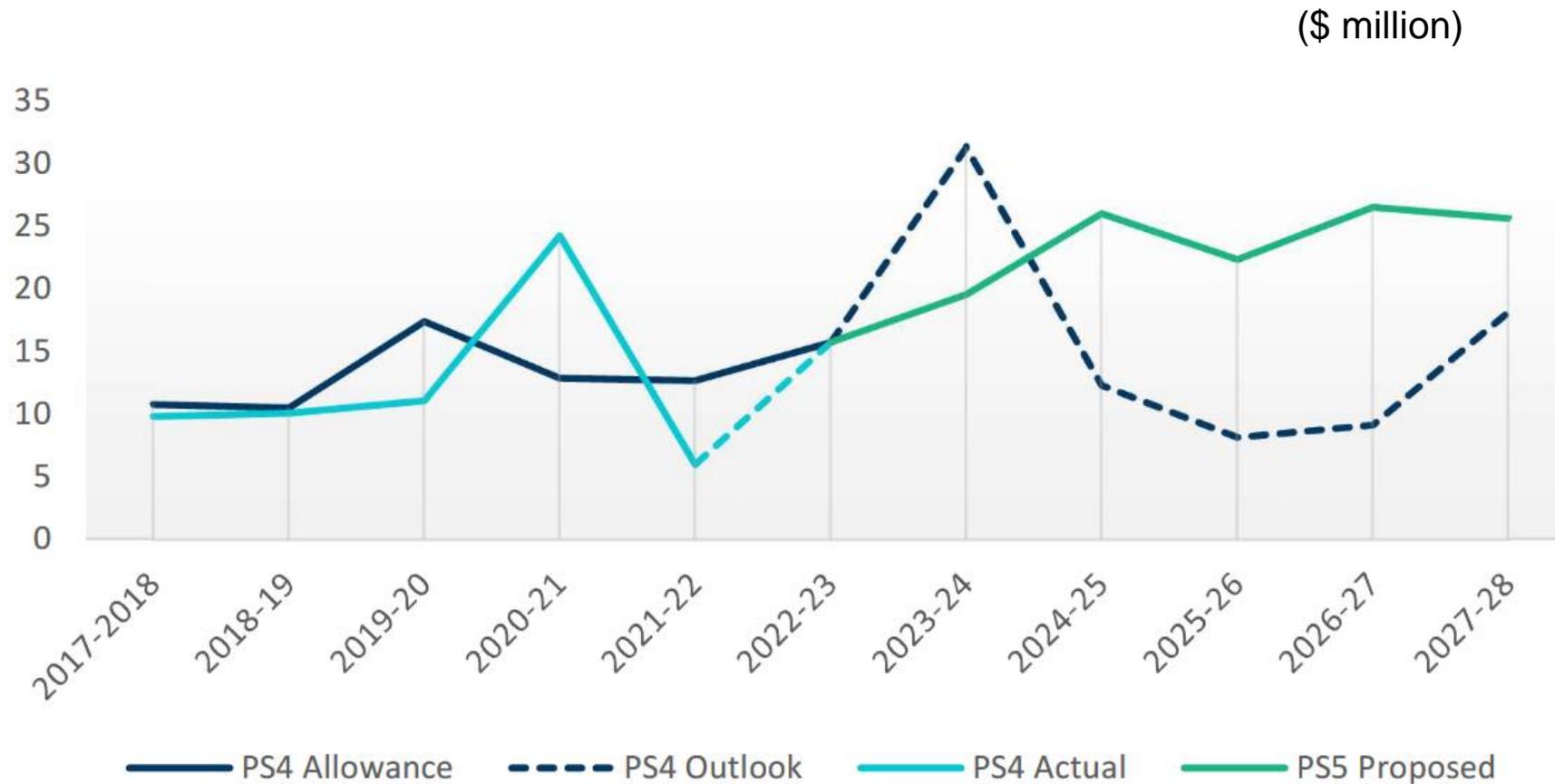
Customer Group	Average consumption (kL p.a.)	2022-23 annual bill	2023-24 annual bill	2027-28 annual bill
Residential (Owner occupier)	141	\$1,238	\$1,241	\$1,256
Residential (Tenant)	141	\$334	\$335	\$339
Non-residential	517	\$3,271	\$3,281	\$3,320

A seven per cent inflation outcome for the year to March 2023 means the bill for a residential owner occupier under the business price submission proposal is around \$1,328

# East Gippsland Water expenditure forecasts

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	127.0	-1.9	125.1
Capital expenditure	120.2	0	120.2

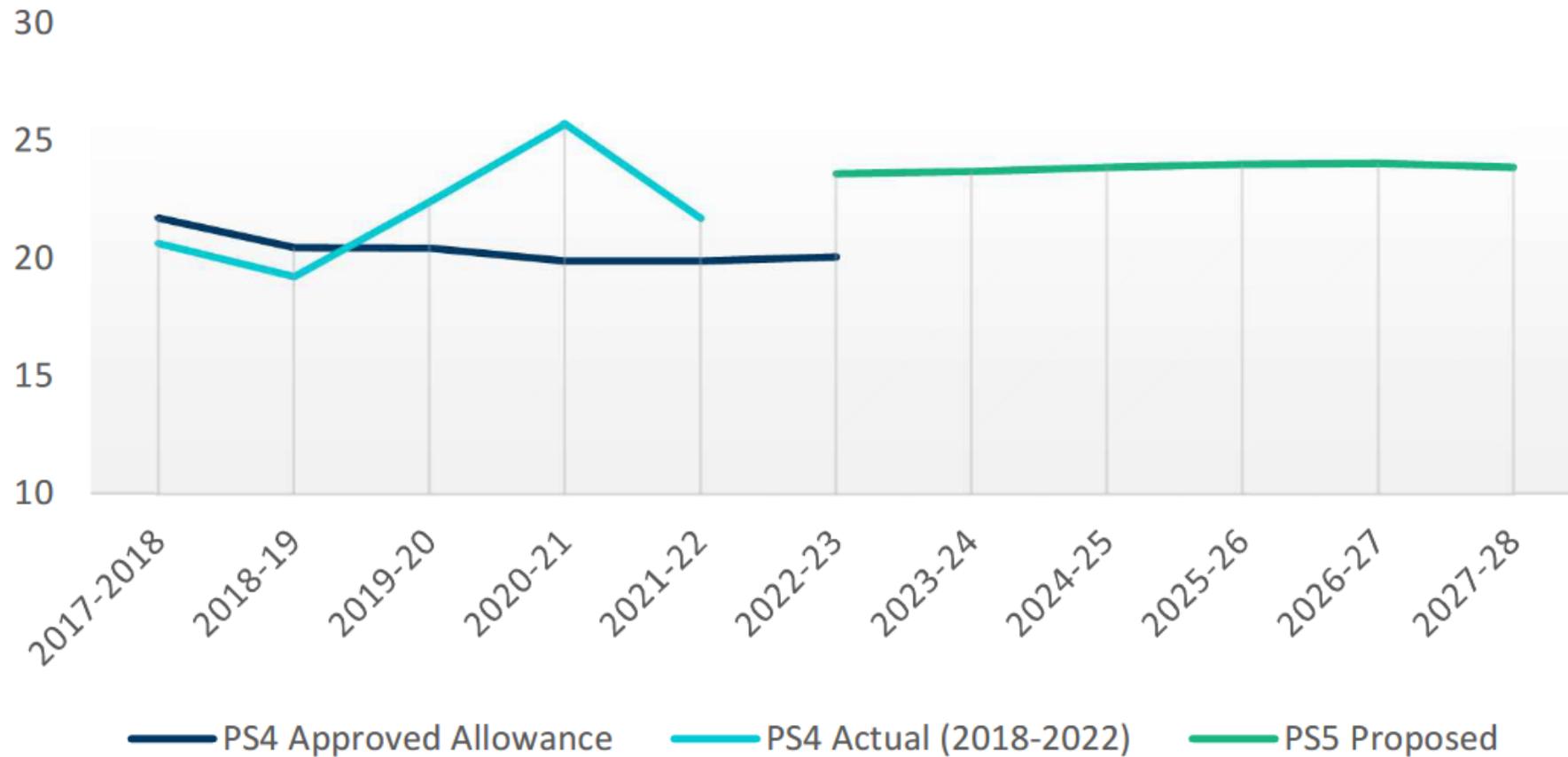
# East Gippsland Water forecast capital expenditure



Source: FTI Consulting, East Gippsland Water 2023 Price Review Model

# East Gippsland Water forecast operating expenditure

(\$ million)



Source: FTI Consulting, East Gippsland Water 2023 Price Review Model

# We propose to accept a 'Standard' PREMO price submission rating

- We consider that East Gippsland Water met expectations for delivery against its outcome commitments for the current regulatory period.
- Its engagement program gave customers an opportunity to participate and to provide feedback on the prices and services that affect them.
- Its proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.
- It has chosen to accept some risk on behalf of customers in some areas, by continuing a price cap form of price control for most services and maintaining service commitments.

## Our draft decision means...

- Prices will generally increase in real terms before inflation (noting inflation will be added to 2023-24 prices and bills).
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways.
- East Gippsland Water will continue to reduce its environmental footprint and respond to climate change.



# 2023 Price Submission



East Gippsland **Water**

Steve McKenzie | Managing Director

# Presentation Outline



1. ESC draft decision
2. Support for customers in hardship
3. Planning context and priorities
4. Investment in assets and services
5. Environmental projects not in PS 2023

# ESC draft decision

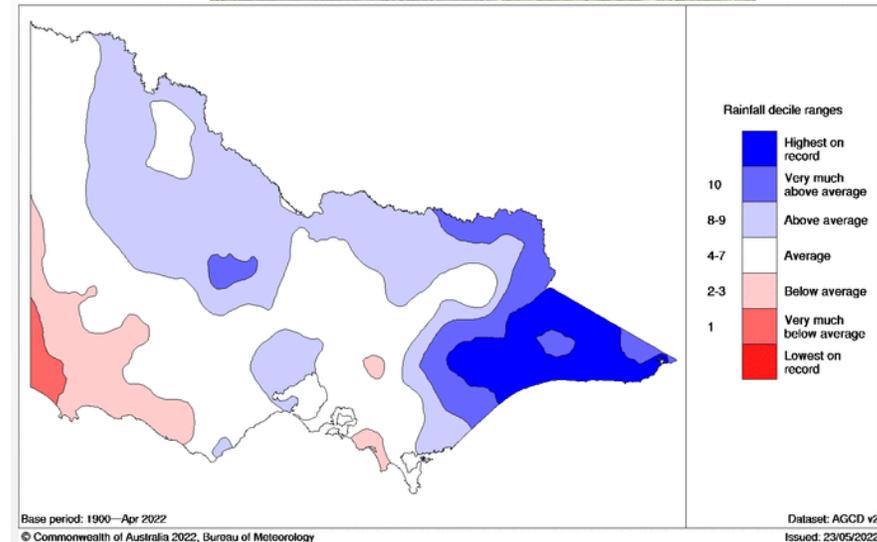
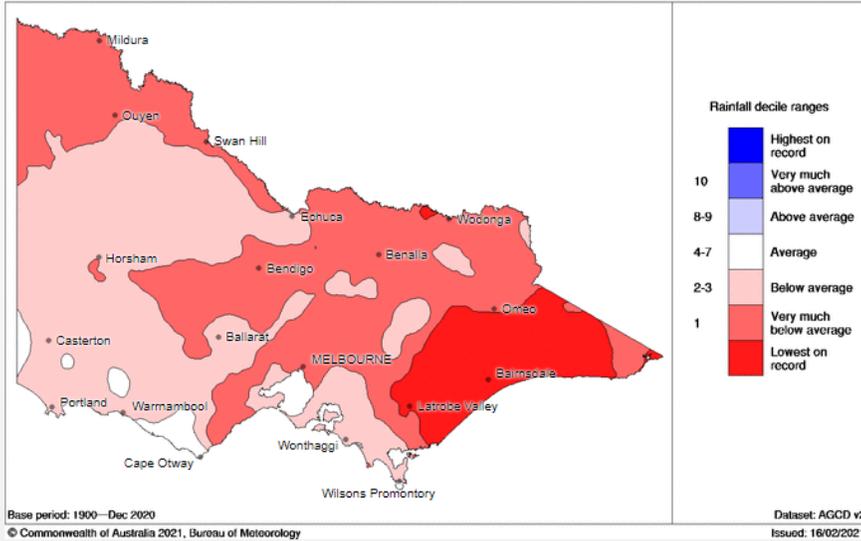
- **EGW accepts the adjustments in the ESC draft decision**
- **5 year investment plan**
  - **\$115M capital works**
  - **\$125M operating cost**
- **Updated modelling indicates CPI flat price increases**
  - **subject to ESC direction on CPI and cost of debt**

# Supporting customers in hardship

- Well established customer support programs
- Already more than 30% of customers receive a rebate
- EGW support increases to \$250K / year - uncapped



# Our planning context

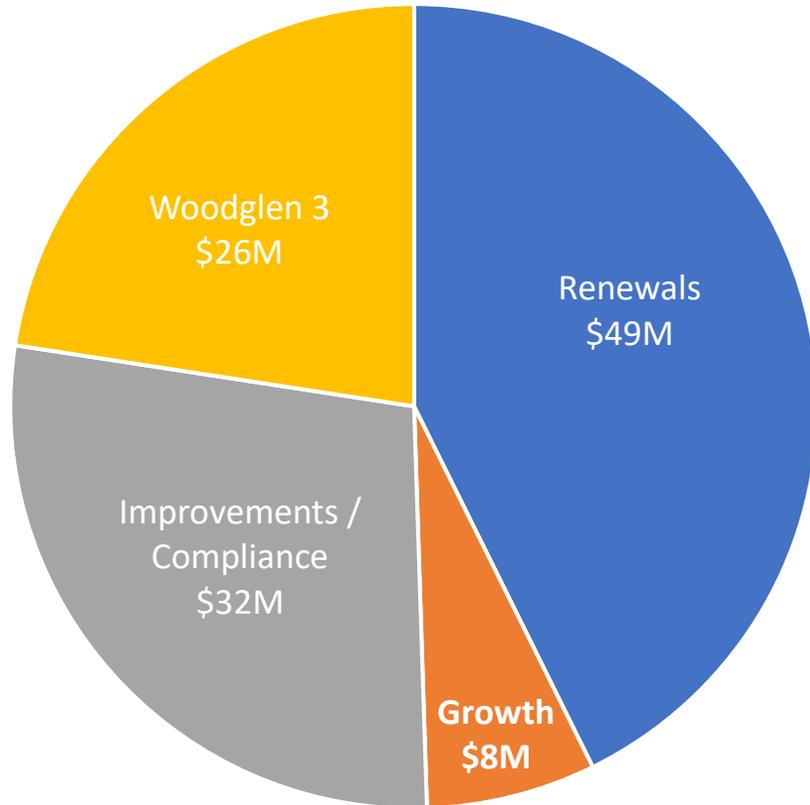


# Our planning priorities



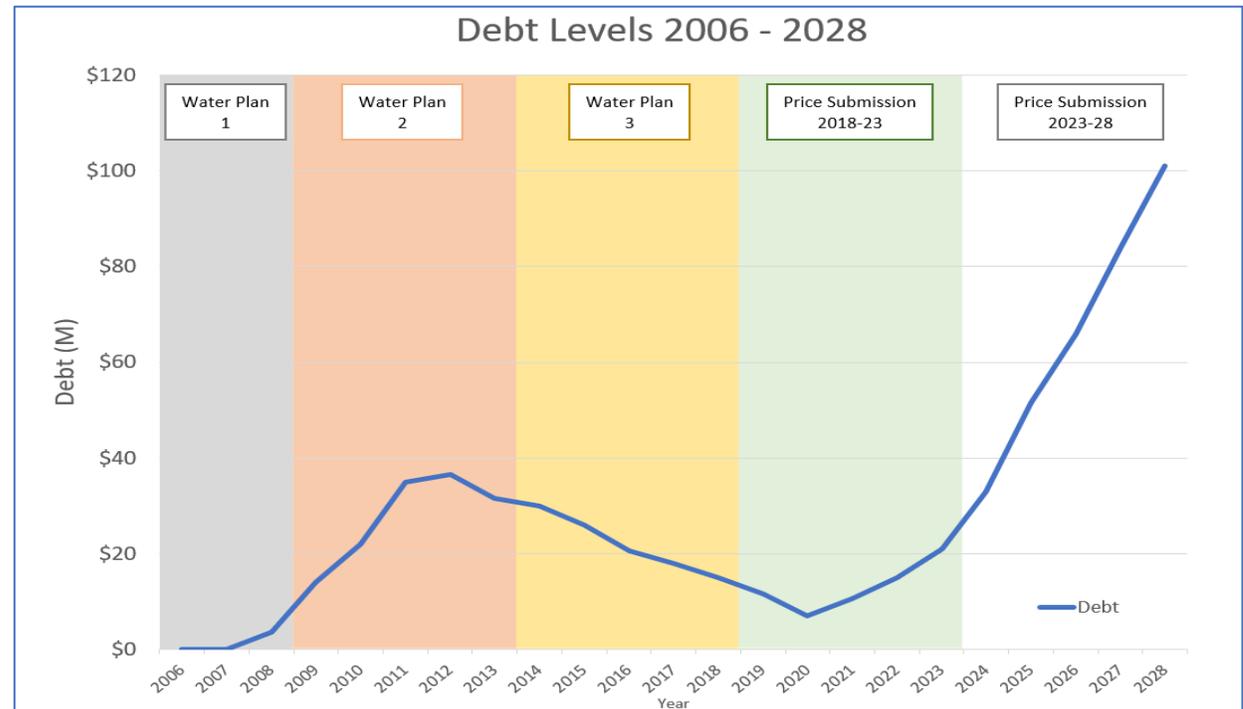
- **Climate - 2017 to 2019 driest on record**
- **Climate – 2021-22 wettest on record**
- **Our People – fatigue, wellbeing, recruitment, retention**
- **Investment in assets and core services**
- **Simplifying business systems for staff and customers**

# Investment in assets and services



**\$115M capital investment**

	2023/24	2024/25	2025/26	2026/27	2027/28
<b>Loss</b>	<b>\$4.9M</b>	<b>5.0M</b>	<b>\$4.4M</b>	<b>\$4.9M</b>	<b>\$3.0M</b>
<b>Debt</b>	<b>\$33M</b>	<b>\$52M</b>	<b>\$66M</b>	<b>\$84M</b>	<b>\$101M</b>





# Water resource security

- Woodglen storage \$26M
- Buchan storage \$3.6M
- Marlo storage \$3.7M
- Mallacoota \$4.0M
- Woodglen-Bairnsdale pipeline \$6.7M
- Wy Yung reservoir cover \$6.0M



# Demand management & recycled water

- Water conservation grants \$450K
- Bairnsdale Oval recycled water \$600K
- Class A recycled water \$2.7M



# Improved environmental outcomes

- Net zero GHG emissions by 2035
- 100% renewable energy by 2025
  
- Paynesville recycled water storage      \$11M
- Bairnsdale water recycling plant      \$14M
- Lagoon de-sludging works      \$5M





# Environmental projects not in PS2023 Underway and will be completed in 2023

• Bairnsdale wet weather upgrade	\$2.0M
• Paynesville	
➤ Irrigation expansion	\$3.5M
➤ Land purchase	\$1.3M
• Metung farm irrigation	\$0.7M
• <u>Lakes Entrance treatment upgrades</u>	<u>\$4.9M</u>
<b>TOTAL</b>	<b>\$12.4M</b>



# Discussion



# Q & A

## Housekeeping

- A reminder this public forum is being recorded. This means:
  - any statement or comment you make or question you ask will be **included in the recording**
  - any question you ask using the **'chat'** function, will be **read out along with your name** and will be included in the recording.
- For verbal comments, please use the **'raise your hand'** function and you will be invited to unmute your microphone, turn on your camera, say your name and organisation.
- If you are calling in via phone, please say your name and location prior to speaking.

# Thank you for joining us today

**Submissions on our draft decision are due by 9 May 2023**

- You can provide written submissions or feedback via the Engage Victoria website:  
<https://engage.vic.gov.au/water-price-review-2023>
- You can also contact us by email: [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

