



2020 Price Submission

Presentation to the ESC



Planning for the Future

South Gippsland Water's 2020 Price Submission (PS2020) builds on the learnings and outcomes of 2018

Developed utilising the PREMO framework for a standard rating

Together with customers we have sought to find the balance between price, service and sustainability into the future



Customer Voice

Outcomes

Five Outcomes confirmed with customers:

- Reliability
- Safe, clean drinking water
- Wastewater services that contribute to liveability
- Environmental sustainability
- Treating customers with integrity

Engagement Program Findings

Built on learnings gained in 2018, the program resulted in broadly consistent findings:

- Maintaining existing service standards remains most important, followed by sustainability and keeping prices low
- Support for investment in protecting the environment
- Customers wish South Gippsland Water to plan for future water security



Pricing

South Gippsland Water sought to mitigate price impacts to customers wherever possible, however, still results in a proposed real increase of 9% over three years

- Price largely driven by increased 2018/19 Baseline expenditure (programs approved PS2018 Final Determination)
- Real proposed Price Path of 5%, 2%, 2%
- Hybrid price-path identified via the customer engagement process
- Form of price control and tariff structures to remain unchanged in order to manage further price impact
- Under recovery of \$1.7M of the revenue requirement in recognition of customer affordability

Maintaining existing service standards remains most important to customers, followed by sustainability and keeping prices low



PS2020 - detail

Demand

- Proposed Residential Growth of 1.8% - an increase from 1.63% (aligns with government forecasts)
- Adopted individual Major Customer forecasts resulting in increased usage of 10% per annum
- Assumed historically consistent per capita water use

Guaranteed Service Levels

- Adopted customer recommendation for the removal of a GSL payment for unplanned water interruptions restored within 5 hours (Service Standard to remain)
- GSL payments absorbed within baseline expenditure

Risk

- Allocation of Risk assigned to South Gippsland Water wherever possible:
 - Increased growth and demand forecasts
 - Prudent and efficient capital and operational expenditure program
 - Consistent tariff structures combined with price caps form of price control



PS2020 - Operational Expenditure

- Closely aligns with PS2018 approved expenditure in 2018/19
- Base-year expenditure has varied by \$0.3M
- Considered prudent and efficient as confirmed by industry benchmarking and external review:
 - The Australia-wide operating cost benchmark review administered by Water Services Association of Australia (WSAA) for the 2017/18 period
 - Sustainable Strategic Direction Review partnership with DELWP and conducted by KPMG has helped inform the process
- Efficiency rate proposed is 1% per annum
- The Corporation propose to minimise variations to base-year expenditure, and will absorb significant additional expenditure during the regulatory period



PS2020 - Capital Expenditure

Investment to:

- Comply with regulatory obligations
 - Support regional growth by augmenting assets when needed
 - Maintain service standards by renewing aged assets when necessary
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- Capital projects reviewed and prioritised to deliver on Customer Outcomes
 - Proposes \$41.0M of Capital Expenditure over the regulatory period
 - \$2.4M less than the indicative forecasts from the 2018 Price Review
 - Approximately \$1.2M per year less than long term average capital expenditure



PS2020 - Financial Position

- Regulatory Asset Base (RAB) has grown from \$26M (average life of 36 years) to \$173M (average life of 48 years)*
- Growth in the RAB is due to new services and infrastructure, largely funded by debt:
 - Sewer schemes (Meeniyan, Waratah Bay, Alberton, Poowong, Loch and Nyora)
 - Mechanical wastewater plants for Korumburra and Leongatha
 - Water security measures (Melbourne connection, drought relief and storage)**
- The proposed price path will allow for a cash interest cover ratio between 3.2% and 4.4% over the next 8 years
- A further moderate price increase is forecast for regulatory period 5, largely as a result of growth in the RAB
- SGW is working with DELWP to identify options for reducing operating costs to help mitigate price increases in regulatory period 5

* \$ of the day

** excludes State Government contribution of \$30M



PS2020 - Quality Assurance

A robust Price Submission process:

- Board involvement and oversight underpinned by a stringent governance process
- Thorough engagement with customers and stakeholders
- Alignment with the PREMO framework for a Standard Rating subject to third party review
- Confidence in the quality of the data via third party review
- Increased understanding of
 - Organisational efficiency and outlying expenditure
 - Requirements for investment in asset renewal



PS2020 – Summary

- Places customers at the forefront of the process
- Operating and capital expenditure consistent with the 2018 Final Determination
- Contains 1% efficiency rate
- Results in a proposed real price increase of 9% over three years 5%,2%,2%
- Under recovery of \$1.7M of the revenue requirement in recognition of customer affordability

