



Price Submission

2023-28



Moyjil (Point Ritchie) at the mouth of the Hopkins River in Warrnambool is one of the many significant Aboriginal sites across the south-west

Acknowledgement

Wannon Water and the Victorian Government proudly acknowledge Victoria's Aboriginal communities and their rich culture and pay our respects to Elders past and present. We recognise the intrinsic connection of Traditional Owners to Country and acknowledge their contribution to the management of land, water and resources.

We acknowledge the Gunditjmara Peoples, the Eastern Maar Peoples, the Wotjobaluk, Jaadwa, Jadawadjali, Wergaia and Jupagalk Nations, and the Wadawurrung Peoples. We acknowledge the Traditional Owner corporations of Gunditj Mirring Traditional Owners Aboriginal Corporation, Eastern Maar Aboriginal Corporation, Barengi Gadjin Land Council Aboriginal Corporation, and Wadawurrung Traditional Owners Aboriginal Corporation.

We acknowledge Aboriginal people as Australia's first peoples and as the Traditional Owners and custodians of the land and water on which we rely. We recognise and value the ongoing contribution of Aboriginal people and communities to Victorian life and how this enriches us. We embrace the spirit of reconciliation, working towards the equality of outcomes and ensuring an equal voice.

Pareeyt Poondee-teeyt.

Water is Life - Dhauwurd Wurrung language group

Pa poonteeyt paman paman.

And life is sacred - Keerray Wurrung language group

Ms Kate Symons
Essential Services Commission
Level 37
2 Lonsdale Street
Melbourne Victoria 3000

Dear Ms Symons,

On behalf of the Board of Directors we are pleased to present the *Wannon Water Price Submission 2023-28*.

Our price submission is the culmination of extensive and genuine engagement with our customers and community, and with our Board and management. It addresses the requirements as set by the Essential Services Commission (ESC).

It reflects a balance which we believe continues to deliver high levels of service to our customers, ensuring customer bills remain affordable, and maintains a sustainable business into the future.

We continue to be challenged by low customer growth and delivering services across a large geographical area. We work hard at keeping our costs as low as possible and, in this price submission, we are accepting more risk on behalf of customers.

We propose to use our balance sheet to offset \$23 million of revenue requirement, highlighting that our price submission is our best offer to customers.

We look forward to further discussion with the ESC on our price submission.

Yours sincerely,



Jacinta Ermcora
Chair



Andrew Jeffers
Managing Director

Board attestation

The directors of Wannon 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 and for the purpose of proposing prices for the Essential Services Commission's 2023 Water Price Review:

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



Jacinta Ermcora
Chair



Andrew Jeffers
Managing Director

How to read this document

This is a price submission document prepared solely for the purposes of meeting our obligations as a regulated water business, including the Essential Services Commission's *2023 Water Price Review Guidance Paper*.

Our Price Submission represents a concise, stand-alone description of our proposals and commitments across the pricing period. In addressing the requirements of the Guidance Paper, it sets out the context within which we prepared this submission. It also describes our engagement approach, customer outcomes and commitments, demand forecasts, how our Board and management team have approached the management of risk and investment, and our prices. It also contains our self-assessment under the PREMO (performance, risk, engagement, management and outcomes) model.

Our price submission includes a standalone Price Submission 2023-28 Engagement Report. The report demonstrates in detail how we obtained and refined engagement insights over time and demonstrates how our approach has delivered on the Commission's guidance requirements.

Supporting documents, referenced throughout the document, provide comprehensive accounts of specific aspects of our proposal and its development. These are available to the ESC on request. Key documents include *Approach to Demand Forecasting – 2023-28 Period*, capital expenditure plan, business cases for projects and programs, and our *Urban Water Strategy 2022*.

All values presented in the price submission are in \$real 2022/23 unless otherwise stated.

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Executive summary



Key points

- A prudent and efficient price submission that provides the best value for customers.
- Early, deep, broad and inclusive engagement informed six key outcomes that customers value.
- Customer bills (before CPI) increasing less than 1% for owners and 2% for renters.
- Bearing risk on behalf of customers by increasing debt to offset bill impacts.
- \$157 million capital works over five years – comparable to 2013-18 period.
- \$265 million operating expenditure over five years – \$17 million higher than 2013-18.
- Standard PREMO rating.

We've worked with our customers and community to develop a price submission that delivers the outcomes they value, while fulfilling our obligations and addressing the challenges facing our region.

Our proposed five-year regulatory period responds to and balances several challenges – keeping bills affordable, rising customer and regulator expectations, maintaining and renewing existing assets, responding to climate change, and responding to current and future uncertainty – and reduces the price risk for our customers. By taking on new debt and under-recovering our revenue requirement we will support lower customer bills for the next five years.

A submission built on customer engagement

Our engagement with customers provided a strong foundation for this submission. It reflects our continuous evolution as a customer-centric organisation, prioritising genuine two-way dialogue and embedding engagement and customer insights into how we do business.

We are confident this proposal is based on what our customers value most. Our engagement began over four years ago and was overseen by a Regional Advisory Forum. It was inclusive, tailored to the circumstances of the time, and generated more than 7,700 instances of engagement. Coverage was broad, with matters of interest refined over time to ensure customers were providing direction on the key insights that informed this proposal.

Our deliberative Community Panel developed six outcomes that, when achieved, will deliver on our customers' priorities. They focus our attention on:

- Maintaining water and sewerage services at current service levels

- Protecting the environment
- Addressing water quality concerns
- Improving customer experience
- Being a leader in the region
- Ensuring fair and reasonable bill outcomes.

The Community Panel also influenced our proposal to introduce small bill increases now, rather than large increases later, and to move incrementally towards a higher variable portion of our bill.

We provide clear links between our customer insights, actions, outcomes and measures.

Pricing outcomes and customer support

Our customers' bills have increased by less than consumer price index (CPI) in each of the last 10 years. An average water user's bill decreased by more than \$50 in 2018-23, which includes increases for CPI.

We recognise, though, that recent CPI outcomes have resulted in upward bill pressure, and this will continue. While this is beyond our control, and costs associated with providing our services also increase comparatively, we recognise this affects our customers.

To reduce customer bill impacts during this pricing period, we propose to under-recover our revenue requirement by \$23 million and increase our debt. Our current strong financial position means we can provide this benefit, addressing the cost-of-living pressures we heard from our customers and meeting

Water for Victoria affordability expectations. We also acknowledge this is a short-term approach and not a sustainable business practice.

We propose to increase residential owner customer bills by less than one per cent plus CPI each year across the five-year submission. With a small increase in the water usage charge to address customers’

preference that more of their bill be variable than fixed, our typical renter customer bill will increase by two per cent, or less than \$5 plus CPI each year.

We’ve also responded to customer feedback to ensure those finding it difficult to pay will benefit from strengthened and more accessible financial support programs.

Average residential customer (Group A) bill

	22/23	23/24	24/25	25/26	26/27	27/28
Owner/occupier	\$1,105.57	\$1,114.83	\$1,124.28	\$1,133.90	\$1,143.71	\$1,153.71
Yearly change		0.8%	0.8%	0.9%	0.9%	0.9%
Renter	\$207.49	\$211.64	\$215.87	\$220.19	\$224.59	\$229.08
Yearly change		2.0%	2.0%	2.0%	2.0%	2.0%

Group A – Portland, Heywood, Port Fairy, Allansford, Noorat/ Glenormiston, Camperdown, Carlisle, Carpendeit, Cobden, Koroit, Lismore/ Derrinallum, Mortlake, Purnim, Simpson, Terang, Warrnambool, Balmoral, Caramut, Cavendish, Dunkeld, Glenthompson, Hamilton, Penshurst and Tarrington

Average residential customer (Group B) bill

	22/23	23/24	24/25	25/26	26/27	27/28
Owner/occupier	\$1,174.04	\$1,180.14	\$1,186.41	\$1,192.86	\$1,199.47	\$1,206.27
Yearly change		0.5%	0.5%	0.5%	0.6%	0.6%
Renter	\$134.57	\$137.26	\$140.01	\$142.81	\$145.67	\$148.58
Yearly change		2.0%	2.0%	2.0%	2.0%	2.0%

Group B – Peterborough, Port Campbell, Timboon, Dartmoor, Casterton, Coleraine, Macarthur, Merino and Sandford

Major projects and initiatives

Our future investment to address customer and regulator expectations is significant. Our proposed \$157 million capital expenditure remains prudent. The primary projects proposed are:

- The Warrnambool Sewage Treatment Plant (WSTP) Upgrade, which encountered significant approval-related delays during the current pricing period. This project accounts for 34 per cent of our total proposed capital expenditure and is based on a public tender
- Great Tasting Water, for which we propose \$15.8 million to build new water treatment infrastructure to enhance the quality and taste of tap water in at least one of our most impacted communities
- UV disinfection and effluent management, for which we have proposed \$11 million to address matters outlined in an Environment Protection Authority (EPA) development licence related to the WSTP Upgrade
- The Billing and Customer Relationship Management (CRM) system, for which we propose \$3.4 million to complete the transition to a contemporary system, building the foundation for enhanced customer experience through our digital platform.

Given our customers told us they expect us to continue to provide our historically high levels of service, our renewals program remains a significant portion of our capital expenditure.

We propose \$15 million of sewerage and \$15 million of water system renewals, preventing critical assets from failing.

Managing risk and operating costs

There is high uncertainty about several assumptions in our proposal. While our approach to dealing with these is balanced, in all instances we are accepting and bearing the majority of associated risk– that is, not passing on costs associated with uncertainty or ambiguity to customers.

Our controllable operating costs per property will increase by 3 per cent during the pricing period. We propose \$265 million in operating expenditure, a \$17 million increase on the 2013–28 pricing period.

We propose an adjusted operating cost baseline that reflects our pragmatic and efficient approach. Delivering services to a small customer base spread over a large geographic area provides economies-of-scale challenges. We have absorbed significant cost

increases in recent times, and to continue to do more with the same, or even less, a significant challenge.

We propose new operating costs linked to delivering customer outcomes. In some instances, our proposal is well below what we can justify. Our cultural approach to innovation and 'cutting our cloth to fit' will benefit customers as we deliver outcomes within our proposed fiscal limitations.

We are 'throwing our hat over the fence' to deliver on an efficiency improvement rate (one per cent per annum) higher than our customer growth rate (0.7 per cent per annum). Our customer growth is the second lowest in the state for a water corporation, meaning operating cost growth allowance does not reflect what we expect to incur during the period. Again, we have accepted this risk on behalf of customers. Low customer growth, and minimal changes to water use, impacts our revenue growth.

We propose to retain our current tariff structure and form of price control. Acting on customer requests to increase the variable portion of their bill slowly requires proposed changes to water usage and water and sewerage service charge tariffs.

Our proposal excludes the cost of debt adjustment from our annual price adjustment mechanism. We propose to borrow significantly to finance the WSTP upgrade and to fund the under-recovery of our revenue requirement. The cost of debt adjustment is likely to reduce revenue raised during the period, meaning we will need to borrow more than we propose.

Current economic uncertainty is impacting capital project tenders and operating cost contracts. Whether the current circumstances are short-term impacts or longer-term, it is unlikely that our cost environment will return to pre-coronavirus (COVID-19) levels.

There is additional uncertainty beyond 2023-28, and it is possible we will face a significant future capital investment to enhance environmental outcomes at ocean outfalls. In developing this proposal, we have considered the likely outcome of higher tariff increases in future years by:

- Offsetting increases now while we can
- Beginning to increase tariffs this period to reduce future steeper increases later.

This approach aligns with our Community Panel's recommendation to introduce incremental increases to customer bills now rather than larger increases in the future.

Financial projections

In proposing to offset customer bill impacts and deliver a significant capital expenditure program we have been careful to ensure the financial sustainability of the business remains strong.

We expect total debt to increase from \$25 million (June 2022) to over \$100 million during the pricing period. We have the capacity to service the increase in debt, and when compared to the financial indicator benchmarks provided by the ESC, our forecast financial position remains strong.

At the forefront of our mind when considering future financial sustainability is the possibility of significant capital expenditure requirements in the 2033-38 pricing period. We also have a strong view that using our balance sheet capacity to offset operating expenditure is a short-term solution.

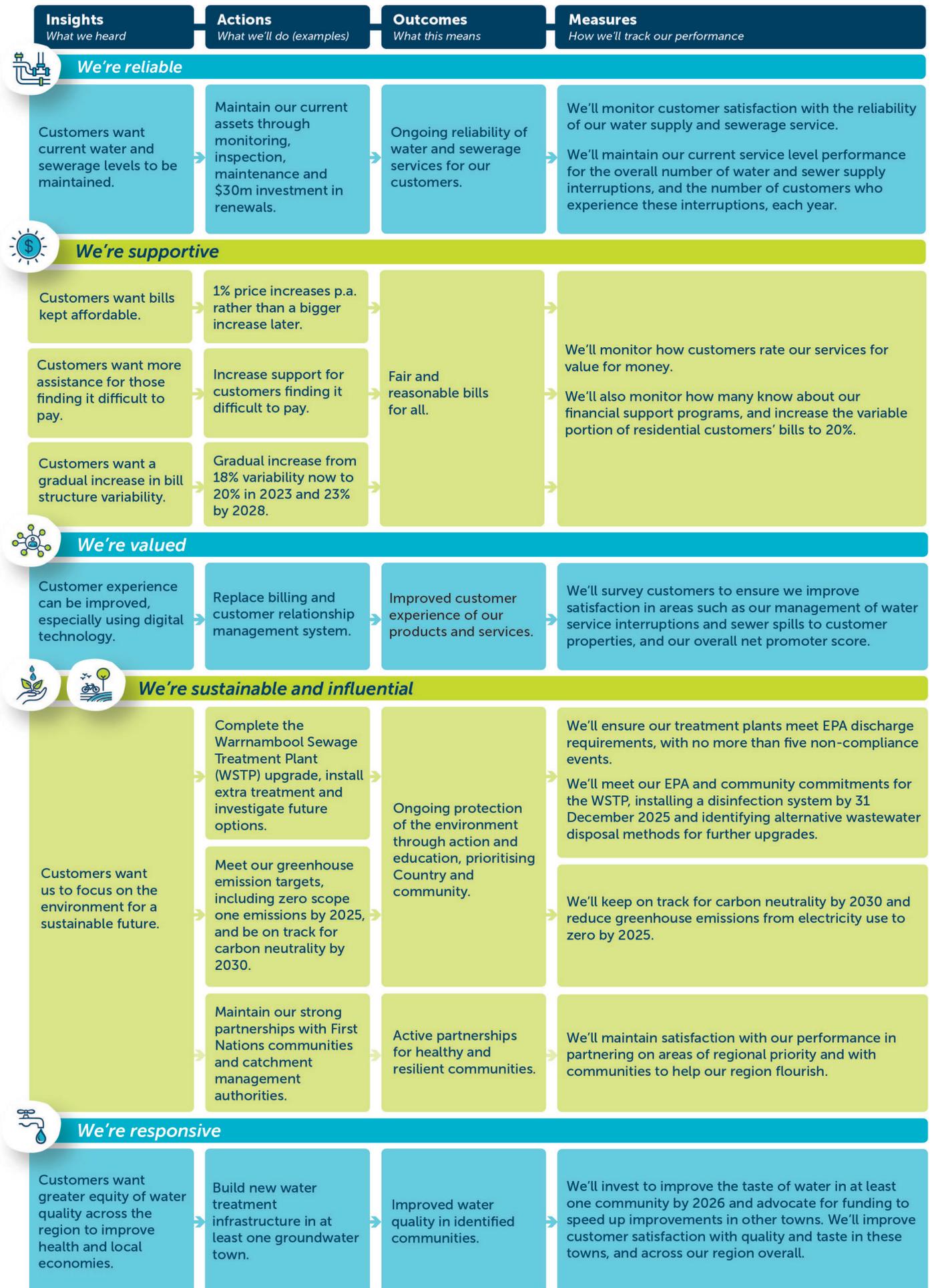
PREMO self-assessment

We have assessed our overall submission to be 'standard' under the PREMO incentive mechanism, with an aggregated score of 13.35. This score puts us at the high end of the standard category.

	Score (1-4)	Ranking
Performance	1.88	Standard
Risk	2.50	Standard
Engagement	3.82	Leading
Management	2.65	Standard
Outcomes	2.50	Standard
Overall	13.35	Standard

Our customers, board, managing director, executive team members, subject matter experts and other employees across our business have been central to the development of this submission. At the highest level, our board has attested that our submission meets the Essential Services Commission's requirements and addresses all elements of PREMO.

Our plan on a page



Management



Key points

- The Board, senior management, Community Panel, Regional Advisory Forum and wider customer base all played a significant role in developing this submission.
- The submission has been approved by our Board.
- The proactive engagement approach was endorsed by the Regional Advisory Forum.
- Key outcomes were developed through intensive deliberation with a Community Panel.
- All final insights from customer engagement have been considered and incorporated.
- All capital expenditure proposals were subjected to robust review and prioritisation.
- Operating expenditure above the baseline is validated by business cases and supports, or underlies delivery of, customer outcomes.
- Our cost efficiency improvement rate demonstrates our prudent and efficient management.
- Our PREMO self-assessed rating for management = Standard (2.65/4).

Developing our price submission

Our approach to developing our proposal is underpinned by our Board adopting *Price Submission 2023 – Success Outcomes*¹. This guided the Board's ownership and governance approach throughout the development period and ensured our price submission:

- Was developed through a quality process
- Is customer and community-centred
- Addresses key strategic matters
- Delivers an equitable and fair outcome
- Provides the basis for a strong and resilient organisation
- Is a robust plan.

Management accountability was assigned to a member of our executive team to oversee the submission's development. Executive team members led areas of key input, including engagement, outcomes, capital investment program and financial sustainability. We were challenged during the development period by key resource changes and COVID-19 fatigue.

However, we maintained accountability through appropriate levels of support, ensuring that rigour and consistency remained embedded in the development process.

Our forecasts and assumptions have been informed by internal and external subject matter experts, consistent with our business planning approach. Credible external sources have been utilised to substantiate our assumptions and support our judgements.

Supporting documentation is referenced throughout the document for all material aspects of this price submission. Our capital expenditure program is informed by project and program business cases, and operating expenditure increases are justified through business cases and/or rigorous review processes. We considered primary drivers such as regulatory compliance, customer preference, growth and risk.

¹ D2021/040552 – Price Submission 2023 – Success Outcomes

PREMO summary - Management

Aspect	Score	Comment
To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?	2.5	<p>Proposed prices reflect an under-recovery of revenue requirement.</p> <p>Expenditure includes downward adjustments to baseline and identified expenditure reductions in addition to the cost efficiency improvement rate.</p> <p>New operating expenditure has been the subject of reviews and in most cases is lower than what is expected to be required.</p> <p>Expenditure associated with uncertainty is not included in the proposal, including pushing a large number of business-as-usual capital works into the next regulatory period</p> <p>We have smoothed renewals expenditure across the five years.</p> <p>We have not assumed cost growth in capital works forecasts.</p>
To what extent has the business justified its commitment to cost efficiency or productivity improvements?	2.5	<p>We have committed to an efficiency saving on controllable expenditure that is 0.3% higher than customer connection growth.</p> <p>We are absorbing some new expenditure.</p> <p>Operating expenditure per water connection rises by 3% during the pricing period, driven by programs to enhance customer value and maintain service reliability.</p>
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?	2.5	<p>The development of the submission has been a collaboration between expert consultants and internal subject matter experts.</p> <p>Forecasts and assumptions are documented based on external reports and market information, <i>Victoria in Future</i>, internal expert knowledge and historic demand observations.</p> <p>The largest capital project in the submission is informed by a public tender and the second largest project to a P90 level being Department of Treasury and Finance (DTF) business case standard. All major projects and programs have been through internal business case reviews.</p> <p>The model aligns with the written price submission.</p>
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?	3.25	<p>The Board has owned and demonstrated commitment from June 2021, shaping the key elements until the approval of this price submission.</p> <p>The Board adopted the recommendations of the Community Panel.</p> <p>Senior executives led key inputs including engagement, outcomes, capital works, operating expenditure and overall project management of the proposal.</p> <p>The Board has made an attestation in support of the submission.</p>
To what extent has the business demonstrated its price submission is an "open book"?	2.5	<p>We have referenced supporting documentation that is available upon request.</p> <p>We have regularly informed ESC officers of progress, working through issues including under recovering our revenue requirement, Warrnambool Sewage Treatment Plant Upgrade project progress, engagement approach, proposed outcomes and level of risk we propose to bear.</p> <p>We have collaborated and shared with the industry.</p> <p>Our proposed price outcomes have been communicated broadly.</p>
Overall average score	13.25/5 = 2.65	Standard (high)

Risk



Key points

- We are reducing bill impacts on customers by borrowing an additional \$23 million to offset under-recovery of our proposed revenue requirement during this pricing period.
- Notwithstanding the above choice, we have assessed and managed key risks to deliver a price submission that is prudent and efficient.
- Where the scope, timing or cost of a project is uncertain, we deferred projects towards the end of, or after, the pricing period.
- Proposed new operating expenditure associated with improving customer experience is significantly lower than those likely to be spent during the period.
- Investments proposed for the Warrnambool Sewage Treatment Plant upgrade and replacement of the billing and customer relationship management systems (CX Plus) are based on actual tenders.
- PREMO self-assessed rating for risk = Standard (2.5/4).

In developing this price submission we adopted measured forecasts about our future operating environment, prioritised delivery of customer outcomes highly, and considered activities to address key business risks.

Our proposed outcomes ensure we meet the expectations of our customers, regulators and the Victorian Government.

This chapter provides a high-level summary of how we identified, quantified, allocated and managed key risks to deliver a cost-effective proposal for the 2023-28 pricing period.

Key risks and allocation summary

Effective risk management plays an integral role in our decision-making and strategic planning. It ensures we sustain business performance and achieve our strategic goals. We align with Risk Management Standard ISO 31000² and our asset management processes align with ISO 55000³. We achieve certification to our key management systems (Safety, Environment and Drinking Water Quality). Collectively they underpin our approach to risk management and our approach to risk in this price submission.

Areas where risk-based decisions or considerations have been made are:

- Capital investment plan
- Ageing infrastructure
- Demand and growth
- Tariff structures and price control mechanism
- Electricity
- Operating expenditure.

² Board Policy Framework – Risk Policy Statement and Risk Management Plan

³ D2017/069139 – Asset Management Strategy and D2021/004380 – Asset Management Customer Value Survey 2020

Capital investment plan

Assumptions	<p>Proposed \$157.2 million five-year capital expenditure for the pricing period.</p> <p>Uncertain projects have been programmed for early in the 2028-33 pricing period to allow for further refinement of forecasts, options and cost, and to take advantage of innovations and new technologies that may arise during this pricing period.</p> <p>Market prices are above our estimates.</p>
Controls	<p>Robust risk-based project prioritisation process.</p> <p>Engagement of experienced staff and consultants with a history of delivering our capital program.</p> <p>Our access to significant engineering design, project management and superintendent resources through our contract with the large international consulting firm GHD.</p> <p>Capital investment plan is dominated by one project, with the price submission allocation informed by tendered costs.</p> <p>Flexibility to reprioritise projects during the pricing period in the first instance, while maintaining expenditure within the overall program budget.</p> <p>Separate business cases prepared for each of the 'top 10' capital projects.</p> <p>Robust strategic planning process with multiple reviews.</p>
Risk	<p>Taking into consideration the controls outlined above, the risk that capital expenditure will increase (or decrease) materially beyond our forecast due to inaccurate capital estimates or project prioritisation was assessed as moderate (and low).</p>
Risk allocation	<p>Rigorous justification, significant review processes and prioritisation of the capital investment plan have been undertaken to ensure a prudent and efficient program for this price submission.</p> <p>Deferral of uncertain projects to the 2028-33 regulatory period and beyond, coupled with estimates lower than expected market prices, reduces the risk of over-recovering revenue during the 2023-28 pricing period.</p>

Ageing infrastructure

Assumptions	<p>We have forecast comparative renewals expenditure to replace or upgrade ageing infrastructure in 2023-28 when compared with the current pricing period.</p>
Controls	<p>Robust and iterative process used to develop the renewals program, considering asset age, type, condition, expected life and criticality.</p> <p>The renewals program generated was validated and refined through a series of refined projections using our Assetic Predictor Modelling program.</p> <p>The renewals expenditure profile has been smoothed over the pricing period.</p>
Risk	<p>Taking into consideration the controls outlined above, the risk that our renewals budget included in this price submission has not been adequately forecast has been rated moderate.</p>
Risk allocation	<p>Significant refinement of the renewals program has been undertaken to ensure we have not applied an overly conservative approach to asset renewals in the formulation of this price submission.</p> <p>The proposed renewals investment in 2023-28 is below levels of depreciation which demonstrates our ongoing commitment to getting the most out of our assets and replacing them only when there is a real need.</p> <p>Under investing in asset replacement during this pricing period increases the risk attributes of the asset fleet. We are willing to take this risk.</p> <p>Should the investment in renewals prove to be insufficient, the risk of being unable to maintain service levels will be low within this 2023-28 pricing period. The deterioration in performance of ageing assets tends to be over decades, rather than years, particularly given the planned level of expenditure. Adjustments in renewals expenditure can be made in subsequent pricing periods should this risk arise.</p>

Demand and growth

Assumptions	<p>We have assumed 0.7% growth rate for residential and non-residential customers.</p> <p>We have assumed 142 kilolitres per annum average usage for residential customers and 1,033 kilolitres per annum average usage for non-residential customers.</p>
Controls	<p>Residential and non-residential customer growth rates are based on government projection of population and households (<i>Victoria in Future 2019</i>), consistent with our Urban Water Strategy, estimates for our region. Yet to be published <i>Victoria in Future 2020</i> growth data for our region has also been considered.</p> <p>Residential and non-residential per connection usage is based on the 2021/22 usage, as calculated from our billing data. In both cases, the forecast is slightly higher than the forecast approved for the 2023-28 regulatory period.</p> <p>Demand fluctuations in our region rarely occur, largely due to consistent rainfall and the comparatively low average usage per customer.</p>
Risk	<p>Taking into consideration the controls outlined above, the risk that growth and demand forecasts have not been adequately estimated has been rated low.</p>
Risk allocation	<p>Review and comparison of various growth and demand forecasts have been undertaken to ensure we have not applied an overly conservative approach to demand forecasting in the formulation of our price submission.</p> <p>The <i>Victoria in Future 2019</i> growth forecast is lower than the average of three past year's customer connection growth rates in our region. By adopting the <i>Victoria in Future</i> forecast, the risk of revenue over-recovery is lowered.</p> <p>The higher demand forecast compared to the 2018-23 regulatory period also results in the risk of revenue over-recovery being lower. Along with the growth forecast, we will bear a greater proportion of revenue risk. We are best placed to manage this risk through the deferral of augmentation projects triggered by growth and production cost savings if customer demand is lower than forecast.</p>

Tariff structure and price control mechanism

Assumptions	<p>We propose a price cap form of price control, that is a fixed maximum price per annum providing certainty for customers during the pricing period.</p> <p>We are not proposing any changes to existing tariff structures. However, we are proposing to increase the ratio of variable water charges of total household bill. This provides the ability for customers to have greater control over their water bills.</p> <p>We are also proposing where the cost of debt adjustment reduces tariffs, that this is not applied to tariffs.</p>
Controls	<p>Guiding principles in our Pricing Policy⁴ point to a balanced approach to the way we structure our tariffs, charges and rebates.</p> <p>A price cap regime is favoured as this provides pricing certainty for our customers year on year. Our customers, especially our major customers, told us they value pricing certainty as it assists them to plan their business operations into the future with some confidence.</p> <p>Average customer water use does not change significantly in our region.</p> <p>We propose to enhance our financial support program for customers who are finding it difficult to pay their bill.</p> <p>We are under-recovering revenue requirement.</p>
Risk	<p>Taking into consideration the controls outlined above, the risk that changes to tariff structure and the price control mechanism have a detrimental impact on customers has been rated minor.</p>

Risk allocation	<p>Borrowing additional debt to cover the proposed under-recovery of revenue requirement means we bear a significant portion of risk upfront.</p> <p>A price cap form of price control means we bear the risk of revenue shortfall during the pricing period. Specifically, under this form of price control we bear the risk of lower than forecast water use and higher than forecast customer growth.</p> <p>A higher ratio of variable charges compared to total household bill means we bear an increased risk of lower revenue should water use decline below forecast average use.</p>
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Electricity costs

Assumptions	We forecast the average electricity price per kWh will decrease by 1.5 per cent in the first year of the pricing period and fluctuate year on year between minus 4.1 per cent and 7.0 per cent thereafter. This represents an overall real decrease in electricity costs of \$0.67 million in year 5 of the regulatory period, compared to the baseline year.
Controls	<p>Used Schneider Electric's <i>Electricity Price Forecast, Covering FY2023 – 2028, Base Case</i> report forecast electricity cost impacts to our business.</p> <p>Continue to use state procurement contracts for retail electricity supplies.</p> <p>Continue to implement initiatives that deliver energy use efficiencies. By focusing on increasing energy productivity, we reduce our dependence on the retail market and future price fluctuations.</p>
Risk	Despite the controls outlined above, the risk of electricity prices increasing materially beyond our forecast was still assessed as high, due to the high level of uncertainty associated with the market.
Risk allocation	<p>We have applied the median scenario for electricity price forecasts recommended by Schneider, which is considered a 'realistic' or 'mid-point' assumption. We have not adopted the more conservative (75th or 95th percentile) forecast in the formulation of this price submission.</p> <p>We have decided to bear the financial risk associated with adopting this forecast as there are measures we can take to reduce the cost impact of electricity price rises on our business. These include controlling our electricity usage and investing in energy efficient plant and equipment.</p>

Operating expenditure

Assumptions	<p>Proposed \$265 million operating expenditure over five years of this pricing period. This compares to \$248 million operating expenditure in the 2018-23 pricing period.</p> <p>Controllable cost efficiencies for the pricing submission period of CPI minus 1 per cent per annum.</p> <p>Controllable operating cost per water connection increases by 3 per cent from 2022/23 to 2027/28.</p> <p>New operating expenditure is strongly linked to customer preferences and outcomes.</p>
Controls	<p>A large proportion of the operating expenditure forecast is commensurate with historic expenditure. Costs forecast to vary materially from historic trends have been subject to rigorous assessment and review.</p> <p>Operational expenditure requirements were identified through robust planning, strategic plans and external reports.</p> <p>Amending spend profile to invest in areas our customers told us were important.</p> <p>Participating in procurement through Victorian Government contracts provides a scale that should result in on par costs compared to other government enterprises.</p>
Risk	Taking into consideration the controls outlined above, the risk that operational forecasts have not been adequately estimated has been rated moderate.

Risk allocation	<p>Operating costs are currently volatile in a number of key areas, including electricity, chemical and resourcing costs.</p> <p>Review and prioritisation of proposed operating expenditure has been undertaken to ensure spending is prudent and efficient.</p> <p>Expenditure on significant new customer experience related operating costs is included at amounts lower than expected.</p> <p>A balanced approach to operational performance, regulatory compliance, environmental and financial risk. This approach reduces the risk of over-recovering revenue where we have the greater capacity to manage risk.</p>
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PREMO summary - Risk

Aspect	Score	Comment
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.	2.75	<p>Our risk framework aligns with ISO 55000 and this provides the basis for our decision making. Prioritisation of projects, programs and initiatives include a risk frame.</p> <p>Capital projects are based on external and internal expert advice, with the largest project based on actual tendered costs.</p> <p>Withholding a number of uncertain capital projects e.g. Penshurst Adaptive Wastewater Pilot, 12 Apostles Sewage Treatment Plant, Port Fairy Smart Energy – Solar Stage One.</p> <p>All major projects and programs have been through internal business case reviews. Project commencement and completion dates have been thoroughly reviewed, and the capital expenditure spread across the five-year period.</p> <p>A measured, yet significant proposal to reduce customer bill impacts by increasing debt during the pricing period. This reduces balance sheet capacity to deal with future uncertainties.</p> <p>Increasing variable portion of total customer bill, and increasing customer financial support, putting higher percentage of revenue at risk.</p> <p>Further detailed evidence of risk allocation is evident in the section above.</p>
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?	2.25	<p>Guaranteed Service Levels (GSLs) remain reflective of the matters that customers told us are important: providing water and sewerage services to a high level.</p>
Overall average score	5/2 = 2.5	Standard (high)

Engagement



Key points

- We delivered a comprehensive, adaptable, inclusive and ongoing program of engagement.
- We obtained, tested and refined the final engagement insights from more than 7,700 instances of customer engagement between 2018 and 2022 to develop this submission.
- Sensitive and inclusive approaches, with clear and appropriate supporting materials, ensured diverse customer voices were represented and on specific matters that impacted them most.
- Our Regional Advisory Forum set, monitored and endorsed our engagement approach each year.
- Through deliberation, our informed Community Panel developed six outcomes with measures and made recommendations on capital project priorities, bill structure and pricing.
- Our draft submission was supported by the Regional Advisory Forum, Community Panel and a community-wide engagement.
- PREMO self-assessed rating for engagement = Leading (3.8/4).

We are here for our customers. This price submission reflects our continuous evolution as a customer-centric organisation, prioritising genuine two-way engagement and embedding customer insights into how we do business.

Following the 2018-23 price submission, we developed an improved, ongoing approach to engagement for this pricing period. This comprehensive four-year engagement program focused on understanding the needs of our customers and stakeholders, including the broader community who benefits from our services.

While interim customer insights were incorporated into each annual corporate plan, for this price submission we delivered early and broad engagement in 2018 and 2019, more targeted engagement in 2020 and 2021, then a deeper, deliberative process in 2022.

Continual refinement of insights over that period shaped our customer outcomes, capital works and operational priorities and, ultimately, our customer tariffs in this submission.

This section summarises how we obtained, tested and refined the final insights from more than 7,700 instances of customer engagement between 2018 and 2022 to develop this submission.

The accompanying Price Submission 2023-28 Engagement Report⁵ supports this section, further detailing our approach to fulfilling the ESC's requirements for engagement.

“ QUOTE

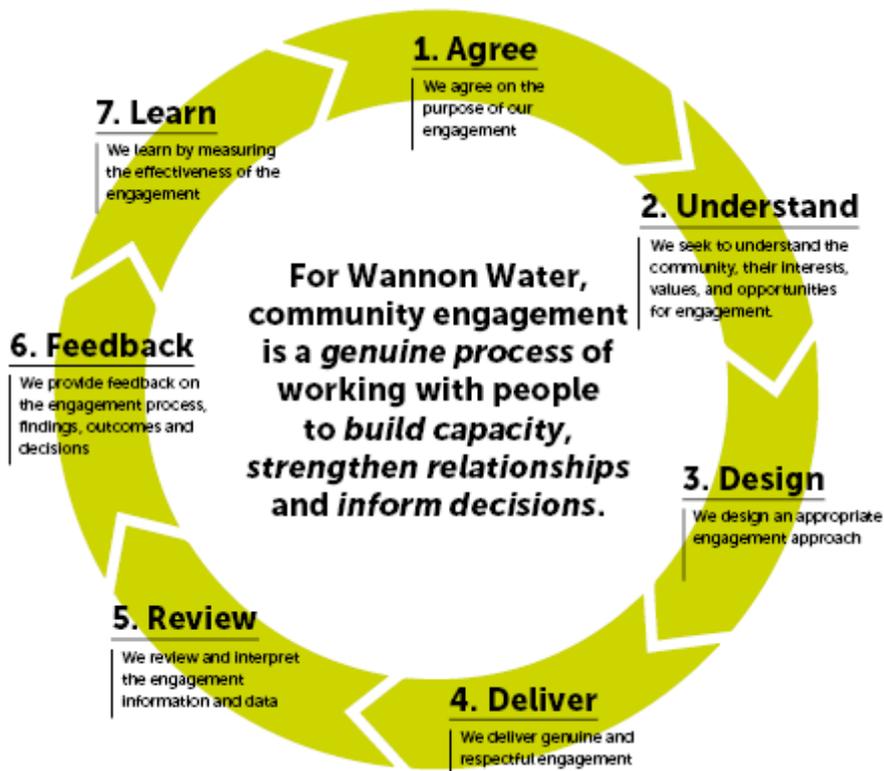
Awesome to see those at the top listening to the people on the ground.

- Community Panel member reviewing the draft price submission



⁵ D2022/039410 – Price Submission 2023-28 Engagement Report

Figure 1 - Engagement design and delivery approach



Engagement context

For us, engagement means “a genuine process of working with people to build capacity, strengthen relationships and inform decisions”. Guided by our Community Engagement Framework – which aligns with the International Association of Public Participation (IAP2) ‘core values’ – we continually strive to build upon and improve our engagement process year on year.

After our 2018-23 price submission, we designed a new approach to engagement to ensure:

- Customer and community engagement is an annual and ongoing cycle that:
 - Informs the development of our corporate plan each year
 - Provides iterative input to develop future price submissions
- A clear, consistent and practical organisation-wide approach to best practice engagement
- Our engagement includes a diverse range of regional voices (geographical, customer types, demographics, First Nations People, vulnerable groups, special interest groups).

All engagement for our 2023-28 submission followed our framework’s seven-step methodology (refer Figure 1 above), ensuring our program was ongoing and that each annual cycle built upon customer feedback from the previous year.

We established a peak customer and stakeholder body to oversee our engagements, ensuring they were appropriate, robust and informed by customers. This Regional Advisory Forum (RAF) comprised 12 volunteers, including an independent chair, reflecting customer and community diversity in our region. The RAF met with us twice a year to define the scope and purpose of our annual engagements, advise on methodology and audiences, and review our findings. At their final meeting, the RAF resolved to endorse the proactive engagement approach and endorse the draft price submission⁶.

Consistent with best practice, the evolving impacts of COVID-19 and the changing needs of our customers and community, we tailored multiple engagement tools and materials to suit the discrete needs of different audiences.

Our framework helps us develop ongoing relationships with stakeholders and builds customer-driven practice into our decision-making. This allowed us to minimise engagement fatigue without compromising the breadth and depth of customer voices in our submission.

⁶ D2022/047815 – Regional Advisory Forum, Minutes, 20 July 2022

Engagement highlights

- 7,700-plus instances of customer engagement
- A peak customer/stakeholder body met twice a year to oversee our engagement program
- 50,000 households and businesses invited to provide feedback on our prices and services
- Engagement with diverse and representative customers and community members
- First Nations representation comparable with regional population levels, supplemented with relationship-based engagement
- 21 per cent of survey participants were concession card holders
- In-depth engagement with five community service organisations/networks, and nine customers having difficulty paying their bills
- 85 key stakeholders engaged from local and state government, regulators, catchment management authorities, industry and special interest groups
- 5,000-plus residential and 531 rural and business customers surveyed
- 175-plus participants engaged in 40 face-to-face and online focus groups
- 670-plus people engaged at regional events
- Approximately 100,000 people reached via social media, with more than 2,300 click-throughs
- Deliberative Community Panel recommendations wholly adopted by our Board
- Draft submission engagement with key bodies and wider community demonstrated customer support for this submission.

We engaged with a broad cross-section of stakeholders each annual cycle, including:

- Residential and non-residential customers
- First Nations People
- People experiencing or at risk of experiencing vulnerability
- People living with disability
- People from multicultural backgrounds
- LGBTIQ+ and non-binary community members
- Local governments
- Community, advocacy and special interest groups
- Small towns
- Renters and homeowners
- Strategic customers
- Rural customers
- Large and small businesses
- Local property developers
- Environmental and water interest groups
- Young people.

“ QUOTE

I think it has been a really thorough engagement cycle looking back over the last few years...I think myself and other organisations have a lot to learn.

- Regional Advisory Forum member, July 2022

Engagement approach

Form – customer level of influence

The ESC describes ‘form’ consistently with the IAP2 spectrum, with five levels of engagement: inform, consult, involve, collaborate, and empower. Our framework requires that each of our engagements considers the most appropriate level.

For this submission, our Board set the maximum level of customer influence at collaborate, recognising that it, a ministerially appointed board, is ultimately responsible for pricing outcomes. However, Directors made a strong commitment to give customer feedback a high priority in their decision-making. This is demonstrated by their support of this price submission, which incorporates all Community Panel recommendations and all final customer insights.

Timing – When did we engage?

Our engagement delivery was ongoing throughout the current pricing period, incorporating four annual cycles. This allowed opportunities to develop relationships across our large region and identify trends in sentiment over time.

We delivered early, broad engagement in 2018 and 2019, then more focused, targeted activities in 2020 and 2021. This culminated in a deeper engagement in 2022, with our deliberative Community Panel strongly influencing our submission, particularly regarding future bill structure, capital works priorities and re-setting our customer outcomes.

In 2020 and 2021, our timing was influenced by the COVID-19 pandemic. The safety and wellbeing of our customers, communities and employees was a top priority for us, and we adapted our methods appropriately and sensitively given the constraints and impacts of COVID-19 restrictions.

Other discretionary engagement projects ran in parallel to our annual cycles. Two of these are of note:

- The **Great Tasting Water** project included a targeted and large-scale engagement in Portland, Heywood and Port Fairy on low levels of satisfaction with water quality (particularly taste).
- The **Customer Support Review** sought targeted feedback in response to broader feedback showing customers supported increased assistance for those experiencing vulnerability.

In mid-2022, once we had drafted our submission, we held online forums with both the Regional Advisory Forum and the Community Panel to seek their final feedback. Members of both forums supported the draft submission.

We also promoted a further opportunity for all customers to provide final feedback on our draft submission from 10 August to 4 September 2022 via an online portal (or hard copy for those unable to access the internet). This was complemented with a direct invitation to focus and community group participants we had previously engaged and who had indicated they would welcome this opportunity. This final engagement indicated that the wider customer base is supportive of this price submission.

These steps were critical in demonstrating that our final submission proposals have been tested with customers and are supported.

Importantly, our customers told us they appreciate our open approach to engagement and value the opportunity to provide their views on matters that affect them, often rating our engagements highly. In 2021, 100 per cent of surveyed engagement participants indicated they were satisfied with the process.

Content – how we decided what to engage on?

Since 2018, we have worked towards ongoing performance stewardship. Our engagement topics were more open, explorative and based on contemporary issues in 2018 and 2019, then became more specific in the final years of the pricing period (refer Figure 2 - page 21).

Each year, topics were determined by:

- Feedback from previous cycles (and, in the case of 2018, feedback from the 2018-23 price submission engagement)
- Key projects on the horizon for our business
- Setting genuine expectations of what our customers could influence (e.g. detailed pricing was not discussed in the first year because any change to prices was unlikely to be enacted for five years).

Every cycle included space for 'open' feedback on any topic customers wished to discuss, helping build trust, capture emerging issues or trends, and ensure customer feedback shaped subsequent engagements.

In 2021, we commissioned an independent desktop review of all our customer feedback since 2017. This *Diving Deeper* report ensured the 2021 engagement cycle focused appropriately on the most beneficial final topics for this submission.

After each annual engagement we also 'closed the loop' with those we had engaged by providing details on how their feedback had been included in our corporate planning.

“ QUOTE

One of the most interesting things I've found about the process is the level of community engagement that Wannon Water has gone to. They are very proactive, and they seem to really want to get out there and get to know their customers.

- 2022 Community Panel member



Figure 2 - Engagement timing and topics



Universal and inclusive customer engagement

For us, being inclusive meant effectively addressing access to information or barriers to participation and designing our activities to include diverse voices as a priority.

Supporting the 10 principles for universal consumer engagement, we used many methods to provide reasonable and fair opportunities for everyone to participate, regardless of age, background, ability or access to technology. These included face-to-face, phone and online engagement, community-wide activities and targeted focus groups, consultations and interviews. Meeting people at their usual community-based activities was a feature, as was providing suitable information materials and appropriate time to consider and respond. We directly mailed 50,000 houses and businesses an invitation to provide feedback, ensuring everyone in our region had the opportunity to contribute to our submission.

As the pandemic took hold in 2020, we adapted to engage more online, which increased participation from more remote parts of our region. And in 2021 we sought advice from regional community service organisations about appropriately engaging vulnerable customers during that stage of the pandemic. Guided by them, we delayed this engagement due to the pronounced impact of COVID-19 restrictions on this group.

Approximately 21 per cent of broad engagement respondents were concession card holders. As these customers are particularly impacted by pricing, we were very pleased to secure this level of representation. There was also very strong vulnerable and diverse customer representation on our Community Panel and Regional Advisory Forum, who provided meaningful input on pricing impacts, and we interviewed nine customers finding it difficult to pay their bills.

Customers identifying as Aboriginal or Torres Strait Islander composed 1.7 per cent of our total engagement, comparable to the percentage of First Nations People in our region (1.6 per cent). This was supplemented with ongoing engagement and relationships with local First Nations groups and Registered Aboriginal Parties. Importantly, our approach to engaging these communities took best practice into consideration.

Customer feedback and our price submission proposal

From this wealth of data from many different stakeholders across our region in 2018-21, six top themes emerged:

1. Affordability
2. Bill structure
3. Water quality
4. Service levels
5. Customer experience
6. Customer outcomes.

These were then further explored by the deliberative Community Panel and refined into a set of final customer insights (below) for guiding our decisions in this submission. These summarise what we learnt from customers across our entire four-year engagement program.

Final customer insights	Key price submission outcome considerations
Customers want bills kept affordable	Keep bills affordable, with gradual increases to pricing now rather than substantial jumps in pricing later
Customers want more assistance for those finding it difficult to pay	Improve access and support for customers finding it difficult to pay
Customers want a gradual increase in bill structure variability	Increase the variability of the bill, though do this gradually to avoid adverse impacts on some customer groups
Customers want current water and sewerage service levels to be maintained	Maintain existing levels of water and sewerage services
Customers want us to focus on the environment for a sustainable future	Prioritise and partner to care for the environment
Customers want greater equity of water quality across the region to improve health and local economies	Invest in water quality improvements (particularly in groundwater-sourced towns)
Customer experience can be improved, especially using digital technology	Invest in innovative ways to improve customer experience and digital access to information

PREMO summary - Engagement

Aspect	Score	Comment
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?	3.75	Our methodology is aligned IAP2 'core values', ensuring our engagement was best practice, well planned, customer-driven and designed to be accessible to customers. Our ongoing engagement approach was overseen by our Regional Advisory Forum. The Community Panel deliberated on the key issues.
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?	3.75	Engagement purpose and topics were co-designed with our Regional Advisory Forum annually. All of our engagements were transparent about their purpose, providing relevant information, incorporating inclusive and sensitive principles into design and delivery. We have participant feedback that demonstrates this.
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?	4	We have demonstrated that the preferences elicited from customers over four years were iteratively narrowed over time to those of most importance. All Community Panel recommendations were adopted, including to incrementally increase customer bills now rather than larger increases in the future. This was an unexpected recommendation, displaying the extent of influence they had. We have demonstrated an open approach that allowed free-form suggestions and recommendations to be explored and included.
To what extent has the business explained how it decided when to carry out its engagement?	4	Our engagement activity was ongoing over four years.
To what extent has the business demonstrated how its engagement with customers has influenced its submission?	4	True to our Board promise to 'collaborate', all final customer insights have been considered in this submission, with key actions, outcomes and measures directly responding to each of these insights. All the recommendations from the Community Panel were adopted by the Board. Panel members confirmed they could see their recommendations and the influence of customers in the draft submission. The independently chaired Regional Advisory Forum unanimously supported by resolution, endorsing the engagement approach and endorsing the draft price submission.
To what extent has the business demonstrated that its engagement was inclusive of consumers experiencing vulnerability?	3.75	We have demonstrated we engaged with groups who experience increased incidence of short- or long-term vulnerability, included in-depth interviews with customers currently finding it difficult to pay their bills. Community Panel and Regional Advisory Forum membership included very strong representation of customers experiencing vulnerability. We proactively sought and took local expert advice on the timing and approach for engaging with people experiencing vulnerability.
To what extent has the business demonstrated that its engagement was inclusive of First Nations people?	3.5	Our engagement with First Nations people was supplemented with ongoing engagement and relationships with local First Nations groups and Registered Aboriginal Parties. First Nations engagement took best practice into consideration for these communities, with a primary focus on relationships and listening.
Overall average score	26.75/7 = 3.82	Leading

Outcomes



Key points

- This price submission proposes six new key outcomes for customers:
 1. Ongoing **reliability** of water and sewerage services.
 2. Ongoing protection of the **environment** through action and education, prioritising Country and our communities.
 3. Fair and reasonable **bills** for all.
 4. Improved **water quality** in identified communities.
 5. Improved **customer experience** of our products and services.
 6. Active **partnerships** for healthy and resilient communities.
- Investment, in particular new investment, is aligned to the outcomes customers valued the most.
- Measures include a mix of improvement and maintaining performance, aligned to customers' expectations, including maintaining our current levels of service relating to reliability and attending faults.
- We will maintain our guaranteed service levels.
- PREMO self-assessed rating for outcomes = Standard (2.5/4).

We've worked with our customers and community to develop a price submission that delivers the outcomes they value, while fulfilling our obligations and addressing the challenges facing our region.

We heard

Throughout 2018-2021 our engagement with customers indicated that while they ultimately agreed with the relevance of the customer outcomes in the 2018-23 pricing period, they did not connect strongly to the language used to express them.

We responded

We co-designed a new set of customer outcomes for the 2023-28 pricing period with our Community Panel in April 2022. During its deliberations, the panel reviewed, explored, designed, prioritised, tested and ultimately endorsed these new outcomes. The panel also explored measures for these outcomes. The outcomes in this price submission are ordered in accordance with the priority given to them by the Community Panel, with outcome one being the highest priority.

Our submission balances five service-oriented outcomes with one affordability outcome (refer Figure 3 - page 25), reflecting our aim to deliver highly valued services at a cost that is fair. While the outcomes are new, there is strong alignment to the 2018-23 pricing period outcomes.

Where we propose an increase in service and value, and subsequent investment, we will check-in on the output measures each year as part of our annual engagement cycle. In particular, we expect that the measures and targets associated with the customer experience outcome will likely be enhanced as we develop the key actions, activities and programs related to this outcome.

We expect that the business will be in a position to introduce an appropriate measure(s) that takes advantage of increased organisational capability and maturity. We will do this in consultation with our customers.

Figure 3 - Balancing our outcomes



Outcome 1: Ongoing reliability of water and sewerage services

What we heard from our customers

Highly valued water and sewerage services are fundamental and essential to South West Victoria's status as a prosperous region. Households and businesses clearly and consistently expressed their desire for continued access to safe and reliable services – now and into the future. They expect and value reliability and availability and told us to maintain existing service levels.

The Community Panel provided a high level of confidence that we display strong planning for future needs and considered action on key issues.

Key projects and activities proposed

- Maintain the assets we have through monitoring, inspection and maintenance. We'll undertake \$14.9 million of renewals to our sewerage system and \$15.2 million of renewals to our water system, preventing critical assets from failing.
- Ensure our supply of drinking water continues to be reliable. We'll invest \$4.6 million at key water treatment systems in Balmoral, Camperdown, Cavendish, Cobden, Glenthompson, Simpson and Terang to ensure the treatment of new supplies of drinking water remain at high standards.
- Ensure the water we provide in developing areas is reliable and doesn't impact surrounding established areas. We'll invest \$3.8 million to provide adequate water supply and pressure to Warrnambool's Hopkins Point and Wollaston Road development areas.
- Secure long-term water supplies by continuing to support water conservation initiatives and making the most of current resources. We will continue our investment in our Roof Water Harvesting system, allocating \$1.5 million to plan and design for future system growth.

Measures of success⁷

We'll **maintain** customer satisfaction levels and **maintain** our current water and sewerage service level performance. Measures include a mixture of customer perception and event-based results.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Average score of customers surveyed who agree they can rely on their sewerage service from Wannon Water	Annual Customer Value Survey	N/A	N/A	8.6	8.6	8.6	8.6	8.6
Average satisfaction score of customers surveyed with water supply reliability	Annual Customer Value Survey	9.0	8.9	9.0	9.0	9.0	9.0	9.0
Number of customers who experienced two or more unplanned interruptions to their water service	Event data	80	44	≤86	≤86	≤86	≤86	≤86
Number of sewer spills to customer properties	Event data	26	35	≤35	≤35	≤35	≤35	≤35
Number of unplanned water interruptions	Event data	111	166	≤119	≤119	≤119	≤119	≤119
Number of residential sewer supply customer interruptions	Event data	46	19	≤79	≤79	≤79	≤79	≤79

⁷ FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Commitment to ongoing reliable services

Ongoing reliability of services is most important and valued by customers (as evidenced in customer surveys and Community Panel prioritisation of outcomes). Given its high value, under-performance in delivering this outcome is not acceptable.

We will provide a payment to those who have received a level of service below the guaranteed level as part of our commitment to ongoing reliable services (refer page 34 – Guaranteed Service Levels).

Outcome 2: Ongoing protection of the environment through action and education, prioritising Country and our communities

What we heard from our customers

Our region's natural environment is intrinsically valued by the community. Customers recognise the role of sewerage in protecting the environment and public health, and support resilience in the system to cope with future challenges. Customers also recognise the important relationship between protecting our environment and providing reliable and safe water.

First Nations Peoples have deep and ongoing connections to Country. Inscribing the Budj Bim Cultural Landscape on UNESCO's World Heritage list in 2019 demonstrates the long-standing connection, cultural value and management of the landscape by First Nations Peoples in our region. Traditional Owners have expressed the importance of building relationships and working together to care for and heal Country.

The community expressed a strong desire for us to continue protecting the environment and proactively address key issues like climate change. This included support for our carbon emission reduction targets, minimising direct and indirect impacts of our services, and exploring opportunities to reuse resources. It also included our work to protect water sources and the land on which we rely.

It is clear to us that looking after Country – the land, water and air – ensures it can look after us.

Key projects and activities proposed

- Complete the Warrnambool Sewage Treatment Plant (WSTP) Upgrade, requiring an investment of \$52.9 million this pricing period to enhance the capacity of our treatment system.
- Complete an EPA requirement, investing \$5.5 million to investigate future options for managing treated water from the WSTP, and \$5.9 million in additional treatment infrastructure to enhance the quality of the treated water.
- Maintenance, renewals and upgrades of our treatment network will continue to ensure we effectively remove contaminants from wastewater released to the environment.
- Extend our Roof Water Harvesting catchment network, investing \$1.5 million to build trunk mains and detention tanks for harvesting water to support future resource needs and subsequently reduce the impact of our demand from the Otway Ranges.
- Continue to support the Great South Coast Integrated Water Management Forum to help industry partners implement priority projects that contribute to the resilience of our environment, culture and economy.
- Meet our greenhouse gas emission targets by investing in renewable energy projects, and upgrading and renewing infrastructure and fleet with environmental performance in mind. We'll also continue our carbon forestry project to generate our own local offsets and, only where necessary, purchase carbon credits to offset our direct emissions.
- Maintain strong partnerships with First Nations communities and organisations, the Glenelg Hopkins and Corangamite Catchment Management Authorities.
- Deliver our foundation Reconciliation Action Plan.

Measures of success⁸

We expect to:

- **Maintain** our compliance performance with EPA Victoria discharge requirements
- **Improve** our environmental performance, meeting our 2025 target and be on track to achieve carbon neutrality by 2030 and completing the actions required to meet our EPA obligations and our commitment to the community regarding the management of treated water from the WSTP.

Measures include a mixture of event-based results and completion of projects/initiatives.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Number of non-compliance events with our EPA Amalgamated Licence	Event data	5	7	≤5	≤5	≤5	≤5	≤5
On track to achieve carbon neutrality by 2030, reducing total net emissions to those created directly from our operations (scope one)	Event data	23,887	25,680	19,954	14,417	6,980	6,980	6,980
Install disinfection system as the first step of the Warrnambool Sewage Treatment Plant upgrade by 31 December 2025	Complete works	N/A	N/A	On track	On track	Complete	Complete	Complete
Complete an evaluation study report which identifies alternative wastewater disposal methodologies for further upgrades of the Warrnambool Sewage Treatment Plant by 30 June 2025	Receipt of final study report	N/A	N/A	On track	On track	Complete	Complete	Complete

Outcome 3: Fair and reasonable bills for all

What we heard from our customers

Water utilities and public service providers must continually strive to deliver a growing array of services while maintaining their quality and affordability. We understand accessibility, affordability and cost of living are key concerns for many community members, now more so than ever. These were recurring themes throughout our engagement program.

Our customers want us to increase our assistance to those finding it difficult to pay their bills. Our Customer Support Review showed customers were well supported when they contacted us for assistance with paying their bills. However, it was clear there is more that can be done to increase awareness of our customer support programs.

Our Community Panel recommended incremental customer bill increases now rather than larger increases in the future. This recommendation was made in light of the challenges and uncertainties we face in the future, but also with a view that our financial support program would expand.

Many customers told us they would prefer more of their bill to be variable than fixed to support better control over their bill and water savings incentives. After detailed consideration, the Community Panel recommended very small adjustments to bill variability so as not to adversely impact some customer groups through such a change.

⁸ FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Key projects and activities proposed

- Recover less than the revenue required to operate over the five years. We'll increase our debt to minimise tariff increases for residential customers. While not a long-term sustainable solution, good fiscal management in the past allows for this as a short-term solution for our customers.
- Improve access to our financial support programs, investing \$0.5 million to ensure proactive identification, communication and outreach programs.
- Enhance our financial support program budget, allowing an additional \$0.2 million to ensure there is adequate support available for customers impacted by the minor price increases and minor bill structure changes proposed in our submission.
- Take steps towards increasing the variable component of an owner's bill by incrementally increasing the water usage charge. Mindful of the impact on a renter's bill, we'll increase the variable component of an owner's bill to 20 per cent by 2023 and 23 per cent by 2028.
- Achieve continuous efficiencies in operating expenditure, with base controllable forecast expenditure declining at one per cent per year (in real terms) across the five years.
- Ensure a prudent and efficient capital program by continuing our robust approach to identifying, prioritising and delivering projects. This has seen us defer \$15 million in projects⁹ until our next price submission, ensuring customer bills aren't higher than they need to be, and that there is a higher likelihood of the program being delivered.
- Maintain our New Customer Contribution charges to CPI-only increases, recognising that housing availability is a strategic issue in the region.
- Limit increases to Major Trade Waste Charges to two per cent plus CPI. Rather than impact this customer group with a significant one-off price increase, we'll continue to recoup the costs of our services at a shortfall for the next 10-15 years .

Measures of success¹⁰

We aim to **improve** customer satisfaction with value for money and awareness of our financial support program. We will also shift the variable portion of a residential customer's bill closer to industry average. Measures include a mix of customer perception and event-based results.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Average satisfaction score of surveyed customers satisfied with Wannon Water's services in terms of value for money	Annual Customer Value Survey	7.0	6.8	7.0	7.0	7.0	7.1	7.2
Percentage of customers surveyed who are aware of financial/customer support program	Annual Customer Value Survey	N/A	40%	40%	45%	50%	55%	60%
The variable portion of a residential customer's bill has increased to 20 per cent (Group A, owner, average kL water use)	Event data	20.0%	19.9%	19.0%	19.2%	19.4%	19.6%	19.9%

⁹ FC2022/09769 – Register of capital expenditure projects deferred

¹⁰ FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Outcome 4: Improved water quality in identified communities

What we heard from our customers

Our customers experience different water quality and taste depending on their water sources. Communities paying an equivalent cost for water services want equitable water quality and taste. Although the tap water is safe to drink, many people in towns where there is a groundwater supply find the taste unpalatable as a result of the naturally occurring mineral salts.

There is a demonstrated impact that taste and the factors contributing to it can have on broader public health, cost of living and commercial outcomes in communities. Water quality also impacts responses to satisfaction and perceptions of value. In particular, customers from these areas are consistently our most dissatisfied customers when it comes to taste and overall water quality.

Key projects and activities proposed

We'll build new water treatment infrastructure to enhance the quality and taste of tap water in the most impacted communities. Our actions will:

- Consider the appropriate timing and roll-out of new infrastructure for Portland, Port Fairy and Heywood. We'll invest \$15.8 million to deliver improvements for, at a minimum, one community during this period and advocate for funding to expedite delivery for all three communities.
- Contribute to longer-term health, environmental and economic outcomes for each town. We will partner with local preventative and public health agencies to enable communities to realise the benefits following implementation.
- Strengthen the reputation of each town with locals and visitors by removing the negative association of the taste of water.

Increasing health-based target expectations requires additional infrastructure at water treatment plants. To demonstrate that we are meeting our obligations under the Safe Drinking Water Regulations 2015 we will invest \$4.6 million for UV systems in Camperdown, Balmoral, Cavendish, Cobden, Glenthompson, Terang and Simpson.

Measures of success¹¹

We aim to improve overall customer satisfaction with water quality and taste of water, particularly where we have invested to improve the quality of drinking water. Measures include a mixture of customer perception results and completion of a project/initiative.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Average satisfaction score of surveyed customers who are satisfied with water quality	Annual Customer Value Survey	7.3	7.2	7.3	7.3	7.5	7.7	8.0
Average satisfaction score of surveyed customers who are satisfied with water quality in terms of taste	Annual Customer Value Survey	6.7	6.6	6.6	6.6	7.0	7.2	7.2
Percentage of surveyed customers in Area 1 (Portland, Heywood, Port Fairy) who drink the water we supply	Annual Customer Value Survey	50%	47%	47%	47%	55%	62%	69%
Average satisfaction score of surveyed customers in Area 1 (Portland, Heywood, Port Fairy) who are satisfied with water quality in terms of taste	Annual Customer Value Survey	3.9	3.7	3.7	3.7	4.5	5.2	5.9
Install additional water treatment to improve taste of water in at least one of Portland, Heywood or Port Fairy communities by 2026	Complete works	N/A	N/A	On track	On track	Complete	Complete	Complete

¹¹ FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Outcome 5: Improved customer experience of our products and services

What we heard from our customers

Customer expectations are rapidly changing. While customers are broadly content with our service levels, expectations for contemporary customer experiences continue to grow, particularly in relation to accessible, tailored, and immediate interactions with the business. Customer service and relevant and timely information are among the key drivers for satisfaction.

Key projects and activities proposed

- Finish implementing our new billing and customer relationship management systems, investing \$3.4 million providing a base for substantial digital transformation to significantly improve customer experience.
- Improve our systems and our customer centricity maturity, investing \$2.3 million and \$1.7 million respectively to enhance our customers' interactions with our business.
- Consider how real-time water use data might be achieved within the \$2.0 million investment to replace more than 16,000 customer water meters this pricing period.
- Adapt our customer experience approach to meet changing expectations, seeking more meaningful ways for customers to inform our decisions and design solutions with us.
- Continue embedding best-practice engagement throughout our business and harnessing insights from engagement, research and other feedback processes.

Measures of success¹²

We aim to **improve** customer satisfaction when a water or sewerage disruption event has occurred. Measures are customer perception-based results.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Percentage of surveyed customers who experienced water service interruptions that are satisfied with Wannon Water's management of the interruption	Annual Customer Value Survey	92%	90%	94%	95%	96%	97%	98%
Percentage of surveyed customers who experienced sewer spills on or within their property, that are satisfied with Wannon Water's management of the spill	Annual Customer Value Survey	100%	100%	100%	100%	100%	100%	100%
Net Promoter Score	Direct survey	+19	+10	+16	+18	+20	+22	+24

Outcome 6: Active partnerships for healthy and resilient communities

What we heard from our customers

While the water and sewerage services we provide are essential for life, we all benefit from a healthy, buoyant and connected community. Customers value the overall wellbeing of urban and rural communities, including healthy people, businesses and the environment. They see that we have a role to play as an active partner in helping to build stronger communities.

This is inextricably linked with building value for our customers, building value for our community and making our collective contribution to a better world.

¹² FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Key projects and activities proposed

- Enhance public health through quality water and sewerage services.
- Support and advocate for diverse and inclusive regional communities.
- Foster healthy public open spaces, places for recreation and sporting facilities to enhance social connection and physical and mental wellbeing.
- Continue to find smarter ways to maximise public value as a part of our 'business as usual' work.
- Build capacity in our region with a focus on leadership, engagement, partnership, strategy and advocacy.
- Champion research, development, innovation and entrepreneurship to provide for a viable and innovative regional economy.
- Sponsor volunteer community participation and community groups to sustain social, economic, environmental and cultural activities.
- Contribute to integrated planning and management of natural resources, natural assets and biodiversity.
- Continue our Water for Community program to support the benefits of green public open spaces, accessible drinking water fountains and sporting facilities.

Measures of success¹³

We aim to **maintain** satisfaction with our approach to partnering for regional prosperity. Measures include a mixture of customer perception and event-based results.

Measure	Method	20/21	21/22	23/24	24/25	25/26	26/27	27/28
Percentage of regional stakeholders surveyed who are satisfied with Wannon Water's performance partnering on areas of regional priority	Survey	80%	80%	80%	80%	80%	80%	80%
Percentage of customers surveyed who are satisfied with Wannon Water's performance partnering with communities to help its region flourish	Survey	55%	51%	55%	55%	55%	55%	55%

Performance summary (measures and targets)

Of the 23 measures proposed, targets for 13 show improved performance, reflecting that customers were seeking improved performance and supporting the proposed increased investment. Targets for the remaining 10 relate to areas our customers said they were satisfied with us maintaining at current performance levels.

Our Community Panel was involved in developing the measures and our wider engagement on our draft price submission yielded no feedback that the measures were inappropriate.

We conduct an annual Customer Value Survey (through a contracted independent agency) and this is a primary mechanism for those measures that refer to surveyed customers. Around 850 customers participate in this annual survey, representing around 0.8 per cent of our total regional population of 100,400.

We will continue our regular reporting of our annual performance to customers, and engage in responses to under- or over-performance against the customer outcomes in our submission.

We will be establishing a forum of people representing our diverse customer groups to meet at least once a year to check in, respond to new or unexpected issues, and prepare for our following price submission.

A consolidated table of outcome measures, including survey questions to be asked, is available upon request.

¹³ FC2022/08416 – Price Submission 2023-28 – Outcomes Measures and Targets

Service standards

Customers want current water and sewerage service levels to be maintained.

We propose to maintain our existing service standards, with targets based on average performance from 2018 to 2022. These levels of service are currently reflected within our proposed operating expenditure baseline and are based on delivering the proposed capital investment renewals program.

Service standard	Price Submission 2018-23		Price Submission 2023-28
	Target	Average performance to 30 June 2022	Target
Water			
Unplanned water supply interruptions (per 100km)	9.2	6.0	6.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	21	22	22
Average time taken to attend bursts and leaks (priority 2) (minutes)	30	24	24
Average time taken to attend bursts and leaks (priority 3) (minutes)	85	51	51
Unplanned water supply interruptions restored within 5 hours (%)	98	95	95
Planned water supply interruptions restored within 5 hours (%)	96	97	97
Average unplanned customer minutes off water supply (minutes)	5	6	6
Average planned customer minutes off water supply (minutes)	2	5	5
Average frequency of unplanned water supply interruptions (number)	0.06	0.05	0.05
Average frequency of planned water supply interruptions (number)	0.02	0.03	0.03
Average duration of unplanned water supply interruptions (minutes)	80	138	138
Average duration of planned water supply interruptions (minutes)	135	149	149
Number of customers experiencing more than 5 unplanned water supply interruptions in the year (number)	0	0	0
Sewerage			
Sewerage blockages (per 100km)	31	18	18
Average time to attend sewer spills and blockages (minutes)	35	40	40
Average time to rectify a sewer blockage (minutes)	117	114	114
Spills contained within 5 hours (%)	99	97	97
Customers receiving more than 3 sewer blockages in the year (number)	0	0.5	0.5
Customer service			
Complaints to EWOV (per 1000)	1.2	0.6	0.6
Telephone calls answered in 30 seconds 1300 926 666 (%)	96	98	98

Guaranteed Service Levels

We are not proposing changes to our current Guaranteed Service Levels (GSLs). Our GSLs align with the areas our customers told us they value the most: reliability of water and sewerage services, and support for vulnerable customers. Our current and therefore proposed GSLs are outlined in the table below.

Guaranteed Service Levels

Service area	Guaranteed Service Level
Water supply reliability	Subject to exclusions, if there are more than two unplanned interruptions to the service supplying water to the customer's property in any 12-month period, the customer will be entitled to a GSL rebate of \$100.
Sewerage service reliability	Subject to exclusions, if there is a sewerage spill in a customer's house the customer will be entitled to a GSL rebate of \$500.
Sewerage service reliability	Subject to exclusions, if there is a sewerage spill on a customer's property the customer will be entitled to a GSL rebate of \$100.
Payment difficulty information disclosure guarantee	If Wannan Water restricts the water supply of, or takes legal action against, a residential customer prior to taking reasonable endeavors to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, the customer will be entitled to a GSL rebate of \$300.

The following exclusions apply to the payment of a GSL rebate:

- where a property or house is occupied by a tenant and the tenant is a customer, only the tenant's account will be credited for the failure to meet a guaranteed service level;
- Wannan Water will not apply a GSL rebate for failure to meet a GSL if an event is caused by, or is the responsibility of, the customer or a third party.

PREMO summary - Outcomes

Aspect	Score	Comment
Has the business provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?	3.0	Outcomes reflect customer preferences and priorities. They are clearly linked to engagement insights and are prioritised in terms of importance based on engagement feedback. Some outcomes maintain current performance, while others are expected to significantly improve customer value.
Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?	2.5	New capital and operating expenditure are aligned to outcomes. Proposed outcomes are aligned with Price Submission 2018-23 outcomes, demonstrating that baseline expenditure is also aligned to proposed outcomes. New expenditure associated to deliver are largely absorbed (the business is under-recovering revenue requirement), with bill increases minimal.
Has the business proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?	2.5	Outputs have been assessed internally with opportunity for customer feedback provided through our Draft Price Submission Community Report engagement. Outputs have been defined in a manner that reflects customers understanding.
Has the business provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?	2.5	Measures proposed will allow us to track our progress and delivery. Measures are unambiguous and clearly defined. Targets are based on historical actual results and/or expected performance.
Has the business demonstrated a process to measure performance against each outcome and to inform customers?	2.0	All outcomes have measures associated. We have included commitments to inform customers of our progress and performance.
Overall average score	12.5/5 = 2.5	Standard (high)

Revenue requirement



Key points

- Revenue requirement is \$384.9 million over five years.
- We will under-recover \$23.4 million of this during the pricing period.
- Our return on assets is based on a standard PREMO rating.

To deliver the outcomes proposed in this price submission, the forecast revenue requirement for the next regulatory period is \$384.9 million¹⁴.

Revenue requirement 2023-28 (\$m)

	Total	23/24	24/25	25/26	26/27	27/28
Operating expenditure	264.97	50.36	53.29	53.42	54.02	53.89
Return on assets	53.02	10.85	10.91	10.74	10.40	10.13
Regulatory of assets (depreciation)	66.93	11.56	12.40	13.53	14.50	14.94
Total revenue requirement	384.92	72.76	76.59	77.68	78.92	78.96

The revenue requirement building blocks are described in further detail in the following chapters.

We propose to recover \$359.96 million, being \$23.4 million (NPV) less than the revenue required to operate the business during this pricing period. We propose to fund our operations during this period with:

- \$347 million from fees and charges for residential and non-residential customers through water and sewerage service charges, water usage charges and trade waste charges for minor and major customers
- \$14 million generated from miscellaneous revenue sources, including planning fees, tapping fees, information statements, administration fees on developer works, septage receipt fees, and other miscellaneous income sources
- \$23 million from borrowings, effectively increasing our total debt.

Revenue requirement over 10-year period

The revenue requirement for the 2028-33 period is estimated to be \$391.6 million, compared to \$384.9 million during this pricing period.

Beyond 2028 we are uncertain about potential significant impacts on revenue requirement including:

- Future capital expenditure at the Warrnambool Sewage Treatment Plant, following investigation of future possibilities for effluent management at the site
- Subsequent future operating expenditure associated with the above
- Our tax paying position.

¹⁴ D2022/055618- WNW_2023 Price Review Model

Given the level of uncertainty with each of these matters, we have not made an allowance for the first two in the 2028-33 pricing period.

Our proposed forecast decrease in capital expenditure for 2028-33 in part reflects our balanced risk approach and the uncertainty about future significant capital outlay possibilities. The program beyond 2028 also involves greater uncertainty, related to timing of works linked to growth forecasts and renewals expenditure requirements. New innovations and strategies may present lower cost solutions or enable the extension of useable asset lives. We will continue to refine the capital expenditure forecast during the 2023-28 regulatory period to ensure it is efficient and keeps price impacts to a minimum.

Forecast operating expenditure



Key points

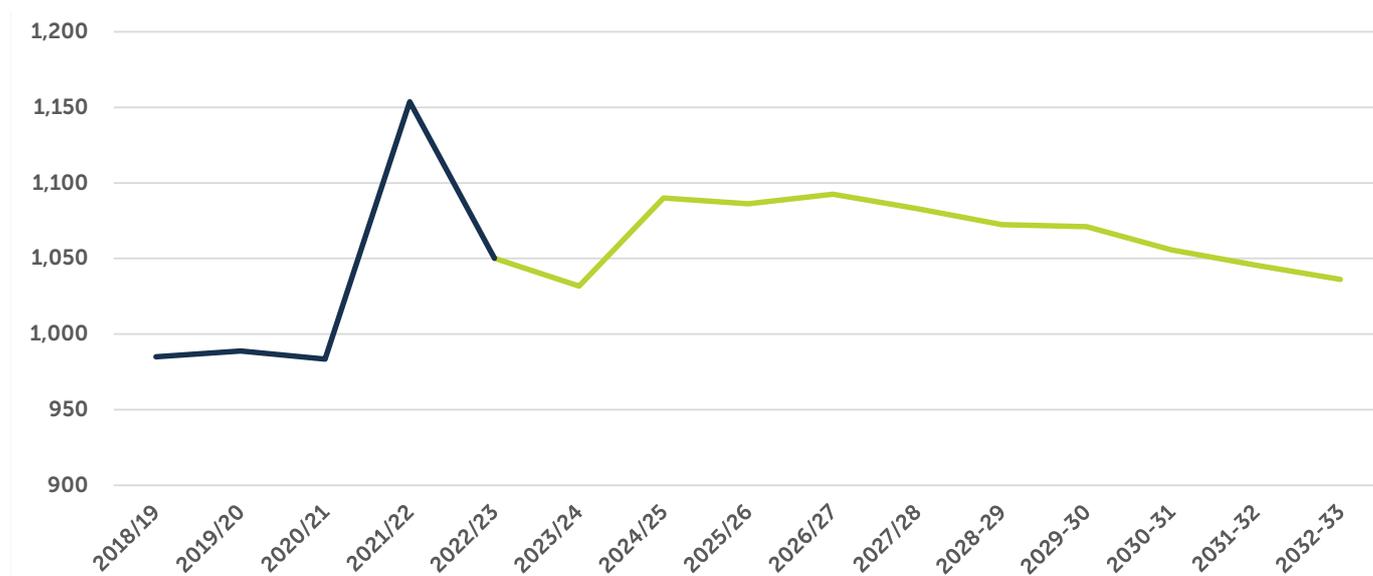
- Controllable operating expenditure per water connection increases by 3 per cent.
- Proposed operating cost efficiency improvement rate is CPI minus 1 per cent per annum.
- Operating expenditure increases are offset by borrowings.
- New operating expenditure is linked to outcomes and/or regulatory obligations.

The operating expenditure included in this submission is both prudent and efficient.

Operating expenditure required considers customer outcomes, existing strategies and regulatory obligations. Identified operating expenditure changes above the baseline year were validated through external expert reports, management reviews and/or approval of related business cases.

Controllable operating expenditure per water connection increases by three per cent during the pricing period. In part this is a reflection on our conservative approach, bearing risk on behalf of customers, and borrowing to fund operations. It is also a reflection of the impact that the conservative \$13.2 million in new operating expenditure has on a water corporation with a small number of connections.

Figure 4 - Operating expenditure per connection (\$) 2018-2033



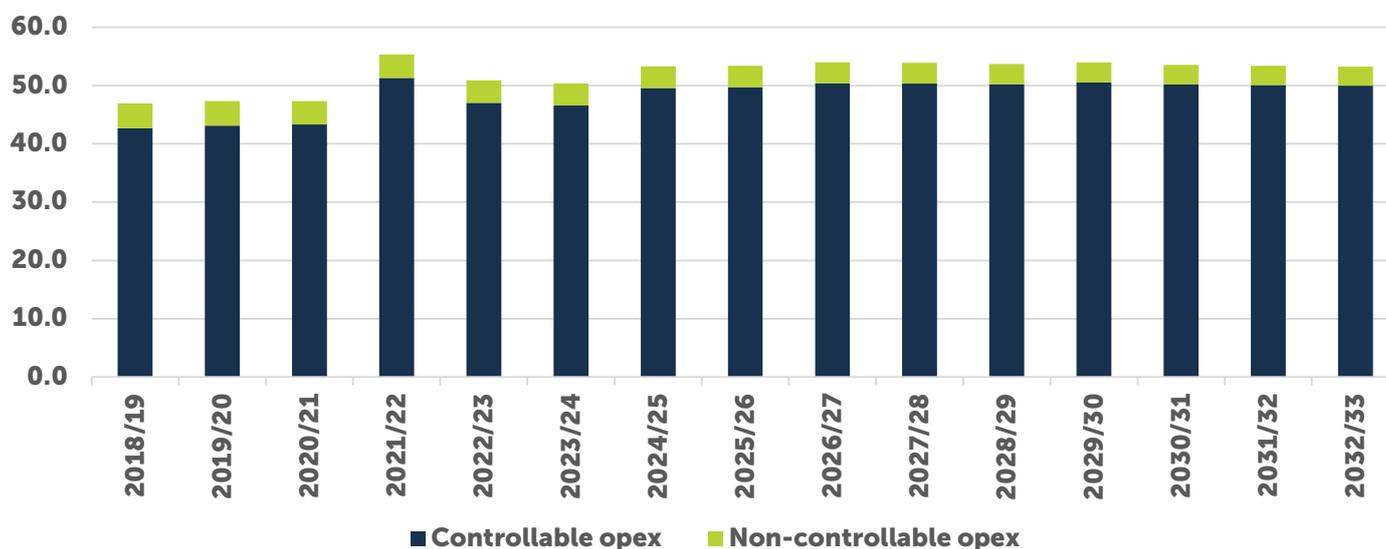
The spike in 2021/22 is explained by one-off expenditure items which have been removed from the proposed baseline operating expenditure. The increase in 2024/25 reflects new expenditure for initiatives outlined below, including billing and CRM software licensing, which would have historically been a capital expenditure item.

Total annual forecast operating expenditure

Over the five years of this price submission we forecast total operating expenditure of \$265 million¹⁵. This includes \$18.3 million in non-controllable expenditure, including environmental contribution levy and bulk water related charges.

Figure 5 outlines the actual and forecast operating expenditure over the current 2018-23 pricing period, as well as a forecast for the next pricing period. It shows a reduction in forecast expenditure from the 2021/22 baseline year to the 2023-28 period, and allows for some increases during the period to reflect new expenditure.

Figure 5 - Total prescribed operating expenditure (\$m) 2018-2028



Baseline controllable operating expenditure

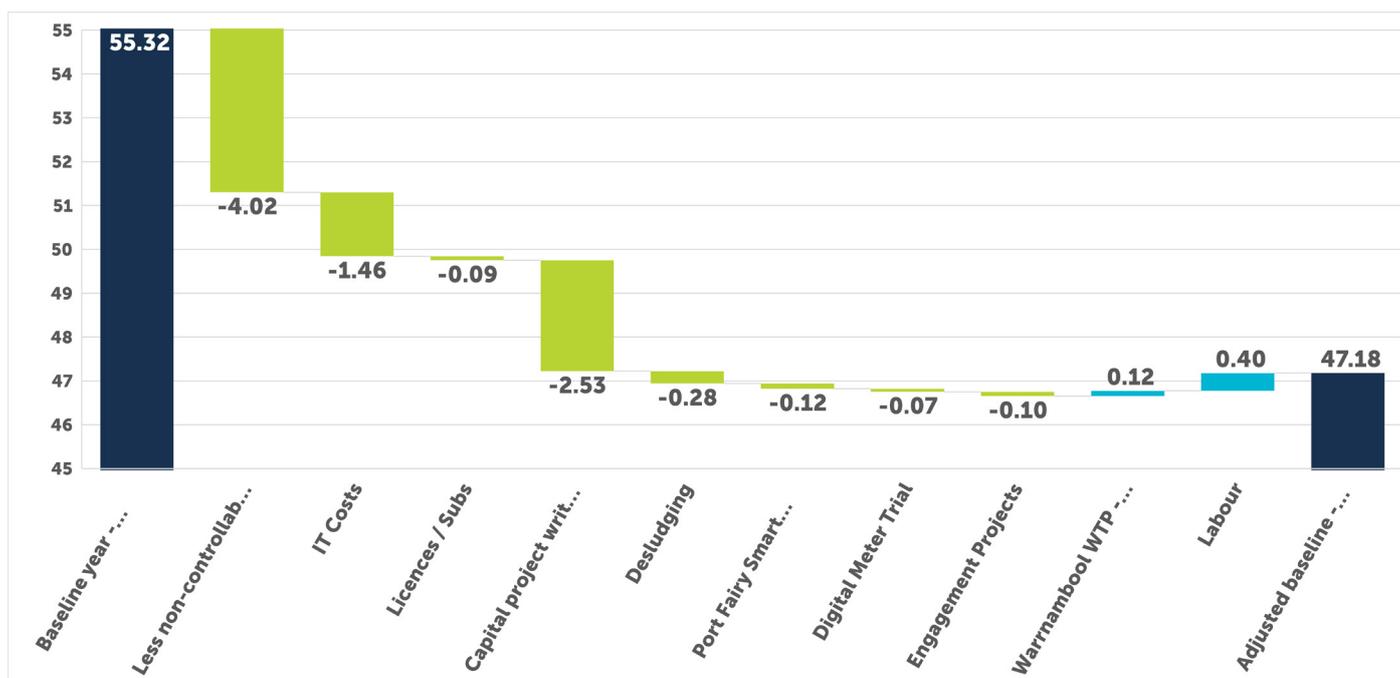
A baseline controllable operating expenditure of \$47.2 million has been established, comprising efficient recurring controllable expenditure from the 2021/22 financial year. This is \$4.1 million lower than actual 2021/22 expenditure. It excludes one-off and non-recurring expenditure items and includes an adjustment for operating expenditure associated with a capital investment occurring in 2022/23 and for labour costs associated with a higher than usual vacancy rate during 2021/22.

Baseline controllable operating expenditure

2021/22 expenditure	55.32	
Less non-controllable expenditure	4.02	
Less/(plus) adjustments		
IT costs	1.46	One-off IT consultancies-related expenditure
Licences/subscriptions	0.09	Prepaid licences and subscription expenses
Capital project write-offs	2.53	Accounting write-offs included in 2021/22 expenditure
Desludging	0.28	Recognition of the cyclical nature of desludging works
Port Fairy Smart Energy	0.12	Investigative works on potential emissions reduction project
Digital meter trial	0.07	Investigative works to inform feasibility of trial approaches
Engagement projects	0.10	One-off engagement works
Warrnambool Water Treatment Plant - UV upgrade	(0.12)	New expenditure for project to be implemented in 2022/23
Labour	(0.40)	Recognition of high turnover and extended vacancy rates during 2021/22
Adjusted baseline controllable operating expenditure (2021/22)	47.18	

¹⁵ D2022/055618 – WNW_2023 Price Review Model

Figure 6 – Baseline controllable operating expenditure (\$m)



Expected total controllable operating costs for 2021/22 in the 2018 determination were \$40.8 million, being \$6.4 million (16 per cent) lower than adjusted operating costs incurred during 2021/22. This is explained in Performance – Price Submission 2018-23 (refer page 65).

Operating expenditure savings

The operating expenditure baseline includes ongoing expenditure saving and efficiency commitments previously met, including those identified in efficiency and benchmarking reviews and those associated with efficiency-based capital projects.

We have historically shown that we can provide services in a more efficient and effective manner. Identifying better ways of doing things is an aspect of our culture that drives operating expenditure efficiencies.

Net baseline operating growth, being connection growth forecast less cost efficiency improvement rate, is **minus** 0.3 per cent.

Electricity prices¹⁶

We forecast the average electricity price per kWh will decrease by 1.5 per cent in the first year of the pricing period and fluctuate year-on-year between minus 4.1 per cent and 7.0 per cent thereafter. This represents an overall real decrease in electricity costs of \$0.67 million in year five of the regulatory period, compared to the baseline year. We have used current and projected state purchasing contract pricing¹⁷ and professional advice offered by Schneider Electric¹⁸ to prepare the basis for our electricity cost forecasts.

Electricity demand (solar projects)¹⁹

We forecast electricity demand to reduce at two sites with the implementation of two large solar projects. These demand reductions are estimated to reduce operating expenditure by \$0.7 million during the pricing period. One project is estimated to be complete in December 2022, saving \$0.5 million. The other project is not included in the forecast capital expenditure due to the level of uncertainty. We have included operating expenditure savings, however, that equate to \$0.2 million.

¹⁶ D2022/053230 – Electricity – Large Site Workbook – SPC Pricing

¹⁷ State Purchase Contract with Red Energy

¹⁸ FC2022/09771 – Schneider Electric – Electricity Price Forecast, Covering FY2023 – 2028, Base Case, 23 March 2022

¹⁹ D2022/053230 – Electricity – Large Site Workbook – SPC Pricing

Operating expenditure increases

Linked to achieving customer outcomes, we propose operating expenditure increases for:

- **Carbon emissions reduction**²⁰ - \$0.37 million to meet our 2025 (source 100 per cent of electricity from renewable sources) and 2030 (net zero) emissions reduction targets²¹. To meet our 2025 Statement of Obligations target we have assumed extinguishing our current and forecast carbon credits, meaning this additional expenditure is the lowest cost alternative to procure offsets based on DELWP valuation²² of offsets. [Outcome 2]
- **Customer experience**²³ - \$3.48 million to optimise system functionality and improve our customer centricity maturity. We have assumed a lower expenditure than expected to deliver on:
 - actions recommended in our customer centricity maturity assessment
 - multiple recommendations for improving our support of customers experiencing vulnerability
 - resources to appropriately service and sustain an enabling customer digital platform.

To deliver the above and meet the targets outlined previously, we expect operating expenditure of \$5.1 million during this period. We have, however, proposed a much lower amount in consideration that this investment is significant, that as we develop the program of works required there may be more efficient ways to deliver and that there may be reallocation of expenditure from within the business to achieve the outcomes. [Outcome 5]

- **Water taste**²⁴ - \$1.95 million during the pricing period²⁴, being the operating expenditure associated with the capital investment proposed to improve the quality and taste of tap water in at least one community. The solution requires new treatment infrastructure which has high operating costs for chemicals, energy, maintenance, consumables, and operator supervision. While the infrastructure provides the engineering solution, behaviour change is required to achieve the benefits of the project. Expenditure associated with an education campaign is proposed in 2024/25 only. Comparable to the approach to forecast capital expenditure relating to this project, we have proposed the equivalent of one town's operating costs during this pricing period. Should capital funding arise and additional infrastructure built and commissioned, then we will wear the operating expenditure of that for this pricing period. [Outcome 4]
- **Warrnambool STP upgrade (including electricity demand)**²⁵ - \$1.46 million during the last two and half years of the pricing period to operate the augmented plant after the upgrade. Increasing the plant's capacity from four to six treatment cells increases expenditure for energy, chemicals, maintenance, biosolids transport and operator supervision. [Outcome 2]
- **Warrnambool STP – UV System**²⁶ - \$0.92 million to meet an EPA compliance obligation. The installation of a UV system at the STP during 2023/24 will increase energy and maintenance expenditure associated with operating the new system. [Outcome 2]
- **CX Plus – Billing and CRM System**²⁷ - \$4.96 million for annual licensing and support expenditure associated with our new billing and CRM software platform. We have chosen to treat these as operating expenditure for regulatory purposes, reducing the impact on future pricing periods given our under-recovery of revenue requirement in this period. Included in this proposed expenditure is an offset for the savings associated with licensing of our current billing system platform post transition. [Outcome 5]
- **Digital projects licensing costs**²⁸ - \$1.02 million in licensing and support expenditure associated with software transitions including cyber and security related resilience, works management mobility and GIS platform replacement. [Many outcomes]

20 D2022/053232 – Carbon Emissions Strategy Budget Workbook

21 D2022/034632 – Statement of Obligations (Emissions Reduction) – 23 May 2022

22 D2022/053232 – Carbon Emissions Strategy Budget Workbook

23 D2022/053233 – CX Investment Package Business Case

24 FC2022/09577 – Great Tasting Water Business Case

25 FC2022/09578 – Warrnambool STP Upgrade Business Case

26 FC2022/09579 – Warrnambool WTP UV System Business Case

27 FC2022/09581 – CX Plus Business Case

28 D2022/053240 – Digital Services – Price Submission – Capex and opex

We have not included additional operating expenditure in this pricing period to respond to:

- **Increasing compliance obligations** - Expenditure associated with new and revised compliance obligations has doubled in the past five years²⁹. This is evident in our operating expenditure performance compared to price submission 2018-23. While our expenditure has increased to source expert assistance in most cases, we also reallocated internal resourcing to meet these new requirements. We expect the trend of new compliance obligations to continue. Our ability to reallocate further resources to compliance focused activity is minimal. However, we have not included additional resources to meet future obligations. With our small workforce, this will be a challenge as new obligations invariably require the same level of compliance of everyone.
- **Current software applications moving from on-premise to cloud-hosted applications** - The transition of IT software and services to cloud-based applications is more expensive than onsite hosting. Reputable technological research and consulting firm Gartner expects the costs of licensing and support to be at least 35 per cent higher than the cost of current on-premises licensing³⁰. We have, and expect to, experience higher cost ratio outcomes than that. For example, our finance, payroll and project management software supplier expects us to transition to the cloud by October 2024, with indicative ongoing licensing and support costs increasing by 140 per cent.
- **Labour cost growth** - Wage growth is expected to be 2.85 per cent, consistent with the 2022/23 budget plus 1 per cent for progression and promotion. This closely equates to CPI projections for 2023/24. We have included an adjustment to our baseline for labour costs and minimal headcount increases to deliver on our customer experience outcome. Given that, we have not escalated labour costs beyond our forecast expenditure growth rate.

We plan to absorb new expenditure through operational efficiency improvements, reallocating resourcing within the business and advocating to reduce regulatory compliance red tape.

Annual cost efficiency improvement rate

We plan to deliver an average controllable cost efficiency improvement for the price submission period of CPI minus 1 per cent per annum. Our forecast baseline operating expenditure is forecast to decrease by 0.3 per cent per annum when taking into account customer growth and cost efficiency.

Allocation of corporate costs

The basis for allocation of corporate expenditure has been a proportionate split between water and sewerage services based on historical water and sewerage expenditure.

Total prescribed operating expenditure

	21/22	22/23	23/24	24/25	25/26	26/27	27/28	Total
Baseline controllable OPEX	47.18							
+ Customer growth allowance		0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
- Efficiency improvement rate		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
		47.05	46.93	46.81	46.69	46.57	46.45	233.46
Variations to baseline								
Electricity - prices			(0.41)	(0.07)	0.01	0.09	0.06	(0.32)
Electricity - demand			(0.12)	(0.13)	(0.14)	(0.14)	(0.14)	(0.67)
Carbon emissions reduction			-	-	0.07	0.16	0.14	0.37
Customer experience			0.38	0.55	0.71	0.89	0.96	3.49
Water taste			-	0.77	0.39	0.39	0.39	1.94
WSTP upgrade					0.34	0.56	0.56	1.46
WSTP - UV system			-	0.19	0.19	0.27	0.27	0.92
CX Plus - billing and CRM system			(0.22)	1.23	1.28	1.32	1.35	4.96
Digital projects licencing costs			-	0.22	0.22	0.30	0.30	1.04
Total variations			(0.37)	2.76	3.07	3.84	3.89	13.19
Total controllable OPEX			46.57	49.56	49.75	50.41	50.35	246.64
Non-controllable OPEX			3.79	3.73	3.66	3.60	3.54	18.33
Total prescribed OPEX			50.36	53.29	53.42	54.02	53.89	264.97

29 D2022/053285 – Compliance Obligation Assessment for the Victorian Water Corporations – INXURE Strategy Group – June 2022

30 FC2022/09775 – Gartner – Predicts 2022: SaaS Dominates Software Contracting by 2026 – and So Do Risks

Forecast capital expenditure



Key points

- \$157.2 million capital investment program over five years.
- Warrnambool Sewage Treatment Plant Upgrade is 34 per cent of the total program.
- 59 per cent of spend is on top 10 projects, 34 per cent on programs.
- Renewals program consistent with 2018-23 pricing period.
- Significant investment uncertainty in 2028-33 pricing period.

Summary of capital expenditure program³¹

We plan to invest \$157.2 million³² in capital works during 2023-28. Our 2018-23 final determination included \$145 million in the 2018-23 period and \$160 million in the 2023-28 period. Our planned investment is comparative to the 2023-28 forecast made in our 2018 price submission.

Our capital investment plan is dominated by the Warrnambool Sewage Treatment Plant (WSTP) Upgrade. This project has been delayed considerably as we endeavoured to comply with regulatory obligations which proved to be time-consuming and well beyond what we have experienced before. The delay has significantly impacted the cost estimate. Having tested the market through an open tender process and analysed responses, we are confident the cost estimate in our proposal is prudent, noting we have not allowed any further contingency on the construction tender.

Our asset base includes 15 water treatment plants, more than 2,000 kilometres of water mains and pipelines, 16 disinfection plants, 20 sewage treatment plants and 962 kilometres of sewer mains. It is both diverse and complex. Consequently, 19 per cent of our expenditure is directed towards renewals to avoid or minimise asset failures, meet compliance requirements and/or to update existing assets to maintain existing service levels.

Our capital expenditure forecasts by major service category and by cost drivers for the 10-year period are outlined in Figures 7 and 8 (refer page 43).

³¹ D2022/052316 – Price Submission 2023-28 – Capital Investment Plan (Final)

³² D2022/055618 – WNW_2023 Price Review Model

Figure 7 – Capital expenditure program by major service category (\$m), 2023-33

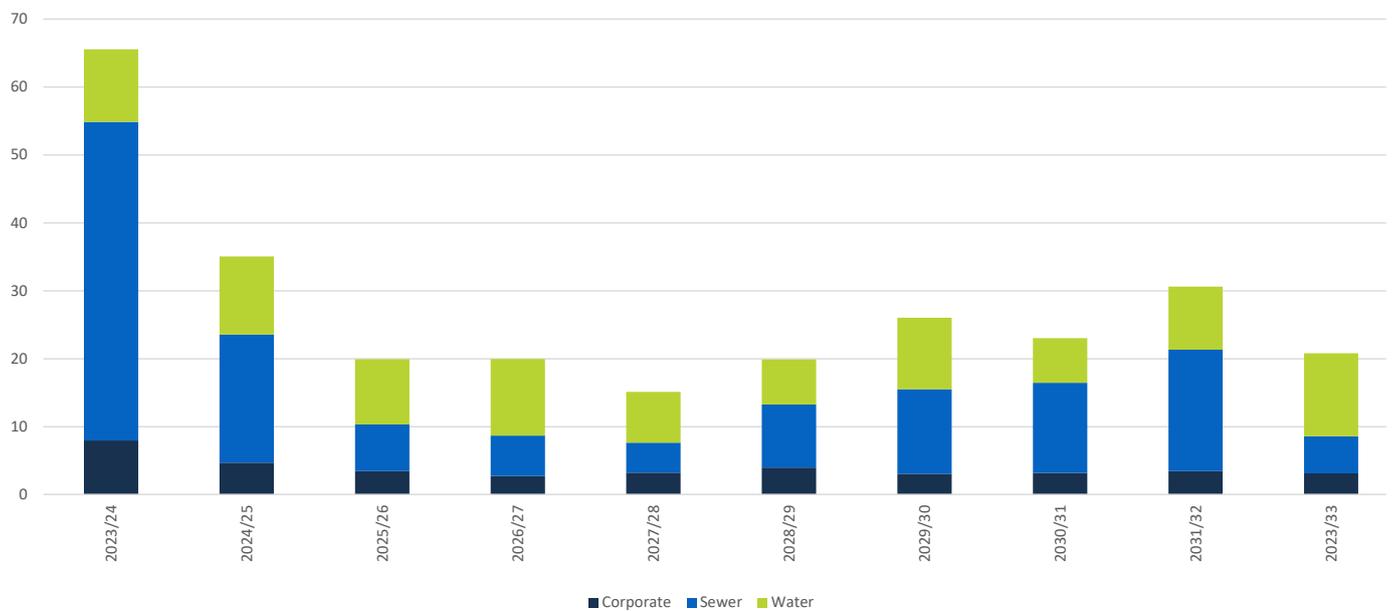
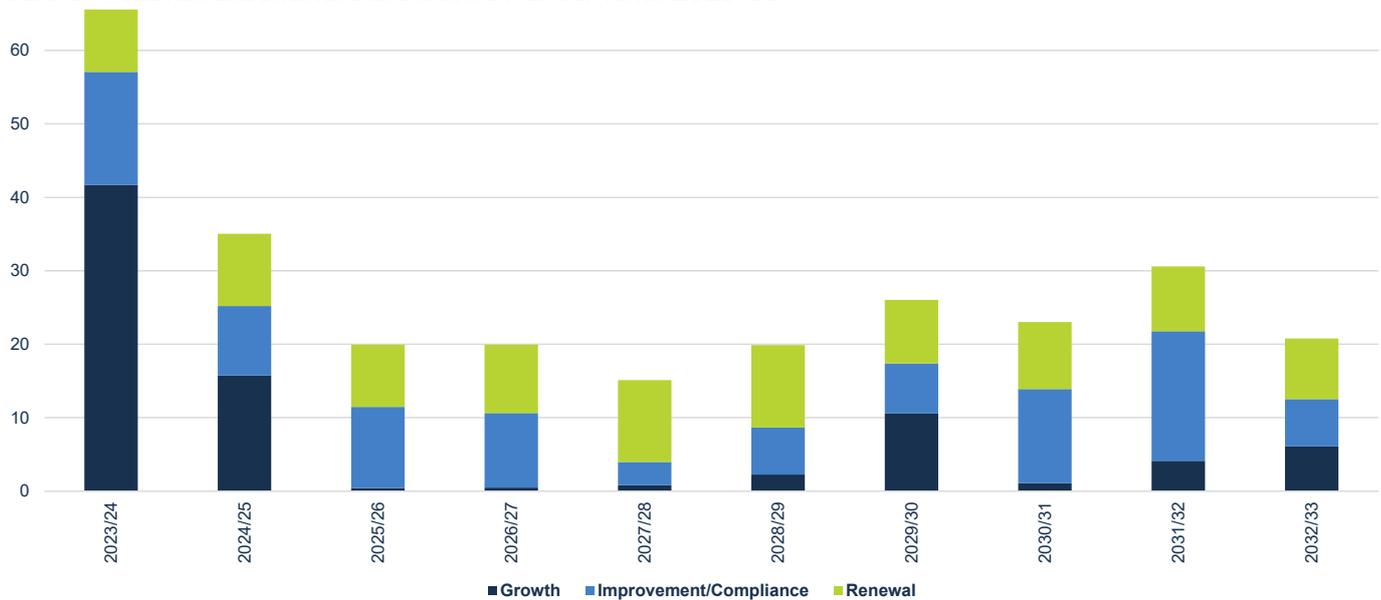


Figure 8 – Capital expenditure program by driver (\$m), 2023-33



Method for developing the capital expenditure program

We operate and maintain an Asset Management System which is consistent with the principles contained within the international (ISO) standard for Asset Management, ISO 55000. These principles reflect our customer-centric and value management approach to deliver services.

Our Project Investment Plan Procedure³³ guided us in identifying, prioritising and selecting the projects included in our proposal. This process included:

- Identifying and capturing projects aligned with business needs
- Iterative Project Investment Plan Working Group³⁴ review and refinement of projects including:
 - Assessing risk ratings
 - Developing project business cases
 - Scoring individual projects or programs using a common scoring matrix that includes: risk assessment, alignment to strategic direction and priority project drivers
 - Reviewing scoring for consistency

³³ FC2021/04901 – Project Investment Plan Procedure

³⁴ FC2021/04901 – Project Investment Plan Procedure

- Assessing interdependencies
- Timing of projects
- Consideration of the robustness of the investment plan, ensuring that:
 - Risk is distributed appropriately between customers and ourselves
 - The program of proposed projects is deliverable
 - Proposed expenditure is within appropriate financial sustainability metrics.
- Board engagement from early in the process, including:
 - Input into the Project Investment Plan Procedure
 - Individual assessment of key infrastructure projects.

Where projects have had a significant level of uncertainty around the timing and/or scope, these have been excluded from the program, or their scope reduced to be more certain to allow for staging of the project. An example of this is the servicing of the Wollaston Road development area in Warrnambool, where we propose to provide a temporary pressurised water supply system this pricing period, with permanent infrastructure arrangements deferred to the 2028-33 pricing period.

Renewals programs have been developed to support:

- Life cycle management through timely rehabilitation or replacement
- Sustainable service provision through use of best practice models for replacement or rehabilitation of assets
- Optimisation of life cycle costs through the effective timing of renewal programs
- Meeting environmental obligations by renewing before service standards are degraded
- Meeting customer expectations by ensuring all consumers or customers are given equal access to services and providing services to a consistent standard across Wannon Water.

The proposed renewals program includes expenditure for known specific renewal projects as well as forecast expenditure for predicted renewal projects developed through iterative modelling.

We have used the Assetic Predictor Modelling program for projecting renewal requirements for all asset classes. The models use valuation data³⁵, expected life of assets, condition assessments of the assets and the criticality of the asset. Assets are modelled within the program using a selected decay curve to estimate the remaining life of each asset and select the most appropriate time to undertake treatment of the asset within the controlled budget of the asset class.

For specific asset renewal projects (those assets identified as being at end of life), we have prepared estimates based on previous costs of similar projects and an understanding of the technology required and available for cost effective renewals.

The WSTP and CX Plus – Billing and CRM System are informed by tendered costs. Our second-largest proposed project, Great Tasting Water, represents 10 per cent of our proposed capital expenditure. Given the significance of this project and the relative early stage of the technical evaluation, a P90 estimate has been adopted for forecast expenditure.

For other large projects, such as the Warrnambool Effluent Management Investigation, we have chosen to include estimates based on the lower range of expert consultant estimates.

Our proposed renewals program also assumes a lower estimate than modelling suggests is required, accepting a marginal increase in the risk of asset failure. In accepting this increase in risk, we have assumed we will be able to find efficiencies through improvements in technology, such as materials and techniques, to potentially deliver more renewals projects within the proposed forecast during the pricing period.

³⁵ D2021/062149 – June 2021 VGV Valuation of Infrastructure Assets

Major capital projects

An overview of each of our top 10 projects by expenditure is outlined in the tables below, including their drivers, links to outcomes, estimated cost, timing and background. The total capital expenditure for the top 10 major projects represents 60 per cent of the planned capital expenditure over the five years.

PROJECT: Warrnambool Sewage Treatment Plant Upgrade

Cost: \$52.89 million

Per cent of total program: 34%

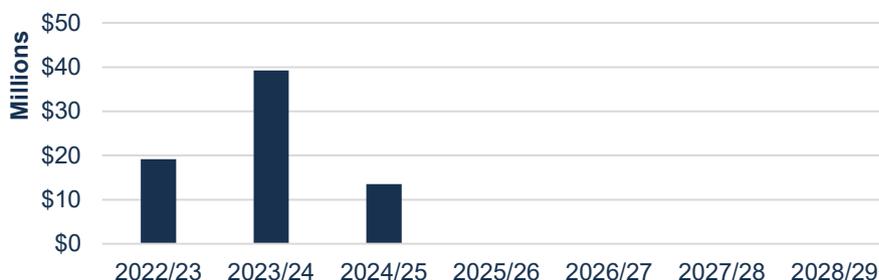
Service category: Sewer

Cost driver category: Growth

Description: Upgrade the plant to meet demand requirements and comply with EPA licence conditions

Pre:Post risk rating: Extreme:Minor

Business case reference: FC2022/09578



Outcome:

Ongoing protection of the environment through action and education, prioritising Country and our communities

Background:

The current plant is at capacity. These works include construction of two new IDEA tanks and associated works to meet demand from industrial and residential growth. It also provides additional resilience against adverse environmental impacts. The project was significantly delayed during approval stages. The cost is informed by a public tender process. We are confident the delivery will occur in the timing proposed, with construction expected to commence in early 2023.

PROJECT: Great Tasting Water

Cost: \$15.75 million

Per cent of total program: 10%

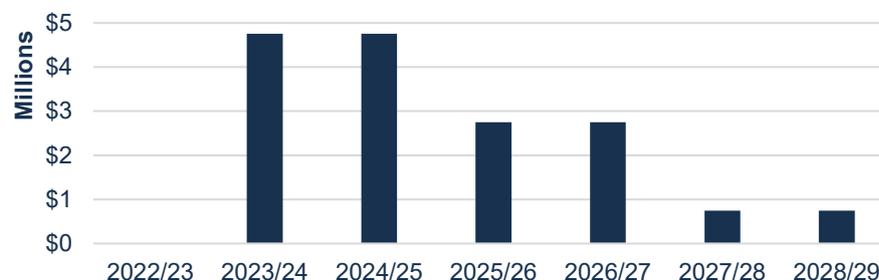
Service category: Water

Cost driver category: Level of service

Description: Infrastructure to improve the quality of drinking water in at least one groundwater supplied town

Pre:Post risk rating: Extreme:Minor

Business case reference: FC2022/09577



Outcome:

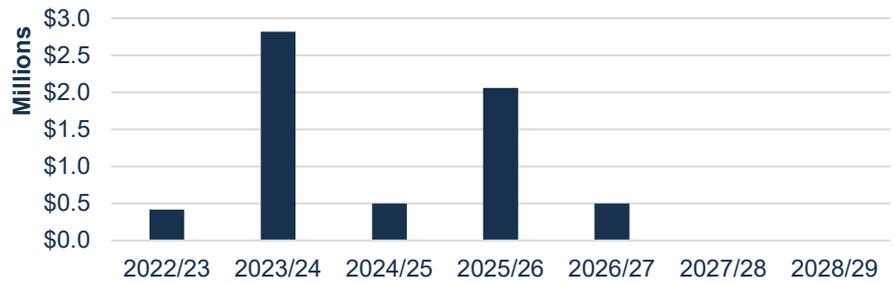
Improved water quality in identified communities

Background:

Directly addressing customer feedback from three towns who are consistently our most dissatisfied in terms of taste and overall water quality. We are committed to delivering improvements in at least one town during this pricing period, with proposed expenditure reflecting this. Consultation regarding the location of the first instalment is to occur. Should additional capital funding be sourced, then a further town would be delivered during the pricing period.

PROJECT: Warrnambool Sewage Treatment Plant UV Disinfection IDEA Tanks

Cost: \$5.88 million
Per cent of total program: 4%
Service category: Sewer
Cost driver category: Regulatory compliance
Description: Infrastructure required to meet EPA Development Licence requirements
Pre:Post risk rating: Extreme:Minor
Business case reference: FC2022/09579



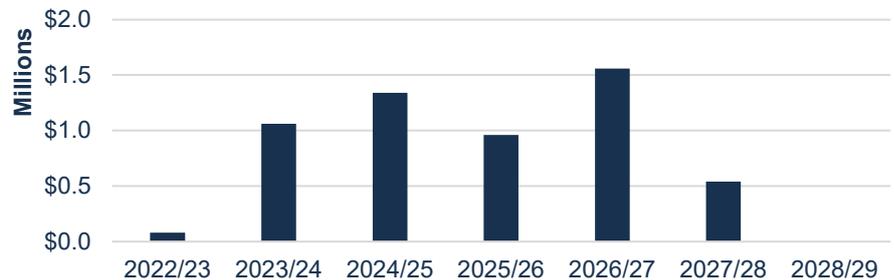
Outcome:
Ongoing protection of the environment through action and education, prioritising Country and our communities

Background:

The EPA Development Licence for the Warrnambool Sewage Treatment Plant includes a requirement to install a disinfection system for the four current and two new treatment cells at the plant by December 2025. The system will be installed in two stages, with the four existing cells by 2023/24, and the two new cells aligned with the Warrnambool Sewage Treatment Plant Upgrade project by 2025/26.

PROJECT: Warrnambool Effluent Management Investigation

Cost: \$5.46 million
Per cent of total program: 4%
Service category: Sewer
Cost driver category: Regulatory compliance
Description: Selection and preliminary design of an effluent management solution required to meet EPA Development Licence requirements
Pre:Post risk rating: Extreme:Minor
Business case reference: FC2022/09580



Outcome:
Ongoing protection of the environment through action and education, prioritising Country and our communities

Background:

The EPA Development Licence for the Warrnambool Sewage Treatment Plant Upgrade includes a requirement to develop an evaluation study report which identifies alternative wastewater disposal methodologies for the plant in the longer term. The first stage is to meet the licence requirement to deliver an evaluation study report by June 2025. Subsequent work pending that report is to undertake further design works to allow the EPA to review and approve the final proposal.

The expenditure proposed after 2025/26 is to meet the requirement that this must commence operation by no later than 31 December 2029, noting that the infrastructure expenditure of those works is not included in this or the next pricing period due to the uncertainty regarding the solution, and the broad cost range of potential solutions.

PROJECT: CX Plus - Billing and CRM System

Cost: \$3.44 million
Per cent of total program: 2%
Service category: Corporate
Cost driver category: Level of service
Description: Replacement of our billing and CRM system
Pre:Post risk rating: Major:Low
Business case reference: FC2022/09581



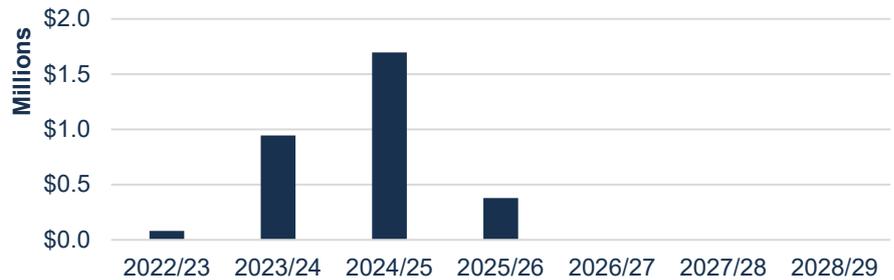
Outcome:
Improved customer experience of our products and services

Background:

To mitigate the risk of relying on unsupported critical business systems, and to implement a system providing a base for substantial digital transformation of customer experience. Implementation commenced in 2022 following an extensive procurement process. Expenditure proposed is for expenditure expected during this pricing period. The system will enable enhanced customer experience to meet customer expectations and improve customer value.

PROJECT: Hopkins Point Road Water Supply Upgrade

Cost: \$3.02 million
Per cent of total program: 2%
Service category: Water
Cost driver category: Growth
Description: New water storage facility and associated infrastructure are required to adequately supply Warrnambool's Hopkins Point Road development area
Pre:Post risk rating: Major:Low
Business case reference: FC2022/09582



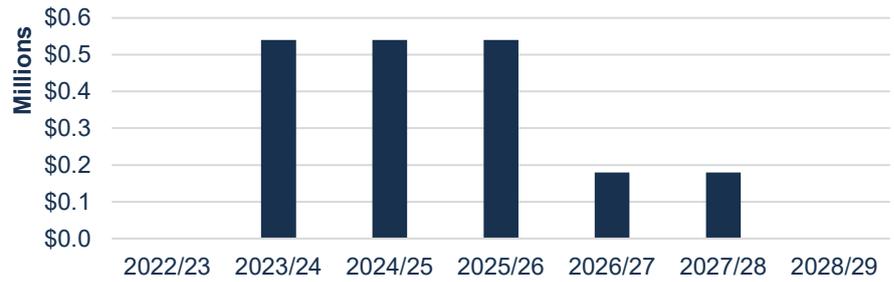
Outcome:
Ongoing reliability of water and sewerage services

Background:

The project includes constructing the final permanent supply of water to the Hopkins Point residential growth area. Key infrastructure includes a water storage facility (elevated tower or on-ground water tank), distribution pump station (in the event of no elevated water tower supply), supply pump station and connecting pipelines.

PROJECT: Conversion of Citect to Clear Scada

Cost: \$1.98 million
Per cent of total program: 1%
Service category: Corporate
Cost driver category: Efficiency improvement
Description: Replacing Citect plant and process control software with Clear SCADA
Pre:Post risk rating: Major:Low
Business case reference: FC2022/09583



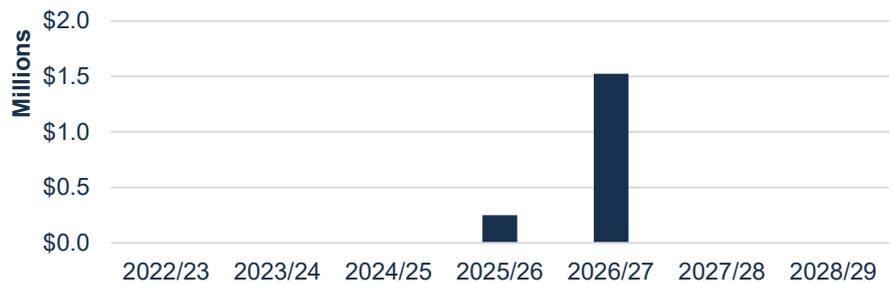
Outcome:
Ongoing reliability of water and sewerage services

Background:

We currently operate two plant and process control systems, Citect SCADA and Clear SCADA. This project is to move to a common platform, Clear SCADA. Standardisation benefits include centralising data collection, a common control language, improving cyber maturity.

PROJECT: Camperdown Water Treatment Plant UV System

Cost: \$1.77 million
Per cent of total program: 1%
Service category: Water
Cost driver category: Regulatory compliance
Description: Infrastructure to improve compliance with drinking water health-based targets.
Pre:Post risk rating: Moderate:Low
Business case reference: FC2022/09584



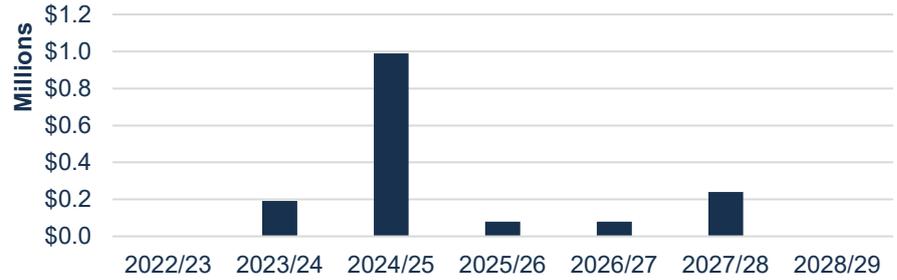
Outcome:
Ongoing reliability of water and sewerage services

Background:

The installation of a UV system addresses an action from an assessment of health-based targets, based on Safe Drinking Water Regulations.

PROJECT: Data Centre - Servers, Storage and Back-up

Cost: \$1.58 million
Per cent of total program: 1%
Service category: Corporate
Cost driver category: Asset replacement
Description: Replacement of IT hardware
Pre:Post risk rating: Moderate:Low
Business case reference: FC2022/09585



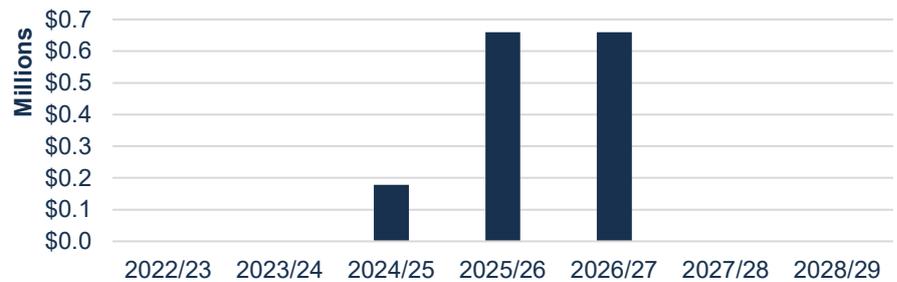
Outcome:
Business enabler which broadly supports the delivery of all customer outcomes

Background:

Upgrading IT infrastructure will maintain the security of data, the availability and responsiveness of applications, and the control, reliability, and integrity of industrial control systems. Strategically, this project supports the business by providing a digital network to support the delivery of services to our customers.

PROJECT: Camperdown Industrial Water Reclamation Plant Lagoon No. 2 ANCOLD-related Dam Safety Work

Cost: \$1.50 million
Per cent of total program: 1%
Service category: Sewer
Cost driver category: Level of service
Description: Remediation and other minor works to reduce risk of dam failure
Pre:Post risk rating: Major:Low
Business case reference: FC2022/09586



Outcome:
Ongoing protection of the environment through action and education, prioritising Country and our communities

Background:

The remedial works scope includes upstream slope and storage works, gravel capping and grass re-establishment on embankments and relocation of security fences. When complete, this storage will comply with ANCOLD guidelines, meeting our dam safety responsibilities under the Statement of Obligations.

Capital programs and other capital expenditure

Apart from the 'top 10' projects, our capital investment is grouped into either 'capital programs' that are ongoing throughout the 2023-28 period, or as 'other projects', which are discrete projects driven by compliance, growth or minor asset refurbishment objectives, and not considered top 10 projects or capital programs.

The 'capital programs' account for 34 per cent and 'other projects' account for 6 per cent of the proposed capital expenditure during the pricing period.

Program	Outcomes						Objective	Comparison to PS18	PS23 total (\$m)
	1	2	3	4	5	6			
Renewals - sewer ³⁶	X	X					To maintain asset base in working order and ensure an appropriate balance between maximising asset lifespan and the risk of asset failure.	Similar - 0.5 per cent more than 2018-23	14.92
Renewals- water ³⁷	X	X						Similar - 5 per cent less than 2018-23 average spend	15.15
Digital (IT systems)	X	X			X		To ensure IT infrastructure supports efficient planning and operational activities. Replace legacy systems no longer supported and replace obsolete hardware.	Increase - reflecting importance of secure and reliable digital systems that enable delivery of services to customers	8.80
Plant and equipment ³⁸	X						To ensure plant and equipment is sufficient to provide efficient field based and office activities.	Similar	6.09
PLC replacements ³⁹	X	X					To ensure reliable water and sewer system monitoring and control.	New expenditure to implement program of works to replace end of life SCADA PLC infrastructure	3.00
UV systems ⁴⁰	X		X				To ensure compliance with the <i>Safe Drinking Water Act</i>	New expenditure to rollout UV systems at six water treatment/disinfection plants	2.82
Water meter replacements ⁴¹	X						To maintain asset base in working order	Significant increase - reflecting the replacement of end-of-life water meters, including the consideration of digital metering solutions	1.95
Other	X	X			X		To invest in minor upgrades to improve compliance, growth and minor asset refurbishment to meet current levels of services into the future.	Decrease - reflecting program prioritisation, including ensuring customers are not bearing risk of uncertain projects	9.61

36 FC2022/10440 – Renewals Business Case

37 FC2022/10440 – Renewals Business Case

38 FC2022/10453 – Vehicles (Commercial) Business Case

39 FC2022/10454 – PLC Replacements Business Case

40 FC2022/10457 – Camperdown WTP UV Upgrade Business Case

41 FC2022/10460 – Water Meter Replacements Business Case

Capacity to deliver

We expect to deliver the forecast capital expenditure program in full and within our current resource capacity.

In developing the capital expenditure program and our capacity to deliver we acknowledged that availability of contractors within the construction environment is currently tight. While this is out of our control, we will continue to implement mechanisms to place ourselves in good positions to deliver, at the very least, the critical asset replacement and regulatory compliance obligations. These mechanisms include:

- An ongoing agreement with engineering consultant/s for design and contract management services
- Tendering works early where possible
- Sizing work packages that allow for a broad base of suppliers to offer their services
- Entering into scheduled rates contracts
- Allowing sufficient time for planning and statutory approvals.

For the Warrnambool Sewage Treatment Plant Upgrade Project, we have engaged a dedicated project manager to oversee its implementation, all the approvals have been obtained and the construction contract is expected to be awarded in October 2022.

Despite the financial quantum of the program being equivalent to the 2018-23 regulatory period, the number of projects in our proposed capital expenditure program is much smaller than the number of projects to be delivered in the 2018-23 program.

Return on the regulatory asset base



Key points

- Opening regulatory asset base (RAB) at 1 July 2023 is expected to be \$399 million.
- Overall PREMO rating of standard = 4.1 per cent return on equity.

Forecast regulatory asset base (RAB)

The closing value of our RAB at 30 June 2022 was \$400.1 million⁴².

We estimate an opening RAB at the start of the pricing period of \$399.3 million.

Consistent with the guidance paper, capital investment of \$14.95 million⁴³ for the 2022/23 year is included. We expect to spend more than that on the Warrnambool Sewage Treatment Plant (WSTP) Upgrade project alone during the year. However, given delays associated with that project, we will carry the additional forecast investment for the period of the 2023-28 pricing period.

Forecast RAB (\$m), 2022/23 – 2027/28

	22/23	23/24	24/25	25/26	26/27	27/28
Opening asset base	400.15	399.28	451.42	472.97	477.37	480.80
plus capital expenditure	14.95	65.76	36.03	20.01	20.03	15.37
less government contributions	-	-	-	-	-	-
less customer contributions	1.00	1.46	1.47	1.49	1.49	1.51
less disposals	0.56	0.60	0.60	0.60	0.60	0.60
less regulatory depreciation	14.26	11.56	12.40	13.53	14.50	14.94
Closing asset base	399.28	451.42	472.97	477.37	480.80	479.12

The capital expenditure program included in this pricing period does not include any provision for government contributions.

We have assumed \$1.5 million per annum from new and existing customers contributing to the costs of connecting to existing water and sewer networks (New Customer Contributions).

We have assumed \$2 million per annum of gifted assets during this pricing period. The forecast is based on average gifted assets received annually from 2018/19 to 2021/22, rounded to the closest million.

Proceeds from asset disposals predominantly relate to the changeover of our motor vehicle fleet.

⁴² D2022/055618 – WNW_2023 Price Review Model

⁴³ Wannon Water final decision – 2018 Water Price Review – 19 June 2018 – page 20

Regulatory depreciation

Regulatory depreciation has been calculated consistent with the approach adopted in previous regulatory periods, i.e. assets have been depreciated using a straight line approach over the economic useful life of the asset.

Economic useful lives of asset classes

Class	Useful life (years)
Communications and computer equipment and software	4
Office equipment	10
Plant and equipment	20
Water meters	20
Bores, weirs, water towers and storage tanks	40
Pumping stations	40
Treatment plants	80
Recycled water pipework	80
Reservoirs and service basins	100
Reticulation network and trunk sewers	100

Regulatory depreciation totaling \$66.9 million is reflective of depreciation on existing assets and new assets.

Regulatory depreciation (\$m), 2023/24 – 2027/28

	23/24	24/25	25/26	26/27	27/28
Regulatory depreciation - existing assets	11.01	10.55	10.10	9.68	9.49
Regulatory depreciation - new assets	0.55	1.85	3.43	4.82	5.45
Total regulatory depreciation	11.56	12.40	13.53	14.50	14.94

With proposed capital expenditure during the first two years of this pricing period driven by the Warrnambool Sewage Treatment Plant Upgrade Project, the allowance for regulatory depreciation increases from 2025/26.

Forecast RAB until 2032/33

We forecast expenditure on capital works of \$121.5 million for 2028-33. This increases the value of the RAB by the end of 2032/33.

Forecast RAB (\$m), 2022/23 – 2027/28

	28/29	29/30	30/31	31/32	32/33
Opening asset base	479.12	482.10	491.48	498.01	512.86
plus capital expenditure	19.90	26.11	23.25	31.50	20.79
less government contributions	0.05	-	0.05	-	0.05
less customer contributions	1.52	1.53	1.54	1.55	1.57
less disposals	0.60	0.60	0.60	0.60	0.60
less regulatory depreciation	14.75	14.59	14.54	14.49	14.36
Closing asset base	482.10	491.48	498.01	512.86	517.07

Cost of debt

The 10-year trailing average approach provided by the ESC has been used to estimate the benchmark cost of debt in the pricing model (including the historic cost of debt values outlined in the 2023 Water Price Review Guidance).

PREMO rating and the regulated return on equity

Using the PREMO assessment tool provided in the 2023 Water Price Review Guidance, we have assessed our PREMO rating as standard. The return on equity applied in the pricing model is 4.1 per cent.

Tax allowance



Key points

- We propose zero tax allowance in this pricing period.
- We expect to take action that, if successful, will delay us entering a tax paying position during this pricing period.

The ESC's model to determine the revenue requirement allows us to recoup a portion of payments under the National Tax Equivalent Regime (NTER) during the pricing period.

We are carrying forward considerable taxation losses, with forecasts based on tariff and expenditure outcomes in this proposal, indicating that we would become tax payable after 2028.

Based on precedent⁴⁴, there is a possibility that an application to the Australian Taxation Office (ATO) to exclude gifted assets from taxable revenue would be supported. If supported, future taxable revenue would exclude gifted assets from taxable revenue, subsequently reducing taxable profit and delaying the payment of tax. Additionally, given we are carrying taxation losses, the restatement of past taxable revenue would occur, increasing our carried forward tax losses and delaying our tax payable position further.

There are two uncertainties to outline:

1. The application being supported by the ATO. While indications are positive, the ATO has not provided a ruling or administrative letter of comfort to support this assumption
2. If supported by the ATO, the impact of restating past tax returns and on future taxable revenue has not been quantified.

We propose that no tax payments⁴⁵ will be made during the next regulatory period. That is, our proposal does not include a tax component of the revenue requirement for the period. In making this proposal, the risk of tax payments having to be made during the period will fall directly on the business, not the customer.

For modelling purposes, tax payments have not been included during the 2028-33 pricing period.

⁴⁴ Victoria Power Networks Pty Ltd v Commissioner of Taxation [2020] FCAFC 169

⁴⁵ D2022/055618 – WNW_2023 Price Review Model

Demand



Key points

- *Victoria in Future 2019* was used to forecast residential and non-residential customer growth.
- Water usage was forecast from historical water usage data as outlined in our *Urban Water Strategy 2022*.
- Proposed connection and usage growth is low.

This section is supported by a supplement documents, *Wannon Water – Approach to Demand Forecasting – 2023-28 period*⁴⁶ and *Wannon Water Urban Water Strategy 2022*⁴⁷.

Method

Forecasting connection growth and water demand for the 2023-28 regulatory period involved reviewing and choosing from various data sources available including:

- *Victoria in Future 2019*⁴⁸
- Historical growth rates from our records⁴⁹
- Historical usage from our records⁵⁰.

After reviewing the growth rate sources, we adopted growth rates from *Victoria in Future (VIF) 2019* to forecast connection growth for customer categories and subsequently water demand.

We project water usage based on our *Urban Water Strategy 2022*.

Connection growth

Our residential connection growth continues to be one of the lowest in Victoria at an average of 0.7 per cent per annum.

Forecast residential and non-residential growth for:

- Group A is 0.8 per cent, being the weighted average growth rate calculated from the VIF projections. Group A includes the majority of our customers, and VIF growth rates for towns in this group ranges between minus 0.37 per cent (Caramut, Glenthompson and Penshurst) and 1.45 per cent (Port Fairy). Major centres of Warrnambool, Hamilton and Portland are 1.1 per cent, 0.1 per cent and 0.6 per cent respectively.
- Group B is 0.3 per cent, increasing to 0.4 per cent in the final three years, being the growth rate calculated from the VIF data. VIF growth rates for towns in this group ranges between minus 0.37 per cent (Macarthur) and 0.61 per cent (Peterborough, Port Campbell and Timboon).

Non-residential connection growth is likely to be less than VIF projections. However, given the low number of connections, we have applied a consistent approach.

Usage demand

Residential and non-residential water usage was projected on the basis of our *Urban Water Strategy 2022*.

⁴⁶ D2022/053269 – *Wannon Water – Approach to Demand Forecasting – 2023-28 period*

⁴⁷ D2022/038871 – *Wannon Water Urban Water Strategy 2022*

⁴⁸ FC2020/03981 – *Victoria in Future 2019 – Population, households and dwellings for Victoria in Future Small Areas (VIFSA) and Local Government Areas (LGA) from 2016 to 2036.*

⁴⁹ D2022/049841 – *Customer Counts 2018/19 to 2021/22*

⁵⁰ FC2022/09782 – *Water Demand Forecasts - Price Submission Workings*

The 2021/22 year residential and non-residential water use provides a robust basis to apply as a benchmark demand. Water use in 2021/22 was six per cent higher than the prior year and is 194 megalitres higher than the five-year average. We have used this 11,679 megalitres as our baseline to apply annual movements in demand as outlined in our Urban Water Strategy 2022.

Actual and projected water demand

	21/22 (actual)	22/23 (forecast)	23/24	24/25	25/26	26/27	27/28
Residential	5,487	5,530	5,573	5,616	5,659	5,703	5,746
Non-residential	6,192	6,220	6,250	6,280	6,309	6,338	6,368
Consumption (ML)	11,679	11,750	11,823	11,896	11,968	12,041	12,114
Change per annum		0.61%	0.62%	0.62%	0.61%	0.61%	0.61%

Price elasticity of demand

Our proposal includes an uplift in our water usage tariffs, changing the fixed to variable ratio of customer bills and impacting renter bills. This change is incremental and, while we expect it to impact some customer consumption habits, the impact will not be material. Our demand forecasts have therefore not been adjusted downwards for this.

Demand management

Consistent with the Victorian Government's *Water for Victoria* policy, we are committed to educating customers about water use in a bid to influence efficient use and water demand. We do this by promoting initiatives like 'Target Your Water Use' and 'Choose Tap'. These state-wide programs encourage wise water use and promote healthy living. The cost of these programs will be met within baseline expenditure.

More details about our demand management program can be found in our recently completed Urban Water Strategy 2022⁵¹.

Incorporating demand into operational budgets

Operating expenditure forecasts are adjusted for customer growth. Given demand increases are driven largely by connection growth rate increases, there is no additional expenditure proposed in this pricing period relating to the associated expenditure of increased electricity and chemical usage.

51 D2022/038871 – Wannon Water Urban Water Strategy 2022

Form of price control and adjusting prices



Key points

- Maintain our individual price cap form of price control.
- Continue to provide price certainty to customers.
- We propose not to adjust for cost of debt movements where the movement reduces our maximum tariffs.

We continue to favour a price cap regime. This responds directly to our customers' feedback that they value price certainty.

In particular, our industrial customers told us they value pricing certainty, as it assists them to plan their business operations into the future with some confidence.

Individual price cap form of price control is a customer-centric approach to pricing – particularly for low income and vulnerable customers – by giving greater price certainty over the planning period. It also weights risk associated with the key assumptions in this price submission more to our business.

In the unlikely circumstance that water usage and/or growth significantly exceed our forecast during the pricing period, resulting in higher than forecast revenue in a particular year, we have the discretion to set lower prices than the maximum approved in subsequent years.

We propose to continue with our existing uncertain and unforeseen events mechanism.

Cost of debt adjustment

Our proposal includes a 'holiday' during this pricing period from applying the cost of debt adjustment to tariffs on an annual basis. We expect to realign with the cost of debt adjustment approach in the 2028-33 pricing period.

We are under-recovering revenue requirement by a considerable amount during this period, borrowing to offset what would otherwise be customer bill increases. Or, in other terms, using our balance sheet capacity to operate.

While our proposal includes small tariff increases, any downward adjustment to proposed tariffs reduces revenue raised during the pricing period and subsequently exacerbates the borrowing-to-operate position we propose. We also propose to bear a high level of cost risk, shielding customers from operating expenditure and construction-related risks.

The intention to adjust tariffs based on the movement of the 10-year trailing cost of debt is to ensure the impact of borrowing costs over time is passed to customers. In the past four years this has seen customer tariffs, and our revenue, reduce as the average has reduced. We acknowledge that, because we have low debt, the allowance we receive in tariffs is more than the cost of borrowings we have incurred to date.

Our proposal includes a significant capital expenditure program during the 2022/23 to 2024/25 years for the Warrnambool Sewage Treatment Plant Upgrade project.

Our total debt at 30 June 2022 is \$25 million. This total is expected to increase by more than \$80 million during a three-year period to over \$100 million. Our total debt portfolio will therefore be heavily skewed towards new debt borrowed during the 2022/23 to 2024/25 period at interest rates of the day. With expected increases in interest rates during that three-year period there is no alignment to the 10-year trailing average cost of debt with our actual cost of debt.

Our financial indicators present a healthy financial state. Our proposal is less about our desire to recover more revenue, but a desire to ensure that the under-recovery of revenue requirement is not exacerbated by a downward adjustment to tariffs.

We have considered other alternative options, including:

- Fixing tariffs at nominal amounts – however, this was considered too high a risk in the current environment where inflation is high
- Applying the cost of debt adjustment to particular tariffs only – this is likely to see a significant reduction to those tariffs.

We propose to retain the current annual adjustment of prices formula as outlined in section 2.3(b) of the *ESC Wannon Water Determination 1 July 2018 - 30 June 2023*, 20 June 2018.

Prices and tariff structure



Key points

- Maintain current tariff structure.
- Adopt Community Panel recommendation to incrementally increase customer bills now rather than large increases in the future.
- Addressing customer preference that more of their bill be variable than fixed by proposing an incremental increase in the water usage charge to prevent price shocks for some customers .
- Limit increases to major trade waste charges to two per cent plus CPI.
- Limit minor trade waste charges to CPI only increases.

After reviewing our current tariff structures, we propose no change for the 2023-28 pricing period.

We propose to maintain our water service charge (fixed), sewerage service charge (fixed) and water usage charge (variable) tariffs. Appendix A provides proposed tariffs and charges.

Water tariffs

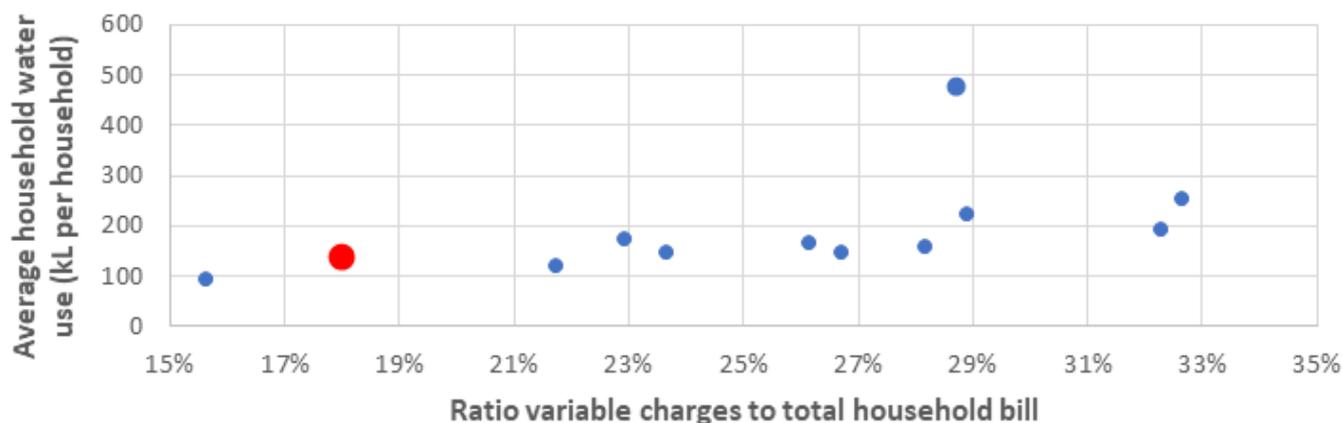
We propose to maintain our water service charge (fixed) and water usage charge (variable) tariffs, and retain current tariff groups, being Groups A and B.

While adopting a postage-stamp pricing approach for water tariffs is our preference, we have prioritised addressing customer feedback that the variable portion of their total bill should increase during this pricing period. Undertaking both changes was counter to our approach of simplicity and we are proposing to retain Group A and Group B as tariff groups.

Our water service charge will decrease by 1.2 per cent and our water usage charge will increase by 2.1 per cent. This reflects feedback from customers that the variable portion of their total bill should increase. With tariff decreases during recent pricing periods restricting such changes, this pricing period provides an opportunity to address that feedback.

Responding to our Community Panel recommendation, we propose to make progress in increasing the variable component of an owner's bill to 23 per cent by 2033. This requires an incremental increase to our water usage charge. Mindful of the impact this change has on a renter's bill, we plan to increase the variable component of an owner's bill to 20 per cent by 2028. We will check in with customers again before implementing the planned further increase to 23 per cent by 2033.

Figure 9 - Ratio of variable charges compared to average household water use



We propose to retain our tiered water use tariff structure for residential customers, noting that nearly three quarters (72 per cent) of residential water use falls into the first step.

Sewerage tariff

We propose to maintain our sewerage service charge tariff.

Our sewerage service charge will remain a single consistent tariff across the region.

Trade waste tariff

All customers discharging trade waste to the sewerage system are charged trade waste tariffs. Trade waste customers fall into one of two tariff structures:

Minor trade waste

Minor trade waste customers are charged the sewerage service charge above and variable volume charge where the volume discharged is greater than 1.42kL/day. There are five volume charge groups.

We propose to continue the path towards a consistent minor trade waste tariff for all customers. We made progress during the 2018-23 pricing period by increasing the Group 1 tariff by 3.8 per cent (plus CPI), Group 2 by CPI only, and holding Groups 3, 4 and 5 stable in nominal terms.

To achieve alignment during this pricing period we will hold minor trade waste volume charges in real terms, and manage the continued alignment within the application of CPI movements.

Major trade waste

Major trade waste volume and load charges will continue to rise by two per cent plus CPI per annum.

A long-run marginal cost (LRMC) exercise⁵² has reaffirmed that volumetric charges for these customers are lower than the LRMC at the Warrnambool Sewage Treatment Plant (WSTP). This has been the case for the past 15 years. However, increasing major trade waste volumetric charges to align to the LRMC at the WSTP would require material price increases and potential price shock for major trade waste customers.

Increasing tariffs by two per cent plus CPI per annum, pending uncertain future investment at the WSTP, will see us move closer to a cost-recovery position over time without causing material adverse bill impacts to major trade waste customers. We consider this approach aligns with the ESC’s pricing principles and the pricing principles included in clause 11 (d) of the WIRO. Following the upgrade of the WSTP in the pricing period, we will undertake a review of current volume and load tariff structure and charges to determine whether the current price signals remain appropriate.

The current major trade waste pricing principles for non-regulated charges remain unchanged.

52 D2022/055630 – Marsden Jacob Associates - Wannon Water - LRMC sewerage assessment

Recycled water tariff

Forecasts for recycled water revenue remain stable for the five years of this pricing period.

Fire services availability charge

We propose to maintain our fire service charge tariff.

Forecasts for fire services revenue remain stable for the five years of this pricing period.

Rural water surcharge

We propose to maintain the rural water surcharge.

Following a recent review, the rural water surcharge remains an effective measure to mitigate against uncontrolled growth in rural water consumption and to ensure our major water system remains sustainable.

Miscellaneous services

Miscellaneous charges, having increased by inflation during the current pricing period, remain reflective of the cost to provide the services and therefore remain unchanged.

New Customer Contributions

New Customer Contribution (NCC) charges were developed in accordance with the ESC principles outlined in the guidance paper. For this Price Submission NCC charges will rise by CPI only. NCC charges for Portland and Hamilton customers reduced by 50 per cent during the past pricing period, bringing those charges into parity with all other towns' sewer NCC charges.

In response to feedback from developers, we will continue to apply a simpler structure for developer construction fees and apply the principles that allow for the cost of shared reticulation assets to be shared among benefitting landowners. We will also monitor the implementation of the NCC model being developed by other water corporations. We do not have the same driver as those water corporations to increase NCCs.

Performance - Price Submission 2018-23



Key points

- We are meeting six of our seven customer outcomes.
- Our delivery of capital expenditure is on track, albeit delayed, with one exception.
- Warrnambool Sewage Treatment Plant Upgrade project experienced significant, uncontrollable delays, impacting overall capital expenditure delivery.
- Our adjusted baseline controllable operating expenditure for 2021/22 was 16 per cent higher than our approved 2021/22 total controllable operating expenditure .
- Typical residential customer bills decreased every year except 2022/23.
- Key customer perception metrics have remained steady throughout the pricing period.
- PREMO self-assessed rating for performance = Standard (1.9/4).

Outcomes

At the completion of our fourth year of the 2018-23 pricing period, we have rated our performance against customer outcomes as achieved. We consider that we have performed well overall. We remain on track to achieve our outcome commitments this pricing period.

Outcome	18/19	19/20	20/21	21/22
1 Provide safe and reliable water supplies	Green	Green	Amber	Green
2 Provide sewerage services that protect public health and the environment	Green	Green	Green	Green
3 Ensure the long-term resilience of our services	Green	Green	Green	Green
4 Be responsive and willing to adapt as customer needs change	Green	Green	Green	Green
5 Protect and enhance the environment in line with community expectations	Amber	Amber	Green	Green
6 Partner with customer communities and help our region flourish	Green	Green	Green	Green
7 Ensure we provide great value	Red	Red	Red	Red
Overall	Green	Green	Green	Green

Predominantly, we have achieved great results in areas of importance to our customers. Of our seven outcome commitments, we classify one as red and six as green by traffic light status (red, amber, green).

We commenced actions to address key drivers of customer perception of value and taste of water during the period. These were largely investigative and/or planning in nature, with the exception of CX Plus (replacing the billing and customer relationship management systems). Significant expenditure is proposed in this pricing period to implement these projects and/or initiatives. They include:

1. **CX Plus** – the justification, tendering and appointment of a supplier to provide a new customer relationship management and billing system occurred during 2020-2022. Implementation will begin in 2022/23, with a forecast \$6.5 million reallocated from the Warrnambool Sewage Treatment Plant (WSTP) Upgrade underspend to commence this project in a timely manner. These systems provide a base for substantial digital transformation of customer experience.
2. **Great Tasting Water** – we developed a business case, including extensive stakeholder and community consultation, responding to engagement feedback regarding the taste of drinking water in some groundwater supplied towns.

3. Customer Experience – we undertook research and development associated with embedding customer centricity in the business to deliver improved customer experience, responding to customer feedback regarding the drivers of their perception of value.

Our expectation is that customers’ perception of value will increase as these projects are implemented. The above expenditure aligns strongly with proposed outcomes in this price submission.

Capital expenditure program

Throughout the current regulatory period, our capital expenditure has focused on delivering water and sewerage systems that support system reliability, environmental health, growth, regulatory compliance and business efficiency.

A comparison of actual capital expenditure during the current regulatory period with capital expenditure included in the ESC’s 2018 Final Determination is shown in figures 10 and 11 below.

Figure 10 excludes the Warrnambool Sewage Treatment Plant Upgrade Project to provide a clearer comparative, as this project accounted for 16 per cent of the capital expenditure program.

Figure 10 shows that expenditure during the current period is \$11 million less than the Final Determination, predominantly due to impacts of COVID-19 on contractor availability and tendering some projects later than expected. It shows that we expect to spend \$28 million during 2022/23 (excluding \$19 million for the Warrnambool Sewage Treatment Plant Upgrade Project), with large projects already underway or contracts executed in readiness for commencement.

Figure 10 - Comparison of capital expenditure (excluding Warrnambool Sewage Treatment Plant Upgrade) – ESC final determination vs actual (forecast 2022/23) (\$m)

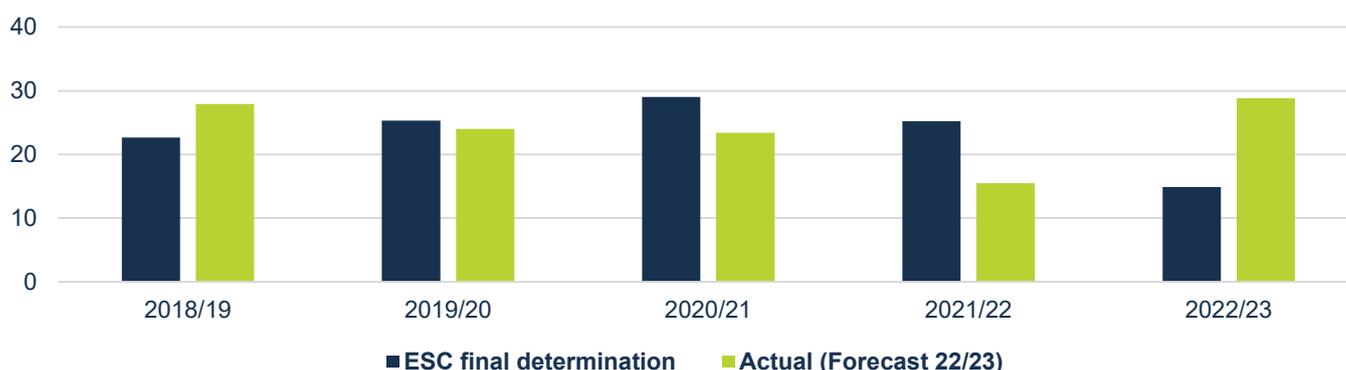
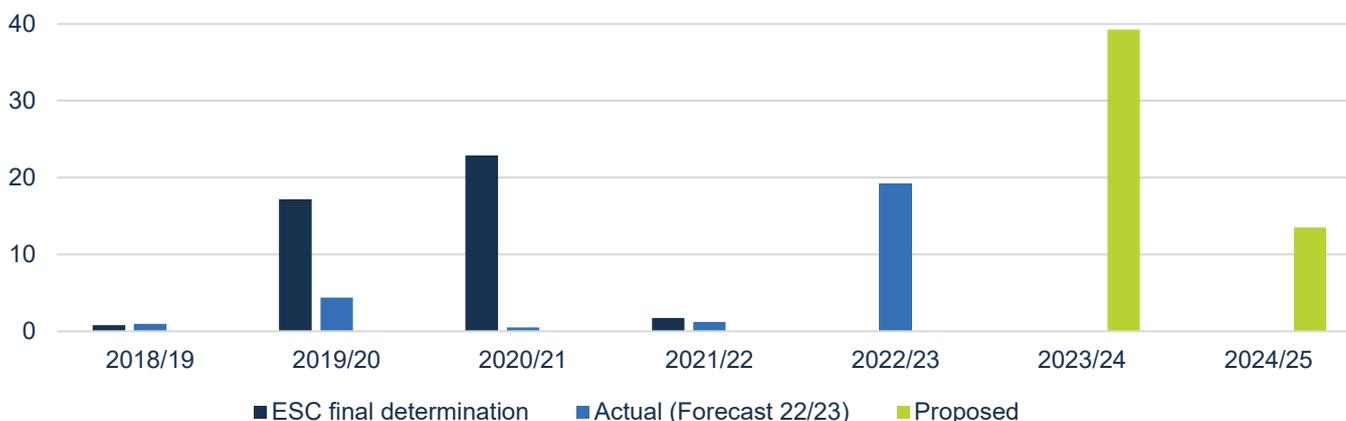


Figure 11 compares, for the Warrnambool Sewage Treatment Plant Upgrade Project, actual capital expenditure during the current regulatory period with capital expenditure included in the ESC’s 2018 Final Determination. It also shows proposed capital expenditure during this pricing period.

Figure 11 – Comparison of Warrnambool Sewage Treatment Plant Upgrade capital expenditure – ESC final determination vs actual (forecast 2022/23) and proposed 2023/24 – 2024/25 (\$m)



The variance during the 2019-2021 years was due to significant and unpredicted delays experienced gaining approvals for the Warrnambool Sewage Treatment Plant Upgrade Project⁵³.

⁵³ FC2022/09578 – Warrnambool STP Upgrade Business Case

During the period we responded to feedback from customers to improve their experience with us, investing more than \$0.5 million to finalise planning and preliminary design of our new billing and customer relationship management systems. Design will be completed, and implementation will commence in the 2022/23 year, with a forecast \$6.5 million reallocated from the WSTP Upgrade underspend to commence this project in a timely manner.

Of the nine⁵⁴ major capital projects included in our current period expenditure forecast, we:

- Have delivered three
- Expect to complete three during 2022/23
- Expect to complete one by 2023/24
- Expect to complete one by 2024/25
- Deferred one pending matching funding from government.

Project	Status	Comment
Warrnambool Sewage Treatment Plant Upgrade Project	Delayed	Delays relating to pre-construction approvals occurred during the period. Detailed design of the upgrade is complete and the project was tendered in June 2022. A construction contract is expected to be awarded in October 2022. Construction is planned to commence late 2022 with completion expected by 2025, subject to the successful contractor's proposed program.
Warrnambool - Wangoom Road water tower and pump station	Will be complete in 2022/23	The construction of the pipeline element of this project started during 2020/21. Construction of a new water tower and pump station was delayed due to land acquisition issues which have subsequently been resolved. A tender is currently planned for late 2022, with construction expected to occur during 2022/23.
Hamilton – New biosolids drying area	Complete	This project was completed in March 2021. Design was completed and construction started in 2018/19. The original contractor engaged to undertake the works was unable to complete the works. This caused a delay as the remaining works were re-tendered and completed by another contractor.
Camperdown Biosolids Facility - Refurbishment	Complete	Construction of the refurbished biosolids drying facility was completed during the period.
Warrnambool Water Treatment Plant – UV installation	Will be complete in 2023/24	A contract has been awarded for the procurement of the UV equipment. However, COVID-19 resulted in extended lead-in time for delivering equipment. Design has been completed for the associated building and pipework and the contract has been awarded for the construction of the UV building and associated UV infrastructure. Construction and installation are planned to start in 2022/23 and be completed in 2023/24.
Port Campbell - Second bore	Will be complete in 2022/23	Design and approvals were brought forward to 2019/20 to facilitate construction of a new bore in 2022/23. A tender has been advertised in May 2022 with construction expected to begin in 2022/23.
Gellibrand River - Substitution works to improve summer flows	Deferred	Project study and design phase has been deferred. Commencement of works will be dependent on matching funding to ensure value for money outcomes for our customers.
Hamilton Sewage Treatment Plant - Augmentation	Will be complete in 2022/23	Construction of Stage 1 of infrastructure to upgrade the effluent reuse options started in 2019/20 and was completed in 2020/21. Design of Stage 2 infrastructure is underway, with expected completion in 2022/23.
Hamilton Water Treatment Plant - New clear water storage	Complete	Construction of a new clear water storage tank is complete and the tank is operational.
Warrnambool - Wollaston Road water tower and pump station	<i>This project is not funded within Wannon Water's current Price Submission period</i>	Further assessments have identified a pressure booster pump system is preferred over a water tower. Delivery of the ultimate infrastructure to cater for increased residential growth will be staged over the next two pricing periods. Design and tender of the first phase booster pumps will occur in 2022/23, allowing for construction of the booster pumps to occur in 2023-25.

54 A proposed top 10 project (Wollaston Road Tower and WPS) was removed by the ESC in the Final Determination

Operating expenditure

Our adjusted baseline controllable operating expenditure for 2021/22 was 16 per cent higher than our approved 2021/22 total controllable operating expenditure.

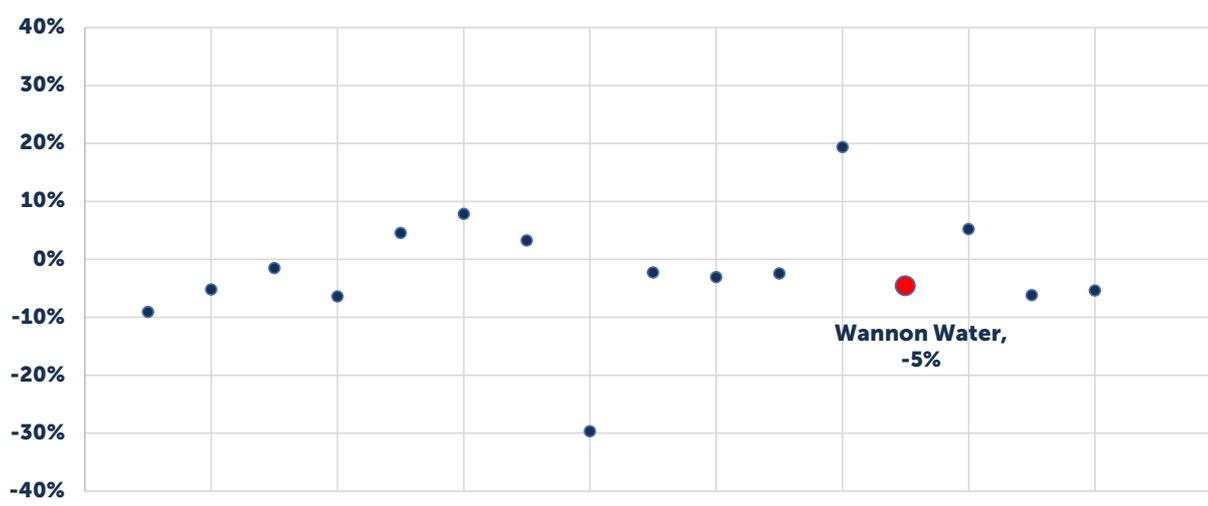
There are several reasons for this, including:

- Very low growth rate related increases in approved controllable operating expenditure were more than fully offset by a cost efficiency improvement rate of one per cent, meaning our approved controllable operating expenditure target was a stretch target
- A historic aggressive approach to cost reductions, delivering household bill reductions exceeding 10 per cent during the 2013–18 pricing period
- Investment in digital transformation, which is largely operating expenditure and provides longer-term payback, was \$1.1 million more than forecast
- Energy prices, with movements during the period exceeding those approved by \$0.96 million
- Meeting new or increased regulatory and compliance obligations, including:
 - *Environmental Protection Act*
 - Standing Directions of the Minister for Finance
 - Victorian Government Purchasing Board
 - Social Procurement Framework
 - Local Jobs First Policy
 - *Modern Slavery Act*
 - Public Sector Commission guidelines
 - *Gender Equality Act*
 - Minister for Water Letter of Expectations
 - Statement of Obligations (emissions reduction)
 - *Security of Critical Infrastructure Act*
 - *Privacy and Data Protection Act*
- Through the use of consulting experts, expenditure has doubled during the period to meet obligations. Contractors and consultants' expenses was \$1.4 million higher than forecast.
- Insurance costs were \$0.29 million higher than forecast, an increase of more than 130 per cent since 2017/18.
- Employee costs were \$0.29 million lower than forecast.

We continue to be challenged by low revenue growth. This is exacerbated by our obligation to provide services across the second-largest operating area of Victorian urban water corporations, meaning lack of economies of scale impact our ability to sustain controllable operating expenditure.

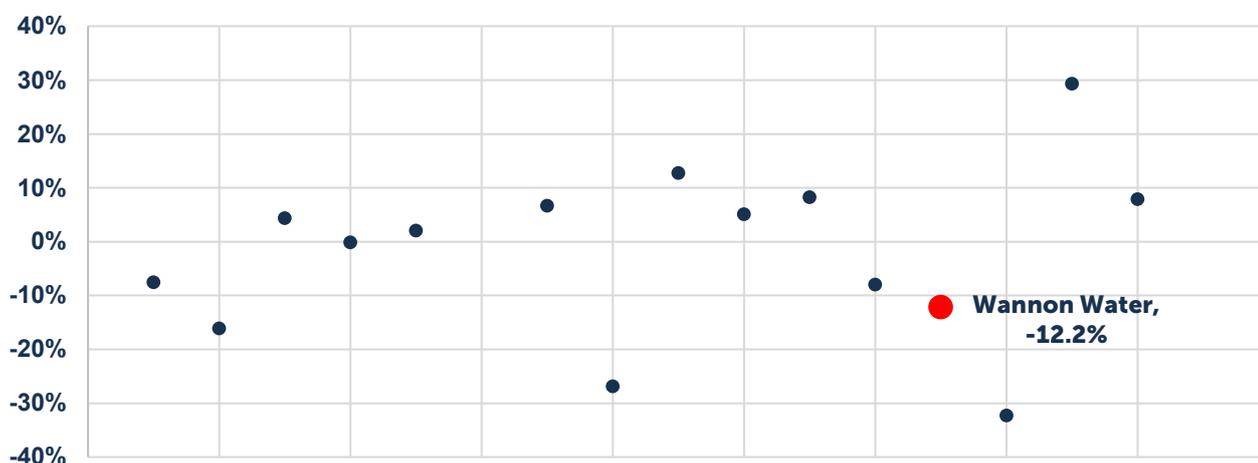
During the current pricing period we demonstrate a five per cent reduction in operating expenditure per connection. This is the fifth-largest decrease of Victorian urban water corporations.

Figure 12 – Combined operating costs per property: water supply and wastewater - 2020/21 to 2017/18



Longer term, during the 2012/13 to 2020/21 period, we had the fourth-largest decrease in operating expenditure per property compared to all Victorian urban water corporations. This demonstrates the focus on and delivery of efficiencies during that period, passed on to customers in bill reductions.

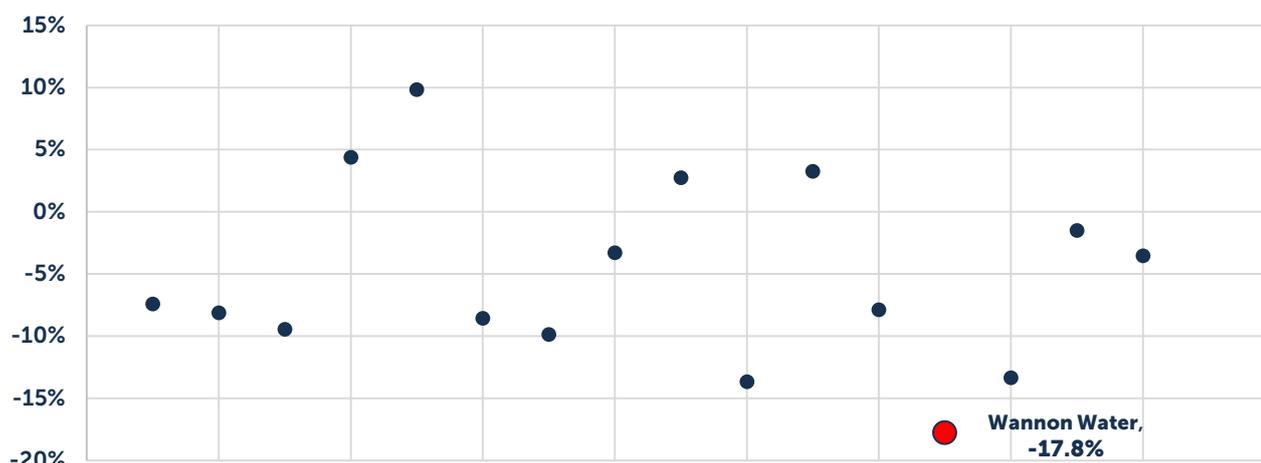
Figure 13 - Combined operating costs per property: water supply and wastewater - 2020/21 to 2012/13



Typical residential customer bill

Our customers' bills have been reducing in real terms since 2012/13. The current pricing period continued that trend. According to the Bureau of Meteorology, during the period of 2012/13 to 2020/21, our typical residential customer bill has decreased by 18 per cent. This is the largest decrease of all Victorian water corporations, four per cent more than the next largest decrease.

Figure 14 – Percentage change in total typical residential bill - 2020/21 to 2012/13



At the beginning of Price Submission 2013-18 our customer bills were the fifth-largest compared to Victorian regional urban water corporations. At the end of 2020/21, this has moved to the fifth-lowest.

The table below demonstrates that, during the current pricing period, bills for owners and renters have decreased each year.

Total household bill (\$2022/23), 2018/19 to 2022/23

	18/19	19/20	20/21	21/22	22/23
Owner occupier	1,230.20	1,195.80	1,163.10	1,129.30	1,105.60
Year-on-year change	-1.0%	-2.8%	-2.7%	-2.9%	-2.11%
Renter	234.10	219.40	214.30	209.30	207.50
Year-on-year change	0.1%	-6.3%	-2.4%	-2.3%	-0.8%

Service levels

Our performance meeting service standards remained at high levels during the price submission period. The annual Bureau of Meteorology Performance Report 2020-21⁵⁵ points to better than average performance for most key indicators compared to the average for both the national 20-50,000 connected properties utility group and the Victorian regional urban water corporations.

The table below shows performance compared to our Price Submission 2018-23 service level targets. The targets were set based on five-year historical average performance leading into Price Submission 2018-23. As expected, based on that target setting approach, we are achieving half the service levels, with some one-off water supply interruption events impacting several indicator outcomes to date.

Achievement of Price Submission 2018-23 service levels to June 2022

	Service standard	Target	Price Submission 2018-23 period to date
Water			
1.01	Unplanned water supply interruptions (per 100km)	9.2	6.0
1.02	Average time taken to attend bursts and leaks (priority 1) (minutes)	21	22
1.03	Average time taken to attend bursts and leaks (priority 2) (minutes)	30	24
1.04	Average time taken to attend bursts and leaks (priority 3) (minutes)	85	51
1.05	Unplanned water supply interruptions restored within 5 hours (%)	98	95.3
1.06	Planned water supply interruptions restored within 5 hours (%)	96	96.9
1.07	Average unplanned customer minutes off water supply (minutes)	5	6.3
1.08	Average planned customer minutes off water supply (minutes)	2	5.0
1.09	Average frequency of unplanned water supply interruptions (number)	0.06	0.05
1.10	Average frequency of planned water supply interruptions (number)	0.02	0.03
1.11	Average duration of unplanned water supply interruptions (minutes)	80	138
1.12	Average duration of planned water supply interruptions (minutes)	135	149
1.13	Number of customers experiencing more than 5 unplanned water supply interruptions in the year (number)	0	0
Sewerage			
2.01	Sewerage blockages (per 100km)	30	18.3
2.02	Average time to attend sewer spills and blockages (minutes)	35	40
2.03	Average time to rectify a sewer blockage (minutes)	117	114
2.04	Spills contained within 5 hours (%)	99	97
2.05	Customers receiving more than 3 sewer blockages in the year (number)	0	0.5
Customer service			
3.01	Complaints to EWOV (per 1000)	1.2	0.6
3.02	Telephone calls answered in 30 seconds 1300 926 666 (%)	96	98

55 FC2022/08655 – Bureau of Meteorology – National Performance Report 2020–21: Urban Water Utilities

Customer sentiment

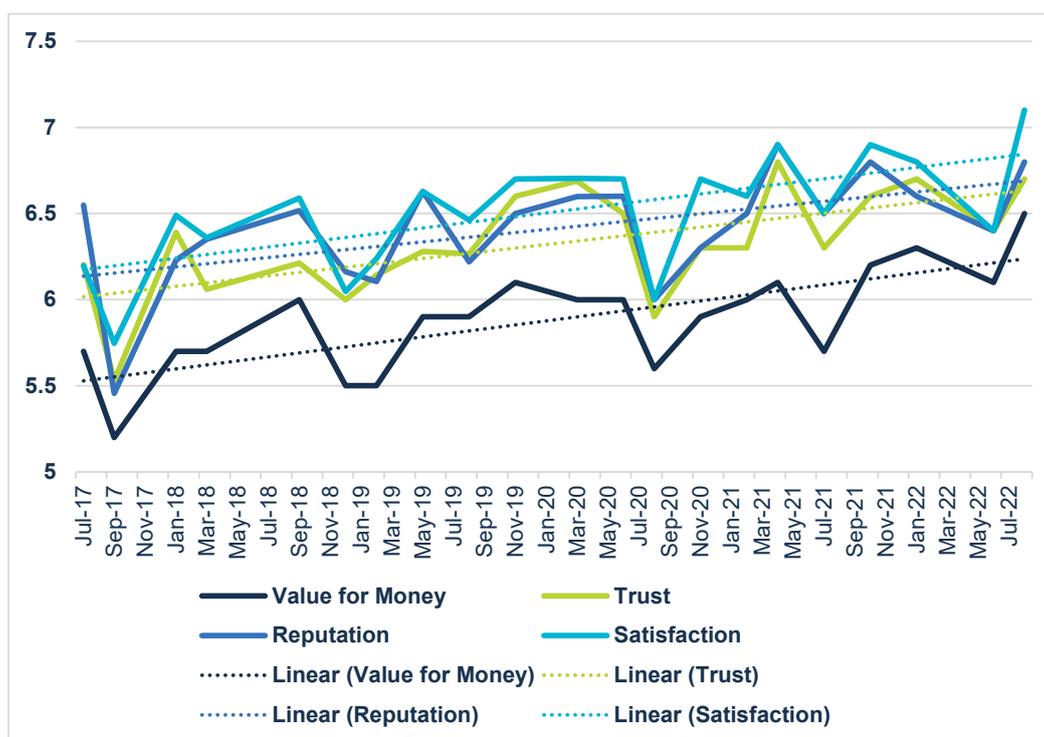
Having considered all data on key customer perception metrics for Wannon Water, a reasonable conclusion is that key metrics have remained steady throughout the pricing period. Our results align with other Victorian water corporations of similar size for these key metrics.

There have been no statistically significant shifts measured by the ESC in any of the key metrics during the pricing period (as of August 2022). The trendline against the number ratings for all metrics in the ESC survey shows a slight increase in perceptions across the pricing period, noting, however, that the numbers have not changed from a statistically significant perspective (see Figure 15).

We have remained in the group of Victorian water corporations experiencing average ratings (from a statistically significant perspective) for all metrics. This is broadly consistent with the results of other Victorian water corporations of comparable size. However, the most recent results (for August 2022) saw Wannon Water ranked equal top for value for money, second for overall satisfaction, fourth for reputation and seventh for trust.

Of all metrics, the ESC research shows Wannon Water rates most highly for overall satisfaction, then reputation, then trust, then value for money.

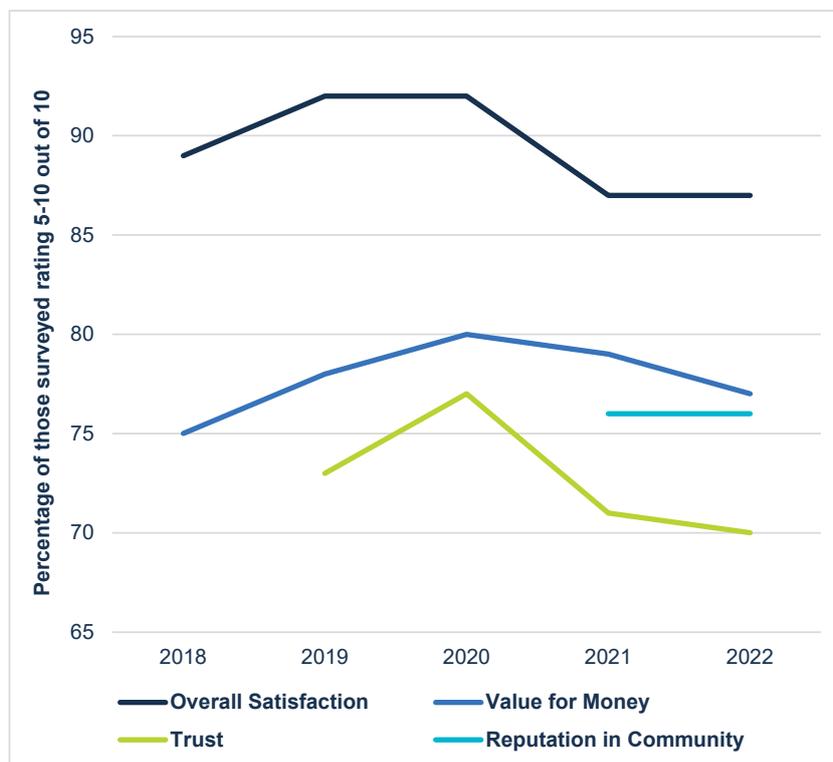
Figure 15 - ESC Customer Perceptions Results 2018-2023 Pricing Period (at August 2022)



While showing higher numbers than the ESC customer perceptions survey, our own monthly pulse surveying (since September 2021) also shows no statistically significant differences for the average results in all metrics.

Of all metrics, our research indicates customer perceptions were highest for overall satisfaction, then value for money, reputation and trust (see Figure 16 - page 69).

Figure 16 – Wannon Water Annual Customer Value Survey, 2018 - 2022



We also participate in the Water Services Association of Australia National Benchmarking Survey. This 2021 survey of 34 water corporations across Australia showed:

- Compared to 2019 results, in 2021 there were improvements in all key metrics (value for money, reputation in the community, water quality, satisfaction and trust).
- There were statistically significant improvements in value for money and reputation in the community compared to 2019.
- When asked about value for money, Wannon Water respondents rated us second-best (Australia Post was best). This was followed, in order, by their internet provider, gas supplier, electricity provider and local council. This order was approximately the same for trust, reputation and satisfaction.
- When benchmarked among all 34 other corporations, we ranked:
 - Number one for reputation in the community
 - Seventh for trust
 - Higher than average for all key metrics except for satisfaction with water quality.

PREMO summary - Performance

Aspect	Score	Comment
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?	2.0	<p>As per our annual self-assessment, we are meeting six of our seven outcome commitments, measured by achievement of outputs compared to target.</p> <p>We are meeting half of our service level targets.</p> <p>Customers' bills reduced during the period, despite the impacts of inflation.</p>
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?	1.75	<p>We have experienced higher operating expenditure compared to the established benchmark.</p> <p>Reasons for the variation have been outlined.</p> <p>Anecdotally, the variation and reasoning are consistent with other water corporations and local organisations.</p>
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?	1.75	<p>Capital expenditure is on track, with many projects delayed for various reasons expected to be completed during 2022/23.</p> <p>The delays, particularly the Warrnambool Sewage Treatment Plant Upgrade Project, have been explained.</p>
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?	2.0	<p>We have provided an analysis of customer perception metrics gathered from various sources.</p> <p>Results align with other Victorian water corporations of similar size.</p>
Overall average score	7.5/4 = 1.88	Standard (low)

Financial position



Key points

- Significant increase in total debt.
- Key financial indicators show this price submission is financially sound.

In proposing to offset customer bill impacts and deliver a significant capital expenditure program, we have been careful to ensure the financial sustainability of the business remains strong.

At 30 June 2022, total debt was \$25 million, a gearing (debt to regulatory asset base) ratio of 7 per cent. Total debt is forecast to increase quickly and significantly to \$100 million in 2025/26, moving the gearing ratio to 20 per cent by 2025/26. We have the capacity to service the forecast debt increase and additionally when compared to the financial indicator benchmarks provided by the ESC, our forecast financial position remains strong during the 2023-28 pricing period.

Financial indicators⁵⁶

	Benchmark	23/24	24/25	25/26	26/27	27/28
FFO interest cover (times)	>1.5 times	11.40	6.88	6.47	7.02	7.26
Net debt/RAB (gearing) (per cent)	<70 per cent	9.2	17.6	20.4	19.9	19.5
FFO/Net debt (per cent)	>10 per cent	51.7	21.2	18.5	19.5	21.3
Internal financing ratio (per cent)	> 35 per cent	31.3	50.0	96.8	100.5	143.7
Total forecast debt (\$ million)		87	106	108	109	102

56 D2022/055618 – WNW_2023 Price Review Model

Appendix A - Prices and tariff structures

Tariff and price component	22/23	23/24	24/25	25/26	26/27	27/28	Average price path p.a.
WATER TARIFFS							
Urban Residential and Non-Residential, Rural Water Service and Fire Service Charges (per annum)							
Service Charge Group A - Portland, Heywood, Port Fairy, Allansford, Noorat/ Glenormiston, Camperdown, Carlisle, Carpendeit, Cobden, Koroit, Lismore/ Derrinallum, Mortlake, Purnim, Simpson, Terang, Warrnambool, Balmoral, Caramut, Cavendish, Dunkeld, Glenthompson, Hamilton, Peshurst and Tarrington							
0-20mm connection	175.21	173.09	171.00	168.94	166.90	164.89	-1.2%
21-25mm connection	261.15	258.00	254.88	251.81	248.77	245.76	-1.2%
26-32mm connection	702.81	694.33	685.94	677.66	669.48	661.40	-1.2%
33-40mm connection	1,230.55	1,215.69	1,201.02	1,186.52	1,172.19	1,158.04	-1.2%
41-50mm connection	1,933.93	1,910.58	1,887.52	1,864.73	1,842.22	1,819.98	-1.2%
51-80mm connection	2,813.40	2,779.43	2,745.88	2,712.73	2,679.98	2,647.62	-1.2%
81-100mm connection	4,068.29	4,019.17	3,970.65	3,922.71	3,875.36	3,828.57	-1.2%
101-150mm connection	5,683.04	5,614.43	5,546.65	5,479.68	5,413.53	5,348.17	-1.2%
151+mm connection	7,507.24	7,416.61	7,327.07	7,238.61	7,151.22	7,064.88	-1.2%
Service Charge Group B - Peterborough, Port Campbell Timboon, Dartmoor, Casterton, Coleraine, Macarthur, Merino and Sandford							
0-20mm connection	316.60	312.78	309.00	305.27	301.59	297.94	-1.2%
21-25mm connection	471.75	466.05	460.63	454.87	449.38	443.95	-1.2%
26-32mm connection	1,268.54	1,253.23	1,238.10	1,223.15	1,208.38	1,193.79	-1.2%
33-40mm connection	2,220.75	2,193.94	2,167.45	2,141.29	2,115.43	2,089.89	-1.2%
41-50mm connection	3,489.87	3,447.74	3,406.11	3,364.99	3,324.37	3,284.23	-1.2%
51-80mm connection	5,076.61	5,015.32	4,954.77	4,894.95	4,835.86	4,777.48	-1.2%
81-100mm connection	7,340.71	7,252.09	7,164.53	7,078.04	6,992.59	6,908.17	-1.2%
101-150mm connection	10,254.12	10,130.32	10,008.02	9,887.20	9,767.83	9,649.91	-1.2%
151+mm connection	14,305.79	14,133.08	13,962.45	13,793.89	13,627.36	13,462.84	-1.2%
Service Charge - Darlington							
Darlington	175.21	173.09	171.00	168.94	166.90	164.89	-1.2%
Urban Residential Water Usage Charges (per kL)							
Usage Charge Group A - Portland, Heywood, Port Fairy, Allansford, Noorat/ Glenormiston, Camperdown, Carlisle, Carpendeit, Cobden, Koroit, Lismore/ Derrinallum, Mortlake, Purnim, Simpson, Terang, Warrnambool, Balmoral, Caramut, Cavendish, Dunkeld, Glenthompson, Hamilton, Peshurst and Tarrington							
User Charge Block 1 (0-438 litres/day)	1.4614	1.4906	1.5204	1.5508	1.5819	1.6135	2.1%
User Charge Block 2 (439-822 litres/day)	2.2383	2.2831	2.3287	2.3753	2.4228	2.4713	2.1%
User Charge Block 3 (822+ litres/day)	3.3577	3.4249	3.4934	3.5632	3.6345	3.7072	2.1%

Usage Charge Group B - Peterborough, Port Campbell, Timboon, Dartmoor, Casterton, Coleraine, Macarthur, Merino and Sandford							
User Charge Block 1 (0-438 litres/day)	0.9477	0.9667	0.9860	1.0057	1.0258	1.0463	2.1%
User Charge Block 2 (439-822 litres/day)	1.7260	1.7605	1.7957	1.8316	1.8683	1.9056	2.1%
User Charge Block 3 (822+ litres/day)	2.5891	2.6409	2.6937	2.7476	2.8025	2.8586	2.1%
Usage Charge - Darlington							
Darlington usage all usage (per kL)	0.6481	0.6481	0.6481	0.6481	0.6481	0.6481	0.0%
Urban Non-Residential and Rural Water Usage Charges (per kL)							
Usage Charge Group A - Portland, Heywood, Port Fairy, Allansford, Noorat/ Glenormiston, Camperdown, Carlisle, Carpenteit, Cobden, Koroit, Lismore/ Derrinallum, Mortlake, Purnim, Simpson, Terang, Warrnambool, Balmoral, Caramut, Cavendish, Dunkeld, Glenthompson, Hamilton, Penshurst and Tarrington							
Potable water (per kL)	2.2383	2.2831	2.3287	2.3753	2.4228	2.4713	2.1%
Non-potable water (per kL)	1.4614	1.4906	1.5204	1.5508	1.5819	1.6135	2.1%
Usage Charge Group B - Peterborough, Port Campbell, Timboon, Dartmoor, Casterton, Coleraine, Macarthur, Merino and Sandford							
Potable water (per kL)	1.7261	1.7606	1.7958	1.8318	1.8684	1.9058	2.1%
Non-potable water (per kL)	0.9477	0.9667	0.9860	1.0057	1.0258	1.0463	2.1%
Rural Water Usage Charge							
Surcharge	2.000	2.000	2.000	2.000	2.000	2.000	0.0%
Residential Unconnected Service Charge (per annum) - All Groups							
Service charge	175.21	175.21	175.21	175.21	175.21	175.21	0.0%
Unmetered Service Charge (per annum) - All Groups							
Service charge	1,501.40	1,501.40	1,501.40	1,501.40	1,501.40	1,501.40	0.0%
SEWERAGE TARIFFS							
Residential and Non-Residential Sewerage Tariff Connected Service (per annum)							
Service Charge	722.87	730.10	737.40	744.77	752.22	759.74	1.0%
Residential and Non-Residential Sewerage Tariff Unconnected Service (per annum)							
Service Charge	216.82	218.99	221.18	223.39	225.62	227.88	1.0%
TRADE WASTE VOLUME AND LOAD CHARGES							
Major Trade Waste Volume Charges							
Volume (\$/kL)	0.6996	0.7137	0.7280	0.7426	0.7574	0.7726	2.0%
BOD (\$/kg)	1.6075	1.6399	1.6727	1.7062	1.7403	1.7751	2.0%
Suspended Solids (\$/kg)	0.2918	0.2978	0.3037	0.3098	0.3160	0.3223	2.0%
Ammonia (\$/kg)	1.6839	1.7179	1.7523	1.7873	1.8231	1.8595	2.0%
Minor Trade Waste Volume Charges & Non Residential Sewage Volume Charges							
Group 1 - Warrnambool, Allansford and Koroit							
Volume (\$/kL)	1.5342	1.5342	1.5342	1.5342	1.5342	1.5342	0.0%
Group 2 - Hamilton							
Volume (\$/kL)	1.5338	1.5338	1.5338	1.5338	1.5338	1.5338	0.0%
Group 3 - Portland							
Volume (\$/kL)	1.6421	1.6421	1.6421	1.6421	1.6421	1.6421	0.0%
Group 4 - Port Fairy							
Volume (\$/kL)	1.8473	1.8473	1.8473	1.8473	1.8473	1.8473	0.0%
Group 5 - Camperdown, Casterton, Cobden, Coleraine, Dunkeld, Heywood, Mortlake, Peterborough, Port Campbell, Simpson, Terang and Timboon							
Volume (\$/kL)	1.8035	1.8035	1.8035	1.8035	1.8035	1.8035	0.0%

CUSTOMER CONTRIBUTIONS							
Warrnambool Growth Area							
Water (per lot)	5200.00	5200.00	5200.00	5200.00	5200.00	5200.00	0.0%
Sewer (per lot)	990.00	990.00	990.00	990.00	990.00	990.00	0.0%
North Dennington Growth Area							
Water (per lot)	2,210.00	2,210.00	2,210.00	2,210.00	2,210.00	2,210.00	0.0%
Sewer (per lot)	990.00	990.00	990.00	990.00	990.00	990.00	0.0%
Warrnambool Roof Water Harvesting Area							
Water (per lot)	2,480.00	2,480.00	2,480.00	2,480.00	2,480.00	2,480.00	0.0%
Sewer (per lot)	990.00	990.00	990.00	990.00	990.00	990.00	0.0%
All other areas							
Water (per lot)	990.00	990.00	990.00	990.00	990.00	990.00	0.0%
Sewer (per lot)	990.00	990.00	990.00	990.00	990.00	990.00	0.0%
MISCELLANEOUS FEES AND CHARGES							
Water tapping fee (including fire service connections)							
20mm connection	301.60	301.60	301.60	301.60	301.60	301.60	0.0%
25mm connection	340.83	340.83	340.83	340.83	340.83	340.83	0.0%
32mm connection	446.25	446.25	446.25	446.25	446.25	446.25	0.0%
40mm connection	507.89	507.89	507.89	507.89	507.89	507.89	0.0%
50mm connection	706.38	706.38	706.38	706.38	706.38	706.38	0.0%
80mm connection	2,332.20	2,332.20	2,332.20	2,332.20	2,332.20	2,332.20	0.0%
100mm connection	2,332.20	2,332.20	2,332.20	2,332.20	2,332.20	2,332.20	0.0%
150mm connection	2,814.35	2,814.35	2,814.35	2,814.35	2,814.35	2,814.35	0.0%
Water main/sewer main link-up	350.93	350.93	350.93	350.93	350.93	350.93	0.0%
Rebooking fee	140.13	140.13	140.13	140.13	140.13	140.13	0.0%
Water meter							
20mm connection	133.41	133.41	133.41	133.41	133.41	133.41	0.0%
25mm connection	207.41	207.41	207.41	207.41	207.41	207.41	0.0%
32mm connection	465.30	465.30	465.30	465.30	465.30	465.30	0.0%
40mm connection	541.54	541.54	541.54	541.54	541.54	541.54	0.0%
50mm connection	3,262.86	3,262.86	3,262.86	3,262.86	3,262.86	3,262.86	0.0%
80mm connection	3,285.29	3,285.29	3,285.29	3,285.29	3,285.29	3,285.29	0.0%
100mm connection	3,352.56	3,352.56	3,352.56	3,352.56	3,352.56	3,352.56	0.0%
150mm connection	3,554.39	3,554.39	3,554.39	3,554.39	3,554.39	3,554.39	0.0%
Water disconnection							
Water disconnection fee	265.71	265.71	265.71	265.71	265.71	265.71	0.0%
Sewer cut-in							
150mm mains and below	787.10	787.10	787.10	787.10	787.10	787.10	0.0%
225mm mains and above	923.90	923.90	923.90	923.90	923.90	923.90	0.0%
Sewer connection application							
Residential	118.82	118.82	118.82	118.82	118.82	118.82	0.0%
Residential < one business day	241.04	241.04	241.04	241.04	241.04	241.04	0.0%
Non-residential	162.56	162.56	162.56	162.56	162.56	162.56	0.0%

Metered hydrant							
25mm hydrant (per day)	4.14	4.14	4.14	4.14	4.14	4.14	0.0%
65mm hydrant (per day)	8.15	8.15	8.15	8.15	8.15	8.15	0.0%
Deposit	1,936.41	1,936.41	1,936.41	1,936.41	1,936.41	1,936.41	0.0%
Late fee (per working day)	42.25	42.25	42.25	42.25	42.25	42.25	0.0%
Minimum hire charge	39.55	39.55	39.55	39.55	39.55	39.55	0.0%
Usage (\$/kL)	2.4984	2.4984	2.4984	2.4984	2.4984	2.4984	0.0%
Remote read water meter							
20mm	284.77	284.77	284.77	284.77	284.77	284.77	0.0%
25mm	383.44	383.44	383.44	383.44	383.44	383.44	0.0%
Bore water							
(\$/kL)	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300	0.0%
Standpipe							
Standpipe charge (per customer)	867.83	867.83	867.83	867.83	867.83	867.83	0.0%
Sewer disconnection							
Sewer disconnection application	156.96	156.96	156.96	156.96	156.96	156.96	0.0%
Information statement							
Information Statement	84.07	84.07	84.07	84.07	84.07	84.07	0.0%
Information Statement < one business day	162.56	162.56	162.56	162.56	162.56	162.56	0.0%
Meter reading							
Meter reading fee	49.30	49.30	49.30	49.30	49.30	49.30	0.0%
FIRE SERVICE CHARGES							
0-20mm connection	55.70	55.70	55.70	55.70	55.70	55.70	0.0%
21-25mm connection	82.96	82.96	82.96	82.96	82.96	82.96	0.0%
26-32mm connection	222.95	222.95	222.95	222.95	222.95	222.95	0.0%
33-40mm connection	390.29	390.29	390.29	390.29	390.29	390.29	0.0%
41-50mm connection	613.29	613.29	613.29	613.29	613.29	613.29	0.0%
51-80mm connection	892.14	892.14	892.14	892.14	892.14	892.14	0.0%
81-100mm connection	1,289.96	1,289.96	1,289.96	1,289.96	1,289.96	1,289.96	0.0%
101-150mm connection	3,865.45	3,865.45	3,865.45	3,865.45	3,865.45	3,865.45	0.0%
151+mm connection	5,110.07	5,110.07	5,110.07	5,110.07	5,110.07	5,110.07	0.0%



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