



28 May 2018

Mr Marcus Crudden
Director, Water
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Email: water@esc.vic.gov.au

Dear Marcus,

RE: Response to Draft Decision for Western Water's 2018/19 to 2019/20 Price Submission

Thank you for the opportunity to comment and respond to the Draft Decision.

I would like to express our appreciation and acknowledge the support received from the Commission and its staff in dealing with the unique circumstances faced by Western Water in the coming years.

Western Water has taken this occasion to expand and comment on a number of issues raised in the Draft Decision for your consideration. A detailed response is included in the attached document covering:

- Operating Expenditure;
- Capital Expenditure;
- Regulatory depreciation;
- Demand; and
- New Customer Contributions.

An updated regulatory template and price schedule is attached for consideration.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Andrew Cairns".

Andrew Cairns
CHAIRPERSON





Detailed Response to ESC Western Water Draft Decision for Price Submission 2018

OPERATING EXPENDITURE

Controllable costs

Western Water accepts the proposed baseline adjustment of \$0.2M to controllable costs.

Efficiency Improvement

Western Water has already demonstrated success in meeting the efficiency challenge it set in Water Plan 2013-2018 by achieving committed financial deliverables. Western Water is committed to delivery of the 4% efficiency over the next two years supported through the recently established Business Transformation Program. The Program has been established to ensure Western Water achieves the operating cost benchmark as presented in Price Submission 2018 – requiring real costs to be retained close to 2016/17 expenditure levels with growth in costs to be absorbed through transformation efficiencies. At a high level, the program will focus on better aligning our people, processes and technology. In other words, it will be important for us to continue to build our people's capability and commerciality; explore better use of business intelligence, analytics and modelling tools; improve our approach to Asset Management; streamline business processes; further embrace technology and continue to promote an innovative mindset across the business.

A number of key activities have already commenced including:

- Optimised Asset Management – resulting in reduced depreciation and enabling more targeted maintenance and renewal activities thereby reducing costs;
- Western Water Connect - stage 1 of the project is complete and the business is currently progressing stage 2 from which we are experiencing increased automation on business to business activities and customer interactions via a portal and therefore avoiding costs to meet the growth in this area; and
- Waternamics – providing the business the ability to monitor systems in real time, collect and manage data and help plan maintenance and capital works which will ensure service levels are maintained and efficiencies identified and realised.

Non-controllable costs

Western Water accepts the adjustment to ESC and EPA regulatory costs of -\$36k.

Western Water accepts the adjustment to Bulk Water charges of \$114k over the two years.

CAPITAL EXPENDITURE

In response to concerns raised in a letter by the Woodlea Development, Western Water has prepared a response in Attachment 1.





REGULATORY DEPRECIATION

Western Water endeavours to align regulatory depreciation with asset life.

The ESC Draft Decision proposes to include an additional \$4M in depreciation over the two-year period. Western Water would like the ESC to reconsider their position.

Western Water is committed to the efficient use and management of its assets and is proactively assessing the life of the assets. This is evidenced by the Optimised Asset Management project which will align Western Water's asset management practices with ISO55000 and deliver substantial capital and operational efficiencies.

A key activity in the Optimised Asset Management project is asset componentisation which provides for management of assets at their lowest level, leading to efficiencies in maintenance and capital renewals, and a reduction of depreciation.

On current forecasts growth is expected to peak during the 2025 Price Submission period at 5.4% followed thereafter by a gradual slowing. Western Water seeks to recover the \$4M in depreciation during the 5-year period commencing 2025/26; prices would need to increase by 0.2% per annum or 0.62% over the 5 years. Based on Government population-forecasts, Western Water has a high level of confidence around the rate of growth, with currently eight active PSP's in the region and a further two expected to be gazetted in the coming months. With the growth of the customer base prices will normalise and any future movements in depreciation would be immaterial.

A key focus of the Board is the continual improvement in the management of assets and ensuring the Optimised Asset Management project delivers substantial capital and operational efficiencies and reduced depreciation.

DEMAND

Western Water is committed to achieving T155. A supporting factor of Western Water achieving T155 is the growth in greenfield areas where block sizes are much smaller and houses are being fitted out with more efficient appliances, this is demonstrated through billing data and knowledge gained from like developments in the City West Water area where approx. 130l/p/d is achieved. As these new properties are built and occupied, the proportion of urban customer base will increase resulting in the desired reduction to average daily household usage. Western Water is also developing communication plans targeting a voluntary reduction to shower times, which is the single biggest contributing factor in residential water usage.





NEW CUSTOMER CONTRIBUTIONS

In acknowledgment of the feedback received from the ESC and in recognition that Woodlea Developments chose not to attend the Developer Forum held in August, Western Water has now sent a letter to 35 developers (including Woodlea Developments) and 87 Consultants. The letter summarises the key issues faced by Western Water in servicing the growth including identification of what the NCC charge represents, customer feedback, key inputs and how we have applied the ESC methodology to calculate NCC charges which are proposed to be transitioned over the next two regulatory periods.

Feedback was sought on Western Water's proposed NCC pathway including moving to a net cost recovery level. In addition, registrations are being sought to support the development of Price Submission 2020 to stay informed and be involved in the discussion about future NCC for Western Water's region. Positively, some registrations have already been received for involvement in the next steps.

CONCLUSION

Western Water views that the response provided to the PS18 Draft Decision ensures the business delivers the outcomes sought by the shareholder, customers and stakeholders, whilst positioning the business to ensure delivery of the achievements outlined in this response into the preparation of PS20- 25 submission.





Attachment 1

PS18 - RESPONSE ON WOODLEA SUBMISSION

CAPITAL WORKS PROGRAM

Aintree Pump Station

The allocation of \$2.342M in FY18/19 for the Aintree Pump Station does not include the associated rising main and is in addition to expenditure on the pump station prior to FY18/19. Between our expected expenditure in FY17/18 and our allocation in FY18/19, we have budgeted close to \$3M on the pump station. The allocation for the pump station in FY18/19 was made at the time of finalisation of our Price Submission in early 2018 on the basis of a P50 estimate of the costs of the pump station at that time and the expected stage of delivery by 1 July 2018.

The \$8M estimate, which Woodlea refers to, is a recent estimate from the Developer's consultant that we have received in the last few weeks, since presenting our Price Submission. It includes the pump station's rising main, which Western Water has budgeted for separately in the Price Submission.

Woodlea is not comparing like-for-like when it compares the recent estimate of \$8M for the pump station and rising main against our allowance in the Price Submission for the pump station alone.

If the actual costs of the pump station transpire to be higher than allocated, Western Water will consider the allocations of funds between projects, as is normal practice when managing a large capital program.

Woodlea Reimbursable Assets Corporate Plans 2018/19 and 2019/20

Woodlea lists \$13.2M of capital investments that it believes are required for its development over the next two years, in addition to the Aintree Pump Station, and asserts that Western Water has only allowed a corresponding \$1.996M.

Several of the assets that Woodlea puts forward as being required in the next two years do not form part of a logically-sequential expansion of our networks. For instance, the Bonnie Brook SPS and its associated rising main are in an area that is currently remote from our sewer network in Rockbank. Furthermore, planning for these assets is at a very early stage and we do not anticipate that they will be sufficiently developed to be substantially delivered in that timeframe, despite the optimism of the developer. We do not believe that these investments represent capital expenditure that would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering service outcomes.

Also, several other assets that Woodlea lists are being completely or partially delivered this year, prior to the start of the new price period, and two of the assets (Stage 41 Sewer Pump Station and Rising Main) will be developer-funded, in accordance with our NCC Guide.

Excluding the Aintree Pump Station and the associated rising main, Western Water's capital program in Price Submission 2018 contains \$4.9M of investments in network assets in Woodlea alone over FY18/19 and FY19/20. This level of investment is greater than the amount remaining on Woodlea's list (less than \$2M), when the assets that are unlikely to be required in that timeframe or will already be delivered or will be developer-funded are removed.





Underpinning the capital program, Western Water is preparing new Development Servicing Plans, which will be publicly available before the new Price Submission comes into effect on 1 July 2018. The Development Servicing Plans will show Western Water's planned long-term investment, and timing, based on a logically-sequential expansion of our water and sewer networks. Publicly-available Development Servicing Plans will provide the transparency to the development industry, including Woodlea, on the content of Western Water's capital program and the basis for our pricing.

Western Water will continue to liaise closely with the Victorian Planning Authority, developers, councils, and other agencies to maintain the currency of information on the timing of development. If development requires assets sooner than planned, Western Water would work with developers to ensure we continue to support growth and development within the region in a cost-effective, efficient and equitable manner. Options would include staged-servicing solutions or bringing-forward the delivery of assets earlier than planned, based on the lowest community cost on a net present value basis to service developments.

With 74% of capital investment driven by growth, Western Water's capital program in our Price Submission supports growth in our region, including the Woodlea development, where we have budgeted to invest \$8.4M over FY18/19 and FY19/20.

