



# ESSENTIAL SERVICES COMMISSION PRICE REVIEW 2018 (PR18)

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## CHW SUBMISSION

SEPTEMBER 2017

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# 1. EXECUTIVE SUMMARY

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# SUBMISSION HIGHLIGHTS

## IMPROVING CUSTOMER VALUE

- Five substantive Outcomes (38 Outputs) developed collaboratively with customers
  - 21 new and 17 improved services
- Prices flat or reducing for all customer segments over a 5 year regulatory period
  - All tariffs held flat except wastewater access (-CPI for first 2 years)
  - Retaining tariff reduction applied on 1 July 2014
  - Effective 5-year price path for owner occupier equates to -0.55% p.a.

## SUSTAINABLE BUSINESS MODEL

- Delivering both short and long term value and tariff relief to customers
- Continuing recent track record of strong cost control
- OpEx efficiency increased to 1.6% p.a and equal to customer growth
- CapEx spend prioritised to \$130m with uncertain projects withheld

## PREMO

- PREMO rating self-assessed as Advanced
- Extensive customer engagement and Board ownership
- Complied with all requirements of ESC Guidance Paper
- Effective risk management = improved value + downward pressure on prices

# CUSTOMER VALUE PROPOSITION

**Engagement:** CHW has engaged with more than 1,000 customers over 12 months to understand their key concerns and priorities and identify opportunities to improve our service offering and value.

**Outcomes:** Clear themes emerged from the engagement around water security, water quality, water efficiency, digital communications and prices. This feedback shaped the development of 5 Customer Outcomes and targets listed below that reflect the customer experience and their priorities

Customer Outcomes	Better Customer Experience	Safe clean drinking water that tastes great	Reliable and sustainable water and sewer systems	More efficient water use	Increased value for money
Key Targets:	<ul style="list-style-type: none"> <li>• Implement online account access 2018</li> <li>• E-billing +20% p.a.</li> <li>• Direct debit +20% p.a.</li> <li>• Phone calls -5% p.a.</li> <li>• Web traffic + 20% p.a.</li> <li>• Automated interruption alerts +20% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>• 100% compliance with water quality regulations</li> <li>• Identify solutions for small town water quality</li> <li>• Water quality rating +10%</li> <li>• Water quality complaints -5% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement Integrated Water Management Plan actions</li> <li>• Publish annual water security plan</li> <li>• Improved network performance thresholds between 20% - 50% across a range of KPIs</li> <li>• Carbon emissions -20%</li> </ul>	<ul style="list-style-type: none"> <li>• Install 15,000 digital meters p.a.</li> <li>• Household water consumption -3%</li> <li>• Non-Revenue water -2%</li> <li>• Minimum 100 Rainwater tank rebates p.a.</li> </ul>	<ul style="list-style-type: none"> <li>• No tariff increases</li> <li>• Wastewater access fee – CPI 2 years</li> <li>• Value for money rating +10%</li> <li>• Community amenity plan</li> <li>• Hardship early intervention strategy</li> </ul>

**CapEx - CapEx:** By reprioritising projects to focus on delivering customer outcomes and withholding uncertain projects we have avoided \$20m in CapEx, saving customers \$5 each year on their bill

**OpEx - OpEx:** CHW has committed to achieve an efficiency target equal to customer growth of 1.6% p.a. This ensures recurring controllable costs are held flat, savings customers \$27 each year on their bill

**Reporting:** We will report performance against our targets annually to customers through a range of channels

**Bills:** Households bills reduce 0.55% p.a. on average across the period

# AVERAGE BILLS – CUSTOMER SEGMENT & USAGE SCENARIOS

		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average Price Path p.a
OWNER OCCUPIER	Average Usage (150kL)							
	Annual Bill	1,231	1,214	1,197	1,197	1,197	1,197	-0.55%
	Price Path		-1.38%	-1.37%	0.00%	0.00%	0.00%	
	Low Usage (75kL)							
	Annual Bill	1,091	1,074	1,057	1,057	1,057	1,057	-0.62%
	Price Path		-1.56%	-1.55%	0.00%	0.00%	0.00%	
	High Usage (300kL)							
	Annual Bill	1,510	1,493	1,476	1,476	1,476	1,476	-0.45%
	Price Path		-1.13%	-1.11%	0.00%	0.00%	0.00%	
OWNER								
	Annual Bill	952	935	918	918	918	918	-0.72%
	Price Path		-1.79%	-1.78%	0.00%	0.00%	0.00%	
TENANT								
	Average Usage (150kL)							
	Annual Bill	279	279	279	279	279	279	0.00%
	Price Path		0.00%	0.00%	0.00%	0.00%	0.00%	
BUSINESS								
	Average Usage (150kL)							
	Annual Bill	2,254	2,237	2,220	2,220	2,220	2,220	-0.30%
	Price Path		-0.75%	-0.74%	0.00%	0.00%	0.00%	
	Low Usage (75kL)							
	Annual Bill	1,603	1,586	1,569	1,569	1,569	1,569	-0.42%
	Price Path		-1.06%	-1.05%	0.00%	0.00%	0.00%	
	High Usage (300kL)							
	Annual Bill	3,556	3,539	3,523	3,523	3,523	3,523	-0.19%
Price Path		-0.48%	-0.47%	0.00%	0.00%	0.00%		

Average bills decline for all customer segments ranging from -0.2% p.a. to -0.7% p.a. with the exception of tenants which remain flat.

CHW’s tenant segment has the 6th lowest bill across the state.

Additional support will be provided to low income customers via the hardship output (refer page 36).

Also refer pages 9-10 for tariff scenario modelling

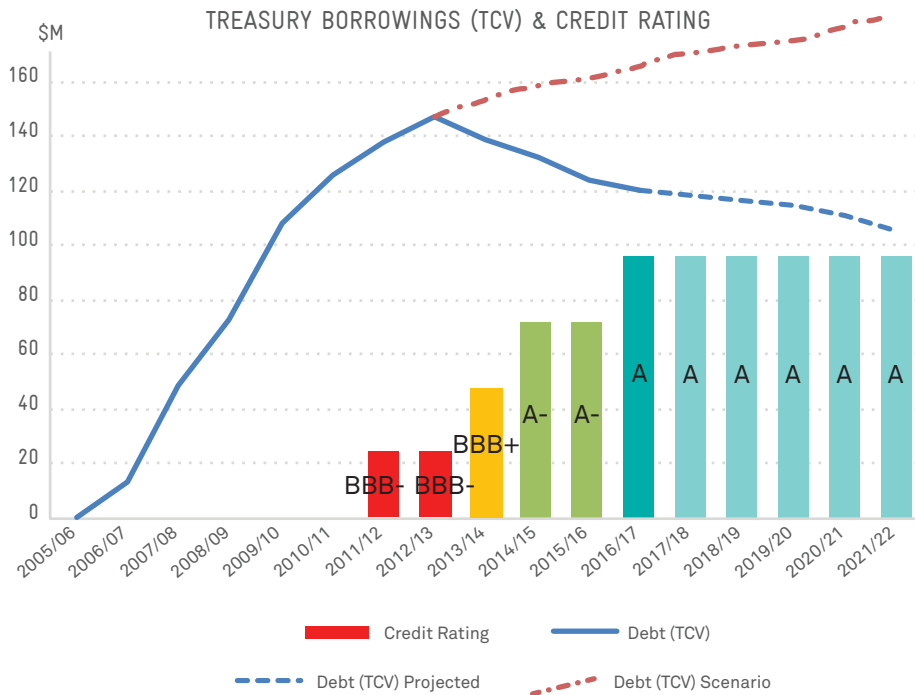
# CUSTODIANS OF A SUSTAINABLE BUSINESS MODEL

Our customers have vivid memories of the Millennium Drought. As a result they are very supportive of CHW making decisions that enable the business to be resilient in the long term.

This requires CHW to balance the delivery of Social, Environmental and Economic outcomes.

- While our social agenda is well informed by the breadth and depth of our engagement activities, customer expectations are increasing. We are also committed to ongoing engagement with Registered Aboriginal Parties to incorporate aboriginal values in long-term water resource planning
- Environmental outcomes have never been more critical as we deal with the challenge of climate change and population growth. The very fundamentals of our operations continue to evolve as we strive to meet ever-changing policy (e.g. Water for Victoria) and community standards. Our business looks very different to that of 20 years ago as it will look very different again in the next 10 years
- Maintaining a strong financial position provides the necessary buffer to manage short term shocks and risks while also ensuring we do not pass an unreasonable debt burden on to future generations.

# CUSTODIANS OF A SUSTAINABLE BUSINESS MODEL



Any excess efficiency gains achieved by CHW during the current period have been utilised to balance both the immediate short-term and long-term interests of customers as follows:

- \$50 reduction to fixed access water fee from 1 July 2014 (and being retained from 1 July 2018)
- Reducing debt to alleviate pricing pressure on future generations and mitigate against the risk interest rate rises
- Additional efficiencies are creating further downward pressure on prices as proposed in this submission.

### SCENARIO:

The following scenario has been modelled to contrast current performance with a ‘do-nothing’ approach, as follows:

- Debt continued on its 2006-2013 trajectory
- Another drought or major event hits in next 5-10 years
- Interest rates increase (up to 2%).

### IMPACT

- Debt +\$75m
- Interest +\$5m p.a.
- Credit Rating downgrades
- Passed on to customers through higher prices.



# LONGER TERM TARIFF STRUCTURE

Feedback from customers indicates a desire to rebalance tariffs by increasing variable charges and reducing fixed charges.

CHW modelled a number of scenarios and shared this output with the Customer Reference Group. One unintended consequence from any such rebalancing was that tenants would see bills increase materially above CPI.

This was problematic given the tenant customer segment includes many of our lower income and vulnerable customers. It is noted this customer segment currently has the 6th lowest bill in the state. The preference of the Customer Reference Group was for no customer segment to incur price rises above CPI.

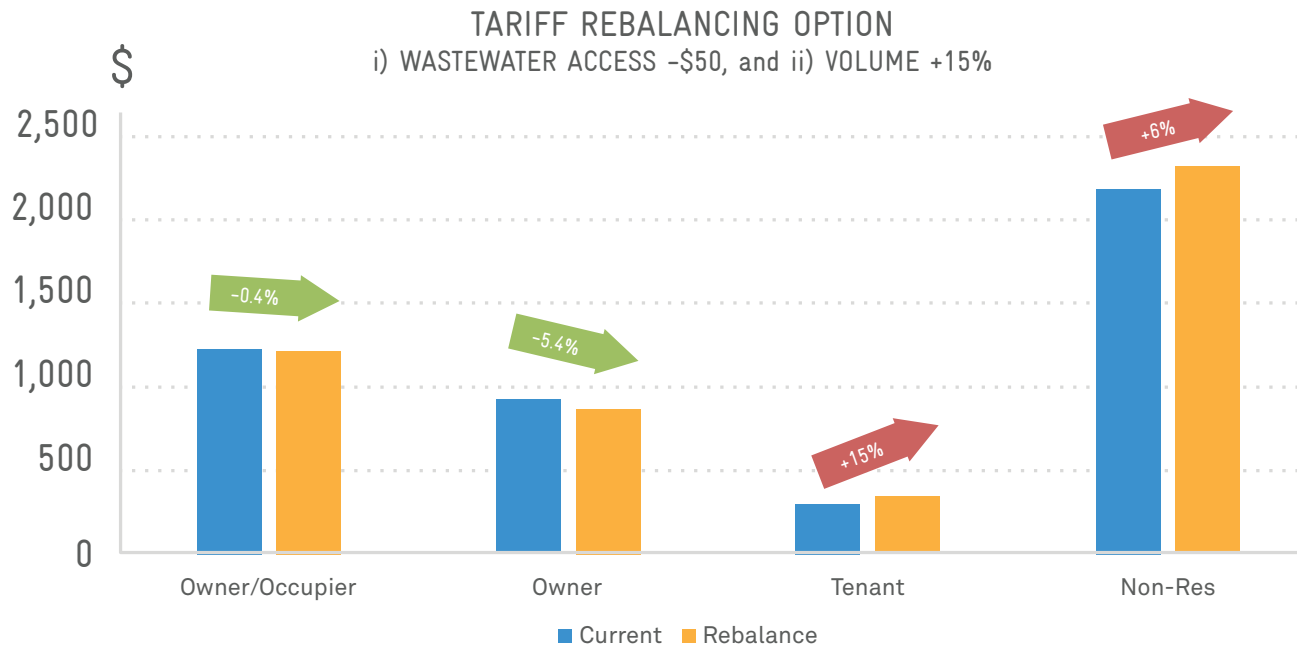
As a result, our approach to tariff reform is to continue a longer term process whereby any opportunity for tariff relief will be provided by a reduction to fixed tariffs. Over time this will produce a gradual rebalancing while not disadvantaging any particular customer segment.

Should favourable conditions prevail over the 5 year pricing period CHW will consider extending the nominal freeze on the wastewater access fee in accordance with the tariff reform principles outlined above.

# TARIFF – REBALANCING SCENARIO

In response to customer feedback in relation to tariff rebalancing to provide more control over bills CHW completed some analysis to share with the Customer Reference Group

## Tariff rebalancing impacts



Impact based on average bill for each customer segment

The slide shared with both the Board and the Customer Reference Group demonstrated that any rebalancing would have a detrimental impact on tenants as they are the only customer segment that would not benefit from a reduction in access fees given tenants do not incur this charge. As a result any form of rebalancing increases bills for tenants.

Neither the Board nor the Customer Reference Group would support a position that disadvantaged any customer segment, in particular the segment which includes many of our vulnerable and low income customers. Both stakeholders were also mindful of the impact on non-residential customers.

# PREMO SELF-ASSESSMENT SUMMARY

## ENGAGEMENT

- Allowed a broad representative sample of customers to engage all our water supply systems
- Engagement started early to allow feedback to inform the development of proposals
- Provided clear instructions to customers at each stage of the process
- Engaged on matters of importance to customers through iterative process
- Detailed quantitative survey data supports engagement findings
- Engagement has influenced outcomes, activities and GSLs

## OUTCOMES

- Iterative process of engagement and refinement of outcomes with customers, which results in outcomes completely taking into account the views, concerns and priorities of customers
- TotEx of \$20m above BAU reprioritised to deliver customer outcomes
- A total of 38 robust and measurable performance measures, including material improvements to customer experience, network performance and water efficiency
- An easy to understand and robust performance reporting dashboard that will be distributed through numerous channels

## RISK

- Significant improvement to GSL scheme
- Utilisation of regulatory strategies to appropriately manage risk
- Savings of more than \$30 per customer p.a. achieved through reprioritisation of costs and withholding uncertain projects
- Flat or negative price paths for all customer segments

## MANAGEMENT

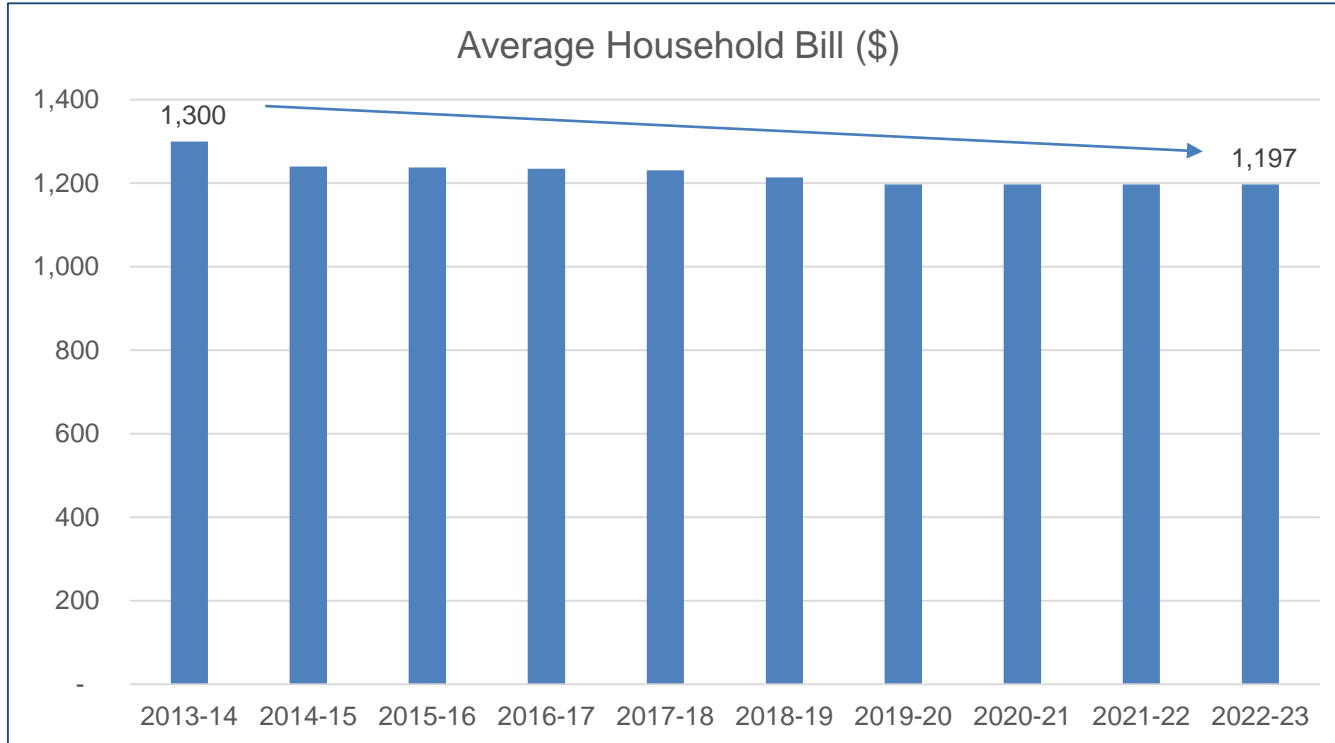
- Prudent cost baseline following achievement of efficiencies during regulatory period 3
- Demonstrated commitment to ongoing OpEx and CapEx efficiency
- Strong governance framework surrounding the development of the submission
- Management and Board ownership of proposals

# PREMO SELF ASSESSMENT

AMBITION LEVEL	BASIC (1-1.5)	STANDARD (1.75-2.5)	ADVANCED (2.75-3.5)	LEADING (3.75-4)
RISK			3.00	
ENGAGEMENT				3.50
MANAGEMENT			2.75	
OUTCOMES				3.50
<b>OVERALL</b>			12.75	

Refer section 6 for CHW responses to Guiding Questions and detailed scoring assessment

# AVERAGE HOUSEHOLD BILL TREND



Average annual  
reduction 0.9% p.a.  
over a 9 year period

Sustained reduction to average household bills to alleviate cost of living pressures