

# Gippsland Water

## Price Submission

### Presentation to the Essential Services Commission

23 October 2017



Over the next five years we plan to invest \$392.1M (Jan 18 \$) in operational expenditure

A further \$203.8M (Jan 18 \$) is proposed in capital expenditure

All expenditure is directed at infrastructure and services that sustainably deliver outcomes that our customers told us they value the most

Gippsland Water's pledge to the state government includes spending \$4.18M during the fourth regulatory period on emissions reductions and energy saving projects

Significantly, our Plan also includes a pass-through of all energy savings that are generated as these projects are delivered

At full production, these 'behind the meter' projects are expected to generate savings of almost 10% in energy consumption, or around 2,600 MWh per annum by June 2023.

## Our customers have heavily influenced our Plan and the proposed levels of service

- Customer opinion was overwhelmingly in favour of spending to ensure the reliability of their service - customers did not want any reduction in service
- On the other hand, customers did not say that they wanted improved services
- In every stage of our engagement customers were adamant that they would not accept a trade off between cheaper bill and reduced level of service

## (P)REMO self-assessment

- The regulatory return reflected in prices has been established by Gippsland Water via the PREMO incentive mechanism
- Gippsland Water has self-assessed the level of ambition in this price submission as ‘standard’
- To set a level of ambition higher than ‘standard’ would only lead to further pressure on prices, and was not considered given the current environment and the range of risks taken by the corporation

## Our Plan includes significant risks that have helped contain price movement

- The closure of 2<sup>nd</sup> and 3<sup>rd</sup> largest water users in the state
  - The closure of Energy Brix has been fully absorbed by Gippsland Water
  - Gippsland Water has contractual arrangements in place with Engie Hazelwood until mid 2021, which include an extension clause. Gippsland Water is taking the risk that Engie will elect to extend the agreement
  - Most recently, Carter Holt Harvey's Morwell sawmill ceased operations during August 2017
  - Our Plan considers that these closures have had a flow on effect to sub-contractors, service providers and our customers
- Decline in new residential connections
  - Gippsland Water's central region has seen a significant and rapid decline in connections
  - Development activities in our western corridor (e.g. Drouin) has maintained a steady increase, however the decline in activities in the central area (e.g. Morwell/Traralgon) have reduced dramatically
  - Despite this, our Plan is maintaining connection rates consistent with historical trends
- In addition, we have elected not to revisit the New Customer Contributions because of the decline in development and only include 50% of the projected shared assets costs to again limit tariff impacts

## New wastewater treatment plant for Drouin (**\$33.3 million**)

- To meet the needs of Drouin's population now and into the future, we plan to upgrade the town's wastewater treatment plant. The current plant was designed to cater for a population of 10,000. Current population is 11,000.

## New sewer pump station for Sale (**\$11.4 million**)

- The current sewer pump station near the Port of Sale is too small to cater for the growth of the town and has had some odour issues. By 2020, we plan to build a new, much larger pump station nearby with better odour control systems. Once the new pump station is ready we will demolish the old building.

## New water mains for Warragul (**\$8.9 million**)

- To make sure that we can reliably supply water to Warragul and Drouin, we plan to build a new water main around the western side of Warragul. The new pipe will service the growing population in both towns, and also make the local water delivery system more reliable.

## Upgrading Warragul's sewer system (**\$4.5 million**)

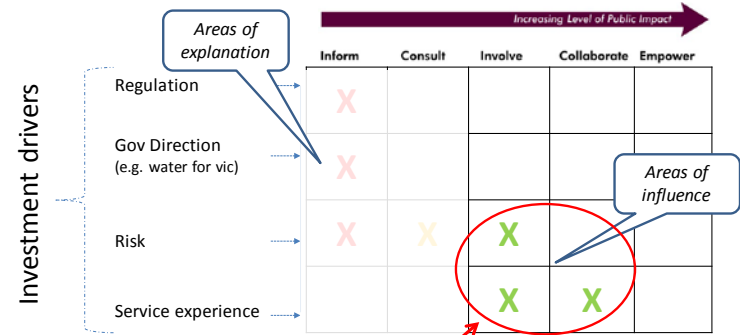
- We plan to upgrade the existing sewer on the north east side of Warragul by 2023. The existing pipes are aging and too small to cope with expected growth in that part of town. Upgrading the sewer now will reduce the likelihood that the old pipe will fail and cause a spill.

## Renewable energy projects (**\$4.3 million**)

- We're planning to increase our use of renewable energy by installing several solar power systems and hydro-electric generators by 2021. Increasing our production and use of renewable energy will lower our energy costs and reduce our carbon emissions.

Customer engagement formed a crucial part of the development of our submission

- Commenced engagement activities in early 2016
  - Undertook an industry leading customer values research program in partnership with INSYNC
- Focused engagement on those aspects of the submission customers could influence the most
- Throughout our engagement we tested and refined our approach in conjunction with customers
- Closed the loop with customers through community outreach activities mid 2017



Our work has focused on the areas customers can most easily influence.



Our journey engaged customers about the service experiences that they value

Ultimately, our customers developed a set of five values that form the basis on which our Plan is based

These five values are:

1. do your job well;
2. be easy to deal with;
3. be affordable and fair;
4. prepare and protect; and
5. be involved

While water and wastewater is seen as our core business, it is clear customers expect an experience that is being dictated from outside the water sector

There is a gap between our technical '**standards**' and the '**experiences**' by which these are being judged



The development of our Plan was overseen by a steering committee made up of the whole executive team and Gippsland Water's regulatory manager

Gippsland Water's Board has been intimately involved throughout the development of our Plan

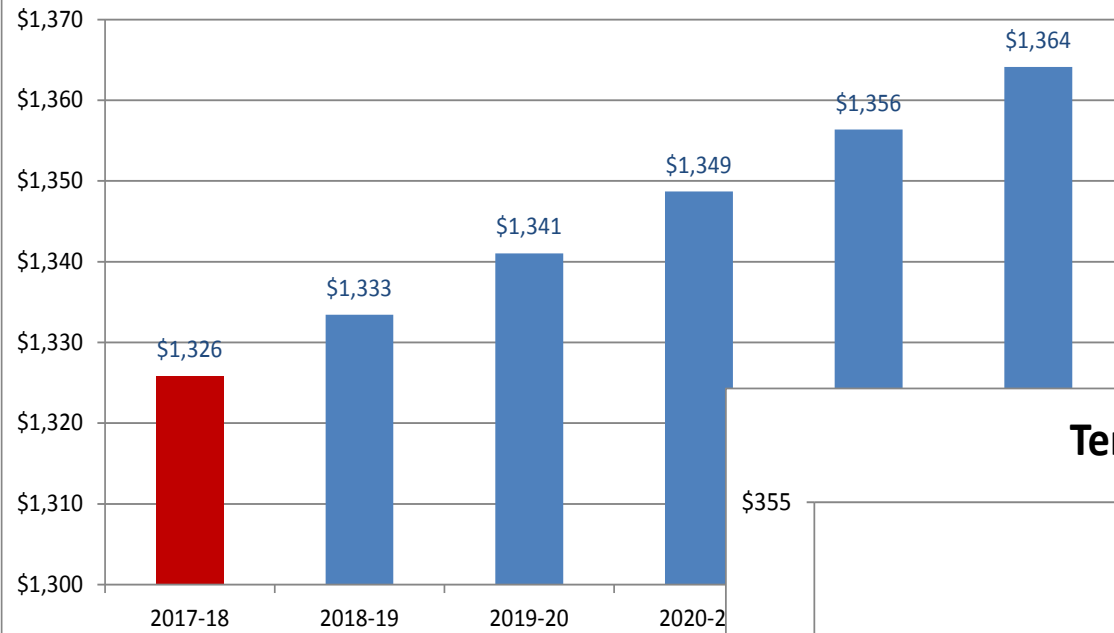
- Board members were provided a monthly briefing on the details and progress of the development of our Plan
  - This included direct engagement with our research partners
- Were provided full vision of our engagement activities, techniques and results
- Endorsed the approach to risk with a focus on balancing business and customer outcomes

Our Plan’s outcomes reflect what customers told us they value the most from their water corporation

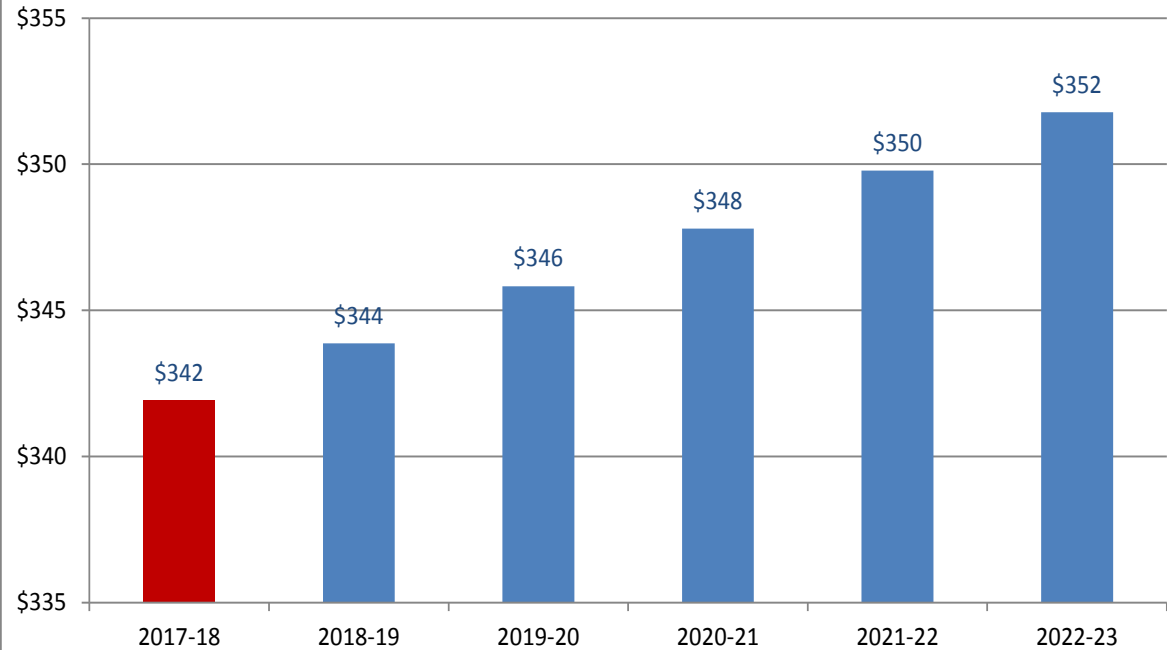
- Our customers are holding us to account through our proposed Guaranteed Service Levels

Customer value	Customer experience	Our Promise	Output	Guarantees/compensation
<b>1. Do your job well</b>	Provide safe, pure drinking water. Always.	We will reliably deliver safe drinking water that meets or exceeds regulatory standards.	Water quality meets the <i>Safe Drinking Water Act</i> .	If we are required to issue a “boil water” alert, we will contribute \$5,000 to a fund administered by our Community Consultative Committee.
			Sewer spills within a house caused by Gippsland Water will be contained within one hour.	If a sewerage spill is not contained in a house within 1 hour then affected customers will receive \$500.
	Respond to needs and deal with interruptions promptly.	We will do what we say, put our customers first and act in their best interests as quickly as possible.	Planned interruptions will be carried out in a timely manner.	If a planned interruption goes longer than advised then each affected customer will be compensated by a \$50 credit to their next water bill.
<b>2. Be easy to deal with</b>	Keep me informed in ways that suit me.	We will be timely in communications and use ways of communicating that suit our customers.	Affected customers advised of planned interruptions.	If a customer is affected by a planned interruption and was not provided a minimum of five days notification, we will credit that customer \$50 on their next water bill.
<b>3. Be affordable and fair</b>	Make allowances for those who struggle to pay their bills.	We will provide support and choice for customers and flexible payment arrangements.	Protect customers in hardship from having their services restricted for non payment.	If a customer in genuine hardship is restricted for non payment Gippsland Water will pay compensation of \$300 per day to a maximum of \$900 until service is restored.
<b>4. Prepare and protect</b>	Conserve and preserve the natural environment from which we take and return water.	We will do no harm and act to improve the environment.	We will not take more water than we are allowed. Water returned to the environment meets all standards.	If we receive a sanction from a regulator for harm to the environment we will contribute \$5,000 to a fund administered by our Community Consultative Committee.
<b>5. Be involved</b>	Be engaged in our community.	We will be visible and support our community to advance the health and prosperity of the region we serve.	Investment in programs for the benefit of our communities.	We commit to investing a minimum of \$30,000 per year in programs that support the wellbeing of our communities.

### Full Service Customer - Annual Cost (Jan 18 \$)



### Tenant - Annual Cost (Jan 18 \$)



Our focus on involving customers and communities in our decisions does not stop here...

- Customer engagement is already underway with our Drouin Wastewater Treatment Plant and Sale Sewer Pump
- We have significantly strengthened the skills required to undertake meaningful engagement
- Our customer values have fed directly into our strategic and operational plans

We have submitted a Plan that balances our customer priorities and our region's challenges, against planning for the future and maintaining a sustainable business

- At a minimum, our customers expect us to invest to maintain current service levels. We believe our Plan does that.

# Questions ?