Gippsland Water

Price Submission 2023-28

September 2022

Aboriginal acknowledgement

We acknowledge Traditional Custodians of the land on which we live and work. We pay respect to Elders past and present. We are committed to working respectfully to honour their ongoing cultural and spiritual connections to this Country. We recognise the role and value of culture in our work and community.

We cover areas of two traditional landowner groups:

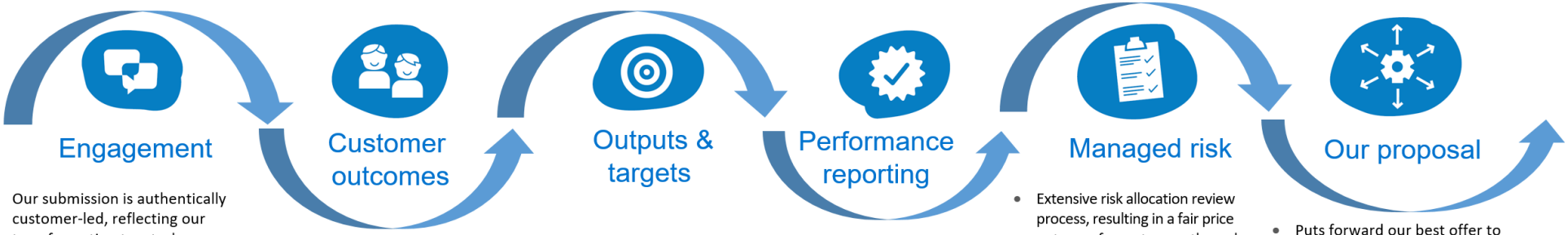
- Gunaikurnai Land and Waters Aboriginal Corporation
- Bunurong Land Council Aboriginal Corporation

Contents

Drafting notes and disclaimers:

Unless otherwise noted, all dollar amounts mentioned in this Price Submission are in Jan 2023 dollars (Jan23$).

Giving customers a better deal



Engagement

- Our submission is authentically customer-led, reflecting our transformation to a truly customer- centric organisation
- It was developed from the deepest, most meaningful and extensive engagement we've ever undertaken
- Our engagement program was co-designed with input from customers and stakeholders
- Highlights include:
  - Over 3,500 customers engaged
  - Four major surveys
  - 32 detailed stakeholder interviews
  - 13 focus group workshops
  - 3.5 day customer deliberative summit (30 person panel)
  - Assurance from our independent Customer Reference Group
- Deliberate strategies to include people experiencing vulnerability
- Extensive input from Traditional Owners of approximately 95% of the land in our region, on the issues of importance to them

Customer outcomes

- Our customers have shaped the six outcomes we're proposing to achieve and the promises we're making in our 2023-28 submission:
  - Be affordable and fair
  - Do your job well
  - Be easy to deal with
  - Be involved in the community
  - Be environmentally responsible
  - Plan for the future
- These outcomes and promises will form the basis of our business strategy and plans for the next five years
- They're designed to make us more accountable for delivering on what customers said they value most
- They represent more customer value, over and above the standard levels of service we're committed to
- We'll invite the community to provide feedback on our performance each year of the regulatory period

Outputs & targets

- We worked with our customers to develop a series of six customer outcomes, supported by 19 outputs, five Guaranteed Service Levels, and two accountabilities:
  - Ten new outputs informed by customers
  - Two outputs with increased performance requirements
  - 11 outputs removed or reworded in line with customer feedback
  - Five GSL's retained.
  - One GSL removed
  - Two new accountabilities introduced
- Our accountabilities are a commitment to our customers where we fail an output that does not impact individual customers and cannot be compensated easily
- All of the targets we're committing to reach reflect either existing industry-leading performance; or significant performance improvement

Performance reporting

- We've designed an open, honest and transparent process to hold ourselves to account
- We'll ask customers to help rate our performance by introducing a series of customer perception-based measures directly aligned to outcomes
- Our Customer Reference Group will have an ongoing role including proving feedback on our performance
- We'll provide more regular updates to our customers on the progress of our performance and promises via our website, bill inserts and other regular communication channels, including through our annual outcomes and outputs report; annual major projects report; annual community report; and our water performance report at a minimum

Managed risk

- Extensive risk allocation review process, resulting in a fair price outcome for customers through accepting more risk on behalf of customers and fairly sharing risks with them to materially reduce prices

Accepting more risk

- a net efficiency outcome of 0.5%
- forecasting connection growth 18% above ViF 2021
- taking an optimistic view of contract renegotiation outcomes
- bearing the risk of higher forecast chemical costs
- bearing the risk of higher forecast energy costs
- stronger accountability framework

Fairly sharing risk

- Re-introduction of NCCs,
- Monte Carlo P50 estimates supported by independent review of all capital forecasts
- development of tailored business cases for regulatory review
- rebalancing of miscellaneous fees
- Amortising cloud-based IT solutions

Our proposal

- Puts forward our best offer to customers, resulting in a price decrease of:
  - Residential $ 91.30
  - Non Residential $137.40
  - Property investor $ 66.76
  - Tenant $ 24.54
- Our proposed average annual residential tariff price path before inflation is:
  - FY2024 $1279.26 -6.14%
  - FY2025 $1277.34 -0.15%
  - FY2026 $1275.43 -0.15%
  - FY2027 $1273.52 -0.15%
  - FY2028 $1271.60 -0.15%
- Our 2023 proposal has been shaped by customers and takes into account:
  - Significant shifts in regional industry and economy
  - Ongoing challenges of servicing regional growth
  - Our climate change commitments
- Our submission represents our best offer to customers, offers them more value, is more in line with their expectations and delivers a price decrease at a time when there are construction cost increases, a tight labour market, higher growth and economic uncertainty

Message from the Chair and Managing Director

We're proud to present our 2023-28 Price Submission to the Essential Services Commission.

In summary, we're offering increased customer value and lower bills.

Our customers have led us to this outcome through the deepest, most inclusive and comprehensive engagement program our organisation has ever undertaken.

Our submission is the result of two years' of continuous conversations and input from over 3,500 people, organisations and interested stakeholders. We tested our proposals with them in the final stages of the journey and we heard we've got it right.

The prevailing theme running through our customer and community conversations has been affordability and fairness. Our customers told us early they wanted lower bills and a fairer user pays tariff structure, and that's what we've delivered.

They reinforced that they wanted to see us more involved in the community, continuing to plan for the future and being responsible environmental stewards. And we heard about their service expectations, leading us to more customer experience-focused promises.

Perhaps the biggest highlight was our first ever deliberative summit, where a panel of 30 customers came together over 3.5 days to explore and make recommendations on some of the biggest challenges we face. Their recommendations were adopted in full.

We established a highly skilled and diverse Customer Reference Group to help design, oversee and provide independent assurance on our engagement approach throughout. Their guidance, wisdom and honest feedback was invaluable and they will become a permanent voice as we transition to a new, ongoing engagement model.

From an organisational perspective, it has been a process of culture change and transformation. Our Board, new executive and indeed the entire organisation has listened carefully to what our customers have said is most important to them and we've realigned our strategy, structure and services in response.

We've also reduced our customers' risks by taking on a greater share and committing to strategies to mitigate and minimise them.

Thank you to everyone who took the time to provide input and help shape this submission. We're looking forward to continuing the conversation and delivering the additional value you deserve.

Therese Ryan
Board Chair

Sarah Cumming
Managing Director

Board attestation statement

The Directors of Gippsland Water, having made such reasonable inquiries of management as we considered necessary, attest that, to the best of our knowledge and for the purpose of proposing prices for the Essential Services Commission's 2023-28 Gippsland Water Price Review:

1. Information and documentation provided herein and relied upon to support Gippsland Water's Price Submission is reasonably-based, complete and accurate in all material respects
2. Financial and demand forecasts are Gippsland Water's best estimates, and supporting information is available to justify the assumptions and methodologies used
3. The Price Submission satisfies the requirements of the 2023-28 Gippsland Water Price Review Guidance paper issued by the Essential Services Commission in all material respects.

Therese Ryan

Board Chair

The Directors of Gippsland Water note that coronavirus (COVID-19) and other economic factors have created an environment of price volatility. Central government spending and central bank quantitative easing to mitigate the economic impact of the coronavirus (COVID-19) pandemic, together with supply chain shortfalls created by the war in Ukraine and coronavirus (COVID-19) lockdown mitigations in China has had significant inflationary impacts on the prices of goods and services across the economy this represents an atypical level of uncertainty for a Price Submission.

Responding to the coronavirus (COVID-19) pandemic and other economic factors, and aligned with the Essential Services Commission's revised guidance note, Gippsland Water has undertaken additional engagement and analysis to ensure that the submission remains founded on suitable "best estimates" of financial and demand forecasts, noting the high degree of uncertainty surrounding coronavirus (COVID-19).

Importantly we have taken "best estimates" to mean estimates that are founded on robust and reasonable point-in-time information and analysis and that do not seek to push coronavirus (COVID-19) and other economic factor risks onto our customers.

Message from the Customer Reference Group

We commend Gippsland Water's 2023-28 Price Submission to the Essential Services Commission as a genuine reflection of best customer value.

The Customer Reference Group has played a key role in assisting Gippsland Water to prepare its 2023-28 Price Submission, making sure customer expectations are understood and reflected in its plans for the future.

We are customer representatives of the diverse region we live in. We have worked collaboratively with Gippsland Water to ensure that customer priorities, issues and expectations are understood and reflected in the decisions they've made.

Our role has involved:

- reviewing the customer engagement strategy at the beginning of the journey, for authenticity and completeness
- contributing thoughts and ideas to the design of Gippsland Water's engagement processes
- bringing the specialist perspectives from our own diverse experience and expertise to the table
- participating in deliberative sessions as part of the development of this submission
- witnessing the customer summit deliberative engagement event and attesting to the recommendations delivered by the customer summit panel

We confirm that Gippsland Water's engagement with the community was authentic, comprehensive, broad and deep. We believe that material matters were engaged upon, and that customer priorities were considered and are evident in the submission.

We feel we've had an opportunity to influence the direction of the engagement as early in the process as practical.

As a result of our involvement and observations throughout the Price Submission engagement program, we fully endorse Gippsland Water's 2023-28 Price Submission.

Yours sincerely,

Mary Aldred

Customer Reference Group Chair

Executive summary

An advanced submission

This Price Submission is the result of two years' worth of deep conversations, exploration and deliberation involving over 3,500 people and organisations across our service area.

It is an accurate reflection of what our customers value, expect and deserve.

It includes a year-on-year bill reduction (before inflation) made possible by savings found in core and non-core delivery areas, additional revenue from major customers and development activities, as well as fees and charges based on customer recommendations.

In an environment of persistent economic headwinds, supply chain challenges and high inflation, it commits us to taking on more financial risk and becoming more efficient.

Our submission is structured around the six themes our customers said were most important to them.

First and foremost, our customers expect us to be affordable and fair. They also want us to plan for the future, be environmentally responsible and be more involved in the community and, they expect us to do our job well and be easy to deal with.

Lower bills and an affordable tariff structure

This Price Submission delivers a price decrease of $91.30 across the regulatory period (before inflation) for the average urban customer. We propose to deliver the majority of this benefit to customers in year one, with ongoing bill relief proposed for the remaining years (as demonstrated in Table 1).

Table 1 our proposed prices and price path (Jan23$)

Average Annual Bill (Jan23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Full Service Residential Customer	$1,362.90	$1,279.26	$1,277.34	$1,275.43	$1,273.52	$1,271.60
Residential Tenant	$366.31	$343.83	$343.32	$342.80	$342.29	$341.77
Full Service Non-Residential Customer	$2,258.12	$2,130.43	$2,128.00	$2,125.57	$2,123.14	$2,120.72
Property Investor	$996.59	$935.43	$934.03	$932.63	$931.23	$929.83

The average cost to serve each urban customer will decrease each year.

We'll invest more resources into our customer care team, employing and upskilling more staff to reach out early and provide tailored support for those doing it tough.

Our online financial support processes will be upgraded to make it quicker and easier for people to access support when they need it.

Our customers have collaborated with us on a major review of our tariff structures to embed a user pays principle. Major changes will include the re-introduction of New Customer Contributions and a rebalancing of miscellaneous fees and charges.

We accept our customer mandate to renegotiate any expiring major customer contracts to cover the cost of service, and advocate for a fairer contribution to the cost of maintaining recreational facilities at waterways we take water from, but don't own or manage.

Stretching ourselves towards a better customer experience

Our customers want us to be easy to deal with.

We'll introduce a series of new and enhanced experience-based initiatives to keep them up to date and allow them to interact with us in a way that's more convenient.

SMS messages will be sent to all customers who register their mobile number with us, in the event of unplanned service interruption.

We'll introduce an app to give customers the ability to monitor their water usage and greater flexibility in managing their bill payments

We'll reduce the average time it takes for us to rectify wastewater blockages by 16%, from 95 minutes to 80 minutes.

A live online outage tracker will be introduced on our website to keep customers up to date with service interruptions.

We'll be more involved in the community

Our customers want us to be a visible and supportive member of the community.

Based on what we heard, we'll increase our community support investment from $30,000 to $100,000 per annum to forge closer ties and provide support where it's most needed.

Initiatives include an uplift to our education and awareness campaigns that focus on water conservation, sustainability, wellbeing and customer support; enhanced community sponsorship and more public drinking fountains.

Our partnerships with local Traditional Owners and the broader Aboriginal community are closer and deeper than ever before. Over the last two years, we've worked together to co-design a program of meaningful, long-term initiatives that will make a genuine difference in our community.

They include more opportunities for Aboriginal employment with our organisation, support with pathways into professional education and work, delivering reticulated water and drinking fountains to the culturally significant Knob Reserve, cultural recognition and pride projects and exploring opportunities to make land we manage available for cultural use.

We'll be more accountable for our performance

We worked with our customers to develop a series of 19 outputs, five Guaranteed Service Levels (GSLs) and two Accountabilities that will deliver on their expectations over the five-year period.

They represent increased customer value, over and above the base levels of service we are committed to through the Essential Service Commission's Customer Service Code and they're designed to stretch our performance and make us accountable to our customers.

Our performance framework has been redesigned to align more closely with the outcomes our customers told us were most important, and to hold us more accountable.

We'll introduce 10 new customer experience-based output measures directly aligned to customer priorities, allowing customers to provide their own assessment on how we're performing every year through our annual customer survey.

If we fail to meet our Guaranteed Service Levels, we'll compensate our customers in the way they told us is fair and appropriate.

If something happens in our network or the environment that makes our water unsafe to drink and we have to issue a boil water notice, we'll increase our compensation payment to the affected community from $5,000 to $10,000.

We'll also be accountable for meeting our annual net zero emissions target. If we don't, we'll plant 10,000 trees in Gippsland to show we're serious about protecting the environment for current and future generations.

Prepared for the future

We'll invest $268 million in our infrastructure to ensure we can meet higher growth and higher service levels without requiring any significant additional capital investment.

This includes the investment of $10 million in energy projects to make our systems more resilient, boost our renewable energy generation and reduce the cost of energy for our business in the long term.

We'll invest $XX million[1] into the purchase of a Greater Yarra System -Thomson River pool bulk water entitlement, to shore up water for local communities into the medium-term future.

We'll also invest $6.7 million into the Traralgon/Tyers water interconnection to provide a greater security of supply to these customers and also create operational efficiencies by reducing the need to produce water at Tyers Water Treatment Plant.

Our customers have said they want us to involve them in the decisions that impact them and keep them informed about how we're planning for the future. We'll increase community awareness about the work we do to plan for the future.

Other takeaway points

Overall, our submission:

- Shows we performed well against our customer commitments in the 2018-23 regulatory period. We also improved our operating efficiency to allow us to absorb significant new customer connections growth beyond our forecasts
- Demonstrated that we reprioritised our expenditure and became more efficient in other areas to fund increased energy and treatment chemical costs, as well as an increase in connections and development costs
- Includes allowances for us to deliver on our environmental and climate change commitments
- Offers a price reduction before inflation amid construction cost increases, a tight labour market, higher connections growth and economic uncertainty
- Demonstrates improvement in the quality, depth and breadth of our customer and community engagement, which will now become ongoing
- Presents customer-tailored outcomes with a better balance of output measures and targets that demonstrate better value for money and accountability
- Commits to enhanced operations to deliver more efficient budgets, supported by true bottom-up budgeting and an action plan to deliver these
- Demonstrates the increased level of risk we're taking on to reduce and minimise the associated costs being passed on to our customers
- Outlines improved performance and monitoring frameworks centred on delivering what our customers have told us they want, and

[1] *Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*

- Provides best estimates on expenditure and demand forecasts through strong Board and executive governance supported by internal and external assurance processes.

Using guidance provided by the Essential Services Commission, we have assessed our overall submission to be **ADVANCED** under the Performance Risk Engagement Management Outcomes (PREMO) incentive framework.

This assessment is underpinned by significant reform and scrutiny from our customers, our Board and executive team, our Customer Reference Group with external expert assurance and staff across our business, all of whom have been central to the development of this submission.

1. Performance

At a glance

- We have embraced the PREMO framework – becoming more customer-focused has resulted in:
  - Good performance against our customer commitments during 2018-23
  - Absorbing all growth-related operating expenditure to maintain our prices for customers, despite significant growth
  - Controlling our capital expenditure in the face of market cost pressures
  - Driving our cost to serve per customer down
  - Maintaining our revenues, and
  - Improving customer experience and increasing customer satisfaction
- This results in better value for money for our customers during 2018-23
- Building on our improved customer focus we have incorporated our lessons learned from 2018-23 into our customer engagement program – involving customers permanently in the direction and accountability of our business, and
- We will continue to drive better value for money for our customers every year, this is evident in our 2023 Price Submission

1.1 Our performance in 2018-23

Our 2018 submission [P001] was developed at a time when significant economic decline was a threat to our region, due to actual or announced closures of our second and third largest customers: Engie Hazelwood in 2017 and Energy Brix in 2014. This was compounded by the closure of Carter Holt Harvey in 2017, which resulted in the loss of over 1,000 jobs in the central zone of our region in less than two years.

We self-assessed our 2018 submission as STANDARD [P001], despite the level of financial risk taken on behalf of our customers, to ensure prices for our services remained neutral. We assumed the anticipated regional economic downturn could be mitigated by focused regional stimulus.

There has been a lot of change since that submission was lodged in 2017. We have navigated the economic impact of the closure of significant major industry (two of the three top water users in the state), environmental investigations and unprecedented new connections growth to our networks. As well as the unprecedented and continuing impacts of the global coronavirus (COVID-19) pandemic.

Throughout the period we have carefully managed our operating and capital expenditure within our allowances, delivering value for money for our customers. We have decreased the cost to serve per customer. This is evident when comparing planned 2018–23 costs and actual 2018–22 costs plus 2023 forecast. We have achieved this despite the pressures of the global pandemic and global unrest contributing to supply chain issues and ultimately increasing costs, and more recently increased inflation.

The operational and cost impacts of the global pandemic have created an interesting and dynamic operating environment for us this period. We have seen increased demand for our services following a significant migration of new customers into our region and proactively increased our support for customers requiring financial assistance during times of hardship.

When the global pandemic hit we focused on how we could better support our staff, customers and community [P003]. Supporting financially vulnerable customers in hardship was already a key

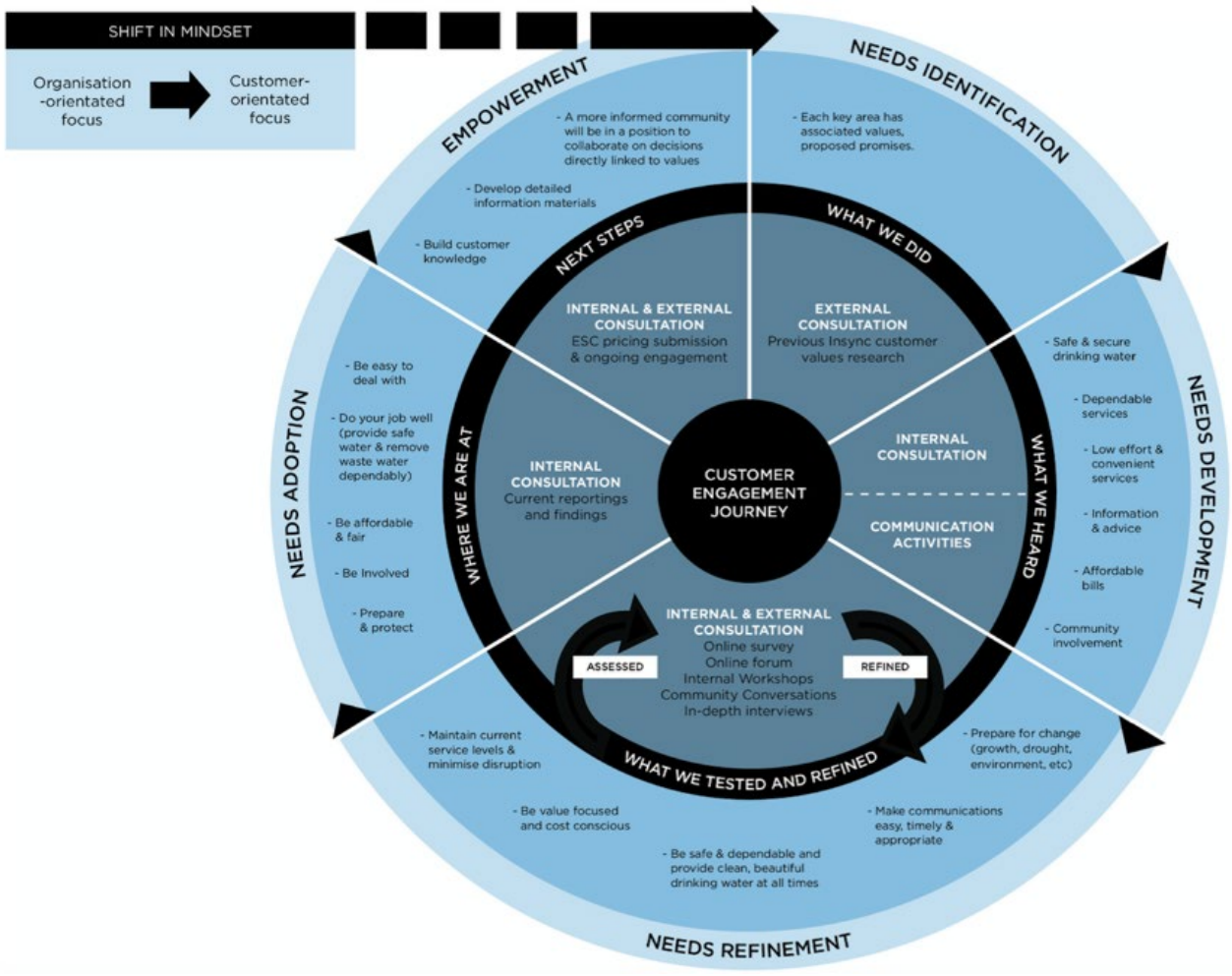
focus for us but became an increasing priority from 2020 onwards.

Despite these challenges, we've maintained our commitments to our customers and continued to invest in improving their experience with us. We have become a far more empathic and customer centric organisation than ever before and this has helped shape the engagement program that underpins our 2023-28 Price Submission.

1.2 Our commitment to customers for 2018-23

Our customer promises were built on extensive customer and community engagement over two years, following the process depicted in Figure 1.

Figure 1 2018-23 customer engagement process



This allowed us to:

- establish what really mattered to our customers
- focus our standards and commitments to be more closely linked to customer experiences, and
- align our programs and activities to our customers' values and experiences – increasing their influence

Through this process we established the key outcomes our customers valued were:

- do your job well
- be easy to deal with
- be affordable and fair
- prepare and protect, and
- be involved

To drive performance against these outcomes for our customers, we committed to 22 performance targets (outputs) and five additional customer promises for the 2018-23 regulatory period [P006].

We are now four years into the 2018-23 regulatory period. We have measured and reported on these 22 outputs for four years, generating 88 data points to review our 2018-23 performance [P006].

In 2019, we introduced an annual community report to improve transparency of our performance against these outputs for our customers [P009-011]. These reports together with our "Let's talk" webpage [P008], feedback form and subscriber newsletter, encouraged customers to provide their reflections on our performance.

Figure 2 shows our performance against our outcomes for the 2018-23 regulatory period, to date. Further detail is provided in our ESC outcomes report [P006].

Figure 2 performance outcomes in the 2018-23 regulatory period

Outcome	18-19	19-20	20-21	21-22	22-23
1. Do Your Job Well					
2. Be Easy To Deal With					
3. Be Affordable and Fair					
4. Prepare and Protect					
5. Be Involved					
Overall					

We have achieved or exceeded our targets against our outputs 66 out of those 88 data points to date. We narrowly missed our targets for the remaining 12 data points, indicating there is not a systemic issue with our performance in these areas, but giving us focus to better plan for meeting our performance commitments to our customers. These instances are set out below.

1.2.1 Do your job well

We have high expectations on our delivery of water and wastewater services, as do our customers.

We rated our performance against 'Do your job well' as green in 2021-22 [P006]. We successfully achieved six out of seven outputs under this outcome, which is a positive result in a year where we were challenged by a number of external factors (including significant wet weather events).

This followed 2 years where we rated ourselves as 'amber' (2019-20 and 2020-21) with less than 4% of planned interruptions going over advised times and a guaranteed service level payment of $5000 made to the community in 2019-20 for a boil water alert in Moe, Newborough and surrounds [P027].

Planned interruptions going over time resulted in us paying a guaranteed service level to impacted customers of a $50 credit on their bill. A total of 41 customers received a $50 credit on their bill. This represents 0.06% of our customer base. This output has been impacted by weather events and the increased level of developer activity in our region. Delays are a direct result of complex network connection activities involved in connecting reticulation assets to our network.

Our strong performance in 2021-22 reflects our focus on delivering for customers under this outcome area [P006].

1.2.2 Be affordable and fair

We rate our performance for our 'Be affordable and fair' outcome as green across three of the four year period. In the first three years of the performance period we achieved all of our targets for this outcome.

In 2021-22 we were facing 5.1% inflation and only passed through a 3.3% increase to our customers in order to try to stabilise rising living costs for our region.

In 2021-22, we rated ourselves amber against this outcome because we did not meet two of the targets we set for assisting our hardship customers:

- Percentage of hardship customers paying through instalment plans, and
- Percentage of customers with a greater than 120 day debt paying through instalment plans [P006].

We attributed these results to cost of living pressures resulting in fewer customers committing to payment plans and during the second half of 2021-22, our capacity to proactively reach out to customers in need was impacted by staff illness due to the coronavirus (COVID-19) pandemic.

We have a high proportion of customers on instalment plans (more than 10% - which is higher than our peers). With this in mind, our Customer Care team takes a proactive approach to reaching out to customers that have outstanding accounts. This allows us to discuss financial support options, including payment plans.

Proactive engagement activities have been put in place to promote payment plans. We also have plans to add an additional Customer Care resource in 2022-23, and another two resources during the 2023-28 regulatory period to assist customers with their financial options.

We continue to find ways to make it easier for our customers to deal with us, with an ongoing focus on supporting customers who may be experiencing financial difficulties. We are committed to engaging with them early and letting them know the options available to assist them, and ultimately help them better manage their bills.

1.2.3 Prepare and protect

We rate our performance for our 'Prepare and protect' outcome as green.

We have successfully achieved all of our targets in three of the four years of the pricing period. This includes targets that relate to water supply reliability, water restrictions, and penalties for drinking water quality and Environmental Protection Authority (EPA) breaches.

We self-assessed our 2020-21 performance as amber due to a singular, low-level breach of our EPA Drouin wastewater plant operating licence. An emergency discharge of treated wastewater was required as a result of compounding wet weather events overwhelming storage capacity.

While the EPA acknowledged no harm was done to the environment as a result of the breach, the incident resulted in us not achieving our "Penalties issued by the Environment Protection Authority or the Department of Health and Human Services" output.

The risk of this type of event occurring was the very reason that we planned for and invested in a $55 million upgrade at the Drouin Wastewater Treatment Plant during the 2018-23 regulatory period. This upgrade came online in April 2022 [P007] and we do not predict any further environmental breaches at the Drouin site.

We are ahead of our targets to reduce our carbon footprint by 24% by 2025 as part of our planned pathway to become carbon neutral by 2030 [P014]. We are also on track in the delivery of actions in our Urban Water Strategy [P031], which was updated in 2022. In a significant outcome for our customers, the rapidly growing Warragul and Drouin water supply system is to be secured in the short-medium term by a transfer of 3.33 GL/y of water entitlement in the Greater Yarra System – Thomson River pool, which includes the Tarago Reservoir.

1.2.4 Performance highlights

In striving to meet our customer output targets, we aim to deliver outstanding results for our customers. In the 2018-23 regulatory period to date, we have materially exceeded some important targets as set out in Table 2 below:

Table 2 Outputs materially out-performed during 2018-23

Outcome	We have exceeded our targets
Do your job well	We have delivered significantly better than our target timeframes for rectification of sewer blockages: • Target 95 minutes • Average 73 minutes (each year)
	We have delivered every time on our target to contain sewer spills within five hours: • Target 98% • Achieved 100% (each year)
Be easy to deal with	We had no complaints investigated by the Energy and Water Ombudsman in the first two years, and have achieved our targets in every year. • Target 0.3 per 1,000 customers • Achieved an average of 0.1 per 1,000 customers
	Our first point of contact resolution is at 96% across the four years, well above the 88% target • Target 88% • Average of 96.6%
Be affordable and fair	We have contained prices across all four years, and we have delivered pricing below inflation for the 2022-23 year.
Prepare and protect	We remain well ahead of the targets to reduce our total carbon footprint by 24% by 2025 as part of our planned pathway to becoming carbon neutral by 2030. • Target total tonnes CO2 emitted 2018-19 to 2021-22 was 169,000 tonnes • Actual CO2 tonnes emitted 2018-19 to 2021-22 was 139,000 tonnes
Be involved	More than 60% of our expenditure has gone into the local economy. • Target average 58% • Actual average 60.4%
	We have contributed to the local community by funding an average of $63,800 per annum over the last four years for community projects. This is well above our $30,000 per annum target.

Essentially this means we're on track to deliver what we promised across the five areas our customers said were most important to them. Overall, we consider we have performed well in delivering for our customers and have rated our performance as 'green' in all years.

1.3 Additional customer promises

Five additional customer promises were embedded in the text of our 2018-23 Price Submission. Table 3 below details progress against each.

Table 3 how we delivered against our customer promises in 2018-23

2018-23 promises	Progress against these promises
Work with other water businesses that are trialling new water meters and learn from their insights	We worked with the Intelligent Water Networks (IWN) Digital Metering Systems Program team and other Victorian Water Authorities, alongside Isle Utilities who was engaged by the IWN to develop the model and business case. We have strategically positioned ourselves not to be in front of other water authorities on our digital metering journey, maintaining a viable 'do nothing' position so any learnings can be applied to our future thinking. Early this year, we asked our Customer Reference Group to explore this topic and make recommendations on how we should proceed. The general consensus was that if smart meters are to be considered, they should be targeted at new developments initially, as part of the new connection cost, partnering new meter requirements with new technology and rolling out the technology gradually [P012]. They also confirmed with us that an app that would allow customers to enter and monitor their water use was a much cheaper way of achieving the same objective [P012]. This approach was also tested and supported by a broader customer group during other stages of the engagement program.
Conduct trials of flexible pricing options during the next regulatory period	During 2019-20 and 2020-21, we undertook a series of desktop studies to understand flexible pricing options and their impact on different customer cohorts. This culminated in a facilitated discussion in February 2022 with our Customer Reference Group where we asked "should Gippsland Water continue to investigate changes to the fixed/variable tariff structure?" Customers were clear in their feedback that: • the long-term financial viability of the organisation should not be impacted by any move to provide more flexibility • they did not want any degradation of service, and • they would be less supportive of variable tariffs if they led to either of the above two outcomes. The group was unanimous that we should not continue to investigate a change to the tariff structure [P012].
We propose to report to our customers about our performance on an annual basis, in customer focused language.	We introduced an annual community report in 2019 to share with our customers the activities being undertaken across the five outcome areas to achieve the outputs [P009-011]. These reports, together with our "let's talk" webpage [P008], feedback form and subscriber newsletter have enabled customers to get involved and share their views. Over the last two years, we've also added an annual video update and we're now publishing more frequent updates on how we're progressing against our customer promises.
The success of our community engagement program in the lead up to this Price Submission has fuelled a willingness within the organisation to continue to develop and deepen our culture of engagement	Our customer engagement program throughout this pricing cycle has been deeper, more meaningful and more extensive than ever before, reflecting our transformation to a genuinely customer centric water corporation [P013]. Our approach has been iterative in its design, co-designed by our customers and key stakeholders and genuinely customer-led [P013].

By working with the broader water industry and delivering on the state Government's Take 2 pledge program committing to reducing carbon footprints and carbon emissions, we will ensure it is acting collectively, proportionally and strategically to mitigate the effects of climate change	During November 2021, we announced our commitment to reach net zero carbon emissions by 2030. We have also committed to the Victorian Government's policy for all water corporations to run their operations entirely by renewable energy by 2025. We developed an Energy Strategy [P014] to help us meet both of these commitments and we've increased our funding to ensure strategic projects can be carried out to reduce our reliance on traditional forms of energy, improve our climate resilience and reduce the cost of our energy. All of these commitments are consistent with the statement of obligations (emission reduction) [M009] issued by The Hon. Lisa Neville MP to all Victorian Water corporations during May 2022. The actions implemented so far have resulted in a 16.1% reduction in greenhouse gas emissions from our baseline emissions of 42,021 tCO_2-e per annum.

1.4 Actions we have taken over the 2018-23 period

1.4.1 Putting customers first – increased customer centricity

Since 2018, we have become increasingly customer-focused. We're engaging with our customers more meaningfully and presenting more opportunities for them to influence our decisions.

Our efforts in this area are evident in our customer satisfaction survey results [P015], which show consistent improvement every year, especially in our trust and reputation scores.

In addition to the engagement program that underpins this submission [P013], we have carried out other value-adding actions during 2018-23 as part of our ongoing commitment to customers to improve their experience with us and the value of the services we provide them. Some examples are set out in Table 4 below.

Table 4 Additional actions we have taken during 2018-2023

Action	Value to customer
Established the Let's Talk section of our website as a central hub for customer engagement [P008]	It's easier for customers to find and get involved in our engagement opportunities and to see how their input makes an impact on our organisation.
Held more online community events and webinars	We increased the opportunities for the community to learn about how we tackle different issues through our work – such as climate change and environmental management and population growth.
Increased our presence both on local media and social media through regular updates	It's easier for customers to find information from us through channels that suit them.
Established a Customer Reference Group to increase customer input into strategic and longer-term planning, including for our Price Submission and Urban Water Strategy [P017].	Customers are consistently represented by a diverse group whose role includes ensuring customer views are understood and considered in the plans we make.

Action	Value to customer
Proactively identifying more opportunities to involve customers in our planning and decision making, including through the planning phase of our capital projects	Customers have more opportunities to influence decisions that are of interest to them. For each of our top 10 projects, we developed a communication and engagement plan detailing the stakeholders, engagement approach and timing [P018-025], as well as supporting material such as media releases, website content, direct mail and social media posts. We also introduced a major project page on our website, which outlines the current and future projects. https://www.gippswater.com.au/residential/what-we-do/major-projects For example: • Drouin Waste Water Treatment Plant – consultation with the public via kiosk pop-ups in the town center during the design phase and mail outs to the neighboring properties. In response to the community feedback we are providing a viewing platform for bird watchers and the general community. • Moe clear water basin – consultation with the neighboring properties and the Edward Hunter Reserve Committee (downstream of the site) as part of the planning. • Mirboo North water main – presented to the community at the town hall, to the recreational reserve committee and attended the Mirboo North Italian community fiesta. This influenced the alignment and methodology of the pipeline and aspects of timing to minimise community impact. • Sale SPS0 – significant community consultation on the façade at the front of the site with three workshops open to all community members. Ultimately the community chose the façade and the landscaping plan and this was constructed as part of the project.
Brought forward our SMS notification project, in response to research that showed this is the preferred notification method for service interruptions	Our 2020 Customer Satisfaction Survey informed us that SMS notifications were important to our customers and they wanted access to this service as soon as possible. We brought the project forward to provide this service faster, supported by an online outage tracker website to provide live updates about service interruptions. Customers are now receiving notifications from us via their preferred method [P034].
Sought and acted on feedback on our performance through the annual perception [P016] and satisfaction surveys [P015] and publication of our Community Reports [P009-011]	Customers are actively engaged on our performance and can provide feedback, keeping us in touch with customer priorities and expectations, and informing our future performance.
Used customer interviews to inform plans for an upgrade to our website	This informed the upgrade of our website. Customers will have the opportunity to use a website designed with their experience and ease of use as key functional priorities.
Used customer feedback and votes to determine the community project to support with a $5000 donation [P027]	Customers were able to nominate and recommend how the $5,000 donation we made following the Moe boil water alert was spent.

1.4.2 How we managed expenditure in a changing landscape

Throughout the last pricing period, we have carefully managed our operating and capital expenditure within our allowances. Some of the specific action we took during 2018-23 is set out in Table 5 below.

Table 5 Actions we took during 2018-23 to manage our expenditure and/or save money for customers

Action	Value to customer
Managed major customer commercial agreements at a customer level to optimise revenue outcomes for all customers	During 2018-23 we took a commercial management approach with all major customer agreements and successfully renegotiated two major industry contracts resulting in an additional $2.5 million of revenue per annum.
Harnessed growth and economies of scale to reduce cost to serve	During 2018-23 Gippsland experienced a significant increase in demand for local services as a result of regional migration contributed to by coronavirus (COVID-19) lockdowns and working from home arrangements leading to increased developer activity. We serviced new connections growth at 40% greater than the original forecast and were able to harness economies of scale and an increase in customers leading to a reduced cost to serve per customer.
Delivered new programs within existing expenditure allowances	Delivery of the digital billing project which we forecast to transition 10% of accounts annually (target 40% of overall customer base) from paper based billing to digital resulting in reduced fulfilments and postage costs [P036]. Introduction of high water usage SMS and email reducing notification costs and improving time to customer for early detection [P034].
Constrained capital expenditure in an environment of significant materials and resource shortages and increased costs, alongside accelerated growth	Increased demand for construction resources has placed enormous strain on capital projects and programs from both a resourcing and cost perspective. For example, the Drouin wastewater treatment plant was estimated at $35 million during the 2018 Price Submission process but the market tendered price when it came to deliver was $55 million of which we have forecast to spend $55.5 million this pricing period (mainly driven by increased material prices). Increased connections growth accelerated shared assets expenditure and network augmentations by an additional $15 million in capital expenditure, with a further $72.0 million of gifted assets contributed by developers. The combined impact of $35 million was accommodated within our capital program via prudent capital management which was managed through our Capital Review Committee and annual Corporate Plan capital planning processes.
Constrained operating expenditure in the face of unforeseen events such as coronavirus (COVID-19), supply chain constraints and extreme weather events.	During 2018-23 we experienced several unforeseen events putting upwards pressure on our operating costs and the complexity of our operations, not least of which was the global pandemic, but also: • Unanticipated environmental expenditure which added $4.51 million of costs to our controllable expenditure base • Increasing poor quality trade waste discharges from a major client have increased treatment costs due to change in their product mix. ($500,000 2020-21 alone) • Increased frequency of severe weather related impacts from the 2019 East Gippsland bushfires, 2021 repeated 1:100 weather events leading to extensive flooding and water quality issues • Where we are incurring additional cost as a result of a major customer's activities, we are endeavouring to recover reasonable costs. This decision has been reinforced by our most recent engagement with customers where they have asked us to ensure major customers are paying their own way.

Action	Value to customer
We have looked to new ways to engage our customers on our major projects, both via video featurettes and through our social media and internet platforms (e.g. major projects webpage) together with our annual reporting obligations to the ESC	We are increasing visibility and the involvement of our customers in our major capital projects which is improving their understanding of our projects and our business, as well as allowing us ongoing contact with our customers to understand how our major projects impact the community, and how we should involve customers in our long term planning prior to delivery of projects [P018-025].

1.4.3 How we managed risk to benefit customers

In our 2018 Price Submission we committed to taking on additional risk to benefit our customers. Table 6 below sets out how we have performed in managing those risks for customers.

Table 6 How we managed risk for customers in 2018-23

Action	Value to customer
Managing the risk of major customers closing	We mitigated the revenue risks associated with major customer losses by: 1. Reviewing and renegotiating existing major commercial contracts to maximise the revenue opportunities, and 2. Advocating for, and helping to support development of additional residential and industrial growth in the region to enable alternate revenue streams.
Managing the risk of connections growth above our forecast	We have managed the costs of residential growth occurring above our forecast by applying commercially sound criteria (in alignment with ESC guidance) to determining the contribution we have made to shared assets being constructed in our region to support the growth of residential connections. This has ensured that we have minimised the cost impact on our residential customers while acquiring suitable assets in a timeframe to accommodate current and future growth.
Managing the risk of increasing environmental regulatory requirements	Roll out of the new Environment Protection Act 2017 commenced 1 July 2021 but costs associated were not factored into the previous Price Submission as the existence of this major regulatory reform and flow on implications were unknown. Additional resources including administrative overheads, training, labour and sampling costs relating to management of incidents, licensing changes and expectations to manage environmental impacts of our business have been absorbed to date. The subordinate legislation is still being rolled out and we have continued to largely absorb the additional workload and associated costs including management of legacy and emerging environmental risks as they are identified.
Managing long-term water supply risks	Our Urban Water Strategy 2022 [P031] sets out our 50 year plan to secure future water resources across our region. https://www.gippswater.com.au/residential/our-community/get-involved-open-opportunities/urban-water-strategy. A key feature of this is that we are working towards securing 3.3GL per annum from the Greater Yarra System - Thomson River

Action	Value to customer
	pool for water for the Warragul and Drouin systems. This cost has been factored in the submission and is a top 10 project [CX020].
Managing the cost risk of major events	We managed the costs and funded responses to a range of major events, such as managing emergencies (both bushfires and floods), by reprioritising works and reallocating spend from planned activities to these unplanned event activities. We absorbed the operational and business risks associated with the deferral of works. Other efficiencies and increased revenue helped us absorb these additional event costs however we did overspend in 2020-21 by $2.2 million as a direct consequence. Significant events included the Moe boil water alert, fire, storm and other extreme weather events.
Managing the risk of additional unfunded superannuation liability contributions	We have closely monitored the Vested Benefit Index (VBI) from Vision Super which indicates the percentage of funding to cover the current members in the defined benefits fund. Equity markets have declined during the last quarter of 2021-22 and the actual VBI as at 30 June 2022 was 102.2%, which continues to satisfy APRA's Superannuation Prudential Standard. The number of defined benefit members has decreased from 23 in 2018 to 13 in 2022, which reduced the risk exposure [P032].

1.4.4 Additional services we provided

During 2018-23, in addition to strong performance against our customer outcomes and expenditure allowances, we also delivered new services to our customers. We have set out some of these in Table 7 below.

Table 7 Additional services delivered to customers in 2018-23

Action	Value to customer
A new bill format	During 2018-23 we designed a new, clearer bill format aligned to good industry practices to improve customer literacy and accessibility of the bill [P033].
Additional advanced notifications that matter to customers	During 2018-23 we harnessed growing technology to offer additional services to our customers that we knew they valued. These included SMS notifications for bill reminders, high water consumption, planned and unplanned outages and sewer works [P034].
Improved online services functionality	During 2018-23 we also increased our online services to customers. Our customers can now view their bills, update their contact details, choose communication preferences, request a payment extension, request financial assistance, request a payment plan, register a concession entitlement and apply for a Utility Relief Grant quickly and easily online, without having to engage with staff. This is particularly beneficial for vulnerable customers who may not seek assistance if they have to engage with staff personally [P035].
Enhanced Digital Billing	During 2018-23 we enhanced our digital billing capability by consolidating two portals into one streamlined online service [P036].

1.4.5 Additional support we provided (coronavirus (COVID-19) response)

The impacts of coronavirus (COVID-19) saw us change how we engage and support our customers. Some of these changes are set out in Table 8 below.

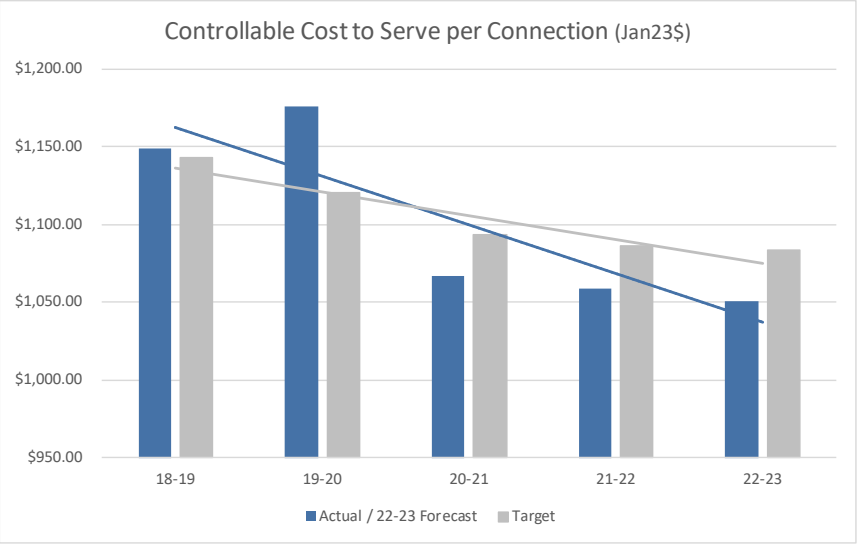
Table 8 How we supported customers through coronavirus (COVID-19)

Action	Value to customer
Embraced an empathic, proactive approach to engaging customers experiencing financial difficulties	During 2018-23 we revised our approach to customer support, increasing the proactive contact our Customer Care team members have with customers that were experiencing financial difficulties [P003C]. This proactive approach will continue into the future as we increase the care and support we provide to our most vulnerable customers.
Update to online systems for easier access to assistance	As set out in Table 7 above, we increased our online services during 2018-23 to ensure our customers could access the assistance they required without face to face contact [P035]. This was particularly important during lockdowns and social distancing.
Expert review of routine customer communications	During the pandemic, we reviewed all communications to customers with a focus on making customers feel comfortable to approach us if they were experiencing financial difficulties.
New complaints management framework and policy introduced	During 2018-23 we introduced a new complaints management policy [P038] and framework [P037] delivering an automated complaints dashboard with insights and data to identify customer pain points and improved analytics to assist us in identifying the expectations of our customers [P037A].

1.5 Our performance against our allowances

Despite growing cost pressures and demand for services, we have worked hard to contain expenditure and revenue within our allowances and have continued to see our cost to serve fall as shown in Figure 3 below.

Figure 3 Controllable cost to serve per connection 2018-23



1.5.1 Operating allowances in 2018-23

The 2018 ESC pricing determination allowed a total of $429.17 million across the 2018-23 period (refer Table 9) which was inclusive of a growth allowance of $4.76 million for new connections growth. On average across the period, we have been within $1 million of our annual allowance each year (also shown in Table 9), despite new connections growth being 40% greater than allowed for in the 2018-23 determination.

Table 9 Operating allowance 2018-23 (Jan 23$)

Prescribed Operating Expenditure - Jan 23$	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	Total
2018 Price Submission Benchmark Allowance						
Controllable Operating Expenditure	80.60	80.02	79.06	79.49	80.20	399.37
Non-controllable Operating Expenditure	6.22	6.11	6.00	5.77	5.69	29.79
Total Benchmark Allowance	**86.82**	**86.13**	**85.06**	**85.26**	**85.89**	**429.17**
2018-19 to 2021-22 Actuals & 2022-23 Forecast						
Controllable Operating Expenditure	81.48	84.60	78.54	79.17	79.70	403.49
Non-controllable Operating Expenditure	6.17	6.05	6.77	6.81	6.40	32.19
Total Actual & Forecast Expenditure	**87.65**	**90.65**	**85.31**	**85.98**	**86.09**	**435.69**
Variance to Benchmark Allowance	**0.83**	**4.52**	**0.25**	**0.71**	**0.20**	**6.52**
Percentage Variance to Benchmark Allowance	**1.0%**	**5.3%**	**0.3%**	**0.8%**	**0.2%**	**1.5%**
Less Non-controllable Variances:						
Environmental Contribution	-0.02	0.02	0.83	0.99	0.79	2.61
Government Licence Fees	-0.03	-0.08	-0.06	0.05	-0.09	-0.22
Total Non-controllable Variances	**-0.05**	**-0.06**	**0.77**	**1.04**	**0.70**	**2.40**
Controllable Variance to Price Submission	**0.88**	**4.58**	**-0.52**	**-0.32**	**-0.50**	**4.12**
Controllable Percentage Variance	**1.1%**	**5.7%**	**-0.7%**	**-0.4%**	**-0.6%**	**1.0%**

Over the five year period, we expect to exceed our operating expenditure allowance by a total of approximately $6.5 million or 1.5%.

Approximately $2.6 million of this is caused by a variance in the Environmental Levy (considered non-controllable opex) and $4.51 million of this was incurred as a result of environmental investigations mentioned previously. These two issues account for the forecast overrun on operating expenditure for the period.

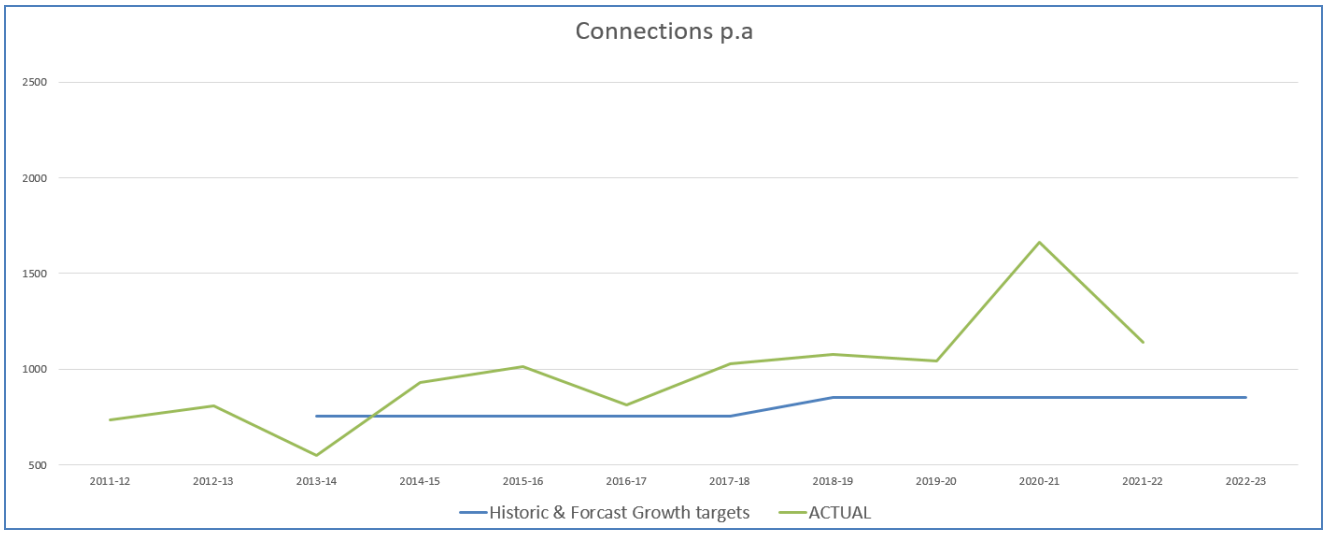
In terms of other material variances from our original 2018-23 operating cost forecast, we have focused on efficiency by internalising some labour resources. This has increased the number of Full Time Equivalent staff but contract labour and consultancy has reduced. We have also been able to offset increases in software licence fees, major maintenance and labour costs through efficiencies and savings in our energy and desludging costs. As shown in Table 10 below.

Table 10 Material controllable year on year variances 2018-23 (Jan23$)

Key Controllable Variances - Jan23$	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	Total $M
Favourable						
Energy	-0.01	-0.22	-0.24	-0.68	-0.89	-2.04
Sludge & Biosolids Treatment	-1.53	-0.29	-0.13	-0.01	-0.34	-2.30
Unfavourable						
Consulting Fees (Environmental Investigations)	1.27	1.01	0.77	0.73	0.72	4.51
Software Licence Fees	-0.04	0.12	0.13	0.43	0.61	1.24
Major Maintenance	1.09	0.93	0.34	-0.04	-0.17	2.14
Labour (Not Offset)	-0.53	1.35	-0.59	-0.19	1.53	1.57
Total	**0.24**	**2.90**	**0.28**	**0.23**	**1.45**	**5.11**

Our 2018-23 operating allowance included a growth factor of 1.2% and an efficiency factor of 1.0%. During the determination period we have seen above forecast growth (as shown in Figure 4). The additional expenditure incurred by the organisation to service this growth has been entirely absorbed within our operating allowance effectively increasing our level of efficiency by 0.6% and a resulting reduction in our cost to serve per customer as a consequence of economies of scale arising from these additional new connections.

Figure 4 Actual connections 2011-2022



1.5.2 Capital allowances in 2018-23

The ESC allowed a total of $233.13 million in capital expenditure across the 2018-23 period (as shown in Table 11).

Table 11 Capital allowance 2018-23 (Jan23$)

Regulated Capital Expenditure - Jan23$	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	Total $M
Price Submission Allowance	42.59	55.28	52.21	41.38	41.68	233.13
18-19 - 21-22 Actuals / 22-23 Forecast	48.81	53.44	63.68	43.54	50.96	260.43
Variance to Price Submission	**6.22**	**-1.85**	**11.47**	**2.16**	**9.29**	**27.30**
Percentage Variance	**15%**	**-3%**	**22%**	**5%**	**22%**	**11.7%**

We have seen an unprecedented increase in construction costs this period as a result of coronavirus (COVID-19) related issues and global unrest, with supply chain shortfalls placing upwards pressure on materials costs, and increased demand for construction resources across the state.

Together with increased connections growth, accelerating shared assets expenditure and network augmentations, 2018-23 was a challenging period for us in terms of controlling our capital expenditure and delivering what was required to maintain customer services and accommodate growth.

Despite this, we have delivered our capital commitments [P007], maintained service to our customers [P006], expanded services to new customers and constrained capital as best we could. We are forecasting an exceedance of our capital allowance by 11.7% or $27.3 million (refer Table 11) this period due to:

- The Drouin Wastewater Treatment Plant upgrade – originally estimated at $35 million, this project experienced increased in prices for concrete and quarry product. In addition market forces during the pandemic increased other material prices, increasing the delivery price to $55.5 million, and
- Shared assets – in our 2018-23 submission we reduced our shared asset assumptions by approximately 50% from $8.9 million to a program estimated at $4.9 million. This was a risk taken as historically we had overestimated shared assets and the region was facing the prospect of significant economic downturn due to the closure of Engie Hazelwood and Carter Holt Harvey. This program tripled to $19.7 million in 2018-23 due to the unexpected new connections growth in our region as mentioned previously (refer to Table 12 and Figure 4 above).

Table 12 Shared Assets expenditure (Jan23$)

Shared Asset Projects - Jan23$	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	Total $M
Price Submission Allowance	1.90	0.85	0.45	0.77	0.90	4.86
18-19 - 21-22 Actuals / 22-23 Forecast	2.38	3.05	4.21	3.90	6.18	19.73
Variance to Price Submission	**0.49**	**2.20**	**3.76**	**3.13**	**5.29**	**14.87**

The over spend associated with the Drouin project and shared assets of $35 million has been offset by $8 million of cost efficiencies realised across a number of annual programs and projects, through our close management, planning and project governance processes [CX003, CX007, CX008].

We manage our capital works program prudently through our Capital Review Committee, taking into account both the prevailing market forces, risks to customer service reliability and the environment with a focus of managing overall expenditure within the ESC capital expenditure allowances.

Where customer service levels will be compromised or opportunities arise that lead to better customer outcomes deliberate business decisions are made to deliver the best outcome to our customers within the price determination period. This also led to a decision to invest an additional $0.9 million in our Sewer Main Rehabilitation Program, which was reduced by $1.0 million in the determination for the 2018-23 regulatory period.

This increased expenditure was required to more efficiently spend the estimated $15 million investment required on this program over the next ten year period. The level of investment was determined through scenario modelling and limits the impact on customer tariffs over two regulatory periods.

1.5.3 Delivery of our top 10 capital projects

We will successfully deliver eight of our top 10 capital projects in the 2018-23 regulatory period [P007] all have been delivered in a challenging construction environment heavily impacted by coronavirus (COVID-19) pandemic management measures and compounded by supply chain issues resulting from the pandemic. This includes our highest value project since the 2003-08 regulatory period being the Drouin wastewater treatment plant upgrade project at $55.5 million. Only two projects of the top 10 project (Saline Waste Outfall Pipeline and Warragul North East Sewer) have not been delivered, with both deferred into the 2023-28 determination period [P007].

The Saline Waste Outfall Pipeline (SWOP) was deferred as a result of a technical review highlighting an increased life expectancy for this asset. This is a dedicated asset for one customer, which funds the capital costs with a revenue offset – therefore the project has no impact on customer tariffs and was prudently deferred for as long as possible. Further condition monitoring studies were undertaken on the asset recently and the project cannot be deferred for another period. The customer has agreed in principle to fund a $17.2 million project during 2023-28 to manage environmental risks associated with sections of the pipeline.

The Warragul North East Sewer, was prudently deferred to the 2023-28 regulatory period due to housing developments in that service area not proceeding as rapidly as anticipated. Studies on the hydraulic capacity of the existing sewer showed it had remaining service life to adequately service the slower growth in this area for the remainder of the 2018-23 period.

Neither of these deferrals impacted system performance or our ability to meet our customer commitments, but both enabled funds to be redirected to other high customer value projects such as the new Moe Water Treatment Plant second clear water storage. This project was brought forward to allow the existing basin to be taken offline to replace an unrepairable damaged cover and liner and also to provide existing customers with improved system security, levels of service and to further support future growth.

Table 13 summarises our top 10 project performance.

Table 13 Top 10 capital projects performance 2018-23 (Jan23$)

Major capital projects 2018-23	Cost 2018-23	Service	Asset type	Customer outcome	Regulatory cost driver	Completion year
Drouin Wastewater Treatment Plant	$55.5M	Wastewater	Treatment	Plan for the future	Growth	2022-23
Sale Sewer – Outfall Sewer Pump Station	$12.8M	Wastewater	Pipelines/ network	Plan for the future	Growth	2022-23
Warragul Water – Western Ring Main to South Basin	$7.5M	Water	Pipelines/ network	Plan for the future	Growth	2022-23
Coongulla Water – Interconnect to Heyfield	$5.6M	Water	Headworks	Do your job well	Improvement /compliance	2022-23
Saline Waste Outfall Pipeline – Stages 4 and 5	$5.0M	Wastewater	Pipelines/ network	Do your job well	Improvement /compliance	Deferred to PS23

Major capital projects 2018-23	Cost 2018-23	Service	Asset type	Customer outcome	Regulatory cost driver	Completion year
Warragul sewer – north east branch augmentation	$1.0M	Wastewater	Pipelines/ network	Plan for the future	Growth	Deferred to PS23
Mirboo North water – rising main replacement	$2.7M	Water	Pipelines/ network	Do your job well	Renewal	2020-21
Moe water – treatment plant basin liner and cover replacement	$0.4M	Water	Treatment	Do your job well	Renewal	2022-23
Churchill water – Sanders Treated Water Basin liner and cover replacement	$2.3M	Water	Treatment	Do your job well	Renewal	2022-23
Sale sewer – convert Sewer Pump Station No 2 to underground facility	$3.5M	Wastewater	Pipelines/ network	Do your job well	Improvement /compliance	2022-23

1.5.4 Revenue allowance for 2018-23

Table 14 shows that our revenue of $700.08 million was broadly consistent with the $696.9 million allowance set in the determination, where revenue from additional growth has offset the $6.5 million reduction in revenues due to cost of debt movements as a consequence of changes in the rate of return calculations.

Table 14 Revenue allowance 2018-23 (Jan23$)

Regulated Revenue - Jan23$	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	Total $M
Price Submission Allowance	136.34	137.65	138.76	140.92	143.23	696.90
18-19 - 21-22 Actuals / 22-23 Forecast	140.74	139.46	139.29	139.67	140.92	700.08
Variance to Price Submission	**4.40**	**1.80**	**0.53**	**-1.25**	**-2.31**	**3.18**
Percentage Variance	**3.2%**	**1.3%**	**0.4%**	**-0.9%**	**-1.6%**	**0.5%**

Our net position sees us some $3.18 million favourable to our net revenue allowance for 2018-23 regulatory period. This additional revenue has assisted to partially offset our increased capital expenditure for the Drouin Wastewater Treatment Plant (+$20M) increased shared assets contributions (+$14.9M) and environmental investigations (+$3.0M) with the balance of funds coming from working capital management and debt financing.

1.6 Delivering better value for money

Throughout the 2018 regulatory period we have worked diligently to improve the value of the service we deliver to our customers.

We have held ourselves to account with respect to achieving the service outcomes expected of us by our customers as reflected in our outputs reporting against each customer outcome.

This has been achieved within our existing operating budgets and represents an increase in value to customers over the period and is reflected by a reduction in our cost to serve per customer (see Figure 3 above) and our increasing customer satisfaction metrics.

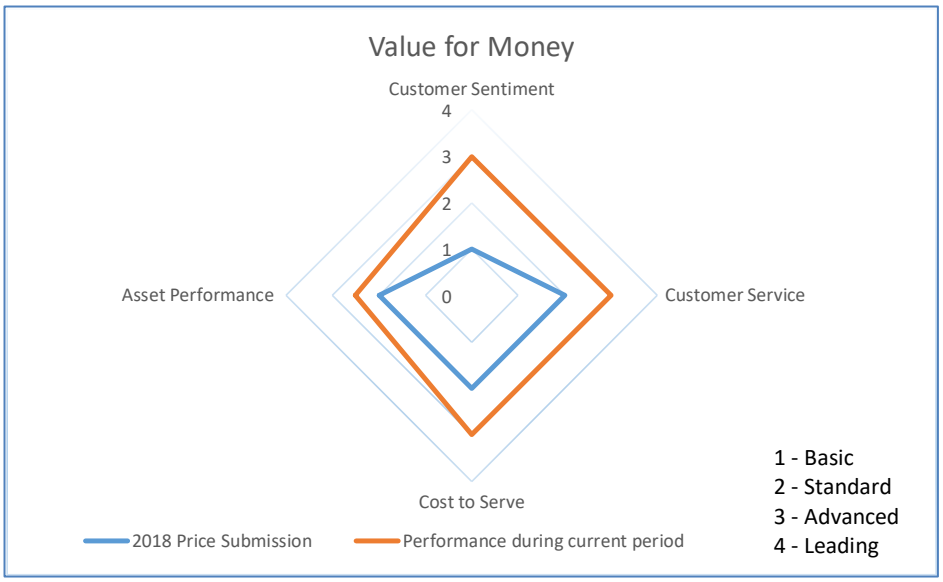
Key indicators of the increased value for money we have achieved for our customers include the following and are visually represented in the radar graph shown in Figure 5.

- Customer sentiment results have materially improved:
    - Our performance across all four key metrics in the ESC quarterly customer perception survey (trust, reputation, value for money and overall satisfaction) have trended upwards over the 2018-23 pricing period [P028]
    - Our performance relative to other water corporations around the state has also trended upwards across all measures. For example:
        - Over the first two years of the current pricing period, our trust score averaged 15th place of the 16 water corporations across the state. In the second two year period up to June 2022, our trust score rose to 12th position
        - On reputation, we rose from an average of 12th position in the first two years to 10th in years three and four, and up to sixth in the three most recent surveys
        - In terms of value for money, we went from an average 15th place during the first two years to 12th in years three and four
        - The same upward trends for all four measures have also been observed in our annual Alliance customer satisfaction survey [P015] and the biannual WSAA customer perception survey [P016], providing greater certainty and validation of the results. Further details and graphs demonstrating these trends are available in the ESC survey analysis report

- Average cost to serve has declined as discussed in section 1.5
- Customer services have improved (in particular in response to coronavirus (COVID-19)), evidenced by:
    - A downward trend in Customer Complaints by 31% since the 2019-20 financial year which is attributed by our ongoing focus in regards to customer engagement and a continued emphasis on call quality and feedback [P003A]
    - Customer Feedback is being used to proactively drive process improvement
    - Proactive customer engagement calls to provide financial assistance options [P003C]
    - Proactively advise customers they are eligible for a utility relief grant
    - Targeted messaging incorporating coronavirus (COVID-19) support communication [P003E]
    - Implemented SMS messaging for planned and unplanned outages [P034]

- Asset performance has largely remained stable with incremental improvement evidenced by:
    - Development of our 20 year capital expenditure model that captures our long term capital investment and planning data that sets out forecast investment profiles for future Price Submissions
    - Implemented stronger governance processes including, a Capital Review Committee and Infrastructure and Assets Committee (a Board sub-committee) that oversee investments into assets
    - Improved predictive modelling for our water and sewer networks program investments as demonstrated in the Price Submission 2023 program synopsis where detailed profiles of investment and level of service are provided, and
    - Successful ongoing provision of Asset Management Accountability Framework (AMAF) attestations and health checks from independent assessors including the identification of continuous improvement actions [CX004].

Figure 5 Radar graph of value for money in 2018-23



Through increased engagement, we understand our customers' needs better than ever and intend to drive this increase in value through the 2023-28 period and beyond.

1.7 What we've learned and applied for 2023-28

Reflecting on our performance in 2018-23, we have considered what we have done well and what we could do better.

In considering what we have done well, we have:

- Delivered our core customer services at a reasonable price
- Expanded infrastructure to support regional growth with limited upwards pressure on capital expenditure
- Increased our effort to engage with customers in ways that suit them and that allows them to have input into our decision making (refer to Chapters 2 and 3 to see how our customers have informed the outcomes and outputs that underpin this Price Submission)
- Improved our support for vulnerable customers and those in financial hardship
- Introduced improved internal processes for governance by implementing the following committees:
    - Capital Review Committee
    - Infrastructure and Asset Committee
    - Executive Remuneration Committee
    - Project Management Framework
    - Major Customer Management Committee
    - Internal Steering Committees for strategic and significant projects
        - Drouin Wastewater Treatment Plant Project
        - Mechanical and Electrical contract project
- Starting to undertake strategic planning for scenarios beyond this Price Submission (2030-50)
- Corporate strategic planning, and
- Supported our community to advance the health and prosperity of our region

We believe we can do better in a number of areas. Now and moving forward we will be:

- Taking more risk in our strategic planning that takes into consideration the unprecedented and ongoing growth of our region
- Engaging more proactively and involving our customers in what we are doing, how it may impact them, and how they can influence our long-term plans
- Building on the significant changes we have seen in organisational cultural growth to

continue our journey as a truly customer centric organisation
- Embedding in our planning processes, innovative ways to deal with the ongoing challenges that changes to population, climate change, climate adaption, industry and environment, including the increased frequency and severity of weather events bring both to Gippsland and our organisation, and
- Converting the challenges we had in the 2018-23 regulatory period into actions and opportunities (i.e. bio-solids management, supply chain challenges)

The end result is that our 2023-28 submission:
- Has a customer and stakeholder focus
- Responds to the ongoing challenges of servicing regional growth, responding to significant shifts in industry, and delivering on our climate commitment
- Sets bold targets and achievable goals for reducing our emissions
- Explains how we will build resilience to the challenges of climate change, and
- Outlines our approach to managing risk and minimising exposure to changes in our regional economy.

Supporting documents

- P001 - Gippsland Water Price Submission 2018
- P003 - Evidence of increased support for customers during and post Covid – summary
- P003A - Evidence Reduction in customer complaints of 31% since 2019-20
- P003B - Complaints Report
- P003C - Customer Engagement Call Procedure
- P003D - Evidence – enhancements to online services
- P003E - Targeted messaging incorporating coronavirus (COVID-19) support
- P006 - ESC 2021-22 Outcomes Report Gippsland Water
- P007 - ESC 2021-22 Major Projects Report Gippsland Water
- P008 – Lets Talk Website Portal
- P009 - Annual Community Report 2019-20
- P010 - Annual Community Report 2020-21
- P011 - Annual Community Report 2021-22
- P012 - Customer Reference Group meeting summary - 1 March 2022
- P013 - 2023-2028 Engagement Strategy
- P014 - Energy Management Strategy 2022-28
- P015 - Annual alliance customer satisfaction survey results 2021
- P016 - National Customer Perceptions Survey 2021 (WSAA)
- P017 - Customer Reference Group Terms of Reference
- P018 - Communication and Engagement plan – Drouin wastewater treatment plant
- P019 - Communication and Engagement plan – Sale outfall sewer pump station
- P020 - Communication and Engagement plan – Moe basin
- P021 - Communication and Engagement plan – Mirboo North rising main
- P022 - Communication and Engagement plan – Warragul western ring main
- P023 - Communication and Engagement plan – Heyfield Coongulla interconnect
- P024 - Communication and Engagement plan – Sanders basin Churchill
- P025 - Communication and Engagement plan – Sale SPS2
- P026 - 2020 Customer Satisfaction Survey – SMS notifications
- P027 - Customer nomination of $5,000 contribution for Moe boil water notice - survey results
- P028 - ESC quarterly customer perception survey results
- P031 - Urban Water Strategy 2022
- P032 – Vision Super Actuarial
- P033 - Old bill format/New bill format
- P034 - Report to show new SMS notifications for bill reminders, high water use, planned and unplanned outages
- P035 - Project close out report – online services/customer portal functionality
- P036 - Project close out report – Enhanced Digital Billing
- P037 - New complaints management framework
- P037A - New complaints dashboard visual and quarterly report
- P038 - New complaints management policy
- CX004 - GW 2021 Asset Management Accountability Framework Attestation letter

2. Engagement

At a glance

- Our customer engagement program has been deeper, more meaningful and more extensive than ever before, reflecting our transformation to a genuinely customer centric water corporation
  - Over 5% (3,500) of our customers engaged
  - Four major surveys
  - 32 detailed stakeholder interviews
  - 13 focus group workshops
  - 3.5 day deliberative customer summit (30 person panel)
  - Customer Reference Group assurance and deliberation.
- Our engagement strategy was iterative in its design and co-designed by our customers and key stakeholders
- We ensured people in our community experiencing vulnerability were able to participate safely and be heard
- We engaged early and regularly with stakeholders that we knew would be affected by our decisions
- We partnered with the Gunaikurnai Land and Water Aboriginal Corporation, the Traditional Owners of approximately 95% of the land in our region, on the issues of importance to them
- Moving forward this engagement approach is now our standard practice

2.1 Developing our customer and stakeholder engagement program

Our engagement program has been genuinely customer-led from beginning to end and co-designed with input from customers and stakeholders.

Our strategy [P013] was iterative, ensuring each step of the process was purposeful, relevant and built on what we heard in the stages before.

Importantly, we brought our customers and stakeholders along on the journey by asking them to provide input and showing them how it influenced and shaped our decision-making.

We commenced our engagement journey early to:

- Allow customers to co-design the framework and topics for discussion, and
- Allow genuine and meaningful engagement early enough to influence outcomes, outputs, GSLs, operational expenditure, capital expenditure, revenue and tariffs.

At the beginning of the engagement journey, we established the ‘Let’s Talk’ section of our website (www.gippswater.com.au/lets-talk), which we updated regularly to show open opportunities to get involved, updates on what we have learned so far, and relevant background information [P008].

One of the most critical steps of the process was to involve stakeholders, including our Customer Reference Group, in not only the co-design of the engagement program, but with regular check-ins to make sure the approach we took remained genuine and authentic as it evolved.

Our engagement strategy was built around the following objectives:

1. To enable all of our customers (residential, non-residential, major customers, Traditional

Owners, First Nations people and developers) and community to engage with us, regardless of their circumstances.

2. To gain an appreciation of the values and aspirations of our customers, and the diversity of the communities we serve.
3. To communicate in ways, times and places that suit our customers, where possible.
4. To use this opportunity to strengthen our brand and improve our reputation by using best practice engagement methods.
5. To use this period of intense engagement to develop and embed a new approach to ongoing conversations with our customers, community and stakeholders.
6. To use accessible language to include as many customers as possible.
7. To use a range of engagement techniques, so we're not reliant on a single source of data (we 'triangulate the truth') and to maximise opportunities for participation.
8. To involve as many of our staff as possible to spread the word about our engagement program.
9. To exceed the ESC's minimum engagement expectations for Price Submissions.
10. To exceed DELWP's minimum Traditional Owner and other stakeholder engagement expectations.

We embedded the following engagement principles into our strategy to guide our approach:

1. Purpose – the purpose of the communication and engagement program (and each activity within it) was clear and easy to understand.
2. Respect – all participants were treated with respect and kept informed along the way.
3. Honesty and transparency – we sought to build and maintain trust by sharing all and explaining how participant input influenced and shaped our decision-making.
4. Inclusiveness – a genuine effort was made to seek input and views from all interested parties, and to include their contributions wherever possible.
5. Accessibility and simplicity – we minimised barriers to participation by making it easy for people to access and contribute to our engagement opportunities.
6. Iteration – our plan was regularly reviewed and adjusted based on feedback and input from our people, customers, community and stakeholders.
7. Authenticity – guided by our organisational promises and values, we were open about opportunities to influence and acted with integrity.
8. Collaboration – we worked in partnership and collaboration with our key stakeholders and partners.
9. Free from bias – we put questions to the community in ways that did not take advantage of known cognitive biases, such as loss aversion bias/endowment effect. Where biases were present, we pointed them out.

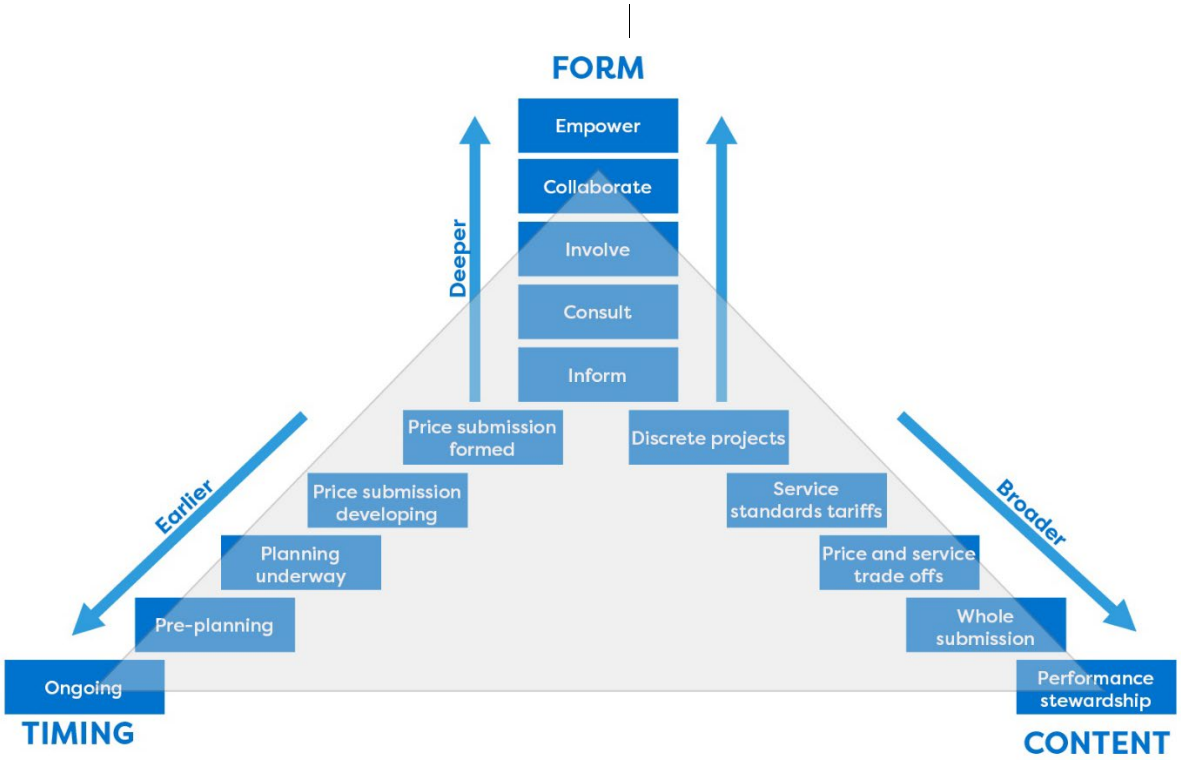
We ensured our engagement program was responsive to barriers that can prevent people from participating in engagement opportunities, including:

- Providing mobile broadband modems for online participants in our engagement sessions who had limited access to the internet at home
- Offering multiple ways for participants to engage with us – over the phone, in online meetings, in person, via email, in writing, in webinars
- Identifying champions in the customer summit to play an important role to capture notes and help articulate small group discussions. This enabled panel members to participate fully in the online sessions, even when literacy and technology could have been barriers to participation in other settings, and

- Providing one-on-one support to participants in online workshops, when technology proved a barrier.

Figure 6 illustrates our engagement approach, using the ESC's customer engagement diagram. The overlayed triangle shows the timing, IAP2 form and content of our engagement program for this submission.

Figure 6 Customer engagement diagram



We collaborated with customers and stakeholders on our whole submission and worked with them to develop a performance stewardship model which we will take into our next regulatory period.

Our new performance model has been designed to include customer perception-based metrics directly linked to outcomes. We've involved customers in determining how we measure our performance against our promises and we'll also involve them in reviewing our performance annually.

2.2 How we decided the topics for customer engagement

Our engagement program was iterative. Section 2.3 below shows the 5 stages we ultimately went through in engaging with customers and each stage was informed by the previous stages when it came to:

- What to engage on
- Who to engage with, and
- How to engage

These insights are set out in the various engagement reports that accompany this Price Submission [E001-007, E046, E047, E082].

The deepest engagement was our customer summit which also involved input from developers, small businesses and major customers.

In determining which topics to cover at the customer summit, we started by analysing the key

issues customers had raised with us during the first and second engagement program.

We then carried out a series of workshops with the Executive Leadership Team, Board directors and project team members to:

a) Analyse and explore the topics customers had raised with us in the previous two stages;
b) Identify any additional issues we needed to (or potentially could) engage on; and
c) Determine which ones would provide the greatest customer value. Through this process, we came up with over 80 potential customer and stakeholder engagement topics.

Broadly, the topics fell into the following groups:

- Customer experience
- Environment
- Finances
- Regulation, and
- Water resources

Considerable work was then done to refine the thematic focus of the engagement program down to 30 topics. All were triaged according to their alignment with customer priorities, interest and concerns; complexity, timeliness and customer value. Expert external advice was provided on how customers should participate for each.

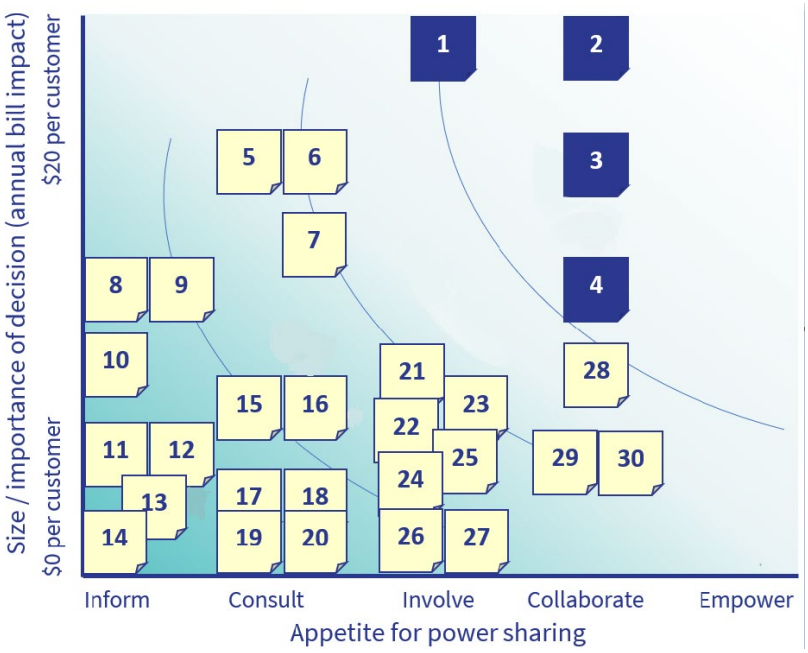
Topics were assessed by their impact and our willingness to share decision-making power with our customers. The larger the impact and the more participation offered, the higher a priority they were for deeper engagement with customers.

Topics were deemed to meet the criteria for deep engagement if:

- The solution was not clear
- The organisation was willing to implement what customers decided, and
- They have potentially large impacts on customer bills

The outcome of that assessment for each of the 30 topics is shown in Figure 7 below.

Figure 7 Assessment of 30 topics for engagement by size and willingness to share decision-making



The most significant topics that arose were:

1. Big industrial customers paying their fair share of costs
2. Loss of major customers and the loss of associated revenue – impacts on tariffs
3. Growth
4. Handling of additional revenue streams obtained during the Price Submission period.

It is important to note that each of these topics are substantial and historically sensitive. They each reflect the complex and unique nature of our organisation, which is significantly more exposed to major customer revenue fluctuation than any other Victorian water corporation. They are all topics that would never have been discussed with customers in the past, let alone opened up to genuine stakeholder collaboration and customer deliberation. The results have been embedded into our submission and all will require sensitive negotiation across major industry, government and other stakeholders to be successfully delivered.

They all share a common theme of affordability and fairness, which was the predominant theme our customers raised with us from the beginning of the engagement program and right through to its conclusion.

Three key issues from the upper right-hand quadrant were selected for deliberation over the three days and one evening of the customer summit in March and April 2022. Elements of these topics, as well as other important topics, were explored through surveys and focus groups in advance of the customer summit. The full list of topics is detailed in E105.

In selecting the most appropriate topics to take for customer deliberation, the level of involvement we desired our customers to have in making that decision and the size and the quantum of that decision on customer bills were the primary considerations.

Issues that were selected to go to deliberation are shown in Table 15 below:

Table 15 Deliberation issues

Issue Number	Issue name	Summit topic
1	Big industrial customers paying their fair share of costs	What is the fairest way to charge for the cost of infrastructure and services used by major industry?
23	New customer contributions	What is the fairest way to share the cost of new connections to our network?
N/A	Southern Rural Water recreational charges	Who should pay for the cost of maintaining recreational facilities at places we source water from but don't own or manage?

The third issue in relation to Southern Rural Water (SRW) had not been identified at the time our initial issue assessment process was undertaken, however, it emerged as an unresolved issue that we felt our customers should and could influence.

A representative group of approximately 30 customers came together at the customer summit to deliberate on the above three questions.

The outcomes of these deliberations are discussed later in this chapter.

2.3 How we designed an engagement program that was universal and inclusive

We were guided by the ESC's principles for universal and inclusive engagement. These are set out in Table 16 below along with how we applied them to ensure our engagement program was accessible and inclusive. We also had our strategy independently reviewed to ensure it met these principles.

In October 2021, our independent regulatory and engagement advisors provided advice that further work was needed to refine the design of our engagement program. We acted on this advice, making adjustments to enhance universality and inclusiveness and positioning the program

more strongly for deliberation. Our engagement plan had sufficient contingency to enable us to refine the design for an improved customer engagement outcome to inform our submission.

Specific actions included further co-design with stakeholders, an additional major customer preference survey to triangulate and validate findings and test preferences and more focus on outcomes and outputs.

Table 16 ESC's principles for universal and inclusive engagement and our application

Principle	How we applied this principle
1. Be inclusive	We actively removed barriers to participation in our engagement activities, including through: • Communicating in simple, clear language • Ensuring our online surveys catered for people who wanted to respond in writing or over the phone • Providing one-on-one support to participants in online workshops when technology proved a barrier • Holding technical assistance sessions for participants in the lead-up to and during each online workshop or deliberative event to make sure they were comfortable using the required technology • Identifying champions participating in the customer summit to play an important role to capture notes and help articulate small group discussions. This enabled panel members to participate fully in the online sessions, even when literacy and technology could have been barriers to participation in other settings • Supplying 4G modems to participants who didn't have access to affordable or reliable internet connections, so they could participate in our customer summit
2. Collaborate and co-design with consumers	• Our communication and engagement strategy was co-designed with input from key stakeholders, including our Customer Reference Group who also endorsed the strategy. This led to identification of further stakeholders to involve and helped ensure we were engaging with the right people on the matters of most importance to them • The customer summit, the pinnacle of our deliberative engagement, was an opportunity for our customers to genuinely collaborate with us on key issues under consideration for this Price Submission • We asked the panel to nominate stakeholders they'd like to involve in the summit, leading to attendance and engagement with Southern Rural Water's Managing Director, Committee for Gippsland's CEO and AGL's Manager Regulatory Compliance and Business Development, along with several Gippsland Water subject matter experts, Board Directors and Customer Reference Group members • Through an independent deliberative process, our Customer Reference Group made recommendations to us on tariff design and how to give our customers more control of their bills. We committed to implement these recommendations to the maximum extent possible (collaborate) • Our customer outcomes and guaranteed service levels were developed with significant customer input and co-designed with our Customer Reference Group
3. Treat engagement as an ongoing process based on relationships	• Our customer and stakeholder engagement is continuous and involves ongoing dialogue between us and our stakeholders • Through our iterative engagement, we have looped back to our stakeholders to demonstrate how we've applied their feedback in our plans and to nurture these important relationships
4. Have a clear purpose	• For each engagement activity we undertook for this Price Submission we clearly explained why we were carrying out the activity and what the purpose was
5. Reflect community diversity	• We used independent recruiters to recruit participants for our customer workshops and customer summit. Their briefs included requirements to recruit participants that reflect our community's diverse demographics • We went to extra effort to ensure customers who have experienced financial difficulty were included in our engagement – including through an email to customers known to our customer support team, a dedicated workshop group and by acting on

Principle	How we applied this principle
	the advice of our community support stakeholders • We ensured customers from diverse cultural backgrounds had opportunities to get involved, recruiting a dedicated customer workshop group with the assistance of local cultural groups and promoting our activities with them
6. Invest in engagement	• Engagement has been at the forefront of this Price Submission. It gave us direction and confidence that the proposals in this submission reflect what our customers expect and want • Our staff have been invested in our engagement activities. They went out and about in the community encouraging customers to get involved, shared surveys with their networks and supported us to deliver genuine engagement • Where we needed additional expertise, experienced consultants helped us avoid bias and ensure we were using best-practice methods
7. Be transparent and offer genuine engagement	• We have been upfront with participants in each engagement exercise about what is in scope, how they can influence our plans and what our engagement promise is to them • We've continued to keep our customers up to date with what we've heard through our engagement and our plans through our communication channels – bill inserts, newsletters, the Let's Talk page of our website and our social media channels
8. Show respect for individuals, their knowledge and expertise	• We invited experts and key stakeholders to contribute to our customer summit to share their knowledge, views and expertise with the summit panel to consider in their deliberations • Our Customer Reference Group is comprised of knowledgeable and experienced individuals whose input we value immensely. We demonstrate how we use the input from this group to inform our plans and operations • Our workshops, focus groups and customer summit events all required a code of conduct to ensure participants, facilitators and our staff were respectful of each other at all times
9. Use methods that are universal and flexible	• We offered multiple ways for participants to engage with us – over the phone, in online meetings, in person, via email, in writing, through webinars and through social media • We took a pragmatic approach to engagement and made adjustments as appropriate – for example by focusing on the key issues of interest to the stakeholders involved, shortening face-to-face interviews for people in a hurry, and making phone surveys possible for people who could not complete them online
10. Reflect, adapt and improve	• The iterative design of our engagement strategy gave us multiple opportunities to adjust our plans, listen to our stakeholders and learn throughout the process • We have developed an engagement evaluation report (provided with this Price Submission) to reflect more deeply on the different activities in our engagement program and identify opportunities for improvement in future engagement programs

2.4 Our Customer Reference Group

In developing our customer engagement program, we established a new Customer Reference Group to:

- Oversee our engagement program and perform an assurance role
- Ensure customers remained central to our planning, and
- Collaborate with us on complex issues. [E072]

This diverse group was carefully selected to be genuinely representative of our community, including members with backgrounds in disability, health services, refugee and migrant communities. See Appendix 1 for an overview of the members of our Customer Reference Group and view the group's Terms of Reference at www.gippswater.com.au/CRG [E072].

Throughout the engagement program, the Customer Reference Group:

- Contributed to our communications and engagement strategy design
- Deliberated on the topics of bill control and tariff design [E047]
- Observed our Customer Summit
- Attested to the authenticity of our engagement at the Customer Summit [E079]
- Reviewed the results of engagement activities
- Presented to our Board of Directors
- Helped design our customer outputs and Guaranteed Levels of Service in an independently facilitated workshop [E047]
- Attested to the accurate representation of customer input in our Price Submission [E079], and
- Endorsed our Price Submission [E079]
    - "Excellent process that should be provided as a benchmark example to other Victorian water authorities on consumer engagement."
    - "The CRG aims and objectives as outline by Gippswater are being worked toward in a systematic way. This appears to have been a positive initiative."
    - "I have been mightily impressed by the thoroughness, comprehensiveness and conscientiousness of Gippsland Water's processes of involving community in the development of its strategic directions on prices and services."

2.5 Our five-stage engagement program

Figure 8 depicts a summary of our engagement journey. We commenced in late 2020 by analysing the results of recent customer perception, satisfaction and other engagement activities to identify early themes, issues and topics for further exploration.

Exploratory engagement followed in 2021 where we sought to develop a fuller understanding of our customers' expectations and priorities and to test our existing customer outcomes.

We held face-to-face engagement in the community where our customers had the opportunity to review our customer outcomes (promises) developed in 2018 and to comment on them and emphasise what mattered most to them [E003].

These responses, in addition to analysis of other insights from early engagement, were used to test whether our existing five customer outcomes areas still resonated with our customers [E002]. We used these insights further to help us propose our six customer outcome areas for this Price Submission, which we continued to test and validate in stages three, four and five of our engagement program.

Affordability and fairness, customer experience-related priorities and an increased focus on environmental sustainability were the main themes that emerged, and all three helped set the tone and focus for subsequent stages.

We then delved deeper to explore the emerging themes and issues through focus groups,

interviews and surveys [E001]. Through our customer summit, we collaborated on issues that will help us deliver on our customer's top priority: affordability and fairness [E082].

The depth and IAP2 level of engagement varied to suit the issues explored and the method used. Initial insights and establishing the issues of greatest importance to our customers was done through interviews, conversations and open-ended feedback forms.

We then explored the emerging issues through focus groups, workshops and surveys. Complex issues were explored in depth through deliberation by our Customer Reference Group, or through the customer summit (Table 17).

Comprehensive planning and reporting took place for each stage of the process, all of which are explained in detail in the various engagement activity reports listed at the end of this chapter.

Figure 8 Our engagement journey

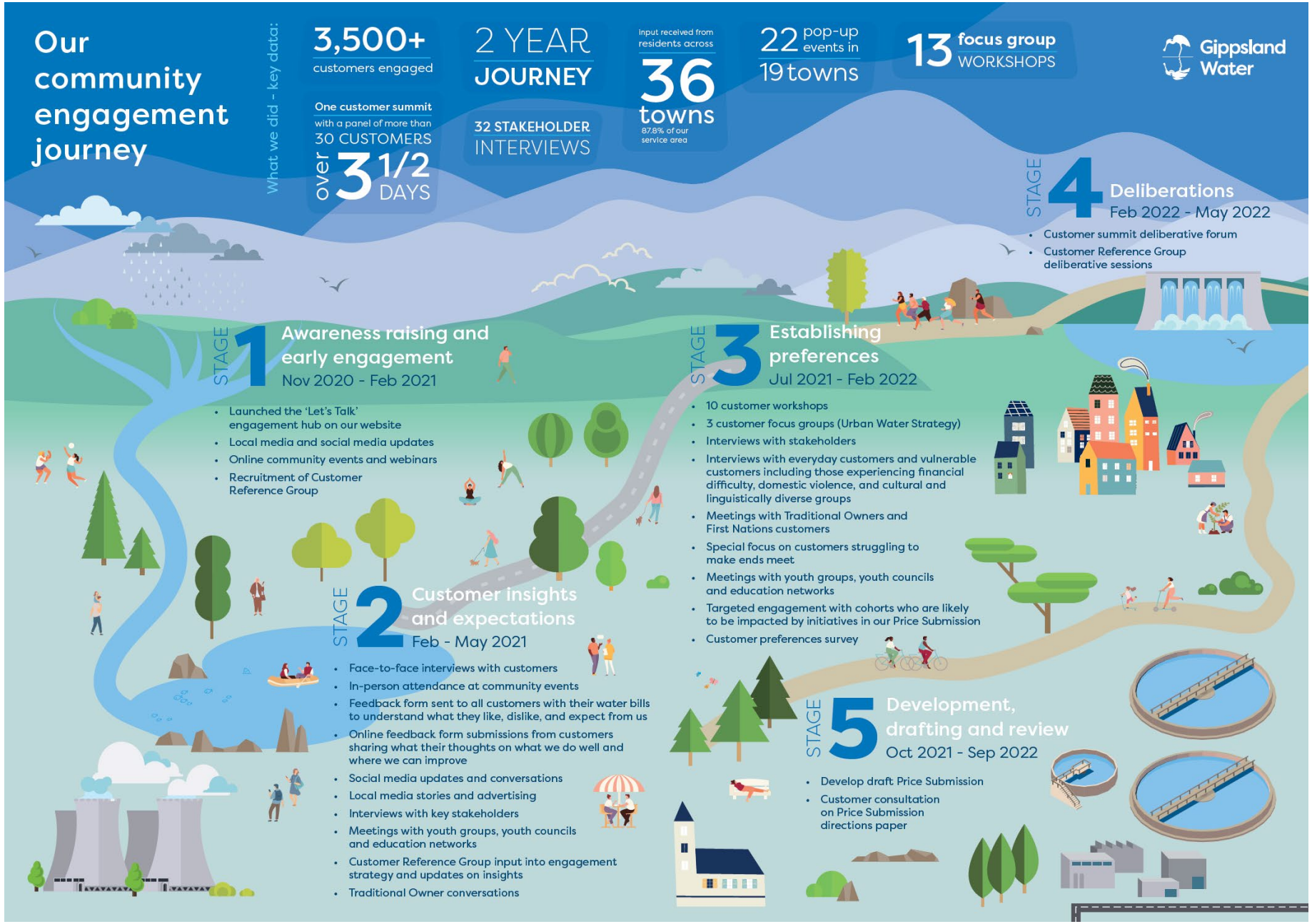


Table 17 The five stages of our customer engagement program

Stage	Description	Activity	Key customer insights
Stage 1: Awareness raising and early engagement **IAP2 engagement level: Inform**	Raising awareness of our plans and sharing information about what we do and some of the challenges and issues we face.	National Customer Perceptions Survey (WSAA) [E073]	• Value for money improving (up from 5.5 to 6.1) • Trust improving (up from 5.7 to 6.1) • Be easy to deal with improving (up from 6.8 to 7.2) • Customers expect us to help those who struggle to pay their water bill, improve local waterways/waterway health, make additional allowances for customers with special needs during an outage, provide recycled water for public parks and community sporting grounds, provide additional support to communities impacted by extreme events
		Customer Satisfaction Survey (Alliance) [E074]	• 1 in 4 customers experienced coronavirus (COVID-19) related hardship (not always financial) • Value for money improving (up from 70% to 74%) • Trust improving (net promoter score up from +6 to +10) • Satisfaction with reliability: 92% • Customer support/hardship awareness: 71% • Bill inserts and the internet are the most used sources of information about water by our customers • Customers expect us to provide clean water and quality wastewater, be reliable, affordable, and easy to deal with
		Online community events/webinars	• It's important that we plan for climate change and prevent environmental harm
Stage 2 Customer insights and expectations **IAP2 engagement level: Involve**	Find out what our customers value and expect from us – as well as their ideas on how to tackle some of the challenges we face. We engaged with other key stakeholders to find out the issues that are most important to them.	Face-to-face interviews [E003] Feedback forms [E005] Online survey [E004]	• Affordability is most important • Customers are happy with our service • Existing customer outcomes still resonate • Support those who struggle to pay their bills • Provide water that is safe to drink, at a reasonable price • Restore interrupted services in a timely manner • Be aware of the impact of climate change on our environment – natural resources must be the priority • We value long-term thinking and planning • Invest in water security • Be easy to deal with • Be engaged and visible in our community
		Stakeholder meetings	• Don't harm our local environment • Find opportunities to support or enhance our environmental assets • Support people in the community experiencing vulnerability

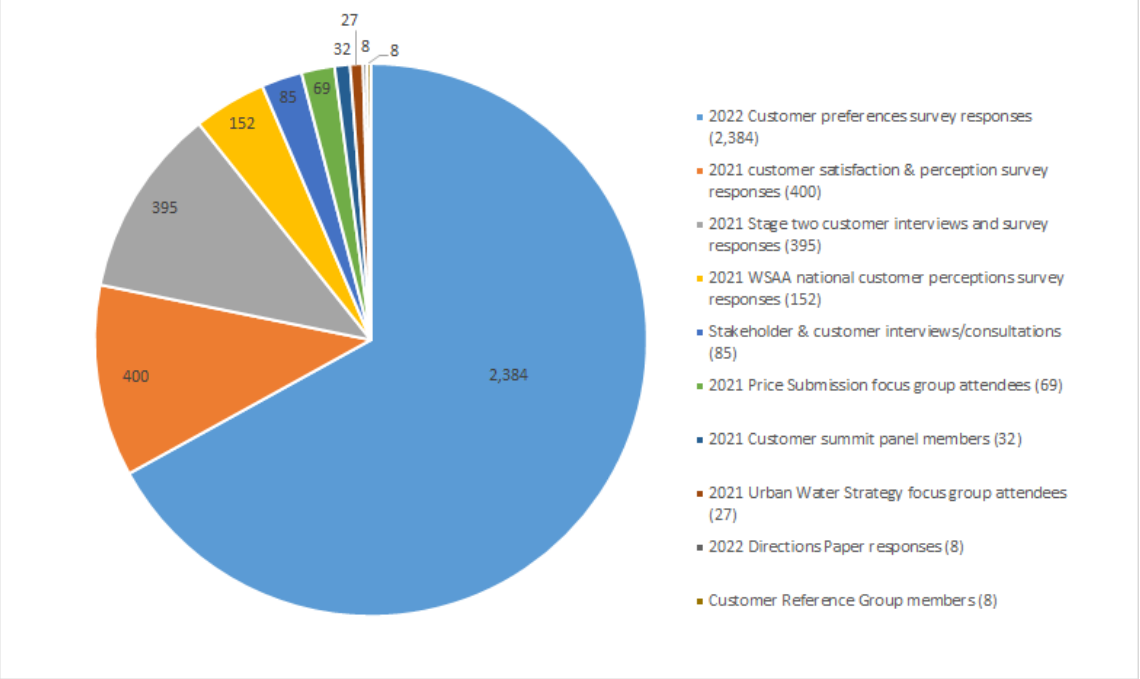
Stage 3: Establishing preferences **IAP2 engagement level: Involve**	Get a better understanding of the issues that customers told us are important to them through workshops and focus groups. We also sought to establish customer preferences relating to potential initiatives and collect further insights on issues for deliberation at the customer summit.	Urban Water Strategy focus groups [E007]	• Water sustainability and reducing water usage is important • Education on water conservation • and sustainability is important • Invest in resilience in a changing climate • Water restrictions are accepted as necessary
		Customer workshop focus groups [E046]	• We trust Gippsland Water to get the basics right but we want to be engaged in decisions that affect us • We expect Gippsland Water to focus on the future and take an active role in environmental sustainability and stewardship • We appreciate the role Gippsland Water plays in the community and want this to continue • We are pleased with the current level of support for people experiencing financial difficulties • Flexible payment options and improved education are initiatives that would further support those in financial difficulty • Support our community in times of emergency • Educate the community on ways to conserve water and the environmental impacts of their water use • An app would be very helpful to access services, to see usage and pay bills • Strong support for an app to enter the meter read to calculate the bill in real time • Keep me informed in ways that suit me • Protect the environment and water resources for future generations • We care about the environment, but we are more concerned about bill affordability than exceeding sustainability targets • Protect waterways and land • Involve and inform us in the things that impact us • Water quality, safety and affordability are the priority over taste
		Customer Preferences Survey [E075]	• Fees and charges should be attributed to those who use them: 82% • Smooth customer bills to prevent significant price increases: 91% • Our customers care about the environment, but they are divided on whether or not we should increase expenditure on new recreational facilities and increased native species conservation: 55% • Show the percentage of planned interruptions that are restored on time when we report each year: 74% • Customers should receive a refund/compensation if planned interruption targets are not met: 53% • Inform customers on if we have met our emissions target each year: 59% • Inform customers on the percentage of customers who agree that we are a valued member of the community: 56%
		Independent Customer interviews	• Keep bills stable, prevent big price increases for residential customers • Fees and charges should be attributed to those who use them • Protect the environment through conservation and revegetation
		Independent	• Keep bills stable, mitigate big price increases for residential customers

		Stakeholder interviews	• Fees and charges should be attributed to those who use them • Pursue opportunities for new industrial businesses in the region, but not at the expense of small-medium businesses and residential customers
Stage 4: Deliberations **IAP2 engagement level: Collaborate**	Collaborate with the community to develop recommendations on key issues for our Price Submission through our customer summit and deliberative sessions with our Customer Reference Group.	Bill control and tariff structure deliberation (independently facilitated session with our CRG) E081, E047]	• Pursue functionality for bill control through an app • Provide education and support for customers on how to use it • Deliver the functionality at a low cost • Do not continue to investigate a change to the tariff structure
		Customer Summit [E066-070, E082]	• Customers do not accept the status quo in terms of how some large customers pay for the assets and running costs that serve them: 96% (88% accept, 8% tolerate) • Customers want a large change towards a user pays system: 100% (79% accept, 21% tolerate) • They believe that our changes will create a low risk of large customers leaving the region: 100% (96% low, 4% medium) • The maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%: 96% (81% accept, 15% tolerate) • Customers believe that the cost of maintaining these facilities should be reviewed by Southern Rural Water to ensure they are efficient and can be justified: 100% accept • Customers believe that the cost of maintaining Southern Rural Water's recreational facilities at Blue Rock Reservoir, Lake Glenmaggie and Cowwarr Weir should be shared between all of the bulk entitlement holders including Gippsland Water, irrigators and power generators: 96% (92% accept, 4% tolerate) • They believe that our customers should pay between 17-30% of the cost of maintaining these facilities: 92% (65% accept, 27% tolerate)
Stage 5: Development drafting and review **IAP2 engagement level: Consult**	Bring together all input received throughout the engagement program to inform and shape the draft of our Price Submission.	Community consultation on Price Submission directions paper [E106]	• Our Directions Paper reflected community expectations and preferences
Ongoing		First Nations and Traditional Owner engagement [E083-085]	• Support Aboriginal community members with access to Country • Support Aboriginal community members with career opportunities • Continue to partner with Traditional Owners on key projects to achieve the GLaWAC Whole of Country Plan

2.6 Who we engaged with

We engaged with more than 3,500 customers across 36 of the 44 towns we service, representing 87.8% of our service area. We held 13 focus groups, 10 focused on our Price Submission and three focused on our Urban Water Strategy (refer Figure 9).

Figure 9 Customer engagement breakdown



We also held 32 stakeholder interviews with local community groups, major customers, plumbers, small business and other key stakeholders to hone in on issues that are important to our community [E090]. These stakeholders are set out below in Table 18.

Table 18 Stakeholders who informed our engagement program

Stakeholders	
Government agencies and regulators • Department of Environment, Land, Water and Planning • Essential Services Commission • Regional Development Victoria	**Community and advocacy groups** • Committee for Gippsland • Consumer Action Law Centre • Voices of the Valley • Gippsland Regional Executive Forum
Industry partners • Gippsland Environmental Agencies • Integrated Water Management • Melbourne Water • Southern Rural Water	**Support services** • Anglicare Vic • Good Money • Gippsland Disability Advocacy • Latrobe Community Health • Morwell Neighbourhood House • Orange Door • Quantum
Traditional Owners and First Nations • Gunaikurnai Land and Waters Aboriginal Corporation • Brayakaulung Advisory Committee • Federation University Aboriginal Education Centre	**Councils** • Baw Baw Shire Council • Latrobe City Council • Wellington Shire Council
Youth groups • Latrobe Youth Network • Latrobe Youth Space	**Environment** • Latrobe Valley Field Naturalists • Friends of Tyers Park

Stakeholders	
Non-urban customers • AGL • Laser Plumbing • Opal Australian Paper • West Gippsland Healthcare Group • Park Avenue Laundry • Pureharvest • Bega Dairy & Drinks	**Developers** • O'Dea Project Management • Fordham Group • LandGipps • Steve Buhagiar (Marshalls Rd Developments Pty Ltd) • Eamon McNaulty (Luganare Pty Ltd) • ParkLea • Urban Development Institute of Australia (UDIA)
Education • Federation University Gippsland	

Early in our engagement journey, we undertook stakeholder analysis to identify the customer cohorts and stakeholder groups that could either influence or be affected by our Price Submission and to what extent [E078].

We identified community leaders, organisations and representatives within each cohort and met with them to explain the process we were undertaking and ask them who they thought we should engage further with, how we should go about it, and the key issues they felt we should be engaging those stakeholders on.

The insights we gathered during this exercise helped shape the subsequent development and design of our Price Submission engagement program [P013], resulting in a genuinely co-designed approach to ensure subsequent stages were fit-for-purpose, targeted and respectful.

2.6.1 People experiencing vulnerability

We met early and regularly with stakeholders who advocate for some of the most vulnerable members of our community, including:

- Aboriginal community members
- Disabled people
- Multicultural community members
- People experiencing family violence
- People experiencing homelessness
- People experiencing financial difficulty, and
- refugees

Acting on the advice of these stakeholders, we reached out to other experts, and carried out engagement initiatives they recommended. For example, through informal conversations with community members at the Morwell Neighbourhood House Foodbank we were able to gain insights on their expectations of us as part of our stage two engagement.

In addition to face-to-face opportunities, we sent a direct email to customers who have at some stage experienced difficulty paying their bills to encourage them to fill out our online feedback form as a way of providing input into both our Price Submission and Urban Water Strategy.

To recruit diverse participants for our customer workshops, we reached out to local groups for people of different cultural backgrounds and asked for their help to share the opportunity to get involved with their members. From this direct effort we had strong representation from people with diverse backgrounds in these workshops.

The responses we collected during stage two were segmented to identify whether any significant variation existed between the views of customers who we knew had experienced financial difficulty and the broader customer base, with no notable differences identified.

During the stage three workshops, we found that 42% of customers who had experienced financial difficulty were uncertain when asked whether the current level of support offered to those in

financial difficulty was sufficient, as opposed to the other customer groups which averaged 21.8% uncertainty [E046].

This observation was validated with our Customer Reference Group, which expressed a view that while the support we provide to people experiencing financial difficulty is good, we should seek to increase awareness of the support we offer [E061]. In response, we have committed to investing in more targeted hardship support awareness campaigns in this submission.

We also noticed during the same workshops that both, customers who had experienced financial difficulty and Culturally and Linguistically Diverse (CALD) groups, rated the provision of public drinking fountains as a lower priority than other customer groups, at sixth priority out of the nine options discussed whereas all other groups rated it as the second highest priority [E046].

Around the same time, we heard from financial support service providers that homeless people in our community value public drinking fountains, especially models with dog water bowls, as they provide a discreet way of accessing free, clean drinking water for both themselves and their pets [E008].

During the same workshops, customers who had experienced financial difficulty expressed a desire for a higher level of involvement in our planning for the future than other customer groups [E008].

In light of this insight, we will ensure we have strong representation from this cohort on both our Customer Reference Group and Customer Sounding Board, over the next five years. We will also undertake targeted communications to increase awareness among this customer group about the work we are doing to plan for the future.

We also engaged with Consumer Action Law Centre on our submission and included their advice for the Customer Reference Group to consider when deliberating on tariff structure. Table 19 provides a summary of key feedback received during our engagement with Consumer Action Law Centre and how it's helped shape our submission [E108]:

Table 19 key feedback received during our engagement with Consumer Action Law Centre

What we heard	What we'll deliver
Maintain and expand assistance for people experiencing vulnerability and hardship so that people having difficulty paying their bills receive the support they need	We are investing two additional resources into our customer care team, employing and upskilling more staff to reach out early and provide tailored support for those doing it tough. We'll increase our investment into customer hardship support program awareness campaigns to make more people aware of the support we can offer
Engage with First Nations communities, not only as customers, but with respect for their spiritual, economic and cultural connections to water. Water businesses must recognise this by ensuring First Nations voice are central in their customer engagement	We engaged deeply with Traditional Owners and our local First Nations community more broadly. Their priorities, interests and concerns are reflected in our submission and are summarised in 2.6.2.
Remove (or address) any cross-subsidies that disadvantage residential consumers. Big business should be paying the full cost of their water use, not being subsidised by households. Any deviation from this must be made explicit, and justified, in businesses' Price Submissions	We will endeavour to the best of our ability to renegotiate any expiring major customer contracts to reflect the cost of service and we're also updating our miscellaneous fees and charges to ensure the same.
Significant investments, such as the roll-out of digital metering, must proceed only where the benefits to consumers have been robustly demonstrated. Victorians should not face price rises because of investments based on theoretical benefits.	Our submission offers customer a price decrease and all major projects have been tested with our customers and aligned to what they said was important to them. Any new projects considered will be tested through our ongoing customer forums.

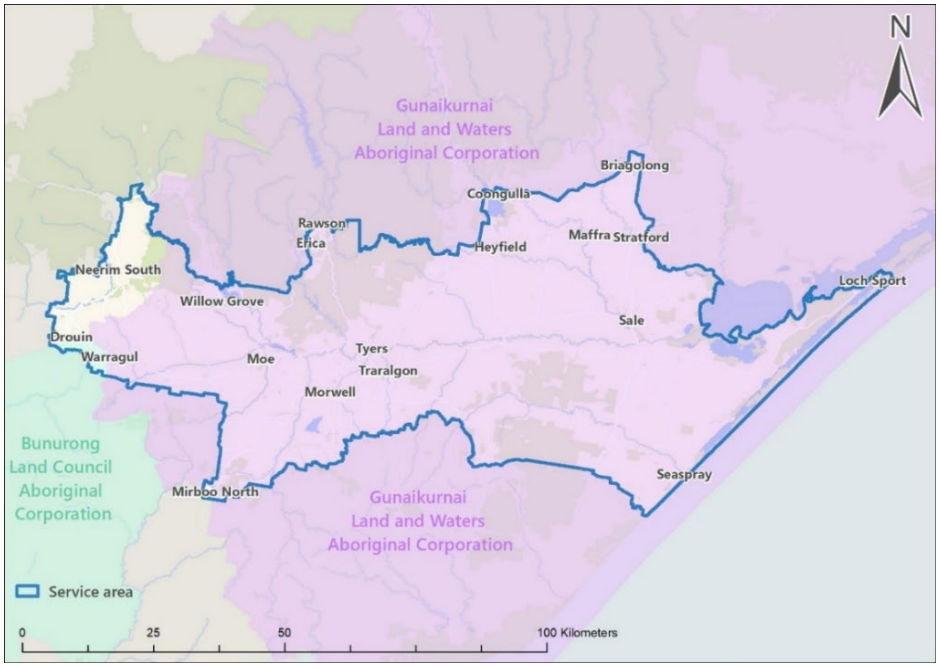
What we heard	What we'll deliver
Water businesses should also conduct demand forecasts based on recent experience – the pandemic has meant that population growth has slowed throughout much of Victoria, and planned capital expenditure needs to be reconsidered in light of this	Our demand forecasting and modelling is highly advanced, building on the Victorian Government's projections with sophisticated localised insights around development sequencing, status and actual migration patterns taking into account the impact of the pandemic
Recognising the need to secure our future water supplies, investments to address climate change are needed. Water efficiency measures must feature here, as they will help to deliver the environmental benefit of reducing water consumption, while also lowering bills and easing affordability challenges for customers.	Our 2022 Urban Water Strategy, released in September 2022, identifies what we need to do to ensure urban and industrial water availability in our region for the next 50 years. It was developed alongside this submission, as well as the Victorian Government's recently released Central and Gippsland Sustainable Water Strategy, based on extensive customer engagement we undertook over a two-year period. Including securing a 3.3GL annual bulk entitlement to the Greater Yarra System - Thomson River pool.
Where price rises are unavoidable, any cost increase must be accompanied by a strategy to avoid bill shock. Steep price rises, especially over a short time, will have negative impacts on Victorians on low incomes. Price increases should be spread over multiple years to avoid causing financial stress to people.	We are pleased to be offering our customers a real bill decrease in each year of the plan. Where possible we have amortised the costs across more than one Price Submission period to help minimise the tariff impact.

2.6.2 Traditional Owners and First Nations customers and community

There are two recognised Registered Aboriginal Parties (RAPs) within our operating area: Gunaikurnai Land and Waters Aboriginal Corporation (GLaWAC) whose area covers approximately 95% of our operating area, and the Bunurong Land Council Aboriginal Corporation, whose RAP boundaries include parts of Warragul and Drouin (See Figure 10).

We've partnered with the Gunaikurnai community over the last five years to understand how we can support them in achieving the goals set out in their Whole of Country Plan (GLaWAC, 2015), the strategic framework that establishes the pathway to a prosperous and healthy future for Gunaikurnai Traditional Owners.

Figure 10 Traditional Owners of our service area



Early in our Price Submission engagement journey, we worked with GLaWAC to establish a more frequent Traditional Owner engagement program and agreed on key areas of focus for the submission.

These included making land we manage available for cultural benefits and purposes; exploring opportunities to increase local awareness and pride in our Traditional Owner culture and history; delivering reticulated water to a spiritually significant gathering site and establishing meaningful education and employment pathway opportunities.

We continued to meet monthly to collaborate on priority initiatives for the Traditional Owners of our service area. This included ensuring they have had input into our Price Submission and Urban Water Strategy. These meetings are ongoing and are attended by senior representatives of both organisations, including the GLaWAC CEO and our Managing Director.

We've engaged with Bunurong Traditional Owners primarily on individual projects to manage cultural values during the construction and operation of our assets on their land. We remain committed to strengthening our partnership with Bunurong into the future, noting that we have assets on Bunurong Country.

From a broader First Nations community perspective, we engaged with the Brayakaulung Advisory Committee, chaired by the Latrobe City Council, in February and August 2022 [E083]. These discussions also identified meaningful direction and partnership opportunities, most of which aligned closely with the priorities already identified through our Traditional Owner engagement.

They expressed interest in developing pathways to ongoing employment for Aboriginal staff, increased recognition of the Traditional Owners throughout the region, and recreational facilities for Aboriginal families.

Based on the initial guidance we'd received from Traditional Owners and First Nations representatives, we then met with Federation University's Aboriginal Education Centre to further explore and develop Aboriginal education opportunities. We're also in discussion with TAFE Gippsland to explore opportunities. Some of the initiatives arising from these discussions are well advanced, including the establishment of a new Aboriginal scholarship from our organisation.

The result is that the Aboriginal community focus and actions included in this submission were genuinely co-designed in partnership with our Traditional Owner and First Nations partners.

Table 20 summarises how the insights we gathered through our Aboriginal engagement shaped our submission:

Table 20 Aboriginal engagement

What we heard	What we'll deliver
Provide opportunities and support for local Aboriginal people to gain meaningful long-term careers in Gippsland	• $100k per year allocated to establishing new ongoing Aboriginal employment position and investigate a school-based traineeship initiative • Working in partnership with Traditional Owners to create long-term, meaningful employment pathways for local Aboriginal people including summer vacation and graduate program opportunities • Investigate the establishment of a new collaborative traineeship program with the Gippsland Environmental Agencies partnership • Develop an Aboriginal student scholarship program in partnership with Federation University Gippsland (up to $9k per year)
Work with Traditional Owners to make land we currently manage available for cultural use	• Partner with Traditional Owners to connect reticulated water, permanent drinking fountains featuring local Aboriginal artwork and a tap water health campaign at the culturally significant Knob Reserve at Stratford • Co-design a prioritised plan identifying specific locations for further investigation
Work collaboratively with Traditional Owners to raise awareness and a sense of pride in local Aboriginal culture	• $90k over three years to commission Gunaikurnai artwork for highly visible Gippsland Water infrastructure • Investigate signage at select sites, artwork for public drinking fountains, Gippsland Water corporate and building acknowledgement • Collaborate with Traditional Owners on recreational facilities at sites we manage

In addition to the above, we agreed to add further ongoing Aboriginal partnership resourcing to ensure all of our commitments are delivered and to deepen our existing partnerships.

2.6.3 Young people

Although not all the youth in our region are our customers yet, they are likely to be our future customers and will be affected by the decisions we make in this Price Submission.

To ensure young people in our region had ample opportunity to be involved in our Price Submission engagement program we:

- Met with the Latrobe Youth Council and Latrobe Centre for Multicultural Youth to gain insight from young people in our community and share information about our work and some of the issues we need to consider when making plans for the future
- Worked with the Baw Baw Latrobe Local Learning and Employment Network and Latrobe Youth Space for assistance sharing opportunities to be involved in our engagement program with their networks
- Held two in-person events at Federation University (Churchill campus), one as part of our stage 2 face-to-face engagement and another during Orientation Week to encourage young people to participate in our customer summit, and
- Had support from Latrobe Youth Space with targeted promotion of the customer summit opportunity and promotion of the customer preferences survey with their members

Despite our best efforts, the youngest age group was not statistically representative in our Customer Summit. However, we're confident that their views have been captured through other engagement activities, including the dedicated initiatives above [E088].

A full overview of the engagement program we undertook is available in our 2023-28 Price Submission Engagement Evaluation Report [E001].

2.7 What our customers told us

We listened to our customers to develop a better understanding of the issues they told us are important to them. This allowed us to:

- Establish what really matters to our customers
- Refocus our standards and commitments to be more closely linked to customer experiences, so that our outcomes and outputs drive results for our customers during the 2023-28 regulatory period (discussed in Chapter 3), and
- Align our programs, activities and expenditure to our customers' values and experiences – increasing their influence (also discussed in Chapters 3 and 6).

Our engagement journey led to a suite of six Outcomes supported by 19 Outputs for the 2023-28 regulatory period that truly reflect our customers' sentiments and were fully endorsed by our Customer Reference Group. The Customer Reference Group endorsement is provided on page 7.

Figure 11 on the following page and Chapter 3 detail how our engagement activities, and what customers told us, have informed this Price Submission.

Figure 11 Our engagement insights

2.8 Customer summit outcomes

In addition to the outcomes, outputs and GSLs informed by our engagement program, we also engaged on three fundamental topics that had arisen over the course of an engagement effort lasting more than a year:

1. What is the fairest way to charge for the cost of infrastructure and services used by major industry?
2. What is the fairest way to share the cost of new connections to our network?
3. Who should pay for the cost of maintaining recreational facilities at places we source water from but don't own or manage?

These were informed by the deepest stage of our engagement program - our customer summit. Conducted over three days and one evening in March and April 2022, 30 customers learnt about, explored and deliberated over the questions above to provide insight and direction to us on fairness and affordability.

After extensive deliberation a consensus was reached on seven recommendations. A summary of the customer summit panel's final recommendations is provided in Table 21.

Table 21 Outcomes of the customer summit that informed our Price Submission [E082]

Question	Customer Recommendations
What is the fairest way to charge for the cost of infrastructure and services used by major industry?	1. We do not accept the status quo in terms of how some large customers pay for the assets and running costs that serve them.
	2. We want a large change towards a user pays system.
	3. We believe that our changes will create a low risk of large customers leaving the region.
What is the fairest way to share the cost of new connections to our network?	4. The maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%.
Who should pay for the cost of maintaining recreational facilities at places we source water from but don't own or manage?	5. We believe that the cost of maintaining these facilities should be reviewed by Southern Rural Water to ensure they are efficient and can be justified.
	6. We believe that the cost of maintaining these facilities should be shared between all of the bulk entitlement holders including Gippsland Water, irrigators and power generators.
	7. We believe that Gippsland Water customers should pay between 17-30% of the cost of maintaining Southern Rural Water's recreational facilities at Blue Rock Reservoir, Lake Glenmaggie and Cowwarr Weir.

This input led to significant material reform in the way we have approached our 2023-28 Price Submission (discussed in section 2.9).

2.9 How customers and community engagement shaped our Price Submission

Our engagement program has been truly customer-led and puts our customers and community at the heart of not only our Price Submission, but our business.

We engaged with our customers early, we continued to explore their priorities and concerns with them and report back on what we've learned. We've collaborated with our customers on complex issues that have a material impact on their bills.

Our engagement approach was incremental, with the insights and findings from each stage helping to set the agenda for the next. We methodically worked through each individual insight from each stage of the program to progressively develop the customer outcomes, outputs, GSLs and accountabilities set out in detail in Chapter 3.

From a tariff perspective, the prevalent theme our customers raised around affordability, fairness and the user-pays concept led us to review miscellaneous fees and charges to ensure they were cost reflective and to a targeted redesign of quality based trade waste and new customer contribution charges. This included, a commitment to renegotiate any expiring major customer contracts to be reflective of the true cost of the service.

The same customer sentiment drove us to undertake an exhaustive review of our operating expenditure and find efficiencies and savings, which have had a cumulative favourable impact on tariff (discussed in Chapter 10).

We saw a pronounced shift in sentiment towards environmental stewardship and responsibility, which led to the development of the new 'Be environmentally responsible' outcome supported by a significantly wider span of promises and investment, balancing customer expectations of increased responsibility against affordability.

Closer partnerships and deeper engagement with our Traditional Owners and broader First Nations community [E083-085] shaped a series of truly collaborative and meaningful initiatives including employment and education opportunities for local Aboriginal people, a commitment to work together to provide increased access to land for cultural use, delivering reticulated water to the culturally significant Knob Reserve at Stratford and a complimentary campaign to raise awareness of the health and environmental benefits of tap water consumption. We're also collaborating to install Aboriginal art on assets of significance to Traditional Owners.

Our engagement program hasn't stopped. We've since transitioned to an ongoing, cyclical model of engagement [E086]. These are fundamental changes to how we run our business and position us to be a truly customer-centric organisation. We're working to embed that customer-centricity even further by making an ongoing commitment to involve the community in reviewing our performance, and informing our strategy and planning, by undertaking programs and activities that align with customer priorities and enabling customers to be more involved in our decision making in the future.

We'll set up a Customer Sounding Board, a new group of customers, who will share insights and sentiment on key issues, options, directions and to gain input into our decision making. We'll also use the group to periodically test the ongoing accuracy of our outcomes and outputs and consider whether any adjustments are required along the way.

The insights we collect annually from the Customer Sounding Board will form the engagement foundations for our 2028-33 Price Submission, with oversight and assurance from our Customer Reference Group, which will also become a permanent pillar in our customer and community engagement program.

In July 2022, we released our Price Submission Directions Paper for community consultation [E107]. It outlined a summary of the prices, promises and plans we proposed to include in our Price Submission. The feedback we received was broadly supportive of the proposals outlined in the document, as well as the engagement program we'd undertaken. We haven't made any significant changes in this submission to the initiatives outlined in our Directions Paper.

2.10 How we addressed customer and community expectations that could not be met

The development of our submission has been genuinely customer-led and shaped from beginning to end.

There are very few customer expectations we have been unable to meet. We have adopted and embedded all of the recommendations from our customer summit and insights gathered across 13 focus group workshops.

In instances where we were proposing to proceed with a new or higher fee, like developer fees and quality based trade waste charges, we consulted more intensively with the parties involved and

impacted, took their feedback on board and made adjustments to reflect their concerns.

Towards the end of the engagement program, we closed out all conversations we'd had with all specific stakeholders, customer groups and representatives, either through meetings or via written updates [E087, E089]. Through those close-out conversations, we explained to each stakeholder how their input had been taken on board and in many cases, included in our submission. Where they hadn't, we explained the reasons why. These close out communications are provided as supporting documents to this submission.

We also provided our broader customer base with updates on the engagement process the whole way through, with regular updates on the Let's talk page of our website [P008] on what we've learnt and how we're using customer insights. We promoted these updates through our communications channels, including social media, newsletters [E091-104] and bill inserts.

Supporting documents

- E001 - 2023-28 Price Submission Engagement Evaluation Report
- E002 - Customer Insights Report – Findings from Thematic Customer Engagement Workshops Dec 2021
- E003 - Stage 2 - Face to face interviews data
- E004 - Stage 2 - Online survey data
- E005 - Stage 2 - Bill insert feedback data
- E006 - Stage 2 - Engagement record
- E007 - Urban Water Strategy 2022 workshop report
- E009 to E018 - Stage 3 presentations to customer work shops
- E046 - Customer Workshops KPMG report
- E047 - CRG Deliberation Report – validation of outcomes
- E048 to E053 - CRG pre-reading materials
- E055 to E059 - CRG action logs
- E060 to E065 - CRG meeting summaries
- E066 - Customer Summit guidebook for participants
- E067 & E068 - Customer Summit Q&A logs
- E069 - Presentation pack for customer summit close the loop session
- E070 - Insync report from customer summit close the loop session
- E072 - Customer Reference Group Terms of Reference
- E073 - National Customer Perceptions Survey 2021 (WSAA)
- E074 - Customer Satisfaction Survey (Alliance)
- E075 - Customer preferences survey report
- E078 - Stakeholder Engagement Plan
- E079 - Customer Reference Group Endorsement
- E081- Briefing paper on Bill control for CRG
- E082 - Customer summit outcomes report
- E083 to E085 - First Nations and Traditional Owner engagement
- E086 – Minutes from CRG meeting
- E087 – Engagement Close out report
- E088 – Latrobe Valley Youth Network Summary
- E089 – Log of close out emails with Stakeholders
- E090 - Stakeholder engagement records
- E091 to E104 - Subscriber eNewsletters
- E105 - Engagement Topics
- E106 – Community consultation on Price Submission Directions Document
- E107 – Price Submission Directions Document
- E108 – Letter from Consumer Action regarding 2023 Price Submission
- P008 - Let's Talk website portal: www.gippswater.com.au/Lets-Talk
- P013 - 2023-2028 Engagement Strategy

3. Outcomes

At a glance

- Our customers have shaped the outcomes and outputs we will deliver in 2023-28
- These outcomes and outputs underpin this Price Submission and our plans as a business
- We've redesigned our performance framework to align more closely with the outcomes our customers told us were most important to them, and our performance framework is designed to stretch our performance and make us more accountable to our customers
- We'll deliver increased customer value, without an increase in prices to our customers, over and above the base levels of service we are committed to through the ESC's Customer Service Code
- We'll invite the community to provide feedback on our performance each year through the release of our annual community report

3.1 Taking into account the views, concerns and priorities of our customers

As described in Chapter 2, our customers helped us to develop a series of six outcomes, 19 outputs, five Guaranteed Service Levels (GSLs) and two additional accountabilities to deliver on their expectations.

Affirmed by the early stages of our engagement program, our customers' priorities and interests are broadly consistent with what they told us in the lead-up to our 2018 Price Submission [P001], with two important changes [E001]:

1. A shift in sentiment relating to environmental responsibility: our customers have moved from climate change scepticism to wanting us to put more emphasis on environmental sustainability and resilience, and
2. A strong interest in long-term planning for assets and water security.

In response to this customer sentiment, we replaced our 2018 outcome of 'prepare and protect' with two new outcomes:

1. 'Be environmentally responsible', and
2. 'Plan for the future'

This resulted in six customer outcomes for 2023-28:

1. Be affordable and fair
2. Do your job well
3. Be easy to deal with
4. Be involved in the community
5. Be environmentally responsible, and
6. Plan for the future

For each outcome, there is a set of commitments – outputs, GSLs and accountabilities. These were considered and discussed with our customers to ensure they met expectations and offered the best value for money [O007]. Our commitments, summarised in the following pages, form the customer value foundations of our 2023-28 Price Submission.

Although ‘accountabilities’ are not a requirement of the regulatory framework, we have sought to make commitments to our customers should we fail an Output that does not impact an individual customer and can’t be compensated easily. For example, if we don’t meet our annual commitment to our net zero emissions target, we’ll plant 10,000 trees in Gippsland to show we’re serious about protecting the environment. Protecting the environment is important to our customers, so we’re serious about achieving this.

To develop the performance framework for each outcome (outputs, GSLs and accountabilities), we designed a robust process that involved:

- Understanding the outcomes most important to our customers for 2023-28 (through the engagement process set out in Chapter 2)
- Reviewing all available performance measures (internal and external) that can directly influence those outcomes
- Surveying customers on a series of suggested outputs and GSLs for insight on what resonates with our customers, in relation to performance and accountability
- Digging deeper into research and using innovative thinking, with support from external consultants, to focus on customer experience and delivering what we said we would
- Internal workshops with a sub-committee of the Price Submission Steering Committee and subject matter experts responsible for delivering customer experience to develop a holistic list of outputs, GSLs and accountabilities that would:
    - Drive performance against the outcomes
    - Be robust and reportable to ensure transparency and accountability, and
- Sharing a draft of this framework to our Customer Reference Group for an independently facilitated workshop to ‘Consult’ on the customer outcomes and ‘Involve’ on outputs, GSLs and accountabilities.

As a result of this process, we’ve introduced 10 new customer output measures directly aligned to customer priorities. Eight of these are experience-based, enabling customers to assess our performance through our annual customer survey.

Table 22 details the new outputs and why we are proposing them.

Table 22 New outputs informed by customer engagement

Outcome area	New outputs proposed	Reasoning (what customers told us)
Be easy to deal with	A customer who has registered their mobile number will be sent an SMS in the event of an unplanned water supply service interruption of more than 1 hour (between the hours of 7am to 8pm) (target 95%)	Customers told us they want to be notified promptly and clearly when there's an unplanned disruption to their services, including how long the disruption is expected to last. They also asked that we keep them informed in ways that suit them. SMS notifications were high on our customers' priorities so we have introduced an Output to measure our delivery of that service.
Be involved in the community	Number of customers who see us as a valued member of the community (target 62% by 2027-28)	Our customers told us they want us to be engaged and visible in the community. They want us to support our community in times of emergency and educate them on how to save water and the environmental impact of their water use. They want to be involved in decisions that affect them and they want to see us support Aboriginal community members with access to Country and career opportunities. We've introduced customer-experience based metric so customers can tell us how well we are delivering on these priorities.
Be easy to deal with	The number of customers that believe we're easy to deal with will be maintained or increase each year (target 92% by 2027-28)	In 2020, 114 of the 121 customers who had dealt with us in the preceding year found us easy to deal with. Furthermore, during stage 2 of our engagement journey, 244 customers recalled a positive experience with us. We are committed to maintaining this high result. Being easy to deal with has continued being a key priority for our customers and they told us it included: • Being kept informed in ways that suit them • Being notified promptly and clearly when there's a planned or unplanned disruption to their services, including how long the disruption is expected to last • Resolving account issues or questions quickly, or making it easy for customers to resolve it themselves, and • Educating them on the value of water and things that matter to them To hold us to account, we have introduced a customer-experience based metric so customers can tell us how we're doing on delivering on these priorities for them.
Be affordable and fair	The number of customers that believe we provide value for money performance (target 72% by 2027-28)	Affordability and fairness in our pricing is critical to our customers. They've asked us to keep prices for water and other services fair and attribute fees to those who use them. We are committed to achieving this and delivering value for money. So we've proposed a customer-experience based metric about this.
Be affordable and fair	We'll make more customers aware of the customer care support we offer (target 73% by 2027-28)	Customers are happy with our support for people who struggle to pay their bills but they want us to make sure people know about the support available. We propose a customer-experience based metric that will measure how effective we are in achieving awareness of our support services.
Be affordable and fair	If we notice unusually high water use at your property, we'll contact you within 5 business days to let you know (100%)	We are committing to contacting customers when we notice significantly high water use that may cause an unusually high bill and water wastage if it goes undetected. This is part of our proactive approach to supporting customers who may need it.

Outcome area	New outputs proposed	Reasoning (what customers told us)
Be affordable and fair	Our average cost to serve, per urban customer will reduce year-on-year	Customers asked us to keep prices for water and other services fair, so we are proposing a measure to monitor and drive down our cost to serve over the 2023-28 regulatory period.
Be environmentally responsible	All of our operations will be powered by renewable electricity by 2025	The environment is important to our customers and they see us as stewards to protect scarce resources for future generations. They have asked us to be aware of the impact of our operations on climate change and have said they are willing to invest locally in environmental offsets. They care about the environment, but they are more concerned about bill affordability than exceeding sustainability targets. In our customer engagement workshops, 69% of customers believed that bill affordability is more important than exceeding environmental sustainability targets, although most wanted to see a fair and viable approach to both. For this reason, we are proposing a new output aligned to our obligation to meet renewable energy targets by 2025. This is not above our requirements, but is important to customers and will help us reduce the impact we have on climate change.
Plan for the future	Customers believe that Gippsland Water plans for the future	Customers told us they trust us to run the business and make the right decisions, value long-term thinking and planning and want to be involved in things that impact them. They also want us to invest in resilience to climate change and water security so their water and wastewater services are secure and reliable. For this reason we are proposing a customer experience-based metric to measure how they feel about the effectiveness of our long term planning during 2023-28.
Do your job well	The number of customers that believe we keep them informed when their services are interrupted will increase	Customers want to be kept up to date on interruptions to their services so they can manage the impacts to their household or business. We think it's important that customers feel we are doing this well so we propose to introduce a customer experience-based metric to measure how many customers believe we have kept them informed when their services are interrupted. This will allow us to continue doing what we do well, and improve where customers feel we haven't done as well as we could have.

In addition to the new outputs we have increased the service level against one existing output as outlined in Table 23. We have routinely outperformed the average time to rectify a sewer blockage during the 2018-23 regulatory period and this is an important part of doing our job well so we propose to retain this output and increase the service level from 95 minutes to 80 minutes, to continue to deliver swift service for our customers.

Table 23 Increased outputs proposed for 2023-28

Outcome area	Increased outputs proposed	Reasoning (what customers told us)
Do your job well	The average time to rectify a sewer blockage is no more than 80 minutes.	Customers have told us it's important to them that we restore interrupted services in a timely manner. Customers also told us that they want us to resolve their account queries or issue quickly or make it easy for them to resolve themselves. We have been outperforming this target [P006] so we propose to provide greater value during 2023-28 by decreasing the target average time by 16% from 95 minutes to 80 minutes.
Be easy to deal with	92% of incoming calls are resolved at first point of contact.	Proposing 92% which is an increase of 4% from the 2018-23 submission. We have increased our commitment but have been cautious not to over commit because we anticipate increased volumes in hand off to our customer care team due to cost of living pressures which will adversely impact this output.

The process to develop a performance framework with our customers resulted in a number of existing outputs being removed or reworded. Those Outputs and the reason for their removal or rewording are set out below in Table 24.

Table 24 Current outputs to be removed or reworded for 2023-28

Outcome area	2018-23 outputs removed/re-worded	Change	Reasoning
Do your job well	Sewer spills contained within 5 hours (98%)	Re-worded: We will always contain sewer spills in homes within an hour to minimise stress and inconvenience for our customers	We have reworded this output to be clearer and reflect what is important to our customers.
Do your job well	Population receiving water meeting E.Coli standards (100%)	Re-worded: We'll deliver water that is always safe to drink	We have reworded this output to be clearer and reflect what is important to our customers.
Be easy to deal with	Complaints investigated by the Energy and Water Ombudsman Victoria (0.03 per 1000 customers)	Removed	We are already committed to this level of service through our Customer Service Code so it does not need to be captured as an output as well. Our outputs have been designed to work in parallel with our Customer Service Code obligations, delivering services that meet customer and regulatory expectations.
Be easy to deal with	Affected customers receive a response to correspondence within 5 days from receipt (100%)	Removed	This output no longer reflects our customers preferred methods of communication. It has been removed and replaced with measures that more closely reflect how and when our customers want to engage with us, and on what.

Outcome area	2018-23 outputs removed/re-worded	Change	Reasoning
Be affordable and fair	Prices contained to CPI +0.57% per annum until 30 June 2023	Removed	The new output proposed: "The number of customers that believe we provide value for money performance" better reflects customer sentiment.
Be affordable and fair	Hardship customers paying through instalments (55%)	Re-worded: We'll make more customers aware of the customer care support we offer	We've introduced a customer experience-based measure to capture awareness of our support to customers, reflecting the importance of this to our customers.
Be affordable and fair	Customers over 120 days paying through instalments (23%)	Re-worded: We'll make more customers aware of the customer care support we offer	We've introduced a customer experience-based measure to capture awareness of our support to customers, reflecting the importance of this to our customers.
Be environmentally responsible	Penalties issued by the Environment Protection Authority or the Department of Health and Human Services (0)	Removed	This output duplicates regulation and doesn't add additional value so it has been removed and replaced with outputs that more accurately reflect the way customers expect us to contribute to the protection of the environment and health over and above environmental and health regulation.
Plan for the future	Deliver all actions outlined in Gippsland Water's 2017 Urban Water Strategy	Removed	This output has been replaced with a customer experience-based measure that will more accurately capture how effectively we are meeting our customers' expectations for this outcome.
Plan for the future	Supply reliability of 95% (Water restrictions no more prevalent than 1 in 20 years)	Removed: Replaced with "Customers believe Gippsland Water plans for the future?"	This output has been removed following customer feedback that this measure was not appropriate and they would prefer to see water resource planning and adaptability to a changing climate.
Be involved in the community	Operating and capital expenditure spent in Gippsland Water region (57%)	Removed: Replaced with "Number of customers who see us as a valued member of the community (target 65%)?"	This output has been removed following customer feedback that this measure was not appropriate and they would prefer to see a customer experience-based measure to the value we bring to the community.

The resulting framework for each customer outcome is set out from page 69-74. For each outcome we've detailed its measurable outputs, deliverables, GSLs and accountabilities, as well as the key capital and operating expenditure initiatives. O001 documents the calculation methodology, annual historical performance (where applicable) and proposed annual targets for the 2023-28 regulatory period for each of the outputs proposed for our six customer outcomes. Our targets are summarised in Table 25 below.

Table 25 Outcomes & outputs, measures & targets

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
Be affordable and Fair	Support those who struggle to pay their bills.	We'll never restrict a customer's water supply for not paying their bills, if we know they're in hardship	If we restrict the water supply of, or take legal action against a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, we will pay compensation of $300 per day off their bill to a maximum of $900 until their service is restored.		Where it is identified that a customer is experiencing financial difficulty the customer is registered within the Customer Care Program. An alert is applied to the customer's account that identifies that the account is registered within the Customer Care Program. Billing system smarts ensure that accounts registered within the Customer Care Program are exempt from referral for debt recovery or restriction to water supply. If financial difficulties are identified and the property is currently restricted the property is immediately unrestricted.	0	0	0	0	0
	Keep prices for water and other services fair. Fees and charges should be attributed to those who use them.	The number of customers that believe we provide value for money performance			Existing annual alliance survey question is "Do you receive value for money for the services that are provided?"	71%	71%	71%	71%	72%
	Support those who struggle to pay their bills.	We'll make more customers aware of the customer care support we offer			Existing annual alliance survey question is "Are you aware that Gippsland Water helps customers in need of assistance with their bill, through a financial assistance and hardship program?" Process to begin to educate our customers are included below: • Customer outreach call report is created and calls allocated to the Customer Care team to action. • During inbound call where it is identified that the customer is experiencing financially difficulties or the customer has responded to a Customer Care review letter. • Customer Care brochure insert with second bill reminder notice	71%	72%	72%	73%	73%

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
					• Gippsland Water website & online customer portal www.gippswater.com.au • Where it is identified that a customer is experiencing financial difficulty the customer is registered within the Customer Care Program. An alert is then applied to the customer's account that identifies it is registered within the Customer Care program. Billing system smarts ensure accounts registered within the Customer Care Program are exempt from referral for debt recovery or restriction to water supply. If financial difficulties are identified and the property is currently restricted the property is immediately unrestricted.					
	Keep prices for water and other services fair	The average cost to serve for each urban customer will reduce over the regulatory period.			Controllable operating expenditure divided by the total number of water connections (Res and Non-Res) Targets are expressed in Jan23$	$ 1,078.80	$ 1,073.85	$ 1,076.16	$ 1,073.19	$ 1,049.86
	Help me to manage my water bill.	If we notice unusually high water use at your property, we' ll contact you within 5 business days to let you know			We will notify an account holder within five business days via SMS and/or email when significantly higher water consumption is identified via a meter read. If neither of these options are available a letter will be issued via post.	100%	100%	100%	100%	100%
Do your job well	Restore interrupted services in a timely manner	We will always contain sewer spills in homes within an hour to minimise stress and inconvenienc e for our customers	If a sewerage spill is not contained in a house within 1 hour then affected customers will receive $500		Calculated using the data from RES10 - Water Performance Indicator definitions May 2022 and reporting on containment times per event as extracted from our AMIS	100%	100%	100%	100%	100%

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
	Keep me up to date on interruptions to my services so I can manage the impacts to my household or business.	If we know we have to interrupt services, we'll restore them within the timeframe we promised	If a planned interruption goes longer than advised then each affected customer will be compensated by a $50 credit to their next water bill.		Calculated using the reciprocal *Interruptions exceeding promised time** / REW5 - Water Performance Indicator definitions May 2022 Directly linked to a GSL payment for failure 1 - *Interruptions exceeding promised time**/REW5 = % * Report from AMIS on planned water supply interruptions that have exceeded the planned outage duration	98%	98%	98%	98%	98%
	Provide water that is safe to drink, at a reasonable price.	We'll deliver water that is always safe to drink	If we issue a 'boil water' alert, we will contribute $10,000 to the affected community		Calculated in accordance with DWQ1 - Water Performance Indicator definitions May 2022	100%	100%	100%	100%	100%
	Restore interrupted services in a timely manner	The average time to rectify a sewer blockage is no more than 80 mins			Calculated using RES3 / RES1 - Water Performance Indicator definitions May 2022	80 mins	80 mins	80 mins	80 mins	80 mins
	Keep me up to date on interruptions to my services so I can manage the impacts to my household or business	The number of customers that believe we keep them informed when their services are interrupted will increase			Not currently measured. To be included in annual Alliance survey. 2023-24 results will establish the baseline and targets to be achieved for the remainder of the five-year period	Establish baseline	Target to be set after year one	Target to be set after year one	Target to be set after year one	Target to be set after year one
Be easy to deal with	Let me know promptly and clearly when there's a planned or unplanned disruption to my services, including how long the disruption is expected to last. Keep me informed in ways that suit me.	We'll always provide at least five days' notice if we know we need to interrupt your service	If a customer is affected by a planned interruption and not provided a minimum of five days' notice, we will credit that customer $50 on their next water bill		Report from AMIS on occurrences where the WATER-OFF time was not at least 5 days after notices were delivered for a planned water supply outage as captured in the AMIS workorder.	100%	100%	100%	100%	100%

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
	Let me know promptly and clearly when there's a planned or unplanned disruption to my services, including how long the disruption is expected to last. Keep me informed in ways that suit me	A customer who has registered their mobile number will be sent an SMS in the event of an unplanned water supply service interruption of more than 1 hour (between the hours of 7am to 8pm) (95%)			Number of notifications sent to customers impacted by an unplanned water supply outage of more than an hour between the hours of 7am and 8pm divided by the number of impacted customers	95%	95%	95%	95%	95%
	Resolve my account issues or questions quickly, or make it easy for me to resolve it myself.	Enquiries are resolved at the first point of contact			Incoming calls to customer service team resolved at the first point of contact	92%	92%	92%	92%	92%
	Keep me informed in ways that suit me. Let me know promptly and clearly when there's a planned or unplanned disruption to my services, including how long the disruption is expected to last. Resolve my account issues or questions quickly, or make it easy for me to resolve it myself. Educate us on the value of water and things that matter to us.	The number of customers that believe we're easy to deal with will be maintained or increased each year.			Existing annual alliance survey questions: 1. Have you been in touch with Gippsland Water over the last twelve months? (y/n) 2. If so, would you say that they are easy to deal with (y/n) 3. If no, why not?	92%	92%	92%	92%	92%

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
Be environmentally responsible	Act as stewards of the environment to protect scarce resources for future generations. Find opportunities to support or enhance the environment.	We'll reuse all sludge from our wastewater treatment processes			Calculated in accordance with CRR6 - Water Performance Indicator definitions May 2022.	100%	100%	100%	100%	100%
	Act as stewards of the environment to protect scarce resources for future generations Be aware of the impact of climate change We are willing to invest locally in environmental offsets We care about the environment, but we are more concerned about bill affordability than exceeding sustainability targets	We'll achieve our annual net zero emissions target to get to zero by 2030		If we don't meet our annual net zero emissions target, we will plant 10,000 trees	Calculated in accordance with National Greenhouse and Energy Reporting standards and Statement of Obligations (Emissions Reduction). Percentage reduction from baseline emissions of 42,021 tCO2-e.	28%	51%	72%	82%	84%
	Act as stewards of the environment to protect scarce resources for future generations Be aware of the impact of climate change We are willing to invest locally in environmental offsets We care about the environment, but we are more concerned about bill affordability than exceeding sustainability targets	All of our operations will be powered by renewable electricity by 2025			Calculated as per the method detailed in the Statement of Obligations (Emissions Reduction). Proportion of total electricity consumed that originates from renewable sources.	45%	75%	100%	100%	100%

Customer outcome	What customers told us	Customer output	Guaranteed Service Level	Accountability	How we will measure this	2023-24	2024-25	2025-26	2026-27	2027-28
Be involved in the community	Be engaged and visible in our community Support our community in times of emergency Educate us on how to save water and the environmental impact of my water use Involve me in decisions that affect me Support Aboriginal community members with access to Country and career opportunities	Number of customers who see us as a valued member of the community		We commit to investing a minimum of $100k per year in programs that support the wellbeing of our communities including education campaigns, drinking fountains and sponsorship	Existing annual alliance survey question is "Is Gippsland Water a valued member of your local community?"	61%	61%	61%	62%	62%
Plan for the future	We trust you to run the business and to make the right decisions We value long-term thinking and planning Involve and inform us in the things that impact us Invest in resilience in a changing climate Invest in water security	Customers believe Gippsland Water plans for the future			Existing annual alliance survey question is "Does Gippsland Water plan for the future?"	46%	47%	48%	49%	50%

This framework is over and above the base levels of service we are committed to through the Essential Service Commission's Customer Service Code. We are committed to each service level set out in the Customer Service Code and provided with this submission [O001].

Be affordable and fair

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
Keep prices for water and other services fair. Fees and charges should be attributed to those who use them. Help me to manage my water bill. Support those who struggle to pay their bills	**Be affordable and fair** Affordable and fair water and wastewater services for all our customers, industry and community.	Our customers pay a fair price for water and wastewater services, which reflects the cost to efficiently provide services to the standards that our customers expect. Our prices are predictable, and when we do have to change our prices, our customers understand why, when and by how much. We support all customers to keep their water use, and therefore bills, low. Big customers will cover their costs and developers will cover the cost of new customer connections in our network. When our customers face financial difficulties or vulnerability, they will still have access to water and sewage services. Our customers in hardship are treated fairly and sensitively and can conveniently access support options that suit their needs.	We'll never restrict a customer's water supply for not paying their bills, if we know they're in hardship (target 0). The number of customers that believe we provide value for money performance (72% by 2027-28). We'll make more customers aware of the customer care support we offer (73%). If we notice unusually high water use at your property, we'll contact you within 5 business days to let you know (100%). The average cost to serve each urban customer will reduce over the regulatory period.

Deliverables	• Maintain and improve our online financial support processes to make it quicker and easier for people to access support when they need it • Give customers more control in managing their bill payments via an app	• Customer support awareness campaign • Give customers the ability to monitor and control their water usage via an app • Staff trained to proactively support interactions with customers in financial difficulty, domestic violence and distress • Introduce new customer contribution charge to developers
Actions or programs	• Develop and operate online financial support application process • Implement a customer app for water usage and billing control • Implement proactive training for staff with external facing roles to manage interactions with customers in hardship, domestic violence and distress	• Review and update our Customer Charter • Renegotiate expiring large customer contracts to fully cover the cost of serving them • Implement annual customer support awareness campaign
Costs and cost savings	• $50k CAPEX to enhance financial support application process • $230k CAPEX to design and build new customer usage app • $37.5k annual OPEX to support and maintain new app	• $100k annual OPEX in a Community Investment Program • $500k annual OPEX to support customers experiencing financial difficulties, domestic violence or distress • $250k OPEX savings in mail and postage as more customers transact online (Over the period of the pricing submission)
Guaranteed Service Levels and accountabilities	GSL: If we restrict the water supply of, or take legal action against a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying, we will pay compensation of $300 per day off their bill to a maximum of $900 until their service is restored.	

Do your job well

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
Provide water that is safe to drink, at a reasonable price. Restore interrupted services in a timely manner. Keep me up to date on interruptions to my services so I can manage the impacts to my household or business.	**Do your job well** Provide safe, reliable water and wastewater services and keep me informed when my services are affected.	Our customers can rely on us to provide water that is safe and fit for purpose. Wastewater is removed efficiently and reliably and treated for reuse or safely returned to the environment. Our water supply and wastewater infrastructure is well-maintained and there are minimal unplanned service disruptions. Where a service disruption can't be avoided, we will keep our customers informed to minimise inconvenience.	We will always contain sewer spills in homes within an hour to minimise stress and inconvenience for our customers (100%). If we know we have to interrupt services, we'll restore them within the timeframe we promised (98%). We'll deliver water that is always safe to drink (100%). The average time to rectify a sewer blockage is no more than 80 minutes. The number of customers that believe we keep them informed when their services are interrupted will increase (target to be established after 2022 alliance survey results have been obtained)

Deliverables	• Improved customer response to sewer incidents • Water delivered that is always safe to drink	• Wastewater treated for reuse or safely returned to the environment • Increased number of customer contact details for SMS notifications
Actions or programs	• Annual air scouring program to maintain water quality • Work with our sewer maintenance contractor to improve our response time to sewer spills and incidents • Implement all recommendations from biannual safe water drinking water audit	• Additional resources – two customer care officers, one dispatch officer • 18 additional resources – covering safety, water resources, emergency management, energy market, process optimisation, graduate opportunities and skills retention • Campaigns to raise awareness of SMS notification capability
Costs and cost savings	• $11m annual OPEX to operate water and wastewater network • $29m annual OPEX to treat water and wastewater • $31m (average) annual CAPEX to renew and upgrade water and wastewater infrastructure	• $33k OPEX annually to pay for increased SMS notifications • $5k annual OPEX for awareness campaign for SMS notification
Guaranteed service levels and accountabilities	GSL: If we issue a 'boil water' alert, we will contribute $10,000 to the affected community. GSL: If a planned interruption goes longer than advised then each affected customer will be compensated by a $50 credit to their next water bill. GSL: If a sewage spill is not contained in a house within 1 hour then affected customers will receive $500.	

Be easy to deal with

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
Keep me informed in ways that suit me. Let me know promptly and clearly when there's a planned or unplanned disruption to my services, including how long the disruption is expected to last. Resolve my account issues or questions quickly, or make it easy for me to resolve it myself. Educate us on the value of water and things that matter to us.	**Be easy to deal with** Great customer service that resolves my issues and keeps me informed. Improved community education on things that matter like water conservation and environmental responsibility.	Our customers receive a timely and efficient response to their enquiries or complaints. They are informed and can access information about their account, service disruptions and improvements in a way that's convenient for them, including self-service options or notification preferences. Our customers are educated about our business and aware of the support we provide for people experiencing hardship and disadvantage, as well as ways they can conserve water and minimise their environmental footprint. We will proactively engage with our customers and embrace new technologies that help enhance the customer experience. We use everyday language, and provide interpreter and translation services for our most common language groups or other needs.	We'll always provide at least five days' notice if we know we need to interrupt your service (100%). A customer who has registered their mobile number will be sent an SMS in the event of an unplanned water supply service interruption of more than 1 hour (between the hours of 7am to 8pm) (95%). The number of customers that believe we're easy to deal with will be maintained or increased each year. (92% by 2027-28). Enquiries are resolved at the first point of contact (92%).

Deliverables	• Annual community education program • Give customers more control in managing their bill payments via an app • Artificial intelligence translation service	• Improved functionality on our customer website • Give customers the ability to monitor and control their water usage via an app • SMS notification technology rolled out
Actions or programs	• Implement community education and awareness campaigns that focus on water conservation, sustainability, wellbeing and hardship support • Implement a Customer App for water usage and billing control • Roll out SMS notification technology to notify customers of service interruptions	• We'll look to expand SMS notifications to include planned wastewater outages • Implement live online outage tracker functionality for real time updates • Additional resources – three IT technical resources • Introduce artificial intelligence translation service
Costs and cost savings	• $100k CAPEX to upgrade our website • $50k OPEX community education campaign • $30k OPEX annually to deliver SMS service to customers	• $230k CAPEX to deliver customer app • $37.5k annual OPEX to support and maintain digital portal and app • $10k OPEX for translation services on our website
Guaranteed Service Levels and accountabilities	GSL: If a customer is affected by a planned interruption and not provided a minimum of five days' notice, we will credit that customer $50 on their next water bill.	

Be environmentally responsible

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
Act as stewards of the environment to protect scarce resources for future generations. Be aware of the impact of climate change. Don't harm our local environment. Find opportunities to support or enhance the environment. We are willing to invest locally in environmental off sets. We care about the environment, but we are more concerned about bill affordability than exceeding sustainability targets.	**Be environmentally responsible** We provide our services to the community with minimal environmental impact and where possible, make our natural assets available for the community to enjoy.	Our water supply and treatment network is resilient to climate change, rainfall variability and extreme events. Our business operations will have minimal negative impact on the local environment, including our creeks, rivers, lakes and parks. Where appropriate, will contribute positively to the environment. We will operate as responsibly as possible including innovative approaches to reducing our carbon footprint and using renewable sources of energy.	We'll reuse all sludge from our wastewater treatment processes (100%). We'll achieve our annual net zero emissions target to get to zero by 2030. All of our operations will be powered by renewable electricity by 2025.

Deliverables	• 30% of renewable energy generated by our infrastructure • Our operations powered by 100% renewable electricity by 2025 • Reduced water losses from our systems	• 100% sludge reuse • 60,000T carbon captured through off set tree planting • We will produce at least 30k tonnes of Australian Standard certified compost per year
Actions or programs	• Take a long-term planning view of climate change, climate resilience and environmental sustainability • Update and deliver our Climate Change Adaptation Strategy	• Deliver our Energy Management Strategy • Achieve our non-revenue water loss reduction targets
Costs and cost savings	• $10m CAPEX for energy projects (renewables and resilience) • $1m CAPEX for environmental off sets • $4.4m annual OPEX for the purchase of renewable electricity (from July 2025)	• $17m annual OPEX for wastewater treatment and environment • $2m OPEX annual savings through internal processing of sludge into compost • $30K annual OPEX for recreational assets on land we manage
Guaranteed Service Levels and accountabilities	Accountability: If we don't meet our annual net zero emissions target, we will plant 10,000 trees.	

Be involved in the community

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
Be engaged and visible in our community. Support our community in times of emergency. Educate us on how to save water and the environmental impact of my water use. Involve me in decisions that affect me. Support Aboriginal community members with access to Country and career opportunities.	**Be involved in the community** Be a present, visible community partner and support us in times of need.	Our customers are involved in decisions we make that impact them and kept informed about what we're up to. They see us present in the community, at events and in schools. We're working in partnership with local Councils to see more permanent drinking fountains installed across the region to enhance liveability and wellbeing. We are working to generate greater awareness of water conservation, environmental sustainability and the hardship support we provide and we are there in times of emergency, providing potable drinking water to relief centres when they need it. Our Aboriginal community is keen to work in partnership with us to gain increased access to our land and waters for cultural use and to support younger Aboriginal people with meaningful career opportunities.	Number of customers who see us as a valued member of the community (target 62%).

Deliverables	• Community Investment Program • Community sounding board • Ongoing Customer Reference Group • Community Emergency Support Program	• Aboriginal employment pathways • Reticulated water infrastructure and drinking fountains at the Knob Reserve • Annual graduate program • Annual trainee program
Actions or programs	• Establish a Community Investment Program to deliver education and awareness campaigns that focus on water conservation, sustainability, wellbeing and customer support; community sponsorship and public drinking fountains • Develop an annual graduate program • Develop an annual trainee program • Deliver water and sustainability school education programs linked with curriculum	• Establish Community Sounding Board to inform and involve our planning and decision-making • Embed our Customer Reference Group into our planning processes on an ongoing basis • Work with Traditional Owners to deliver reticulated water infrastructure and fountains to the Knob Reserve • Establish a Community Emergency Support Program to provide potable drinking water to emergency relief centres for our communities, when they need it • Set up an Aboriginal employment pathways & retention program
Costs and cost savings	• $100k annual OPEX in a Community Investment Program • $20k annual OPEX Community Emergency Support Program • $100k annual OPEX for Aboriginal employment and education initiatives • $100k annual OPEX to deliver school education and STEM program	• $160k annual OPEX for graduate program • $140k annual OPEX for trainee (water and wastewater technician) program • $90k CAPEX over five years to support indigenous cultural recognition projects
Guaranteed Service Levels and accountabilities	Accountability: We commit to investing a minimum of $100k per year in programs that support the wellbeing of our communities including education campaigns, drinking fountains and sponsorship.	

Plan for the future

What our customers said	Customer outcome	What this outcome means for our customers and business	Indicators and targets (outputs)
We trust you to run the business and to make the right decisions. We value long-term thinking and planning. Involve and inform us in the things that impact us. Invest in resilience in a changing climate. Invest in water security.	**Plan for the future** A secure and reliable water supply. Resilient water and wastewater services for the future.	Having access to enough clean and safe water now and in the future. Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather. Water availability won't be a constraint to new businesses or industries getting established in our region. We plan for the long-term and we keep customers informed early and openly about this work. The future is uncertain, and we can't control rainfall. But we can work with our customers to reduce their water needs, secure and diversify our water resources, and increase safe recycling and reuse across our waste streams.	We'll increase community awareness about the work we do to plan for the future (target 50%).

Deliverables	• Deliver projects identified in Morwell/Traralgon master plan to increase resilience and to cater for growth, including, Traralgon Western Ring Water Main, Clarkes Water Basin upgrade, Traralgon Tyers interconnect of water infrastructure • Stage 1 Warragul Wastewater Treatment Plant upgrade	• Acquire water for water security in the Warragul/Drouin areas • Engage our community in the development of our Urban Water Strategy 2027 • Achieve compliance with the Asset Management Accountability Framework • Land secured for future infrastructure needs in Warragul and Drouin
Actions or programs	• Implement our Urban Water Strategy 2022 • Develop and implement our Urban Water Strategy 2027 • Progress the Morwell/Traralgon water system master plan projects for Price Submission 2023, including staging projects for 2028 and beyond • Develop and deliver a staged upgrade plan for the Warragul Wastewater Treatment Plant to provide for future growth • Update promotional materials to support business and residential growth in Gippsland annually • Deliver the Energy Management Strategy	• Secure strategic land for future upgrades and Gippsland Water infrastructure • Purchase bulk water entitlement in the Greater Yarra System – Thomson River pool • Additional resources – two customer care officers, one dispatch officer • 18 additional resources – covering safety, water resources, emergency management, energy market, process optimisation, graduate opportunities and skills retention • Additional resources – two regulatory officers plus expert consultant support • Additional resources – two multi skilled operators and a land development officer.
Costs and cost savings	• $14m CAPEX for the upgrade of the sewer pump station at Factory Road Yarragon • $11m CAPEX Traralgon water western ring main project • $10m CAPEX for the purchase of the Greater Yarra System – Thomson River pool • $10m CAPEX for Stage 1 upgrade of the Warragul WWTP	• $10m CAPEX for Energy Projects (renewables and resilience) • $9m CAPEX for an additional water storage in the Traralgon system • $8m CAPEX for the Traralgon/Tyers water interconnection (including $700K annually in OPEX savings) • $1m CAPEX for environmental off sets

3.2 Expenditures and efficiencies to deliver our outcomes are reflected in tariffs

Detailed within the outcome framework as set out on pages 69-74, are the required actions, programs, capital expenditures and operational costs and efficiencies required to ensure the delivery of each of our customer outcomes, all of which have been embedded within our expenditure forecasts for the 2023–28 Price Submission and therefore been embedded within our proposed declining tariffs.

Additional capital and operating expenditure associated with the new and increased outcomes are being funded through the realisation of efficiencies and/or reprioritisation of expenditure throughout the regulatory period.

3.3 Monitoring our performance and reporting to our customers

We're serious about meeting our commitments to our customers. We've designed an open and transparent reporting process to hold ourselves accountable.

The deliverables and actions we need to take to achieve our customer outcomes, (outlined in the framework) will be embedded in our 2023-28 Strategic Plan. This means that they're tracked monthly, and reported quarterly to our executive and bi-annually to our Board. Any deliverables not on target must have controls in place that are followed up by regular reporting.

Our expenditure forecasts reflect the prioritisation of our outcomes and the funding allocation to deliver them. In addition, deliverables with funding allocated will be tracked and monitored through our capital and operating expenditure processes.

Our customers will be involved in governing our ongoing performance – giving them greater oversight and influence, and us greater accountability.

We'll draw on our existing data governance and reporting processes to assure the quality and timeliness of our reporting to our customers which currently includes reporting to the ESC, our Board and executive.

We currently report annually to our customers and the ESC through the following reports:

- Outcomes and outputs report
- Major projects report
- Annual report
- Safe Drinking Water Act 2023 report, and
- Community report, which also invites customer feedback on our performance

We'll continue with these reports and we'll also further involve customers in assessing our performance against our outcomes and outputs. We'll do this through:

- sharing our draft assessment of our performance with our Customer Reference Group, for their input and review, and
- our annual customer satisfaction survey, which gathers key perception and satisfaction metrics.

If there's an unforeseen need to change our planned Output projects or activities, or if we detect a significant change in sentiment, we'll get input from our new Customer Sounding Board on how to respond to the proposed change.

Figure 12 shows how we're involving customers in our annual performance reporting against our outcomes and outputs. All our customers, stakeholders and the community will have the opportunity to review our performance and provide feedback.

Figure 12 Our proposed annual reporting process to customers

This process isn't limited to our performance against our outputs and targets. It will allow opportunities for ongoing dialogue with our customers about the direction of our business. Through an action plan, it will help us identify where our focus needs to be to drive customer satisfaction and increased value for money.

In addition to this improved reporting process, we'll continue to provide regular updates to our customers on the progress of our performance and commitments via our website, bill inserts, newsletters and social media.

3.4 How we will hold ourselves to account

In addition to the robust reporting and monitoring processes set out above, we will hold ourselves financially accountable to our customers through the Guaranteed Service Levels and accountabilities developed in consultation with our customers [O001, O007]. These, as well as the reasons for any changes to them since 2018-23 are set out in Table 26.

As stated in sub-section 3.3 we have embedded our customer outcomes within our Strategic Plan. This means that they're tracked monthly, and reported quarterly to our executive and bi-annually to our Board. Outcome deliverables that may be failing will be addressed as part of our dynamic ongoing business performance management processes. This includes where strategic actions that are not tracking to plan are elevated to more frequent reporting and senior management attention, including customer input were relevant.

In addition, we will hold ourselves further to account, by regularly engaging with both our Customer Reference Group and our Customer Sounding Board. This will enable us to better understand their preferences, discuss both actual performance and relevant mitigations to inform our next steps and formalise our action plan for each of the six customer outcomes in each year of the regulatory period.

Table 26 Guaranteed Service Levels and Accountabilities to our customers proposed for 2023-28

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
Be affordable and fair	If we restrict the water supply of, or take legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying we will pay compensation of $300 per day off their bill to a maximum of $900 until their service is restored.		Maintain	Aligns with guidance and industry standards.	**Stage 1 National Customer Perceptions Survey (WSAA) [P016]** • We expect Gippsland Water to help customers who struggle to pay their water bill **Stage 1 Customer Satisfaction Survey (Alliance) [P015]** • 1 in 4 customers experienced coronavirus (COVID-19) related hardship (not always financial) **Stage 2 face-to-face interviews, feedback forms and online surveys [E003-005]** • Affordability is most important • Support those who struggle to pay their bills **Stage 2 stakeholder meetings [E006]** • Support people in the community experiencing vulnerability **Stage 3 customer workshop focus groups [E046]** • We are pleased with the current level of support for people experiencing financial difficulties **Stage 4 CRG deliberation (outputs and GSLs) – Insync report [E047]** • "We'll support all customers who we know are experiencing financial difficulties, disadvantage or domestic violence each year, and who ask us for support" – equal 2nd most common voted for GSLs for 'be affordable and fair' • "We'll never restrict a customer's water supply for not paying their bills, if we know they're in hardship" – equal 2nd most common voted for GSLs for 'be affordable and fair'
Do your job well	If we issue a 'boil water' alert, we will contribute $10,000 to the affected community		Increased contribution from $5,000 to $10,000	Recent movements within industry have seen an increase in payments made to communities	**Stage 2 face-to-face interviews, feedback forms and online surveys [E003-005]** • Customers are happy with our service • Existing customer outcomes still resonate

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
				affected by 'boil water' notices. We consider a 'boil water' notice a failing of our service commitment to our customers and a breach of their trust that we can do our jobs well and plan for the future, so we have increased the payment we will make to communities if we fail this service level.	• Be engaged and visible in our community **Stage 3 Customer workshop focus groups [E046]** • We appreciate the role Gippsland Water plays in the community and want this to continue • Involve and inform us in the things that impact us **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]** • Individual customers should receive a rebate if we break our promise of providing safe drinking water all of the time. But if an event such as a boil water alert occurs, then it should be a community rebate.
	If a planned interruption goes longer than advised then each affected customer will be compensated by a $50 credit to their next water bill.		Maintain	Our Customer Preferences Survey indicated limited support for GSLs so we did not consider it prudent to increase GSL payments from 2018-23 levels where they align with industry standards.	**Stage 1 National Customer Perceptions Survey (WSAA) [P016]** • Being easy to deal with – trending up • We expect Gippsland Water to make additional allowances for customers with special needs during an outage **Stage 1 Customer Satisfaction Survey (Alliance) [P015]** • Expectations: reliability and easy to deal with • Satisfaction with reliability 92% **Stage 2 face-to-face interviews, feedback forms and online surveys [E003-005]** • Customers are happy with our service • Existing customer outcomes still resonate • Restore interrupted services in a timely manner **Stage 3 customer workshop focus groups [E046]** • Keep me informed in ways that suit me • Involve and inform us in the things that impact us **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]**

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
					• If we break our promise for our outputs under "Do your job well", the individual customer should receive the rebate.
	If a sewerage spill is not contained in a house within 1 hour then affected customers will receive $500		Maintain	Our Customer Preferences Survey indicated limited support for GSLs so we did not consider it prudent to increase GSL payments from 2018-23 levels where they align with industry standards.	**Stage 1 Customer Satisfaction Survey (Alliance) [P015]** • Expectations: reliability and easy to deal with • Satisfaction with reliability 92% **Stage 2 face-to-face interviews, feedback forms and online surveys [E003-005]** • Restore interrupted services in a timely manner. **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]** • CRG feedback that customers care more about how quickly a spill can be fixed, rather than the average time it takes us to fix it. It was also noted that individual customers should receive the rebate.
Be easy to deal with	If a planned interruption goes longer than advised then each affected customer will be compensated by a $50 credit to their next water bill.		Maintain	Our Customer Preferences Survey indicated limited support for GSLs so we did not consider it prudent to increase GSL payments from 2018-23 levels where they align with industry standards.	**Stage 1 National Customer Perceptions Survey (WSAA) [P016]** • Being easy to deal with – trending up • We expect Gippsland Water to make additional allowances for customers with special needs during an outage **Stage 1 Customer Satisfaction Survey (Alliance) [P015]** • Expectations: reliability and easy to deal with • Satisfaction with reliability 92% **Stage 2 face-to-face interviews, feedback forms and online surveys [E003-005]** • Customers are happy with our service • Existing customer outcomes still resonate • Restore interrupted services in a timely manner • Invest in water security • Be engaged and visible in our community **Stage 3 customer workshop focus groups [E046]** • Keep me informed in ways that suit me • Involve and inform us in the things that impact us

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
					Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007] • If we break our promise for our outputs under "Do your job well", the individual customer should receive the rebate.
Be environmentally responsible		If we don't meet our annual net zero emissions target, we will plant 10,000 trees.	New	Our customers think we should protect the environment. They also value climate resilience. We are required to meet renewable energy and zero emission obligations by 2025 and 2030 respectively. To show our commitment to protecting the environment we're pledging to plant 10,000 trees if we don't meet our targets.	**Stage 1 Online community events and webinars** • It's important that we plan for climate change and prevent environmental harm **Stage 2 face-to-face interviews, feedback forms and online survey [E003-005]** • Be aware of the impact of climate change on our environment – natural resources must be the priority • We value long-term thinking and planning **Stage 3 Stakeholder meetings [E006]** • Don't harm our local environment • Find opportunities to support or enhance our environmental assets **Stage 3 Urban Water Strategy focus groups [E007]** • Invest in resilience in a changing climate **Stage 3 Customer workshop focus groups [E046]** • We expect Gippsland Water to focus on the future and take an active role in environmental sustainability and stewardship • Protect the environment and water resources for future generations • Protect waterways and land **Stage 3 Customer interviews (conducted independently)** • Protect the environment through conservation and revegetation **Stage 3 CRG engagement [E047-053, E055-065, O007]** • Customers told us they want us to be environmentally responsible. We then put to the CRG as a relevant and

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
					proportionate compensation option for not meeting our carbon emissions targets and the CRG endorsed it. **Stage 3 Customer Preferences Survey [E075, O002]** • We asked customers whether they'd prefer us to plant local offsets in Gippsland or purchase them (in the Jan/Feb 2022 Customer Preferences Survey) and they chose the former **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]** • Achieving net zero emissions by 2030 was the second most popular voted output for 'be environmentally responsible'. • The group supported this strong accountability
	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.		Removed	Our customers think we should protect the environment. They also value climate resilience. We are required to meet renewable energy and zero emission obligations by 2025 and 2030 respectively. To show our commitment to protecting the environment we're pledging to plant 10,000 trees if we don't meet our targets.	**Stage 1 National Customer Perceptions Survey (WSAA) [P016]** • We expect Gippsland Water to improve local waterways/waterway health **Stage 2 Stakeholder meetings [E006]** • Don't harm our local environment **Stage 3 Urban Water Strategy focus groups [E007]** • Invest in resilience in a changing climate **Stage 3 Customer workshop focus groups [E046]** • Protect waterways and land **Stage 3 Customer interviews** • Protect the environment through conservation and revegetation **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]** • If we break our promise for our outputs under "Be environmentally responsible", the community should receive the rebate/initiative rather than individuals.

Outcome	GSL	Accountability	How these compare to our 2018-23 guarantees	Justification of the magnitude of payment or rebate	How this was informed by engagement
Be involved in the community		We commit to investing a minimum of $100k per year in programs that support the wellbeing of our communities including education campaigns, drinking fountains and sponsorship.	Increased contribution from $30k to $100k	Our involvement in the local community is important to our customers. We were already spending in excess of the $30k per annum we committed in the 2018-23 regulatory period so we wanted to show our increased commitment to our customers, and the increased value our 2023-28 Price Submission represents to them by increasing our community involvement and support.	Customers told us through the engagement process that they wanted us to do more to educate the community about how to conserve water, as well as other topics including making more people aware of the support we can provide for people in financial disadvantage. They also told us that they wanted us to continue to provide permanent drinking fountains and be more involved in the community. **Stage 1 National Customer Perceptions Survey (WSAA) [P016]** • We expect Gippsland Water to provide recycled water for public parks and community sporting grounds **Stage 2 face-to-face interviews, feedback forms and online survey [E003-005]** • Customers are happy with our service • Existing customer outcomes still resonate • We value long-term thinking and planning • Be engaged and visible in our community **Stage 3 Urban Water Strategy focus groups [E007]** • Education on water conservation and sustainability is important **Stage 3 Customer workshop focus groups [E046]** • We appreciate the role Gippsland Water plays in the community and want this to continue • Educate the community on ways to conserve water and the environmental impacts of their water use **Stage 4 CRG deliberation session (outputs & GSLs) [E047, O007]** • Most popular voted output for “be involved in the community”

3.5 Delivering better value for money

Our 2023-28 outcomes and outputs deliver better value for money for our customers, by creating six new customer perception measures, augmenting our GSL scheme, adding two accountabilities and strengthening our performance monitoring and reporting arrangements.

The levels of service we're committing to are above those in our 2018-23 regulatory period and above those committed to in the Essential Service Commission's Customer Service Code. They've been designed to stretch our performance and make us accountable to our customers.

Our investments to deliver these higher levels of services in 2023-28 will be achieved at a decreased price to our customers. (Refer to Appendix 3 and 4 and Chapter 10 – Tariffs).

Supporting documents

- E001 – 2023-2028 Price Submission Engagement Evaluation Report
- E002 - Customer Insights Report – Findings from Thematic Customer Engagement Workshops Dec 2021
- E003 - Stage 2 - Face to face interviews data
- E004 - Stage 2 - Online survey data
- E005 - Stage 2 - Bill insert feedback data
- E006 - Stage 2 - Engagement record
- E007 - Urban Water Strategy 2022 workshop report
- E046 - Customer Workshops KPMG report
- E047 - CRG Deliberation Report – validation of outcomes
- E048 to E053 - CRG pre-reading materials
- E055 to E059 - CRG action logs
- E060 to E065 - CRG meeting summaries
- E075 - Customer preferences survey report
- O001 - Outcomes, outputs, GSLs, annual targets, definitions and calculations 2023-2028
- O002 - Customer Preferences Survey Insync raw data
- O007 - Customer Reference Group endorsement of outcomes, outputs and GSLs
- P001 – Gippsland Water Price Submission 2018
- P006 - ESC 2021-22 Outcomes Report Gippsland Water
- P015 - Annual alliance customer satisfaction survey results 2021
- P016 - National Customer Perceptions Survey 2021 (WSAA)

4. Risk

At a glance

- Robust internal processes to identify and manage regulatory, technical, operational and commercial risks for our customers
- Committed to ensuring that we do not transfer unnecessary risk to our customers through prices
- Involved our customers, and listened to how they think we should manage risk on their behalf, particularly in relation to the unique attributes of our business
- Utilised our commercial skills to critically analyse and mitigate key risks and opportunities; and have
- Undertaken an extensive risk allocation process, to ensure that the party best able to manage risk is allocated that risk

4.1 How we manage risk for our customers

We are committed to managing the risks that have potential to impact our ability to achieve our organisational objectives. This approach seeks to protect our customers, our employees, the services and products we provide, and the environment and communities in which we operate.

Our risk management processes are centred on the principles of ISO31000:2018 and apply across the entire organisation. Our Risk Management Framework [R001, R002] is provided in support of this submission. It sets out our policy framework and guides our processes for decision making and governance.

The risk management cycle is a dynamic process of:

- Risk identification
- Risk analysis
- Implementation of controls, and
- Ongoing monitoring and repeated periodic review across the organisation.

Risks are identified at a corporate and departmental level. Mitigation actions are developed to reduce residual risk in consideration of relevant controls and our tolerance for the risk.

Each identified risk is assigned to a risk owner, responsible for monitoring, reviewing and providing oversight of the risk to ensure suitable mitigation controls are in place.

Our executive team undertakes regular structured reviews of our strategic and operational risks. A critical input to our strategic planning processes, undertaken with Board input, is an annual review of our strategic risks [R003, R004].

Our Risk Management Framework is overseen by the Board, with sub committees responsible for monitoring and mitigating specific risk categories. In recent years we have enhanced our management of project risk through the implementation of processes and governance structures (such as project steering committees) with a clear mandate to assess project risk and broader implications for our organisation.

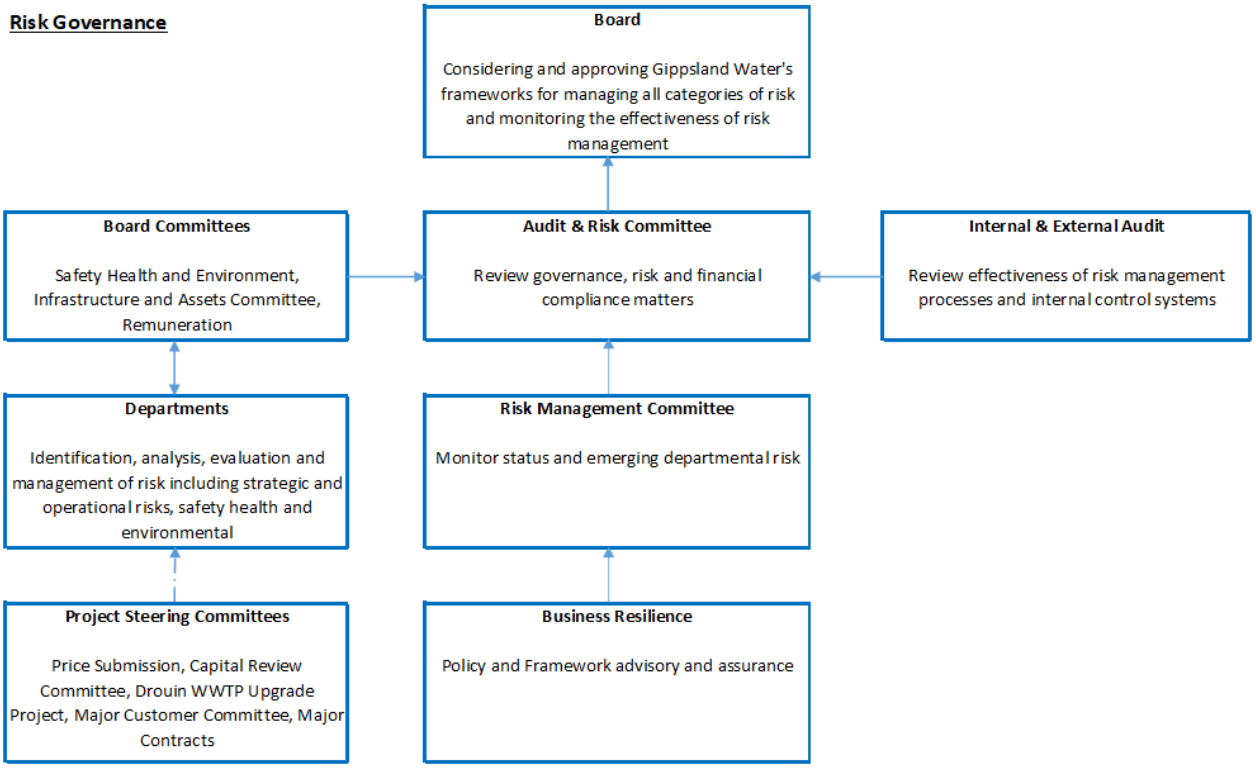
A robust internal and external audit assurance schedule is overseen by the Board Audit and Risk

Committee. This process supports us in reviewing risks, including the controls we have in place to manage and mitigate risk.

We are on a continuous journey to ensure our Risk Governance Framework and risk management processes mature in their capacity to monitor and mitigate risk.

Our Risk Management Framework is shown in Figure 13 below.

Figure 13 The way we govern risk



4.2 How we applied our risk management framework to this Price Submission

In developing this Price Submission, we ensured we understood our future operating environment and developed appropriate mitigations to address key business risks (including evolving coronavirus (COVID-19) and cyber security impacts and requirements, and climate change) to ensure we meet the expectations of our customers, regulators and the Victorian Government.

We assessed these risks in a manner which ensured they are not transferred to parties not best placed to manage that risk, or who should not bear that risk.

This required us to work smarter and to challenge the way we identified and mitigated risk.

Our objective was to ensure there was no inappropriate risk transfer to customer prices.

In reviewing these decisions, the Board applied our risk management framework guided by the following principles:

1. Adopt a forward-looking approach to assess the future operating environment and associated risks across at least two Price Submission periods
2. Considering a range of scenarios for each risk, and
3. Adopting an ambitious approach to risk sharing, by assessing who is best placed to manage the risk.

And we specifically reviewed:

- Inflow risk
- Demand forecasting risk
- Operational risks
- Construction risks
- Regulatory and policy risks (potential changes to law or regulatory requirements), and
- Financial and commercial risks

We assessed these risks with regard to the regulatory controls in place, including:

- Recovery of forecast operating and capital expenditure
- Indexation of prices
- Cost of capital
- Form of price control
- Tariff structures
- Length of regulatory period, and
- Possible pass-through mechanisms

The outcome of this risk assessment is set out in this chapter, including the impact of our decisions on customer prices.

In assessing these key risks we also identified and endorsed a number of strategic pricing decisions requiring strategic management for a fairer price outcome for customers. The impacts of these risks and pricing decisions on customer tariff are summarised in Figure 14 and Table 27, detailed strategic considerations of each of these risks have been prepared.

Figure 14 impact of risk and pricing decisions

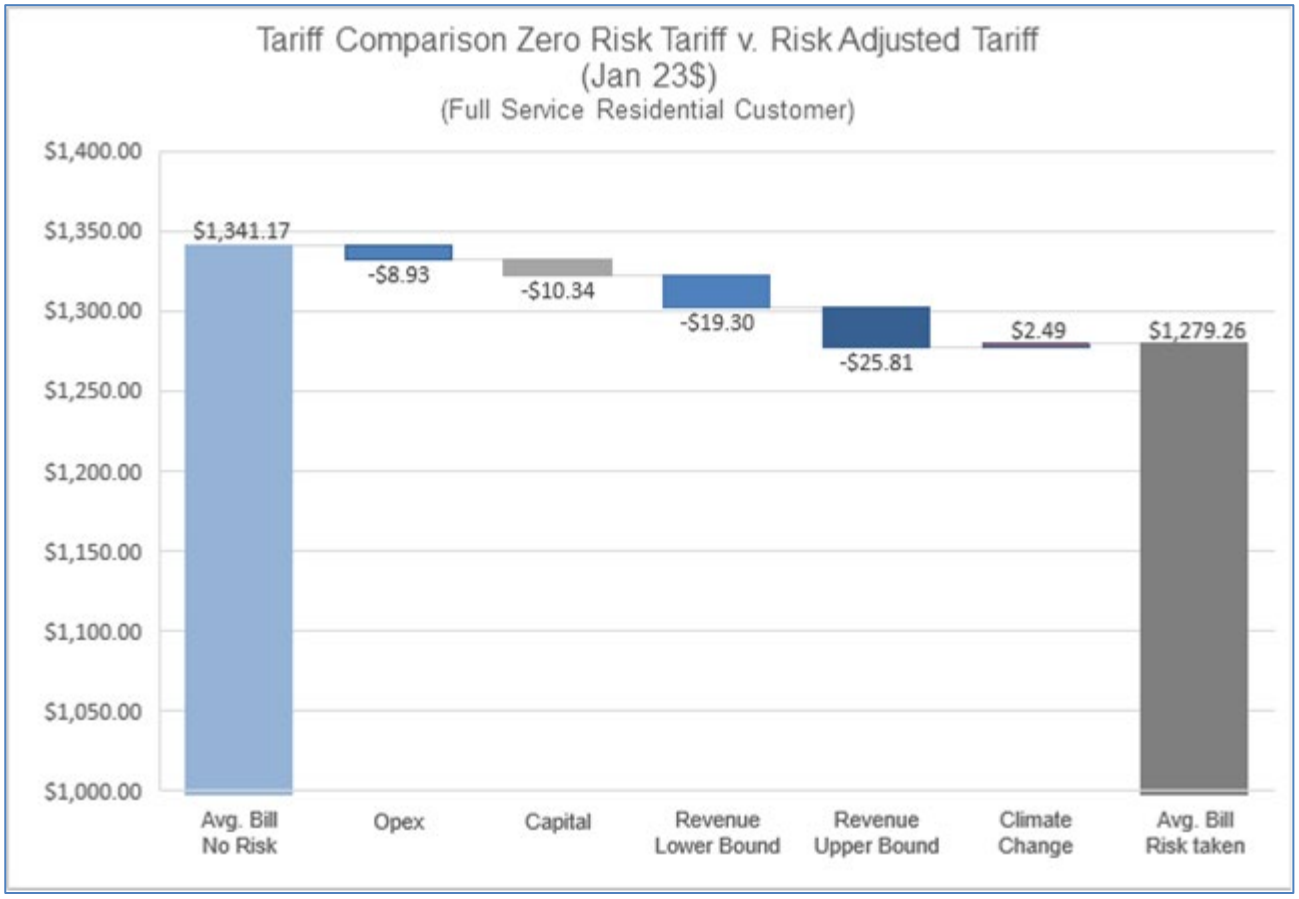


Table 27 Detailed strategic considerations of each of these risks have been prepared [R017].

	Risk Name	Risk category	Rating	Who is taking the risk	Impact of risk eventuating across Price Submission	Annual impact on residential tariff if risk eventuated
Growth	Growth Forecast greater than VIF	Demand forecasting	High	Gippsland Water	$3.4M	$8.34 p.a.
Revenue from major customers	*Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*					
Operating expenditure	Efficiency & Growth	Business	Med	Gippsland Water	$2M	$4.98 p.a.
	Chemical Cost	Business	Med	Gippsland Water	$1.3M	$3.23 p.a.
	Electricity	Business	Med	Gippsland Water	$300,000	$0.72 p.a.
Construction	Capital planning and estimating – removing uncertainty	Business	High	Gippsland Water	$8.2M CAPEX	$4.35 p.a.
	Capital planning and estimating – managing construction market price movements	Business	High	Gippsland Water	$29M CAPEX	$6.00 p.a.
Climate	Climate change – managing the impacts on asset resilience and operating costs	Business	High	Gippsland Water	$1M	$2.49 p.a.

4.3 Our sharing of risk

In preparing this Price Submission, we reviewed the following risks that sit within the regulatory framework, and positioned ourselves to manage them appropriately during 2023-28, ensuring the risk was not transferred to customers disproportionately.

4.3.1 Growth

The growth forecast we adopt in preparing a Price Submission directly impacts the tariffs customers pay.

We have elected to adopt a growth forecast higher than that forecast by Victoria in Future in the VIF2021 forecast [R007], and take on the risk that this does not eventuate and we experience a revenue shortfall as a result.

Our growth forecast is the result of long term trend analysis and independent review of our new connections growth and underpins our assumptions contained within our 2022 Urban Water Strategy [P031].

When forecasting the rate of new connections to our water and wastewater network in 2023-28 we considered [R008]:

- Actual new connections data for the last 10 years
- Victoria in Future projections (2019 and Draft 2021), and
- Independent third-party research into specific factors influencing population trends within our region

This resulted in the below growth assumption:

- New residential connections will grow by 1,196 new connections per annum (18% higher than VIF2021 forecasts), and
- New non-residential connections will grow by 14 new connections per annum based on historical trends

Adopting a higher connection growth compared to VIF leads to $3.4M of required revenue that doesn't need to be paid for by our existing customers over the regulatory period. The tariff impact of this risk is $8.34 per annum per customer.

The realisation of underachieving growth will be managed through the identification and pursuit of additional revenue and efficiency opportunities.

4.3.2 Under-recovery of revenue from major customers

We provide water and wastewater services to six of Victoria's largest water and wastewater service customers. These customers generate up to 25% of the state's total trade waste and account for approximately 17% of our revenue.

They are each serviced by dedicated infrastructure assets and have individual service contracts with us, reflecting their specific circumstances.

Four have contracts up for renewal through the 2023-28 regulatory period. We anticipate all will be renewed and so far they have all indicated that demand will be consistent with historic trends.

4.3.2.1

Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.

Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.

4.3.2.2

Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.

4.3.3 Operating expenditure

Our annual operating, maintenance and administrative expenditure will average $91 million per annum over the regulatory period which is 5.81% greater than our base year. Our 2023-28 operating expenditure forecast has been developed using both the base step trend approach and stress tested through a bottom up budgeting forecast.

This process identified a number of regulatory risks:

- Efficiency
- Chemical costs
- Electricity costs
- Capital planning, and
- Climate change

Our assessment and allocation of these risks is set out below.

4.3.4 Efficiency and growth

We critically reviewed our approach to operational expenditure forecasting and adopted a number of changes. Our estimates were developed using the top-down base step trend approach and then stress tested through a bottom-up budgeting process to better understand our forecast expenditure and ensure that the forecast is achievable and appropriate.

In determining the bottom-up expenditure estimates, we assessed growth related expenditure across our business instead of adopting a 'growth factor' based on the percentage of connections growth forecast as part of the process.

Applying a growth factor would result in $6.76 million of additional operating expenditure assumed as part of our forecast for 2023-28. The bottom-up approach resulted in $4.9 million of identifiable operating expenditure we need to allow for during 2023-28 to service growth.

In addition to this more robust way of estimating growth related expenditure, we have adopted an ambitious, but achievable, efficiency commitment of 1.7% per annum (compared to 1% in 2018-23).

This equates to a net efficiency of 0.5% which is higher than all but four of the nine advanced submissions for the 2018-23 price review as outlined in Table 29.

The total benefit to customers of adopting a higher efficiency commitment and lower growth-related cost assumption, is $2 million across the regulatory period, or $4.98 on the average customer bill.

Table 29 2018-23 PREMO net efficiency analysis

Water Corp	PREMO Rating	Growth	Efficiency	Net Efficiency
South East Water	Advanced	2.30%	2.30%	0.00%
Yarra Valley Water	Advanced	1.70%	2.50%	0.80%
Barwon Water	Advanced	1.60%	2.30%	0.70%
Central Highlands Water	Advanced	1.60%	1.60%	0.00%
City West Water	Advanced	2.60%	2.00%	-0.60%
Coliban Water	Advanced	1.70%	1.50%	-0.20%
Grampians Wimmera Mallee Water	Advanced	0.50%	1.50%	1.00%
North East Water	Advanced	1.20%	1.20%	0.00%
Southern Rural Water	Advanced	0.00%	3.00%	3.00%

4.3.5 Chemical costs

Our chemical contract pricing mechanism is calculated for each chemical based on raw material cost, freight cost and manufacturing costs. The frequencies of price increases for each chemical are quarterly, six monthly or annually based on the raw material cost variability of that chemical and a contract price mechanism review formula. A number of chemicals are only adjusted by CPI due to the stable nature of the base products.

Chemical costs leading into the 2023-28 price period have increased by $696,000 per annum [R010]. Given uncertainty about future chemical prices, we will monitor the market to see if prices stabilise or continue to increase in the medium term.

Estimates based on forecasts is for chemical prices to continue to increase by an additional $100,000-$150,000 between the review points in October 2022, January 2023 and April 2023 [R010]. This will bring the total chemicals cost increase up to $846,000 by April 2023. Beyond that period, based on forecasts currently within the market-place we expect cost increases to slowly normalise.

Given the uncertainty of this market we have made a decision not to pass the full estimated increase of up to $846,000 per annum in chemical costs onto our customers.

We have included $420,000 of the current $696,000 increase in cost into the base step trend and will absorb $276,000 of the currently certain increase, ($1.3 million over the regulatory period) as well as any additional increase on behalf of our customers throughout the period by seeking further efficiencies. This equates to $3.23 per customer per annum.

We will attempt to mitigate this with a review of chemicals use within our business, and new procurement strategies to further drive efficiencies.

4.3.6 Electricity costs

We have two retail electricity contracts, one for small market the other for large market (>40MWh p.a.).

We partnered with South Gippsland Water and East Gippsland Water in going to market to secure a better price outcome for all three organisations. This process was facilitated by Key Energy, which has been our long standing energy consultant and enabled us to negotiate a better price than the wider water industry currently. This contract is due to expire in 2024-25.

With energy prices expected to increase, we sought a forecast from Key Energy in early 2022 to inform our operating expenditure forecast for 2023-28 [R011]. Key Energy provided us with forecast electricity market prices and later, the Intelligent Water Network, (IWN) through Schneider Electric, arranged for and provided similar forecasting for the entire Victorian water industry [R012].

We subsequently sought Key Energy's views on the IWN forecasts. In mid 2022, Key Energy completed its independent assessment of the IWN forecast and confirmed it was an appropriate forecast to adopt post our current contract expiry [R013].

This results in an additional $1.35 million in electricity costs embedded in our base step trend for 2025-26, 2026-27 and 2027-28.

Since we adopted this forecast, the electricity market continues to be extremely volatile and our most recent advice from Key Energy indicates that a further $5.5/MWh increase for those years [R014]. If adopted, this would result in an additional $300,000 in electricity costs across the last three years of the regulatory period. Given the uncertainty of this market and in the interests of customers, we have assumed this risk and not passed it on to customers, saving customers $100,000 per annum for years three, four and five of the regulatory period. This equates to $0.72 per customer per annum.

Mitigations against further increases in electricity price post our current electricity contract include:

- Regularly review future procurement methods – State Purchasing Contract versus alternatives to be explored
- Investment into renewables to reduce reliance on purchasing energy from grid reduces exposure to market (note $10M CAPEX invested over the 2023-28 regulatory period) [CX023], and
- Further capability built within the business associated with the energy market and retail electricity management through a new role titled Energy Market Specialist to start 2025-26 [OX004]. This will allow for close monitoring of our electricity demand and exports, demand response, and our net zero carbon commitments.

4.3.7 Capital planning and estimating – removing uncertain projects

We have robust and established capital planning and governance processes, project delivery methodologies, forecasting and resource-levelling processes, procurement arrangements and contractual agreements as described in Chapter 7 Capital Expenditure to mitigate the risks of project delays, cost overruns and material scope changes during 2023-28.

In addition to these processes, we reviewed our capital forecast for uncertainty that customers should not have to bear and removed two projects totalling $8.2 million across the period. This equates to $4.35 per customer per annum.

4.3.8 Capital planning and estimating – managing construction market price movements

Coronavirus (COVID-19) and other economic factors have created an environment of price volatility. Central Government spending and central bank quantitative easing to mitigate the economic impact of the coronavirus (COVID-19) pandemic, together with supply chain shortfalls created by the war in Ukraine and coronavirus (COVID-19) lockdown mitigations in China has had significant inflationary impacts on the prices of goods and services across the economy.

We have robust and established capital planning and governance processes, project delivery methodologies, forecasting and resource-levelling processes, procurement arrangements and contractual agreements as described in Chapter 7 Capital Expenditure to mitigate the risks of project delays, cost overruns and material scope changes during 2023-28.

To further mitigate the risks of capital costs for our customers, we have committed to efficiencies through:

- The independent review of our expenditure forecasts and forecasting methodology against the ESC criteria for prudency and efficiency
- The use of P50 Monte Carlo risk analysis for our top ten projects and deterministic modelling for our entire program, to develop capital expenditure estimates that allocate risks fairly between us and our customers [CX007, CX016]
- An Asset Management Framework that requires whole of asset life cycle cost analysis to inform efficient investment decisions [CX003]
- Asset planning processes including strong relationships with councils, developers and other stakeholders ensuring the correct investment is made at the correct time
- A continuous improvement approach to procurement and project management, including the way works are packaged, to manage risks and drive efficiencies, and
- Market testing the delivery of our water mains renewals program for the 2023-28 regulatory period in the 2022-23 financial year and aiming to maintain rates at a minimum at real levels throughout the regulatory period as a result of robust procurement processes.

By adopting a P50 approach to our capital planning we have assumed $29 million in capital expenditure risk on behalf of our customers for this regulatory period. This equates to $6.00 per customer per annum.

4.3.9 Climate change

Our climate is changing. The world is getting hotter as a response to increasing levels of greenhouse gases in our atmosphere. This not only presents the challenges of hotter, drier weather but also extreme weather events such as droughts and intense rainfall. This results in an increase in the frequency and severity of bushfires and floods. All of which have an impact on our water yield, water consumption patterns and operations.

We have considered the impact of climate risk on our long term operations over the next 50 years through our 2022 Urban Water Strategy [P031]. Our best estimates on water yield and consumption demands underpin this strategy. Our consumption estimates and their impact on 2023-28 revenue and tariffs are discussed in Chapters 9 and 10 and our water yield estimates are set out in the Urban Water Strategy.

The 2022 Urban Water Strategy also identifies the future investments we will need to make to ensure that our services are climate resilient into the future and service levels to customers can be maintained in line with their expectations, and our legal and regulatory obligations.

We have allowed for $200,000 per annum increase in our operating expenditure to account for additional operating expense directly related to climate change impacts such as more frequent wet weather events or prolonged drought. The impact on the customer tariff has been an increase of $2.49 per customer per annum.

4.4 Performance targets and GSLs

In preparing our Price Submission, we consulted with customers at length to understand their values, key concerns and what they want most from us. We used these insights to develop an outputs and GSLs framework for further consultation.

The outcome of that work is set out in Chapter 3 and results in a more sophisticated, more accountable framework than ever before.

We have done this at no additional cost to customers and we are assuming 100% of the cost risk of not meeting our outputs or GSL service levels where a GSL payment will be required. Based on our performance in the 2018-23 regulatory period we estimate that this will see an additional circa $5,000 of GSL payments made to customers.

We have also introduced a framework for reviewing our performance with our customers so the process is transparent and holds us to account.

4.5 Coronavirus (COVID-19) response

Coronavirus (COVID-19) changed the way we work and service our customers. In preparing our Price Submission we needed to consider the following which could impact our operating expenditure forecast for the period:

- How we will continue to work and service customers in the future, and
- How the change in operating environment may affect demand for our services

During 2018-23 we made a number of improvements to our business, to support our staff and our customers through the global pandemic. These are discussed in Chapter 1 and occurred at no additional expense to our customers.

In considering how we will be working with and servicing our customers in the future, we have assumed the continuation of our current service levels, including our empathic and proactive approach to customer support, which represents good ongoing practice.

We have also assumed our hybrid working arrangements will remain in place and expenditure that

declined sharply during the height of the pandemic such as employee training, travel and motor vehicle fuel costs will recover back to historic trends, as we slowly change our working arrangements to balance safety, compliance and good business practice.

In relation to demand for our services, we saw water consumption demand during 2020-21 and 2021-22 significantly change. Average residential consumption increased while average non-residential consumption decreased.

During the later stages of 2021-22 we have seen a shift back towards historic consumption patterns for both residential and non-residential customers (see Chapter 8 for details).

In relation to growth, by far the largest impact on our region and our business was the unprecedented new connections growth that occurred during both the 2020-21 and 2021-22 years.

As discussed above, we have adopted a more aggressive growth forecast for revenue and tariff purposes in this Price Submission, but growth-related expenditure has been reviewed from a bottom-up budgeting perspective and only expenditure considered prudent and efficient to service additional growth has been added to our operating expenditure forecast for 2023-28. This is detailed in Table 33 baseline adjustments contained in Chapter 6 Operational Expenditure.

4.6 Tariffs and regulatory period

We propose to continue with a price cap form of price control which means our customers are not bearing the risk of revenue shortfall during the regulatory period.

We also propose to continue with a five year regulatory period which protects customers from any price shocks for five years (excluding any tariff adjustment resulting from the income tax pass through proposed below in Chapter 9 section 9.5).

4.7 The impact for customers

Our ambitious approach to managing risk for our customers, coupled with strategic pricing decisions made for their benefit, is saving customers between circa $36 and $62 across the regulatory period/each year.

We are proud of our approach and are embedding a culture of continuous improvement and commercial acumen in our business to continue this benefit for our customers into the future. We will continue to look for ways that we can manage risk more innovatively and effectively, to save our customers money.

Supporting documents

- CX003 - Gippsland Water Asset Management Framework
- CX007 - Capital investment and approval procedure
- CX016 - P50 Deterministic Estimating Procedure - June 2022
- CX023 - GW PS23 asset program synopsis energy
- OX004 - GW PS23 Opex business case electricity prices
- P031 - Urban Water Strategy 2022
- R001 - Risk management framework
- R002 - Risk management policy
- R003 - Strategic Risk Register (Detailed)
- R004 - Strategic Risk Register (Summary)
- R007 - VIF 2021
- R008 - Gippsland Water - Scenario Forecasting - Final Report (KPMG)
- R010 - Recent chemical cost increase data
- R011 - Key Energy report
- R012 - Schneider Electric forecast
- R013 - Key Energy subsequent report
- R014 - Most recent advice from Key Energy showing further $5.5/MWh
- R017 - Price Submission risks taken in the 2023-28 regulatory period MASTER

5. Management framework to deliver our best offer

At a glance

- We have demonstrated that prices reflect prudent and efficient expenditure, through a rigorous expenditure forecasting process for both capital and operating expenditure
- Maturing capital planning processes have enabled better investment plan decisions due to better vision of our future needs and impact on customer
- We have committed to an equivalent cost efficiency of 1.7% (through a net efficiency rate of 0.5%)
- Strong management and Board governance, accountability and oversight of submission to ensure quality end to end
- Strong structures put into place for the development and tracking of submission commitments and promises into the future, including ongoing governance and data management
- Our Customer Reference Group will be maintained during the regulatory period to provide assurance on our community engagement and feedback on our performance
- We will report back to customers through our website, bill inserts and other communication channels
- Regular engagement with the ESC on key aspects of the submission to ensure a "no surprises" approach
- Linking customer outcomes, outputs and expectations directly to our expenditure profile
- Enhanced customer GSLs and accountabilities at no extra cost
- A reducing cost to serve per customer

5.1 Good practice project governance and planning for this Price Submission

Our 2023 Price Submission has been developed with input from our Board, Board committees (e.g. Infrastructure and Assets, Audit and Risk), Customer Reference Group, Price Submission Steering Committee (consisting of the Executive Leadership Team and an external consultant), senior management, a dedicated project team including subject matter experts (internal and external), targeted stakeholder groups and our broader customer base.

To achieve Board attestation and to ensure that our submission was our ‘best offer’ we implemented a robust framework to ensure each of the following:

- A customer led submission
- Alignment with strategy
- Cost effective and timely delivery
- Demonstration of the golden threads
- Risk identified and managed, and
- Strong project governance

5.1.2 A customer led submission

Our engagement program [P013] was designed to engage early on the issues that mattered the most to our customers. It was iterative, allowing for co-design and updates as insights emerged or circumstances changed.

We combined the strategy and activities for the Price Submission and Urban Water Strategy [P031], where possible, to get good value out of our interactions with customers for both these forward looking plans and to minimise the risk of engagement fatigue.

We were responsive to what we learned from our customers in each stage, adapting the issues for engagement (and the strategy) in the next stage accordingly.

We used multiple methods to gather insights, triangulating data to ensure we weren't reliant on one source of information, and ensuring breadth and reach of our engagement program with customers from all different backgrounds, right across our service area.

5.1.3 Alignment with strategy

Customer and stakeholder engagement has been 'the' central focus for us in developing both our 2023-28 Price Submission and also our Urban Water Strategy.

By constantly checking the links between these and our other key strategic planning outputs and activities, customer insights and priorities will inform all aspects of strategic planning across the organisation.

The Price Submission is a central piece of our strategic planning framework.

5.1.4 Cost effective and timely delivery

Through good project governance, management of internal and external resources, and tracking to the budget allocated at the beginning of the Price Submission process we have achieved cost effective and timely delivery of our submission.

5.1.5 Demonstration of the golden threads

We have demonstrated that:

- We have engaged through fit for purpose channels on issues of priority for our customers
- That this engagement has influenced our proposal
- That our customer outcomes:
    - reflect customer sentiment
    - respond to feedback learned through engagement
    - are supported by customers
    - are prioritised in terms of importance to customers
- That our outputs and targets are reflective of the customer outcomes and are quantitative in a manner that allows us to determine whether an outcome has been delivered, and that the targets are appropriate
- That we have proposed a relevant performance monitoring and reporting process that assists to demonstrate the value of our work to our customers and stakeholders
- That we demonstrated robust strategies that minimise the cost of managing uncertainty (risk) passed onto customers via prices. This includes operating and capital efficiencies, placing 'revenue at risk' and offering returns to our customers for under performance (GSLs)
- That our proposal (e.g. growth, demand, opex, capex and form of price control to deliver the proposed outcomes and outputs) is our best offer to our customers, and
- All data provided to the ESC is accurate, consistent and contains no material errors.

5.1.6 Risk identified and management

All risks were identified and scored (likelihood and consequence) in accordance with our corporate risk framework [R001, R002]. Each risk was allocated a risk owner and regular monitoring and control occurred through bi-monthly risk register review meeting and reporting into the Steering Committee on a monthly basis.

5.1.7 Strong Price Submission project governance

We created strong project governance through the development of the following:

- Development of pricing aspirations and Board endorsed price submission principles that guided the development of this submission
- A Project Steering Committee, comprising members of our Executive Leadership Team, external regulatory advisors as quality assurance and work stream leads from within our organisation
- Project Steering Committee Charter
- A dedicated core project team, project sponsor and project manager for the duration of the development of the submission [M002]
- External regulatory advisors to provide strategic advice over the coordination of the development of our submission
- A detailed project plan which outlined our project structure, project governance, outputs to be delivered and detailed schedule [M002]
- A Board Strategic Engagement plan, detailing workshops to discuss key issues, have decisions ratified, including steps to be taken to achieve Board assurance [M005]
- Project team roles and responsibilities [M002] detailing the expectations and accountabilities of the core project team, including:
    - Project sponsor
    - Project assurance
    - Steering Committee
    - Project management lead
    - Business lead
    - Subject matter experts
- Establishment of our Customer Reference Group
- Development of a RAID log (risks, actions, issues, decisions) including bi-monthly risk register review with risk owners, reporting into the Steering Committee on a monthly basis [M003]
- Monthly Project Steering Committee meetings
- Monthly reporting to our Board - regular updates and papers provided to our Board on progress to achieving assurance for the final Price Submission
- Bi-monthly, moving to monthly, Board Strategic Workshops
- Weekly project core team meetings
- Engagement sub-committee that met weekly
- Fortnightly check-ins with the Managing Director (Project Sponsor and Core Team)
- Monthly project team meetings
- All staff Price Submission Project Sponsor updates
- All staff Price Submission Q&A sessions with the Core team
- Strategic engagement with the ESC on key issues and topics for the delivery of the submission.
- Development of a data governance and storage framework to ensure the supporting justification documentation is an open book, including the auditable trail of information available to the ESC as justification for our proposals, and where the ESC can access this information [M004], and
- Peer review of our Price Submission, supporting documents and proposals [Appendix 6]

The process we adopted ensures our submission is our best offer and proposes only prudent and efficient expenditure. The role of the Project Steering Committee, the purpose of the Board

workshops and the use of Utilities Regulation Australia (URA) and other regulatory advisers to review our work has ensured:

- the prudency and efficiency of expenditure and demand forecasts
- Compliance with the ESC's Guidance requirements
- The consistency and accuracy of information between the financial template and written submission, and
- The strength of the value proposition being proposed, including the golden thread of customer feedback.

5.2 Developing our Price Submission, supporting documentation and proposals

Our 2022-23 to 2027-28 six year corporate plan [M001] was used as a starting point for development of our Price Submission forecast enabling us to focus on efficiencies, and the incremental changes required in response to customer feedback received during our engagement journey.

Our Board was engaged from early on in the submission process, through a series of dedicated Price Submission workshops, where the Board was informed of the:

- Economic regulatory process
- Customer insights
- Demand and growth forecasts
- Expenditure estimates
- Risks to the submission, and
- Price Submission milestone performance

Board members were actively engaged in key customer engagements including community drop-in sessions, the customer summit and the Customer Reference Group.

The Board provided direction and advice and made decisions on strategic matters throughout the process which shaped this submission. These decisions were ratified through formal board meetings.

Table 30 summarises the types of Board workshops, Steering Committee meetings, project team meetings etc., that have helped us ensure rigour over the journey of the development of this submission.

Table 30 Structured Price Submission governance

	Purpose of Forum	Number of meetings	Number of Papers
Customer Reference Group	The role of the Customer Reference Group is to act as a critical friend to the organisation by: • Reviewing the proposed engagement processes for authenticity and completeness • Contributing thoughts and ideas to the design of our engagement processes • Bringing the specialist perspectives of sophisticated stakeholders to the table • Attending (if available) engagement activities. As the Price Submission is formulated, the CRG collaborated with the organisation on designing customer outcomes and outputs which will apply to the organisation for the upcoming five-years. Prior to each meeting, the CRG was provided with relevant background information as pre-reading. The purpose of the background information was to give each CRG member the opportunity to gain an understanding of the context behind each issue to be discussed at the upcoming meeting. Due to mailing addresses blocking some attachments, we also provided each CRG member the opportunity to download copies of pre-reading documents through our Databox system, and provided printed versions of documents upon request.	7	16
Board Workshops	For the Board to be involved in the development of the submission through regular Board workshops on various topics that are fundamental to the final submission.	12	56
Steering Committee	Provided cross functional leadership and direction: • Monitored business and strategic issues and provide advice to the project team on those that may present a risk to the project or have impact on the project rationale or success • Resolved issues outside the authority or control of the project management, such as priority setting, decision-making and resource commitments that cross organisational boundaries and require agreement from senior stakeholders • Ensured provision of the required resources for planning and delivery of the project • Provided management support, direction and advice to the project management based on the project reporting to the committee • Actively and overtly support the project and act as an advocate for its outcomes, and • Reported on the project and its progress to the Board and relevant agencies.	22	95
Project Team meetings	• For the Project Sponsor to provide executive feedback and project leadership • For the broader project team to provide updates against project deliverables • To ensure effective intra-project communication • Project risk management • Project reporting	32	32

	Purpose of Forum	Number of meetings	Number of Papers
Core project team meetings	• For the Project Sponsor to provide executive feedback and project leadership • For the core project team to provide updates against project deliverables • To ensure effective intra-project communication • Project risk management	73	RAID log is the core document for this meeting.
Customer Summit	The customer summit enabled community members to participate in a democratic consensus process that will have a real public impact. It was comprised of a diverse and broadly representative group of customers and community members, selected through an independent process to reflect the demographics of our community. Prior to the customer summit, the panel members were provided with the Customer Voice Report as pre-reading. The purpose of the report was to give each panel member the opportunity to gain a basic understanding of the engagement journey so far, and the context behind each issue that was to be discussed at the summit. After each session, we also provided answers to questions that were asked during the session. These were provided prior to the next session.	4	5
Engagement Sub committee	This forum had the role of guiding and supporting the delivery of engagement for our submission.	62	No discussion papers required
Engagement Customer Forums (KPMG)	Ten focus group workshops took place where the attendees explored issues and options associated with each of the customer outcome themes. Prior to the workshops, a brief background about what we do was provided on the invitation. We also provided written answers to the questions that were asked during the session.	10	Insight Report provided post summit
MD Fortnightly Catch up	• For the project Sponsor to provide a high level update and feedback to the MD • Seek strategic guidance and support on project deliverables and key milestones • Continued management of risks • Early view of any matters arising and troubleshooting	28	No discussion papers required
Internal communication – Q&A sessions	Drop in sessions designed to allow staff to get an update on the progress of the Price Submission and ask the core team any questions.	7	7
Internal communication – all staff updates	• A regular email issued to all staff to keep them up to date with the progress of the Price Submission and upcoming milestones. • Articles published in weekly all staff newsletter	19	19

5.3 Peer review to support Board assurance

While we have implemented our own thorough internal checks and balances we also engaged an external party to perform a two-stage review of our proposals and submission. The external party was URA for its extensive knowledge of the ESC's regulatory framework and best practice. The URA review included:

- An assessment of our forecasts for prudency and efficiency. This included:
    - For opex – justification of our baseline, adjustments to the baseline, necessary step changes during the next regulatory period, and adjustments for ongoing price (e.g. labour) and non-price (e.g. efficiency) trends
    - For capex – a review of a sample of our largest projects and programs of work, including assessment of business synopsis, options analysis, trend analysis, cost estimates, risk analysis and alignment with good practice asset management and capital governance and planning, and
    - For demand – an assessment of our forecasting methodologies, underlying assumptions and consistency with historical trends.

- An assessment of our final draft Price Submission and financial template, to support Board assurance. This included:
    - For assurance condition 1 – Information and documentation provided in the Price Submission and relied upon to support our Price Submission is reasonably based, complete and accurate in all material respects
        - Information review – An assessment for accuracy and consistency between our final draft Price Submission and the ESC's financial template
        - Statements review – An assessment of the overall narrative and customer value proposition contained within the Price Submission, as compared against the intended objectives of the ESC regulatory framework
    - For assurance condition 2 – Financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used
        - Final forecast review – review of our models that underpin the opex, capex and demand forecasts, for accuracy, and a final review of expenditure and demand forecasts, against the recommendations made in URA's initial review of the forecasts
    - For assurance condition 3 – The Price Submission satisfies the requirements of the 2022 Water Price Review Guidance paper issued by the ESC in all material respects
        - Compliance review – Review the written submission to ensure that each of the ESC's Guidance Paper requirements have been explicitly met/addressed

We have accepted and/or responded to all of the findings provided by URA.

In summary our Board attestation process includes:

- Independent advice on our approach supported by establishment of robust internal governance arrangements (as discussed above)
- Independent review of the prudency and efficiency of expenditure, demand and growth forecasts, and
- Confirmation that the submission document and financial model template are accurate, consistent and complete.

5.4 Price Submission development process

Our 2023 Price Submission is a central piece in our strategic planning framework, with an ongoing focus to ensure our strategic outputs support a single strategic vision for the organisation. We have fostered and checked the links between our key strategic outputs and have enhanced how we use

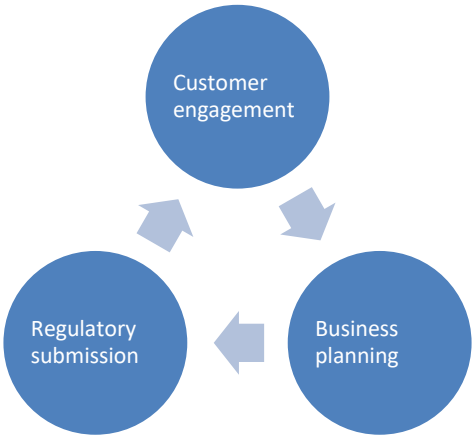
customer insights to inform our strategic planning. As a result our Price Submission is:

- Informed by our customer engagement program [P013]
- Informed by our annual senior management strategy workshop
- Informed by our urban water strategy [P031]
- Informed by our board strategic engagement program [M005]
- Informed by Statement of Obligations
- Informed by Letter of Expectations
- Informed by current regulations
- Informed by Customer Charter [M011]
- Informs our strategic priorities [M012], and
- Informs our corporate plan [M001]

In preparation for our submission we have taken the opportunity to align our business planning, customer engagement and regulatory processes so they deliver more prudent and efficient outcomes for our business and customers, as indicated in Figure 15 below.

Our budgetary processes adopted for this submission include both a “bottom up” and “top down” approach to encourage a culture of continuous efficiency [M014, M015].

Figure 15 Gippsland Water planning processes



Forecasts and costs have been based on sources such as our customer engagement, macroeconomic trends, latest market information such as the VicWater electricity price review, Victoria into the Future (VIF) population growth, Victorian Government policy, regulatory and legislative requirements – our strategic objectives and observed historic trends.

To ensure the project team, Steering Committee and Board could all attest to the quality of the work that occurred, external advisors were regularly engaged to independently review key activities, inputs and outputs and provide objective feedback. These key activities, inputs and outputs included:

- Customer engagement methods, activities and outputs
- Growth and demand forecasts
- Operating expenditure forecasts
- Capital investment plan estimates, and
- Overall accuracy and completeness of the Price Submission, financial model template and supporting data

The result of this is a Price Submission led and informed by customers and robustly reviewed for prudence and efficiency.

5.5 How we ensured prudency and efficiency

The prevailing theme through the many conversations we've had with our community over the last two years has been affordability and fairness.

We've listened to their feedback and we're proposing to deliver more value at no extra cost, including a year-on-year bill reduction. We've achieved this by finding savings in non-core delivery areas and reviewing our fees and charges to ensure they better reflect the cost to serve.

We embarked on a new approach to this Price Submission underpinned by a five year targeted efficiency program supported by 'top down' and 'bottom up' budgeting which led to a significant customer centricity cultural shift and development of robust expenditure estimates [M014]. The basis of our expenditure reviews were a 'value for money' approach where customer experience, service and affordability were front and centre.

These reviews were supported by presentations to the Board on assumptions, options assessment and risk considerations and as a result:

- We have proposed a significant improvement in the net cost efficiency of services delivered (0.5%) and a decline of circa $28.00 in cost to serve per customer across the regulatory period
- We have proposed an expanded suite of outputs, GSLs and accountabilities to demonstrate customer value at no extra cost (refer to Chapter 3)
- Our forecast operating expenditure incorporates a rate of efficiency improvement equivalent to 1.7% which is greater than the average rate of an Advanced rated business at the 2018 water price review as stated in the 2023 guidance (see 6.2.2)
- We have utilised rigorous governance review of our capital expenditure proposals involving:
    - Development of a 20 year forward capital plan
    - Detailed review by both our Capital Review Committee and Board Infrastructure and Assets Committee
    - External validation of project scope and estimates particularly of our top 10 projects [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]
    - Monte Carlo risk analysis to inform contingency [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B], and
    - Project evaluation through three "value lenses" – consequential risk cost, value score, project cost [CX008]

5.6 Our commitment to cost efficiency, productivity and improvement

We have developed our expenditure estimates incorporating both cost efficiency and productivity improvements in full view of the longer term impacts of both predicted population growth and consequent employee growth to service our customers across our region.

Our management team has considered the impact of growth through the following questions:

- What impact will residential growth/employee growth have on your business units?
- In those departments what components of work is this likely to have a direct/indirect impact on?
- What is your plan to manage the impacts listed in your answers to the previous question?
- What other information or justification would you like to provide the Steering Committee in relation to residential growth/employee growth related to your department?

In considering our ability to deliver our commitments we have considered both our proposed operating and capital expenditure forecasts in relation to our past performance.

Our annual operating expenditure will average $91 million per annum across the regulatory period which results in a total proposed operating allowance of $455 million, 5.99% greater than the operating expenditure allowance for the 2018-23 determination period. Our capital program is $268 million across the regulatory period which is 2.8% greater than the 2018-23 capital program expenditure.

5.7 Reporting and accountability

We have established a Data Governance Framework [M004] to ensure the integrity and accessibility of information and data used in the preparation of our 2023-28 Price Submission and to provide our executive and Board assurance of its accuracy and completeness. The information gathered and processed, together with research undertaken, to underpin decisions made in the 2023 Price Submission is documented in such a way that enables any party to ascertain the facts used to reach these decisions and to provide the executive and Board with assurance in the accuracy and completeness of information used and the data contained within the submission and communicated to the Essential Services Commission.

The Data Governance Framework will be used to oversee the preparation and publishing of an annual performance report against our 2023-28 outcomes and outputs. It will be prepared using results from our annual customer survey which will specifically cover a number of our outputs. Feedback on performance will also be sought from our Customer Reference Group to inform our report. Our Major Projects Report and our Community Report will be published annually, with customers invited to provide feedback on both.

We will track the metrics that drive our customer outcomes and outputs, through monthly review of our performance. Underperformance will be considered, and feedback will be sought annually from our Customer Reference Group. The focus of reviews will include identification of actions or resources available to improve results, the ongoing relevance of the targets we set, and the impact of external factors on the results.

We have successfully implemented a new customer centric engagement program in 2022 to inform business priorities. We will embed the principles that underline this engagement model in a cyclical, ongoing process to support us in understanding and responding to changing customer preferences. Changes may be made to our outcomes, outputs and targets if customer sentiment drives a significant shift in business priorities.

5.8 An open book approach

In the development of our submission we have developed a robust process to govern and collate documents for evidentiary/supporting documents to further enhance and validate the quality of our submission. These documents are referenced throughout our submission (each with a unique catalogued number) and provided to the ESC and its consultants as part of this submission via a Microsoft 365 OneDrive application.

The purpose of providing this level of information concurrent with our submission is to provide the ESC with full transparency of our supporting information.

The Data Governance Framework adopted for this submission has been embedded in our business processes and will form the foundations of the development of our 2028-33 Price Submission as well as underpinning our performance reporting through the 2023-28 regulatory period.

Supporting documents

- CX008 - Capital Project Prioritisation Process
- CX021D – Jacobs P50 project cost estimate – Connect Traralgon & Morwell Water Networks Stage 1
- CX022D – Jacobs P50 project cost estimate – Traralgon Tyers Interconnect
- CX024D – Jacobs P50 project cost estimate – Saline Waste Outfall Pipeline renewal
- CX025D – Jacobs P50 project cost estimate – Factory road sewer pump station and rising main upgrade
- CX026D – Jacobs P50 project cost estimate – Warragul WWTP Stage 1 upgrade
- CX027A – Jacobs P50 project cost estimate – New Basin at Clarkes storage
- CX028G – Jacobs P50 project cost estimate – Warragul Sewer North East branch augmentation
- CX029G – Jacobs P50 project cost estimate – Drouin West water main extension
- CX030B – Jacobs P50 project cost estimate – SCADA replacement
- M001 - Gippsland Water Corporate Plan 2022-27
- M002 - PS23 Project Plan
- M003 - PS23 RAID log
- M004 - Data Governance Framework
- M005 - Board Strategic Engagement Plan
- M011- Customer Charter
- M012 - Strategic Priorities 2022-27 Final Booklet
- M014 - Bottom up budgeting process
- M015 – Capital investment and approval procedure
- P013 - 2023-2028 Engagement Strategy
- P031 - Urban Water Strategy 2022
- R001 - Risk management framework
- R002 - Risk management policy

6. Operating expenditure

At a glance

- The average cost to serve for each urban customer will decrease each year
- Commitment to enhanced operations to deliver the most efficient budgets with no arbitrary assumptions, backed by true bottom-up budgeting
- Best estimates on expenditure through strong Board/executive governance and internal/external assurance processes

To deliver on the outcomes and commitments contained in this Price Submission, we're proposing to spend an average of $91 million per year in operating expenditure, over the next five years and our approach to forecasting the most prudent and efficient expenditure is set out below.

6.1 Our approach to forecasting operating expenditure

In developing our operating expenditure forecast for the 2023-28 regulatory period, we adopted the ESC's base step trend forecasting approach. To do this, we completed the following sequential steps:

- Adopted the most recent year of actual operating expenditure (2021-22) as our base year
- Allowed for a 1% efficiency commitment in the 2022/23 financial year
- Applied a 2% labour vacancy rate to our labour estimates
- Excluded non-recurring expenditure
- Added normally recurring expenditure not represented in the base year
- Considered the growth factor and determined a different approach
- Applied an efficiency target, and
- Identified any further baseline adjustments to account for necessary material new expenditure to maintain existing services and/or driven by exogenous factors (e.g. new obligations) and one-off events. Baseline adjustments also separately identify the operating expenditure from growth capital expenditure outlined above.

This process resulted in the operating expenditure forecast for the 2023-28 regulatory period totalling $454.87 million. Figure 16 and Table 31 summarises this expenditure by our three main expenditure categories – water, wastewater and non-controllable - and compares this with our actual and forecast operating expenditure for the 2018-23 regulatory period. Our expenditure for each category is broadly consistent with the level of expenditure for each of these categories through the 2018-23 regulatory period. The slight increase in the wastewater expenditure category relates to increased expenditure required to operate the Drouin wastewater treatment plant upgrade project. Accordingly as our region continues to grow our annual cost to serve per water connection continues to decline reflecting the economies of scale arising from new connections growth as shown in Figure 17.

A detailed annualised breakdown of this expenditure by service and by category is provided in the financial template. [P002]

Figure 16 Total prescribed operating expenditure (Jan23$)

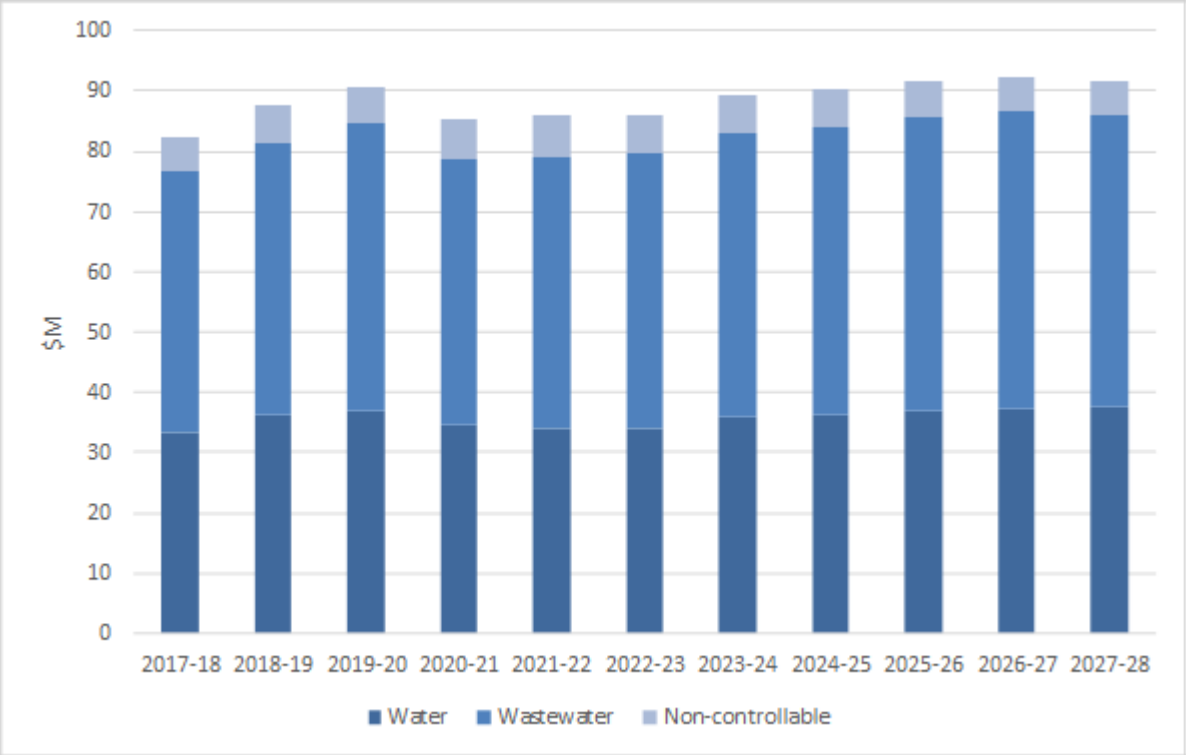
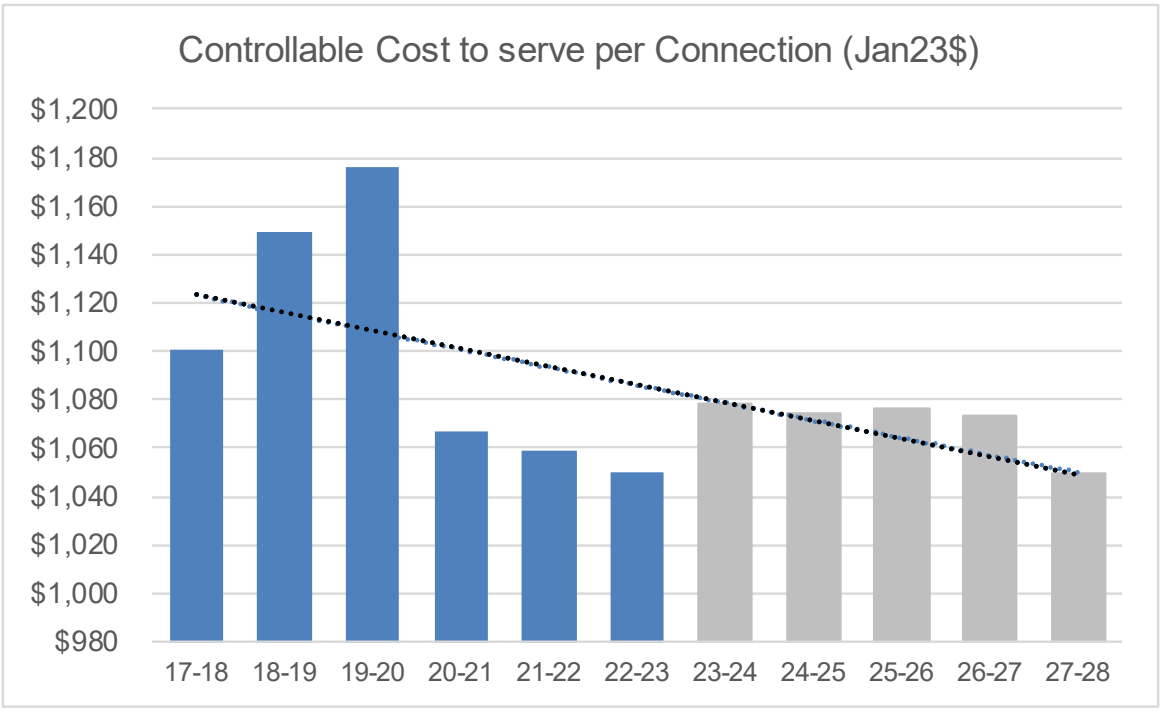


Table 31 Total Prescribed Operating Expenditure (Jan23$)

Jan23$	2017-18 $M	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M
Water	33.45	36.40	36.92	34.74	34.12	34.12	35.87	36.25	36.90	37.37	37.59
Wastewater	43.36	45.08	47.68	43.80	45.05	45.58	47.28	47.82	48.65	49.24	48.41
Non-controllable	5.65	6.17	6.05	6.77	6.81	6.40	6.22	6.05	5.89	5.73	5.58
Total	**82.45**	**87.65**	**90.65**	**85.31**	**85.98**	**86.09**	**89.37**	**90.12**	**91.44**	**92.35**	**91.58**

Figure 17 Controllable cost to serve per connection (Jan23$) [OX001]



Each step of the process is discussed in more detail below.

6.1.1 Establishing the base year

Our baseline controllable operating expenditure was established from actual prescribed operating expenditure for 2021-22. This data reconciles and is entirely consistent with our audited regulatory financial accounts. From this we removed non-controllable, one-off or non-recurring expenditure and added normally occurring expenditure that did not occur in that year.

6.1.1.1 Price Submission consultants costs

During the 2021-22 financial year, in the preparation of the 2023-28 Price Submission we have incurred a non-recurrent cost of $900,000 relating to external consultants and experts assisting us in activities directly associated with customer engagement, expenditure prudency and efficiency reviews and demand and growth forecasts. As this expenditure is non-recurrent we have removed it from the base year and accounted for it as a baseline adjustment in the years that this expenditure will be incurred for this Price Submission.

6.1.1.2 Extreme weather events

During the 2021-22 financial year, we experienced a significant number of climate-related events, ranging from the bushfires to significant back-to-back extreme wet weather events that drove $400,000 of additional emergency response costs into the 2020-21 and 2021-22 cost base above our allowance for these types of events. For the 2023-28 Price Submission, we have allowed an additional $200,000 per annum for climate related expenditure.

6.1.1.3 Training and development, fleet, Travel, accommodation, groceries, refreshments and functions

In person training courses, in house catering, leadership, team culture etc.) over the 2020-21 and 2021-22 financial years was significantly underspent due to coronavirus (COVID-19) pandemic mitigations such as working from home orders, travel restrictions, curfews and limits on the gatherings, expenditure related to staff training and development attendance at conferences. As the community slowly returns to normal work and business practices, we have assumed that expenditure will return to a higher level than that reflected in the 2021-22 actuals but not to pre-COVID levels.

We have made allowance for an additional $350,000 to the base year for training and development, due to a material shift in the way training and development will be delivered in the future. This represents a reduction of $100,000 on previous levels of expenditure.

For fleet, travel, accommodation, groceries, refreshments and functions we have made an allowance for an additional $270,000 to the base year (this represents a reduction of $50,000 on previous levels of expenditure).

6.1.1.4 Adjusted baseline controllable expenditure

This resulted in an adjusted baseline controllable operating expenditure for 2021-22 of $78.7 million and is set out in Table 32.

Table 32 Establishing the base year (Jan23$)

	2021-22 $M
Baseline year - total prescribed operating expenditure in 2021-22:	85.98
Less non-controllable expenditure items incurred in 2021-22:	
Licence fees	0.55
Environment Contribution	6.26
Other non-controllable	0.00
Baseline year - total controllable operating expenditure in 2021-22:	**79.17**
Adjustments for non-recurring expenditure items incurred in 2021-22 and any efficiency savings to be realised from 2021-22:	
Price Submission Consultant Costs	-0.90
Extreme Weather Events	-0.20
Training & Devlopment (Uplift to normal BAU year)	0.35
Covid Affected discretionary spend - Fleet, Travel & Accomodation, Groceries & Refreshemnt & Functions (Uplift to normal BAU year)	0.27
	-0.49
Adjusted baseline controllable operating expenditure (Actual)	78.68

When compared with our approved 2021-22 total controllable operating expenditure of $79.45 million in our 2018-23 determination converted to Jan 23$, we have a **decrease** of $0.77 million or 1.0% for our adjusted baseline controllable operating expenditure. This reflects our commitment to improving our operating efficiency, additional services we offered customers as discussed in Chapter 3 whilst absorbing increased connections growth costs across the 2018-23 regulatory period.

6.2 Setting the baseline

6.2.1 Growth

We engaged expert consultants who completed econometric analysis to seek to understand the relationship between our connections growth and operating expenditure [R009]. Analysis of outcomes during the 2018-23 regulatory period evidenced a negative relationship between growth and operating expenditure, however this finding was heavily qualified by issues with the underlying data.

The analysis was not reflective of our future capex program but it did provide a strong indication that the existing approach of adopting connections as a basis for a growth factor is inappropriate. A more appropriate mechanism of adopting a zero percent growth factor for baseline extrapolation and allowing for the impact of growth related operating expenditure directly through baseline adjustments was then considered. To do so avoids using an inaccurate growth proxy especially when we are forecasting high connections growth greater than we have previously experienced.

The findings were consistent with our business being able to absorb the costs associated with growth by utilising the spare capacity in our network. This capacity has been exhausted for the 2023-28 regulatory period and we are proposing a growth capital program that will drive an uplift in growth related expenditure that includes additional operating expenditure.

As the relationship between connections growth and operating expenditure is uncertain, we have determined that a more accurate basis for forecasting would be a bottom-up assessment of new operating expenditure driven by growth.

As a result, we have forecast growth related operating expenditure and added these as baseline

adjustments, and not included any further growth factor.

Our approach to the operating expenditure growth factor does not provide us with the capacity to absorb relatively immaterial baseline adjustments, however we have sought to ensure that the baseline adjustments we have made are relatively material in nature.

6.2.2 Efficiency

In relation to the efficiency factor for our baseline adjustments our Board and executive team set an ambitious efficiency target of 4% and sought for the business to develop a bottom up budget that supported delivery of this target. As such this commitment has been validated as appropriate and deliverable and results in a net efficiency of 0.5% per annum across the regulatory period.

We have adopted this methodology given the rigour it provides, including:

- Stress testing our forecast using both top down and bottom up assessments
- Undertaking econometric analysis to assess the actual cost impact of growth during the 2018-23 regulatory period as required by the ESC [R009]
- Removing the risk of unrealised economies of scale through the adoption of a growth proxy, through a bottom-up assessment of operational expenditure related to each growth capex project
- Analysis which demonstrates the ability to deliver on our efficiency commitment, and
- Our average cost to serve will continue to decline

The issue with adopting this approach is that it is not aligned to previous approaches to estimating growth impacts on operating expenditure and efficiency targets.

The Guidance Paper establishes an expectation that advanced water businesses need to offer an operational expenditure productivity commitment commensurate with the average offered in the 2018 price review of 1.9%.

It is important to note that these productivity commitments were made at a time when all businesses used connections growth as a reasonable proxy for operational expenditure growth. Many businesses within the 2018-23 Price Submission proposed an efficiency commitment that offset the impact of connections growth to arrive at a net efficiency (efficiency factor less growth factor).

The following water businesses were rated advanced in the 2018-23 regulatory period as outlined in Table 33.

Table 33 Water business efficiency and growth factors 2018-23

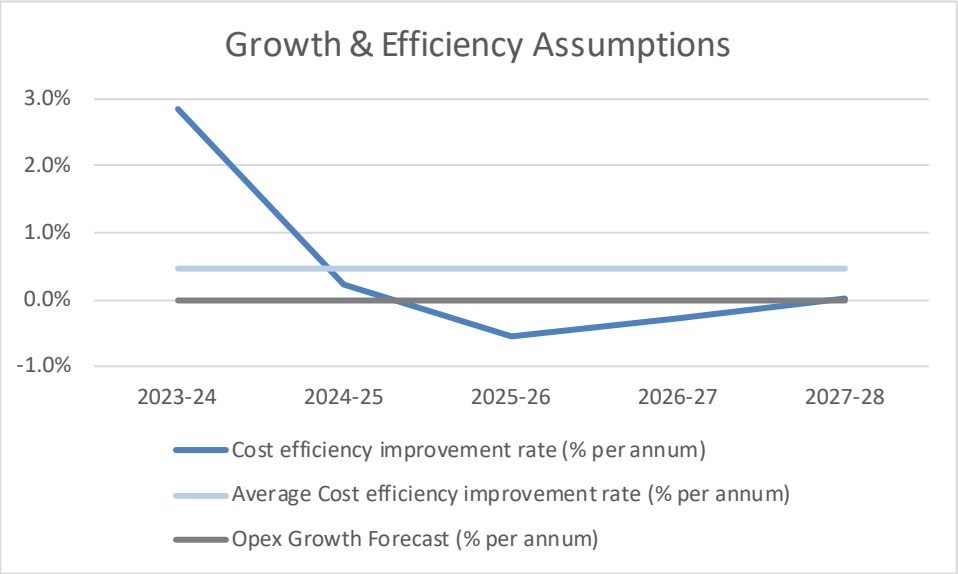
Water Corp	PREMO Rating	Growth	Efficiency	Net Efficiency
South East Water	Advanced	2.30%	2.30%	0.00%
Yarra Valley Water	Advanced	1.70%	2.50%	0.80%
Barwon Water	Advanced	1.60%	2.30%	0.70%
Central Highlands Water	Advanced	1.60%	1.60%	0.00%
City West Water	Advanced	2.60%	2.00%	-0.60%
Coliban Water	Advanced	1.70%	1.50%	-0.20%
Grampians Wimmera Mallee Water	Advanced	0.50%	1.50%	1.00%
North East Water	Advanced	1.20%	1.20%	0.00%
Southern Rural Water	Advanced	0.00%	3.00%	3.00%

Of the other businesses that achieved Advanced, South East Water, Central Highlands Water, North Eastern Water had a net efficiency of 0%, and City West Water and Coliban Water proposed efficiency rates that were less than growth.

As we are proposing a 0% growth factor and a 0.5% net efficiency factor, there is a positive net efficiency outcome as shown in Figure 18.

This efficiency target results in $0.4 million of savings for customers per year, on average, which is a $4.98 reduction on the average residential customer bill per annum.

Figure 18 Growth and efficiency assumptions



6.3 Baseline adjustments

6.3.1 Cost savings

Across the 2018-23 regulatory period we have worked hard to drive efficiencies across the business in spite of unprecedented connections growth and changing operating conditions. These were realised through:

- Tightened procurement processes focused on value for money
- The use of specialist contractors
- Process re-engineering of our large service contracts, such as our Mechanical and Electrical Services Contract and our Land Services Contract
- Making permanent changes to our resourcing (sourcing expert internal labour and reducing our reliance on consultants)
- Developing specific efficiency programs
- Automation of a range of manually intensive administrative processes
- Sharing resources with neighbouring water businesses
- Economies of scale from new connections growth
- External review of large operational expenditure areas, and
- Approached retail electricity providers before our current contracts expired resulting in us contracting electricity at prices below forecast for three years to June 2024.

This saved circa $10 million across 2018-23 and these savings are embedded in our operating expenditure forecast for 2023-28.

In addition, during the 2023-28 regulatory period we are committing to finding further efficiencies and savings of $12.9 million through the following measures.

6.3.1.1 SRW recreational facility maintenance and headworks charges

We are one of a number of Bulk Entitlement (BE) holders with our share being 17% of entitlements in the Latrobe and Thomson/Macalister systems).

The other bulk entitlement holders in this system are rural irrigators, the Victorian environmental water holder and three brown coal power generators.

There are two fees levied on Gippsland Water as a bulk entitlement holder of these systems, recreational fees and headwork fees.

Recreational fees recover costs incurred by Southern Rural Water (SRW), which provides recreational infrastructure and facilities at Blue Rock Lake, Cowwarr Weir and Lake Glenmaggie.

Headworks fees recover costs incurred by SRW in maintaining the infrastructure for the Latrobe and Thomson/Macalister systems.

SRW currently charges Gippsland Water 96.01% of the costs of managing recreational facilities at Blue Rock Reservoir, Cowwarr Weir and Lake Glenmaggie, which amounts to $583K per annum.

The remaining 3.99% ($24K per annum) is levied on Southern Rural Water's irrigation customers [OX011]. Power generators and the Victorian Environmental Water Holder don't contribute anything to these costs, despite holding large entitlements in the same systems.

SRW also levies headworks charges based on the size of the BE held by each entitlement holder, with our contribution currently $271K per annum for the costs of maintaining infrastructure in the Latrobe and Thomson/Macalister systems.

We raised formal concerns with SRW about the calculation of both recreational and headworks charges three years ago, as we wanted to understand the basis for them and provide plenty of time for SRW to review and engage with other stakeholders/customers.

We also expressed concern that the overall charges were neither prudent nor efficient; that their allocation of costs was not accurate; and that the overhead costs allocated were not justifiable. The quantum of the charge significantly exceeds our own costs for managing recreational facilities at Moondarra, which is approximately $42,000 per annum.

There is no government policy or written position that provides an exemption to power generators from recreational facility maintenance charges associated with the water entitlements they hold.

In April this year, we received guidance from our customer base via our customer summit (discussed in Chapter 2). The process involved SRW directly to enable them to hear first-hand from our customers.

The panel's recommendations included the following:

1. We believe that the cost of maintaining these facilities should be reviewed by Southern Rural Water to ensure they are efficient and can be justified
2. We believe that the cost of maintaining these facilities should be shared between all of the bulk entitlement holders including Gippsland Water, irrigators and power generators, and
3. We believe that Gippsland Water customers should pay between 17-30% of the cost of maintaining Southern Rural Water's recreational facilities at Blue Rock Reservoir, Lake Glenmaggie and Cowwarr Weir.

Following the summit, SRW undertook to look at both the overhead allocation between what is being charged to recreation versus headworks charges. They also confirmed that they would engage with the power generators regarding paying towards the recreational charges.

We understand the power generators advised they are not supportive of a change to the method for calculating recreational charges, to a model that involves the power companies in part funding these activities.

On 12 September 2022, we received formal advice from SRW that they would not be changing the apportionment of recreational costs within their charging methodology [OX012]. This means that our customers will still be paying 96% of the recreational facility maintenance costs.

This position is not consistent with the recommendations made by our customer summit panel, which was that they believed a fair apportionment to us was between 17% - 30% of the total recreational facility maintenance and headworks charges.

SRW did advise that they had decided to reduce the overall cost of both recreation and headworks charges by 2.32% ($57,000) in year one of the pricing period, which we have reflected in our Base Step Trend forecast, however it is not clear to us how or why this has been calculated.

Consistent with the summit panel's recommendation, we will be making a formal submission to the ESC to express our concern with SRW's allocation of recreational charges as part of the 2023-28 determination process asking them to:

- Review the appropriateness of engagement completed by SRW with Gippsland Water and the transparency of information shared;
- Review the appropriateness of engagement completed by SRW with the power generators, and whether there was any genuine attempt to openly (and without bias) discuss the alternative options raised by Gippsland Water;
- Review the appropriateness of the allocation of costs between headworks and recreational charges to ensure that there are no cross subsidies;
- Review the cost allocation approach to determine whether there is a reasonable basis for recovering the allocation of shared costs from recreational facilities charges, that supports your criteria for prudency and efficiency;
- Review whether SRW has appropriately identified the beneficiaries from the provision of recreational facilities management at Blue Rock Reservoir, Cowwarr Weir and Lake Glenmaggie; and
- Seek for SRW to establish a pricing framework that more appropriately reflects the pricing principles contained in the WIRO, and one that reflects the clear feedback provided by Gippsland Water.

We believe that there was sufficient time for a fairer solution to have been achieved, including a phased introduction of proposed recreational changes to power generators, which would result in significant savings for our customers.

We acknowledge that the ESC sets maximum pricing and should its review of the SRW recreational charges levied on us result in a reduction in charges, we undertake to pass any savings on in full to our water related tariff customer base.

6.3.1.2 Reuse of sludge (bio-solids)

Through our unregulated business (Gippsland Regional Organics) we have a process that enables us to reuse 100% of the bio-solids generated through our wastewater treatment processes. This produces savings for our customers of approximately $110 per tonne of bio-solids, totalling $2.2 million of avoided opex per annum.

6.3.1.3 Energy consumption

Both the environment and climate resilience is important to our customers and we have committed to investing responsibly in this moving forward. We also have obligations around renewable energy use and carbon emissions that we need to meet by 2025 and 2030, respectively.

As part of an overarching Energy Management Strategy [P014], we are committed to operating as responsibly as possible when it comes to our energy use and impact on the environment, as well as commercially in finding innovative approaches to reducing our carbon footprint and using renewable sources of energy, and generating savings for our customers where we can.

We have committed to our customers that 30% of renewable energy will be generated by our "behind-the-meter" infrastructure by the end of this regulatory period. We estimate that self-generated electricity will reduce our energy consumption by 2.5GWh per year and save our customers an average of $297,000 per annum so we have reduced our operating expenditure forecast by that amount.

6.3.2 Additional recurring costs

For the 2023-28 regulatory period we have identified the following adjustments that need to be made to our base step trend estimates. Table 34 summarises the total quantum of cost for each the business cases that support these areas of expenditure. Table 35 summarises the labour resources allocated to each of these areas with each area discussed.

Table 34 Baseline adjustments (Jan23$)

Column1	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M
Chemicals	0.42	0.42	0.42	0.42	0.42
Community Involvement	0.37	0.34	0.37	0.34	0.37
Electricity Prices	0.00	0.00	0.49	0.52	0.34
Growth	0.87	0.89	1.01	1.02	1.11
Business continuity	3.74	4.30	4.74	4.71	4.86
IT Investment	1.07	1.47	1.52	1.55	1.59
Regulatory Costs	0.16	0.29	0.23	1.07	0.34
Recreation Charges	-0.06	-0.06	-0.06	-0.06	-0.06
	6.56	**7.64**	**8.72**	**9.57**	**8.97**

Table 35 summarises labour resources allocated to each of these areas.

Business Case	Role	Summary justification	Total five year cost (Jan23$) $M
Community Involvement	Education resource From 2023-24	To increase our visibility and educate our community on water conservation and environmental initiatives we are investing in an additional education resource in our Communications and Engagement team. Strong theme in every phase of community engagement requesting greater emphasis on education and health promotion.	0.35
	Traditional Owner resource From 2023-24	To deliver on Letter of Expectations requirements, support to business in delivery of cultural and ecological planning and support to assets, commercial business and operations programs and projects for Traditional Owners. Support for cultural projects from both broad community engagement and for designated Traditional Owner resources from stakeholder specific engagement including GLaWAC and Brayakaulung Advisory Committee.	0.32
Growth	Multi Skilled Operators - Field Services x 2 1 x From 2025-26 1 x From 2027-28	To service new connections growth and service delivery over the five years of the plan, increase skills capability, improve service standards and deliver customer commitments/promise. In addition support for increased weather events and support in field to developers and connection to existing infrastructure.	0.36
	Land Dev officer/Engineer (design consultant) From 2023-24	Addressing feedback from developers from NCC engagement who requested we ensure we can support the introduction of the process through resourcing. Assist Land Development/Operations teams with new connections growth including developer works.	0.65
Business continuity	Land development Officer From 2024-25	Addressing feedback from developers from NCC engagement who requested we ensure we can support the introduction of the process through resourcing.	0.21
	3 Additional graduate roles From 2023-24	Allows the business to manage its retention risk around having a steady pipeline of graduate talent in the business. Graduate roles are established in domains such as engineering and IT where we know we have attraction and retention challenges when going to market. Graduate intakes will provide us greater resilience in a competitive labour market, noting engineering and IT have been skilled employment areas of challenge for the past five years. Strong ties to our employment pathways program and link to community feedback around being a good local employer.	1.23
	Senior Legal Counsel - Contracts and Commercial From 2023-24	The complexity of our business and increased emphasis on ensuring proper commercial arrangements are in place has led to an identified skill shortfall internally around legal and contract issues in relation to procurement and commercial contracts with major customers and developers. Also, opportunities for improvement have been identified to increase coordination in the way requests for legal advice are triaged to external providers, or responded to internally. This additional role will mitigate the aforementioned exposures and increase the efficiency and effectiveness of obtaining legal advice. Very strong link to the Customer Summit mandate that	0.81

Business Case	Role	Summary justification	Total five year cost (Jan23$) $M
		they do not except the status quo in terms of how some large customers pay for the assets and the running costs that serve them and as a direct result we will endeavour to the best of our ability to renegotiate any expiring major customer contracts to reflect the cost of service and we're also updating our miscellaneous fees and charges to ensure the same.	
	Dispatch Officer From 2023-24	Assist Operations team with new connections growth including developer works. Increased skills capability to meet customer service standards and customer commitments/promise (SMS projects).	0.22
	Water Resources Lead From 2023-24	Implement our water leakage and loss program, community liaison during water restrictions and engagement on urban water strategy and system resilience. This role will support the implementation of government initiatives such Integrated Water Management (IWM). Strong link to customer feedback around long term water resource planning being a priority and greater emphasis on water conservation, and engagement on water resource planning in to the future.	0.65
	Safety Manager From 2023-24	Safety Manager in safety team structure is required to provide appropriate levels of strategic and operational oversight along with a safety team that is resourced to provide advisory and assurance activities in a complex operating environment. Safety is a strategic area of importance and ongoing focus and the absence of senior resources in this area has made meeting our strategic objectives and obligations difficult. This resource investment is essential to ensuring we meet our safety obligations in to the future.	0.82
	Process Optimisation WTQC From 2023-24	Employee succession planning, process optimisation and efficiency, public health and water quality, compliance (SDWA, EPA) meeting customer service standards.	0.59
	Emergency management resource (0.6 FTE) From 2023-24	Our promises to our customers is to support our community in times of emergency. Climate change exacerbates this requirement, separating this role out from other responsibilities ensures increased focus and enables us to deliver on this customer promise. We do not currently have a dedicated emergency management resource and this has created a fragile operating environment.	0.39
	Wastewater Technologist From 2024-25	Process operations and compliance (Reuse, EPA licence, Workcover) Emergency response planning including predictions of how our systems will react to heavy rain, quality and quantity, aligned with major systems.	0.52

Business Case	Role	Summary justification	Total five year cost (Jan23$) $M
	Environment Officer From 2024-25	EPA Act compliance, implement energy management and land management strategies.	0.25
	Trade Waste Officer From 2025-26	Non-residential connections growth and trade waste compliance/investigations (EPA GED), employee succession planning. Additional support for backflow prevention officer with infield audit and verification presence (expand the backflow prevention scope to cover medium risk businesses). This role will assist in eventually closing the backflow prevention SDWA audit risk.	0.27
	Strategic planning system modeller From 2025-26	Development of strategies and plans with respect to network resilience for climate change, carbon, energy and chemical optimisation and increased environmental and health regulatory requirements Asset encroachment in high development areas etc. as planning obstacles associated with land zoning and use requires greater consultation and stakeholder engagements.	0.23
	Energy Market Specialist From 2025-26	Energy market continues to move to decision making required in the market at very small time intervals – ongoing need for energy optimisation at a plant level to ensure that we continue to reduce our cost to serve.	0.40
	Alternative Water Use Officer From 2027-28	Ongoing regulatory reform around water – things such as water networks to ensure supply (forecasting the need for new water supplies) / South central water reforms approach expanding across Victoria Water recycling and reuse, also stormwater and grey water management with stakeholders (council) and others as a holistic approach.	0.03
	IT Support Officer (0.5 FTE) From 2025-26	Growth of business and overall FTE within the organisation leads to increased demand on IT Service Delivery staff and helpdesk services.	0.13
	Customer Care Officer (1.5 FTE) From 2023-24	Support those who struggle to pay their bills. Stakeholder engagement with Consumer Action Law Centre through our Price Submission process informed us that extra resourcing in the support we provide customers in financial hardship is important in the context of the current economic climate. This advice has already proven to be accurate as we are experiencing increasing demand on our services for hardship support.	0.61
	Customer Contact Officer (0.6 EFT)	Support those who struggle to pay their bills and help me manage my water bill. Links to promise: be easy to deal with - resolve my account issues quickly. Growth in the next PS is expected to be	0.13

Business Case	Role	Summary justification	Total five year cost (Jan23$) $M
	From 2025-26	1.65% per annum. Customer contact and care functions and task will be driven by customer numbers. An increase in customers will result in an increase in task volumes. At present we have 12.2 EFT responding to customer care and customer contact for approximately 100K accounts.	
	Customer Contact Officer (0.4 EFT) From 2027-28	Support those who struggle to pay their bills and help me manage my water bill. Links to promise: be easy to deal with - resolve my account issues quickly. Growth in the next PS is expected to be 1.65% per annum. Customer contact and care functions and task will be driven by customer numbers. An increase in customers will result in an increase in task volumes. At present we have 12.2 EFT responding to customer care and customer contact for approximately 100K accounts.	0.03
	HR Advisor (0.8 EFT) From 2025-26	Employee growth is expected to be 30 FTE leading up to and over the life of the Price Submission. This growth will translate to an increased workload on the HR team across all elements of the HR lifecycle. Increased demands on HR to provide tailored and bespoke recruitment strategies in a challenging labour market will continue. The role will also assist in responding to the increased regulatory pressure in relation to gender equality action and reporting.	0.26
	Business Development Officer From 2023-24	This role will provide support to the executive and Board in responding to business development opportunities. We currently have a significant workload spread throughout the organisation and this places key resources under stress, as well as jeopardises our ability to respond to new regional business opportunities, This has long been identified as a strategic resource we require. Forward looking, maximizing opportunities for new revenue streams to help maintain affordable and fair prices and return value to customers.	0.65
IT Investment	Business Intelligence Lead From 2023-24	This role is pivotal in leading the business on a data driven journey by driving continuous improvement through the implementation and management of best practice data governance, master data management and data lifecycle management strategies for the business. They will also embed a data driven decision making culture through the delivery of strategic change management, easy to use functionality and continuous improvements of the collection and use of data through the business. They will provide capability in analytical methodologies and sound data management to deliver on these responsibilities. Instrumental in delivering on a data decision driven culture throughout the organisation and enabling us to further mature as a digital utility while driving down our cost to serve.	0.81

Business Case	Role	Summary justification	Total five year cost (Jan23$) $M
	SCADA Data & Business Analyst From 2024-25	This role will also support the investigation, leverage and delivery of data driven emerging technology and is required to deliver on a number of key strategies to support AI/ML and Operational Data Analytics. Responsible for extracting, transforming, analysing and modelling data in a way that informs operational technology decision-making across the business. This role will work closely with workgroups that utilise operational technology process data within the business to understand their data and analysis needs, and deliver suitable solutions. At present, all interpretation of data is done manually, which is time-consuming and error-prone. This role is pivotal in expanding the business intelligence focus in to the Operational Technology functions of the business while supporting ongoing development and adoption of AI/ML technologies.	0.52
	Technical Business Analyst From 2023-24	Within the current work plan we have identified six high-level streams of work that require differing technical expertise; those being strategic initiatives, support and configuration, infrastructure and security, innovation and optimisation, business intelligence and service delivery. With the landing of our Digital Enablement Plan [OX008] and Enterprise Architecture Roadmap [OX013] there are 14 deliverables requiring software / application based technical resources over the coming pricing period, with five to be delivered this financial year alone.	0.21
Regulatory Cost	Regulatory and Strategy Lead From 2023-24	Currently we have no regulatory specialist, meaning that we have considerable reliance on external consultants to build our capacity. This role will enable the development of an ongoing understanding of ESC expectation, planned approach to the submission. Ongoing performance monitoring and customer engagement. Involved in things that impact tariff, including efficiency and tariff reform. Reduce reliance on external resources.	0.81
	Communications and Engagement Advisor - 0.8 FTE From 2026-27	There is an increased appetite from our organisations and customer base for greater engagement. To continue that work and build upon this experience an investment will be required in the second last year of Price Submission to bolster capacity in the team to deliver on our communications and engagement activities relating to PS 29.	0.17
		Total investment	**12.63**

Each of these business cases is summarised below, expenditures include labour resources and other operational expenditure required to deliver on these areas.

6.3.2.1 Chemicals [OX002]

As discussed in chapter 4, our chemical contract pricing mechanism is calculated for each chemical based on raw material cost, freight cost and manufacturing costs. The frequencies of price increases for each chemical are quarterly, six monthly or annually based on the raw material cost variability of that chemical and a contract price mechanism review formula. A number of chemicals are only adjusted by CPI due to the stable nature of the base products.

Chemical costs leading into the 2023-28 price period have increased by $696,000 per annum [R010]. Given uncertainty about future chemical prices, we will monitor the market to see if prices stabilise or continue to increase in the medium term.

Estimates based on forecasts is for chemical prices to continue to increase by an additional $100,000-$150,000 between the contract review points in October 2022, January 2023 and April 2023. This will bring the total chemicals cost increase up to $846,000 by April 2023. Beyond that period, based on forecasts currently within the market-place we expect cost increases to slowly normalise.

Given the uncertainty of this market we have made a decision not to pass the full estimated up to $846,000 per annum increase in chemical costs onto our customers.

We have included $420,000 of the current $696,000 increase in cost into the base step trend and will absorb $276,000 of the currently certain increase, as well as any additional increase on behalf of our customers throughout the period by seeking further efficiencies.

We will attempt to mitigate this with a review of chemicals use within our business, and new procurement strategies.

6.3.2.2 Community involvement [OX003]

Throughout our engagement journey our customers told us to be engaged and visible in our community and support them in their times of need.

This was initially recognised in stage two of our engagement, where customers said they value our involvement in the community and cited our public drinking water fountains, the water trailer availability at community events, attendance at community events and support for community groups as important contributions.

Customers who attended the stage three workshops then specified that emergency support and being involved in the community, including providing more water fountains and education activities, was a priority.

This was further explored in our Customer Reference Group June 2022 deliberation session, where investing in community involvement was the highest voted output under the ‘be involved in the community’ outcome.

For this reason, we have committed to investing a minimum of $100,000 per year in programs that support the wellbeing of our communities including community education campaigns, drinking fountains, bushfire and flood emergency support and general community sponsorship. We will also invest on average $26,500 per year on boosting our existing school education programs and expanding on our website content translation.

Our Aboriginal community is keen to work in partnership with us to gain increased access to land and water we manage for cultural use, and to support younger Aboriginal people with meaningful career opportunities. For this reason, we are investing up to $230,000 per year to set up an Aboriginal employment pathways and retention program, including a dedicated resource for Traditional Owner needs and projects. This initiative also addresses our obligations outlined in the Letter of Expectations – Water for Aboriginal Cultural, Spiritual and Economic Values (LOE 3) from

the Minister issued under the Water Act 1989.

This level of expenditure is directly related to our customer outcome – Be involved in the community - as discussed in chapter 2.

6.3.2.3 Electricity prices [OX004]

We have two retail electricity contracts, one for small market the other for large market (>40MWh p.a.).

We went to market for these contracts in partnership with South Gippsland Water and East Gippsland Water to secure a better price outcome for all three organisations. This process was facilitated by Key Energy who have been our long standing energy consultant and enabled us to negotiate a better price than the wider water industry currently. This contract is due to expire in 2024-25.

With energy prices expected to increase, as discussed in chapter 4, we sought a forecast from Key Energy in early 2022 to inform our operating expenditure forecast for 2023-28 [R011]. Key Energy provided us with forecast electricity market prices and later, the Intelligent Water Network, (IWN) through Schneider Electric, arranged for and provided similar forecasting for the entire Victorian water industry [R012].

We subsequently sought Key Energy's views on the IWN forecasts. In mid-2022, Key Energy completed its independent assessment of the IWN forecast and confirmed it was an appropriate forecast to adopt post our current contract expiry [R013].

This results in an additional $1.35 million in electricity costs embedded in our base step trend for 2025-26, 2026-27 and 2027-28.

Since we adopted this forecast, the electricity market continues to be extremely volatile and our most recent advice from Key Energy indicates that a further $5.5/MWh increase for those year [R014]. If adopted, this would result in an additional $300,000 in electricity costs across the last three years of the regulatory period. Given the uncertainty of this market and in the interests of customers, we have assumed this risk and not passed it on to customers, saving customers $100,000 per annum for years three, four and five of the regulatory period. This equates to $0.72 per customer per annum.

Mitigations against further increases in electricity price post our current electricity contract include:

- Regularly review future procurement methods – State Purchasing Contract versus alternatives to be explored
- Investment into renewables to reduce reliance on purchasing energy from the grid reduces exposure to market (note $10M CAPEX invested over 2023-28 regulatory period [CX023]), and
- Further capability built within the business associated with the energy market and retail electricity management through a new role in this Price Submission period for an Energy Market Specialist to commence 2025/26. This will allow for close monitoring of our electricity demand and exports, demand response, and our net zero carbon commitments.

6.3.2.4 Growth requirements [0X005]

During the current regulatory period we have seen unprecedented new connections growth to our networks and are forecasting 18% above VIF2021 connections growth for the next regulatory period.

To ensure we can continue to deliver our service commitments across an increased number of customers we have made allowance for two additional field-based employees increasing our

labour cost by $360,000 over the last three years of the regulatory period.

To support increased developer activity within our region, we are investing an additional engineering designer into our land development team to facilitate the early planning processes for new developments. This is an additional cost of $652,000 over the regulatory period. An additional $150,000 per annum has been added to the baseline for the additional connections costs, including, traffic management, connections, administration and tappings.

To service our growing western region, a new Wastewater Treatment Plant was constructed in Drouin during the last regulatory period. The plant was commissioned in 2021-22 and will be fully operational during 2022-23. The plant will cost $630,000 per annum to operate once fully operational so we have added these costs to our baseline.

This level of expenditure is directly related to our customer outcome – plan for the future - as discussed in Chapter 2.

6.3.2.5 Business continuity [OX006]

Water security was an important theme from customers during our engagement program and forms part of our commitment to them through our outcomes and outputs framework.

Critical to this was securing additional water to support the future water needs in Warragul and Drouin. We are in the final stages of securing a 3.3GL annual bulk entitlement to the Greater Yarra System -Thomson River pool.

During our engagement process our customers told us they valued the support we provided to vulnerable customers and those experiencing hardship. We are investing two additional resources into our Customer Care team, employing and upskilling more staff to reach out early and provide tailored support for those doing it tough. Customers also told us that they wanted to be kept informed of works we are undertaking and that if these jobs were going to take longer than planned that we update them on progress. To achieve this, an increased resource in our works dispatch team is also required to ensure efficient planning and scheduling of operational works. This helps to minimise service disruptions to our customers. The total cost of these three additional resource investments across the regulatory period is $1 million.

Like all water businesses we are faced with changing regulatory and legislative requirements, government policy objectives, changing customer expectations and labour market conditions. To ensure we continue to service all of these objectives and expectations we have identified an additional 18 employees covering safety, water resources, emergency management, energy market, process optimisation, graduate opportunities and skills retention. These 18 additional resources have increased our labour costs by $9.14 million across the regulatory period. A further $5.31 million of costs across the regulatory period has been identified as required expenditure to enable additional safe drinking water regulatory activities, Victorian Public Sector Commission (VPSC) classification review, our digital enhancement project for customer connectivity, research and development obligations, indigenous acknowledgement programs and associated overheads for the additional staff employed (software licences, security access passes, PPE etc.).

This level of expenditure is directly related to our customer outcome – Plan for the future and Do your job well as discussed in Chapter 2.

6.3.2.6 Information Technology investment [OX007]

During the 2018-23 regulatory period a Digital Enablement Plan [OX008] and an Enterprise Architecture strategy [OX013] were developed to serve as a technology roadmap for our business. This roadmap will deliver efficiencies, address technology pain points and help us further mature as a digital utility. This will see a further investment of $5.6 million across this regulatory period.

This investment will ensure we continue to deliver services to customers, protect ourselves against cybersecurity threats, meet our regulatory obligations around information management and information technology security, and deliver new products and services valued by customers; we want to move towards a modern, flexible, and resilient future state architecture which can respond to changes in the external environment whilst keeping costs as low as possible.

A Customer Satisfaction Survey was conducted in 2020 and subsequent customer engagement workshops were conducted in 2021 [E002], highlighting the following:

- Customers trust us to get the basics right but want to be engaged in decisions that affect them
- Customers expect us to focus on the future and take an active role in the environment sustainability and stewardship
- Customers appreciate the role we play in the community and want this to continue
- We are pleased with the current level of support for people experiencing financial difficulties
- Flexible payment options and improved education are initiatives that would further support those in financial difficulty
- Support our community in times of emergency
- Educate the community on ways to conserve water and the environmental impacts of their water use
- An app would be very helpful to access services, to see usage and pay bills
- Strong support for an app to enter the meter read to calculate the bill in real time
- Keep me informed in ways that suit me
- Protect the environment and water resources for future generations
- We care about the environment, but we are more concerned about bill affordability than exceeding sustainability targets
- Protect waterways and land
- Involve and inform us in the things that impact us
- Water quality, safety and affordability are the priority over taste

Several ICT themes emerged from the Customer Engagement Workshops:

“Getting the basics right”:

- Keeping systems operational and safe without over expenditure
- Comply with government mandated requirements, and
- Keep Customer data safe and secure

Focus on the future means that we:

- Must plan for growth and the evolving expectations of our customers and government
- Keep systems supported so that the basics can be right, and
- Development of an app to improve customer interaction with us and to inform customers using means that suit them

Water quality, safety and affordability is also relevant as Information Technology is extensively embedded in many of our processes, including the remote control and monitoring of plant that control the provision of water and wastewater services to our customers. Information Technology needs to be embraced in such a way that our internal systems and processes are efficient, to keep our services affordable, and effective, and to ensure that we “get the basics right”.

In addition three additional technical resources are required to support digital efficiencies through enhanced service offerings and introduction of new emerging technology such as Artificial Intelligence and Machine Learning (AI/ML). $1.59 million has been included in our operating expenditure forecast.

This level of expenditure is directly related to our customer outcome – Be easy to deal with - as discussed in Chapter 2.

6.3.2.7 Regulatory costs [OX009]

We have allowed for two additional resources and specialist consultants to support our regulatory functions and manage our regulatory governance and engagement through the 2023-28 regulatory period totalling $2.1 million across the period as shown in Table 36.

Table 36 regulatory costs

Resource	Cost Jan23$	Years applicable
Regulatory Lead	$160,000 p.a.	2023-24 to 2027-28
Communications and Engagement advisor (0.8FTE)	$90,000 p.a.	2026-27 and 2027-28
Consulting cost – specialist Price Submission engagement	$363,000	2024-25 to 2026-27
Consulting cost – capital estimating and risk services, demand and growth forecast	$325,000	2025-26 to 2026-27
Consulting cost – strategic regulatory advice	$335,000	2026-27 to 2027-28
Consulting cost – Urban Water Strategy	$80,000	2026-27

These estimates have been based on the actual expenditure incurred during this submission [OX010]. This includes the development of significant intellectual property and processes for the ongoing management of our Price Submission obligations moving forward. The intent of the internal resources is to ensure expenditure on consulting is for specialist related services and that internal regulatory capability continues to be developed and embedded within the business.

This level of expenditure is directly related to our customer outcome – Plan for the future - as discussed in Chapter 2.

6.4 Non-controllable operating costs

For the 2023-28 regulatory period we have forecast non-controllable operating costs as outlined in Table 37 below. These costs relate to government fees or regulatory levies charged to all water corporations. These charges are determined by their governing bodies and are a mandatory expense.

Table 37 Non-controllable operating costs

Jan 23$	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Non-Controllable Operating Costs	$M	$M	$M	$M	$M	$M
External bulk water charges (excl. temporary purchases)	-	-	-	-	-	-
External temporary water purchases	-	-	-	-	-	-
Licence Fees						
Essential Services Commission	0.11	0.11	0.11	0.11	0.11	0.11
Department of Human Services	0.04	0.04	0.04	0.04	0.04	0.04
Environment Protection Authority	0.29	0.29	0.29	0.29	0.29	0.29
Environmental Contribution	5.95	5.78	5.61	5.45	5.29	5.13
Other non-controllable	-	-	-	-	-	-
Total Non-Controllable Operating Costs	**6.40**	**6.22**	**6.05**	**5.89**	**5.73**	**5.58**

The current tranche of the environmental contribution is due to conclude in 2023-24, after which the government will decide any further arrangements. For this submission, we have assumed that the contribution continues at the current level paid for financial year 2022-23.

Licence fees paid to the Essential Service Commission, Department of Human Services and the Environment Protection Agency have been assumed to continue at the current level paid for the 2021-22 financial year.

6.5 Allocation of corporate costs

In developing the ESC financial model all corporate costs less $300,000 of corporate costs

allocated to our unregulated businesses have been allocated using a direct cost method. This has resulted in 41% being allocated to water and 59% to wastewater.

The $300,000 of corporate costs allocated to our unregulated business is determined utilising an “assessment of effort” methodology.

6.6 Independent assurance of our operating forecast

We have sort to use multiple forecasting techniques and review methods to ensure that our forecasts are our best estimate, and to have a high level of confidence in our ability to deliver on these. Our approaches align with good regulatory practice as demonstrated nationally (for example, the use of top down and bottom up forecasting techniques under the national energy framework).

URA has also reviewed the inputs and outputs of this process to verify is reasonably based, complete and accurate in all material respects. The outcome of that review is provided as an attachment to this Price Submission [Appendix 6].

Supporting documents

- CX023 - GW PS23 Asset Program Synopsis Energy
- E002 - Customer Insights Report – Findings from Thematic Customer Engagement Workshops Dec 2021
- OX001 - Controllable cost to serve data
- OX002 - GW PS23 OPEX Business Case Chemicals
- OX003 - GW PS23 OPEX Business Case Community Involvement
- OX004 - GW PS23 OPEX Business Case Electricity Prices
- OX005 - GW PS23 OPEX Business Case Growth
- OX006 - GW PS23 OPEX Business Case Template Business Continuity
- OX007 - GW PS23 OPEX Business Case IT Investment
- OX008 - Digital Enablement Plan
- OX009 - GW PS23 OPEX Business Case Regulatory Costs
- OX010 - Regulatory costs 2018-2023
- OX011 - Response from Southern Rural Water regarding Gippsland Water & SRW Recreational Facilities
- OX012 - SRW letter to Gippsland Water letter - 12 September 2022 (Final position)
- OX013 - Enterprise Architecture strategy
- P014 - Energy Management Strategy 2022-28
- R009 - URA growth and efficiency advice
- R010 - Recent chemical cost increase data
- R011 - Key Energy report
- R012 - Schneider Electric forecast
- R013 - Key Energy subsequent report
- R014 - Most recent advice from Key Energy showing further $5.5/MWh

7. Capital expenditure

At a glance

- Aligned with ISO55000:2018 standards
- Top 10 projects comprised 34.5% of capital investment plan and programs represent 44.7%
- Uncertain projects eliminated, and contingencies optimised
- Best estimates on capital expenditure, through strong governance and internal/external assurance processes
- Our capital program is $268 million, which is 2.8% greater than the forecast 2018-23 capital program expenditure

We're proposing to spend $268 million in gross capital expenditure over the next five years, excluding gifted assets, to deliver on the outcomes and commitments contained in our proposal. This is 2.8% greater than the actual and forecast capital expenditure incurred during the 2018-23 regulatory period.

This $268 million capital investment represents assumptions about the overall level of expenditure that we consider sufficient to augment, upgrade and renew assets to maintain or improve services and to ensure compliance with legal and regulatory requirements, over this regulatory period.

Risks of project delays, cost overruns and material scope changes are managed through established capital governance processes, project delivery methodologies, procurement arrangements and contractual agreements discussed in this chapter.

This chapter discusses the process we undertook to put together the most prudent and efficient capital expenditure forecast to deliver the outcomes our customers have told us they want and value. It also sets out our key investments and the governance processes we have in place to ensure the forecast investments are delivered as efficiently as possible.

7.1 Our approach to capital planning

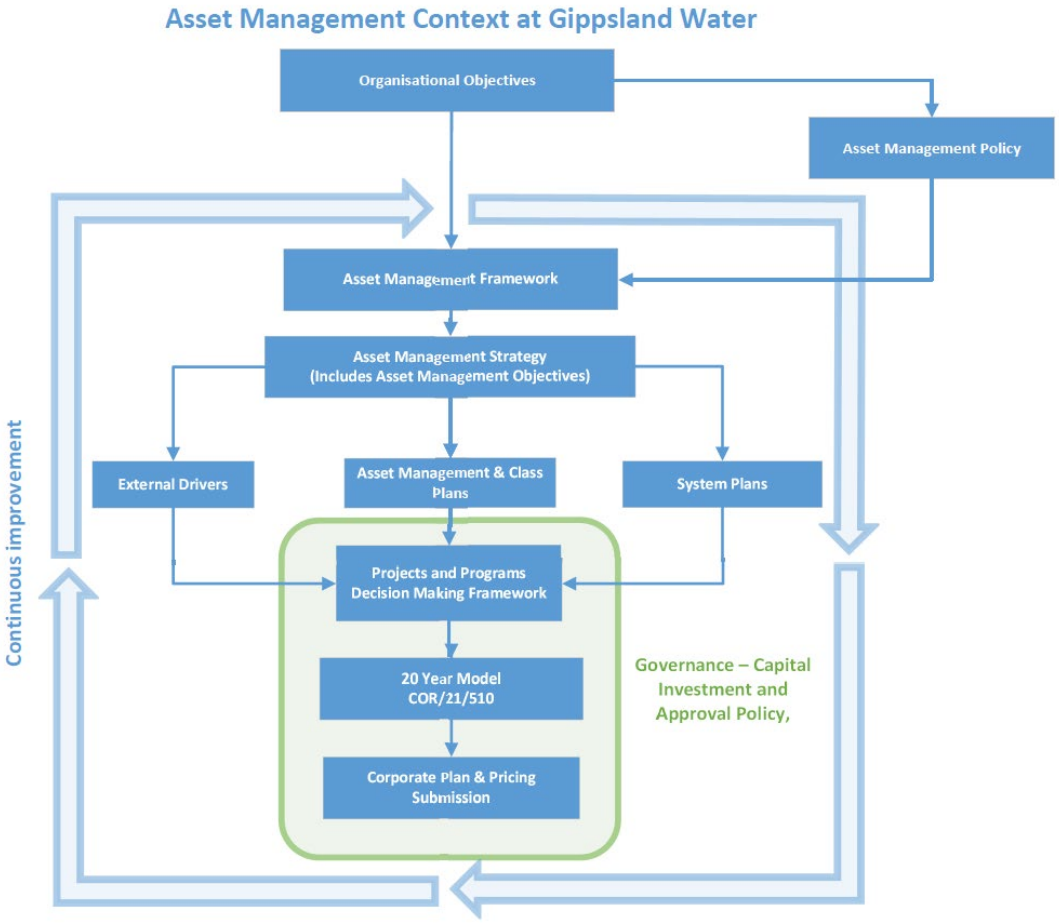
Stewardship of our ageing infrastructure is challenging. The requirement to renew, replace and establish new water and wastewater assets to meet customer service expectations and regulatory requirements requires a considered alignment of our strategic priorities with our asset intervention and decision-making practices via an effective Asset Management Accountability Framework (AMAF) [CX001].

Our approach to asset management meets the requirements of the AMAF and aims to align with the ISO55000 standards which set out the requirements for an integrated, effective management system for asset management.

This is important to ensure customers today do not benefit from low prices at the expense of future customers through under investment in asset replacement and renewal.

A schematic of our Asset Management Framework [CX003] is shown in Figure 19 below.

Figure 19 Integrated asset management at Gippsland Water [CX003]



In March 2022, we undertook an independent health check of our asset management framework which determined the attestation requirements of the AMAF for the Victorian Public Sector had been met satisfactorily [CX004].

7.2 How we prepare our capital forecast

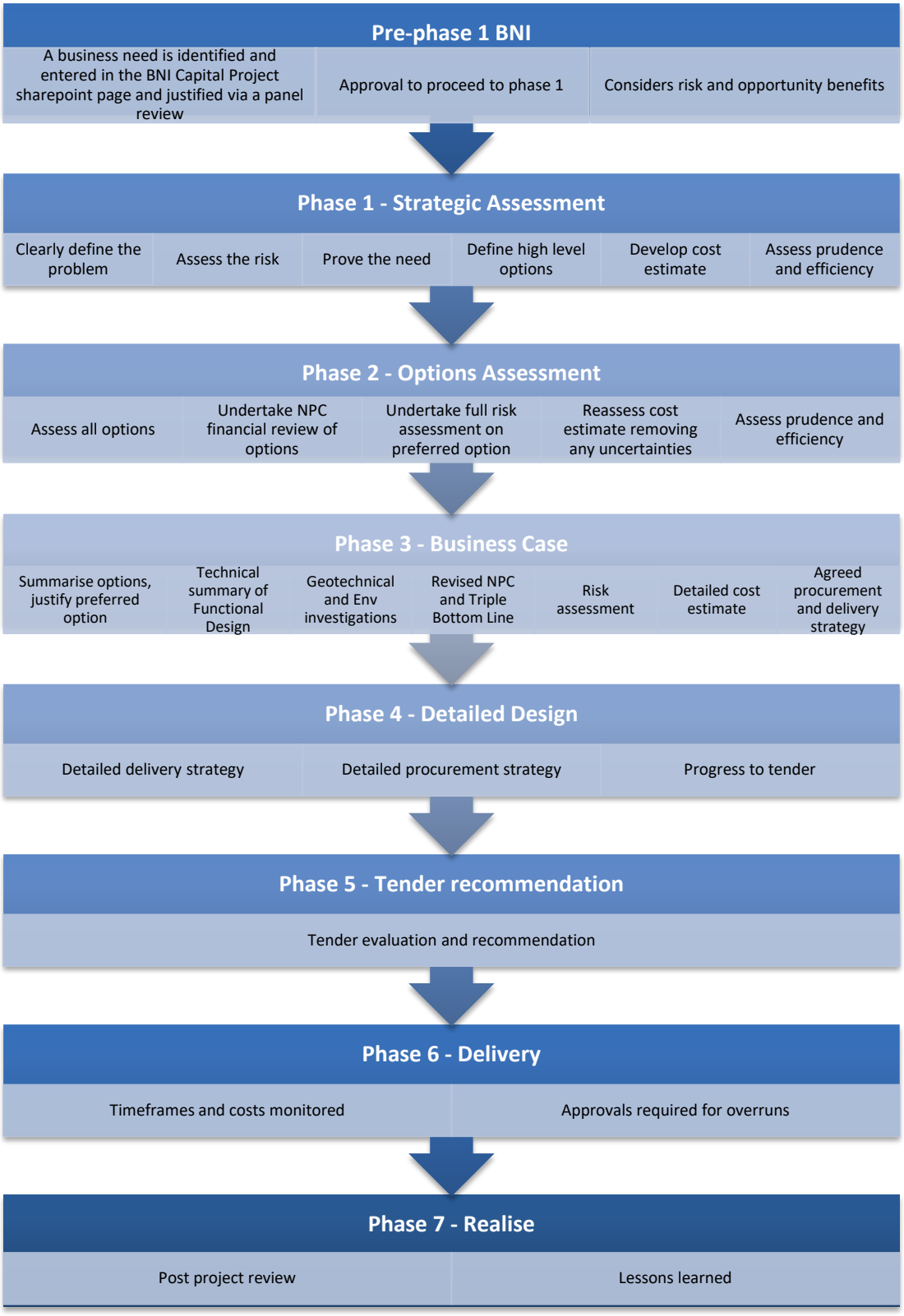
Our capital governance process (Figure 20) is a multi-level process with multiple reviews and hold points to ensure the prudence and efficiency of each of our investments is critically analysed [CX007]. This includes staging major infrastructure investment to balance the required level of service and tariff impacts.

Our process is one of continual reassessment and refinement to ensure customer objectives, service delivery risks and best value is delivered. Cost estimates are continually refined and unexpected cost increases must be justified at each phase. And projects are continuously reprioritised dependent on business needs.

Our capital expenditure forecast for this Price Submission has been prepared in accordance with these asset management and capital planning processes and underpinned by our customer engagement journey set out in Chapter 2.

We also engaged an independent experienced cost analyst to develop P50 cost estimates for all projects [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B].

Figure 20 Capital governance and approvals process [CX007]



7.2.1 Developing our best offer

In preparing our long-term capital plan, we followed the below principles to ensure customers did not bear inappropriate risk through price impacts:

- Robust customer engagement occurred to design the outcomes, outputs and GSLs framework that underpins our 2023-28 Price Submission
- Capital and operating planning processes were aligned to customer outcomes

- An independent review of forecasts occurred to remove at risk projects, we will bear 100% of the funding, revenue and return risk if these projects are required during 2023-28
- Engagement of independent consultants to carry out detailed contingency and deterministic analysis to inform the initial cost estimates and ensure contingencies were well informed, robust and did not unfairly allocate cost risk to customers where we are best placed to manage it [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]
- Engagement of independent consultants to carry out a probabilistic analysis of the cost estimates using Monte Carlo simulations to determine the P50 cost estimate [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B], and
- Project risks have been independently assessed and verified with appropriate mitigation actions in place to ensure the projects are delivered on time and within budget, for the benefit of our customers [CX020-22, CX024-030].

7.2.2 Project estimating

Our top 10 projects, which account for 34.5% of our total capital expenditure, have had their P50 cost estimates optimised through “Monte Carlo” risk analysis techniques and have also been independently reviewed by an experienced third party cost analyst to rigorously test prudency and efficiency, with specific reports provided for each project [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]. Where estimates have been market tested, these estimates have been included.

Contingencies contained within other projects have accordingly been optimised based on that project’s individual risk profile and the engineering maturity of the design, a contingency has been determined using a procedure developed by an experienced third party cost analyst. During a project’s business case phase, consideration is given to designing and determining an appropriate procurement and delivery strategy to manage project delivery risks. This process therefore ensures prudency and efficiency in our capital forecast.

We have therefore optimised efficiency through our entire capital investment plan through a multi-faceted approach:

- Expenditure forecasts and forecasting methodology independently reviewed against the ESC’s criteria for prudency and efficiency
- Deterministic and probabilistic modelling to understand and determine a P50 cost estimate for our entire capital projects; asset management processes that support whole of asset life decisions aligning with the requirements of our Asset Management Framework ensuring an efficient investment profile [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]
- Asset planning processes including strong relationships with Councils, developers and other stakeholders ensures the correct investment is made at the correct time
- A continuous improvement approach to procurement and project management, including the way works are packaged to manage risks and drive efficiencies
- A commitment to customers through our outcomes to engage and provide awareness of our plans for the future, and
- Removal of two uncertain projects totalling $8.2 million.

7.2.3 Pilots and trial projects

Although there were no pilot or trial projects included in the 2018-23 determination, an Internet of Things (IoT) trial was conducted during the regulatory period, to determine the effectiveness of monitoring our assets via connection to the internet, as traditional telemetry equipment use is not feasible due to the geographic spread of the assets. It was established there are benefits that can be realised through the use of IoT, when used in certain applications. The short and long term IoT demand from the whole of our business needs to be determined, hence this trial has not resulted in additional capital investment being included in our plan.

We have stayed abreast of the emerging digital metering technologies and how other water corporations have approached this topic in a manner that may deliver value to our customers. Accordingly we have proposed to continue to investigate and consider a pilot or trial of this technology within the 2023-28 capital investment plan.

7.2.4 Prioritisation

Capital prioritisation is undertaken at the commencement of projects utilising the Business Needs Identification (BNI) Evaluation Process [CX008].

A business need can be identified by anyone in the organisation. It must be assessed against the following criteria using our Value Assessment:

- 13 Risks and benefits that were weighted using linkage to our strategic objectives (including service impacts, legal, environmental, workplace and public health and safety, labour, operating expenditure, customer impacts and revenue impacts), and
- Direct project costs

The BNI Panel consisting of two senior asset management managers and a senior strategic planning engineer then review the business need, value score and high consequential risk cost of not addressing the issue before approving or not approving the business need to progress to Phase 1 of the capital planning and approvals process (refer Figure 19).

7.2.5 Estimating programs

Our programs of capital investment are developed using the following considerations:

- For Operational/Facility based programs - a detailed risk based approach with operational programs having a peer review process and the utilisation of historical costs, previous completed projects and submitted tenders
- For Water and Sewer Renewals programs - Scenario analysis to determine the appropriate investment profile to balance customer service levels and ensure future generations don't pay more than what they should
- For Growth programs – Projected connection growth, collaboration with Councils and developers to establish timing and contributions and the utilisation of historical costs, previous completed projects and submitted tenders
- For Fleet and Facility – Fleet policy and the small plant and equipment strategy
- For Safety based programs - Safety and compliance requirements
- For Energy based programs - Emission target compliance [M009], business sustainability and system resilience, and
- For the ICT program – Compliance with regulatory policies such as data security and privacy, maintenance of existing capability, data and analytics improvements.

7.2.6 Key assumptions

The following key assumptions underpin the capital expenditure forecast and address some of the key risks set out in our Corporate Risk Register:

- We must comply with all legal, regulatory and service requirements including our Customer Charter [M011], the Customer Service Code, our Statement of Obligations (emission reductions) [M009], environmental and public health requirements, wet weather containment standards, cyber security, occupational health and safety and other requirements
- The growth and demand assumptions that underpin this submission (18% greater than VIF2021) have been overlaid with system capacity analysis, system plans and sensitivity factors, to determine the appropriate timing of projects
- Coronavirus (COVID-19) and other economic factors (such as inflation and supply chain shortfalls) will continue to impact construction in the short to medium term. Accordingly we

have utilised recent experiences to inform future expenditure and procurement strategies where relevant
- Engaged independent cost analysts to provide an expert view on materials and supply chain shortfall cost impacts in the short term [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]
- P50 estimates have been utilised to balance cost-risk between ourselves and customers, using Monte Carlo Analysis for all major projects and a deterministic approach for all other capital expenditure [CX021D, CX022D, CX024D, CX025D, CX026D, CX027A, CX028G, CX029G, CX030B]
- Climate change will continue to impact our operations and climate resilience is a necessary evolution of our business – climate impacts have been considered on each of our water and wastewater systems through three climate scenarios. For a selection of systems a high climate change model was adopted where demand in those systems is highly influenced by drying conditions. For all other systems a base climate change model was adopted. These scenarios were developed through the 2022 Urban Water Strategy [P031] and operationalised through our capital planning processes to ensure business continuity and customer service levels are maintained into the future, and
- Projects are aligned with mitigating risks described within our Strategic Risk Register [R003, R004]

Detailed assumptions that underpin specific investments can also be found in each of the project and program supporting documents.

7.2.7 Procurement and delivery strategies

In order to deliver projects and programs efficiently and to manage market risks such as price volatility, resource shortages and general construction risks, procurement and delivery strategies are developed based on:

- Assessment of a range of procurement and delivery models
- Legal, regulatory or internal policy requirements
- Knowledge and learnings from procurement of other recent projects undertaken
- Market data and indicators that predict which model may be most successful in delivering value or additional benefit to us e.g. new technologies being used successfully or new contract models delivering cost and time benefits
- Bundling of similar renewal projects to achieve scale efficiencies, and
- Utilisation of standardised designs to avoid duplication of design costs.

A range of procurement and delivery methods are assessed for each project and programs to determine the most appropriate methodology to mitigate risks. These methodologies include:

- Construct only
- Design and Construct
- Design, Construct and Maintain
- EPCM - engineering, procurement and construction management
- ECI - Early contractor involvement, and
- Managing Contractor

The procurement process is determined by the value of the contract, in line with the Contracts and Procurement Guidelines [CX012], as shown in Table 38 below.

Table 38 Procurement requirements by purchase value [CX012]

Purchase value	Procurement process
Construction works purchases up to $15,000	1 written quote must be acquired from the market Quote considered in line with our Tender and Evaluation Guidelines where applicable A purchase order is raised to acquire the purchase, with relevant approvals

Purchase value	Procurement process
Construction works purchases $15,000 to $500,000	A written specification must be drafted and approved by a manager. 3 written quotes must be acquired from the market and reviewed for efficiency Quotes considered in line with our Tender and Evaluation Guidelines A Minor Works Contract must be established and a purchase order raised
Construction works purchases over $500,000	Our Capital Investment and Approval Procedure and Contracts and Procurement Guidelines must be followed.

To ensure that appropriate service providers are available when required, through a competitive tendering process we have established a panel of service providers with a range of knowledge and technical skills that can be provided at short notice. This ensures that we have best rates for these skills across the contract period.

For our key programs for sewer and water renewals, key performance indicators (KPI's) are built into the contracts and for all projects progress is monitored monthly to ensure they are delivered on time, to the right quality and safely.

Progress of each project and program are monitored monthly on a dynamic basis by both project managers and overseen by both the Capital Review Committee and the Board Infrastructure and Assets sub-committee. This provides early visibility where works are either being delayed or are beginning to overrun on cost. This pro-active early oversight of each line of the capital plan allows for the development of early intervention strategies to mitigate against either non-delivery of the plan or significant cost overruns, each of which decrements customer value.

In considering our ability to deliver our commitments we have considered our proposed capital expenditure forecasts in relation to our past performance, and our ability to resource the delivery of a program of this size. Early scoping of each project and program has been conducted to ensure prudent forecasting of costs and timing, to enable the effective planning of the entire capital investment plan.

To ensure the successful delivery of our capital plan we have resource levelled the project management effort across the regulatory period to ensure sufficient capability exists to deliver the planned projects without the need to source additional short term resources to meet project schedules.

7.2.8 Customer outcomes and outputs alignment

In preparing our 2023 Price Submission, we engaged extensively with our customers and the community to understand their needs and priorities.

Our customers told us they want us to achieve six outcomes for them during 2023-28:

- Be affordable and fair
- Do your job well
- Be easy to deal with
- Be environmentally responsible
- Plan for the future, and
- Be involved in the community.

Key themes we heard from the customers were:

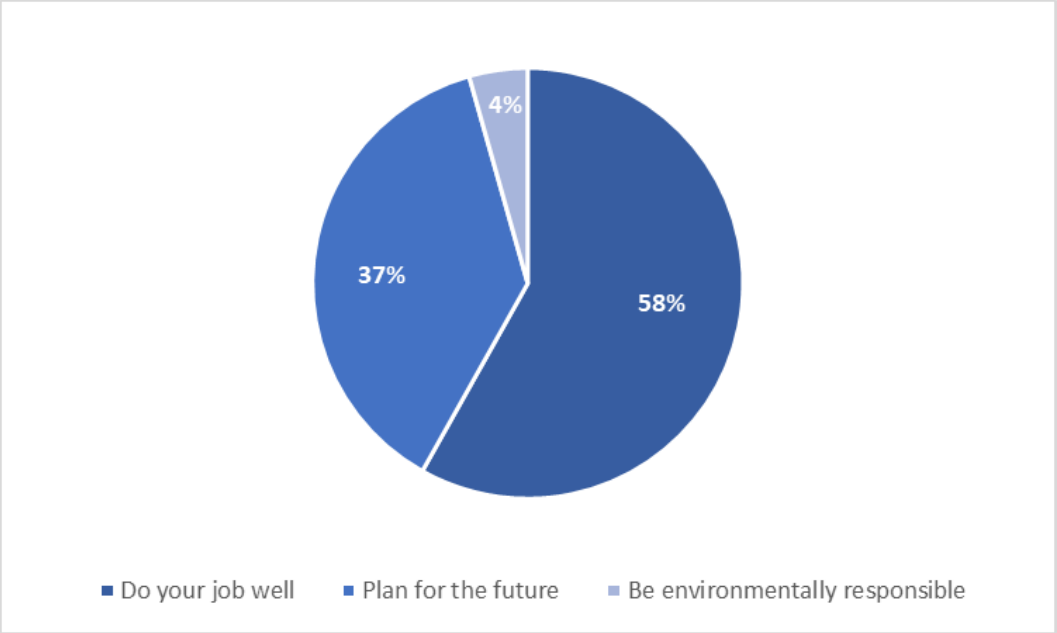
- We trust you to run the business and make the right decisions
- We value long term thinking and planning
- Be aware of the impact of climate change, and
- Provide water that is safe to drink at a reasonable price.

Each project and program has been aligned to a primary customer outcome and detailed analysis

of how they impact the customer outcomes and outputs is documented in their synopsis documents.

Figure 21 shows the level of investment between each of the customer outcomes.

Figure 21 Capital expenditure split by customer outcome



7.2.9 Development of tailored project synopsis documents

To support the regulatory review, we developed project and program synopsis documents for each of our major projects, program clusters and other capital projects by service.

The purpose of these synopses is to provide all of the detail required by the ESC Guidance Paper, namely:

- Project and program names
- Service category
- Asset category
- Cost driver
- Customer driver
- Scope
- Total costs and costs beyond 2023-28 for projects (including any contributions from Government or customers)
- Historical analysis of costs for programs
- Timing
- Objectives
- Start and completion dates for projects
- Options considered
- Risk assessment
- Procurement and delivery strategies
- Incentive and penalty payments, and
- Efficiencies.

These synopses have been provided as supporting documents to this submission and are accompanied by a range of key reference materials and evidence [CX020-041].

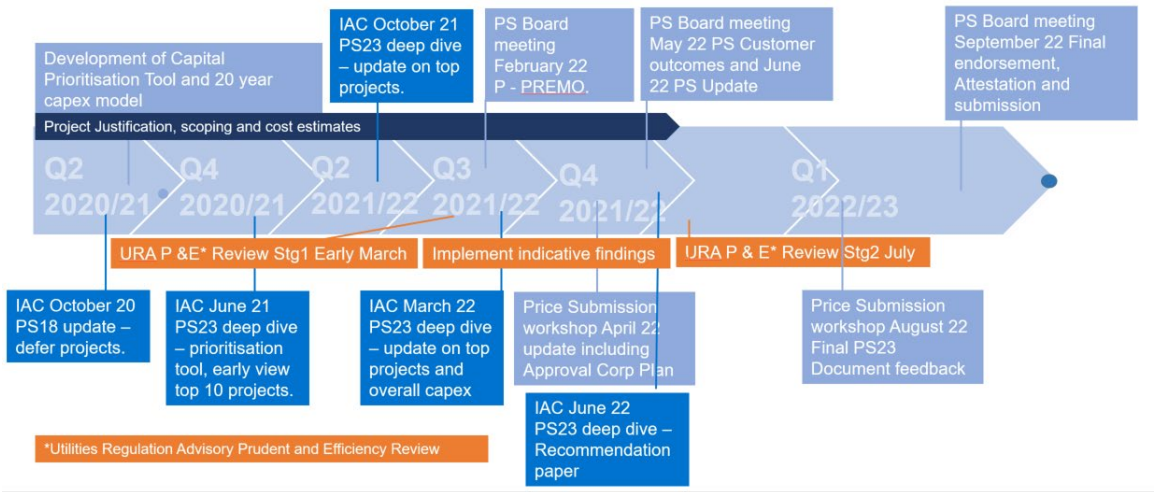
7.2.10 Internal and external assurance

The foundations of our capital expenditure approval process include governance arrangements that establish:

- The requirements for the approval of all major infrastructure expenditure via a two-stage approval process incorporating both the Business Case and supporting Tender Recommendation/s
- The requirements for the approval of minor infrastructure expenditure, annual renewals and corporate expenditure via a single-stage approval process utilising Strategic Assessment for each
- The role of the Capital Review Committee and Infrastructure and Assets Board Sub-Committee in providing a proportionate level of oversight of projects and programs in the development of the capital plan and its delivery, including the management of risks, opportunities and priorities, and
- The role of management, the Gippsland Water Board, the Minister for Water and the Treasurer in approving capital expenditure.

Figure 22 shows the governance process our capital expenditure forecast for this submission has gone through over the last two years. Further, external assurance experts were engaged in a staged approach to ensure that we present a prudent and efficient capital plan.

Figure 22 Assurance of the development of our capital expenditure forecast



7.3 Our capital forecast

To deliver on our customer outcomes during 2023-28 we propose to spend $268 million excluding gifted assets across the period to:

- Maintain services to customers (renewals)
- Expand services (growth)
- Improve or upgrade services (improvements), and
- Comply with legislative or regulatory obligations (compliance)

The average annual capital expenditure for the 2023-28 regulatory period is $53.5 million, which is largely consistent with the annual spend through 2018-23 and aligns with the findings of the asset strategy developed by KPMG in 2016 [CX019], which forecast total capex expenditure should increase to $54.7 million per annum, driven primarily by renewal requirements.

The 2023-28 key projects include the Tarago water resource security investment from the Greater Yarra System -Thomson River pool of $XX[2] million which is fully expended in 2023/24 [CX020] and

[2] *Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*

the Saline Water Outfall Pipeline (SWOP) renewal project $17.2 million [CX024], Connect Traralgon and Morwell Water Networks Stage 1 $11.2 million [CX021] and Traralgon Tyers Interconnect $6.7 million [CX022] all of which are commencing in 2025-26.

Figure 23 and Table 39 summarises our actual and forecast capital expenditure for the period 2018-33. This demonstrates that our annual average capital expenditure across this 15 year period is reasonably consistent.

Average actual spend for the 2018-23 regulatory period has been $52.1 million per annum which was approximately $5 million per annum greater than the capital expenditure allowance. This overspend was driven entirely by a $20 million increase in expenditure required for the Drouin wastewater treatment plant upgrade project and $15 million additional capital expenditure to service development growth within the region. (Refer Chapter 1 Table 12)

We expect our average annual capital expenditure for the 2028-33 regulatory period to increase to $62.6 million per annum. The key contributing projects to this increased average spend are Warragul Wastewater Treatment Plant upgrade stage 1B $23 million, relocation of Buckley Hill clear water storage $14 million and a new 80ML clear water storage at Warragul $11.5 million.

Figure 23 Capital expenditure 2018-2033 by service (Jan23$)

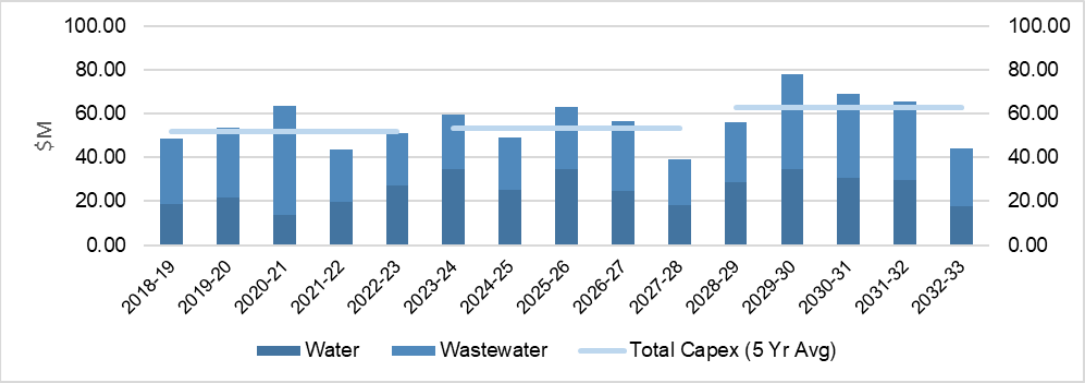


Table 39 Capital expenditure 2018-2033 by service (Jan23$)

Regulated Capital Expenditure - Jan23$ By Service	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M	2028-29 $M	2029-30 $M	2030-31 $M	2031-32 $M	2032-33 $M
Water	18.69	21.52	13.96	19.59	27.30	34.66	25.23	34.86	24.81	18.37	28.87	34.51	30.45	29.74	17.52
Wastewater	30.11	31.93	49.72	23.95	23.67	24.91	23.69	28.27	31.96	20.94	27.31	43.36	38.58	35.92	26.70
Total Regulated Capital Expenditure	**48.80**	**53.45**	**63.68**	**43.54**	**50.96**	**59.58**	**48.91**	**63.13**	**56.77**	**39.32**	**56.18**	**77.86**	**69.04**	**65.66**	**44.22**

7.3.1 Water capital investments

Capital investment for the 2023-28 regulatory period in water has increased by $37 million from 2018-23, primarily due to an increased focus on investment for system resilience including:

- $XX million[3] to secure water from the Greater Yarra System -Thomson River pool to support existing and future growth in the Tarago Water system [CX020]
- $11.2 million to build the Connect Traralgon and Morwell Water Networks Stage 1 to allow for future growth operational resilience and to manage the risk of 30,000 people being serviced off one ageing main that would experience large interruptions to services without an alternate supply option [CX021]
- $6.7 million to interconnect the Traralgon and Tyers system to position us for growth and system resilience (providing flexibility between two water supply systems) and reducing longer term operational expenditure [CX022], and

[3] *Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*

- An increase from Price Submission 2018-23 of $2.4 million to fund renewable energy projects supporting carbon and cost reductions and resilience projects [CX023].

7.3.2 Wastewater capital investments

Wastewater investment for the 2023-28 regulatory period has decreased by $30 million from 2018-23 due mainly to the $55.5 million Drouin Wastewater Treatment Plant project being completed in the 2018-23 regulatory period and a $12.6 million reduction in our growth program largely due to a reduction in wastewater shared assets resulting from significant investment in large catchment assets in the 2018-23 regulatory period.

Key Price Submission projects include:

- A $17.2 million renewal of the Saline Waste Outfall Pipeline [CX024]
- A $14.3 million upgrade of the Factory Road Sewer Pump Station and Rising Main upgrade in Yarragon [CX025], and
- A $10 million initial upgrade of the Warragul wastewater treatment plant as part of our overarching growth strategy [CX026].

7.3.3 Drivers of our forecast expenditure

As shown in Figure 24 and Table 40 renewals account for 41.3% (inclusive of customer contributions) of our proposed capital expenditure forecast for the 2023-28 regulatory period.

Figure 24 Capital expenditure forecast by regulatory driver (Jan23$)

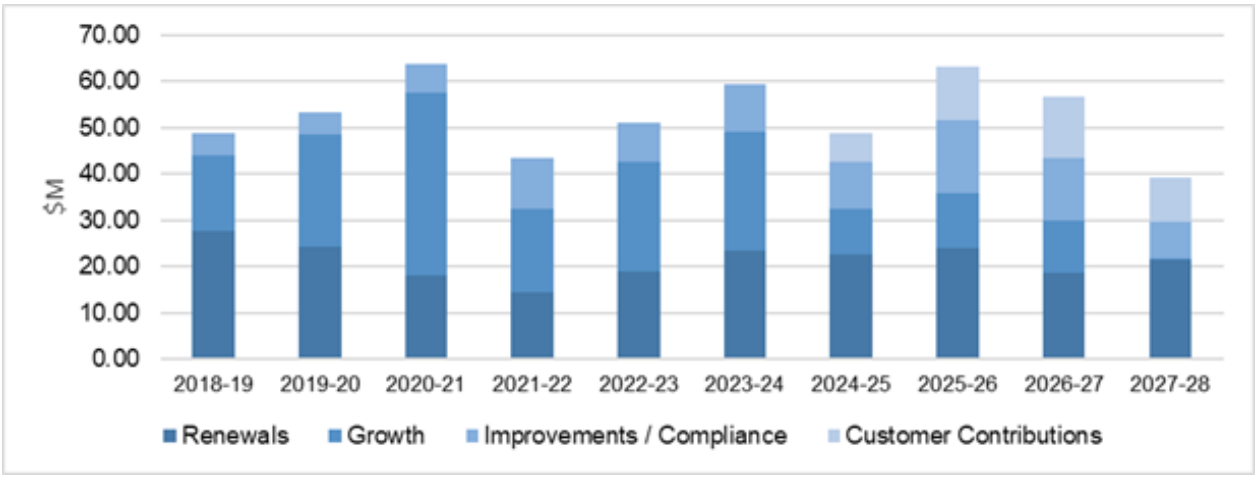


Table 40 Capital expenditure forecast by regulatory driver (Jan23$)

Regulated Capital Expenditure - Jan23$ By Regulatory Driver	2018-19 $M	2019-20 $M	2020-21 $M	2021-22 $M	2022-23 $M	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M
Renewals	27.56	24.27	18.15	14.41	19.01	23.50	22.64	24.13	18.74	21.59
Growth	16.34	24.31	39.50	17.94	23.73	25.53	9.93	11.73	11.09	0.19
Improvements / Compliance	4.90	4.87	6.03	11.19	8.22	10.23	10.13	15.62	13.58	7.99
Customer Contributions	-	-	-	-	-	0.33	6.21	11.64	13.36	9.55
Total Regulated Capital Expenditure	**48.80**	**53.45**	**63.68**	**43.54**	**50.96**	**59.58**	**48.91**	**63.13**	**56.77**	**39.32**

7.3.4 Renewals capital investments

Asset planning utilises scenario analysis to determine the appropriate investment profile to balance customer service levels and ensure future generations don't pay more than what they should.

Input into this analysis includes data such as:

- Reticulation main replacement works are only carried out on pipes with a known and predicted condition
- Pipe capacity is taken into account during the renewal planning to take into account any future growth or reconfiguration needs
- Transfer and distribution mains will only be renewed where condition assessment shows these pipes to be in poor condition, and
- Pipes not included for renewal based on coarse assumptions of condition based on their age or location.

Investment in capital renewals for the 2023-28 regulatory period have increased by $7.2 million from the previous period driven by a $5 million increase in water pipe renewals [CX032] and $6.4 million increase in wastewater pipe renewals which reflects the increase in our asset base and replacement of ageing infrastructure [CX033]. This also includes the introduction of proactive condition inspection and renewals of larger mains and new civil facilities programs for this period resulting in a $2.8 million increase in water and $1.6 million increase in wastewater.

7.3.5 Renewals capital investment efficiency

Renewal works are performed under contract, awarded on the open market under conditions that consider value-for-money and providing customer outcomes.

As a part of our water and wastewater reticulation renewal investments we are committed to ongoing efficiencies across our repeated pipe renewal programs. We will achieve this by awarding the pipe replacement contract for the 2023-28 regulatory period resulting in multi-year contracts. Each of these contracts will be based on previous contract performance. This form of procurement ensures a scale to the works which will attract more tenderers, greater competition and better prices for works undertaken.

The annual continuation of the contract is dependent on the performance of the contractor which is assessed each year against stretch KPIs. Further, the contract schedule of rates only increases by CPI and is closely monitored through our governance processes.

Accordingly the contractor takes cost risk associated with material and labour cost changes outside of CPI within reason. For example, Table 41 shows the schedule of charges for our water main replacement costs for the 2018-23 regulatory period and the actual percentage increases each year.

This has resulted in an efficiency gain for installation rates of 1.3% over the 2018-23 regulatory period. Calculated as a cumulative increase over the contract of 10.8%, which is lower than the cumulative CPI of 12.1% over the same period. Within our renewals program through the 2023-28 regulatory period we have assumed a 1% efficiency in installation rates will be achieved.

Table 41 Water main replacement costs compared with CPI for PS18 – 23

$ Actual	Under Paved Surfaces				Under Verge					
	100	150	225	300	100	150	225	300	Actual Increase	CPI
Jun-18	238	250	509	645	135	149	499	635		
Feb-20	243.69	255.98	521.17	660.42	138.23	150.51	510.93	650.18	102.39%	101.33%
May-20	250.27	262.89	535.24	678.25	141.96	154.58	524.72	667.73	102.70%	102.19%
Jul-21	252.27	264.99	539.52	683.67	143.09	155.81	528.92	673.07	100.80%	101.11%
Jul-22	263.62	276.91	563.8	714.44	149.53	162.83	552.72	703.36	104.50%	105.09%

Our Asset Management Strategy has set an action to build performance metrics to provide retrospective assurance that previous investments we have made on asset remediation have continued effectiveness over time. Measures relating to the ongoing effectiveness of pipe replacement programs as an activity will be in place by the start of the 2023-28 period and will inform our asset planning going forward for renewals.

7.3.6 Growth Capital Investments

Investment in growth driven initiatives has decreased in the 2023-28 regulatory period by $63.4 million, primarily due to a $55.5 million investment in the Drouin Wastewater Treatment Plant upgrade and a $12.8 million reduction in wastewater shared assets as a result of significant investment in large catchment assets in the 2018-23 regulatory period.

Key projects within Price Submission 2023-28 associated with growth include:

- A $14.3 million upgrade of the Factory Road sewer pump station and rising main upgrade in Yarragon [CX025]
- The requirement to secure water from the Greater Yarra System -Thomson River pool to support existing and future growth in the Tarago water system at a capital cost of $XX million[4] [CX020], and
- A $10 million initial upgrade of the Warragul wastewater treatment plant as part of our long-term growth strategy [CX026]

7.3.7 Improvement and compliance capital investments

Improvement and compliance driven capital expenditure has increased by $22.3 million compared with the 2018-23 regulatory period, due to further investment in system resilience that will improve customer service and operational resilience, in the Traralgon and Tyers water systems [CX022] and across our energy assets [CX023].

We plan to spend:

- $11.2 million to build the Connect Traralgon and Morwell Water Networks Stage 1 to allow for future growth, operational resilience and to manage the risk of 30,000 people being serviced off one ageing main that would experience large interruptions to services without an alternate supply option [CX021]
- $6.7 million to interconnect the Traralgon and Tyers water systems to position us for growth and system resilience in response to asset shortfalls encountered during severe wet weather events [CX022], and
- $10.5 million to fund energy reduction and resilience projects across the regulatory period [CX023].

7.4 Major projects in 2023-28

In preparing our 2023 Price Submission, we engaged extensively with our customers and the community to understand their needs and priorities. Figure 25 shows the forecast capital expenditure by project type. Programs account for approximately 44.7% and other projects account for approximately 20.8% of the capital expenditure forecast.

Our major projects comprise 34.5% of the $268 million capital expenditure forecast and are key major contributors to ensuring we deliver two of the six Outcomes our customers wanted us to achieve – *do your job well* and *plan for the future*. These major projects are summarised in Table 42 below.

[4] *Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*

Figure 25 Capital forecast by capital type (Jan23$)

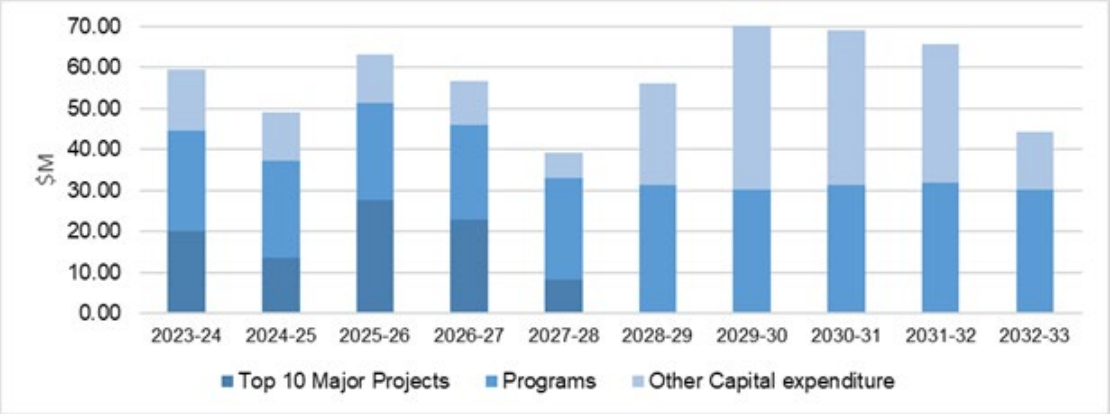


Table 42 Major projects in 2023-28 (Jan23$)

Proposed major capital projects	Cost 2023-28 $m	Cost 2028-33 $m	Service	Asset type	Customer outcome	Regulatory cost driver
Saline Water Outfall Pipeline (SWOP) [CX024]	$17.2	$0.04	Wastewater	Wastewater mains	Do your job well	Renewals
Factory Road SPS and Rising Main Upgrade [CX025]	$14.3		Wastewater	Wastewater mains and pump stations	Plan for the future	Growth
Connect Traralgon and Morwell Water Networks Stage 1 [CX021]	$11.2	$0.1	Water	Water mains	Plan for the future	Improvements Compliance
Warragul WWTP Upgrade [CX026]	$10.0		Wastewater	Sewer treatment plants	Plan for the future	Growth
Greater Yarra System - Thomson River pool water resource security [CX020]	$XX[5]		Water	Water sources	Plan for the future	Growth
New Basin at Clarkes Storage [CX027]	$9.3		Water	Water storage	Plan for the future	Growth
Traralgon Tyers Interconnect [CX022]]	$6.7		Water	Water mains	Plan for the future	Improvements Compliance
Warragul Sewer North East Branch Augmentation [CX028]	$5.9		Wastewater	Wastewater mains	Plan for the future	Growth
Drouin west water main [CX029]	$4.0		Water	Water mains	Plan for the future	Growth
Supervisory control and data acquisition (SCADA) system replacement [CX030]	$3.8	$0.2	Water and wastewater	IT systems	Do your job well	Renewals
Total Capital Expenditure	**$XX**	**$0.4**				

An overview of each of our top 10 projects by cost is outlined in the tables on the next pages, including their drivers, links to outcomes, estimated cost, timing and background.

[5] *Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*

Project name	Saline Water Outfall Pipeline (SWOP) [CX024]
Service category	Wastewater
Asset category	Pipelines/networks
Cost driver	Renewals
Customer driver	Do your job well
Description of project	The SWOP renewal project will renew sections of the SWOP to ensure customer and contractual obligations can be met, as well as ensuring we're meeting our requirements under the General Environmental Duty.
Scope	Construction of a new DN600 glass reinforced plastic (GRP) pipe including associated appurtenances to replace 5 existing stages of OD610 steel epoxy lined pipe with the following lengths: • Stage 0 and Stage 4 – approx. length for replacement 6.53km • Stage 8 – approx. length for replacement 3.28km • Stage 10 and stage 11 – approx. length for replacement 8.27km
Total project cost ($Jan2023)	$18,108,913
Total capital cost 2023-2028 ($Jan2023)	$17,232,578
Objectives of the project	• Maintain environmental compliance, and • Maintain the contractual service to the customer.
Customer outcomes and outputs	This project benefits an individual customer and the commitments to that customer are set out contractually.
Start date	2025
Completion date	2028

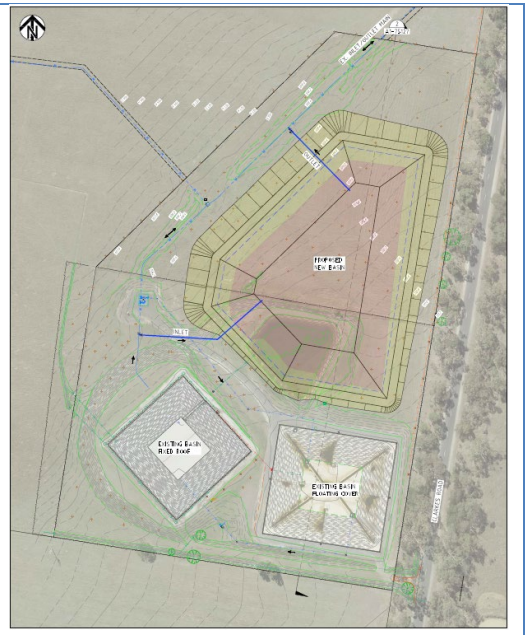
Project name	Factory Road sewer pump station and rising main upgrade [CX026]
Service category	Wastewater
Asset category	Pipelines/networks
Cost driver	Growth
Customer driver	Plan for the future
Description of project	The aim of this project is to increase the pumping capacity of the Factory Road sewer pump station, to cater with current and future growth in Yarragon. The primary driver for this project is growth. There is a secondary driver of compliance with the State Environment Protection Policy (SEPP) 1 in 5 Year Containment Standard. The sewer pump station is currently hydraulically deficient and cannot output the incoming flows, which results in surcharging at upstream manholes.
Scope	• Construction of a new 4.5m diameter, 10m deep pump station to replace 2 no. 1.8m diameter, 5m deep wet wells at the current pump station site • Construction of 8.5km of DN375 rising main (up from DN150 currently) to Eight Mile Road pump station
Total project cost ($Jan2023)	$14,670,998
Total capital cost 2023-2028 ($Jan2023)	$14,269,213
Objectives of the project	• Increase the pump rate of Factory Road sewer pump station system • Provide a solution that is flexible to current known growth (speculative growth)
Customer outcomes and outputs	• Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather • Wastewater is removed efficiently and reliably and treated for reuse or safely returned to the environment • Our business operations will have minimal negative impact on the local environment, including our creeks, rivers, lakes and parks. Where appropriate, will contribute positively to the environment
Start date	2025-26
Completion date	2027-28

Project name	Connect Traralgon and Morwell Water Networks Stage 1 [CX021]
Service category	Water
Asset category	Pipelines/networks
Cost driver	Improvements/compliance
Customer driver	Plan for the future
Description of project	Duplication of the major water main in Traralgon to protect customer service and to increase capacity for growth, while providing additional connectivity between the Traralgon and Morwell systems for additional supply security and operational flexibility.
Scope	• 4.9km of water main (70% DN750, 20% DN300), 35% bored and 65% open trenched
Total project cost ($Jan2023)	$11,818,092
Total capital cost 2023-2028 ($Jan2023)	$11,153,366
Objectives of the project	• To provide a secondary connection between the Traralgon Water Treatment Plant (WTP) and the Clarkes Road Storage Basin, • To mitigate the risk of extended outages in Traralgon by duplicating the main to ensure customers can be serviced when breaks occur on the DN450 Traralgon main, • To improve the connectivity of the western side of Traralgon for future connection of the Traralgon and Morwell water systems, • Begin the initial stage of realising the Traralgon Tyers Morwell 50 Year masterplan, • To resolve pressure issues by providing increased capacity through a second main in central Traralgon, and • To ensure capacity for growth in the region.
Customer outcomes and outputs	• Our customers can rely on us to provide water that is safe and fit for purpose • Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather • Our customers pay a fair price for water and wastewater services, which reflects the cost to efficiently provide services to the standards that our customers expect • We plan for the long-term and we keep customers informed early and openly about this work • Our water supply and wastewater infrastructure is well-maintained and there are minimal unplanned service disruptions
Start date	2025-26
Completion date	2027-28

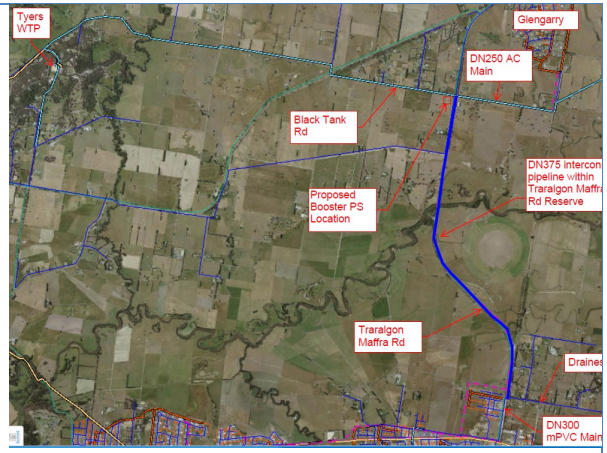
Project name	Warragul Wastewater Treatment Plant upgrade [CX026]
Service category	Wastewater
Asset category	Treatment
Cost driver	Growth
Customer driver	Plan for the future
Description of project	Due to growth, the Warragul Wastewater Treatment Plant will need significant upgrade to meet its compliance requirements to 2060. This project is the first of staged upgrades to plan for the future whilst maintaining affordable and fair pricing for customers.
Scope	• Renewal of existing 15kW bioreactor surface aerators each (8 no.) • Installation of supplementary 4 no. 22kW jet aeration (+ 2 no. being installed by WWTG under minor CAPEX, remaining 2 no. to be installed in stage 2A when power upgrade complete) • Dewatering Upgrade - single screw press, new sludge outloading and ancillaries. • WAS pump station and pipework • Process monitoring – 2 no. x S::CAN or similar
Total project cost ($Jan2023)	$11,242,421
Total capital cost 2023-2028 ($Jan2023)	$9,960,989
Objectives of the project	To deliver a staged investment in plant augmentations at the right time to maintain compliance with the discharge licence as growth is applied – maintaining environmental compliance, ability to service customers and customer affordability.
Customer outcomes and outputs	Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather. Our business operations will have minimal negative impact on the local environment, including our creeks, rivers, lakes and parks. Where appropriate, will contribute positively to the environment Our customers pay a fair price for water and wastewater services, which reflects the cost to efficiently provide services to the standards that our customers expect We plan for the long-term and we keep customers informed early and openly about this work
Start date	2023-24
Completion date	2025-26

Project name	Greater Yarra System - Thomson River Pool Bulk Water Entitlement [CX020]
Service category	Water
Asset category	Headworks
Cost driver	Growth
Customer driver	Plan for the future
Description of project	Purchase of 3.33GL per annum in the Greater Yarra System – Thomson River Pool to secure water suppliers for Warragul and Drouin
Scope	To purchase a 3.3GL per annum bulk water entitlement in the Greater Yarra System - Thomson River pool at the most efficient price
Total project cost ($Jan2023)	*Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*
Total capital cost 2023-2028 ($Jan2023)	*Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.*
Objectives of the project	• To secure water supply for the Tarago supply area until 2035, at the lowest long-term lifecycle cost for customers • To utilise existing assets as efficiently as possible
Customer outcomes and outputs	Having access to enough clean and safe water now and in the future Our customers can rely on us to provide water that is safe and fit for purpose Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather We plan for the long-term and we keep customers informed early and openly about this work Our customers pay a fair price for water and wastewater services, which reflects the cost to efficiently provide services to the standards that our customers expect
Start date	2023-24
Completion date	2023-24

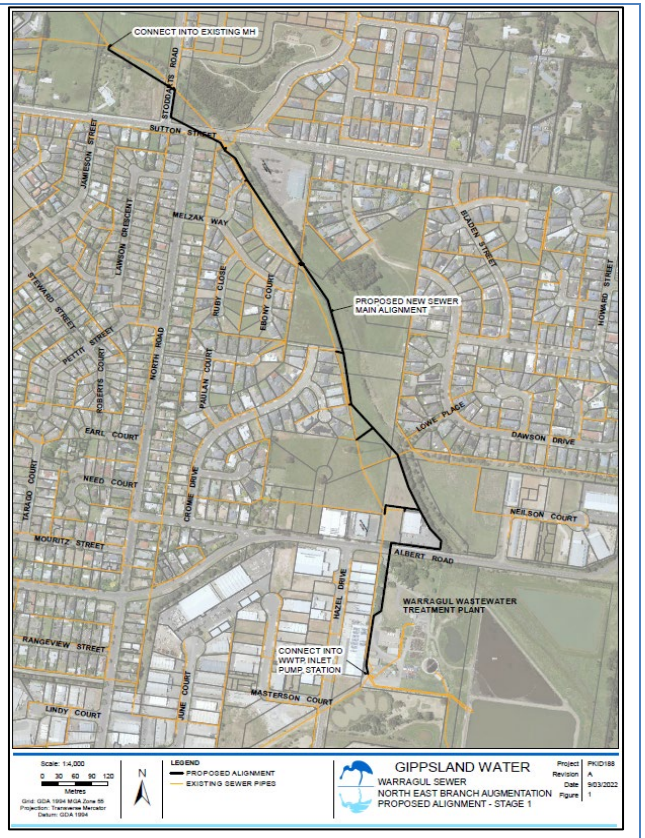
Project name	New Basin at Clarkes Storage [CX027]
Service category	Water
Asset category	Treatment
Cost driver	Growth
Customer driver	Plan for the future
Description of project	The Traralgon water treatment plant does not have the capacity to meet peak summer demands especially with the future connectivity of the Traralgon, Tyers and Morwell systems which will add future flexibility to the network and avoids additional expenditure. Building an additional 50ML storage at Clarkes Storage will allow the Traralgon water treatment plant to meet peak day demands without investing in more expensive capacity upgrades at the plant itself.
Scope	• Construction of 1x 50ML water storage on existing land including liner, floating cover and underdrain system • New chlorinator, access driveway, and delivery bund • No land purchase requirement
Total project cost ($Jan2023)	$9,761,294
Total capital cost 2023-2028 ($Jan2023)	$9,330,617
Objectives of the project	• Meet peak day demands from the Traralgon water treatment plant in the most economical way possible • Avoid low pressure and/or extended outages during sustained peak day demands that the current water treatment plant output cannot meet • Provide operational flexibility when the other CWS basins are taken offline • Provide adequate storage for future growth scenarios • Ensure the Traralgon system complies with storage requirements in PWSDC until near 2050 (assuming medium growth) • Decrease the vulnerability of the Traralgon water treatment plant • Provide the supply network with a greater buffer volume, and • Delay capital expenditure associated with upgrading the capacity of the Traralgon water treatment plant and high lift pumps
Customer outcomes and outputs	Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather Our customers can rely on us to provide water that is safe and fit for purpose We plan for the long-term and we keep customers informed early and openly about this work
Start date	2024-25
Completion date	2026-27



Project name	Traralgon Tyers Interconnect [CX022]
Service category	Water
Asset category	Pipelines/networks
Cost driver	Improvements/compliance
Customer driver	Plan for the future
Description of project	Construction of an interconnecting pipeline to allow the decommissioning of the Tyers Water Treatment Plant (WTP) 1 which is experiencing operational issues and is more expensive to produce water than the interconnecting Traralgon WTP. The interconnection will also provide operational flexibility and network resilience and can accommodate the whole of the Tyers System (Stage 2), allowing WTP 2 to be decommissioned in the future.
Scope	• 4.3km of DN375 interconnection pipeline along Traralgon-Maffra Road between DN300 (corner of Dranes Rd and Traralgon – Maffra Rd) and DN250 at Black Tank Rd • 1.9 km of DN150 mm main along Erinmore Court and Glengarry West Rd to maintain customer charter pressures to Glengarry Nth • Decommission Tyers WTP No. 1
Total project cost ($Jan2023)	$7,126,252
Total capital cost 2023-2028 ($Jan2023)	$6,682,791
Objectives of the project	• Provide additional operational flexibility to isolate reline and cover existing Tyers Basin, with a significantly reduced risk profile • Avoid/reduce the Tyers WTPs' high ongoing capital and operational expenditure • Eliminates the expenditure associated with maintaining two Tyers WTPs in service including the additional laboratory sampling and environmental reporting associated with two water treatment plants, • Reduce Tyers Systems' exposure to high turbidity events, and • Accommodates the staging of placing all of the Tyers system demand onto the Traralgon system as part of our overall servicing strategy into the future.
Customer outcomes and outputs	Our customers pay a fair price for water and wastewater services, which reflects the cost to efficiently provide services to the standards that our customers expect Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather
Start date	2024-25
Completion date	2026-27

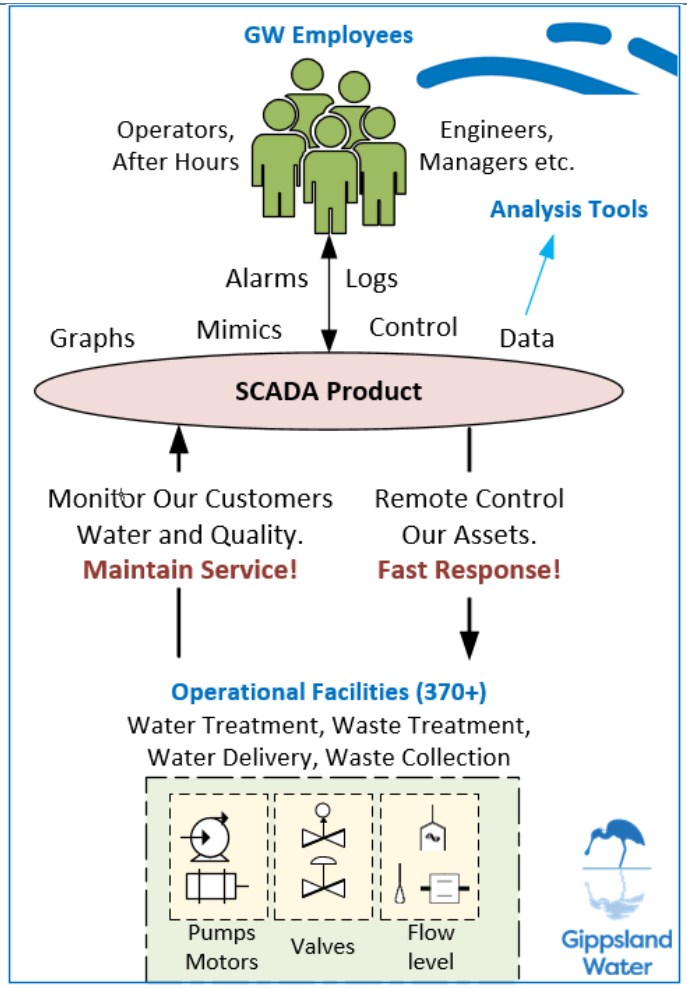


Project name	Warragul Sewer North East Branch Augmentation [CX028]
Service category	Wastewater
Asset category	Pipelines/networks
Cost driver	Growth
Customer driver	Plan for the future
Description of project	Upsizing and replacing the existing North East Sewer Branch Main from Sutton Street to the Warragul Wastewater Treatment Plant
Scope	1.5 km of gravity sewer main installed by a combination of open trench excavation and trenchless construction techniques such as pipe jacking. The size of the new gravity main will range from 375 mm to 525 mm nominal bore along the alignment.
Total project cost ($Jan2023)	$6,938,948
Total capital cost 2023-2028 ($Jan2023)	$5,917,148
Objectives of the project	• To maintain customer service levels and protection of the environment • To increase the capacity of the north east sewer main between Sutton St and the Warragul WWTP • To ensure the system has adequate hydraulic capacity to accommodate the ultimate future growth expected in the north east of Warragul • To allow a staged infrastructure investment approach for the whole catchment • To improve the reliability of the system
Customer outcomes and outputs	Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather Our business operations will have minimal negative impact on the local environment, including our creeks, rivers, lakes and parks. Where appropriate, will contribute positively to the environment Wastewater is removed efficiently and reliably and treated for reuse or safely returned to the environment Our water supply and wastewater infrastructure is well-maintained and there are minimal unplanned service disruptions
Start date	2023-24
Completion date	2025-26



Project name	Drouin West Water Main Extension [CX029]
Service category	Water
Asset category	Pipelines/network
Cost driver	Growth
Customer driver	Plan for the future
Description of project	Increase the capacity and reliability of water supply in the Drouin region by extending the water main and increasing the connectivity of the system
Scope	Extension of the Drouin West water reticulation by constructing a new 1.86km DN375 mm watermain to connect to the future Drouin West Basin (Price Submission 2028) and increase capacity and reliability of the north west growth corridor in the Drouin system.
Total project cost ($Jan2023)	$4,472,618
Total capital cost 2023-2028 ($Jan2023)	$4,034,124
Objectives of the project	• To increase the capacity of water supply in the Drouin region • To increase reliability of water supply in the Drouin region • To ensure customer service levels and charter commitments can be met while increased growth is serviced
Customer outcomes and outputs	Our water supply and treatment network has the capacity to accommodate a growing population, and is resilient to climate change, rainfall variability and extreme weather Our customers can rely on us to provide water that is safe and fit for purpose Our water supply and wastewater infrastructure is well-maintained and there are minimal unplanned service disruptions
Start date	2025-26
Completion date	2026-27

Project name	SCADA Replacement [CX030]
Service category	Corporate
Asset category	IT
Cost driver	Renewals
Customer driver	Do your job well
Description of project	Replacement of Gippsland Water SCADA system (front-end software) to future proof Gippsland Water operations as the current SCADA system becomes unsupported and is no longer able to be enhanced or repaired as issues arise.
Scope	Replacement of Gippsland Water SCADA system (front-end system, excluding RTUs and local HMIs)
Total project cost ($Jan2023)	$4,089,527
Total capital cost 2023-2028 ($Jan2023)	$3,813,738
Objectives of the project	• To ensure safe, reliable delivery of water and wastewater services for Gippsland Water customers • To ensure environmental and health compliance • To mitigate security risks • To improve internal reporting on asset performance and environmental and health compliance • To improve efficiency of processes at Gippsland Water and deliver cost savings for customers
Customer outcomes and outputs	Our customers can rely on us to provide water that is safe and fit for purpose Wastewater is removed efficiently and reliably and treated for reuse or safely returned to the environment Our water supply and treatment network is resilient to climate change, rainfall variability and extreme events Our business operations will have minimal negative impact on the local environment, including our creeks, rivers, lakes and parks. Where appropriate, will contribute positively to the environment
Start date	2023-24
Completion date	2025-26



7.5 Capital programs and other capital expenditure for the period

Apart from our top 10 projects, the balance of our capital expenditure forecast is contained in programs spread across service type, types of assets and types of outcomes (like energy or safety, for example). In line with the ESC guidance, we also have three programs containing 'other capital expenditure' which comprise of minor projects not encompassed within a specific capital expenditure program [CX039-041]. Programs account for approximately 44.7% and other projects account for approximately 20.8% of the capital expenditure forecast.

We have in total over 43 programs of capital work, which we have summarised into nine larger programs totalling $119.6 million as detailed in Table 43.

Table 43 Capital programs and 'other capital projects' expenditure 2023-28 (Jan23$)

Capital program	Cost $m	Service	Asset type	Customer outcome	Regulatory cost driver
Energy program [CX023]	$10.5	Water and wastewater	Energy	Do your job well Plan for the future Be environmentally responsible	Improvements compliance
Growth program [CX031]	$12.5	Water and wastewater	Pipelines/ networks	Plan for the future	Growth
Water network reliability and renewal program [CX032]	$11.6	Water	Water mains	Do your job well	Renewals
Sewer network reliability and renewal program [CX033]	$9.9	Wastewater	Sewer mains	Do your job well	Renewals
Water facility reliability program [CX034]	$17.8	Water	Headworks, pipelines/ networks, treatment	Do your job well	Renewals
Sewer facility reliability program [CX035]	$30.9	Wastewater	Pipelines/ networks, treatment	Do your job well	Renewals
IT program [CX036]	$13.1	Corporate	IT	Do your job well	Renewals, Improvements compliance
Safety program [CX037]	$2.4	Water and wastewater	Corporate	Do your job well	Renewals
Fleet and Facility program [CX038]	$11.0	Water and wastewater	Fleet and corporate	Do your job well	Renewals and Improvements Compliance
Other projects – Water [CX039]	$37.7	Water	Headworks, pipelines/ networks, treatment	Do your job well Plan for the future	Renewals, growth and Improvements compliance
Other projects - Wastewater [CX040]	$14.6	Wastewater	Pipelines/ networks, treatment	Do your job well Plan for the future Be environmentally responsible	Renewals, growth and Improvements compliance
Other projects – Corporate [CX041]	$3.3	Corporate	Corporate	Do your job well Be easy to deal with Be environmentally responsible	Renewals, growth and Improvements compliance

Our overall program spend has increased by 9.5% or $10.4 million over this regulatory period, as shown in in Table 44.

Table 44 Capital programs by driver 2018-23 to 2023-28 (Jan23$)

Program Capital Expenditure - Jan23$ Driver and Service	2018-23 $M	2023-28 $M	Variance $M	Variance %
Growth	**25.30**	**12.50**	**-12.80**	**-50.6%**
Wastewater	16.72	3.85	-12.87	-77.0%
Water	8.58	8.65	0.07	0.8%
Improvements / Compliance	**16.22**	**24.36**	**8.14**	**50.2%**
Corporate	4.50	7.91	3.41	75.8%
Wastewater	2.35	2.93	0.58	24.7%
Water	2.07	3.01	0.94	45.4%
Energy	7.30	10.51	3.21	44.0%
Renewals	**67.73**	**82.75**	**15.02**	**22.2%**
Corporate	11.90	16.38	4.48	37.6%
Wastewater	33.63	39.98	6.35	18.9%
Water	21.37	26.38	5.01	23.4%
Energy	0.83	0.01	-0.82	-98.8%
Total Programs	**109.25**	**119.61**	**10.36**	**9.5%**

The increase in our capital renewal programs reflects the increase in our asset base and replacement of ageing guarantee infrastructure. It also includes the introduction of proactive condition inspection and risk-based renewals of larger mains and civil facilities ($2.8 million in water and $1.6 million in wastewater) required to ensure we can continue to provide safe, reliable water and wastewater services at the lowest life cycle cost for these assets.

The decrease in our growth program is largely due to a reduction in wastewater shared assets. This decrease reflects the significant investment in shared assets in the 2018-23 regulatory period as we responded to strong development in our region.

This means we can now facilitate additional growth without additional investment under current forecasts. If a developer approaches us to develop parcels of land out of sequence with our Infrastructure Sequence Plans, we will work with them to facilitate that growth in our region for the benefit of our customers, but currently, we do not expect large investment in wastewater shared assets during the 2023-28 regulatory period.

Our other capital expenditure totalling $55.7 million is made up of 155 smaller projects to ensure we continue to provide safe and reliable water and wastewater services and enable efficiencies through improvements in our systems, which is an increase of $5.2 million or 10.2% from the previous period and incorporates an increase in growth projects of $5.2 million, including a wastewater treatment plant, sewer pump station and rising main upgrades in Warragul and Trafalgar.

7.6 Net capital expenditure

Forecast estimates for customer contributions have been derived from our estimates of income to be earned from the introduction of New Customer Contribution charges from July 2023 and capital contributions for the SWOP renewal program.

Forecast estimates for proceeds from disposals have been derived from the acquisition and disposal activities associated with managing the corporate motor vehicle, heavy vehicle, plant and equipment fleet over the regulatory period. Table 45 summarises the forecast for these items and details our net capital expenditure across the regulatory period.

Table 45 Net Capital Expenditure

Net Capital Expenditure - Jan23$	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M	2028-29 $M	2029-30 $M	2030-31 $M	2031-32 $M	2032-33 $M
Total Gross Capital Expenditure	59.58	48.91	63.13	56.77	39.32	56.18	77.86	69.04	65.66	44.22
Total Government Contributions	-	-	-	-	-	-	-	-	-	-
Total Customer Contributions	0.33	6.21	11.64	13.36	9.55	6.01	6.18	7.54	7.23	6.02
Net Capital Expenditure	**59.25**	**42.70**	**51.48**	**43.41**	**29.76**	**50.18**	**71.69**	**61.50**	**58.44**	**38.20**
Gifted Assets	10.51	10.51	7.36	7.36	7.36	7.36	7.36	7.36	7.36	7.36
Proceeds from Disposals	0.81	0.47	0.63	0.25	0.48	0.73	0.43	0.63	0.32	0.42

Supporting documents

- CX001 - Asset Management Accountability Framework
- CX002 - GW Asset Management Plan Framework for ISO55001 Asset Management System Plans Information Systems Responsibilities
- CX003 - Gippsland Water Asset Management Framework
- CX004 - AMAF 2022 attestation letter
- CX005 - GW 2021 attestation letter
- CX006 - Capital investment and approval policy
- CX007 - Capital investment and approval procedure
- CX008 - Capital Project Prioritisation Process
- CX009 - Cost estimate template
- CX010 - Instrument of delegation
- CX011 - GW projects and program decision-making process
- CX012 - Contracts and Procurement Handbook
- CX013 - Purchasing policy
- CX014 - Construction Tender Evaluation Criteria
- CX015 - Gippsland Water Asset Management Strategy 2020-25
- CX016 - P50 Deterministic Estimating Procedure June 2022
- CX018 - Outcomes, outputs and GSLs framework 2023-28
- CX019 - KPMG developed asset strategy
- CX020 - Tarago Water Resource Security Project Synopsis CX021D – Jacobs P50 project cost estimate – Connect Traralgon & Morwell Water Networks Stage 1
- CX021 - Traralgon Water - Connect Traralgon and Morwell Water Networks - STAGE 1 Project Synopsis
- CX021D - Jacobs P50 project cost estimate - Traralgon Water - Connect Traralgon and Morwell Water Networks - STAGE 1 Project Synopsis
- CX022 - Traralgon Tyers Interconnect Project Synopsis
- CX022D – Jacobs P50 project cost estimate – Traralgon Tyers Interconnect
- CX023 - Energy Program Synopsis
- CX024 - SWOP - Renewal Program Project Synopsis
- CX024D – Jacobs P50 project cost estimate – Saline Waste Outfall Pipeline renewal
- CX025 - Moe Sewer - Yarragon Township SPS (Factory Rd SPS) Rising Main and Pump Station Capacity Upgrade Project Synopsis
- CX025D – Jacobs P50 project cost estimate – Factory road sewer pump station and rising main upgrade
- CX026 - Warragul Sewer - WWTP upgrade - Stage 1a Project Synopsis
- CX026D – Jacobs P50 project cost estimate – Warragul WWTP Stage 1 upgrade
- CX027 - Traralgon Water - New Basin at Clarkes Storage Project Synopsis
- CX027A – Jacobs P50 project cost estimate – New Basin at Clarkes storage
- CX028 - Warragul Sewer - North East Branch Augmentation to Sutton St Project Synopsis
- CX028G – Jacobs P50 project cost estimate – Warragul Sewer North East branch augmentation
- CX029 - Drouin Water - Drouin West Watermain Project Synopsis
- CX029G – Jacobs P50 project cost estimate – Drouin West water main extension
- CX030 - Corporate SCADA System Replacement Project Synopsis
- CX030B – Jacobs P50 project cost estimate – SCADA replacement
- CX031 - Growth Program Synopsis
- CX032 - Water Networks Reliability Program Synopsis
- CX033 - Sewer Networks Reliability Program Synopsis
- CX034 - Water Facilities Reliability Program Synopsis
- CX035 - Sewer Facilities Reliability Program Synopsis
- CX036 - IT Program Synopsis
- CX037 - Safety Program Synopsis
- CX038 - Fleet and Facility Program Synopsis
- CX039 - Other Water Projects Program Synopsis
- CX040 - Other Wastewater Projects Program Synopsis
- CX041 - Other Corporate Projects Program Synopsis
- M004 - PS23 Data Governance Framework
- M009 - Statement of Obligations (Emission Reduction)
- M011 - Customer Charter
- P013 - 2023 Price Submission Engagement Strategy
- P031 - 2022 Urban Water Strategy
- R003 - Strategic Risk Register
- R004 – Strategic Risk Register Summary

8. Demand and growth

At a glance

- Residential connections are forecast to grow at an average rate of 1.66% per annum from actual connections in 2022-23 of 69,770 to end point connections in 2027-28 of 75,750
- Our revenue calculations are based on average connections across each year [(start point + end point) / 2]
- Our connections growth forecasts assume a short-term material increase in development activity, followed by a moderate slowdown to trend above pre-coronavirus (COVID-19) levels over the medium-term
- We are proposing to absorb forecasting risk on behalf of our customers by adopting the upper range of the most likely forecast scenario outcomes for growth
- Our water consumption demand linked to first five years of 50-year forecasts derived for the 2022 Urban Water Strategy
- We are proposing average annual residential per connection use of 166kL, consistent with actual usage in 2020-21 and 2021-22
- Forecast average residential water consumption will trend down slowly from 166.1kL in 2023-24 to 165.5kL in 2027-28

Demand forecasts are a key factor in our ability to deliver the outcomes our customers are seeking. They inform our forecasts of prudent expenditure and help establish the levels at which our tariffs are set.

This chapter discusses the process we undertook to develop our demand forecasts. It also sets out the key assumptions underlying the forecasts and how we have taken into consider the implications for customers of our forecasts being higher or lower than actual levels of demand.

8.1 How we forecast connections growth

Having a reliable and accurate understanding of the profile of population and dwellings growth across the towns that we service helps us to understand and plan for our future water and wastewater infrastructure needs. It is also a key determinant of residential and non-residential service charges and our new customer contributions.

We have experienced unprecedented increases in growth over the current period. Actual new residential connections have grown from 64,861 in 2018-19 to 68,712 in 2021-22. This is a 2.44% increase in total residential water connections on what we anticipated in the 2018 price review.

To manage our customers exposure to the risk associated with this growth we adopted a forecasting approach that draws on:

- Multiple sources of verifiable data
- Independent evidence-based reviews of historical demand patterns and forecasting assumptions
- Comprehensive scenario analysis, and
- Consultation with consultants, council planning departments, developers and analysis of future development proposals

We have forecast residential connections growth by extrapolating the historical rate of growth over the 2011 to 2021 period adjusting for the material skew in the data caused by actual outcomes observed in 2020-21 when actual connections growth exceeded forecast by 93%. This observation has been confirmed with actual new connections growth for the 2021-22 year return to historic averages.

We then adopted a scenario-based approach that centred on the assumption that growth over the current period has peaked and will return to pre-coronavirus (COVID-19) levels. This assumption is based on sensitivity analysis of the outcomes of the preliminary release of 2021 Victoria in the Future projections [R007] and independent study of development trends within our region and across each of our systems. A reputable macroeconomic consultant then undertook a macroeconomic review of our baseline growth forecasts, taking into account consumer behavioural shifts post the coronavirus (COVID-19) pandemic government interventions [R008].

The three core scenarios we considered related to how quickly our long-term growth rates will return to pre-coronavirus (COVID-19) levels and comprised the following:

1. **Corridor renaissance**: a material increase in development activity, followed by moderate slow down to trend above pre-coronavirus (COVID-19) levels to medium-term
2. **Population boom**: a material increase in development activity, followed by stepped slow down to pre-coronavirus (COVID-19) growth rates over the long term
3. **Quick return to normal**: a material increase in development activity, followed by quick slow down to pre-coronavirus (COVID-19) levels.

The connections outcomes for each of these scenarios is outlined in Table 46 below.

Table 46 Number of Customer Connections per growth scenario outcomes

Scenario outcomes	2023-24	2024-25	2025-26	2026-27	2027-28
Corridor renaissance	1,141	1,178	1,219	1,186	1,257
Population boom	1,010	1,046	1,081	1,122	1,190
Quick return to normal	943	969	1,003	1,060	1,126

We are absorbing risk on behalf of our customers by proposing growth forecasts of residential water and wastewater connections based on the annual average new connections from Scenario 1: Corridor renaissance. This scenario results in the highest forecast of connections growth relative to the other scenarios. The scenario is also materially higher (18%) than the growth outlined in Victoria in the Future 2021.

Non-residential connections growth has been based on the previous five year historic trend and averages 14 new connections per annum across the 2023-28 and 2028-33 regulatory periods.

8.2 Our connection forecasts

Our proposed connections for residential and non-residential customers are outlined in Table 47. Connections for residential water customers are forecast to grow at an average annual rate of 1.66% per annum over the 2023-24 to 2027-28 period. Wastewater connections growth is constant with water connections growth. While constant across both services the difference in absolute connections between water and wastewater is due to some towns we service being provided with water only.

Table 47 Ten-year connection growth, end point forecasts

Connections Forecast	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Residential Water	1,196	1,196	1,196	1,196	1,196	1,196	1,196	1,196	1,196	1,196
Residential Wastewater	1,169	1,169	1,169	1,169	1,169	1,169	1,169	1,169	1,169	1,169
Non-Residential Water	14	14	14	14	14	14	14	14	14	14
Non-Residential Wastewater	14	14	14	14	14	14	14	14	14	14

Table 48 shows absolute connection numbers for residential and non-residential customers.

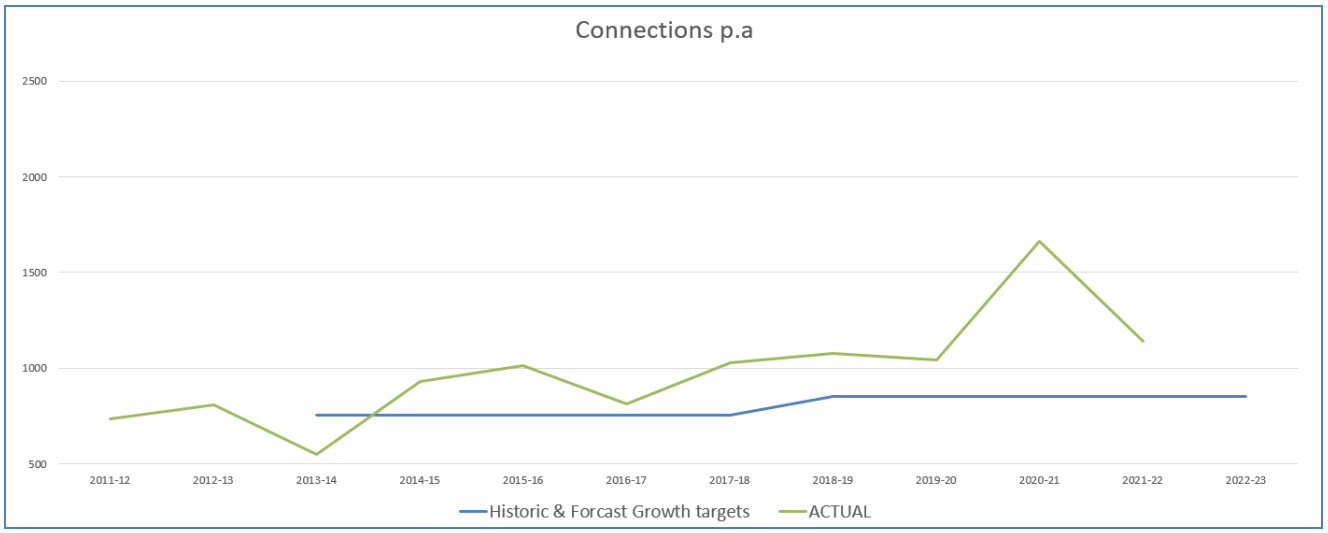
Table 48 Ten-year absolute connections, end point forecasts

Connections Forecast	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Residential Water	70,966	72,162	73,358	74,554	75,750	76,946	78,142	79,338	80,534	81,730
Residential Wastewater	64,186	65,355	66,524	67,693	68,862	70,031	71,200	72,369	73,538	74,707
Non-Residential Water	6,112	6,126	6,140	6,154	6,168	6,182	6,196	6,210	6,224	6,238
Non-Residential Wastewater	5,384	5,398	5,412	5,426	5,440	5,454	5,468	5,482	5,496	5,510

Our forecasts represent a 0.59% increase on historical growth trends over the 2018-23 regulatory period for residential connections and is unchanged for non-residential customers from the 2018-23 regulatory period. For residential customers this difference is due primarily to the surge in housing development we have experienced over 2021 and 2022. Connections increased on average in each of these years by 1,403. Consistent with our external macroeconomic forecasting advice we are expecting this surge to end by 2022-23.

Figure 26 compares our actual residential connections growth with our historic growth forecasts.

Figure 26 Actual residential connections growth with our historic growth forecasts



The connections forecasts outlined in Table 48 are consistent with the forecasts underlying the capital expenditure program proposed in Chapter 7.

8.3 How we forecast water consumption

A key input into our long-term business planning is forecasting of future water yield and water consumption requirements of our customers [DG001]. Fifty-year forecasts of yield and consumptive demand are developed every five years as part of our Urban Water Strategy and these forecasts inform our pricing proposal and forecasts of operating and capital expenditure [P031, DG002]. The water consumption forecasts included within our 50 year Urban Water Strategy have informed our future capital investment profile including the capital expenditure forecasts proposed in Chapter 7, and our operational expenditure forecasts outlined in Chapter 6.

Residential and non-residential water consumption forecasts are based on projections of per connection consumption for both residential and non-residential customers by the growth in connections for both customer cohorts.

Per connection consumption rates considered a range of scenarios including base case (current average, levelised for growth where applicable like Warragul/Drouin), low water use (based on the average per connection consumption for dwellings in the relevant system connected in the past 10 years), and for a selection of systems, high climate change, in which demand was scaled over the long term using long term climate change projections (from DELWP guidelines) and relationships we derived between demand and meteorological indicators [DG001].

Broad assumptions adopted include:

- Water use reflects long term average weather outcomes. We have aligned our projected annual average consumption to factors such as annual rainfall, mean annual temperature and seasonality (summer rainfall)
- A decreasing trend in residential land size. Average lots are decreasing from around 1000m^2 to around 500m^2. At the same time, the average residential dwelling is increasing from around 130m^2 to 243m^2. These changes have been reflected in our assumptions regarding outdoor water use
- No water use restrictions during the period
- Given the lack of material price change over the regulatory period we have applied a zero-price elasticity to both residential and non-residential consumption, and
- We are also not proposing any changes in tariff structures or in the price controls that govern our pricing that would affect demand over the regulatory period

We have also tested the impact of each of these assumptions on our customers pricing and billing outcomes and on our expenditure forecasts through extensive scenario analysis relating to risks associated with climate outcomes, regulatory and policy change and customer behaviour.

8.4 Our water consumption forecasts

Our proposed water consumption for residential and non-residential customers are outlined in Table 49. The volume of water our residential and non-residential customers consume is forecast to grow at an average annual rate of 1.5% and 0.3% per annum over the 2023-24 to 2027-28 period. Our Price Submission forecasts are consistent with the first five years of the long term 50-year consumptive trends outlined in our 2022 Urban Water Strategy.

Table 49 10-year water consumption forecasts

Water Consumption Forecast (kL)	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Residential Water	11,680,201	11,856,780	12,040,162	12,215,937	12,398,744	12,588,927	12,779,111	12,969,295	13,159,478	13,349,662
Non-Residential Water	1,996,306	2,001,770	2,007,233	2,012,696	2,018,159	2,023,622	2,029,086	2,034,549	2,040,012	2,045,475

Forecast volumes are based on the forecast per connection use outlined in Table 50.

Table 50 Five-year water consumption forecasts

Water Consumption Forecast (kL)	2023-24	2024-25	2025-26	2026-27	2027-28
Residential Water	166.1	165.9	165.8	165.6	165.5
Non-Residential Water	327.0	327.0	327.0	327.0	327.0

Our forecast residential consumption is consistent with actual usage per connection in 2020-21 and 2021-22 of around 166kL per connection. Actual water consumption per connection has historically exhibited substantial variation in the short term due to seasonality, weather, landscape features and the size of households and over the longer term in response to regulatory and other demand management policy settings.

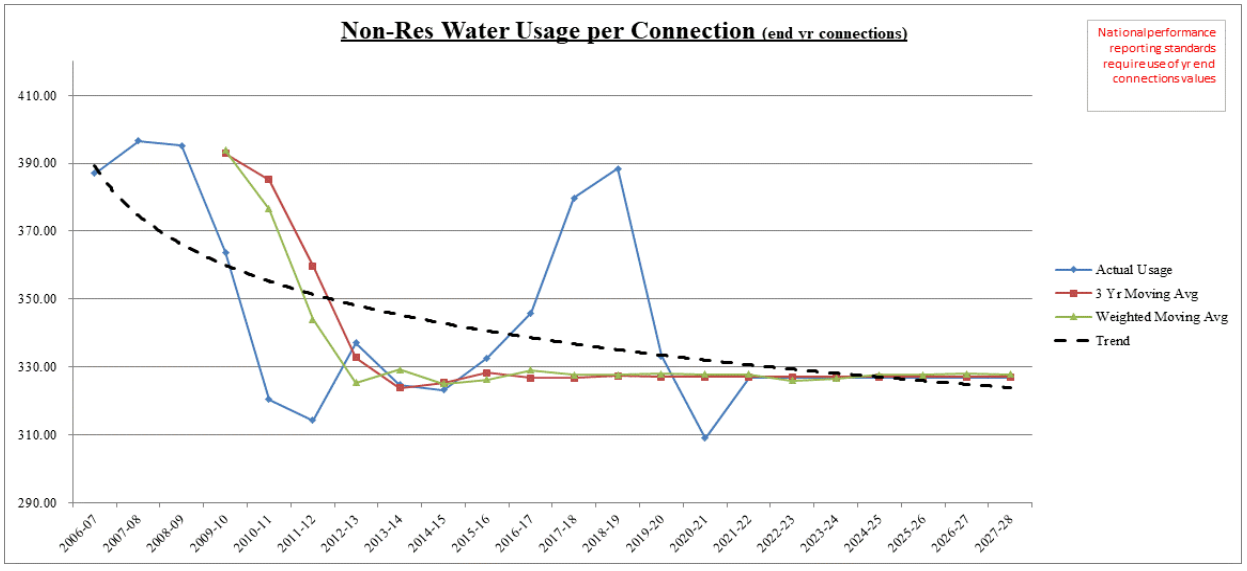
Figure 27 shows that, average residential consumptive demand has substantially changed over the past two decades, with average residential consumption per connection decreasing from 220kL per connection in 2002-03 to a relatively steady year on year consumption of around 166kL per connection in 2020-21. This change is due to demand management initiatives driven by the

Victorian Water Industry in response to the millennium drought and climate change and the widespread uptake by customers of water efficient appliances and water efficient gardens.

Figure 27 Average residential consumption per connection

Historical water consumption for non-residential customers has been relatively more variable than residential consumption (see Figure 28). Non-residential consumption displays significant year on year variability, which has traditionally been driven by our dry summers. A large proportion of our 6,500 non-residential consumers are rural lifestyle properties or farming enterprises (particularly dairy) that rely on the reticulated water network for livestock watering needs and councils maintaining parks and recreational facilities through the summer months. Their heightened demand during our dry periods has driven the historical peaks observable in Figure 28.

Figure 28 Non-residential water consumption per connection



2019-20 and 2020-21 saw significant declines in non-residential consumption in response to coronavirus (COVID-19). Consumption trends in these years between residential and non-residential customers reflected the impacts of mandated “work from home” and “business shutdowns”. During this period we saw a material upswing in average residential consumption and a corresponding downswing in non-residential consumption. We anticipate as the economy returns to “normal” patterns of work that the long-term trends for residential and non-residential customers will return to our historic norms as indicated by 2021-22 actuals as employees return to the workplace.

8.5 Major customer water consumption and wastewater discharge

We service a range of major customers whose water and wastewater needs are unique to our region both in terms of very significant volumes and water quality requirements. We provide these customers with various combinations of both raw and potable water as well as wastewater treatment services. The scale of some of our major customers in terms of water usage means that changes in their operations can be significant in terms of overall demand and demand patterns.

We have five major customers who consume around 75% of the total water we supply. Each of these customers has an individual contractual arrangement with us governing the cost and quantum of water supplied. Four of these customers receive untreated raw water direct from the catchment, the other receives treated (potable) water. Demands from these customers are relatively constant and are directly related to their production environments.

For this submission our major customer water consumption and wastewater discharge demand forecasts have been developed based on individual consultation with each of these customers with respect to future demand requirements.

Additional information that is classified as either sensitive information or protected commercial information, has been provided directly to the ESC as part of our submission for assessment of this item.

8.6 Our wastewater and trade waste discharge forecasts

Except for 18 major customers, we do not individually meter wastewater discharge volumes from non-residential properties. Wastewater discharge volumes are derived from a customer's actual water volumes on the basis of conversion factors based on property type.

Wastewater volumes are calculated for non-residential customers which use in excess of 100 kilolitres of water in any four monthly billing period. The conversion factors used are set out in Table 51 and described in detail in Appendices 3 and 4.

Table 51 Property-based discharge conversion factors

Property based discharge conversion factors	Conversion factor
Examples Include:	
Cinema, Clubs, Schools, Hospitals, Dry Cleaners, Hairdresser/Barber, Medical rooms	95%
Accommodation, Food processing/Manufacturing	75%
Caravan Park, Farms, Horse Stables, Kennels	50%
Cemetery, Concrete Batching Facility, Plant Nursery, Saw Mill	25%

The property type percentage is set in ranges according to the type of business conducted on the property. With customers whom have a high correlation between their water consumption and sewer discharge patterns paying 95% of their metered water consumption through to the other end of the spectrum with those non-residential customers whom have no correlation between water consumed and wastewater discharge. For example, property types designated at 95% include schools, hospitals, child care facilities and shopping centres. Property types designated at 25% include, sawmills, concrete batching facilities, plant nursery and cemeteries.

As only 1,000 of our 5,500 non-residential customers incur a wastewater volumetric charge we have based our demand forecasts on a five year historical trends. Total volumes forecast to be discharged by this customer cohort is shown in Table 52.

Table 52 10-year non-residential wastewater volumetric discharge forecasts

Wastewater Consumption Forecast kL	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Non-Residential Wastewater	762,601	762,601	762,601	762,601	762,601	762,601	762,601	762,601	762,601	762,601

Supporting documents

- DG001 - Consumption analysis
- DG002 - Urban Water Strategy Demand Model
- P031 – Urban Water Strategy 2022
- R007 - VIF 2021
- R008 - Gippsland Water – Scenario Forecasting – Final Report (KPMG)

9. Required revenue

At a glance

- Reduced average customer bill every year for the next five years before inflation
- Forecast revenue requirement is $694.63 million over five years to efficiently meet all of our legislative, regulatory, policy and customer obligations
- Our return on assets is based on an Advanced PREMO rating as detailed in Chapter 11
- We have made no allowance for the payment of income tax during this regulatory period
- We will continue to use individual price caps as our form of price control

The prevailing theme running through the many conversations we've had with our customers and stakeholders has been affordability and fairness.

Our customers expect that the cost of services should be covered by those who use them, meaning they don't want to see any cross-subsidy between customer groups. They were particularly clear that big business should be paying its way, and that they want us to keep them engaged and informed about our long term planning.

We are proud that we are proposing to reduce the average customer bill every year for the five-year period, before inflation.

During the 2018-23 regulatory period, we have not been subject to any financial event that would alter our current credit rating in a manner that would impact on the amount of revenue required to maintain our financial sustainability.

We have also considered our ongoing legislative, regulatory and policy obligations including the challenges of climate change, major industry restructure and meeting the needs of our rapidly growing population.

Our revenue requirement reflects the costs we need to recover through prices. It includes:

- Return on assets (Regulatory Asset Base *Regulatory Rate of Return)
- Regulatory depreciation of new and existing assets
- Operating expenditure, and
- Anticipated tax liability

To deliver the outcomes proposed in this Price Submission, the forecast revenue requirement for the 2023-28 regulatory period is $694.63 million, broken down across the following building blocks is shown in Table 53.

Table 53 Revenue requirement 2023-28 (Jan23$)

Jan 23$ Revenue Requirement - Building Blocks	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M	5 Year Total $M
Operating Expenditure	89.37	90.12	91.44	92.35	91.58	454.87
Return on assets	24.94	23.89	23.50	23.14	22.77	118.24
Regulatory depreciation of assets	21.87	23.11	24.19	25.43	26.92	121.52
Tax Liability	-	-	-	-	-	-
Total Revenue Requirement	**136.18**	**137.12**	**139.13**	**140.92**	**141.28**	**694.63**

This is a 0.33% decrease on our prescribed revenue allowance for the 2018-23 period of $696.90 million.

Our forecast revenue requirement for the sixth regulatory period (2028-29 – 2032-33) is $732.89 million as detailed in Table 54 below.

Table 54 Revenue requirement 2028-33 (Jan23$)

Jan 23$ Revenue Requirement - Building Blocks	2028-29 $M	2029-30 $M	2030-31 $M	2031-32 $M	2032-33 $M	5 Year Total $M
Operating Expenditure	91.58	91.58	91.58	91.58	91.58	457.91
Return on assets	22.53	22.70	23.80	24.85	25.18	119.06
Regulatory depreciation of assets	28.38	29.80	31.29	32.65	33.80	155.92
Tax Liability	-	-	-	-	-	-
Total Revenue Requirement	**142.49**	**144.09**	**146.67**	**149.08**	**150.56**	**732.89**

On average our revenue requirement has increased by 1.12% per annum over the ten year forecast period, covering the fifth and sixth regulatory periods. This is entirely driven by capital investment over the two periods.

9.1 Forecast regulatory asset base

The return on assets and regulatory depreciation is dependent on the Regulatory Asset Base (RAB). The forecast opening RAB value for 2023-24 is based on actual (to 2021-22) and forecast (2022-23) capital expenditure, government and customer capital contributions (including NCCs) and proceeds from asset disposals (less regulatory depreciation to 2022-23).

Table 55 outlines our closing RAB at 30 June 2022, our forecast opening RAB for the beginning of the next regulatory period and our year on year RAB forecast for the 2023-28 regulatory period.

Table 55 Forecast regulatory asset base 2023-28 (Jan23$)

Jan 23$ Regulatory Asset Base (RAB)	2021-22 $M	2022-23 $M	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M
Opening RAB	854.30	875.03	901.96	938.53	957.66	984.32	1,002.06
plus capital expenditure	43.54	50.96	59.58	48.91	63.13	56.77	39.32
less Government contributions	-	-	-	-	-	-	-
less Customer contributions	-	0.42	0.33	6.21	11.64	13.36	9.55
less Proceeds from disposals	0.56	0.27	0.81	0.47	0.63	0.25	0.48
less Regulatory depreciation	22.25	23.35	21.87	23.11	24.19	25.43	26.92
Closing asset base	**875.03**	**901.96**	**938.53**	**957.66**	**984.32**	**1,002.06**	**1,004.42**

We are forecasting capital expenditure to increase in the sixth regulatory period from $268 million in the 2023-28 period, to $313 million in 2028-33. Over this forecast period the value of the RAB is projected to increase to above $1.1 billion by June 2033 as shown in Table 56 below.

Forecast estimates for customer contributions have been derived from our estimates of income to be earned from the introduction of New Customer Contribution charges from July 2023 and capital contributions for the SWOP renewal program [P002, PT003, PT004].

Forecast estimates for proceeds from disposals have been derived from the acquisition and disposal activities associated with managing the corporate motor vehicle, heavy vehicle, plant and equipment fleet over the regulatory period.

Table 56 Forecast regulatory asset base 2028-33 (Jan23$)

Jan 23$ Regulatory Asset Base (RAB)	2028-29 $M	2029-30 $M	2030-31 $M	2031-32 $M	2032-33 $M
Opening RAB	1,004.42	1,025.48	1,066.95	1,096.52	1,121.98
plus capital expenditure	56.18	77.86	69.04	65.66	44.22
less Government contributions	-	-	-	-	-
less Customer contributions	6.01	6.18	7.54	7.23	6.02
less Proceeds from disposals	0.73	0.43	0.63	0.32	0.42
less Regulatory depreciation	28.38	29.80	31.29	32.65	33.80
Closing asset base	**1,025.48**	**1,066.95**	**1,096.52**	**1,121.98**	**1,125.97**

Gifted assets across regulatory periods five and six are shown in Table 57 which have not been included within the Regulatory Asset Base.

Table 57 – Gifted Assets 2023-33 (Jan23$)

Jan23$	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M	2028-29 $M	2029-30 $M	2030-31 $M	2031-32 $M	2032-33 $M
Gifted Assets	10.51	10.51	7.36	7.36	7.36	7.36	7.36	7.36	7.36	7.36

9.2 Return on assets

The return on assets is calculated by applying a regulatory rate of return to the regulatory asset base. The regulatory rate of return comprises two components:

- a return on equity, and
- a cost of debt.

9.2.1 Return on Equity

We are proposing an **'advanced'** rating (refer Chapter 11) for this Price Submission. This allows a real return on equity of 4.5%.

9.2.2 Cost of Debt

The benchmark cost of debt has been determined using the ESC 10-year trailing average approach to cost of debt, current at the time of preparing this submission.

9.3 Regulatory depreciation

A straight-line depreciation approach for each of our asset classes, has been utilised in determining the regulatory depreciation of our assets. Regulatory depreciation is calculated from the date an asset enters into service.

In determining regulatory depreciation on existing assets we have reviewed the remaining lives of our existing assets against our accounting records and applied a weighted average life for all existing assets [RR001].

Regulatory depreciation of new assets has been calculated based upon an average life of 60 years for infrastructure related assets and 10 years for non-infrastructure assets which is again consistent with the approach we adopted in previous regulatory periods [RR001, P002].

Table 58 below outlines our forecast regulatory depreciation for the 2023-28 regulatory period.

Table 58 Forecast regulatory depreciation 2023-28 (Jan23$)

Jan 23$ Regulatory Depreciation	2021-22 $M	2022-23 $M	2023-24 $M	2024-25 $M	2025-26 $M	2026-27 $M	2027-28 $M
Existing Assets	19.02	19.02	21.15	21.15	21.15	21.15	21.15
New Assets	3.23	4.33	0.72	1.96	3.04	4.28	5.77
Total Regulatory depreciation	**22.25**	**23.35**	**21.87**	**23.11**	**24.19**	**25.43**	**26.92**

9.4 Prior period adjustments

In determining the revenue requirement for 2023-28, we have no prior period adjustments from the 2018-23 period to be considered.

9.5 Tax allowance [RR004, RR005]

Our financial modeling indicates that we will move into an income tax paying position during the 2023 regulatory period. A recent challenge by Victorian Power Network Pty Ltd of the Australian Taxation Office (ATO) treatment of realising gifted assets as taxable income achieved a favorable outcome meaning that this income is now no longer recognised as taxable.

The treatment of gifted assets within the water industry is identical to the electricity industry, accordingly the Victorian water industry (via VicWater) has approached the ATO regarding its taxation treatment of gifted assets within the water industry. VicWater will be submitting a request to the ATO for a private ruling on this matter, on behalf of the Victorian water industry for which a ruling is anticipated in the 2022-23 financial year. A favourable ruling would result in us not becoming a tax paying entity for at least another decade.

We have weighed the revenue risk of an adverse ATO ruling against the likelihood of a favorable ruling and have proposed a zero tax allowance for 2023-24 to 2027-28. However, the potential revenue impact of an adverse ruling is significant. We are proposing to manage this risk by adopting a pass through mechanism that will allow us to levy prices that reflect our tax liabilities if the ATO rules that gifted assets remain taxable income. Income tax is an exogenous non-controllable cost, and it is consistent with full cost recovery and the principle of financial sustainability that we recover these costs through our prices.

In the event that the ATO makes an unfavourable ruling prior to the ESC determination, we are proposing that the ESC consider the prices outlined in appendix four as our proposed prices. These prices align in all aspects with our proposed prices as outlined in Chapter 10/Appendix three the only difference being the inclusion of a tax allowance based on the inclusion of gifted assets in the underlying tax allowance calculation.

In the event that the ATO does not make a ruling before the ESC's determination, we are proposing the following pass through mechanism be applied annually for 2024-25 to 2027-28.

Tariff x (1+PPM%) x (1+CPI%) x (1+Tax Allowance Factor)

The Tax Allowance Factor is calculated as the percentage difference between the revenue requirement as forecast for that year and the forecast revenue requirement adjusted to include a tax allowance.

Under this pass-through mechanism, any tax liability resulting from the ATO ruling would be allocated equally across all prices. In order to provide our customers with certainty, we are also proposing that the Tax Allowance Factor be based on the forecast gifted assets as outlined in this proposal.

Table 59 and appendix 3 provides the revised tariff and price path should the pass through mechanism be triggered.

Table 59 Average annual bill Jan23$ inclusive of tax allowance

Average Annual Bill (Jan23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Full Service Residential Customer	$1,362.90	$1,289.99	$1,288.05	$1,286.12	$1,284.19	$1,282.27
Residential Tenant	$366.31	$346.72	$346.20	$345.68	$345.16	$344.64
Full Service Non-Residential Customer	2,258.12	$2,147.61	$2,145.16	$2,142.71	$2,140.26	$2,137.82
Property Investor	$996.59	$943.27	$941.86	$940.44	$939.03	$937.63

9.6 Form of price control and approach to adjusting prices

We propose to keep our existing price cap means of price control.

Over the last four regulatory periods, we have adopted the individual price cap approach to price control. After comparing the benefits, particularly to customers, of the individual price cap approach to other price control mechanisms we believe that individual price caps provide greater certainty for customers and have again adopted this approach for the 2023-28 regulatory period. We recognise that we retain the ability to price below the price cap where actual demands are significantly above forecast passing through savings to customers.

A price path of CPI minus 0.15% per annum for 2024-25 to 2027-28 is proposed for our residential and non-residential water and wastewater service availability charge and treated water usage charge.

All other scheduled charges will be increased by CPI each year.

The formula that gives effect to this form of price control is expressed as:

Tariff x (1+PPM%) x (1+CPI%)

Appendix 3 sets out the scheduled tariffs for the 2023-24 year in Jan23$ and shows the proposed price path moving forward **excluding income tax pass through**.

As discussed in section 9.5 above we are seeking a pass through of income tax allowance should this become payable in the 2023-28 regulatory period. This pass through will apply to all regulated tariffs charged by us in this regulatory period.

Appendix 4 sets out the scheduled tariffs for the 2023-24 year in Jan23$ and shows the proposed price path moving forward **including estimated tax pass through**.

Cost of debt adjustments will apply to all regulated tariffs charged by us in this regulatory period excluding miscellaneous fees and charges and New Customer Contributions.

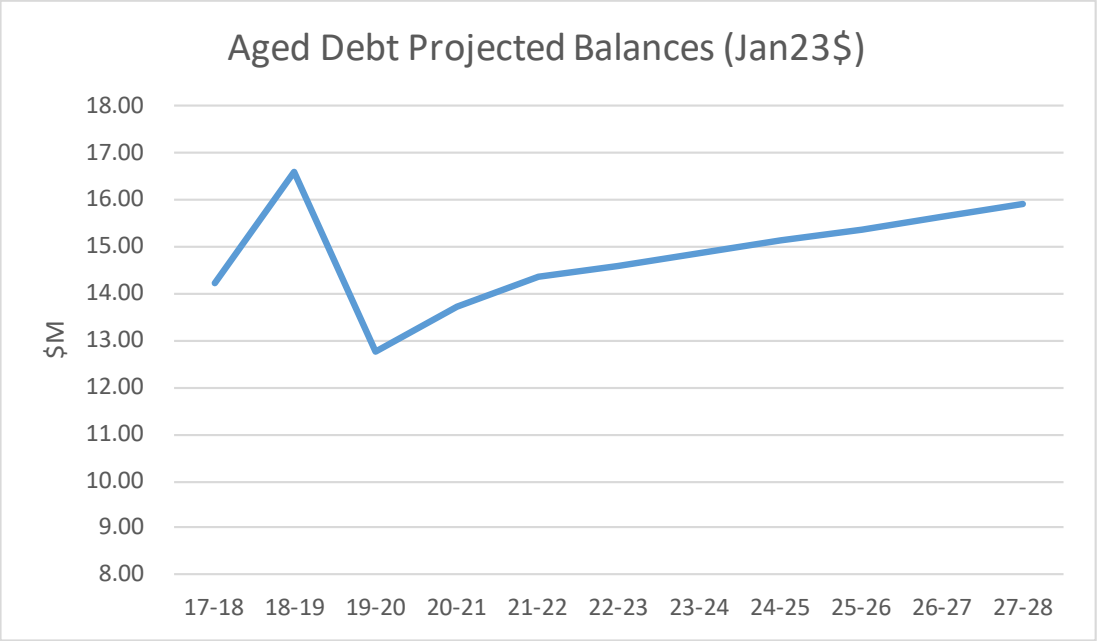
9.7 Length of regulatory period

We are proposing a five-year regulatory period for this Price Submission.

9.8 Revenue not collected

We continue to have one of the largest proportions of customers on payment instalment plans across the Victorian water industry, with approximately 1 in 10 customers on an instalment plan. As discussed in Chapter 1, the increased cost of living is putting pressure on our aged debtor balance. Despite us proactively working with customers facing financial difficulties to assist them manage their debt balance many are choosing not to participate in our instalment payment plan program due to an inability to continue to service the repayment plan, which is increasing our levels of aged debt as shown in Figure 29. For the 2023-28 regulatory period we have prudently increased our provision for revenues not collected by $260,000 per annum.

Figure 29 Aged debt projected balances (Jan 23$)



In order to mitigate this, we are proactively investing in additional resources in our Customer Care team to enable us to proactively reconnect with these customers through measures such as additional customer outreach calls, customer care reviews, payment incentive reviews, administration of an alternative credit cycle and community visits to engage with customers experiencing financial difficulties.

Table 60 shows the number of customers we are currently managing who have identified that they are in financial hardship.

Table 60 Customers in hardship

Average Annual Bill (Jan23$)	30 June 2022	30 June 2021
Customers paying with direct debit (paid in full by due date)	5,551	5,318
Customers on instalment plan (excluding hardship)	6,846	7,399
Hardship customers on payment plan	777	885
Total payment plans	**7,623**	**8,284**
Percentage of customers on payment plans	10.35%	11.30%
Hardship customers	1,458	1,437
Percentage of hardship customers on payment plans	53.29%	62.00%

9.9 Non-prescribed revenue [RR002]

The Water Industry Regulatory Order (WIRO) outlines declared services that the ESC has the power to regulate. The activities that fall outside the scope of the WIRO are outlined in more detail below.

We operate two commercial businesses, Gippsland Regional Agribusiness (GRA) and Gippsland Regional Organics (GRO). GRA comprises of 12 farming and forestry properties covering 10,000 Ha. with a projected annual average turnover of $3.3 million per annum. GRO is an EPA-licensed waste treatment and composting facility, with a projected annual average turnover of $7.4 million per annum.

The operating and capital expenditures, and revenues generated by these non-prescribed activities, are excluded from the expenditures and revenues outlined in this Price Submission.

9.10 The allocation of shared costs between prescribed and non-prescribed services [RR002]

We allocate corporate costs across the prescribed and non-prescribed activities where they are shared between them. Allocations are made on the basis that each of the non-prescribed activities is an independent stand-alone business, and as such would normally incur overhead costs including legal advice, payroll and accounting services, and computer and stationery costs.

For this submission, a total of $300,000 of operating expenditure per annum is allocated to our non-prescribed services, and not included in our Price Submission against prescribed services. The impact of these allocations to the prescribed business is a reduction in the total value of corporate costs included as operating expenditure in the revenue requirement. In other words, customers of the prescribed business are not subsidising corporate costs of the non-prescribed businesses.

Supporting documents

- P002 - Financial Model
- PT003 - NCC model – water
- PT004 - NCC model - wastewater
- RR001 - Asset lives data
- RR002 – Allocation between prescribed and non prescribed data calculations spreadsheet
- RR004 - Vic Water/ATO - Briefing January 2022.Re: tax ruling
- RR005 - Vic Water/ATO - Notes of Discussion - MAY 2022 RE: Tax ruling

10. Prices and tariff structures

At a glance

- A better deal for customers by delivering price decreases for both residential and non-residential customers every year for the next five years, before inflation
- This Price Submission proposes no change to the individual price cap approach to our current tariff structures
- Service tariffs continue to be applied uniformly across all serviced towns (postage stamp pricing)
- Re-introduction of Developer New Customer Contributions
- Review undertaken of our miscellaneous service tariff suite and rebased all of our service fees to be reflective of service delivery costs
- Reviewed and adjusted our Quality Based Trade waste tariff to be reflective of the cost to service these two customers

10.1 How customers have influenced tariff structure

Throughout our customer engagement journey, we have received a clear mandate from customers that affordability, fairness and value for money are important to them [E001]. Our customers want water and wastewater services at a fair price and they also want customers to pay their way, especially big business.

To deliver this proposal, we need $694.63 million in revenue. To recover this from customers, we propose to keep our current tariff structure, but we will also:

- Re-introduce New Customer Contributions (NCCs) – a contribution from developers and new customers connecting to our water and wastewater services to assist in covering the augmentation costs of servicing our growing community [PT001-004],
- Re-negotiate contracts with our major customers so that they better reflect the cost of the service we deliver them, and
- Realign Quality Based Trade Waste tariffs with real costs to serve [PT005].

Our proposal to retain the current tariff structure is consistent with customer feedback received during our engagement journey for this Price Submission as outlined in Chapter 2 Engagement (section 2.9).

The above three initiatives were considered and deliberated on by our customer summit panel, which also considered input from our major customers, developers and other key stakeholders such as Council representatives and other water corporations.

Overall, we are aiming to deliver a price decrease of $91.30 for the average urban customer - $66.76 for a property investor and $24.54 for a tenant - with the majority of the decrease applied in year one and smaller real decrements each year thereafter.

For non-residential customers, including small businesses, we’re aiming to deliver a price decrease of $137.40 with the majority of the decrease applied in year one and smaller amounts each year thereafter.

These bill decreases demonstrate our commitment to being affordable and fair, and to listen and respond to our customers' priorities.

We've been able to achieve this by driving operating efficiencies within our business and stretching ourselves to achieve an even greater efficiency target in 2023-28 than we ever have before.

We propose to protect everyday customer bills from unnecessary business risk. We are challenging ourselves by bearing more risks on behalf of our customers, as discussed in Chapter 4, focusing on further efficiency gains and renegotiating commercial arrangements so that the cost of service is borne by those who use them.

Figure 30 and Table 61 demonstrates our proposed average annual bill by customer type. Appendix 3 sets out the scheduled tariffs for the 2023-24 year and shows the proposed price path moving forward **excluding** tax pass through. Appendix 4 sets out the scheduled tariffs for the 2023-24 year and shows the proposed price path moving forward **including** estimated tax pass through.

Figure 30 Average Annual Bill by customer type (Jan23$) [PT006]

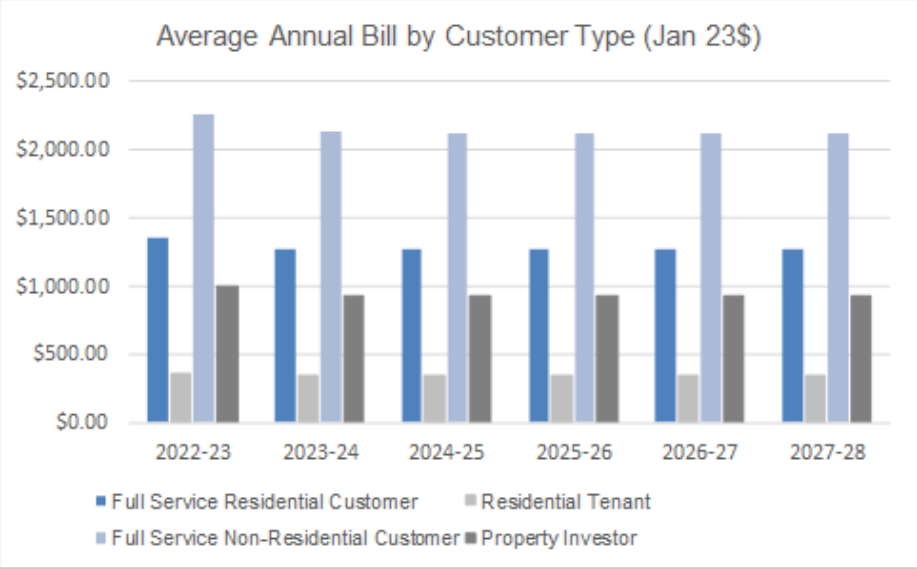


Table 61 Average annual bill per customer type (Jan23$) (excluding tax allowance)

Average Annual Bill (Jan23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Full Service Residential Customer	$1,362.90	$1,279.26	$1,277.34	$1,275.43	$1,273.52	$1,271.60
Residential Tenant	$366.31	$343.83	$343.32	$342.80	$342.29	$341.77
Full Service Non-Residential Customer	$2,258.12	$2,130.43	$2,128.00	$2,125.57	$2,123.14	$2,120.72
Property Investor	$996.59	$935.43	$934.03	$932.63	$931.23	$929.83

10.2 Water tariffs

Our water tariff structure comprises a fixed service availability fee and a volumetric charge. The water service availability fixed charge is a contribution towards the cost of providing the water supply to the property and is charged according to the size of the service (not the meter itself). Non-connected properties pay 50% of the minimum fixed availability charge.

The water volumetric charge is charged at a rate per kilolitre of metered water usage at the property, regardless of meter size.

We are proposing to continue with this structure in the next regulatory period.

10.3 Wastewater tariffs

Our wastewater tariff structure comprises a fixed availability charge for both residential and non-residential customers.

Non-connected properties pay 50% of the minimum fixed availability charge.

A wastewater volumetric charge applies to non-residential customers who use in excess of 100 kilolitres of water in any four monthly period, calculated and levied on the following basis:

- A = water usage above 100 kilolitres in any four monthly period
- B = $rate per kilolitre
- C = a percentage figure of 95%, 75%, 50% or 25%, based upon the property type
- D = the Wastewater Volumetric Charge to be paid

The volumetric charge for wastewater is calculated as D = A x B x C. The charge is set according to the type of business conducted on the property.

Approximately 1,000 of our 6,500 non-residential wastewater customers pay a wastewater volumetric fee.

We are proposing to continue with this calculation methodology in the next regulatory period, with a real reduction in the wastewater volumetric charge to be paid.

A detailed breakdown of our water and wastewater tariff fees is provided in Table 62 below.

Table 62 Water and wastewater tariffs 2022-28

Prices (Jan 23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Residential Water Tariff						
Service Charge (per annum)	178.14	167.21	166.96	166.71	166.46	166.21
Usage Charge (per kL)	2.2377	2.1004	2.0972	2.0941	2.0909	2.0878
Non Residential Water Tariff						
Service Charge (per annum)	178.14	167.21	166.96	166.71	166.46	166.21
Usage Charge (per kL)	2.2377	2.1004	2.0972	2.0941	2.0909	2.0878
Residential Wastewater Tariff						
Service Charge (per annum)	818.45	768.22	767.07	765.92	764.77	763.62
Non Residential Wastewater Tariff						
Service Charge (per annum)	818.45	768.22	767.07	765.92	764.77	763.62
Usage Charge (per kL)	4.2636	4.0896	4.0896	4.0896	4.0896	4.0896

10.4 Quality-based trade waste tariff [PT005]

Quality-based trade waste (QBTW) was established in 2010 to provide an incentivised pricing methodology for high risk trade waste customers to improve and manage the quality of their trade waste. This helps alleviate pressures on our wastewater system and ensures the customer placing the pressure on the system, pays the proportionate amount for their service.

The basis of the QBTW mechanism had not been reviewed since its inception and no periodic reviews have been undertaken to ascertain whether those customers assessed as presenting a risk to a treatment plant still present this risk.

A review of each customer identified that three of the remaining five customers, no longer met the risk parameters to be QBTW customers.

Further review of the QBTW mechanism has identified an unintended consequence of the incentive arrangement where customers subject to the QBTW regime but not meeting the risk parameters were advantaged due to a weighting error in the original calculation methodology. This meant that our other non-residential customers paying a wastewater volumetric fee were disadvantaged and provided an inequality.

To address this issue, we have modified the QBTW methodology to address the current tariff inequity and to continue to incentivise high risk trade waste customers to discharge compliant trade waste. The change will see those customers remaining on the QBTW charged a base fee equivalent to that of a standard trade waste customer and a load-based cost recovery fee for non-compliant discharge. Table 63 details the base volumetric fee and load based cost recovery fee.

Table 63 Volumetric and load-based QBTW fee

Prices (Jan 23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Quality Based Trade Waste Tariff						
Volumetric Charge (per kL)	4.2636	4.0896	4.0896	4.0896	4.0896	4.0896
Quality Based Charges (per kg)						
Biochemical Oxygen Demand (BOD)	0.5324	9.9351	9.9351	9.9351	9.9351	9.9351
Suspended Solids (SS)	4.2636	0.3284	0.3284	0.3284	0.3284	0.3284
Total Phosphorus (P)	28.4270	13.7942	13.7942	13.7942	13.7942	13.7942
Total Nitrogen (TN)	0.0000	9.9351	9.9351	9.9351	9.9351	9.9351

Refer to Appendix 3 for the load-based cost recovery fees and detailed calculation methodology excluding tax allowance (similar tariffs are shown in appendix 4 inclusive of tax allowance).

Due to the nature of the change to the QBTW methodology, we engaged with the affected customers about the potential changes to their costs and invited their feedback.

The three customers that will be moving to a standard trade waste arrangement understand that their costs should not be subsidised by general residential customers, they also indicated that they wouldn't want their tariffs subsidising others.

All of the affected customers understood the broader customers' desire to not subsidise their costs but raised concerns about rising costs. Some also indicated they would like more time to work through and implement opportunities to reduce water use and wastewater production.

We considered their feedback and assured them that we remain open to adjusting the timeframes of the transitions to align with detailed plans for works to implement water saving initiatives, reduce their wastewater, or improve its quality.

The methodology adopted for calculating the QBTW is in accordance with the ESC pricing principles and the Water Industry Regulatory Order (WIRO). This approach represents the efficient recovery of costs and addresses the cross-subsidy between those customers paying a metered QBTW fee and unmetered non-residential wastewater volumetric customers.

Refer to Appendix 3 for a full copy of the revised QBTW guidance and methodology.

10.5 Trade waste tariffs

All non-residential customers discharging trade waste to the wastewater system are charged an annual trade waste tariff. The proposed tariffs in line with this Price Submission are set out below in Table 64.

Table 64 Trade waste charges 2022-28

Prices (Jan 23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Trade Waste Charges						
Application Fee	139.61	139.61	139.61	139.61	139.61	139.61
Annual Fee	345.76	345.76	345.76	345.76	345.76	345.76

10.6 Fire services

Private fire services may be installed without meters provided that every fire-hose tap is sealed in an approved manner and kept sealed unless otherwise approved in writing by us. For each private fire service an annual fee is charged. The fire service availability charge is a contribution towards the cost of providing a water service to hose reels, hydrants or sprinkler systems for fire-fighting purposes only.

Fire service fees apply to non-residential customers only and are set out below in Table 65.

Table 65 Fire services tariffs 2022-28

Prices (Jan 23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Fire Service Tariff						
Size of Service						
20mm	48.74	48.74	48.74	48.74	48.74	48.74
25mm	48.74	48.74	48.74	48.74	48.74	48.74
32mm	124.72	124.72	124.72	124.72	124.72	124.72
40mm	194.84	194.84	194.84	194.84	194.84	194.84
50mm	304.39	304.39	304.39	304.39	304.39	304.39
75mm	685.14	685.14	685.14	685.14	685.14	685.14
80mm	779.41	779.41	779.41	779.41	779.41	779.41
100mm	1,217.86	1,217.86	1,217.86	1,217.86	1,217.86	1,217.86
150mm	2,740.36	2,740.36	2,740.36	2,740.36	2,740.36	2,740.36

10.7 New Customer Contributions [PT001-004]

10.7.1 Introduction

The current New Customer Contributions (NCC) framework has been in place for two regulatory pricing periods. During this time, we have been unable to generate an NCC charge due to the spare capacity in our systems.

Over this time, there has been significant changes in the nature of development across the towns we service. This is most evident in the high and accelerating rates of development that have occurred during the coronavirus (COVID-19) pandemic, with significant migration from metropolitan Melbourne to regional Victoria.

In response to these changes, we have reviewed our approach and framework for NCCs and we propose to adopt an alternative approach that will address the risks associated with development and provide for a more intuitive and transparent calculation of NCCs.

Through our customer engagement process, tariff-paying customers resolved that *"the maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%*" in the theme of fees and charges should be attributed to those who use them.

This section sets out:

- The proposed NCC charges and how they are to be applied
- The NCCs we are proposing, and
- The method used to calculate NCCs and the engagement undertaken with customers.

The process we adopted in the development of our NCC proposal and the treatment of expenditures used to calculate NCCs (including the model) are detailed in appendix 5.

We are only charging NCCs in five of our 17 water systems and 14 sewer systems where we are seeing significant growth. In the remaining systems no NCC is planned to be applicable in this regulatory period.

The system based NCCs we are proposing in this submission are in Table 66.

Table 66 System-based NCCs using the AIC model 2023-28

Prices (Jan 23$)	2023-24	2024-25	2025-26	2026-27	2027-28
New Customer Contributions - Water					
System					
Warragul Drouin	3,814.02	3,814.02	3,814.02	3,814.02	3,814.02
Moe Newborough	2,563.75	2,563.75	2,563.75	2,563.75	2,563.75
Traralgon	3,000.73	3,000.73	3,000.73	3,000.73	3,000.73
Morwell	3,474.39	3,474.39	3,474.39	3,474.39	3,474.39
Sale	451.80	451.80	451.80	451.80	451.80
New Customer Contributions - Sewer					
System					
Warragul Drouin	2,620.21	2,620.21	2,620.21	2,620.21	2,620.21
Moe Newborough	2,563.75	2,563.75	2,563.75	2,563.75	2,563.75
Traralgon	1,011.03	1,011.03	1,011.03	1,011.03	1,011.03
Morwell	216.05	216.05	216.05	216.05	216.05
Sale	599.95	599.95	599.95	599.95	599.95
New Customer Contributions - Combined					
System					
Warragul Drouin	6,434.23	6,434.23	6,434.23	6,434.23	6,434.23
Moe Newborough	5,127.50	5,127.50	5,127.50	5,127.50	5,127.50
Traralgon	4,011.76	4,011.76	4,011.76	4,011.76	4,011.76
Morwell	3,690.44	3,690.44	3,690.44	3,690.44	3,690.44
Sale	1,051.75	1,051.75	1,051.75	1,051.75	1,051.75

10.7.2 NCC reform process

We engaged Utilities Regulation Advisory (URA) to review the appropriateness of the current approach to NCCs. The overarching objective of the review was to consider approaches that not only manage the uncertainty surrounding future growth, but also to establish a pricing methodology that better meets the ESC's principles, and is consistent with customer expectations.

The NCC review adopted the following structure:

- Detailing the impacts and profile of growth across our systems

- Identifying and assessing a comprehensive suite of options against good practice pricing principles, ESC's regulatory principles and customer outcomes, and
- Undertaking customer and stakeholder engagement on the appropriate implementation of an alternative NCC approach.

10.7.3 Average incremental cost based NCCs

10.7.3.1 Our proposed approach for standard and negotiated NCCs

The proposed Average Incremental Cost (AIC) NCC is a direct cost approach based on the average incremental costs of connection. The core elements of the option are:

- Standard NCCs based on the AIC of connection associated with our high growth expenditure system, with separate NCCs for water and wastewater
- The continuation of the incremental finance charge to address out of sequence developments, and
- The continuation of the current approach for negotiated NCCs to account for non-standard NCCs.

10.7.3.2 Estimating NCCs using average incremental cost

The AIC approach estimates NCCs by separately identifying capacity related expenditure and averaging the expenditure over growth-related output. The calculation is based on the following formula.

$$\text{AIC} = NPV\left(\frac{\text{optimal cost servicing connection growth}}{\text{additional } connections}\right)$$

A detailed outline of the approach and the treatment of each of the parameters in the calculation is set out in appendix 5.

10.7.3.3 Aligning the pricing period with the NCC calculation

AIC based NCCs are set based on a minimum 20 year forward estimation of cost and growth. The NCC will reflect the net present value of these forward estimations. The long-term nature of the NCC calculation raises issues regarding the alignment of the period used to generate NCCs and the five-year regulatory pricing periods proposed in the Price Submission.

In order to provide for continuity of NCC outcomes for developers over this period, we are proposing to adopt 10-year price paths for our NCCs. These price paths are subject to review after the first 5-year regulatory period. The review would focus on adjusting the NCC to account for:

- changes in forecasted connections growth
- any bring forward of planned works that had occurred during the period, and
- material changes in the capital program associated with the NCC.

This approach will allow us to account for and recover growth related expenditure over a reasonable time frame and provide continuity in NCCs over time. It will also avoid potentially large step increases and decreases in NCCs due to the large lumpy nature of capital expenditure that may occur over a shorter five-year price path.

10.7.4 Feedback from stakeholder engagement

We consulted with both tariff paying customers, developers and the developer industry body Urban Development Institute of Australia (UDIA) and their feedback is summarised below.

10.7.4.1 Urban customer feedback

Through stages two and three of our five-stage engagement program, a common theme from tariff paying customers, via stakeholder interviews, independent customer interviews and the customer preferences survey, was that fees and charges should be attributed to those who use them. Subsequently, this theme was taken to our Customer Summit, which was part of stage four engagement, with the following outcome regarding NCCs:

"The maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%."

This key insight then drove the decision to proceed to fully implement NCCs from 1 July 2023, instead of a staged implementation.

10.7.4.2 Developer feedback

Our engagement with developers and design consultants was undertaken across six development groups, comprising two interactions with each developer group. The development groups represent the larger end of developers we service, and include individuals, multiple local shareholder development entities and corporate Melbourne-based development entities.

In addition, prior to the Customer Summit, two developers were engaged separately on the same topic to assist the Customer Summit formulate a customer position with respect to the application of NCCs.

Key themes to come out of the developer engagement were:

- Developers acknowledged that NCCs were a common approach for water corporations to manage the future financial impacts of growth
- Developers did not provide any feedback to suggest they would object or escalate a fair introduction of NCCs
- Developers unilaterally objected to the introduction of NCCs applicable to allotments arising from subdivisions where Developer Works Deeds were signed prior to NCCs being approved by the ESC, and
- Developers were unanimous in feedback recommending NCCs only apply to those allotments arising from a subdivision where the Deeds were signed on or after 1 July 2023.

A common sentiment amongst all the developer groups regarded timing of the application of an NCC resulting from them pursuing pre-sales of land was provided. By this, developers explained that if they are sufficiently progressed with their development activities, adding the NCC after certain milestones means the developer would have to wear the costs as they had no opportunity to pass these costs onto the party that the pre-sale had been made to.

10.7.4.3 UDIA Feedback

A special information briefing was arranged with the UDIA regarding the NCC review process and outcomes.

The purpose of the session was to inform the UDIA about:

- The drivers of the review
- The review process
- The engagement undertaken by us with our local stakeholders
- The draft proposal and indicative NCCs for the upcoming price period 2023-28.

Feedback from the session included:

- Queries regarding the value and range of proposed NCC rates
- Explanation of how NCCs may be applied in our service area, and

- Our process for implementing NCCs for the 2023-28 regulatory period.

It was also acknowledged that the information provided was easy to follow and they were thankful for the open consultation with no objection to the introduction of this methodology.

10.7.4.4 Government feedback

We have also engaged with the following Government bodies:

- Regional Development Victoria (RDV) through discussions as a part of our regular interactions with RDV, and
- DELWP was engaged on 21 June 2022 to present an overview of our Directions Paper including the proposal to introduce NCCs. Post that meeting, a full copy of the Directions Paper was forward to DELWP for consideration.

Neither RDV nor DELWP objected to the introduction of either NCCs or our proposed methodology.

10.7.5 Implementation and application of the NCC framework

Given that we have not charged an NCC since 2017-18 and the proposed NCCs are at the upper range of the 2020-21 NCCs charged by the balance of the Victorian water industry, and considering developer feedback relating to potential impacts on their margins and the final sale price of allotments, we have examined the prudency of capping the total quantum of NCC charged per lot based on a suitable proxy.

The proxy chosen was a combined water and waste NCC that was no greater than 3.5% of the average cost of an average lot of land in that system (e.g. $3,500 in $100,000) to mitigate any risks of developer price shock. For this Price Submission, the Moe/Newborough system is the only capped NCC.

In regards to practical timing and balancing against our customer feedback we propose the application of NCCs will be applied as follows:

- Developer Works Deeds signed after 1 July 2023 to contain NCC framework
- Any lots reaching statement of compliance associated with a Developer Works Deed signed after 1 July 2023 to be charged NCCs
- Any Developer Works Deeds signed prior to 1 July 2023 will have the 12 month completion clause enforced
- Developer Works Deeds will contain a clause stating work must start within four months of execution, and be completed within 12 months, and
- To avoid any Deeds being signed well prior to works being completed (to avoid NCCs), the 12 month completion clause will be enforced and a replacement Deed (containing the NCC framework) will be executed.

The introduction of NCCs from 1 July 2023 takes into account all individual circumstances and impacts from pre-sales contracts. No further individual circumstances will be considered. This approach creates a simple and firm framework where all developers get the same outcome.

Further detail of the New Customer Contribution reform process is included in the Appendix 5.

10.8 Miscellaneous services [R016, PT007]

In addition to providing water and wastewater services, we also provide other secondary services (miscellaneous services) as prescribed under the WIRO. This submission maintains the adopted pricing principles as per our 2018-23 determination.

The Schedule of fees and pricing principles are listed in Appendix 3 **excluding** tax pass through and Appendix 4 **including** estimated tax pass through.

Other fees are developed on basis of our schedule 4 pricing principles.

Major miscellaneous charges include:

- Property information statement charges
- Water connection fees
- Sewer connection fees
- Administration developer fees
- Metered Hydrant fees, and
- Other miscellaneous fees

Through our extensive customer engagement process, our customers told us that fees and charges should be attributed to those who use them. As a result of this, we took the opportunity to conduct a review of our miscellaneous services. As a part of this review we have incorporated the efficiency savings resulting from process improvements and process automation into our fees and charges and reassessed the effort required to process each service.

This has achieved a reduction in our most widely used miscellaneous service, Information Statements, which we propose to reduce by 38.4% from $82.77 to $51.00. We have also identified several existing fees that have been undercharged compared to effort required to provide and have been adjusted upward to reflect an appropriate cost recovery.

During the review, we also identified a small number of services we currently infrequently provide but do not charge for. Fees for these services have been incorporated into our miscellaneous general fees on the basis of Schedule 4 pricing principles.

Given the results of our review, we propose to adjust those miscellaneous service tariffs identified and establish new tariffs for those services we currently do not charge for. The net impact of the review is a $100,000 increase in revenue per annum when compared to the 2018-23 regulatory period.

Table 67 summarises the miscellaneous revenue sources and prices for the 2022-28 period.

Table 67 Miscellaneous fees and charges 2022-28

Prices (Jan 23$)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Miscellaneous Services						
Property Information Statements	82.77	51.00	51.00	51.00	51.00	51.00
Metered Hydrant	5.0752	5.0752	5.0752	5.0752	5.0752	5.0752
Developer Works and Connection Fees						
Application Fee - Water	694.68	767.60	767.60	767.60	767.60	767.60
Application Fee - Wastewater	694.68	767.60	767.60	767.60	767.60	767.60
Offer Acceptance Fee Water	1,544.03	1,791.07	1,791.07	1,791.07	1,791.07	1,791.07
Offer Acceptance Fee Wastewater	1,544.03	1,791.07	1,791.07	1,791.07	1,791.07	1,791.07
Water Supply Connection Supervision Fee	185.28	185.28	185.28	185.28	185.28	185.28
Wastewater Connection Supervision Fee	153.81	153.81	153.81	153.81	153.81	153.81
Wastewater Connection Fee - Residential	148.04	148.04	148.04	148.04	148.04	148.04
Wastewater Connection Fee - Non-Residential	194.14	194.14	194.14	194.14	194.14	194.14

10.10 Accounting treatment of cloud-based IT solutions [PT008, PT009]

The 2023-28 Price Submission developed a need for us to review how we treat cloud-based IT expenditure for regulatory and accounting purposes.

Under statutory accounting standards, cloud-based IT expenditure is expensed in the year it occurs, in full.

For regulatory purposes, we have proposed to smooth the impact of these investments over the lifetime of the asset, like we do for water and wastewater infrastructure. This limits the impact of this expenditure on customer prices and provides for a fairer way to recover this cost from customers over the lifetime of the investment.

For example, during the regulatory period, we need to replace the financial general ledger system which has reached the end of its useful life and will lose technical support during the period. It is likely the solution will be a cloud-based system as technology solutions move more and more in that direction. The anticipated cost of a cloud-based general ledger system is around $2.1 million ($1.5 million in operating expenditure related to cloud-based costs and $600,000 in capital costs). Under accounting standards, the impact of this operating expenditure would be incurred by customers in their tariffs from the moment it is incurred.

Under our proposed approach to cloud-based IT solutions, we will be recovering that cost over the life of the system which is expected to be around 10-15 years. This approach saves our customers $750,000 over the 2023-28 regulatory period (just from this one example) and is a fairer method to recover the operating costs of cloud-based IT solutions from the customers who will benefit from them.

Supporting documents

- E001 – Engagement Evaluation Report
- P002 - Financial model
- PT001 - NCC policy
- PT002 - NCC advice
- PT003 - NCC model – water
- PT004 - NCC model - wastewater
- PT005 - Revised QBTW guidance and methodology
- PT006 – Raw data to support Figure 29 – Annual average bill by customer type
- PT007 - Miscellaneous Tariff Calculations
- PT008 - Email from ESC regarding cloud based IT accounting
- PT009 - Board resolution on cloud based IT accounting
- R016 - Miscellaneous fees and charges (current and proposed)

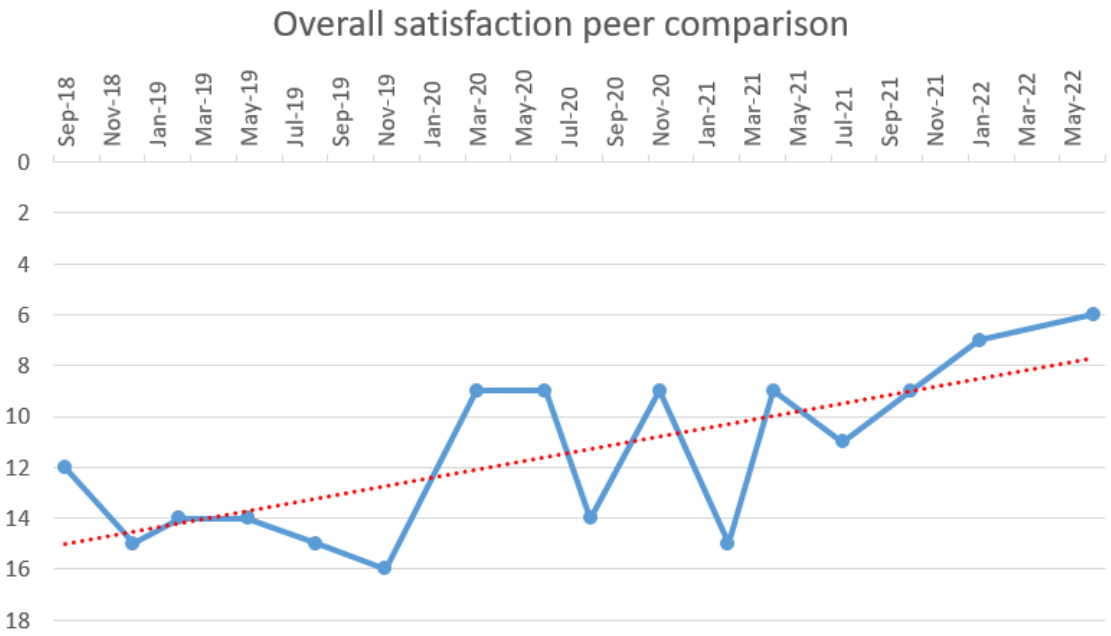
11. PREMO assessment

In assessing our overall Price Submission, we've had regard to how our customers have responded to our plans and proposals, and how they've been engaged throughout the process.

As discussed in Chapter 1, we have performed strongly through the 2018-23 regulatory period, in challenging new circumstances, and our customers are satisfied (Figure 31).

Our customer satisfaction results, show increasing satisfaction across all surveys. This is testimony to how hard we have worked to align ourselves to our customers over the last period, which has fed into the planning and preparation of this submission, and the way we operate as a business.

Figure 31 Our customer satisfaction results relative to peers



On the back of the most extensive and meaningful engagement program we have conducted, and genuine 'value for money' budgeting, we have seen a cultural shift within our organisation towards a truly customer centric business.

We built on this cultural shift, stronger management and governance processes ensuring we have put our best offer forward in this Price Submission for customers and our plan is one we can deliver efficiently and effectively.

We have demonstrated, a significant shift in risk acceptance, which is driving materially better value for money for our customers.

Our outcomes and outputs are aligned to what our customers want and value, and robust processes underpin the way we have embedded them in our planning.

They, along with our engagement process and our submission, have been endorsed by our Customer Reference Group on behalf of all customers. For that reason, we can stand behind the PREMO self-assessment rating of **ADVANCED** as summarised in Table 68.

Table 68 PREMO self-assessment rating summary

Element	Rating	Rational
Performance	Advanced	We have largely performed consistent with the 2018 determination, with small but validated overspends against expenditure, and validated shortfalls against outcome commitments. These variations are significantly less than those presented across the industry, indicating that we have found ways of offsetting those challenges that emerged during the 2018-23 regulatory period. This is demonstrated by: • A material reduction in the average cost to serve per customer • The delivery of a capital program largely on budget in an environment where construction costs have been materially higher, supply chain issues which have been driven by coronavirus (COVID-19) and geo-political instability, and growth has significantly exceeded forecast • Improvement in overall customer satisfaction which has seen us move from the bottom third to the top third of all Victorian water businesses, as demonstrated by Figure 31, and • Continued engagement with customers during the period, delivering better experiences, supporting customers during the pandemic and delivering additional services that were not part of the 2018 submission. Finally and importantly to reduce the cost of living pressures, we did not pass through the full CPI impact in the most recent annual tariff review.
Risk	Leading	We have demonstrated a significant shift in risk acceptance which is driving materially better value for money for our customers. We have taken an approach to risk that seeks to protect our customers, our employees, the services and products we produce, and the environment and communities in which we operate. We have done this through: • A robust internal process to identify and manage regulatory, technical, operational and commercial risks for our customers • A commitment to ensuring that we do not transfer unnecessary risk to our customers through prices • Involving our customers, and listening to how they think we should manage risk on their behalf, particularly in relation to the unique attributes of our business, and • Utilising our commercial skills to critically analyse and mitigate key risks and opportunities; and • Undertaking an extensive risk allocation process, to ensure that the party best able to manage risk is allocated that risk Through this we have: • Adopted a growth forecast higher than VIF (revenue risk) • Committed to a net efficiency outcome of 0.5% • Accepted risk on operating cost baseline adjustments (energy, chemicals, etc.) • Uplifted Guaranteed Service Level rebates • Adopted optimistic forecasts for renegotiation of major contracts (revenue risk), and • Excluded $8M in uncertain capital projects. Our ambitious approach to managing risk, coupled with strategic pricing decisions is saving customers between circa $36.00 and $62.00 across the regulatory period/each year.

Element	Rating	Rational

Engagement	Leading	Customers have had a significant level of influence on the most material aspects of our submission and its proposals.
		
		We have evidenced a deep, broad an extensive program of engagement activities:
		• All customer types have been engaged, through channels that supported their needs, including those customers whom are vulnerable and disadvantaged
		• Customers have had a significant level of influence on the most material aspects of the submission and its proposals, ultimately collaborating with us on three very complex issues
		• The extent of engagement completed, and the material level of influence the outputs of engagement has had on Gippsland Water's submission is profound.
		• There are very strong linkages between their feedback, and how this has both directly and indirectly impacted our submission.
		• The engagement program was universal, inclusive and collaborative and feedback from our Customer Reference Group feedback highlighted these efforts:
		  • "Excellent process that should be provided as a benchmark example to other Victorian water authorities on consumer engagement."
		  • "The CRG aims and objectives as outlined by Gippswater are being worked toward in a systematic way. This appears to have been a positive initiative."
		  • "I have been mightily impressed by the thoroughness, comprehensiveness and conscientiousness of Gippsland Waters processes of involving community in the development of its strategic directions on prices and services
		
		Overall, our submission demonstrates improvement in the quality, depth and breadth of our customer and community engagement, which will now become ongoing

Management	Advanced	We have made a commitment to a significant improvement in cost efficiency. This is demonstrated through: • Prices that reflect prudent and efficient expenditure achieved through a rigorous expenditure forecasting process for both capital and operating expenditure • Maturing capital planning processes enabling better investment plan decisions due to better vision of our future needs and impact on customer • Commitment to an equivalent cost efficiency of 1.7% (through a net efficiency rate of 0.5%) • Strong management and Board governance, accountability and oversight of submission to ensure quality end to end • Strong structures put into place for the development and tracking of submission commitments and promises into the future, including ongoing governance and data management • A Customer Reference Group that will be maintained into the future to provide further assurance on our community engagement and performance feedback • Reporting back to our customers through our website, bill inserts and other communication channels • Regular engagement with the ESC on key aspects of the submission to ensure a "no surprises" approach • Linking customer outcomes, outputs and expectations directly to our expenditure profile • Enhanced customer Guaranteed Service Levels and accountabilities at no extra cost, and • Continuing to deliver a reducing cost to serve per customer. This approach provides for our best estimates on expenditure and demand forecasts through strong Board and executive governance supported by internal and external assurance processes.

Element	Rating	Rational
Outcomes	Advanced	We have developed a suite of customer outcomes that are clearly designed to deliver on our customers priorities, underpinned by both a breadth and depth of activities designed to ensure their delivery, supported by a robust performance monitoring and reporting framework. In collaboration with our customers we have: • Recalibrated our outputs into tangible measurable measures of performance for each outcome area • Set targets that demonstrate our commitment to improvements in performance at no extra cost to customers, and • Further refined our Guaranteed Service Level framework and added additional accountabilities to demonstrate our commitment to our proposals. All of which presents customer-tailored outcomes with a better balance of output measures and targets that demonstrate better value for money and accountability.
Overall	**Advanced**	We believe we have a strong case for an Advanced rating. We have performed strongly during the current regulatory period, demonstrated a customer led process and delivered a compelling value proposition that will drive customer bills down materially.

Supporting documents

- PREMO001 - PREMO detailed assessment tables

Appendix 1 Customer Reference Group

Customer Reference Group

Background about the Customer Reference Group (CRG) and its Terms of Reference can be found at www.gippswater.com.au/CRG

The Customer Reference Group (l-r): Robert Gaulton, Mary Aldred (Chair), David Langmore, Adam Tyson, Diane Wilkinson, Erlinda James. Absent: Suzanne Lewis

CRG member biographies

Mary Aldred (Chair)

- Current CEO of the Franchise Council of Australia
- Former CEO of the Committee for Gippsland, also experienced working in regulation in the energy sector
- Master of Business Administration, Master of Agribusiness, Bachelor of Arts (Honours) Monash University Double Major in Criminal Justice & International Politics, Harvard Kennedy School of Government Boston, Graduate of the Australian Institute of Company Directors Course, Graduate of the Gippsland Community Leadership Program
- Board member of ViPlus Dairy (South Gippsland) and Australian Sustainable Hardwoods. Previously on Latrobe Regional Hospital board. Also a member of multiple government (state and federal) and community committees

Adam Tyson

- National Quality Manager and Food Safety Consultant with Produco Australia
- Former councillor and major of Baw Baw Shire Council
- Diploma of Food Science Dairy, Gippsland Community Leadership Program graduate
- Passionate about the environment
- Gippsland Climate Change Network board member, and Voices for Monash

David Langmore

- Strategic urban planning experience
- Bachelor of Science, Diploma of Education, Diploma of Town & Regional Planning
- Member of the Great Latrobe Park group, has also been on the board of Oxfam, as well as two charitable trusts, and the Centre for Gippsland Studies Advisory Committee (Federation University) and committees for Victory Park and Traralgon Railway Reserve

Diane Wilkinson

- Board appointments include Rotary (Moe and Gippsland Centenary House) and Latrobe Valley Village, involved in Gippsland Community Leadership network, formerly on board of Gippsland Centre Against Sexual Assault, Latrobe City Trust and Advance TAFE appointments
- Community representative for Latrobe Health Assembly

Erlinda James

- Partnership Broker at Baw Baw Latrobe LLEN
- Bachelor of Science in Foreign Service (graduated in Philippines)
- Qualifications in Gippsland Community Leadership Program, Diploma in Human Resources, Certificate IV in Business (Human Resources Operations)
- Over 25 years' experience in employment services, administration, executive assistance, child and family services, and human resources.
- Active involvement with local Filipino and International Women's support groups
- Strong advocate for customers with multicultural backgrounds
- Good relationships with youth and schools

Robert Gaulton

- Minerals industry consultant/contractor, former prison chaplain
- Doctor of Philosophy, Honours Master of Science (Coal Geology), Diploma in Applied Geology, Trained Secondary Teachers Certificate
- Member of Yallourn North Action Group, involved in the Great Latrobe Park group, Chair of Yallourn Parish Council, Mine Rehabilitation Committee, sporting committee groups, and Cooinda Hill

Suzanne Lewis

- General Manager Operations (and interim CEO) at Latrobe Valley Enterprises
- Over 20 years of management and executive experience including National operations Manager, Coordinator Direct Care Services, Aged and Disability Services, and National Quality Manager.
- Strong representative for disability and health support sectors
- Highly developed collaboration and stakeholder management skills
- Values community involvement

Jared Slater (resigned in September 2022)

- Senior project manager, clinician and science educator
- Over 20 years of management, executive and clinical experience in not for profit, research and clinical roles.
- Bachelor of Optometry, Postgraduate Certificate of Ocular Therapeutics, Postgraduate Diploma in Education

- Keen to represent views of young, working families

Fatima Ahsan (resigned in February 2022)

- Former Cultural Support Officer at Morwell Neighbourhood House
- Good understanding of local multicultural and financial disadvantaged community needs
- Originally from Pakistan, Fatima moved to Kuwait and eventually settled in Traralgon in 2020
- Involved with the United Muslim Sisters of Latrobe Valley

Adrian Terranova (resigned in February 2022)

- Former Executive Officer Gippsland Disability Advocacy
- Over 25 years' experience in community support services
- Diploma of Management, Bachelor of Community Services, Diploma of Community Development, Diploma of Business Studies
- Former Board member of Work-safe VCFL Deputy Regional Manager Latrobe Regional Board, Gippsland Multicultural Services and Gippsport
- Executive Officer of Gippsland Disability Advocacy

Appendix 2 Compliance with ESC guidance

Compliance with ESC guidance

The below Table 1 sets out the sections of this document that address the guidance provided by the Essential Services Commission (ESC) in its 2023 Water Price Review Guidance Paper, and other essential content.

Table 1 Compliance with ESC Guidance

Required content	Chapter/ Reference
Executive summary	
A Price Submission must contain a summary which outlines and brings together the key elements of its proposals. The summary should include: • an overview of proposed prices • indicative bill impacts of the proposed prices, by key customer group • an overview of the outcomes proposed for customers, including how services will change from previous levels • the business's nominated PREMO rating • an attestation from the board on the quality and accuracy of information provided in the Price Submission	Executive summary
Performance	
To what extent has the business demonstrated delivery of its customer outcomes commitment over the current regulatory period? Did its customers get what it paid for?	
How Gippsland Water developed its customer promises for 2018-2023	Chapter 1
How Gippsland Water engaged customers in the planning, development and lodgement of the 2018 Price Submission	Chapter 1
The commitments Gippsland Water made to its customers and the ESC, as part of the 2018 Price Submission (including the various strategies it adopted to share risk with customers and the outcomes it committed to delivering)	Chapter 1
What changed since 1 July 2018? • Challenges or changes GW faced that were not foreseen at the time of the 2018 Price Submission • How the operating environment impacted performance/cost	Chapter 1
How has Gippsland Water performed against its customer outcomes? • Performance against customer outcomes • Variations from commitments explained	Chapter 1
To what extent does customer sentiment demonstrate satisfaction in the business' performance over the current regulatory period? Are customers happy with the value they received from their water business?	
Customer Outcomes and perceptions • Discussion on current customer perceptions and whether or not Gippsland Water is meeting them (relative to overall performance)	Chapter 1
How has Gippsland Water continued to deliver value for money • Service performance • Cost to serve • Customer experience	Chapter 1
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?	
Set out the ESC's final operating expenditure decision and any adjustments made (by ESC category, per year and in total)	Chapter 1
Set out Gippsland Water's performance against the ESC's final decision opex (by ESC category, per year and in total)	Chapter 1

Required content	Chapter/ Reference
Note actual outcome against ESC opex adjustments e.g. in circumstances where the ESC reduced expenditure, note whether you incurred these costs and use this as an opportunity to demonstrate why those adjustments are not appropriate going forward – make sure you use evidence to substantiate any claims you make in this section. It is an opportunity to invalidate the ESC's adjustments, not give the ESC the opportunity to determine Gippsland Water has overspent when it made relevant adjustments.	Chapter 1
Detail any productivity and/or efficiency commitments Gippsland Water made to meet the expenditure allowances (or prevent over spend)	Chapter 1
Explain any material variations against the ESC's determination, including the justification for the additional expenditure items (those that are material i.e. + 10 per cent or more): • Detail key external drivers for the expenditure (those that are out of GW's control) • Detail (where appropriate) how GW performed against stretch commitments, and where it spent more, focus on how the business accepted that risk going into the period, in order to protect customers • Detail (where appropriate) any expenditure that was incurred that was cut by the ESC during their determination, and demonstrate how the basis for GW's initial forecast was correct	Chapter 1
Document any costs that were incurred, that are 'non-recurring' in nature, and won't form part of the baseline in the next regulatory period	Chapter 1
Provide examples of activities that were delivered to support the delivery of customer outcomes, or reflect the continued role of customers in collaborating with Gippsland Water in the development of strategic initiatives.	Chapter 1
What Gippsland Water has learned from monitoring and reporting on its performance, and its P rating, and how it has applied it to the 2023 Price Submission and overall customer offering	Chapter 1
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?	
Set out the ESC's final decision and any adjustments made (by ESC category, per year and in total)	Chapter 1
Set out Gippsland Water's performance against the ESC's final decision capex (by ESC category, per year and in total)	Chapter 1
Note actual outcome against ESC capex adjustments e.g. in circumstances where the ESC reduced expenditure, note whether you incurred these costs and use this as an opportunity to demonstrate why those adjustments are not appropriate going forward – make sure you use evidence to substantiate any claims you make in this section. It is an opportunity to invalidate the ESC's adjustments, not give the ESC the opportunity to determine Gippsland Water has overspent when it made relevant adjustments.	Chapter 1
Detail any productivity and/or efficiency commitments Gippsland Water made to meet the expenditure allowances (or prevent over spend)	Chapter 1
Explain any material variations against the ESC's determination, including the justification for the additional expenditure items (those that are material i.e. + 10 per cent or more): • Detail key external drivers for the expenditure (those that are out of Gippsland Water's control) • Detail (where appropriate) any expenditure that was incurred that was cut by the ESC during their determination, and demonstrate how the basis for GW's initial forecast was correct	Chapter 1
Document what percentage of the capital forecast was delivered (by year and in total), providing an explanation relevant to % delivered and commentary on the following: • Above drivers of over or underspend • Capital planning and governance processes • Accuracy of forecasting • Uncertain projects – were any projects excluded as uncertain delivered because they became necessary? Have any been brought forward into this period from next period? Explain why these were necessary, how they were delivered and how they support customer outcomes.	Chapter 1
Explain how the capital projects/programs delivered link back to the delivery of customer outcomes.	Chapter 1

Required content	Chapter/ Reference
How does actual revenue across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	
Set out the ESC's final decision on Gippsland Water's revenue allowance and the supporting demand forecasts	Chapter 1
Document Gippsland Water's actual performance against the ESC's determination, disaggregating revenue by service and tariff class (major tariff classes, such as residential and non-residential water, wastewater, trade waste and recycled water)	Financial Model [P002]
Explain any material variations against the ESC's determination, including the justification for changes to demands (those that are material i.e. +/- 5 per cent or more), with reference to key external drivers (e.g. growth in major towns)	Chapter 1
What Gippsland Water has learned from monitoring and reporting on its performance, and its P rating, and how it has applied it to the 2023 Price Submission and overall customer offering	Chapter 1
ENGAGEMENT	
Describe and justify how and when Gippsland Water engaged with its customers and community (this section will discuss customer and stakeholder engagement in totality, not just customer engagement).	Chapter 2
It must explain how Gippsland Water ensured engagement was universal and inclusive of customers and community affected by the outcomes proposed in the Price Submission, including First Nations people and people experiencing vulnerability (including CRG and their role in the process)	Chapter 2
Explain how engagement was sensitive and appropriate for the people it was seeking to engage with	Chapter 2
Describe and justify the matters covered by its engagement processes	Chapter 2
Explain what Gippsland Water learned from customer engagement, and how it satisfied itself that customers were given a reasonable and fair opportunity to participate, and that any views expressed were sufficiently representative of its customers	Chapter 2
Explain how feedback was taken into account by Gippsland Water and shaped this Price Submission	Chapter 2
Explain how the business will address expectations that will not or cannot be met	Chapter 2
OUTCOMES	
Present a set of customer outcomes, linked to customer preferences, each with clear and unambiguous output measures and associated targets.	Chapter 3
For each output measure state the performance target for each year of the regulatory period and provide past performance (for at least the last two years before the regulatory period)	Outcomes, outputs, GSL's and annual targets [O001]
Explain how the outcomes, output measures and targets were informed by the customer engagement program	Chapter 3
Specify the key actions, activities and programs Gippsland Water will undertake to meet its targets (and consequently outcomes)	Chapter 3
Demonstrate the connection between the output measures, key actions, activities and programs proposed and achievement of a specified outcome	Chapter 3
Present and explain any cost increases or savings for operating or capital expenditure that correspond to each outcome	Chapter 3
Explain how the cost increases or cost savings are reflected in prices charged to customers	Chapter 3
Explain how Gippsland Water will respond to underperformance in delivery of its outcomes.	Chapter 3
Outline a process by which it will report at least annually to its customers on its performance against the specific output measures for each outcome	Chapter 3

Required content	Chapter/ Reference
Describe how Gippsland Water might adapt its outcomes, output measures and targets to respond to changing customer preferences, including an ongoing customer engagement program to inform business priorities throughout the next regulatory period.	Chapter 3
Provide a list of service standards relating to reliability and attending faults that align with provisions in the urban water customer service code.	Chapter 3
Gippsland Water must also explain how any proposed changes in service levels or targets relative to equivalent service levels or targets in the current regulatory period were informed by customer preferences, and the resulting impacts on expenditure forecasts and customer value.	Chapter 3
Specify each GSL and the corresponding payment or rebate amount that will apply where a customer has received a level of service below the guaranteed level.	Chapter 3
Identify and justify any changes to the GSL scheme compared with those approved for the current regulatory period.	Chapter 3
For any new or amended GSL, Gippsland Water must: • explain the basis for the GSL, including how it has been informed by customer engagement • specify whether benefits to customers will take the form of payments or rebates • explain the reasons for the proposed size of the customer payment or rebate that applies to each GSL.	Chapter 3
Gippsland Water must also justify any proposal to remove a GSL that was in place during the current regulatory period, including how the proposal has been informed by customer engagement.	Chapter 3
RISK	
Gippsland Water's robust risk identification process, taking into account a long term planning horizon, that informed the Price Submission and its business planning	Chapter 4
The significant risks identified for Gippsland Water and its customers across the long term planning horizon (10-30 years) and the potential risk to customer bills discussed in detail (all of those listed in the Guidance appendix should be considered)	Chapter 4
How Gippsland Water has appropriately allocated each risk between itself and its customers, and the impact or lack thereof to customer bills as a result	Chapter 4
Where Gippsland Water has decided it is best placed to carry the risk, explain the approaches it proposes to manage the risk	Chapter 4
How Gippsland Water considered the risks related to length of the regulatory period, expenditure, demand, form of price control, and tariffs and how that has informed its submission	Chapter 4
Demonstrate a range of possible demand outcomes has been considered particularly with reference to the impacts of coronavirus (COVID-19) and other issues impacting demand	Chapter 4
Must have available risk assessments for each risk showing categorisation, measurement, options to allocate risk, rationale for allocation of risk, explanation of why regulatory risk tools not adequate to address risk, role customers will be expected to play in dealing with these risks and how they will be engaged in the process (refer page 18 of Guidance)	Price Submission risks taken in the 2023-28 regulatory period MASTER [R017]
MANAGEMENT	
To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?	Chapter 5
To what extent has the business justified its commitment to cost efficiency or productivity improvements?	Chapter 5
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?	Chapter 5
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?	Chapter 5
To what extent has the business demonstrated its Price Submission is an "open book"?	Chapter 5
OPERATING EXPENDITURE	
This section must set out the forecast of total prudent and efficient operating expenditure for each year of the next regulatory period, by major service category, and take the ESC on a journey to show that that expenditure is prudent and efficient, and that Gippsland Water has done everything it can to improve its operations for the benefit of its customers.	Chapter 6

Required content	Chapter/ Reference
This information must match the financial model template where operating expenditure will be broken down as follows, for every year through to 2032-33: • operations and maintenance • bulk charges (further broken down into bulk charges by type and system, for example, transfer charges, Greater Yarra System – Thompson River fixed charges, Victorian Desalination Plant – Water Order variable charges) • treatment • customer service and billing • GSL payments • licence fees (Essential Services Commission, Department of Health, and EPA Victoria) • corporate costs • other operating expenditure	Financial Model [P002]
Forecasts for the environmental contribution must also be provided in the financial model template. Where future amounts are not yet available, businesses must use the last known annual amount as their annual forecast in subsequent years.	Financial Model [P002]
Gippsland Water must also provide actual operating expenditure for the current regulatory period (using latest forecasts for 2022-23), categorised in the same way as above, in the financial model template.	Chapter 6
Forecast operating expenditure must be presented relative to a reference or baseline operating year, with allowance for expenditure growth (e.g. based on customers or demand growth) and cost efficiency improvements over the next regulatory period.	Chapter 6
Any significant changes in the forecast years' costs relative to this baseline year must be clearly presented and explained, including how they are reflected in the proposed customer outcomes and how they represent improved customer value.	Chapter 6
The ESC financial model template must be completed in line with this information and the template sets out the forecast operating costs consistent with the ESC requirements.	Financial Model [P002]
Our efficient base	
The submission, and this section, must be established through a baseline controllable operating expenditure which comprises efficient recurring controllable costs from the last full year of actual data (2021-22) for those activities and services that are expected to be incurred throughout the next regulatory period.	Chapter 6
• remove any non-controllable expenditure	Chapter 6
• remove any one-off or non-recurring expenditure items incurred in that year, or add any normally occurring items that did not occur in that year	Chapter 6
• remove any further ongoing cost savings or efficiency commitments that will be realised in the final year of the current regulatory period (2022-23)	Chapter 6
The Price Submission must then justify the adjustments proposed to the baseline year in order to establish the baseline controllable operating expenditure, and demonstrate that this represents efficient ongoing operating costs (consistent with any efficiency targets for the current regulatory period).	Chapter 6
Where actual prescribed operating expenditure for 2021-22 is above the benchmark allowance from the 2018 price review, the Price Submission must explain whether this has resulted from expenditure growth above forecast, unmet efficiency targets, or a combination of these.	Chapter 1
The Price Submission should also highlight how this has impacted customers.	Chapter 1
Gippsland Water's baseline year actual expenditure must reconcile with the business's audited regulatory account data.	Financial Model [P002]
Using the 2021-22 baseline controllable operating expenditure, Gippsland Water must then propose and justify: • its forecast expenditure growth rate assumptions (for each year) • its annual cost efficiency improvement rate (for each year), and • how proposed cost changes deliver improved customer value.	Chapter 6
The submission must detail the growth and efficiency assumptions for opex by year and discuss the drivers behind these decisions (referring to the demand and growth section in the Required Revenue chapter for detail on growth assumptions)	Chapter 6
As such, it is expected that businesses will use their Price Submissions to clearly justify why the proposed operating expenditure growth rate chosen is most appropriate, particularly whether a growth factor other than customer growth is more accurate.	Chapter 6

Required content	Chapter/ Reference
This should be supported by recent evidence (e.g. based on the latest expenditure, customer number and usage data).	Chapter 6
It should also be discussed in relation to efficiencies that can or should be achieved as a result.	Chapter 6
The Price Submission must also demonstrate why any proposed cost increases are not covered within the growth allowance, or by inflation, or absorbed within the stated net efficiency improvement rate	Chapter 6
The Price Submission must also demonstrate how proposed cost changes relate to the proposed customer outcomes and the associated outputs and deliverables	Chapter 3
Identify and explain operating expenditure savings or new operating expenditure arising from capital expenditure and projects, and how they relate to the forecast cost efficiency improvement rate	Chapter 6
Explain any trend or major annual variations in forecast operating expenditure (including identifying cost items that are having an upward or downward influence on operating expenditure) compared with historic operating expenditure	Chapter 6
The Price Submission must also demonstrate that proposed costs associated with new or revised regulatory obligations and policy requirements are prudent and efficient	Chapter 6
The Price Submission must also set out and where relevant justify the non-controllable cost forecasts including: • bulk water purchases • regulatory licence fees • environmental contribution • any other proposed non-controllable costs	Chapter 6
The Price Submission should explain Gippsland Water's approach to allocating shared costs, or reference documentation that may be requested by the commission to verify the business's approach	Chapter 6
CAPITAL EXPENDITURE	
A Price Submission must include a forecast of total prudent and efficient capital expenditure for the next regulatory period, including forecast capital expenditure for each year of the next regulatory period, and beyond to 2032-33.	Chapter 7
Forecast capital expenditure is to be presented by major service category and by the following cost drivers: • forecast capital expenditure to maintain service standards — that is, renewals • forecast capital expenditure to expand services — that is, growth • forecast capital expenditure to make improvements or upgrades to existing services or to comply with existing or changed government or regulator obligations — that is, improvements/compliance.	Chapter 7
The business's financial model template must also specify actual capital expenditure for the current regulatory period (including a forecast for 2022-23), categorised in the same way as above.	Financial Model [P002]
The business's Price Submission must identify and explain any material cost or timing discrepancies between actual capital expenditure in the current regulatory period and the level of capital expenditure approved in its current price determination. This must include a reconciliation showing how the business has met its commitments to delivering its major capital projects in the current regulatory period, consistent with the annual major project reporting that has occurred over the period. Impacts on customer service levels and value due to non-delivery must also be identified. This information will form part of our assessment of a water business's Performance element under the PREMO framework.	Chapter 1
We also expect that businesses will report to both customers and the commission on the outcomes that have been achieved from capital expenditure in trials or pilots in the current regulatory period, and in particular, an assessment of customer value for money. As well as providing an assessment of customer value for money arising from trials or pilots, where relevant, Price Submissions must identify how the outcomes of these trials or pilots have informed proposed future projects and expenditure. This is necessary to inform whether it is efficient to support any expansion of pilot programs into future capital expenditure.	Chapter 7
Major capital projects — comprising the 'top 10' discrete capital projects, by total capital cost, to be started or completed during the next regulatory period. A business may also include significant discrete projects that fall outside the top 10 by cost but are scheduled for the next regulatory period.	Chapter 7
• the project name and scope, and relevant major service and asset category	Chapter 7
• justification for the project, including the cost driver	Chapter 7

Required content	Chapter/ Reference
• start and completion dates	Chapter 7
• total capital cost (itemising any government or customer contributions), and expenditure by year	Chapter 7
• objectives of the project, including how the project aligns with the various customer outcomes proposed (Section 3.4) or addresses any major risks (Section 3.1)	Chapter 7
• and have available: – a business case outlining the options considered for achieving the identified objectives and the approach to identifying the optimal solution – risk analysis of the selected option and plans to mitigate the identified risks to ensure the project can be delivered on budget and on time – the incentive and penalty payment arrangements with contractors – information to identify whether the project has (or will be) the subject of competitive tendering.	Chapter 7
Capital programs — all key capital expenditure programs or allocations that will be ongoing throughout the regulatory period (excluding any discrete projects separately specified in the 'top 10' above).	Chapter 7
• the program (or cost allocation) name, and relevant major service category	Chapter 7
• the cost driver	Chapter 7
• total capital cost (itemising any contributions), and expenditure by year	Chapter 7
• objectives of the program, including how the program aligns with the various customer outcomes proposed (Section 3.4) or addresses any major risks (Section 3.1)	Chapter 7
• historical annual costs, and an explanation for significant increases or decreases in the forecast average annual expenditure	Chapter 7
• and have available: – the list of projects included within the program or cost allocation for the next regulatory period, and business cases and options analyses – a description of the methodology for assessing risk and prioritising projects within the program – the cost estimation basis.	Chapter 7
Other capital expenditure — all other capital expenditure not associated with a defined major project or major capital program should be grouped into one or more programs as appropriate, to be included under the capital programs list, as above.	Chapter 7
• for each year of the next regulatory period, and beyond to 2032-33, provide annual forecasts for capital expenditure separately identifying (where appropriate) and reconciling: – total capital expenditure – contributions (government and customer) – gifted assets – proceeds from asset sales – written down value of assets disposed – net capital expenditure.	Chapter 7
• explain the methodology used to estimate forecast capital expenditure	Chapter 7
• identify and explain the key assumptions which underpin the capital expenditure forecasts by each major service category, and how any risks or uncertainties have been addressed	Chapter 7
• justify the timeframe for delivering the proposed new capital expenditure given the business's delivery of major projects in the past	Chapter 7
• explain the reasons for the trend or any major annual variations in forecast capital expenditure (including identifying cost items that are having an upward or downward influence on capital expenditure), compared with historic capital expenditure	Chapter 7
• justify the total forecast capital expenditure against the criteria in Section 3.9.1, taking into account: – forecast demand – any relevant industry or economy-wide benchmarks of expenditure – the substitution possibilities between forecast operating expenditure and forecast capital expenditure.	Chapter 7
DEMAND	
Demand forecasts proposed by a water business must represent the best available estimates derived from an appropriate forecasting methodology. Assumptions on the key drivers of demand over the next regulatory period must be well explained and reasonable. These assumptions must be based on the latest data and evidence available.	Chapter 8
A Price Submission must include a description of the key demand forecasting issues that lists and justifies the most important assumptions adopted in generating the forecasts — demand forecasts should be based on the latest available Victoria In Future estimates provided by the Victorian Government, with variations and underlying assumptions clearly explained	Chapter 8

Required content	Chapter/ Reference
A Price Submission must include a description of the forecasting methodology used, and the justification for using the methodology	Chapter 8
A Price Submission must include reference to any external reports or information relied upon	Chapter 8
A Price Submission must include a description of how forecasts have accounted for the impact of any proposed changes to tariff structures or form of price control expected in the next regulatory period	Chapter 8
A Price Submission must include details on the levels of restrictions or nature of any permanent water conservation measures reflected in the forecast	Chapter 8
A Price Submission must include written information on where price elasticity was applied, the input assumptions used, and how the assumptions were translated into the business's demand forecasts	Chapter 8
A Price Submission must include an explanation of how demand forecasts are consistent with proposed expenditure (in terms of the level and nature of expenditure).	Chapter 8
A water business must also make available evidence that a range of supply and demand scenarios were modelled. This should include low, normal and high water inflow scenarios, and consideration of a range of 'low' to 'high' population growth assumptions. Written justification must be provided for the selection of the forecasts proposed.	Chapter 8
The financial model template will require a water business to provide detailed demand forecasts for every tariff and tariff category, by residential and non-residential customers. If detailed forecasts at this level are unavailable, a business must explain why and provide estimated demand for these services. The detail in the model does not need to be reproduced in the Price Submission.	Chapter 8
REQUIRED REVENUE	
The Price Submission must specify a water business' forecast total revenue requirement for each year of the next regulatory period.	Chapter 9
The Price Submission must also provide an estimate of the required revenue for each year after the next regulatory period to at least 2032-33.	Chapter 9
It must provide a brief explanation of the trend in the forecast over the ten-year period from 1 July 2023.	Chapter 9
Forecast regulatory asset base	
A Price Submission must propose: • the closing value for the RAB at 30 June 2022 (using actual data) • the opening value of the RAB at 1 July 2023 (calculated according to the criteria above)\ • the forecast value of the RAB for each year of the next regulatory period, in accordance with the prudency criteria set out above • the forecast value of the RAB for each year after the next regulatory period until at least 2032-33.	Chapter 9
A Price Submission must provide estimates for regulatory depreciation (Section 3.12)	Chapter 9
A Price Submission must provide separate data and justify estimates for: – government contributions — federal, state and local government contributions towards the capital cost of a project – customer contributions — upfront cash payments made by new customers – the value of gifted assets — assets constructed and then handed over to the water business to operate and maintain	Chapter 9
A Price Submission must include estimates of revenue expected from disposal of assets for each year from 1 July 2023, to be deducted from the roll forward of the RAB.	Chapter 9
Not required in submission but must be available on request: • reconciliation of actual net capital expenditure against the benchmarks allowed in the water business's 2018 and 2020 price determinations (Section 3.9.2), including for any expenditure related to trials or pilot programs • further information on a water business's justification for capital expenditure in 2017-18 and in the period from 2018-19 to 2021-22.	Chapter 1, Chapter 7

Required content	Chapter/ Reference
Regulatory depreciation	
We recognise a return of capital expenditure (regulatory depreciation) for an asset when the asset enters service. We prefer a straight-line depreciation profile. The estimates and profiles for regulatory depreciation should reflect reasonable assumptions about asset life and utilisation. Water businesses can propose an alternative approach to straight-line depreciation having regard to the following assessment principles: • the depreciation rate should account for technological change, projected future demand and any other factors that may affect the value of the assets in the future • the technical lives of assets • impact on prices over the long-term.	Chapter 9
Cost of debt	
A business is not required to submit information on the cost of debt in its Price Submission, because the cost of debt will be determined on the basis of the data outlined above. However, the business must use the values above to estimate its revenue requirement and prices, subject to any updates before we make a price determination (the values in Table 3.2 will be reflected in the financial model template we provide businesses).	Chapter 9
PREMO rating	
Criteria will be addressed in another chapter, need only set out the rating and return used to calculate revenue in this chapter and refer to chapter 11 for justification	Chapter 9
Return on equity	
A water business's proposed revenue requirement must incorporate a value for the return on equity that is no higher than the value specified in Table 3.4 for its proposed Price Submission rating. For example, an 'Advanced' rating will correspond with a maximum return on equity of 4.5 per cent. No further supporting information regarding the water business's return on equity is required.	Chapter 9
Tax allowance	
The tax allowance included for the purposes of determining the required revenue must reflect an estimate of the corporate income tax to be paid, less the imputation credits that would be received by a hypothetical private investor in the water business. In estimating the value of imputation credits the water business must multiply the annual estimated corporate income tax bill by an imputation factor. This is consistent with the income tax calculation in the financial model template.	Chapter 9
The Price Submission must propose a total tax allowance for the next regulatory period. An estimate must also be provided for each year of the next regulatory period.	Chapter 9
The Price Submission must state the basis on which the tax allowance for the next regulatory period has been calculated	Chapter 9
The Price Submission must in the financial model template, provide an estimate of the income tax for each year after the next regulatory period up until at least 2032-33	
The Price Submission must make available to us the business's latest corporate forecasts for annual tax payments for the next regulatory period, and the basis for the forecasts.	Chapter 9
Form of price control	
A Price Submission must clearly state the proposed form of price control to apply to each service over the next regulatory period	Chapter 9
A Price Submission must include the formula to give effect to the form of price control, including any proposed side constraints if the water business is proposing a revenue cap form of price control	Chapter 9
A Price Submission must if applicable, specify and justify which tariffs are subject to the tariff basket form of control and how those tariffs are grouped (according to similar cost structures, customer class).	N/A
If changes to the form of price control are proposed, then a Price Submission must: • explain how the proposed form of control would operate and services affected • demonstrate the business has consulted with potentially affected customers, and explain how the feedback from customers informed its proposals, and how the change benefits customers • provide data and supporting information that describes how the proposed form of price control is consistent with providing signals about the efficient cost of delivering services and how it is likely to impact on price stability	N/A

Required content	Chapter/ Reference
• explain how the business considered risk allocation and management (including demand and financial risk) • explain how a transition to a new form of price control may impact customers and the water business's approach to minimising any adverse impacts	
A Price Submission must list each of its proposed tariffs to apply in the next regulatory period and include: • each element of a multi-part tariff structure • a price for each tariff • where relevant, the pricing principles that it proposes to apply in setting prices.	Chapter 10
A Price Submission must include a tariff schedule listing each tariff and the price (or principles) proposed, including each element of a multi-part tariff structure.	Appendix 3 and Appendix 4
A Price Submission must outline the business's tariff strategy and highlight any major proposed changes during the regulatory period commencing 1 July 2023.	Chapter 10
A Price Submission must provide indicative bill impacts for key customer groups – for residential (owner occupiers and tenants) and business customers (small, medium and large). Estimates must be provided for each year of the regulatory period using representative consumption amounts, and specified in real terms.	Chapter 10
A Price Submission must include a summary of the business's approach to consultation on its proposed tariffs and how the views of customers informed the Price Submission.	Chapter 2 and Chapter 10
For any changes in tariff structures and principles, or new tariffs: • state how each tariff is to be applied – for example, frequency of charging, customer class, applying prices through connection or meter size • describe the relationship between the proposed price for a service and the associated short run or long run marginal cost • provide data and supporting information that describes how proposed tariffs are consistent with providing signals about the efficient cost of delivering services • justify how the proposed change delivers better signals to customers about the efficient costs of service provision • describe how the business considered risk and its allocation and management • provide a summary of the business's approach to consultation and how the views of customers informed the Price Submission • update the bill calculator in the financial template, reflecting the proposed tariffs and price levels.	Chapter 10
For real price changes of more than 10 per cent for any tariff in any year for the next regulatory period: • describe the relationship between the cost of service provision and the proposed price • provide a summary of the business's approach to consultation (including the approach to identifying affected customers) • summarise the customer feedback received on the proposed price increase • describe the transition arrangements considered, and ultimately proposed, for affected customers.	N/A
Provide estimated tariffs for each service for each year beyond the next regulatory period up until 2032-33 in the financial model template	Financial Model [P002]
Provide the Top 10 miscellaneous charges by forecast revenue for the next regulatory period and the following period up until 2032-33 in the financial model template	Chapter 10
Provide supporting information that describes how proposed miscellaneous tariffs are calculated in accordance with requirements in the WIRO and the pricing principles provided below	Chapter 10
Adjusting prices	
A Price Submission must specify any proposed price adjustment mechanisms to apply in the next regulatory period	N/A

Required content	Chapter/ Reference

A Price Submission must:
• specify any proposed price adjustment mechanisms to apply in the next regulatory period, and specify the proposed process and/or formula for adjusting prices
• if proposing new or changed price adjustment mechanisms, then the Price Submission must:
  • clearly specify and explain how the adjustments would work
  • demonstrate the business has sought to appropriately balance revenue and cost risk between the business and its customers, without materially impacting on price stability
  • justify any proposal against relevant matters in clause 11 of the WIRO and consistency with proposed outcomes.
	N/A

For any identified pass-through or uncertain and unforeseen events, a Price Submission must also: • describe each proposed event, and explain why it is uncertain in its timing or impacts on the water business or its customers • explain why it is appropriate that customers should bear risk associated with the event • explain how the business considered the impacts on its incentives to pursue efficiencies • propose a price adjustment mechanism to implement the pass-through	Chapter 9 (income tax) Chapter 6 (SRW recreational charges)
NCCs	
A Price Submission must: • Specify the proposed NCC charges and how they are to be applied – for example by customer class (water, sewerage, recycled water), location or development type (infill, greenfield). • Provide the model(s) used to calculate the maximum NCC charges, including accompanying notes describing the data sources and input assumptions used, in order for us to assess that proposed NCC charges have been established in accordance with the NCC pricing principles (Box 3.3). The model(s) must use the same financial parameters as in the financial model template. • Provide evidence of consultation with developers and how their views have informed the proposed charges, particularly if proposed Standard NCCs are significantly higher than the existing NCCs. • Provide details about how the forecast developer contributions in the financial model template have been derived and explain how past outcomes for contributions have been considered, and assumptions about future connections growth. • Provide a copy of the negotiated new customer contribution framework to be applied for the forthcoming regulatory period, including any proposed changes in track changes.	Chapter 10
Financial position	
The financial model template will calculate estimates for the four financial indicators specified in Table 3.6 for each year to 2032-33. A water business must populate the financial model template to enable our assessment of the business's financial position in the context of the prices proposed in its Price Submission. A water business should also provide us with the findings of any independent ratings assessments conducted by an independent credit ratings agency since 1 July 2018.	Financial Model [P002]
Board attestation	
Board attestation in form provided on page 61 of Guidance	Page 5
PREMO assessment	
PREMO guiding questions	Chapter 11

Appendix 3 Tariff schedule Zero tax allowance

Schedule 2
Prices

This schedule should be read in conjunction with Schedule 3 and Schedule 4.

GIPPSLAND WATER PRICES

Variable water, wastewater and trade waste charges are rounded down to 4 decimal places.
All other charges are rounded down to 2 decimal places.

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
1.1 Residential Water Tariff					
Service Availability Charge (per annum)					
No Connection	83.51	-0.15%	-0.15%	-0.15%	-0.15%
20mm Connection	167.21	-0.15%	-0.15%	-0.15%	-0.15%
25mm Connection	167.21	-0.15%	-0.15%	-0.15%	-0.15%
32mm Connection	428.61	-0.15%	-0.15%	-0.15%	-0.15%
40mm Connection	669.00	-0.15%	-0.15%	-0.15%	-0.15%
50mm Connection	1045.43	-0.15%	-0.15%	-0.15%	-0.15%
75mm Connection	2572.08	-0.15%	-0.15%	-0.15%	-0.15%
80mm Connection	2676.60	-0.15%	-0.15%	-0.15%	-0.15%
100mm Connection	4181.94	-0.15%	-0.15%	-0.15%	-0.15%
150mm Connection	9409.61	-0.15%	-0.15%	-0.15%	-0.15%
Water Usage Charge					
Consumption Charge – Treated Water(per kL)	2.1004	-0.15%	-0.15%	-0.15%	-0.15%
Consumption Charge – Raw Water (per kL)	1.2661	0%	0%	0%	0%
Notional Charge where no meter exists (p.a.)	441.96	0%	0%	0%	0%
Water supplied via metered hydrant or stand pipe (per kL)	5.0752	0%	0%	0%	0%
1.2 Non Residential Water Tariff					
Service Availability Charge (per annum)					
No Connection	83.51	-0.15%	-0.15%	-0.15%	-0.15%
20mm Connection	167.21	-0.15%	-0.15%	-0.15%	-0.15%
25mm Connection	167.21	-0.15%	-0.15%	-0.15%	-0.15%
32mm Connection	428.61	-0.15%	-0.15%	-0.15%	-0.15%
40mm Connection	669.00	-0.15%	-0.15%	-0.15%	-0.15%
50mm Connection	1045.43	-0.15%	-0.15%	-0.15%	-0.15%
75mm Connection	2572.08	-0.15%	-0.15%	-0.15%	-0.15%
80mm Connection	2676.60	-0.15%	-0.15%	-0.15%	-0.15%
100mm Connection	4181.94	-0.15%	-0.15%	-0.15%	-0.15%
150mm Connection	9409.61	-0.15%	-0.15%	-0.15%	-0.15%
200mm Connection	18297.30	-0.15%	-0.15%	-0.15%	-0.15%
Water Usage Charge					
Consumption Charge – Treated Water(per kL)	2.1004	-0.15%	-0.15%	-0.15%	-0.15%
Consumption Charge – Raw Water (per kL)	1.2661	0%	0%	0%	0%
Notional Charge where no meter exists (p.a.)	441.96	0%	0%	0%	0%
Water supplied via metered hydrant or stand pipe (per kL)	5.0752	0%	0%	0%	0%
1.3 Fire Service Tariff					
Service Availability Charge (per annum)					
20mm Connection	48.74	0%	0%	0%	0%
25mm Connection	48.74	0%	0%	0%	0%
32mm Connection	124.72	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
40mm Connection	194.84	0%	0%	0%	0%
50mm Connection	304.39	0%	0%	0%	0%
75mm Connection	685.14	0%	0%	0%	0%
80mm Connection	779.41	0%	0%	0%	0%
100mm Connection	1217.86	0%	0%	0%	0%
150mm Connection	2740.36	0%	0%	0%	0%
1.4 Residential Wastewater Tariff					
Service Availability Charge (per annum)					
Connected Property	768.22	-0.15%	-0.15%	-0.15%	-0.15%
Non Connected Property	384.07	-0.15%	-0.15%	-0.15%	-0.15%
1.5 Non Residential Wastewater Tariff					
Service Availability Charge (per annum)					
Connected Property	768.22	-0.15%	-0.15%	-0.15%	-0.15%
Non Connected Property	384.07	-0.15%	-0.15%	-0.15%	-0.15%
Wastewater Volumetric Charge (per kL)					
Wastewater Volumetric Charge	4.0896	0%	0%	0%	0%
1.6 Trade Waste Tariff					
Application Fee (per application)	139.61	0%	0%	0%	0%
Annual Charge (per annum)	345.76	0%	0%	0%	0%
1.7 Quality Based Trade Waste Tariff					
Volumetric Charge (per kL)					
Volumetric component	4.0896	0%	0%	0%	0%
Quality Based Charges (per kg)					
Biochemical Oxygen Demand (BOD)	9.9351	0%	0%	0%	0%
Suspended solids (SS)	0.3284	0%	0%	0%	0%
Total Phosphorus (P)	13.7942	0%	0%	0%	0%
Nitrogen (N)	9.9351	0%	0%	0%	0%
1.8 New Customer Contributions (per lot)					
Water					
Warragul/Drouin Water System *(Towns include; Bravington, Buln Buln, Crossover, Darnum, Drouin, Drouin East, Drouin West, Jindivick, Longwarry North, Nilma, Rokeby, Warragul)*	3814.02	0%	0%	0%	0%
Moe/Newborough Water System *(Towns include; Coalville, Hearnes Oak, Moe, Moe South, Newborough, Tanjil, Trafalgar, Trafalgar East, Trafalgar South, Westbury, Yallourn, Yallourn North, Yarragon, Yarragon South)*	2563.75	0%	0%	0%	0%
Traralgon Water System *(Towns include;Flynn, Traralgon, Traralgon East)*	3000.73	0%	0%	0%	0%
Morwell Water System *(Towns include;Boolarra, Churchill, Hazelwood, Hazelwood North, Hazelwood South, Jeeralang Junction, Maryvale, Morwell, Narracan, Traralgon South, Yinnar, Yinnar South)*	3474.39	0%	0%	0%	0%
Sale Water System *(Towns include;Cobains, East Sale, Fulham, Pearsondale, Sale, Sale East, Wurruck)*	451.80	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
Sewerage					
Warragul/Drouin Water System *(Towns include; Bravington, Buln Buln, Crossover, Darnum, Drouin, Drouin East, Drouin West, Jindivick, Longwarry North, Nilma, Rokeby, Warragul)*	2620.21	0%	0%	0%	0%
Moe/Newborough Water System *(Towns include; Coalville, Hearnes Oak, Moe, Moe South, Newborough, Tanjil, Trafalgar, Trafalgar East, Trafalgar South, Westbury, Yallourn, Yallourn North, Yarragon, Yarragon South)*	2563.75	0%	0%	0%	0%
Traralgon Water System *(Towns include;Flynn, Traralgon, Traralgon East)*	1011.03	0%	0%	0%	0%
Morwell Water System *(Towns include;Boolarra, Churchill, Hazelwood, Hazelwood North, Hazelwood South, Jeeralang Junction, Maryvale, Morwell, Narracan, Traralgon South, Yinnar, Yinnar South)*	216.05	0%	0%	0%	0%
Sale Water System *(Towns include;Cobains, East Sale, Fulham, Pearsondale, Sale, Sale East, Wurruck)*	599.95	0%	0%	0%	0%
1.9 Miscellaneous Fees and Charges					
Water Main Tapping (per tapping)					
20mm Buried Property Service up to 5 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Buried Property Service 15-20 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Main to Meter up to 5 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Main to Meter 15-20 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Tapping Fee 20 mm into mains up to and including 150mm	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Meter Installation (per meter)					
Installation/Supply of 20mm Meter (incl Couplings)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Installation/Supply of 25mm Meter (incl Couplings)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Meter Assembly Fee for Pre-Tapped Properties (per meter)					
Pre-tapped connection of 20mm meter (Installation of 20mm meter to pre-tapped buried water service)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Restriction and Reconnection of Water Supply (each)					
Fitting of on-site restrictors to property water services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Removal of on-site restrictors to property water services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Application for Connection to Wastewater Main (each)					
Standard residential connection into wastewater connection point	120.00	0%	0%	0%	0%
Minor repairs/alterations requiring Plumbing Industry Commission (PIC) number	90.00	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
Small industrial/commercial connection	235.00	0%	0%	0%	0%
Provision of wastewater connection point to existing wastewater main by accredited pipelayer – audit fee	92.29	0%	0%	0%	0%
Special Meter Reads (each)					
Special Meter read at the commencement of a tenancy and at the termination of a tenancy or when the property changes ownership	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Information Statements (each)					
Preparation of a Property Information Statement, inclusive of a Special Meter Reading performed on settlement date	51.00	0%	0%	0%	0%
Application to Build over Gippsland Water's Assets and/or Easements (each)					
Fees for Application to Build over Gippsland Water's Assets and/or Easements	245.00	0%	0%	0%	0%
Metered Hydrant Fees (each)					
Annual fee	153.78	0%	0%	0%	0%
Land Development Fees					
Application Fee including water supply & wastewater (each)					
11-20 lots in subdivision	767.60	0%	0%	0%	0%
Offer Acceptance Fee including water supply & wastewater (each)					
11-20 lots in subdivision	1791.07	0%	0%	0%	0%
Non-core miscellaneous services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

Schedule 3
Application of prices

3.1 Wastewater Volumetric Charge

A wastewater volumetric charge applies to non-residential properties which use in excess of 100 kilolitres of water in any four monthly period, calculated and levied on the following basis:

A= water usage above 100 kilolitres in any four monthly period.
B= wastewater volumetric charge per kilolitre
C= a percentage figure of 95%, 75%, 50% or 25%, based upon the property type (as detailed below).
D= the Wastewater Volumetric Charge to be paid.

The Volumetric charge for Wastewater shall be calculated as D = A x B x C. The charge is set according to the type of Development/Business conducted on the property.

Property types designated at 95% wastewater volumetric charge
Aerodrome, Agri-business/Meat & Poultry, Art Gallery, Automotive, Bank, Body Corporate (Non Res), Church, Cinema/Theatre, Clubs/Facilities/Venues (Meal Preparation), Commercial Storage Units, Community Services (Schools, Hospitals, Prison, Childcare Facilities, Nursing Home/Aged Care Facility and Preschools), Courthouse, Dry Cleaners, Emergency & Public Services, Factory, Hairdresser/Barber, Hotel, Landfill/Transfer Station, Laundromat, Library, Livestock/Saleyards, Medical & Dwelling, Medical Rooms/Facilities (Doctors, Dentists, Chiropractic etc), Museum, Office, Photo Laboratory/Chemical, Post Office, Printers/Screen Printers, Public Utility (eg. Public Toilets), Pump Station, Radio Station, Railway Station, Restaurants & Cafes, Shed, Shops, Shop & Dwelling, Shopping Centre, Supermarket, Telephone Exchange, Timber Yard (retail), Veterinary Centres, Warehouse, Wool Production, Workshop, Workshop & Dwelling, Wrecking Yard, Undefined.

Property types designated at 75% wastewater volumetric charge
Accommodation, Food Processing/Manufacturing, Public Swimming Pools, Undefined.

Property types designated at 50% wastewater volumetric charge
Brewery/Winery (wine making process), Caravan Park, Farms/Animal Husbandry, Funeral Parlour, Horse Stable and House, Kennels/Animal Hospital, Piggery, Undefined.

Property types designated at 25% wastewater volumetric charge
Bakery, Cemetery, Clubs/Outdoor Facilities (Ground Watering Only), Concrete Batching Facility, Garden Supplies, Market Garden, Parking Lot, Plant Nursery, Racecourse/Stables, Winery/Vineyard, Timber Factory/Saw Mill, Undefined.

3.2 Quality based trade waste tariff

3.2.1 Risk based assessment

The quality based trade waste tariff will apply to all new and existing businesses who are identified as presenting an elevated level of risk to the wastewater treatment process. To assess this risk, trade waste customers will be subjected to a risk based review which will consider five separate criteria to establish a risk score for each trade waste customer. These criteria are –

- volume discharged per annum (kL);
- trade waste risk to treatment process;
- compliance history over 12 months (number of samples with at least one of the four specific quality based trade waste parameters exceeds agreed limits)
- wastewater treatment plant discharging to; and
- the percentage proportion of customer discharge compared to total discharge received at the plant.

Each criteria will be individually scored according to the level of risk the trade waste customer presents. The following table outlines these five risk criteria and the risk based scores that are applicable for each risk.

Table 1: Risk criteria and scoring principles

Risk	Risk Score	5	4	3	2	1
1	**Volume discharged per annum (kL)**	>300,000	< 300,000 >200,000	< 200,000 > 100,000	< 100,000 > 10,000	< 10,000
2	**Trade waste risk to treatment process**	Catastrophic	Major	Moderate	Minor	Insignificant
3	**Compliance history over 12 months (number of samples with at least one parameter out of limits)**	> +5	4	3	2	1
4	**Wastewater Treatment Plant discharged to**	Gippsland Water Factory, Drouin	Moe, Morwell, Neerim Sth, Warragul, Rawson	Mirboo Nth, Willow Grove (3rd Party Reuse)	Maffra, Heyfield, Sale/ Wurruk/ LochSport, Stratford, Seaspray	n/a
5	**Proportion of customer discharge compared to total discharge to plant**	>5%	>4%	>3%	>2%	>1%

The scores for each risk criteria will then be summated to determine a total score for that particular trade waste customer. The trade waste customer will then be categorised into one of three risk classes depending on their total score, as outlined below.

Table 2: Risk ranking

Class 1	Class 2	Class 3
Low Risk	Medium Risk	High Risk
(Total Score <10)	(Total Score 10 – 15)	(Total Score 16 >) Or 2 or more criteria scored at 5

3.2.2 Application of quality trade waste tariff

All Commercial Trade Waste customers are still required to meet Gippsland Water's trade waste limits at all times. For customers that discharge beyond agreement limits whom are not included within the QBTW methodology, CTW agreement pecuniary actions will be applied, including refusal to accept waste into Gippsland Water's wastewater disposal systems.

Table 3 summarises the application of the Quality Based Trade Waste Tariff (QBTW)

Customers who are ranked as Class 1 will not be subjected to the quality based trade waste tariff. These customers will be covered by Gippsland Water's Commercial Trade Waste Agreement (CTW) specifications and incur the standard non-residential wastewater volumetric tariff. Class 2 and Class 3 risk ranked customers will be subject to the quality based trade waste tariff.

Gippsland Water will apply the same water consumption caps to the quality based tariff as currently apply to the non-residential wastewater volumetric tariff. In other words, if waste discharge is not separately metered then the quality based trade waste tariff will only apply where water consumption exceeds 100kL in any four month billing period. Where a dedicated wastewater meter exists, the tariff will continue to be applied on the total kL volume recorded at the meter.

In addition, the current annual CTW charge will remain in place, and trade waste customers will also be required to pay for sampling costs inherent in the monitoring program required by the trade waste agreement. The frequency and cost of sampling will be dependent on the customers risk ranking. For example, a minimum of four samples will be taken per annum once a customer is determined to be at Class 2.

Table 3: Application of quality based trade waste tariff

	Class 1	Class 2	Class 3
Risk Ranking (Refer Table 2)	Low Risk	Medium Risk	High Risk
QBTW Applicable	No	Yes	Yes
Frequency & Cost of Sampling (individually assessed)	Audited per CTW Agreement	Min. 4 times p.a. (at cost)	Min 12 times p.a (at cost)
Annual Charges Applicable	CTW Annual Fee	CTW Annual Fee plus QBTW charges	CTW Annual Fee plus QBTW charges
Life of Trade Waste Agreement	5 years	3 years	2 years

3.2.3 Calculating the quality based trade waste tariff

The quality based trade waste tariff will consist of two components, a volumetric fee per kilolitre; plus a quality based fee per kilogram dependent on the concentration of any of the following four parameters: Total Nitrogen (TN), Biochemical Oxygen Demand (BOD), Suspended Solids (SS), and Total Phosphorous (P) that are received beyond the absolute concentration limit specified in our Standard Trade Waste Acceptance Criteria published on our website for that parameter. These limits are outlined in our Commercial Trade Waste Agreements (CTW).

The quality based trade waste tariff has been designed such that trade waste customers discharging at or within the Commercial Trade Waste Agreement (CTW) specifications for the four trade waste parameters that require additional treatment input costs to process will only pay the non-residential wastewater volumetric charge. Customers that discharge above the Commercial Trade Waste Agreement (CTW) specifications for those parameters will be charged both the non-residential wastewater volumetric charge and a cost recovery charge for the breaching parameter(s).

The four trade waste parameters that lead to additional treatment costs are:-

	CTW limit
• Total Nitrogen (TN)	100 mg/L
• Biochemical Oxygen Demand (BOD)	600 mg/L
• Suspended solids (SS)	600 mg/L
• Phosphorus (P)	15 mg/L

Table 4 outlines the cost per parameter for treatment dependent upon the treatment processes utilised at the treatment plant discharged too.

Table 4: Cost of Treatment per treatment plant process

Treatment Process	Activated Sludge Membrane Filtration	Activated Sludge	Facultative Lagoon
Treatment Plant	Gippsland Water Factory Drouin	Moe Morwell Neerim Sth Warragul Rawson	Heyfield Sale/Wurruk/LochSport Maffra Stratford Seaspray Mirboo Nth Willow Grove
$ Jan 23	$/kg	$/kg	$/kg
Total Nitrogen (TN)	$9.94 / kg	$3.77 / kg	$1.84 / kg
Biochemical Oxygen Demand (BOD)	$9.94 / kg	$3.77 / kg	$1.84 / kg
Suspended solids (SS)	$0.33 / kg	$0.73 / kg	$0.94 / kg
Phosphorus (P)	$13.79 / kg	$7.03 / kg	$3.83 / kg

The QBTW tariff shall be calculated and levied on the following basis:

Step 1:
Determine the number of kL discharged by the customer over the billing period for which the non-residential Volumetric Wastewater tariff applies.

Step 2:
Determine the concentrations (mg/L) of Total Nitrogen (TN), Biochemical Oxygen Demand (BOD), Suspended Solids (SS) and Phosporous (P) using results from the latest sample.

Step 3:
Calculate the total payable using the following equation:

Total Amount Payable ($) = (Non-residential Wastewater tariff ($/kL) x A) + (A x B x quality tariff TN ($/kg f) /1000) + (A x C x quality tariff BOD ($/kg [f]) /1000) + (A x D x quality tariff SS ($/kg [f]) /1000) + (A x E x quality tariff P ($/kg [f]) /1000)

Where:

A = the number of kL > 100 kL of water consumption over the billing period OR if the waste discharge is separately metered then the total kL volume discharged over the billing period.

B = the concentration (mg/L) of Total Nitrogen (TN) greater than the CTW limit

C = the concentration (mg/L) of Biochemical Oxygen Demand (BOD) greater than the CTW limit

D = the concentration (mg/L) of Suspended Solids (SS) greater than the CTW limit

E = the concentration (mg/L) of Phosphorus (P) greater than the CTW limit

$/kg f = the cost per treatment process dependent upon treatment plant discharged too (table 4).

3.3 Miscellaneous Fees and Charges – definitions

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
Water Main Tapping (per tapping)	
20mm buried property service up to 5 metres in length, water main up to 150 mm in road reserve; or 20mm buried property service 15-20 metres in length, water main up to 150 mm in road reserve	***Gippsland Water's*** contractor attends site, excavates water main, completes an under pressure water tapping.
20mm main to meter up to 5 metres in length, water main up to 150mm in road reserve; or 20mm main to meter 15-20 metres in length, water main up to 150mm in road reserve	***Gippsland Water's*** contractor attends site, excavates water main, completes an under pressure water tapping and installs a 20mm meter.
Tapping fee 20mm into mains up to and including 150mm	***Gippsland Water's*** contractor provides the pipes and fittings to be used for the supply of water to a property from the water main up to and including the meter assembly, or the stop tap / ball valve if no meter fitted.
Capping of a 20mm or 25mm service (plumber to excavate)	***Gippsland Water's*** contractor attends site to cap an existing tapping provided on the water main.
Meter Installation (per meter)	
Installation/Supply of 20mm Meter (Includes Couplings)	This charge provides for Gippsland Water's contractor to attend site and fit a standard 20mm water meter assembly.

Miscellaneous service	Definition
Installation/Supply of 25mm Meter (Includes Couplings)	This charge provides for Gippsland Water's contractor to attend site and fit a standard 25mm water meter assembly.
Meter Assembly Fee for Pre-Tapped Properties (per meter)	
Pre-tapped connection of 20mm meter (Installation of 20mm meter to pre-tapped buried water service)	This charge provides for ***Gippsland Water's*** contractor to attend site, to raise the buried water service and to fit a standard water meter assembly. A standard meter assembly is an apparatus consisting of water meter, stop valve, strainer, additional valves (if fitted) and unions required to connect these components together and to connect the water supply pipe work. It does not include any backflow prevention device or pressure reduction device installed downstream of the outlet of the meter.
Restriction and Reconnection of Water Supply (each)	
Fitting of on-site restrictors to property water services	Restriction of water supply for non-payment of water account in accordance with ***Gippsland Water's*** Customer Charter.
Removal of on-site restrictors from property water services	Reconnection of a water supply following either payment of an outstanding water account or the negotiation of a suitable payment plan in accordance with ***Gippsland Water's*** Customer Charter.
Special Meter Reads (each)	
Special meter read at the commencement of a tenancy and at the termination of a tenancy or when the property changes ownership	This charge is for an out of the ordinary meter read at commencement and termination of occupancy for incoming and outgoing customers.
Information Statements (each)	
Preparation of a Property Information Statement, inclusive of a Special Meter Reading performed on a settlement date	Information Statement is provided on request. This certificate details outstanding rates and encumbrances in accordance with Section 158 of the ***Water Act 1989***.
Application for Connection to Wastewater Main (each)	
Standard residential connection into wastewater connection point	This wastewater connection application charge provides for processing of an application for a standard residential sewer connection. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include any Plumbing Industry Commission fees.
Minor repairs/alterations requiring P.I.C number	This minor repairs / alterations application charge provides for processing of an application for a sewer alteration within the property. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include any Plumbing Industry Commission fees.
Small industrial/commercial connection	This wastewater connection application charge provides for processing of an application for a sewer connection for a small industrial or commercial development. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include Plumbing Industry Commission fees.

Miscellaneous service	Definition
Provision of wastewater connection point to existing wastewater main by accredited pipelayer	This charge is an audit fee ONLY. The charge is for ***Gippsland Water*** personnel to attend the site at the time of construction of a sewer property connection by an accredited pipelayer.
*Application to Build over **Gippsland Water's** Assets and/or Easements (each)*	
Fees for Application to Build over Gippsland Water's Assets and/or Easements	This is a charge for processing an application for a property owner who wishes to construct a structure over or adjacent to a ***Gippsland Water*** asset and / or easement.
Metered Hydrant Fees (each)	
Annual fee	***Gippsland Water*** provides a metered hydrant service to registered users in accordance with the ***Water Act 1989***.
Land Development Fees (each)	
Application Fee including water supply and wastewater (each) 11-20 lots in subdivision	This is a charge where an extension to ***Gippsland Water*** services for land arises from subdivision of land. The owner of the land is liable for all costs associated with the provision of the works and must enter into an Owners Cost Agreement and pay an application fee based on the number of lots in a subdivision. This fee pertains to a 11-20 lot subdivision.
Offer Acceptance Fee including water supply and wastewater (each) 11-20 lots in subdivision	This is a charge where the developer is accepting the offer outlined in the Owners Cost Agreement. This charge is to receipt monies and process the start works notice etc upon acceptance by developer of owners cost work agreements. This fee pertains to a 11-20 lot subdivision.

Schedule 4

Pricing Principles

INTERNAL SCHEDULE OF CHARGES

Other Gippsland Water fees are developed on basis of Schedule 4 pricing principles.

This internal schedule of charges provides a complete set of Gippsland Water charges for a range of minor miscellaneous charges maintained annually by the Finance Group. Updates to these charges are made after the annual ESC price approval process has been completed.

All prices in the Schedule of Charges are GST exclusive (as the majority of GW charges are GST Free). GST is applied as part of the billing process (where applicable) based upon the circumstances of that particular invoice.

“At Cost” (Actual Cost) is defined in section 4.5 of Schedule 4. Prices for miscellaneous services must be set according to actual cost calculated on the basis of the aggregate of:

- direct third party or contractor invoice cost
- direct marginal internal costs, including labour, materials and transport costs, and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

Appendix 4 Tariff schedule Tax allowance

Schedule 2
Prices

This schedule should be read in conjunction with Schedule 3 and Schedule 4.

GIPPSLAND WATER PRICES

Variable water, wastewater and trade waste charges are rounded down to 4 decimal places.
All other charges are rounded down to 2 decimal places.

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
1.1 Residential Water Tariff					
Service Availability Charge (per annum)					
No Connection	84.21	-0.15%	-0.15%	-0.15%	-0.15%
20mm Connection	168.61	-0.15%	-0.15%	-0.15%	-0.15%
25mm Connection	168.61	-0.15%	-0.15%	-0.15%	-0.15%
32mm Connection	432.20	-0.15%	-0.15%	-0.15%	-0.15%
40mm Connection	674.61	-0.15%	-0.15%	-0.15%	-0.15%
50mm Connection	1054.19	-0.15%	-0.15%	-0.15%	-0.15%
75mm Connection	2593.65	-0.15%	-0.15%	-0.15%	-0.15%
80mm Connection	2699.04	-0.15%	-0.15%	-0.15%	-0.15%
100mm Connection	4217.00	-0.15%	-0.15%	-0.15%	-0.15%
150mm Connection	9488.49	-0.15%	-0.15%	-0.15%	-0.15%
Water Usage Charge					
Consumption Charge – Treated Water(per kL)	2.1180	-0.15%	-0.15%	-0.15%	-0.15%
Consumption Charge – Raw Water (per kL)	1.2751	0%	0%	0%	0%
Notional Charge where no meter exists (p.a.)	445.67	0%	0%	0%	0%
Water supplied via metered hydrant or stand pipe (per kL)	5.0752	0%	0%	0%	0%
1.2 Non Residential Water Tariff					
Service Availability Charge (per annum)					
No Connection	84.21	-0.15%	-0.15%	-0.15%	-0.15%
20mm Connection	168.61	-0.15%	-0.15%	-0.15%	-0.15%
25mm Connection	168.61	-0.15%	-0.15%	-0.15%	-0.15%
32mm Connection	432.20	-0.15%	-0.15%	-0.15%	-0.15%
40mm Connection	674.61	-0.15%	-0.15%	-0.15%	-0.15%
50mm Connection	1054.19	-0.15%	-0.15%	-0.15%	-0.15%
75mm Connection	2593.65	-0.15%	-0.15%	-0.15%	-0.15%
80mm Connection	2699.04	-0.15%	-0.15%	-0.15%	-0.15%
100mm Connection	4217.00	-0.15%	-0.15%	-0.15%	-0.15%
150mm Connection	9488.49	-0.15%	-0.15%	-0.15%	-0.15%
200mm Connection	18450.70	-0.15%	-0.15%	-0.15%	-0.15%
Water Usage Charge					
Consumption Charge – Treated Water(per kL)	2.1180	-0.15%	-0.15%	-0.15%	-0.15%
Consumption Charge – Raw Water (per kL)	1.2751	0%	0%	0%	0%
Notional Charge where no meter exists (p.a.)	445.67	0%	0%	0%	0%
Water supplied via metered hydrant or stand pipe (per kL)	5.0752	0%	0%	0%	0%
1.3 Fire Service Tariff					
Service Availability Charge (per annum)					
20mm Connection	49.08	0%	0%	0%	0%
25mm Connection	49.08	0%	0%	0%	0%
32mm Connection	125.60	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
40mm Connection	196.21	0%	0%	0%	0%
50mm Connection	306.54	0%	0%	0%	0%
75mm Connection	689.98	0%	0%	0%	0%
80mm Connection	784.91	0%	0%	0%	0%
100mm Connection	1226.45	0%	0%	0%	0%
150mm Connection	2759.69	0%	0%	0%	0%
1.4 Residential Wastewater Tariff					
Service Availability Charge (per annum)					
Connected Property	774.66	-0.15%	-0.15%	-0.15%	-0.15%
Non Connected Property	387.29	-0.15%	-0.15%	-0.15%	-0.15%
1.5 Non Residential Wastewater Tariff					
Service Availability Charge (per annum)					
Connected Property	774.66	-0.15%	-0.15%	-0.15%	-0.15%
Non Connected Property	387.29	-0.15%	-0.15%	-0.15%	-0.15%
Wastewater Volumetric Charge (per kL)					
Wastewater Volumetric Charge	4.1184	0%	0%	0%	0%
1.6 Trade Waste Tariff					
Application Fee (per application)	139.61	0%	0%	0%	0%
Annual Charge (per annum)	348.20	0%	0%	0%	0%
1.7 Quality Based Trade Waste Tariff					
Volumetric Charge (per kL)					
Volumetric component	4.1184	0%	0%	0%	0%
Quality Based Charges (per kg)					
Biochemical Oxygen Demand (BOD)	9.9351	0%	0%	0%	0%
Suspended solids (SS)	0.3284	0%	0%	0%	0%
Total Phosphorus (P)	13.7942	0%	0%	0%	0%
Nitrogen (N)	9.9351	0%	0%	0%	0%
1.8 New Customer Contributions (per lot)					
Water					
Warragul/Drouin Water System *(Towns include; Bravington, Buln Buln, Crossover, Darnum, Drouin, Drouin East, Drouin West, Jindivick, Longwarry North, Nilma, Rokeby, Warragul)*	4378.97	0%	0%	0%	0%
Moe/Newborough Water System *(Towns include; Coalville, Hearnes Oak, Moe, Moe South, Newborough, Tanjil, Trafalgar, Trafalgar East, Trafalgar South, Westbury, Yallourn, Yallourn North, Yarragon, Yarragon South)*	2563.75	0%	0%	0%	0%
Traralgon Water System *(Towns include;Flynn, Traralgon, Traralgon East)*	3439.66	0%	0%	0%	0%
Morwell Water System *(Towns include;Boolarra, Churchill, Hazelwood, Hazelwood North, Hazelwood South, Jeeralang Junction, Maryvale, Morwell, Narracan, Traralgon South, Yinnar, Yinnar South)*	2100.00	0%	0%	0%	0%
Sale Water System *(Towns include;Cobains, East Sale, Fulham, Pearsondale, Sale, Sale East, Wurruck)*	518.72	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
Sewerage					
Warragul/Drouin Water System *(Towns include; Bravington, Buln Buln, Crossover, Darnum, Drouin, Drouin East, Drouin West, Jindivick, Longwarry North, Nilma, Rokeby, Warragul)*	3008.33	0%	0%	0%	0%
Moe/Newborough Water System *(Towns include; Coalville, Hearnes Oak, Moe, Moe South, Newborough, Tanjil, Trafalgar, Trafalgar East, Trafalgar South, Westbury, Yallourn, Yallourn North, Yarragon, Yarragon South)*	2563.75	0%	0%	0%	0%
Traralgon Water System *(Towns include;Flynn, Traralgon, Traralgon East)*	1160.79	0%	0%	0%	0%
Morwell Water System *(Towns include;Boolarra, Churchill, Hazelwood, Hazelwood North, Hazelwood South, Jeeralang Junction, Maryvale, Morwell, Narracan, Traralgon South, Yinnar, Yinnar South)*	2100.00	0%	0%	0%	0%
Sale Water System *(Towns include;Cobains, East Sale, Fulham, Pearsondale, Sale, Sale East, Wurruck)*	688.82	0%	0%	0%	0%
1.9 Miscellaneous Fees and Charges					
Water Main Tapping (per tapping)					
20mm Buried Property Service up to 5 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Buried Property Service 15-20 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Main to Meter up to 5 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
20mm Main to Meter 15-20 metres in length, water main up to 150mm in road reserve	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Tapping Fee 20 mm into mains up to and including 150mm	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Meter Installation (per meter)					
Installation/Supply of 20mm Meter (incl Couplings)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Installation/Supply of 25mm Meter (incl Couplings)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Meter Assembly Fee for Pre-Tapped Properties (per meter)					
Pre-tapped connection of 20mm meter (Installation of 20mm meter to pre-tapped buried water service)	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Restriction and Reconnection of Water Supply (each)					
Fitting of on-site restrictors to property water services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Removal of on-site restrictors to property water services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Application for Connection to Wastewater Main (each)					
Standard residential connection into wastewater connection point	120.00	0%	0%	0%	0%
Minor repairs/alterations requiring Plumbing Industry Commission (PIC) number	90.00	0%	0%	0%	0%

Tariff and Price Component	Price (1 July 2023)	Price (1 July 2024)	Price (1 July 2025)	Price (1 July 2026)	Price (1 July 2027)
Small industrial/commercial connection	235.00	0%	0%	0%	0%
Provision of wastewater connection point to existing wastewater main by accredited pipelayer – audit fee	92.29	0%	0%	0%	0%
Special Meter Reads (each)					
Special Meter read at the commencement of a tenancy and at the termination of a tenancy or when the property changes ownership	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Information Statements (each)					
Preparation of a Property Information Statement, inclusive of a Special Meter Reading performed on settlement date	51.00	0%	0%	0%	0%
Application to Build over Gippsland Water's Assets and/or Easements (each)					
Fees for Application to Build over Gippsland Water's Assets and/or Easements	245.00	0%	0%	0%	0%
Metered Hydrant Fees (each)					
Annual fee	153.78	0%	0%	0%	0%
Land Development Fees					
Application Fee including water supply & wastewater (each)					
11-20 lots in subdivision	767.60	0%	0%	0%	0%
Offer Acceptance Fee including water supply & wastewater (each)					
11-20 lots in subdivision	1791.07	0%	0%	0%	0%
Non-core miscellaneous services	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

Schedule 3
Application of prices

3.1 Wastewater Volumetric Charge

A wastewater volumetric charge applies to non-residential properties which use in excess of 100 kilolitres of water in any four monthly period, calculated and levied on the following basis:

A= water usage above 100 kilolitres in any four monthly period.
B= wastewater volumetric charge per kilolitre
C= a percentage figure of 95%, 75%, 50% or 25%, based upon the property type (as detailed below).
D= the Wastewater Volumetric Charge to be paid.

The Volumetric charge for Wastewater shall be calculated as D = A x B x C. The charge is set according to the type of Development/Business conducted on the property.

Property types designated at 95% wastewater volumetric charge
Aerodrome, Agri-business/Meat & Poultry, Art Gallery, Automotive, Bank, Body Corporate (Non Res), Church, Cinema/Theatre, Clubs/Facilities/Venues (Meal Preparation), Commercial Storage Units, Community Services (Schools, Hospitals, Prison, Childcare Facilities, Nursing Home/Aged Care Facility and Preschools), Courthouse, Dry Cleaners, Emergency & Public Services, Factory, Hairdresser/Barber, Hotel, Landfill/Transfer Station, Laundromat, Library, Livestock/Saleyards, Medical & Dwelling, Medical Rooms/Facilities (Doctors, Dentists, Chiropractic etc), Museum, Office, Photo Laboratory/Chemical, Post Office, Printers/Screen Printers, Public Utility (eg. Public Toilets), Pump Station, Radio Station, Railway Station, Restaurants & Cafes, Shed, Shops, Shop & Dwelling, Shopping Centre, Supermarket, Telephone Exchange, Timber Yard (retail), Veterinary Centres, Warehouse, Wool Production, Workshop, Workshop & Dwelling, Wrecking Yard, Undefined.

Property types designated at 75% wastewater volumetric charge
Accommodation, Food Processing/Manufacturing, Public Swimming Pools, Undefined.

Property types designated at 50% wastewater volumetric charge
Brewery/Winery (wine making process), Caravan Park, Farms/Animal Husbandry, Funeral Parlour, Horse Stable and House, Kennels/Animal Hospital, Piggery, Undefined.

Property types designated at 25% wastewater volumetric charge
Bakery, Cemetery, Clubs/Outdoor Facilities (Ground Watering Only), Concrete Batching Facility, Garden Supplies, Market Garden, Parking Lot, Plant Nursery, Racecourse/Stables, Winery/Vineyard, Timber Factory/Saw Mill, Undefined.

3.2 Quality based trade waste tariff

3.2.1 Risk based assessment

The quality based trade waste tariff will apply to all new and existing businesses who are identified as presenting an elevated level of risk to the wastewater treatment process. To assess this risk, trade waste customers will be subjected to a risk based review which will consider five separate criteria to establish a risk score for each trade waste customer. These criteria are –

- volume discharged per annum (kL);
- trade waste risk to treatment process;
- compliance history over 12 months (number of samples with at least one of the four specific quality based trade waste parameters exceeds agreed limits)
- wastewater treatment plant discharging to; and
- the percentage proportion of customer discharge compared to total discharge received at the plant.

Each criteria will be individually scored according to the level of risk the trade waste customer presents. The following table outlines these five risk criteria and the risk based scores that are applicable for each risk.

Table 1: Risk criteria and scoring principles

Risk	Risk Score	5	4	3	2	1
1	**Volume discharged per annum (kL)**	>300,000	< 300,000 >200,000	< 200,000 > 100,000	< 100,000 > 10,000	< 10,000
2	**Trade waste risk to treatment process**	Catastrophic	Major	Moderate	Minor	Insignificant
3	**Compliance history over 12 months (number of samples with at least one parameter out of limits)**	> +5	4	3	2	1
4	**Wastewater Treatment Plant discharged to**	Gippsland Water Factory, Drouin	Moe, Morwell, Neerim Sth, Warragul, Rawson	Mirboo Nth, Willow Grove (3rd Party Reuse)	Maffra, Heyfield, Sale/ Wurruk/ LochSport, Stratford, Seaspray	n/a
5	**Proportion of customer discharge compared to total discharge to plant**	>5%	>4%	>3%	>2%	>1%

The scores for each risk criteria will then be summated to determine a total score for that particular trade waste customer. The trade waste customer will then be categorised into one of three risk classes depending on their total score, as outlined below.

Table 2: Risk ranking

Class 1	Class 2	Class 3
Low Risk	Medium Risk	High Risk
(Total Score <10)	(Total Score 10 – 15)	(Total Score 16 >) Or 2 or more criteria scored at 5

3.2.2 Application of quality trade waste tariff

All Commercial Trade Waste customers are still required to meet Gippsland Water's trade waste limits at all times. For customers that discharge beyond agreement limits whom are not included within the QBTW methodology, CTW agreement pecuniary actions will be applied, including refusal to accept waste into Gippsland Water's wastewater disposal systems.

Table 3 summarises the application of the Quality Based Trade Waste Tariff (QBTW)

Customers who are ranked as Class 1 will not be subjected to the quality based trade waste tariff. These customers will be covered by Gippsland Water's Commercial Trade Waste Agreement (CTW) specifications and incur the standard non-residential wastewater volumetric tariff. Class 2 and Class 3 risk ranked customers will be subject to the quality based trade waste tariff.

Gippsland Water will apply the same water consumption caps to the quality based tariff as currently apply to the non-residential wastewater volumetric tariff. In other words, if waste discharge is not separately metered then the quality based trade waste tariff will only apply where water consumption exceeds 100kL in any four month billing period. Where a dedicated wastewater meter exists, the tariff will continue to be applied on the total kL volume recorded at the meter.

In addition, the current annual CTW charge will remain in place, and trade waste customers will also be required to pay for sampling costs inherent in the monitoring program required by the trade waste agreement. The frequency and cost of sampling will be dependent on the customers risk ranking. For example, a minimum of four samples will be taken per annum once a customer is determined to be at Class 2.

Table 3: Application of quality based trade waste tariff

	Class 1	Class 2	Class 3
Risk Ranking (Refer Table 2)	Low Risk	Medium Risk	High Risk
QBTW Applicable	No	Yes	Yes
Frequency & Cost of Sampling (individually assessed)	Audited per CTW Agreement	Min. 4 times p.a. (at cost)	Min 12 times p.a (at cost)
Annual Charges Applicable	CTW Annual Fee	CTW Annual Fee plus QBTW charges	CTW Annual Fee plus QBTW charges
Life of Trade Waste Agreement	5 years	3 years	2 years

3.2.3 Calculating the quality based trade waste tariff

The quality based trade waste tariff will consist of two components, a volumetric fee per kilolitre; plus a quality based fee per kilogram dependent on the concentration of any of the following four parameters: Total Nitrogen (TN), Biochemical Oxygen Demand (BOD), Suspended Solids (SS), and Total Phosphorous (P) that are received beyond the absolute concentration limit specified in our Standard Trade Waste Acceptance Criteria published on our website for that parameter. These limits are outlined in our Commercial Trade Waste Agreements (CTW).

The quality based trade waste tariff has been designed such that trade waste customers discharging at or within the Commercial Trade Waste Agreement (CTW) specifications for the four trade waste parameters that require additional treatment input costs to process will only pay the non-residential wastewater volumetric charge. Customers that discharge above the Commercial Trade Waste Agreement (CTW) specifications for those parameters will be charged both the non-residential wastewater volumetric charge and a cost recovery charge for the breaching parameter(s).

The four trade waste parameters that lead to additional treatment costs are:-

	CTW limit
• Total Nitrogen (TN)	100 mg/L
• Biochemical Oxygen Demand (BOD)	600 mg/L
• Suspended solids (SS)	600 mg/L
• Phosphorus (P)	15 mg/L

Table 4 outlines the cost per parameter for treatment dependent upon the treatment processes utilised at the treatment plant discharged too.

Table 4: Cost of Treatment per treatment plant process

Treatment Process	Activated Sludge Membrane Filtration	Activated Sludge	Facultative Lagoon
Treatment Plant	Gippsland Water Factory Drouin	Moe Morwell Neerim Sth Warragul Rawson	Heyfield Sale/Wurruk/LochSport Maffra Stratford Seaspray Mirboo Nth Willow Grove
$ Jan 23	$/kg	$/kg	$/kg
Total Nitrogen (TN)	$9.94 / kg	$3.77 / kg	$1.84 / kg
Biochemical Oxygen Demand (BOD)	$9.94 / kg	$3.77 / kg	$1.84 / kg
Suspended solids (SS)	$0.33 / kg	$0.73 / kg	$0.94 / kg
Phosphorus (P)	$13.79 / kg	$7.03 / kg	$3.83 / kg

The QBTW tariff shall be calculated and levied on the following basis:

Step 1:
Determine the number of kL discharged by the customer over the billing period for which the non-residential Volumetric Wastewater tariff applies.

Step 2:
Determine the concentrations (mg/L) of Total Nitrogen (TN), Biochemical Oxygen Demand (BOD), Suspended Solids (SS) and Phosporous (P) using results from the latest sample.

Step 3:
Calculate the total payable using the following equation:

Total Amount Payable ($) = (Non-residential Wastewater tariff ($/kL) x A) + (A x B x quality tariff TN ($/kg f) /1000) + (A x C x quality tariff BOD ($/kg [f]) /1000) + (A x D x quality tariff SS ($/kg [f]) /1000) + (A x E x quality tariff P ($/kg [f]) /1000)

Where:

A = the number of kL > 100 kL of water consumption over the billing period OR if the waste discharge is separately metered then the total kL volume discharged over the billing period.

B = the concentration (mg/L) of Total Nitrogen (TN) greater than the CTW limit

C = the concentration (mg/L) of Biochemical Oxygen Demand (BOD) greater than the CTW limit

D = the concentration (mg/L) of Suspended Solids (SS) greater than the CTW limit

E = the concentration (mg/L) of Phosphorus (P) greater than the CTW limit

$/kg f = the cost per treatment process dependent upon treatment plant discharged too (table 4).

3.3 Miscellaneous Fees and Charges – definitions

The following table sets out the definitions of the miscellaneous charges contained in Schedule 2.

Miscellaneous service	Definition
Water Main Tapping (per tapping)	
20mm buried property service up to 5 metres in length, water main up to 150 mm in road reserve; or 20mm buried property service 15-20 metres in length, water main up to 150 mm in road reserve	***Gippsland Water's*** contractor attends site, excavates water main, completes an under pressure water tapping.
20mm main to meter up to 5 metres in length, water main up to 150mm in road reserve; or 20mm main to meter 15-20 metres in length, water main up to 150mm in road reserve	***Gippsland Water's*** contractor attends site, excavates water main, completes an under pressure water tapping and installs a 20mm meter.
Tapping fee 20mm into mains up to and including 150mm	***Gippsland Water's*** contractor provides the pipes and fittings to be used for the supply of water to a property from the water main up to and including the meter assembly, or the stop tap / ball valve if no meter fitted.
Capping of a 20mm or 25mm service (plumber to excavate)	***Gippsland Water's*** contractor attends site to cap an existing tapping provided on the water main.
Meter Installation (per meter)	
Installation/Supply of 20mm Meter (Includes Couplings)	This charge provides for Gippsland Water's contractor to attend site and fit a standard 20mm water meter assembly.

Miscellaneous service	Definition
Installation/Supply of 25mm Meter (Includes Couplings)	This charge provides for Gippsland Water's contractor to attend site and fit a standard 25mm water meter assembly.
Meter Assembly Fee for Pre-Tapped Properties (per meter)	
Pre-tapped connection of 20mm meter (Installation of 20mm meter to pre-tapped buried water service)	This charge provides for ***Gippsland Water's*** contractor to attend site, to raise the buried water service and to fit a standard water meter assembly. A standard meter assembly is an apparatus consisting of water meter, stop valve, strainer, additional valves (if fitted) and unions required to connect these components together and to connect the water supply pipe work. It does not include any backflow prevention device or pressure reduction device installed downstream of the outlet of the meter.
Restriction and Reconnection of Water Supply (each)	
Fitting of on-site restrictors to property water services	Restriction of water supply for non-payment of water account in accordance with ***Gippsland Water's*** Customer Charter.
Removal of on-site restrictors from property water services	Reconnection of a water supply following either payment of an outstanding water account or the negotiation of a suitable payment plan in accordance with ***Gippsland Water's*** Customer Charter.
Special Meter Reads (each)	
Special meter read at the commencement of a tenancy and at the termination of a tenancy or when the property changes ownership	This charge is for an out of the ordinary meter read at commencement and termination of occupancy for incoming and outgoing customers.
Information Statements (each)	
Preparation of a Property Information Statement, inclusive of a Special Meter Reading performed on a settlement date	Information Statement is provided on request. This certificate details outstanding rates and encumbrances in accordance with Section 158 of the ***Water Act 1989***.
Application for Connection to Wastewater Main (each)	
Standard residential connection into wastewater connection point	This wastewater connection application charge provides for processing of an application for a standard residential sewer connection. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include any Plumbing Industry Commission fees.
Minor repairs/alterations requiring P.I.C number	This minor repairs / alterations application charge provides for processing of an application for a sewer alteration within the property. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include any Plumbing Industry Commission fees.
Small industrial/commercial connection	This wastewater connection application charge provides for processing of an application for a sewer connection for a small industrial or commercial development. Once the application has been approved a Plumbing Industry Commission (PIC) number will be issued to the plumber. Note that the application charge does not include Plumbing Industry Commission fees.

Miscellaneous service	Definition
Provision of wastewater connection point to existing wastewater main by accredited pipelayer	This charge is an audit fee ONLY. The charge is for ***Gippsland Water*** personnel to attend the site at the time of construction of a sewer property connection by an accredited pipelayer.
*Application to Build over **Gippsland Water's** Assets and/or Easements (each)*	
Fees for Application to Build over Gippsland Water's Assets and/or Easements	This is a charge for processing an application for a property owner who wishes to construct a structure over or adjacent to a ***Gippsland Water*** asset and / or easement.
Metered Hydrant Fees (each)	
Annual fee	***Gippsland Water*** provides a metered hydrant service to registered users in accordance with the ***Water Act 1989***.
Land Development Fees (each)	
Application Fee including water supply and wastewater (each) 11-20 lots in subdivision	This is a charge where an extension to ***Gippsland Water*** services for land arises from subdivision of land. The owner of the land is liable for all costs associated with the provision of the works and must enter into an Owners Cost Agreement and pay an application fee based on the number of lots in a subdivision. This fee pertains to a 11-20 lot subdivision.
Offer Acceptance Fee including water supply and wastewater (each) 11-20 lots in subdivision	This is a charge where the developer is accepting the offer outlined in the Owners Cost Agreement. This charge is to receipt monies and process the start works notice etc upon acceptance by developer of owners cost work agreements. This fee pertains to a 11-20 lot subdivision.

Schedule 4

Pricing Principles

INTERNAL SCHEDULE OF CHARGES

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- direct third party or contractor invoice cost
- direct marginal internal costs, including labour, materials and transport costs, and
- a fair contribution to overheads.

For bank dishonour, debt collection and legal fees, the third party costs must be charged directly to the customer with no contribution for internal costs or a contribution to overheads.

Gippsland Water

Appendix 5 New Customer Contributions

New Customer Contributions

Introduction

The current New Customer Contributions (NCC) framework has been in place for two regulatory pricing periods. Over this time, there have been significant changes in the nature of development across the towns serviced by Gippsland Water. This is most evident in the high and accelerating rates of development that have occurred during the coronavirus (COVID-19) pandemic, with significant migration from Metropolitan Melbourne to Regional Victoria.

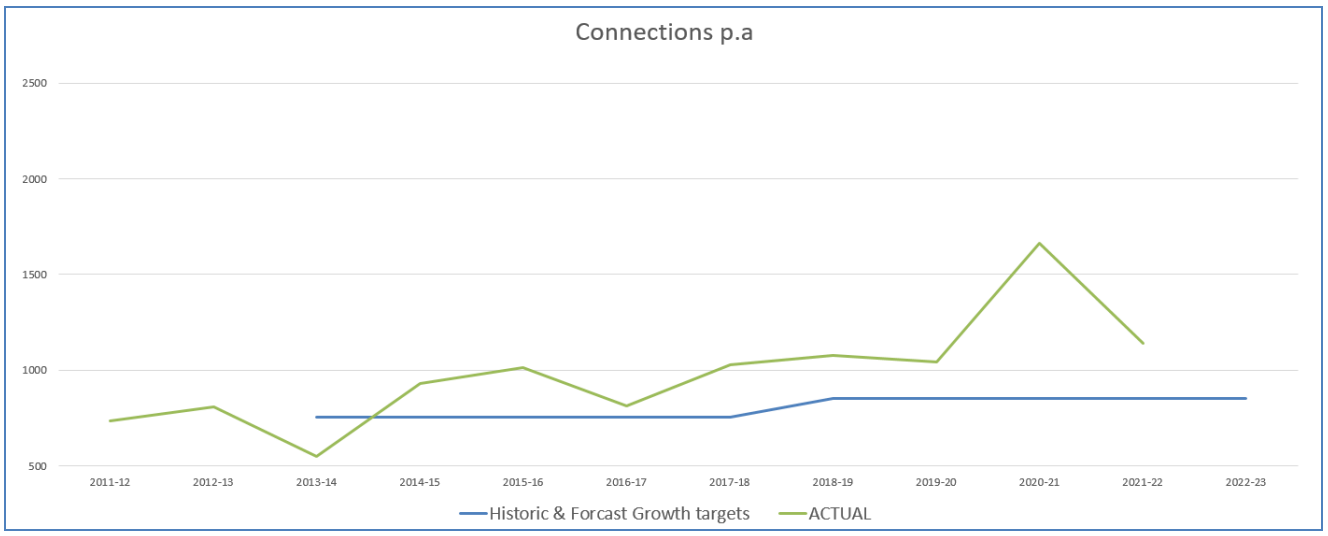
The level and pattern of development could not have been anticipated when the ESC established the current framework in its 2012 guidance. To manage the ongoing growth risks related to these changes, we have undertaken an extensive review of our NCC framework and is proposing to adopt an alternative approach that will address the risks associated with development and provide for a more intuitive and transparent approach to calculating NCCs.

This chapter sets out the rationale for changing NCCs, the process we went through to identify the most appropriate approach to calculating NCCs, what that approach is, the impacts of the change on customers and how we will implement the new approach.

Prices (Jan 23$)	2023-24	2024-25	2025-26	2026-27	2027-28
New Customer Contributions - Water					
System					
Warragul Drouin	3,814.02	3,814.02	3,814.02	3,814.02	3,814.02
Moe Newborough	2,563.75	2,563.75	2,563.75	2,563.75	2,563.75
Traralgon	3,000.73	3,000.73	3,000.73	3,000.73	3,000.73
Morwell	3,474.39	3,474.39	3,474.39	3,474.39	3,474.39
Sale	451.80	451.80	451.80	451.80	451.80
New Customer Contributions - Sewer					
System					
Warragul Drouin	2,620.21	2,620.21	2,620.21	2,620.21	2,620.21
Moe Newborough	2,563.75	2,563.75	2,563.75	2,563.75	2,563.75
Traralgon	1,011.03	1,011.03	1,011.03	1,011.03	1,011.03
Morwell	216.05	216.05	216.05	216.05	216.05
Sale	599.95	599.95	599.95	599.95	599.95
New Customer Contributions - Combined					
System					
Warragul Drouin	6,434.23	6,434.23	6,434.23	6,434.23	6,434.23
Moe Newborough	5,127.50	5,127.50	5,127.50	5,127.50	5,127.50
Traralgon	4,011.76	4,011.76	4,011.76	4,011.76	4,011.76
Morwell	3,690.44	3,690.44	3,690.44	3,690.44	3,690.44
Sale	1,051.75	1,051.75	1,051.75	1,051.75	1,051.75

The case for change

There are three primary drivers for our NCC reforms. The first of these is the demand risk associated with the recent development boom.



Whilst connections growth has generally been skewed to the west of our region (Warragul / Drouin currently the fourth fastest developing region in the state), from 2020-21 we have seen widespread connections growth right across the region. Post the pandemic lockdowns, this appears to be a trend across the State with central Melbourne experiencing negative growth and all regional areas experiencing positive growth. An analysis of new connections data between 2013-14 and 2020-21 shows that on average we have exceeded our VIF based connections growth forecasts over this period by 28%. In selecting an appropriate forecast new connections growth we have considered both the scenario analysis presented by our macroeconomic consultant and historic trends of new connection growth and have adopted an average 1196 new connections as our new connections growth forecast.

We have faced unprecedented and unanticipated growth in connections over the last three years. This growth has also been distributed unevenly across the towns and systems that we service. There is also a high level of uncertainty around the forward profile of the growth boom. To manage this demand risk we need an NCC approach that is capable of signalling to developers the efficient costs associated with their location and timing decisions. Incentivising efficient location and timing develop decisions will allow us to ensure that the prices levied on both our existing and new customers reflect efficient infrastructure growth and investment.

The second driver for change is a need to achieve cost reflectivity at a system level. We do not currently charge any NCC tariffs, the result of modelling undertaken by ourselves in 2012 and 2017 (leveraging the ESC's estimator tool) did not provide support for any standard NCC charges to apply, for both water and wastewater. The current approach does not reflect the costs associated with servicing growth in each of our systems. Both growth and the expenditure needed to service growth vary across our various water and wastewater systems.

System	Growth Capex			New
	Water $M	Waste $M	Total $M	Connections
Warragul Drouin	115.00	79.03	194.03	13,660
Moe Newborough	11.83	64.27	76.10	2,280
Traralgon	55.88	20.48	76.36	3,560
Morwell	53.33	2.95	56.28	1,080
Sale	4.00	5.09	9.09	1,380

Further the current approach does not adequately signal to developers the cost impacts at a system level of their timing and locational decisions.

The issue of cost reflectivity and NCCs providing appropriate locational signals to developers is further compounded under the current approach by the inclusion in NCC of sunk or existing assets

which make it difficult for NCCs to signal to developers which systems have capacity to absorb growth.

The third driver is a lack of transparency in the rationale and calculation of current NCCs. While NCCs at a high level are a single fixed charge per lot and relatively easy for customers to understand. At a procedural and principled level the approach is not intuitive and the complexity of the current net cashflow approach leads to difficulties in explaining the rationale for NCCs to customers.

ESC regulatory guidance

In 2012, the ESC released a guidance paper on NCCs that set out the current principle- based regulatory framework. The framework incorporates a number of defined pricing instruments that allow for:

- the calculation of costs associated with changes in the timing of development
- governance and negotiation arrangements, and
- a NCC estimator model.

The framework allows for both standard and negotiated NCCs. Standard NCCs are based on a net cashflow approach, where NCCs are the residual between the net present value (NPV) of the revenue stream associated with new customers and the NPV of the costs associated with connecting new customers, allowing for the recovery of the costs associated with sunk assets.

The ESC's Pricing Principles apply to both standard and negotiated NCCs and are as follows:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection
- have regard to the incremental future revenues that will be earned from customers at that connection, and
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

The pricing principles outlined in the ESC's NCC guidance are informed by the ESC's broader principles and objectives that are outlined in the Water Industry Regulatory Order 2014 (WIRO). These objectives determine the outcomes the ESC is itself obliged to pursue in its pricing decisions and the principles that must be met in order for the ESC to approve any prices including NCCs. Section 8 of the WIRO requires the ESC to have regard to and to place emphasis on:

- the promotion of efficient use of prescribed services by customers
- the promotion of efficiency in regulated entities as well as efficiency in, and the financial viability of, the regulated water industry, and
- the provision to regulated entities of incentives to pursue efficiency Improvements.

Section 11 of the WIRO sets out the pricing principles that the ESC must base its approvals on. These include that prices should:

- enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the way such prices are calculated, determined or otherwise regulated
- provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible, and
- consider the interests of customers of the regulated entity, including low income and vulnerable customers.

NCC reform process

New Customer Contributions are fundamental to achieving long lasting efficient growth outcomes for our customers. Accordingly we have adopted a principled, evidenced, transparent and consultative reform process.

This process involved engaging Utilities Regulation Advisory (URA) to review the appropriateness of the current approach to NCCs. The overarching objective of the review was to consider approaches that not only manage the uncertainty surrounding future growth, but also to establish a pricing methodology that better meets the ESC's principles, and is consistent with customer expectations (COR/22/5853).

The URA review adopted the following structure:

- To meet the projects requirements, we have completed a multistage program of activities which involved consultation with each of the member participants, including:
    - detailing the ESC's regulatory framework and requirements for setting NCCs and recovering development related costs
    - documenting good practice pricing objectives and pricing principles for NCCs and developer related charges, and the assessment framework to be applied
    - assessing the ESC's current NCC framework and approach against the criteria;
    - setting out the nature and extent of growth anticipated by member participants and the impact of this growth on expenditure
    - documenting the current state of NCC charging arrangements, including governance arrangements, negotiation framework, and application of standard and negotiated NCCs
    - undertaking a desktop review of NCC and developer charges frameworks and approaches in other jurisdictions
    - specifying a comprehensive set of alternative approaches (options) for the setting of NCCs
    - qualitatively assessing the current approach and the alternative NCC tariff options against the assessment criteria, including key risks, forming a shortlist of alternative NCC options for consideration
    - quantifying the potential NCCs for water and wastewater resulting from the adoption of the shortlisted NCC options, and
    - setting out a detailed specification of the final preferred NCC approach.

Customer engagement

We engaged with more than 3,500 customers across 36 towns (87.8% of our service area). We held 13 focus groups, 10 focused on our Price Submission and three focused on our Urban Water Strategy. We also held 32 stakeholder interviews with local community groups, major customers, small business and other key stakeholders to hone in on issues that are important to our customers. In addition to extensive engagement with our customers, we met with a range of stakeholders to understand the issues that are important to them and to get their input into our engagement program.

Early in our engagement journey, we undertook preliminary stakeholder analysis to identify the customer cohorts and stakeholder groups that could either or both influence or be impacted by our Price Submission, and to what extent. We identified community leaders, organisations and representatives within each cohort and met with them to explain the process we were undertaking and ask them who they thought we should engage further with; how we should go about it; and the key issues they felt we should be engaging those stakeholders on.

The insights we gathered through during this engagement helped shape the subsequent development, design and refinement of our Price Submission engagement program, resulting in a

genuinely co-designed approach to ensure subsequent stages were fit-for-purpose, targeted and respectful.

Stakeholder engagement

The engagement with developers and design consultants has been undertaken across six development groups, comprising two interactions with each developer group. The development groups represent the larger end of developers we service, and include individuals, multiple local shareholder development entities and corporate Melbourne based development entities.

In addition, prior to the Customer Summit, two developers were engaged separately on the same topic to assist the Customer Summit formulate a customer position with respect to the application of NCCs.

Average incremental cost based NCCs

Our proposed NCC approach

The proposed Average Incremental Cost (AIC) NCC is a direct cost approach based on the average incremental costs of connection. The core elements of the option are:

- Standard NCCs based on the AIC of connection associated with our high growth expenditure water and wastewater systems, with separate NCCs for water and sewerage
- The continuation of the incremental finance charge to address out of sequence developments, and
- The continuation of the current approach for negotiated NCCs to account for non-standard NCCs (COR/20/29163).

Estimating NCCs using average incremental cost

The AIC approach estimates NCCs by separately identifying capacity related expenditure and averaging the expenditure over growth-related output.

The AIC approach can be broadly summarised under the following steps:

1. Consider the resource position over 20 years. This step involves determining the availability of existing capacity for water and wastewater treatment
2. Forecast unconstrained demand (demand based on present demand policies) over the same period. Including both demand from existing customer and from new customers
3. Identify a schedule of capital projects that can be implemented to meet capacity requirements over the period — the capital program only includes expenditure relating to increased capacity and does not include expenditure relating to changes in quality of service or compliance with new obligations (unless those associated expenditures are clearly driven by growth)
4. Optimise the capital program to generate the least cost solution to addressing supply/demand imbalances
5. Estimate AIC as the present value of the expected costs of the optimal strategy divided by the present value of the changes in the underlying customer connections (assuming the supply demand balance is maintained)

The AIC estimation is:

$$\text{AIC} = NPV\left(\frac{\text{optimal cost servicing connection growth}}{\text{additional } connections}\right)$$

It is worth noting that the AIC estimate is the net present value of the ratio of growth-related capex to new connections, as such the discount rate used to determine the AIC must be applied consistently across both the numerator and denominator for the NPV to be mathematically correct.

Aligning the pricing period with the NCC calculation

AIC based NCCs are set based on a minimum 20 year forward estimation of cost and growth. The NCC will reflect the net present value of these forward estimations. The long-term nature of the NCC calculation raises issues regarding the alignment of the period used to generate NCCs and the five-year regulatory pricing periods proposed in the Price Submission.

In order to provide for continuity of NCC outcomes for developers over this period, we are proposing to adopt 10-year price paths for our NCCs. These price paths are subject to review after the first 5-year regulatory period. The review would focus on adjusting the NCC to account for:

- changes in forecasted connections growth
- any bring forward of planned works that had occurred during the period, and
- material changes in the capital program associated with the NCC.

This approach will allow us to account for and recover growth related expenditure over a reasonable time frame and provide continuity in NCCs over time. It will also avoid potentially large step increases and decreases in NCCs due to the large lumpy nature of capital expenditure that may occur over a shorter five-year price path.

Meeting the WIRO and NCC pricing principles

AIC delivers a number of benefits relative to the current approach. The primary benefits are:

- Sending developers efficient pricing signals and incentivising efficient locational and timing decisions. AIC is a stronger approximation of the marginal cost of connection than the current approach. It clearly aligns the charge to the incremental costs associated with the connection and excludes sunk assets from the calculation of the charge
- Ease of understanding: AIC is a more intuitive approach than the current approach. The relative simplicity of the approach will enhance the effectiveness of the charge in incentivising efficient development decisions, and
- The ability to send clear signals to developers is fundamental to the management of demand risk associated with the regional growth boom. Risk is best placed with those whose actions are capable of changing risk outcomes, through their development decisions.

AIC and the ESC's NCC and WIRO principles

Regulatory principles	
WIRO (S.11)	
Enable customers or potential customers of the regulated entity to easily understand the prices charged by the regulated entity for prescribed services or the way such prices are calculated, determined or otherwise regulated;	AIC is a much simpler and more intuitive approach to calculating NCCs than the current net cashflow approach. AIC has been developed to address feedback from developers and customers concerning difficulty in understanding the current approach.
Provide signals about the efficient costs of providing prescribed services to customers (either collectively or to an individual customer or class of customers) while avoiding price shocks where possible; and	Unlike the current approach AIC is forward looking and excludes sunk assets. As a result, AIC provides efficient signals to customers regarding their timing and locational development decisions.
Consider the interests of customers of the regulated entity, including low income and vulnerable customers.	AIC is aimed at managing demand risks such that Gippsland Water's broader customer base are not subsidising growth
NCC	
Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;	AIC is determined based on incremental infrastructure and associated costs.
Have regard to the incremental future revenues that will be earned from customers at that connection; and	Incremental revenues are considered through the setting of the NCC within the context of the broader price review process. Both NCCs and water and sewerage charges are set such that the revenues they generate cannot exceed the associated revenue requirement.
Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.	AIC is an excepted measure of avoidable cost. AIC provides for a NCC that is within the range of avoidable and standalone costs.

In addition to the WIRO and NCC principles, Section 268 (3) of the Water Act 1989 requires businesses to seek payments that are fair and reasonable and consider the benefits associated with extending infrastructure to a property relative to the benefits to other properties. The clause states:

> *(3) The amount of payment required from an owner must be assessed by the Authority to be fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.*

This clause is directly addressed by the proposed AIC methodology through the adoption of a definition of growth capital expenditure that references the capacity share between new and existing customers for shared assets. This definition of growth recognises that both existing and new customers may benefit from growth related capital projects.

NCC estimating model

We have developed a detailed excel based model that allows for the calculation of AIC based NCCs. The model is consistent with the following treatment of AIC and its inputs.

- **Growth related capital expenditure:** The core underlying expenditure driving the AIC calculation is growth related capex. The data used to determine NCCs is consistent with our proposed capital program, and aligns with the ESC's regulatory accounts definition of both regulated capital expenditure and capital expenditure growth driver, Capital expenditure associated with increasing the capacity of assets or construction of new assets, to meet growth in demand or to provide additional security of supply. Our assumption is that all growth capex services both new and existing customers, thus growth capex is apportioned based on the number of connections.
- **Growth related opex:** We have not included opex in our NCC calculation as opex directly associated with the connection of new customers that can be attributed on a system basis is minor in nature. Under this approach ongoing opex associated with operation of the

systems in the growth area will be recovered through water and wastewater tariffs.

- **Connections:** Our NCCs are based on residential connections and assume a growth rate of 1.66% which is consistent with that assumed in PS5 for pricing purposes. In this Price Submission, we do not propose to charge a Non-residential NCC.
- The NCC tax allowance is consistent with the tax allowance proposal in the ESC financial template. As we are proposing that we will not be in a tax paying position through the 2023-28 regulatory period, no allowance has been included in the NCC calculations refer appendix 3 (refer appendix 4 for tax inclusive NCCs).

Feedback from stakeholder engagement

We consulted with both tariff paying customers, developers and the developer industry body Urban Development Institute of Australia (UDIA) and their feedback is summarised below.

Customer Feedback

Through stages two and three of our five-stage engagement program, a common theme from tariff paying customers, via Stakeholder interviews, Independent customer interviews and the customer preference survey, was that fees and charges should be attributed to those who use them. Subsequently, this theme was taken through to the Customer Summit, which was part of stage four, with the following outcome regarding NCCs.

The maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%.

This key insight then drove the decision to proceed to fully implement NCCs from 1 July 2023, instead of a staged implementation.

Developer Feedback

The engagement with developers and design consultants was undertaken across six development groups, comprising two interactions with each developer group. The development groups represent the larger end of developers we service, and include individuals, multiple local shareholder development entities and corporate Melbourne based development entities.

In addition, prior to the Customer Summit, two developers were engaged separately on the same topic to assist the Customer Summit formulate a customer position with respect to the application of NCCs.

Key themes to come out of the developer engagement were:

- Developers acknowledged that NCCs were a common approach for water corporations to manage the future financial impacts of growth
- Developers did not provide any feedback to suggest they would object or escalate a fair introduction of NCCs
- Developers unilaterally objected to the introduction of NCCs applicable to allotments arising from subdivisions where Developer Works Deeds were signed prior to NCCs being approved by the ESC, and
- Developers were unanimous in feedback recommending NCCs only apply to those allotments arising from a subdivision where the Deeds were signed on or after 1 July 2023.

A common sentiment amongst all the developer groups regarded timing of the application of an NCC resulting from them pursuing pre-sales of land was provided. By this, developers explained that if they are sufficiently progressed with their development activities, adding the NCC after certain milestones means the developer would have to wear the costs as they had no opportunity to pass these costs onto the party that the pre-sale had been made to.

UDIA Feedback

A special information briefing was arranged with the UDIA with respect to the NCC review process and outcomes.

The purpose of the session was to inform the UDIA about:

- The drivers of the review
- The review process
- The engagement undertaken by us with our local stakeholders, as well as
- The draft proposal and indicative NCCs for the upcoming price period 2023-28.

Feedback from the session included:

- Queries regarding the value and range of proposed NCC rates
- Explanation of how NCCs may be applied in our service area, and
- Our process for implementing NCCs for the 2023-28 regulatory period.

It was also acknowledged that the information provided was easy to follow and they were thankful for the open consultation with no objection to the introduction of this methodology.

Government Feedback

We have also engaged with the following Government bodies:

- Regional Development Victoria (RDV) through discussions as a part of our regular interactions with RDV, and
- DELWP was engaged on 21 June 2022 to present an overview of our directions paper including the proposal to introduce NCCs. Post that meeting, a full copy of the Directions document was forward to DELWP for consideration.

Neither RDV nor DELWP have objected to the introduction of either NCCs or our proposed methodology.

Implementation and Application of the NCC framework

Given that we have not charged an NCC since 2017-18 and the proposed NCCs are at the upper range of the 2020-21 NCCs charged by the balance of the Victorian Water Industry, and cognisant of developer feedback with respect to potential impacts on their margins and the final sale price of allotments, we have examined the prudency of capping the total quantum of NCC charged per lot based on a suitable proxy.

The proxy chosen was a combined water and waste NCC that was no greater than 3.5% of the average cost of an average lot of land in that system (e.g. $3,500 in $100,000) to mitigate any risks of developer price shock. For this Price Submission, the Moe/Newborough system is the only capped NCC.

In regards to practical timing and balancing against our customer feedback we propose the application of NCCs will be applied as follows:

- Developer Works Deeds signed after 1 July 2023 to contain NCC framework
- Any lots reaching statement of compliance associated with a Developer Works Deed signed after 1 July 2023 to be charged NCCs

- Any Developer Works Deeds signed prior to 1 July 2023 will have the 12 month completion clause enforced
- Developer Works Deeds will contain a clause stating work must start within four months of execution, and be completed within 12 months, and
- To avoid any Deeds being signed well prior to works being completed (to avoid NCCs), the 12 month completion clause will be enforced and a replacement Deed (containing the NCC framework) will be executed.

The introduction of NCCs from 1 July 2023 takes into account all individual circumstances and impacts from pre-sales contracts. No further individual circumstances will be considered. This approach creates a simple and firm framework where all developers get the same outcome.

Appendix 6 Independent assurance of Price Submission

Utilities Regulation Advisory

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19 September 2022

URA ATTESTATION SUPPORT FOR GIPPSLAND WATER'S 2023 PRICE SUBMISSION

During the development of Gippsland Water's (GW) 2023 price submission, URA was engaged to provide review services for the purpose of supporting GW's Board attestation process.

The following letter sets out the procedures carried out by URA, designed to be consistent with the ESC's requirements under Section 3.22.2 of the 2023 price review Guidance Paper[1].

The following documents these review procedures, and how they were aligned with the Board Attestation Statement:

Condition 1 - information and documentation provided in the price submission and relied upon to support GW's price submission is reasonably based, complete and accurate in all material respects

- Structure and contents review – URA reviewed two drafts of GW's price submission to understand whether it:
    - presented a compelling narrative;
    - demonstrated the customer value proposition contained within the submission;
    - put forward its best offer;
    - was consistent with the golden threads of PREMO; and
    - addressed all of the material aspects of the ESC's regulatory framework and guidance requirements.
- Information review – URA reviewed the consistency of financial data and information between a draft of the written price submission and the populated financial template, to ensure that that were no material gaps or errors.

Condition 2 - financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used

- Prudency and efficiency review – URA completed an independent review of GW's expenditure and demand forecasts against the requirements for prudency and efficiency. To do this, URA completed the following procedures:
    - *Capital expenditure forecast review* – To assess the prudency and efficiency of GW's

[1] https://www.esc.vic.gov.au/sites/default/files/documents/2023%20water%20price%20review%20guidance%20paper%20-%20August%202022%20amendment.pdf

capital expenditure forecast, URA reviewed:

- GW's capital planning and governance framework;
- GW's asset management framework and practices;
- A sample of GW's capital projects and programs, against the ESC's requirements for prudency and efficiency;
- The consistency of GW's proposed capital program with historical trends; and
- The deliverability of the capital program.

- *Operating expenditure forecast review* – Using the ESC's preferred base-step-trend approach to operating expenditure forecasting, URA carried out the following procedures:
  - Assessed actual and forecast opex for the current period against the 2018 price determination, including justification for any material variations evident in the base year;
  - Assessed whether GW's forecasting method is consistent with the base-step-trend approach adopted by the ESC;
  - Assessed the efficiency of base year expenditure, including how GW has accounted for non-recurrent expenditure, non-controllable expenditure and non-regulated expenditure;
  - Assessed adjustments to the baseline, including;
    - Efficiency commitments;
    - Growth; and
    - Annual step changes to account for new obligations, real cost increases, new activities and from the impact of capex.
- *Demand forecast review* - Review of GW's draft water and wastewater connection and consumption forecasts against three key criteria:
  - Consistency with historical trends – Are there any material deviations from trend and have any changes been appropriately justified through robust evidence?
  - Appropriateness of methodology - Is the forecasting methodology consistent with accepted sector good practice, has it been applied in an appropriate manner and is it appropriately outlined in supporting documentation?
  - Evidenced assumptions – Has GW appropriately explained underlying forecasting assumptions, and how has it accounted for the impact of price elasticity and/or the level of forecast restrictions?

- **Final forecasts review** – URA reviewed the presentation of GW's expenditure and demand forecasts within the draft price submission to determine whether it had demonstrated prudent and efficient forecast, as well as reviewing whether GW had responded to each of URA's detailed findings, where opportunities for improvement were identified.

Condition 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

- **Compliance review** – URA reviewed GW's draft price submission for compliance with the detailed requirements of the ESC's Guidance Paper.

Through this process, URA had access to Board meetings, Executive Leadership Team Steering Committee meetings, and all necessary supporting justification documentation required to undertake a thorough review.

In completing each of these tasks, GW presented management responses, allowing for URA to identify how it addressed any opportunities for improvement, and to ensure that GW's customers were receiving its best offer. GW has provided URA with appropriate evidence that all feedback provided has been considered and addressed within:

- The written submission and financial template;
- Its forecasts and proposals; and
- Supporting documentation.

In completing its assessment, the last draft of the price submission and financial template reviewed was dated 19 September 2022. Any changes made to the price submission or financial template beyond this date, were not considered as part of this review

If you have any questions related to this matter, please do not hesitate to contact me.

Yours sincerely,

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