



Price Determination 2018-26

Midpoint Review

Message from the Chair

I am pleased to present North East Water's midpoint review of our Price Determination (2018-26).

The timing of this review has afforded the Corporation the opportunity to refresh and reset its ambitions, directly engage with our regulators, reflect upon the challenges of the past few years and optimise the opportunities of what's yet to come.

A lot has changed in our operating environment. The back-to-back emergencies of the bushfire crisis, post-fires dirty water events and the COVID-19 pandemic have tested, and ultimately shown the strength in North East Water's ability to maintain essential services. The Corporation's Strategic Intent – to support the health and prosperity of the region – remains at the forefront of our ambitions, and underpins our actions in this challenging environment.


The magnitude of some of these challenges has resulted in the need to reprioritise and deviate from our original forecasts. Accelerated growth has the potential to fast track specific infrastructure projects originally anticipated for future regulatory cycles, and the economic downturn resulting from the pandemic has put a greater strain on hardship support.

The Board remains committed, however, to engaging with our customers and ensuring we continue to meet customer expectations. Our oversight balances the near and long-term and we remain committed to the entity carrying the appropriate business risks rather than shifting this responsibility to the customer.

We are also taking a longer term view on value for customers by ensuring any additional commitments remain prudent and efficient, and maintain competitive pricing. This will ensure that future Boards are not being placed in a position of needing to defend or negotiate a step-increase in our revenue requirement.

The following provides the Essential Services Commission with a holistic view of the Corporation's performance to date in support of continuing our eight year regulatory period. This midpoint review is further supported by engagement activities with customers and stakeholders and by the results of our strong financial performance.

North East Water remains committed to its eight year regulatory period and provides this review as part of an open dialogue with the Essential Services Commission.



Cath Botta
Chair

REGULATOR'S EXPECTATION

In 2018, North East Water was afforded the state's first extended regulatory period. In accordance with North East Water's Price Determination of an eight year regulatory period, the Corporation committed to a 'light touch' review in collaboration with the Essential Services Commission (ESC).

The ESC has stated that it expects the eight year regulatory period will stand unless there are events beyond North East Water's control that have a significant or material impact on revenues and costs. The ESC has also expressed that it is also incumbent that North East Water demonstrate its performance against the measures established by its Price Submission and its confidence in meeting projections over the remaining six years.

In December 2019, the ESC expressed that the following information should be provided by North East Water as the basis of the midpoint review:

- Performance against outcomes and targets established at the 2018 water price review
- Financial performance and outlook (based on indicators used by the Commission to assess financial viability)
- Comparisons of revenue and costs against the benchmarks adopted by the commission in its Price Determination
- Progress in delivering major projects
- Any other matter which North East Water considers may be relevant for informing the commission's midpoint review of North East Water's regulatory period.



Executive Summary



The foundation for North East Water's extended regulatory period was based on our customer's desire for price certainty, and the Corporation has delivered on that commitment by holding its fixed water and wastewater tariffs constant for the past three financial years.

Residential growth, however, is tracking above the rate determined for the first three years and is expected to continue to climb. North East Water is currently focused on assessing how we can service an expected accelerated level of growth over the coming years. Consistent with our intent at the time of the Price Determination, we are committing to additional projects for which customers are not currently priced.

Despite bushfires and an unprecedented pandemic, North East Water has continued to deliver its ambitious capital program. The Corporation committed to a \$146m capital program and flagged an additional \$47m in projects that were ring-fenced in the Price Submission. To date, we have delivered \$63.1m with current forecasts for the eight years now at \$227m as the Corporation addresses the uncertainty associated with accelerated residential growth.

Central to our customer engagement as part of this review was a day-long Customer Forum to both share our performance to date, and seek customer feedback on the variables that have occurred since the Price Determination. Increased growth, water security challenges and increased hardship support were explored including how the Corporation proposes to address these. The forum demonstrated their support for our proposed measures, and offered additional valuable insight on how best to present these challenges to our communities.

The midpoint review also afforded North East Water the opportunity to engage with our key stakeholders and provide a deeper understanding of our performance to date. The Board engaged the ESC, as well as DELWP, Department of Health and the EPA to gauge their level of comfort with the North East Water's operating performance. Central to these engagements was their collective perspective that North East Water continues to maintain a strong focus on the longer term horizon.

This document outlines North East Water's strong performance against the measures established in our Price Submission, how the Corporation is providing value to its customers, and how North East Water is meeting the challenges of accelerated growth.

It also provides an overview of our strong financial performance and the key messages from our customer and stakeholder engagement.

This midpoint review confirms the Corporation's ongoing commitment to carrying the appropriate business risk and maintaining its eight year regulatory period.

Our Operating Environment

The previous two years have not been without unanticipated challenges.

The 2019-20 three-month bushfire event that burnt over 220,000 hectares in the north east Victorian region impacted heavily upon the Corporation. Ensuring services to towns was priority, and with thanks to the Corporation's close alliances with emergency services who supplied significant support to protect our assets during the fire, North East Water largely maintained water supplies for the towns hardest hit. The 2019-20 bushfires escalated the Corporation's mandate to improve resilience through infrastructure upgrades as well as the ability to respond to such events.

As catchments responded post fires, high levels of algae were detected along the Murray River and its tributaries resulting in taste and odour issues for our customers. The levels of taste and odour components were unprecedented, and our water quality team worked tirelessly to adapt our water treatment processes to combat and rectify the issue.

While edging towards recovery, we found ourselves responding to an unprecedented pandemic. The Corporation responded quickly in ensuring the safety of our staff and customers, managing fatigue and maintaining essential services. This included a major technology roll-out to facilitate 90% of staff working remotely. We rapidly and significantly increased our hardship assistance, tailoring support packages to a large number of customers affected by both the bushfires and economic consequences of coronavirus. The Corporation adapted as required, seamlessly maintaining services while holding firm to our strategic intent – supporting the health and prosperity of our region.

The seasonal variability of our climate has seen us manage the extreme heatwaves in 2018-19, followed by the 2019-20 bushfires and the cool, wet summer of 2020-21. These conditions significantly drive our customers' need for water and the associated operational and financial impacts on our business.



Service Standards and Outcomes



Six key themes emerged from our 2017 Customer Forum in support of our Price Submission that represent the key priorities of our customers:

1. Affordable
2. Reliable
3. Responsive
4. Efficient
5. Local
6. Sustainable

The key themes were further distilled into 12 customer outcomes to form the Customer Outcomes Framework, or what is internally and colloquially referred to as The Wheel.

The Wheel represents the 12 customer outcomes (shown below). The Corporation established projects to achieve these outcomes and, importantly, targets to measure them. The Wheel not only places our customers at the core of our activities, but provides the framework to measure our success.

Set in consultation with the Essential Services Commission and customers during the Price Submission process in 2017, these measures and metrics are taken from our internal performance data and our frequent and regular customer perception surveys.

These are provided overleaf.



Affordable: Fair Prices

North East Water understands that any increase to utility bills can affect household budgets and our aim is to make bills as affordable as possible.

To measure this, North East Water established a benchmark of greater than 80% of its residential customers paying their bill within the required 30 days.

Year	2018-19	2019-20	2020-21
No. of residential customers pay their bill within 30 days target	> 80%	> 80%	> 80%
No. of residential customers pay their bill within 30 days actual	80.1%	80.4%	80.5%

Affordable: Customer Support

Pleasingly, our customers share North East Water's commitment to supporting vulnerable customers.

We understands that some customers will occasionally experience some form of financial hardship, while for others, financial hardship is a constant in their lives. A range of options are offered to customers, including payment arrangements, leak rebates and the Community Rebate program. In 2018-19, North East Water became a member of White Ribbon Australia and further introduced a domestic violence assistance program.

Early intervention is seen as a way of assisting North East Water's most vulnerable customers. From 2018-19 onwards, North East Water introduced customer support visits to vulnerable customers. These customers were provided face-to-face visits to discuss the support options available, including, where eligible, access to Government grants.

To assist in measuring this, we adopted a target of progressively reducing restrictions (as shown below). This measure is directly linked to our increase in hardship support – as hardship assistance increases, the number of restrictions lessen.

Year	2018-19	2019-20	2020-21
Number of residential customers being restricted target	224	217	211
Number of residential customers being restricted actual	160	76	0

Following the bushfire of 2019-20, North East Water developed an additional suite of assistance packages supporting the immediate and future recovery needs of our customers.

The COVID-19 pandemic escalated that need. The Corporation developed an additional support package for impacted customers (in line with the National Cabinet's hardship principles), and restrictions were removed in their entirety for the duration of the economic downturn.

Removing barriers to connections – Porepukah case study

In 2020, as part of North East Water's commitment to our Small Town Sewer Schemes, an audit was conducted to determine how many of Porepukah's 260 households had not connected to the sewer system since its construction in 2005.

Disappointingly, 30 households remained on their original septic tanks. Modelled on the support packages the Corporation provided a similar small town (Moyhu), and working closely with the Department of Health grants team, North East Water outlined a revised suite of support packages available to customers.

Through various communication channels and with consistent contact with the 30 property owners North East Water has been able to encourage 27 owners to connect, with financial support packages provided to five residents. North East Water's financial assistance used the DHHS low income threshold plus a 20% tolerance which would enable more customers to be eligible to apply for North East Water support.

With the successful implementation of the Porepukah hardship support project we will now look to continue this process for the outstanding communities of Tungamah, Oxley, Milawa and Glenrowan.

Reliable: Clean, Safe Water

Our customers expect a consistent supply of good tasting, clean and safe drinking water, and that mandate is considered paramount at North East Water. 100% compliance with the Safe Drinking Water Guidelines and the *Safe Drinking Water Act 2003* will always remain a core focus.

There were two reports to the Department of Health under Section 18 of the Act over the reporting period. The first, a lead detection in Benalla, was likely a false positive as there were no other lead detections at other sample sites in the same locality on the same day.

The second, in St James in 2019-20, saw elevated chlorine due to routine water quality sampling being conducted when chlorine batch dosing was occurring in a tank. Importantly, this did not affect the quality of water supplied to the St James.

North East Water have recorded zero non-conformances with our audit requirements.

Year	2018-19	2019-20	2020-21
Number of <i>Safe Drinking Water Act 2003</i> non-compliance target	0	0	0
Number of <i>Safe Drinking Water Act 2003</i> non-compliance actual	1	1	0

To continue to provide high quality safe and reliable drinking water, the Corporation will continue to improve drinking water reticulation and catchment health.

Reliable: Resilient Systems

North East Water has a strong infrastructure performance, and with over 1,700kms of water mains, we set a high Victorian benchmark of less than 14 unplanned interruptions annually per 100kms, narrowly exceeding that in 2019-20.

Year	2018-19	2019-20	2020-21
Number of unplanned water supply interruptions per 100km target	< 14	< 14	< 14
Number of unplanned water supply interruptions per 100km actual	12.7	14.7	11



Climate change resilience – Wangaratta case study

Wangaratta's existing surface water supply is highly vulnerable to climate-related events. These range from a dry river bed to a flood too dirty to treat. These are expected to worsen in the future due to the impacts of climate change.

To date, North East Water has invested in an alternative groundwater source to provide limited relief to these challenges. However, further investment is required and is contingent on accessing additional groundwater entitlement. These negotiations remain a focus with Goulburn Murray Water and DELWP.

Once the access to groundwater is realised, we can commence the planning for a step change in the resilience of this regional community.

Responsive: Timely Responses

Conversations with our customers confirm that our timeliness in rectifying water supply interruptions remains a priority. This challenge is made all the more difficult for our remote communities which can require significant travel times from our local depots.

On average, North East Water responds to over 200 unplanned water interruptions each year (as well as another 200 planned outages). The following measure was set to meet our ambition of timely responses.

Year	2018-19	2019-20	2020-21
Average duration of water supply interruptions target (minutes)	< 100	< 100	< 100
Average duration of water supply interruptions actual (minutes)	96.1	91.6	80.8

Responsive: Inclusive Decisions

North East Water's Customer and Community Strategy (2017-22) demonstrates our commitment to inclusive decision-making. Based on the model developed by the International Association for Public Participation (IAP2), it outlines our established approach to engagement and our commitment to including communities in the decisions that affect them.

Engagement opportunities vary widely, and over the past couple years have ranged from exploring digital metering opportunities at Bellbridge to informing customers of critical upgrades to our WWTP in Tallangatta. A target of greater than 90% was set in the annual Customer Perception Survey that customers are satisfied with North East Water's engagement and community inclusion.

Year	2018-19	2019-20	2020-21
Target	≥ 90%	≥ 90%	≥ 90%
'Very satisfied', 'satisfied' or 'neither satisfied nor dissatisfied'	90.8%	91.3%	92%

With the social distancing restrictions enacted by the pandemic, the Corporation has sought new methods of engagement, significantly increasing our social media messaging and online resources.

Efficient: Asset Stewardship

The Corporation is responsible for approximately 1,300kms of sewer mains. Again, the Corporation has demonstrated its strong performance including a significant sewer mains relining renewal program, as well as sewer main pressure cleaning and a CCTV pipeline condition monitoring program. In 2018-19 alone, we completed 2,550m of sewer relining works across the region

For the customer, we measure the performance of these assets by the number of blockages per 100kms, and again we have met this target.

Year	2018-19	2019-20	2020-21
Sewer mains blockages (number per 100km) Target	< 12	< 12	< 12
Sewer mains blockages (number per 100km) Actual	10.6	10.6	10.5

Efficient: Continuous Improvement

North East Water set an aspirational target of reducing its water losses to less than 10% by the end of the regulatory period (June 2026). Our two priority investments include Wodonga's Bears Hill storage which should reduce the water losses from 2021-22 onwards by 2%, and a thorough examination of the Bright reticulation system using new technologies including leak sensing digital metering in a complex system that is currently experiencing significant water losses.

Though to date the measure has not been met, the Corporation is confident in its ability to reach this stretch target across the regulatory period. The scale of the fire responses across the region and the associated unmetered access to our reticulation has also challenged our capacity to accurately account for all water usage in some of our systems.

Year	2018-19	2019-20	2020-21
Non-revenue water (as a percentage of total water delivered)	< 10%	< 10%	< 10%
Actual	13.5%	13.5%	13.6%

Local: Local People

Customers repeatedly laud the value of dealing with people, not machines, and local people who know the region in responding to their queries.

From the customer service representative who answers the phone to the field operator who repairs the broken main, North East Water's services are supplied solely by local staff who are a part of the communities we serve. This was made all the more pertinent during the 2019-20 bushfires, with North East Water very much at the coalface in keeping their communities safe.

This is measured yearly by asking customers for their level of satisfaction with North East Water staff's local knowledge, employment and location.

Year	2018-19	2019-20	2020-21
Target	≥ 80%	≥ 80%	≥ 80%
'Very satisfied' or 'satisfied'	80.3%	84.4%	83%

Local: Education and Awareness

Water conservation continues to be our primary education focus.

Its method for delivery, however, has broadened significantly in past three years. Though we remain a member of the 'Choose Tap' coalition, as well as DELWP's 'Target Your Water Use', the Corporation has also developed its own 'WaterWise' collateral and entered into a Memorandum of Understanding with local councils and Goulburn Valley Water to ensure consistent messaging and use of associated collateral developed by North East Water.

The Corporation continues to monitor the success of these programs, with the annual Customer Perception Survey asking customers to rate their satisfaction with North East Water's education and information on water conservation and sustainability. As noted by the results below, the Corporation will continue to ensure our messaging reaches the broadest of audiences.

Year	2018-19	2019-20	2020-21
Target	≥ 90%	≥ 90%	≥ 90%
'Very satisfied', 'satisfied' or 'neither satisfied nor dissatisfied'	88%	88.2%	87%

Customer Empowerment – Oxley, Moyhu and Whitfield case study

In late January 2020, Goulburn Murray Water notified North East Water that water restrictions would be necessary to reduce demands on its King River system. This applied to all customers along this system, specifically the three towns of Oxley, Moyhu and Whitfield.

We took the opportunity to test a hypothesis – can customers be empowered to reduce water usage without the negative impacts of water restrictions? It was centred on whether water conservation could be encouraged with personal responsibility and community fellowship rather than through restrictions.

Letters were sent to every resident of the three towns outlining the realities of reduced supply, outlining our base assumption ('we believe communities respond more strongly to conserving water when empowered rather than restricted'), establishing their individual water usage targets, and directing them to a newly developed dedicated web page to monitor their results. Local stores also displayed weekly results, and a targeted social media campaign further rounded out communications.

The residents of all three towns stepped up by reducing demand by the required 30%. The immediate benefits were realised – water was indeed conserved and the need for restrictions was avoided – and interestingly, follow-up surveys also demonstrated an improved perception of North East Water as an organisation committed to its customers, an organisation that is genuinely engaged with the communities it serves.

Though the towns of Oxley, Moyhu and Whitfield have relatively small populations (179, 102 and 56 connections respectively), they do represent ideal microcosms for larger scale roll-outs.

The program was a finalist in the Australian Water Association's Victorian Water Awards for Innovation.



Sustainable: Smaller Footprint

North East Water acknowledges its pivotal role in adapting to, and mitigating, the impacts of climate change on our services and our communities.

The Corporation's pledge to reduce its total carbon emissions by 14,574 tonnes CO₂-e (or 42%) by 2025 is on track with work underway for the 3MW solar generation farm adjacent to the West Wodonga WWTP. Strategic planning is also occurring on the incorporation of increased trade waste loads into waste to energy facilities being developed at West Wodonga WWTP. This program seeks to reduce net waste management costs to customers and improve environmental sustainability.

The eight year program is tracking well, with all current initiatives meeting target.

Year	2018-19	2019-20	2020-21
Target (tonnes CO ₂ -e)	36,314	36,555	32,762
Actual (tonnes CO ₂ -e)	33,905	32,614	YTD on track

With the completion of the 3MW solar farm, 2021-22's figures indicate a reduction in the Corporation's carbon emissions by almost a third.

The second established measure has been North East Water's 100% compliance with all 148 EPA Licence conditions in managing its wastewater treatment plants. Though we acknowledge this as a stretch target, the Corporation believes it is important to maintain the 100% target to driver performance and the required investment.

The Corporation recognised this as a stretch target, with significant upgrades already completed at Myrtleford and Bright, with the desludging of lagoons complete and plant refurbishments at the Wangaratta WWTP soon to be completed. Upgrades are also scheduled or underway for Beechworth and Benalla.

Year	2018-19	2019-20	2020-21
Compliance with EPA License Conditions target	100%	100%	100%
Compliance with EPA License Conditions actual	95%	92%	93%

Sustainable: Enhanced Liveability

North East Water has worked in partnership with councils to develop a database of critical greenspaces across the north east and explored mechanisms to improve the resilience of greenspaces to climate change impacts (including and especially drought).

North East Water is also currently supplying reclaimed water to greenspaces in Wodonga, Wangaratta, Rutherglen, Yarrawonga, Mount Beauty and Bright, including golf courses, sporting ovals, public parks and education facilities. In 2019-20, the North East Integrated Water Management (IWM) Forum, of which North East Water is a principal member, progressed a number of initiatives to further enhance liveability in the region. We're currently working with the local council to develop a reclaimed water scheme for greening of critical public open space in Corryong, including the golf course, recreation reserve and *Man From Snowy River* festival grounds.

To measure this, customers are asked for their level of satisfaction that North East Water is ensuring water for the future.

Year	2018-19	2019-20	2020-21
Target	≥ 90%	≥ 90%	≥ 90%
'Very satisfied', 'Satisfied' or 'Neither satisfied nor dissatisfied'	91.7%	90.4%	90.5%



Summary

North East Water is tracking well against customer expectations to date. Key projects to ensure we meet targets are already in train, and despite a period challenged by bushfires and a pandemic, North East Water has maintained its momentum.

We have continued to support the health and prosperity of our region with a diverse range of initiatives designed to ensure lasting benefits for our communities, while also maintaining focus on delivering our core services – safe and affordable drinking water and efficient and effective wastewater services.

Customer Value for Money



With an average residential bill in 2018-19 of \$897 and in 2019-20 of \$905 (based on 200kL annual usage), average residential bills are currently tracking \$32 below our original expectation outlined in Price Determination. In 2021-22, fixed water and wastewater charges will decrease further by 1.25%.

The Essential Services Commission recognised our water services as the most affordable in Victoria for the fourth consecutive year in 2019-20, and for the third year in a row, the Bureau of Meteorology identified North East Water as the most affordable water bills in Australia.

North East Water has delivered on its commitment to customers by holding our fixed water and wastewater tariffs constant for the past three financial years.

Tariff Strategy

North East Water has a longstanding commitment to its customers that the Corporation assume a generous level of regulatory risk. This is reflected through the Corporation's tariff structure which is weighted towards the variable (usage) component of the total bill. The tariff strategy has gradually been implemented over the past eight years and North East Water has led the State in providing regional customers greater control over their total bills.

In the Price Submission, we committed to sharing the benefits with customers should the Corporation materially over-recover its revenue requirement in a succession of years and this is reflected in the freeze on fixed charges.

A further benefit to customers will see fixed wastewater and water tariffs reduce by approximately 1.25% in 2021-22 due to the continued reduction in the rolling average cost of debt. The volumetric charge will experience a slight increase of 1.55% in 2021-22.

The tables below show the cumulative four year impact of the freeze on fixed charges for the three years to 2020-21 and the reduction in fixed charges for 2021-22.

Table 1 – Fixed Charges Wodonga Water 20mm

Wodonga – Fixed Water 20mm	Price Determination*	Max Actual Tariff (after COD)	NEW Actual
2018-19	\$207.12	\$207.12	\$207.12
2019-20	\$210.82	\$207.82	\$207.12
2020-21	\$216.41	\$207.50	\$207.12
2021-22	\$219.80	\$204.52	\$204.52

* Assumes no change in COD – PPM and Actual CPI only

Table 2 – Fixed Charges Wodonga Wastewater

Wodonga – Fixed Wastewater	Price Determination*	Max Actual Tariff (after COD)	NEW Actual
2018-19	\$239.16	\$239.16	\$239.16
2019-20	\$243.44	\$239.97	\$239.16
2020-21	\$249.88	\$239.59	\$239.16
2021-22	\$253.80	\$236.16	\$236.16

* Assumes no change in COD – PPM and Actual CPI only

Demand

Though demand has exceeded original forecasts, the additional revenue has supported a price freeze on fixed tariffs. It has also supported additional permanent water entitlement purchases and the delivery of the significantly funded capital investment program, negating the need for additional borrowing in the short term.

North East Water engaged KPMG to develop the Corporation’s demand forecasts, the outcome of which was a range of estimated average annual residential consumption volumes across the eight year determination ranging from 184kL to 195kL.

Climatic extremes have impacted customers’ need for water. Following two summers marred by a heatwave (2018-19) and bushfires (2019-20), the average annual residential consumption was 223kL and 215kL respectively, exceeding demand forecasts.

This was followed in 2020-21 by a La Niña event that saw several rainfall events of greater than 10mm across the summer period and production volumes fall by 20% compared to the prior year. The impact of this event has resulted in a forecast average residential consumption for the current financial year revised down to a range of 190kL - 195kL per household (or 7% below budget). This level of forecast consumption is in line with the ESC Determination.

Table 3 – Forecast Average Annual Residential Consumption kLs

	2018-19 kLs	2019-20 kLs	2020-21 kLs	2021-22 kLs	2022-23 kLs	2023-24 kLs	2024-25 kLs	2025-26 kLs
Forecast residential consumption	195	193	192	190	189	187	186	184
Actual residential consumption	223	215	190 – 195 *					

* Forecast only

Stakeholder Engagement



Given the extended regulatory period, and in line with the regulator's expectations, it was important that North East Water met with its key stakeholders to gauge their level of comfort with the North East Water's operating performance, and their level of support for the Corporation to continue its eight year determination.

It also afforded us the opportunity to seek insights into any proposed strategic changes in their own environments that may impact over the eight year period.

North East Water Board met with the Essential Services Commission, Department of Environment, Land, Water and Planning, the Department of Health and the Environment Protection Authority to discuss North East Water's midpoint review and the anticipated challenges for the remainder of the regulatory period.

CUSTOMER FORUM

As part of North East Water's midpoint review, the Corporation held a day-long Customer Forum in early May. The 25 strong participants from across North East Water's footprint.

The Customer Forum was presented in four parts. The first was to provide customers with an overview of our performance to date (detailed further in this document).

The final three parts sought customer feedback on the three key changes that have occurred in our operating environment – increased growth, water security and increased hardship support – and how the Corporation proposes to address these.

Increased growth

Like many other regional areas, north east Victoria is currently experiencing unprecedented growth. Though projections over the 50 year planning period applied to the *Urban Water Strategy* have always been significant, the recent uptick in residential growth is likely the result of the pandemic, remote working, and comparative land values.

North East Water recognises that this accelerated growth could have an impact on our current Price Determination by bringing forward material infrastructure investments not included in customer prices set until the end of 2025-26. The Corporation also recognises that growth projections could remain steadfast with the current growth rates merely a spike.

The Corporation presented a number of scenarios at the Customer Forum that showed the impact on capital expenditure based on the assumption of accelerated growth. The impact of accelerated growth was approximately \$100 million in capital expenditure over the next 10 year period and a price rise of approximately 1.75% (excluding inflation) for the next regulatory period.

The Forum was asked to deliberate the risks associated with under or over-investing in infrastructure to address the growth concerns.

There was clear support for North East Water to move forward on infrastructure in anticipation of continued growth, and customers expressed their willingness to pay more for the increased security of supply and maintaining of service levels (the Forum indicated support for an increase to their annual water bill of up to \$50 if it underpinned a preparedness for growth in the future).

This position of the Forum was further emphasised by their rating of 'reliable' as the most important factor in the supply of water. Discussions indicated that customers understand North East Water's obligations and the important role it plays in the survival (and thriving) of local communities.

Water Security

The Forum was asked to consider how North East Water might best assist our customers to use water efficiently and adapt usage patterns as the circumstances demand.

Customers concurred with many of the current programs North East Water enacts. Keeping people informed about their water consumption data, water saving devices and the introduction of smart meters (currently being trialled) were rated by the panel as its top three suggestions for improving water efficiency. Supplementary to that, the Forum held very strong views with regards to communication, including mail-outs outside the billing cycle and adopting a 'storytelling' approach to the water security message.

Participants also discussed an educational focus on recycled or grey water both on community assets and by individuals in their homes.

Increasing hardship support

Though North East Water has always had a proactive hardship program to protect our communities' most vulnerable customers, the pandemic (and the 2019-20 bushfires) saw a rise in customers seeking financial support for the first time.

The Forum was informed of the various programs the Corporation enacted for both these events, and the financial implications of this increased support. To that end, the Forum was asked what they felt the willingness of customers would be to an increase in their charges in order to provide additional support to those that are in hardship.

Recognising the relatively small impact (approximately \$2 per year), there was overwhelming support for growing current services. There was, however, the proviso that the uptake is monitored and that the need is real.

Importantly, the Forum noted that North East Water, as an essential service provider, had an inalienable responsibility to its communities, and supported our current approach.



Summary

North East Water's Price Submission was a partnership between ourselves, our stakeholders and our customers. The midpoint review engagement activities afforded us the opportunity to revisit and reaffirm the commitments made, and reconnect with the communities we serve.

Both customers and stakeholders alike share North East Water's vision for regional prosperity, and have demonstrated their support for our ambitions and performance.

Capital Delivery

North East Water's capital projects respond to growth, reduce material risk to Corporation's assets, enable compliance with the environmental and health regulators, and contribute to the Corporation's pledge to reduce carbon emissions.

North East Water determined that the appropriate level of capital investment that our customers should be priced for in this submission period, based on priority and delivery certainty, was just over \$146m. Outside of this priced delivery program was an additional \$47m of projects which the Corporation committed to pursue. Acknowledging the carry-over from 2017-18, changes to key project definitions and addressing the current growth investments required, the quantum of our total capital program is circa \$227m.

Board and management, through the recent Corporate Plan 2021-22 process, are comfortable with our financial capacity to fund these elevated capital investment outcomes but remain challenged as to the technical resource availability (both internally and externally) on the ground to deliver. The ongoing impacts of a global pandemic and the potential rate of accelerated customer growth remain the largest uncertainties.

North East Water has already completed a range of projects. A contract was awarded during 2019-20 to upgrade the Wodonga Creek raw water pump station. The upgrade will replace existing ageing assets and provide a platform to ensure security of water supply to 2040 and beyond. The upgrade also includes the installation of an onsite generator to provide increased system resilience during events such as storms or fires. Works will be completed in 2022.

Our 3MW Solar Power Plant at West Wodonga is now under contract and has reached the detailed design stage. This system will supply the energy requirements for the West Wodonga Wastewater Treatment Plant, with surplus energy returned to the grid, effectively providing an offset for utilisation at other operational sites. The plant is expected to be operational by the end of 2021.

Our region-wide wastewater treatment plant upgrade program to ensure environmental compliance has also seen significant progress, with work completed at Myrtleford, Bright and Wangaratta WWTPs, and in support of regional growth, a water trunk main was constructed in Benalla to supply a major new precast concrete facility that has been established to support infrastructure projects of significance in Victoria.

Addressing growth uncertainty

Actual growth is tracking above the rate determined for the first three years. North East Water engaged KPMG to develop the Corporation's customer connections forecast, establishing an underlying average annual growth rate is 1.24%, or approximately 650 new customers each year.

Actual growth in new customers has been approximately 830 for 2018-19 and 780 for 2019-20. Our major centres of Wodonga, Wangaratta and Yarrawonga continue to expand but we're now also seeing higher growth rates in our satellite townships including Kiewa and Tangambalanga. The average growth rate applied for 2021-22 is based on the last 5 years growth in connections for each town equating to 1.76% for residential properties and 1.42% overall (across all categories).

Our local government agencies and developers are forecasting significant growth across north east Victoria in the coming years. This has triggered North East Water to undertake a detailed investigation to understand the extent (and timing) of development, the impact on current infrastructure, and the extent to which new capacity-based investments will be required.

Key financial indicators highlight the Corporation's ability to fund a revised capital program of \$227m with a manageable impact on North East Water's ability to service the additional debt and not pose any significant financial impact on the continuing sustainability of the Corporation.

This revised program reflects a prudent and efficient allocation of capital. The tables below show the financial impacts to borrowings and the capital expenditure program, and the Corporation's financial sustainability thresholds compared to:

- The Price Determination
- The draft 2021-22 Corporate Plan
- The upper limit of investment including 35% contingency

Table 4 – Capital Program and Borrowings

Key Financial Impacts	ESC Determination (as at 2025-26)	2021-22 Corporate Plan (as at 2025-26)
Capital Expenditure Program for the 8-year program to 2025-26 (inclusive of carryover)	\$166.13m	\$227.1m
Total Borrowings	\$31.0m	\$57.5m

Table 5 – Debt related financial sustainability indicators

Financial Sustainability Thresholds	Corporation's Sustainability Thresholds	ESC Determination (as at 2025-26)	2021-22 Corporate Plan (As at 2025-26)
Total Debt to Regulatory Asset Value	< 70%	10%	15%
Interest Coverage	> 1.5 times	17.5 times	14.7 times
Funds from Operations to Net Debt	> 10%	80%	38%

Based on the financial modelling conducted, all key financial indicators highlight the Corporation's ability to fund the revised program with a manageable impact on its ability to service the additional debt and it does not pose any significant short or long-term financial impact on the continuing sustainability of the Corporation.

This is how we're tracking against our proposed ESC targets for major projects

The projects shown in the table below provide the updated expenditure estimates and revised completion dates with any material deviations included in the annual capital review in July or reported to Board by exception.

Table 6 – Price Determination major projects and revised estimates

Project Name	PD Estimate \$2018 \$' million	Expected Completion date ESC	NEW Current Estimate \$' million	Revised completion NEW
Beechworth wastewater system upgrade	\$6.03	2019-20	\$7.5	2025-26
Benalla water distribution upgrade	\$2.44	2020-21	\$2.44	2023-24
Wodonga WWTP capacity and emissions upgrade	\$10.53	2021-22	\$32.8	2023-24
Wodonga WWTP solar power	\$4.80	2022-23	\$9.08	2021-22
Wodonga WWTP major upgrade	\$7.65	2024-25	\$7.45	2023-24
Region wide digital business sustainability	\$3.53	2021-22	\$3.53	2025-26
Wodonga sewerage transfer capacity	\$5.40	2022-23	\$5.40	2024-25
Benalla WWTP upgrade	\$3.39	2025-26	\$3.44	2025-26
Wangaratta water distribution	\$2.57	2025-26	\$4.86	2025-26
Region wide ICT infrastructure	\$2.64	2027-28	\$2.64	2025-26
Total	\$48.98		\$79.14	

West Wodonga Capacity and Emissions Reduction Project – case study

The largest project scope variation relates to the *West Wodonga Capacity and Emissions Reduction Project*. This critical project enables the Corporation to meet its capacity for growth and carbon emissions reduction obligations. Without proceeding with this project the Corporation's capacity to service growth would be consumed within five years and our carbon emissions reduction target (2025 pledge) would not be achieved.

At the time of lodging the Price Submission 2018-26, an estimate of \$11.7m (real 2018) was provided to develop the West Wodonga WWTP which included a 21 megalitre covered anaerobic lagoon (CAL) to cater for existing trade waste flows and waste activated sludge (WAS) processing. The original proposal also included the installation of a 360kW co-generation system.

After receiving the Price Determination, the Corporation was approached by Regional Development Victoria (RDV) and our major trade waste customers to consider an option to accept additional trade waste loads currently directed to landfill or disposed of through land application. The potential benefits being the ability to harness additional value from waste streams through increased biogas generation, and reduced fugitive emissions through diverting waste from landfill, and reduced total waste management costs.

A business case was completed which assessed multiple upgrade and trade waste loading options against business benefits, financial considerations and relative operational risks. The Business Case concluded that the preferred option is to proceed with an upgrade solution that accepts increased loads from trade waste customers and provides for a Covered Anaerobic Lagoon (CAL) followed by a side-stream Membrane Biological Reactor (MBR) to ensure suitable nutrient removal can be maintained in line with discharge licence requirements.

This results in a revised capital requirement of approximately \$32m (excluding contingencies) and provides for the following outcomes:

- Caters for approximately 2.5x the waste load received from major trade waste customers, equivalent to the load from approximately 100,000 persons (EP)
- Freeing up of capacity in the existing BNR bioreactors allowing for approximately 72,000EP of load capacity to support the high growth domestic, commercial and light industrial sectors of Wodonga – extending the next upgrade timing out from 10 years to 20-30 years
- The doubling of biogas generation from approximately 2,000MWh/y to 4,000MWh/y
- A reduction in Scope 1 and Scope 2 greenhouse gas emissions of approximately 13,000 tCO₂-e per year from North East Water's emissions footprint
- An estimated reduction of third party Scope 1 emissions of approximately 12,000 tCO₂-e per year from diversion of waste from landfill
- Reduction in net operating costs due to reduced electricity requirements – less overall power plus substituting in self-generated renewables.

The increased scope of works, scale of benefits and quantum of investment for this project represents the largest variance to our major projects identified in the Price Determination. The rigour of the business case ensures the investment remains prudent and efficient.

The required approval by the Minister for Water and Treasurer are pending.

Financial Performance



Revenue Recovery

In proposing an eight year regulatory term, the Corporation confirmed that the benefits of any sustained over-recovery of revenue would be shared with the customers in subsequent years of the regulatory period. The Corporation also committed that any material under-recovery of revenue would not impact unfavourably on the prices set through this review.

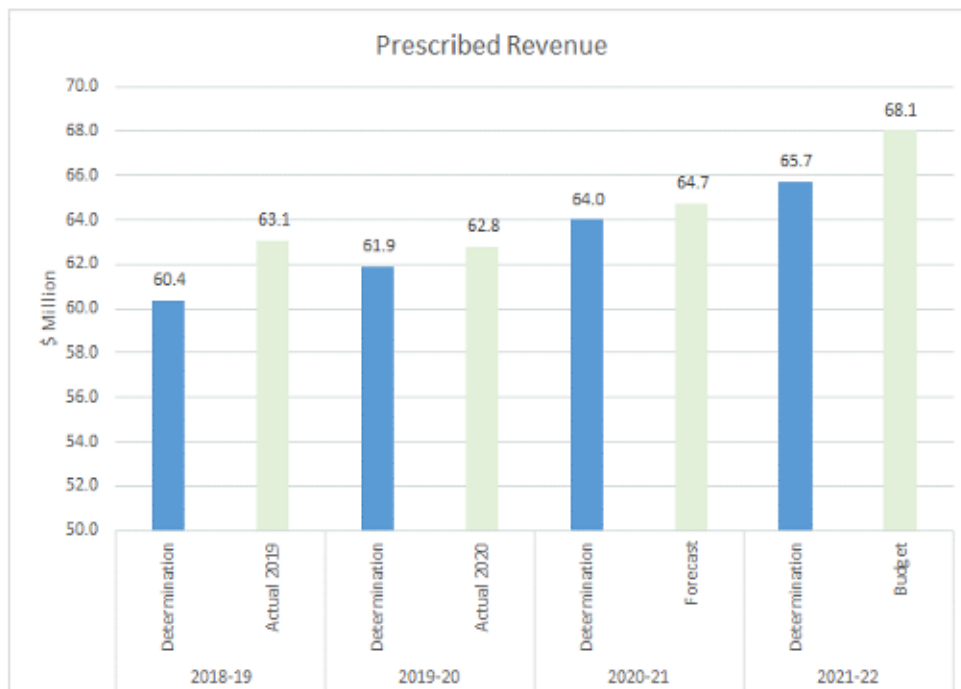
North East Water has generated \$125.8m in operating revenue for the financial years 2018-19 and 2019-20 which compares favourably with the Price Determination total of \$123.2m. The additional revenue is attributed to the higher than forecast water volumetric sales.

Total prescribed revenue for 2021-22 based on the Price Determination is \$65.7m. The Corporate Plan for 2021-22 shows total prescribed revenue of \$68.05 million (or 4% favourable) driven by a forecast average residential consumption of 211 kL per household compared to the Price Determination of 190 kL. The risk remains with the Corporation that customer demand could be as low (or lower) than 190 kL based on seasonal conditions.

The 4 year cumulative impact between the ESC revenue profile and North East Water actual and forecast revenue amounts to \$6.6m or 2.6%.

Due to better than anticipated water sales, North East Water forecasts an additional 2.6% in operating revenue (over four years) above our ESC revenue profile.

Graph 1 – ESC total prescribed revenue 2018-19 to 2021-22



Expenditure efficiency

North East Water proposed a baseline Full-time Equivalent (FTE) workforce number that was not representative of the human resources required to effectively provide the expanding range of services that the Corporation provides today.

For 2021-22, controllable operating expenditure is forecast to be 15% or \$5.87m above the ESC profile of \$38.32m. Employee costs represent 73% of this unfavourable variance.

North East Water is committed to resourcing the business appropriately and managing this within the current Price Determination but will require a commitment from the regulator to revisit our baseline FTE requirement for the commencement of the next pricing period.

North East Water's total prescribed operating expenditure totalled \$88.8m for the financial years 2018-19 and 2019-20 which compares unfavourably to the Price Determination of \$83.5m. This variance relates to the Corporation's actual labour costs exceeding the CPI only increment applied by the ESC. Actual labour costs have included known Enterprise Agreement annual increases and movements within each employee banding categories. The Corporation has also made human resource decisions to support the business in achieving its outcomes, in particular the delivery of the capital investment program.

Employee expenses included in the ESC Price Determination were based on the 2016-17 FTE number (which was 175.2) with no additional FTE's approved and minimal growth in wages of only 0.04% (difference between growth 1.24% and the PREMO efficiency rate of 1.2%).

The following table highlights our comparison with similar water corporations, as per published Annual Reports. This highlights that from the baseline year of 2016-17 North East Water had approximately 30 less FTE's or were operating with only 85% of human resources compared to our peers.

Our Corporate Plan for 2021-22 forecast 201.98 FTE's and is still 26 FTE's below the 2019-20 level reported by Goulburn Valley Water.

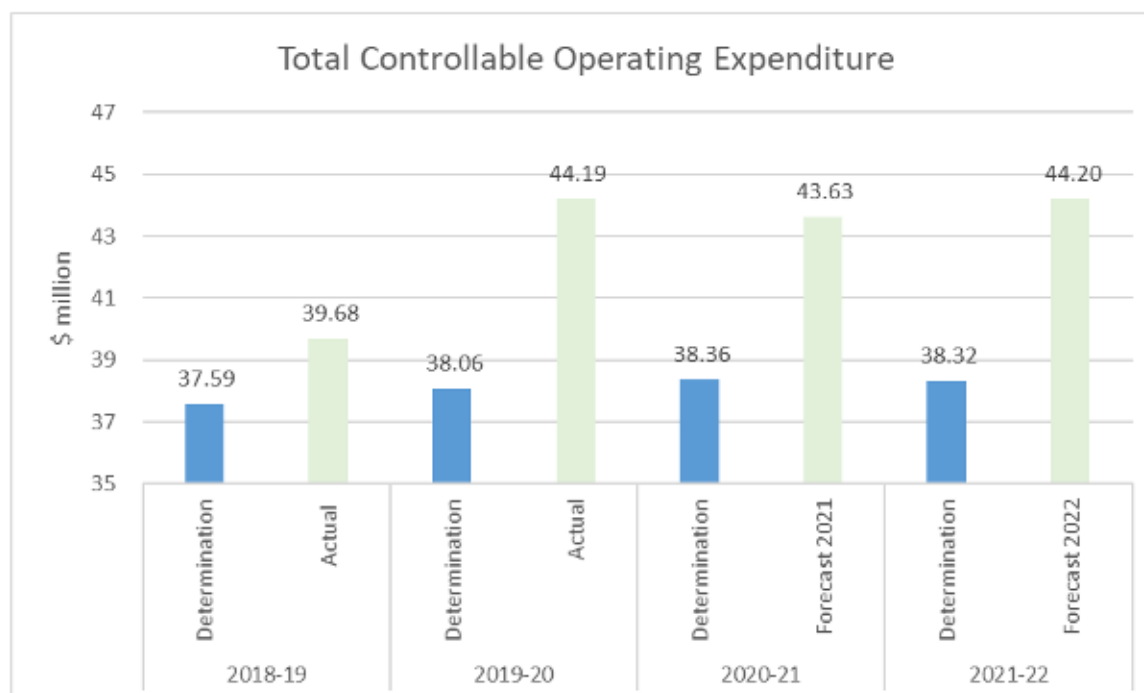
Table 7 – Full-Time Equivalent Workforce (taken from Annual Reports)

Corporation	Base year 2016-17	2017-18	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22
North East Water	175.2	177.0	179.2	181.8	197.1	201.98
Goulburn Valley Water	210.6	222.0	221.3	228.0		
Wannon Water	205.0	202.0	197.0	200.0		

Electricity expenditure for 2021-22 is \$0.78m higher than the ESC profile. Despite the reduction in grid energy costs in 2020-21, the timing of major projects (in this instance, the timing of the emission reduction and capacity upgrade at the West Wodonga WWTP that was originally scheduled to be commissioned in 2021-22 and would have generated additional energy savings) has impacted the projected expenditure. North East Water will now be generating renewable energy from this site in 2022 with the 3MW solar project bought forward.

Other impacts on operational expenditure has been the expensing of desludging works at North Wangaratta which, though funded through the capital expenditure program, will see desludging costs of \$2.9m in 2019-20 and approximately \$1m transferred to operational expenditure in 2020-21.

Graph 2 – Total controllable operating expenditure



Financial sustainability indicators

North East Water continues to maintain a strong financial sustainability position with respect to a suite of financial indicators. This healthy financial position supports our desire to continue with our current eight-year determination and gives us capacity to respond to any unforeseen circumstances should they arise between now and the conclusion of 2025-26.

North East Water continues to hold the highest 'AA' credit rating as assessed by the Department of Treasury and Finance (DTF). DTF undertake regular desktop reviews of the financial positions of Government businesses.

DTF review this rating primarily on the basis of the following key ratios:

- *Total debt / debt plus equity (Credit rating AA threshold <25%)*
Based on the Corporate Plan 2020/21, North East Water's percentage of total debt to debt plus equity does not exceed 8% for the financial years out to 2025/26. These results are well below the accepted threshold.
- *Total debt / earnings before interest, taxation, depreciation and amortisation (Sustainability threshold <2 for an A+ credit rating)*
- Based on the Corporate Plan 2021-22, North East Water's ratio of total debt to EBITDA remains below the Sustainability threshold of < 2 for an A+ credit rated business. The impact of the expanded capital expenditure program will see this ratio increase above 2% for the three year period to 2024-25 then return to 1.9% in 2025-26. Total debt is expected to peak at \$79.2m in 2023-24.

The Corporation is committed to a review of our Financial Sustainability Principles as part of concluding this midpoint review process. The level of capital expenditure based on the impact of growth in customer numbers will need to be determined as part of the modelling to relax or change the current suite of financial indicators, noting the following North East Water upper limits are already more restrictive than the industry benchmark indicators.

ESC Financial Indicators

Primary Indicator – used to determine size of any viability adjustments

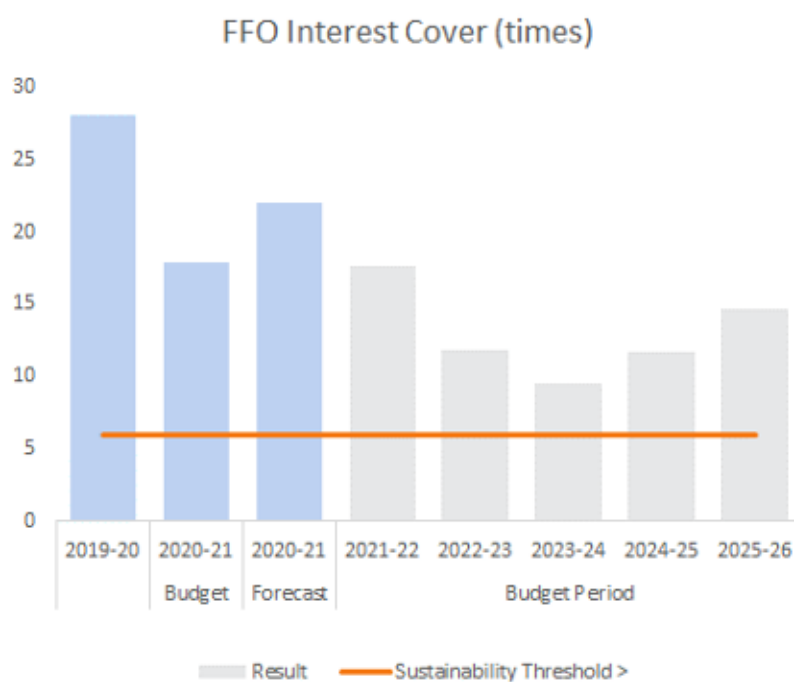
Indicator	ESC Benchmark Range	NEW Benchmark Range	Description
FFO Interest Cover	Greater than 1.5 times	Greater than 6 times	Measures the extent of the cashflow buffer a business has to meet its debt obligations

Table 8 – Corporate Plan 2021-22 Forecasts - FFO Interest Cover (times)

FFO interest cover (times)	Sustainability threshold	Forecast 2020-21	Budget 2021-22	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26
FFO + net interest (\$'000)		17,848	20,008	21,937	20,383	20,684	24,291
Net interest (\$'000)		810	1,139	1,860	2,154	1,771	1,658
Result (times)	> 6	22.0	17.6	11.8	9.5	11.7	14.7

The table above indicates that the FFO interest cover is favourable compared to the target for this indicator.

Graph 3 – FFO Interest Cover (times)



Secondary Indicators – used only as contextual information to determine whether an adjustment is necessary

Indicator	ESC Benchmark Range	NEW Benchmark Range	Description
Net Debt/Regulatory Asset Value (%) (Gearing)	Less than 70%	Less than 20%	Measures the debt component of the regulatory capital structure
FFO/ Net Debt	Greater than 10%	Greater than 30%	Measure the extent to which the serviceability of debt is improving, remaining stable or declining
Internal financing ratio (%)	Greater than 35%	Greater than 80%	Measure the extent to which an entity has cash remaining to finance a prudent portion of capital expenditure after making dividends.

Table 9 – Corporate Plan 2021-22 Forecasts - Net Debt to RAB (%)

Gearing (net debt to RAB) (%)	Sustainability threshold	Forecast 2020-21	Budget 2021-22	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26
Net debt (\$'000)		26,467	48,023	70,072	78,747	67,897	58,859
Total assets (RAB) (\$'000)		325,024	354,273	383,959	397,384	391,500	391,354
Result	< 20%	8%	14%	18%	20%	17%	15%

Graph 4 – Gearing – Net Debt to RAB (%)

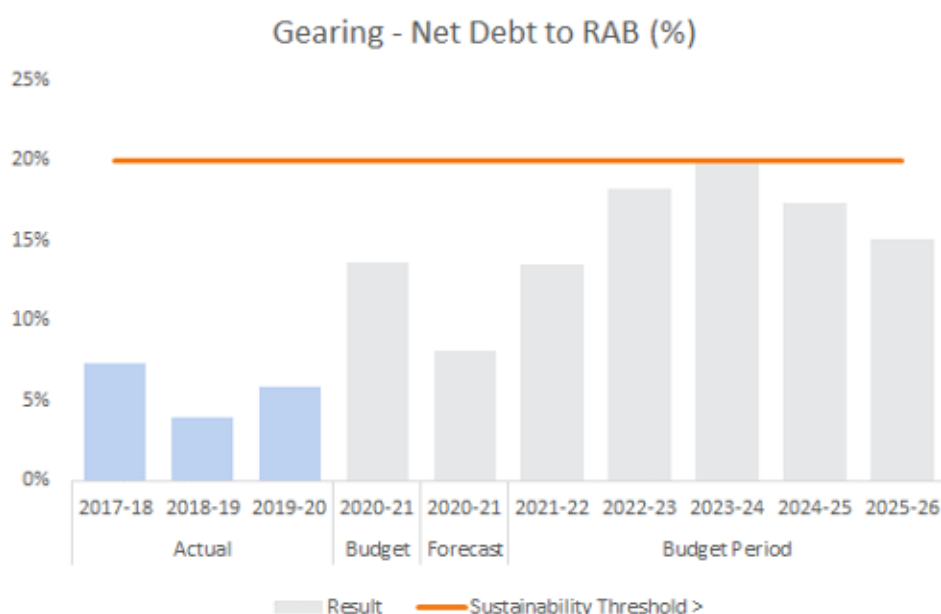


Table 10 – Corporate Plan 2021-22 Forecasts - FFO to Net Debt (%)

FFO to net debt (%)	Sustainability threshold	Forecast 2020-21	Budget 2021-22	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26
FFO (\$'000)		17,038	18,869	20,078	18,229	18,914	22,633
Interest bearing liabilities less cash (\$'000)		26,467	48,023	70,072	78,747	67,897	58,859
Result	> 30%	64%	39%	29%	23%	28%	38%

The table above indicates an improving FFO to net debt percentage which is favourable compared to the nominated target of greater than 30%.

Graph 5 – FFO to Net Debt (%)

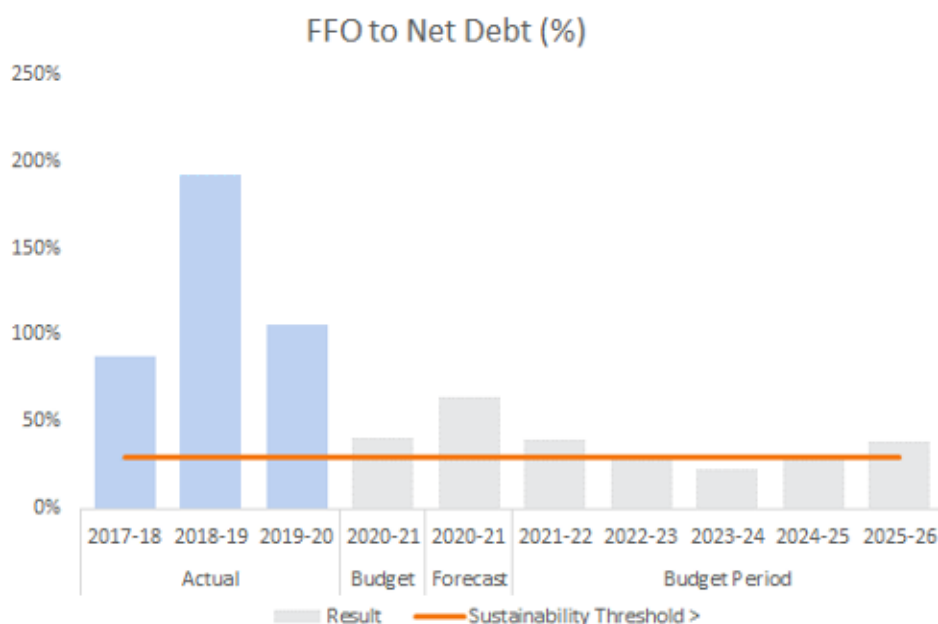
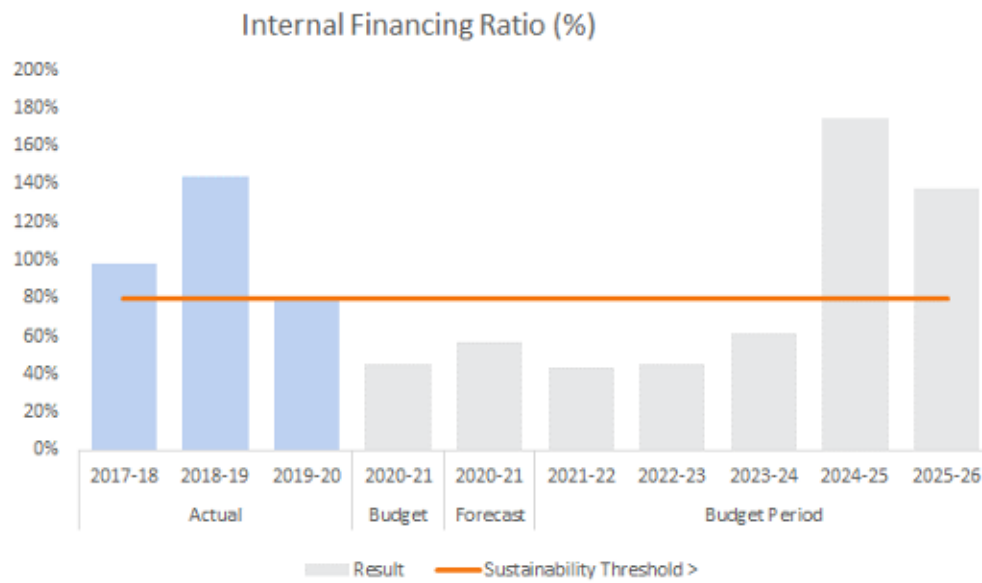


Table 11 – Corporate Plan 2021-22 Forecasts - Internal Financing Ratio (%)

Internal financing ratio (%)	Sustainability threshold	Forecast 2020-21	Budget 2021-22	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26
FFO less dividends (\$'000)		17,038	18,869	20,078	18,229	18,914	22,633
Net capital expenditure (\$'000)		29,750	43,227	44,765	29,624	10,867	16,485
Result	> 80 %	57%	44%	45%	62%	174%	137%

Graph 6 – Internal Financing Ratio (%)



Forward projections for the financial years 2020-21 through to 2025-26 do not include any material deviations from North East Water set financial sustainability thresholds and exceed all ESC benchmark thresholds.

