

Welcome to the Essential Services Commission's public forum on our draft decision





Essential Services Commission online public forum

Barwon Water
draft decision 2023

28 April 2023



Acknowledgement of country

I would like to acknowledge the Traditional Owners of all of the lands wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of Barwon Water.

I would also like to pay my respects to their Elders, past and present, and extend that respect to all Aboriginal people here today.

Barring Djinang artwork by Jade Kennedy.
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Agenda

- Summary of our role in water price regulation

Rebecca Billings

Commissioner, Essential Services Commission

- How we assessed the price submission and our draft decision

Marcus Crudden

Executive Director, Essential Services Commission

- Barwon Water's response to our draft decision

Tracey Slatter, **Managing Director**

Questions from attendees

About the Essential Services Commission

Our purpose is to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate Victoria's energy, water and transport sectors, and oversee the Fair Go Rates system. We also administer the Victorian Energy Upgrades program.

We have been regulating water prices more than 20 years.

For the water sector we:

- approve prices and service standards
- monitor and report on performance
- administer customer service codes.

Barwon Water price review process

We assess Barwon Water's price submission to ensure it:

- complies with the requirements of the Water Industry Regulatory Order
- meets the requirements in our guidance, including:
 - our expectations on the overall approach
 - application of our incentive (PREMO) framework, where the returns earned are linked to the level of ambition in the price submission
- complies with relevant criteria in the *Water Industry Act 1994* and the *Essential Services Commission Act 2001*.

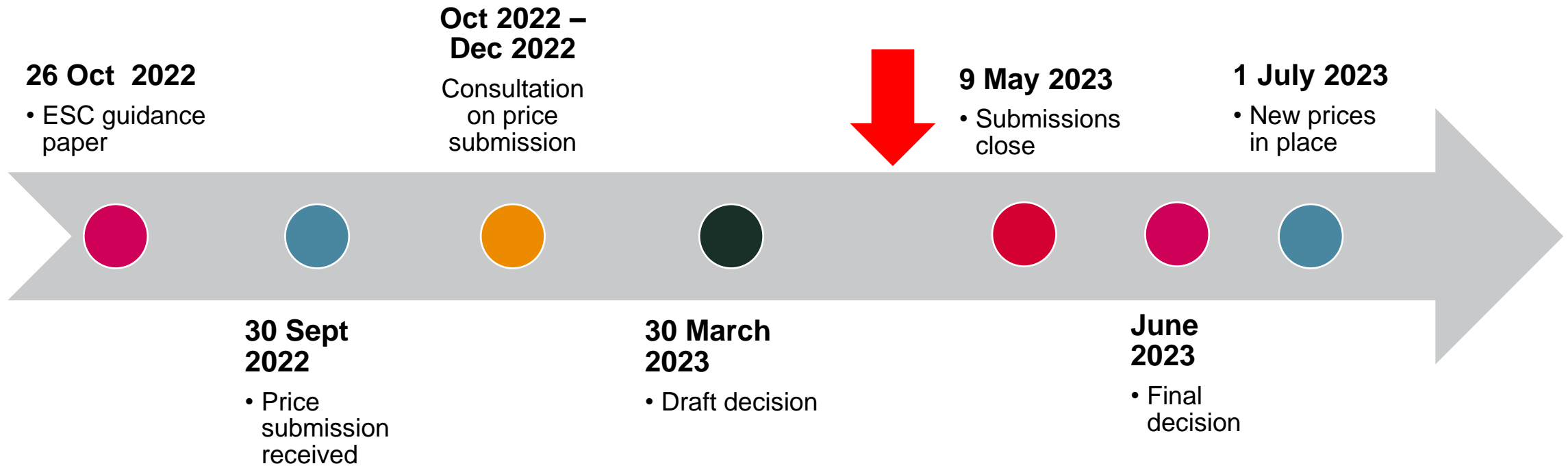
Barwon Water price review process

It is up to Barwon Water to propose prices and services consistent with the order, guidance and relevant legislation.

Essential Services Commission's draft decision

Our draft decision indicates what we propose to approve (or not approve), and allows Barwon Water– and other stakeholders – to respond before we make our final decision and price determination.

Barwon Water price review process



We assessed Barwon Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Barwon Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Barwon Water managed risk and its performance
- reviewing opex and capex costing and timing assumptions to ensure they were reasonable.

We also obtained advice from expert consultants where appropriate.

Summary of our draft decision

- Accepts five-year pricing period (prices in general decreasing in real terms over the five-year period).
- Proposes to accept the substantive elements of the price submission including:
 - Tariff structures and form of price control (price cap)
 - New customer contributions
 - Most of its proposed revenue requirement
- Adopts a revenue requirement of \$1,137.9 million over a five-year period, 0.3% lower than proposed by Barwon Water
- We asked Barwon Water to:
 - Propose individual tariffs that reflect our initial views on the revenue requirement

Estimated typical annual water and sewerage bills (proposed)

*Does not include inflation

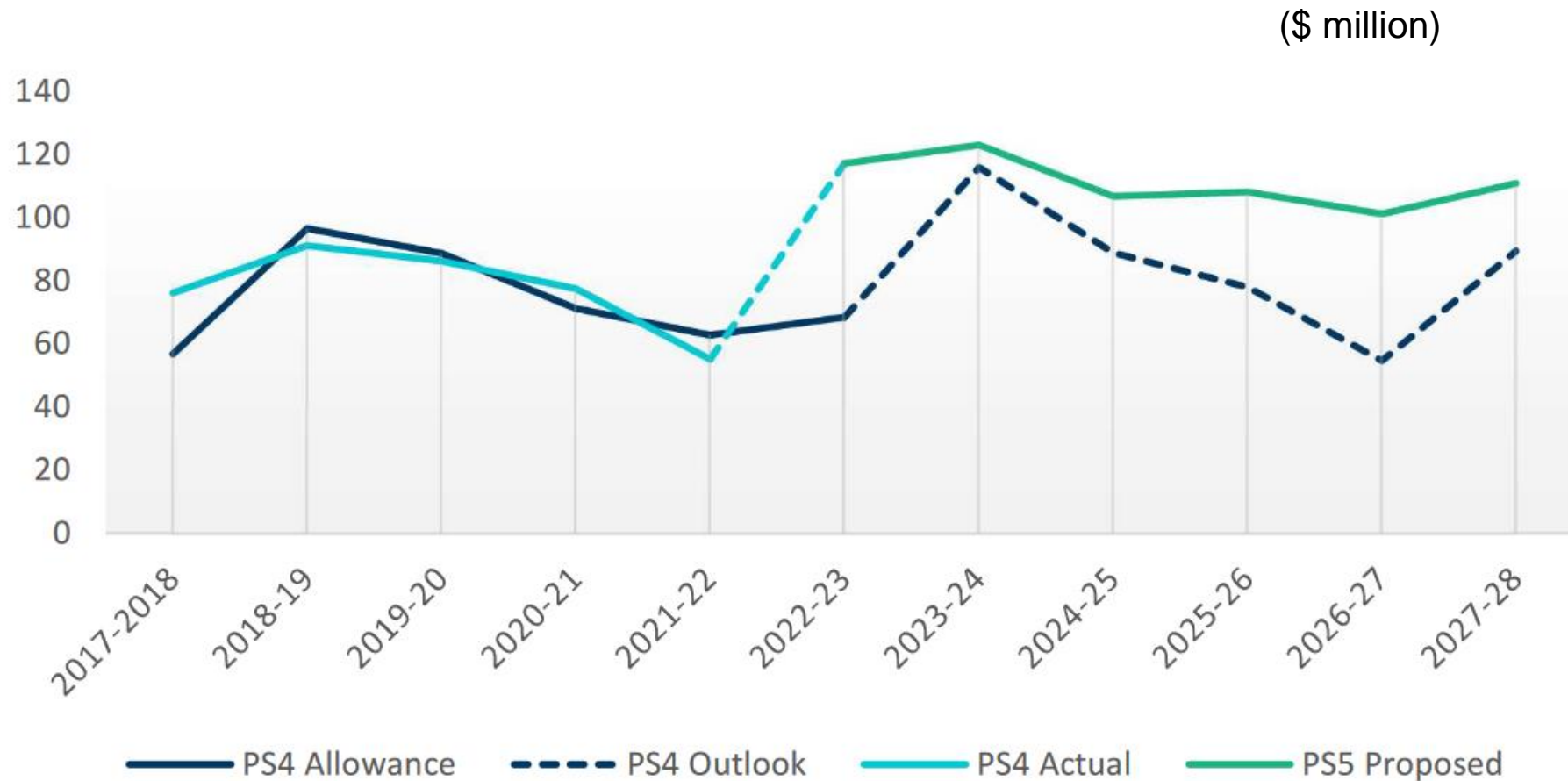
	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	160	\$1,076	\$1,061	\$1,003
Residential – tenant	160	\$314	\$309	\$332
Non-residential (small)	300	\$1,723	\$1,699	\$1,606
Non-residential (medium)	3,000	\$12,827	\$12,649	\$11,960
Non-residential (large)	50,000	\$206,130	\$203,265	\$192,198

A seven per cent inflation outcome for the year to March 2023 means the bill for a residential owner occupier under the business price submission proposal is around \$1,135.

Barwon Water expenditure forecasts

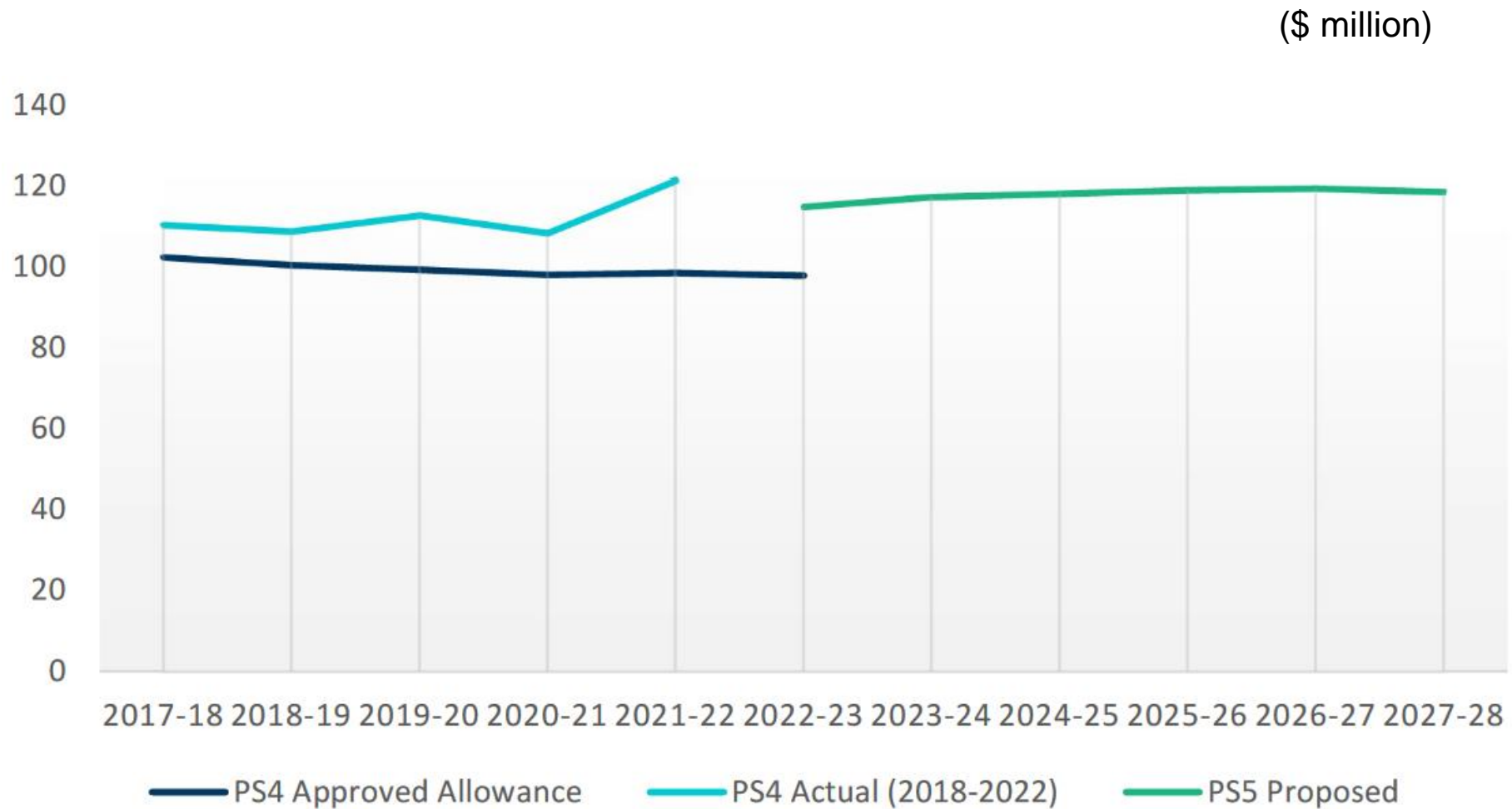
5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	670.7	-4.3	666.4
Capital expenditure	549.4	0	549.4

Barwon Water forecast capital expenditure



Source: FTI Consulting, Barwon Water 2023 Price Review Model

Barwon Water forecast operating expenditure



Source: FTI Consulting, Barwon Water 2023 Price Review Model

We propose to accept an 'Advanced' PREMO price submission rating

- We consider that Barwon Water met expectations for delivery against its outcome commitments for the current regulatory period.
- Its engagement program gave customers an opportunity to participate and to provide feedback on the prices and services that affect them. Its engagement was inclusive and diverse.
- Its proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.
- It proposed one of the highest efficiency improvement rates contributing to real price declines.
- It has chosen to accept risk on behalf of customers in some areas including underperformance penalties, excluding uncertain expenditure from prices and maintaining price caps.

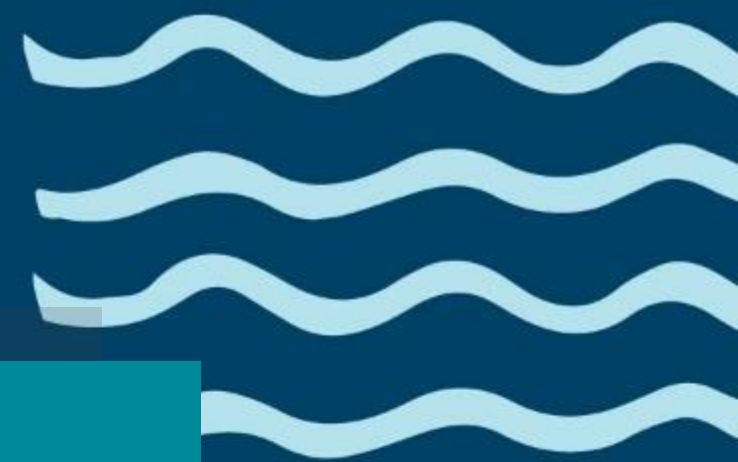
Our draft decision means...

- Prices will decrease in real terms before inflation but bills will increase slightly for tenants with the gradual removal of an efficiency rebate (noting inflation will be added to 2023-24 prices and bills, subject to the price cap).
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways.
- Barwon Water will continue to reduce its environmental footprint and respond to climate change.



2023 Price Submission draft decision

Essential Services Commission
Public Forum – Friday 28 April
2023



We recognise Aboriginal and Torres Strait Islander peoples as the First Peoples of this nation. We proudly acknowledge the Traditional Custodians of the land and water on which we rely, and pay respects to their Elders, past, present and emerging.

We deeply support Wadawurrung and Eastern Maar in the development and implementation of their Country Plans and their journey to self-determination.



About Barwon Water

> 340,000
customers

8,100
square kilometre region

More than 6,866
kilometres
of water and sewer pipes

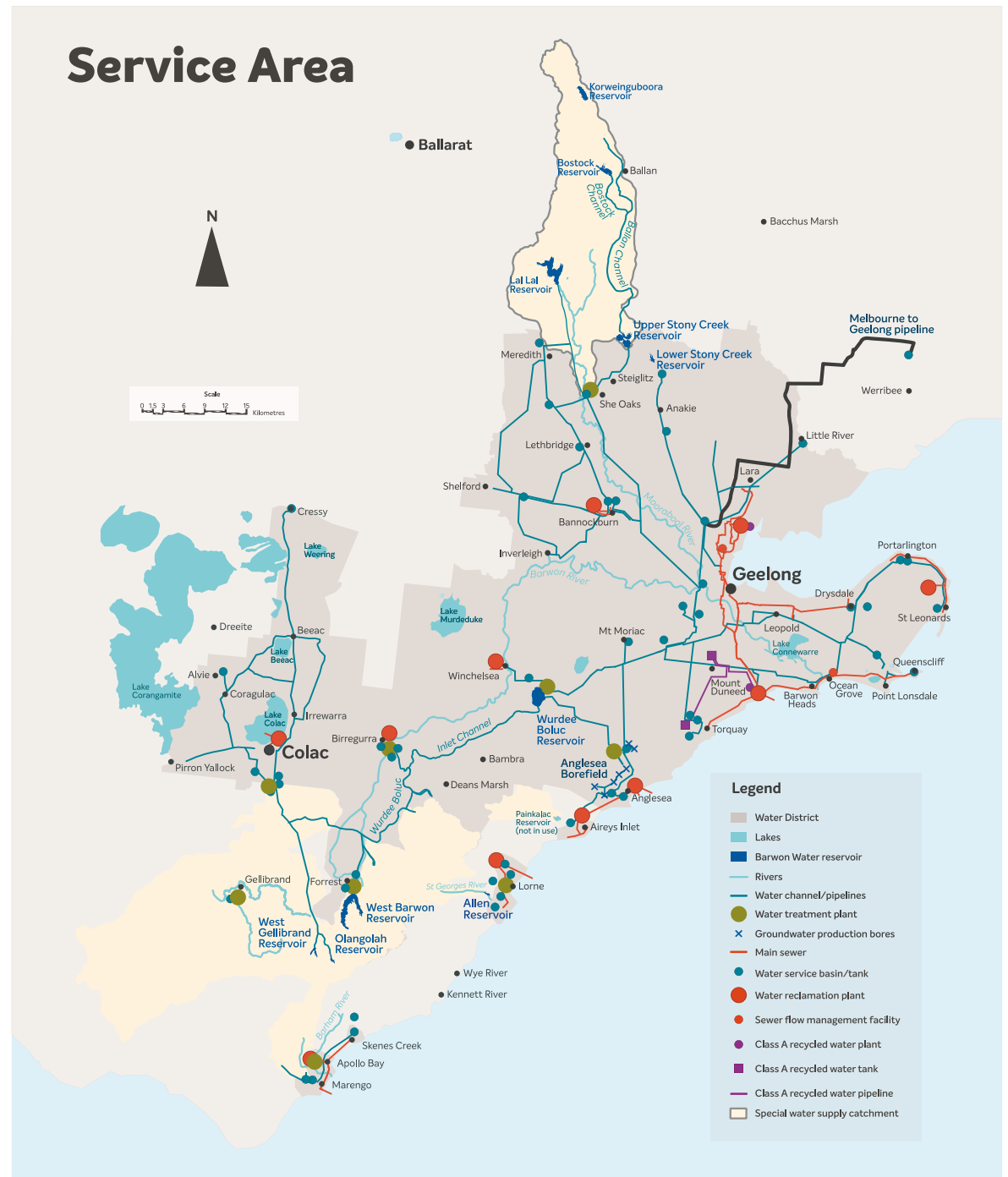
2
Class A recycled water
plants

12
major reservoirs

21
water treatment, pre-treatment
and water reclamation plants

60
water tanks and
basins

240
pumping stations



Our purpose and strategy



OUR VALUES

CARING | SAFE | INCLUSIVE | ACCOUNTABLE | COURAGEOUS

We listened



More than **336,000** customer touch points



7,500 responses to our four price submission surveys



210 combined hours of Advisory Committee discussions over **6** workshops on the price submission



9 in-depth focus groups with vulnerable customers, businesses and community



26 targeted in-depth interviews



5 community markets or 'pop up' events



15 strategic community project collaborations



4 Regional Forums with **185** local leaders



3 webinars with Q&A forums



3 deliberative processes including our two-year Water for our Future Community Panel



Protect and enhance our precious natural environment



Partner with me so that I can be more sustainable



Help us drive a clean and green regional economy



Support me when I need it most



Keep making our taps and toilets work, without any issues



Provide me with a service that is reliable, personable, responsive, accessible & knowledgeable

We learned

- Extend the reach of the Melbourne to Geelong Pipeline – to supply more water to more customers (\$18.5M)
- Upgrade the Birregurra community's water supply system (\$10.1M)
- Construct new water, recycled water and sewer infrastructure to service the new Northern and western Geelong Growth Area (\$41.8M)



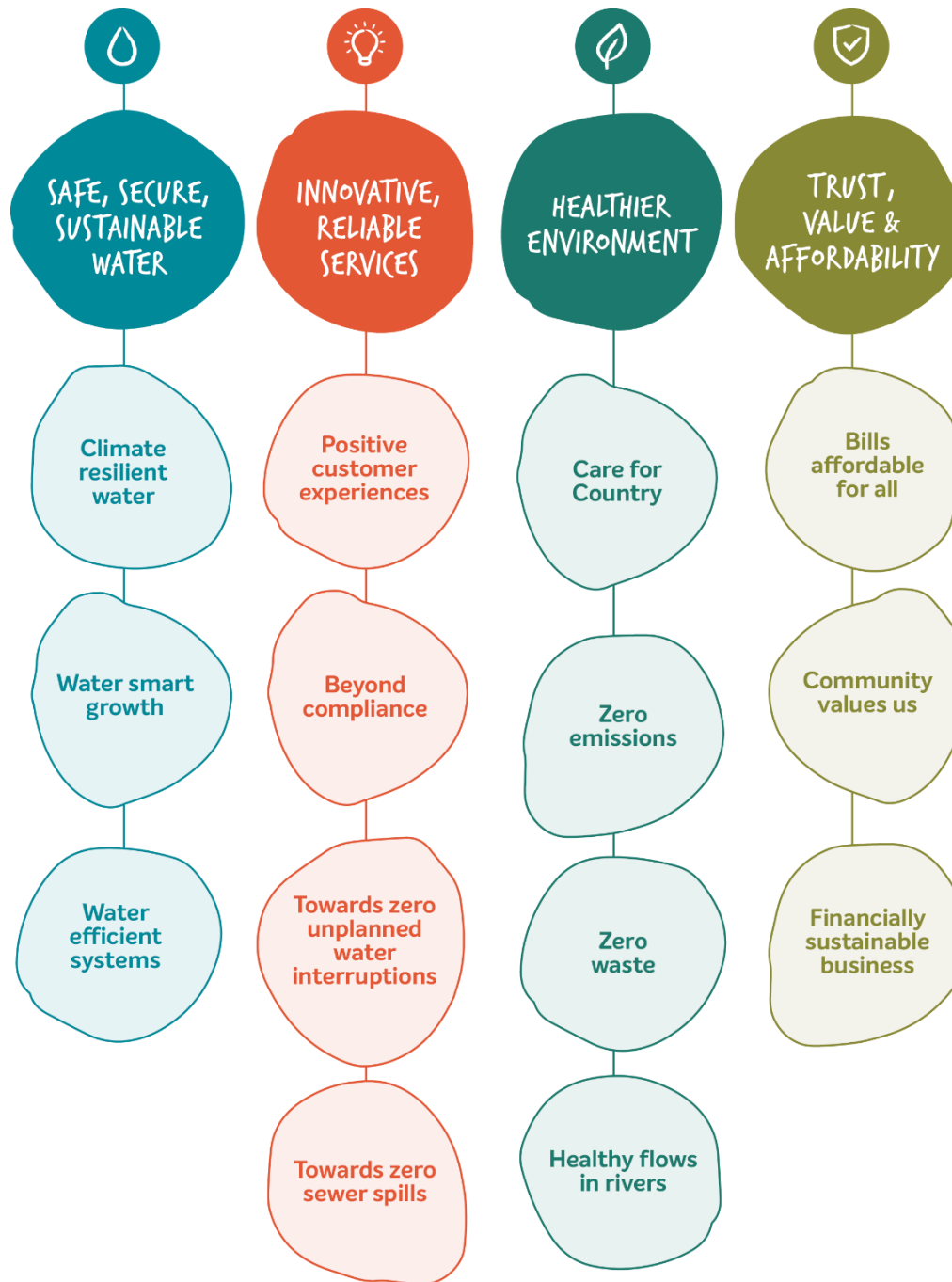
- Upgrade and construct new recycled water infrastructure to support the increased productive use of this alternate water supply (\$43.8M)
- By 2025, return 3,700 megalitres per year (long term average) to the Moorabool River to be shared between the Wadawurrung and Environment.
- Support Traditional Owners in their journey to self determination.

- Renew, repair and replace existing water and sewerage infrastructure to ensure innovative and reliable services (\$229.5M)
- Trial new technology in selected areas to improve our sewer system performance (\$6.1M)
- Enhance our customer experience and resilience against cybersecurity threats (\$14.1M)



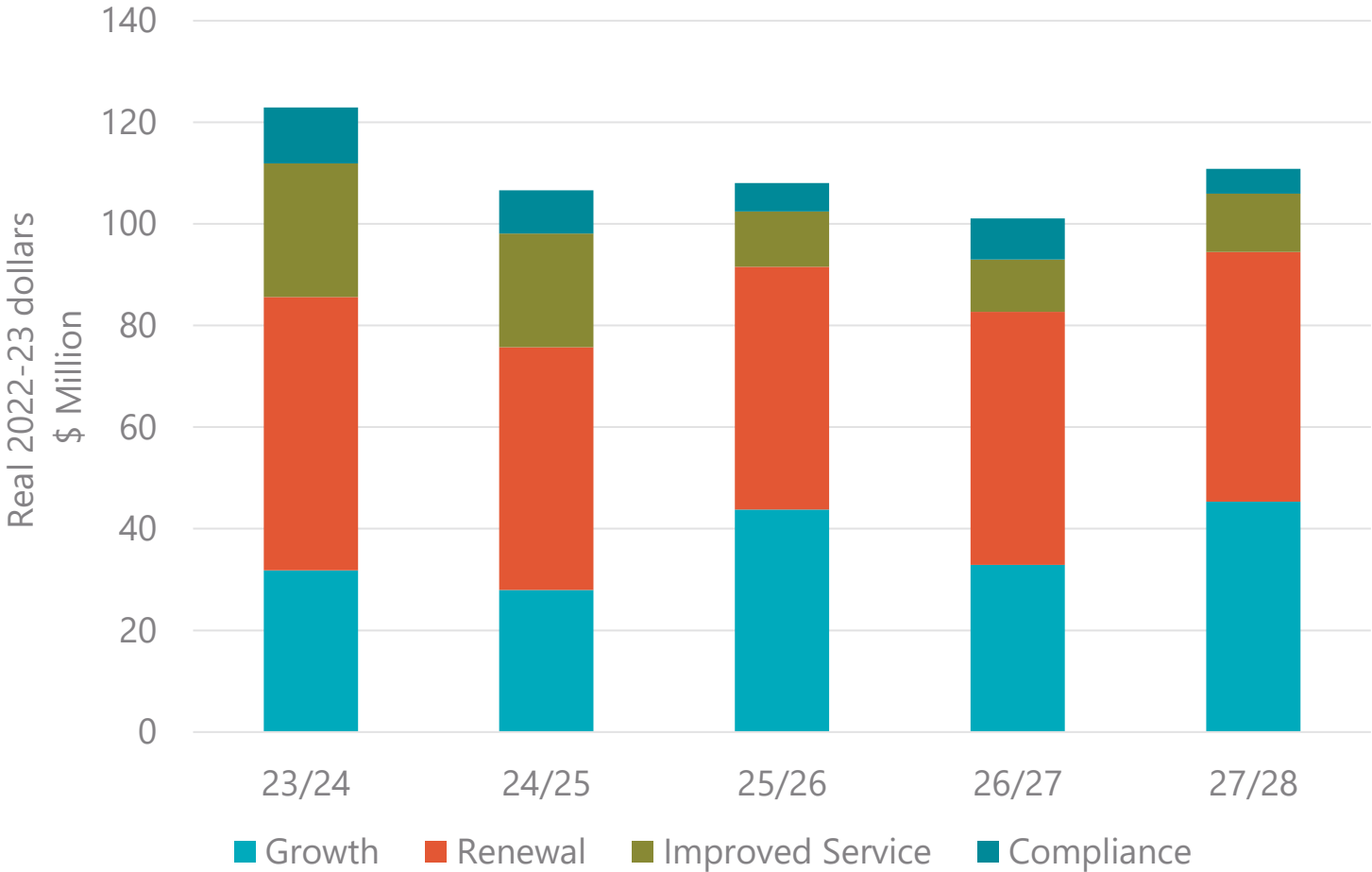
- Boosting financial assistance to customers who need it (\$3M)
- Upgrade our customer contact centre and staff training to better support customers (\$2M)
- Educate, engage and work with our customers and community to build confidence and trust (\$1.8M)

We will deliver what our customers want



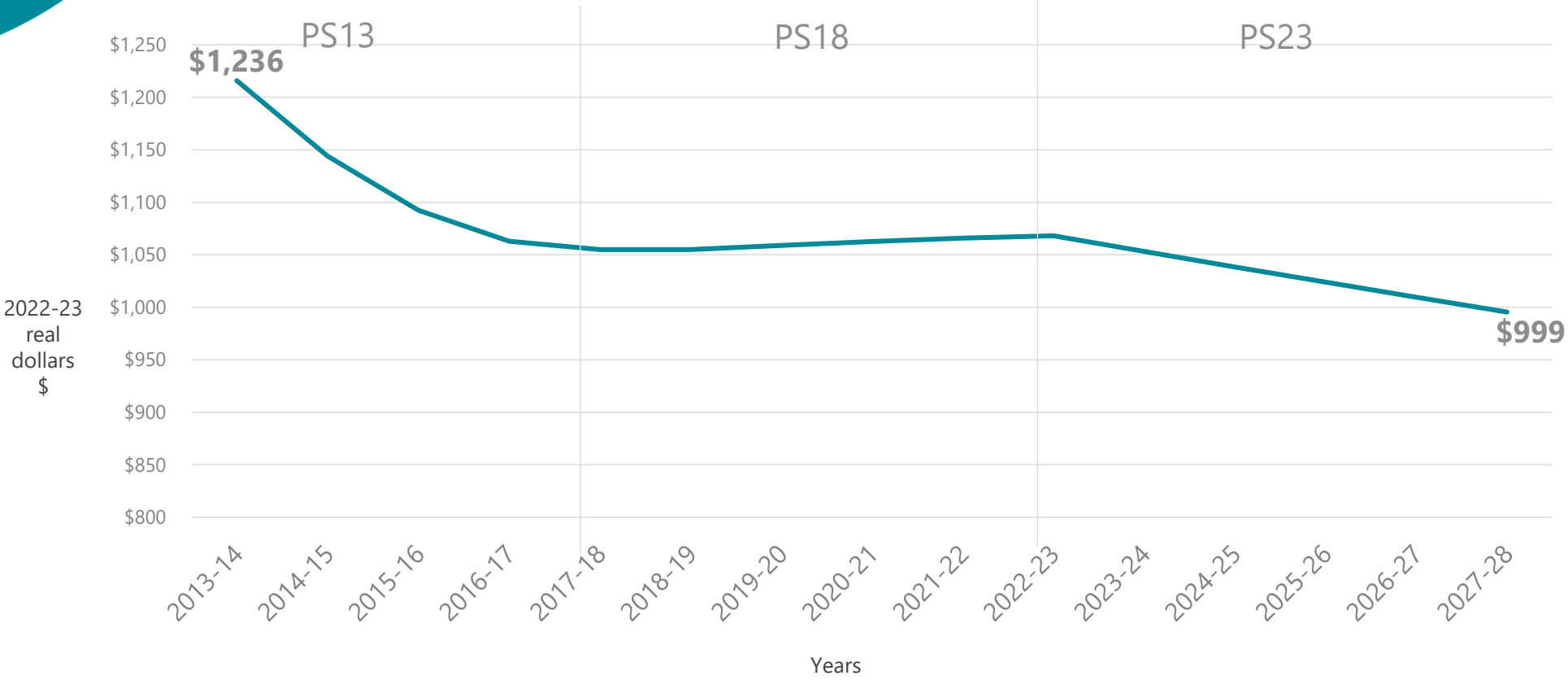
**\$549 million
of capital
investments**

Annual proposed capital spend (\$M)



**Bills will
continue to
fall in real
terms**

Average annual residential customer bills \$



Strong performance supports our customer offer

Customer Outcomes	2018 -19	2019 -20	2020 -21	2021 -22	2022 -23*
1. A reliable, secure water future for our region	Green	Yellow	Yellow	Yellow	Green
2. Timely, innovative services for our customers	Green	Green	Green	Green	Green
3. A healthier environment for all	Green	Yellow	Green	Yellow	Green
4. Deeper knowledge and partnerships with our community	Green	Green	Green	Green	Green
5. Affordability for all of our customers	Green	Green	Green	Green	Green
Overall	Green	Green	Green	Green	Green

- We achieved or exceeded our targets for 114 of the 132 measures over the past 4 years
- We are holding ourselves accountable to deliver on our outcomes commitments by applying a financial penalty for underperformance
- Through the performance incentive mechanism we had a total of \$11.5m (or \$2.3m per annum) at risk

Customer perceptions rankings		
	Feb 2019	Mar 2023
Satisfaction	5	1
Value	4	1
Reputation	4	1
Trust	7	1

- Results from Essential Services Commission annual survey
- Survey of 5,800 water customers across all of Victoria
- 4 key areas:
 - value for money,
 - reputation in the community,
 - level of trust, and
 - overall satisfaction.

Supporting customers



Payment Plans

**Arrange and
Save program
Utility Relief
Grants**

**Support for
customers
experiencing
family violence**

**Connection with
counsellors**

Matters raised in The ESC's draft decision

Comply with the ESC's Outcomes Reporting Template to ensure it meets the ESC requirements.



Consider whether our demand forecasts should be updated to reflect the latest information about how and when our region's population is predicted to grow.



Clarify how we plan to address the effect of high inflation on proposed prices and bills for 2023-24.



Consider impacts of inflation on our forecast expenditure for 2023-24 and if this should be updated.



We will complete an updated Outcomes Reporting Template to meet ESC requirements

We proposed	The ESC said	Our response
<p>Focused on delivering more of what customers want, we proposed 44 measures across 4 outcomes;</p> <ul style="list-style-type: none">• Safe, secure & sustainable water• Innovative, reliable services• Healthier environment• Trust, affordability & value	<p>We will provide Barwon Water with our standard Outcomes Reporting Template to complete and submit with its response to our draft decision. We will work with the business to ensure its final performance measures meets our requirements.</p>	<p>We're currently populating the ESC's Outcomes Reporting Template, and will provide it as part of our response to the ESC's draft decision on 9 May 2023.</p>

Updated population growth forecasts have been released since our submission

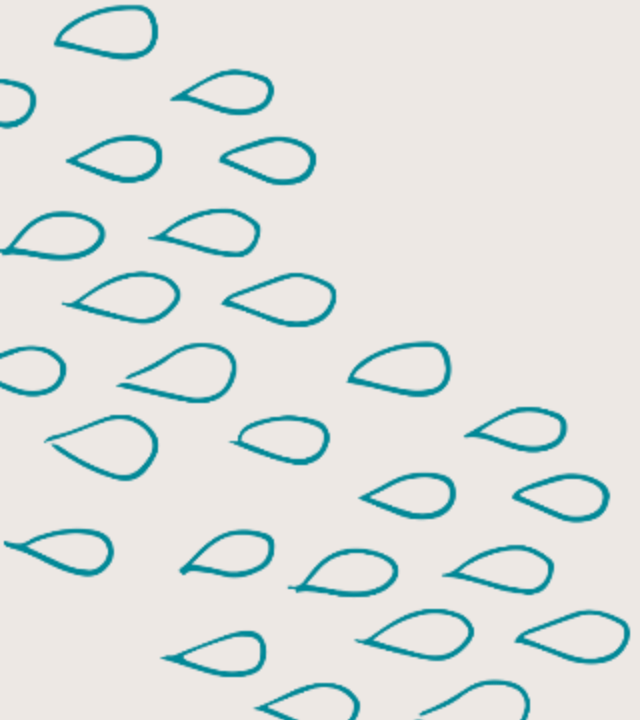

We proposed	The ESC said	Our response
<p>Due to population volatility during the COVID-19 pandemic, and acknowledging our region is not homogenous, we sought growth projections that better reflect emerging factors affecting our region.</p> <p>We used the customised predictions provided by Forecast.id, which have historically aligned better with our actual population growth.</p>	<p>Demonstrate Barwon Water has considered the latest Victoria in Future (ViF) estimates and if required, identify and justify any changes to its demand forecasts.</p>	<p>After reviewing the confidential release of 2022 ViF data, Barwon Water will continue to apply growth and demand figures as outlined in our price submission.</p> <p>The customised predictions provided by Forecast.id for Barwon Water's service area align closer with our latest actual growth, and current insights received from the development industry for our area.</p>

We will help our customers with cost of living pressures

We proposed	The ESC said	Our response
<p>Barwon Water is committed to helping customers. We'll continue to work closely with customers to support them to pay their bills.</p> <p>We've boosted our support for customers from \$3.1M to \$4.8M – we'll provide financial assistance for customers, including those affected by family violence.</p> <p>We'll also invest a further \$2.5 million over the next five years to help customers save money by saving water, through plumbing programs, grants, rebates and customer education.</p>	<p>Barwon Water's response to our draft decision should include further information on how it intends to address impacts of relatively high inflation on proposed prices and customer bills for 2023-24.</p>	<p>We commit to our bills increasing less than inflation each year for the next five years.</p> <p>We've increased our customer assistance program by \$1.7M to \$4.8M over the 2023-28 period.</p> <p>Our focus will be on enhancing our flagship 'Arrange and save' customer support program, as well as making it easy for customers to access Utility Relief Grants.</p>

We will keep bills affordable in real terms

We proposed	The ESC said	Our response
<p>Barwon Water customers' bills remain among the lowest in Australia for similar-sized water corporations; average annual bills for residential customers have reduced by 15%, or just over \$180 in real terms, from their peak in 2012-13 to what we propose in 2023-24.</p>	<p>Demonstrate how Barwon Water has considered impacts of inflation on forecast expenditure in 2023-24, and whether expenditure is reasonable, taking into account some key costs (such as labour) are unlikely to increase in line with near term inflation.</p>	<p>Although we expect labour costs to increase by less than CPI in 2023-24, we anticipate many other costs will increase more than CPI. We recently reviewed key cost categories against relevant inflation indices, for example: electricity, building materials, fuel, maintenance, chemicals and gas (where Barwon Water has significant exposure).</p> <p>Overall, we expect Barwon Water to break-even or worse if we apply CPI in full to prices next period and accept the risk of costs exceeding our revenue on behalf of our customers.</p> <p>However, we will provide some relief to customer bills by decreasing our core water and sewerage tariffs 1.5% in real terms, every year for the next 5 years, while applying CPI in full to our prices.</p> <p>Our customers told us they want a smooth price path, so we continue to propose a real price path of -1.5% per annum for the next 5 years (after adjusting for the ESC's draft decision recommendations and Cost of Debt adjustments).</p>



**Thank you
and
Questions**

Q & A

Housekeeping

- A reminder this public forum is being recorded. This means:
 - any statement or comment you make or question you ask will be **included in the recording**
 - any question you ask using the **'chat'** function, will be **read out along with your name** and will be included in the recording.
- For verbal comments, please use the **'raise your hand'** function and you will be invited to unmute your microphone, turn on your camera, say your name and organisation.
- If you are calling in via phone, please say your name and location prior to speaking.

Thank you for joining us today

Submissions on our draft decision are due by 9 May 2023

- You can provide written submissions or feedback via the Engage Victoria website:
<https://engage.vic.gov.au/water-price-review-2023>
- You can also contact us by email: water@esc.vic.gov.au

