

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





# Essential Services Commission online public forum

South East Water  
draft decision 2023

2 May 2023

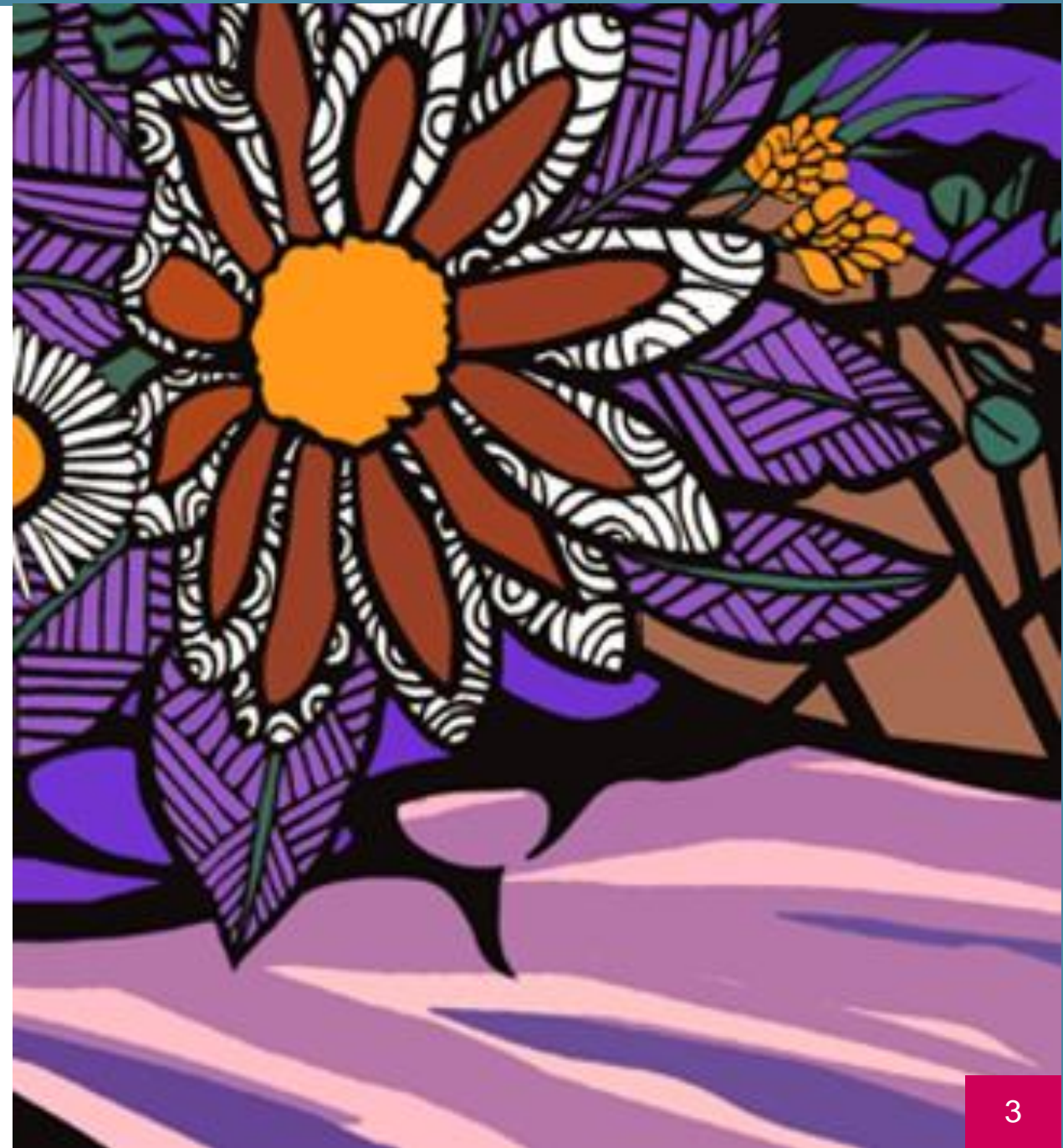


# Acknowledgement of country

**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 South East 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, Price Monitoring and Regulation, Essential Services Commission**

- South East Water's response to our draft decision

Lara Olsen, **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.

# South East Water price review process

We assess South East 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*.



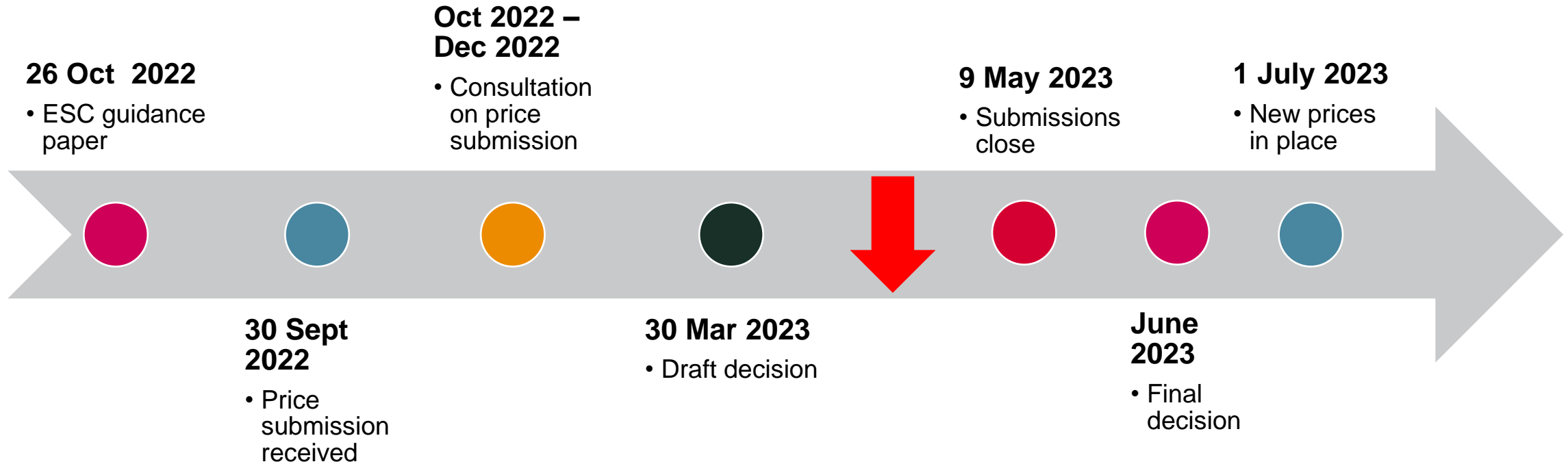
# South East Water price review process

It is up to South East 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 South East Water– and other stakeholders – to respond before we make our final decision and price determination.

# South East Water price review process





# We assessed South East Water's proposals and the reasons for them

We did this by:

- looking at engagement and how South East Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how South East 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 (part 1)

- Accepts 5-year pricing period (prices decreasing in real terms over the 5-year period).
- Proposes to accept many elements of the price submission including:
  - demand forecasts
  - tariff structures and form of price control (tariff basket) including the removal of sewerage disposal charge
- Adopts a revenue requirement of \$4,633 million over a five-year period.

# Summary of our draft decision (part 2)

- We asked South East Water to:
  - identify any impact from changes in its approach to treating expenditure as operating or capital over the 2018-23 regulatory period
  - propose individual tariffs that reflect our initial views of the revenue requirement
  - for new customer contributions, explain its transition plan towards achieving full cost reflectivity and set out how it proposes to fund any shortfall in revenue.
  - we are reviewing whether the sunk costs included in the new customer contributions are reasonable.

# Estimated typical annual water and sewerage bills (proposed)

\*Does not include inflation

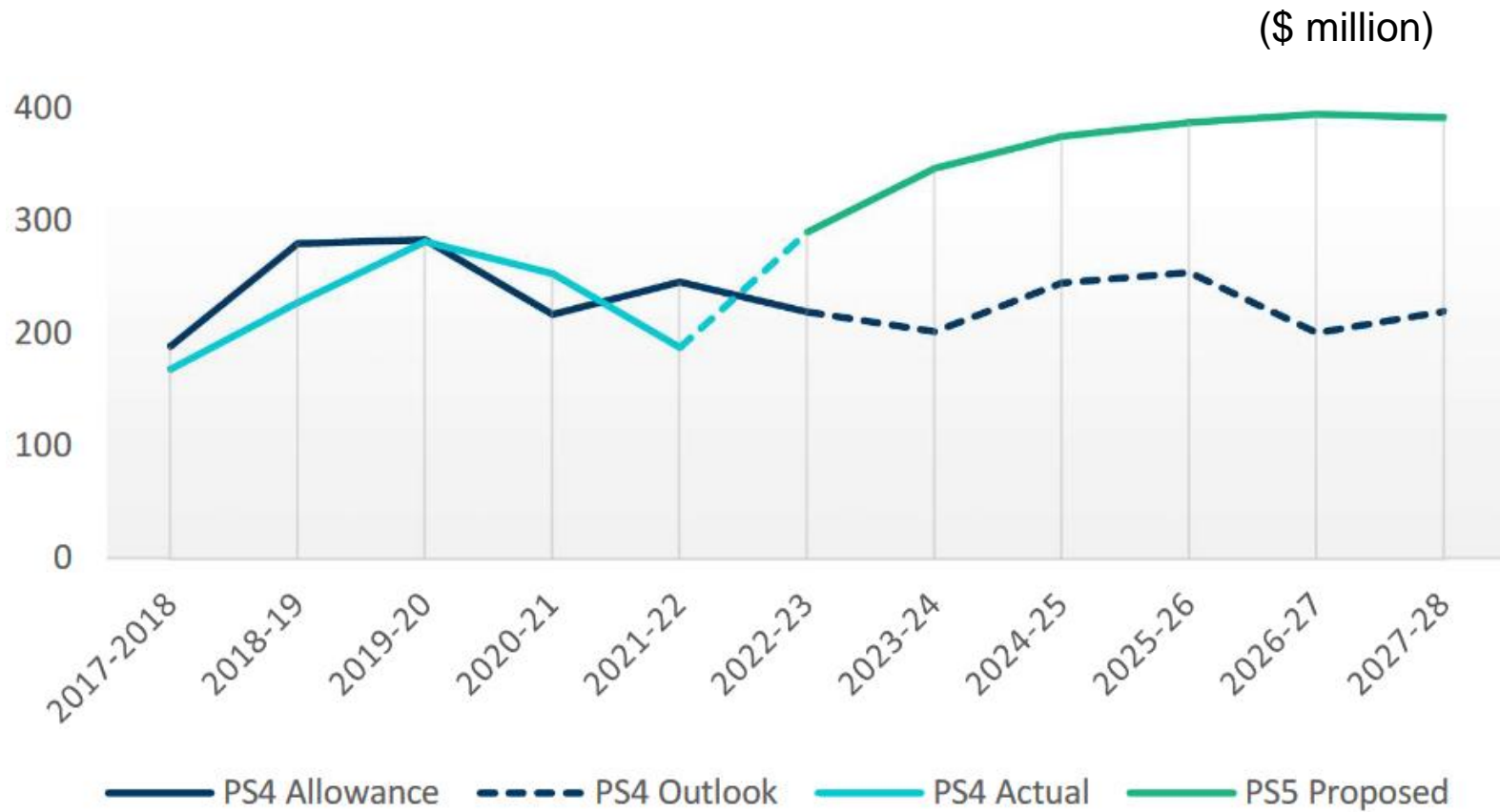
	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	150	\$969	\$908	\$908
Residential – tenant	150	\$515	\$483	\$483
Non-residential (small)	150	\$1,281	\$1,207	\$1,207
Non-residential (medium)	1000	\$5,597	\$5,270	\$5,270
Non-residential (large)	10,000	\$51,254	\$48,289	\$48,289

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 \$972.

# South East Water expenditure forecasts

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	3445.0	19.4	3464.4
Capital expenditure	1921.1	-23.5	1897.6

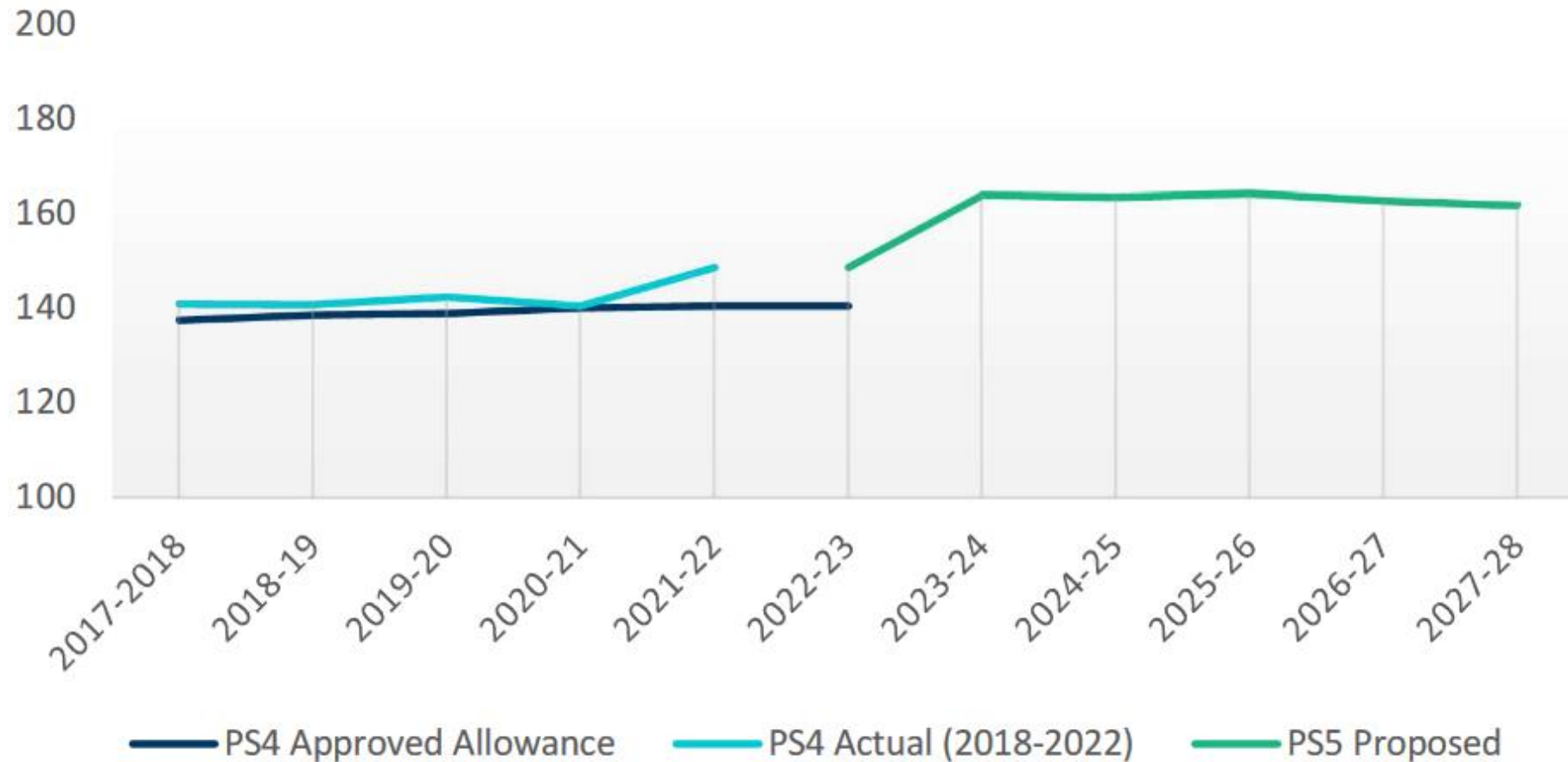
# South East Water forecast capital expenditure



Source: FTI Consulting, South East Water 2023 Price Review Model

# South East Water forecast operating expenditure

(\$ million)



Source: FTI Consulting, South East Water 2023 Price Review Model



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

- We consider that South East 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 has chosen to accept risk on behalf of customers in some areas. This includes accepting demand risk and absorbing guaranteed service level scheme costs.

## Our draft decision means...

- Prices will generally decrease in real terms before inflation (noting inflation will be added to 2023-24 prices and bills).
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways.
- South East Water will continue to reduce its environmental footprint and respond to climate change.



# Price Submission 2023–28

## Public forum

May 2023

South East  
Water 

# Acknowledgement of Country

South East Water proudly acknowledges the Traditional Owners of the land on which we work and live, and pay respect to their Elders past, present and emerging.

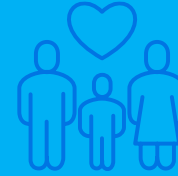
We acknowledge their song lines, cultural lore and continuing connection to the land and water. We recognise and value the rich cultural heritage and ongoing contributions of Aboriginal people and communities to our society in Victoria.



# Key messages



**Delivering on customer priorities**



**Proactive, inclusive customer support**



**Investing in our future**



**Maintaining affordability**



# About us

**1.77 million people** serviced every day and every night.

**741,712** residential customers

**61,394** non-residential customers

**92%** of our customers rely on us for their home's water and wastewater services

**8%** of our customers rely on us for non-household purposes

**200+** languages

**8,300+** First Nations People living within our region



142 billion litres of drinking water



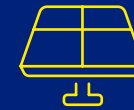
2.8 billion litres of recycled water



\$4.9 billion of assets including water, recycled water and sewerage networks.



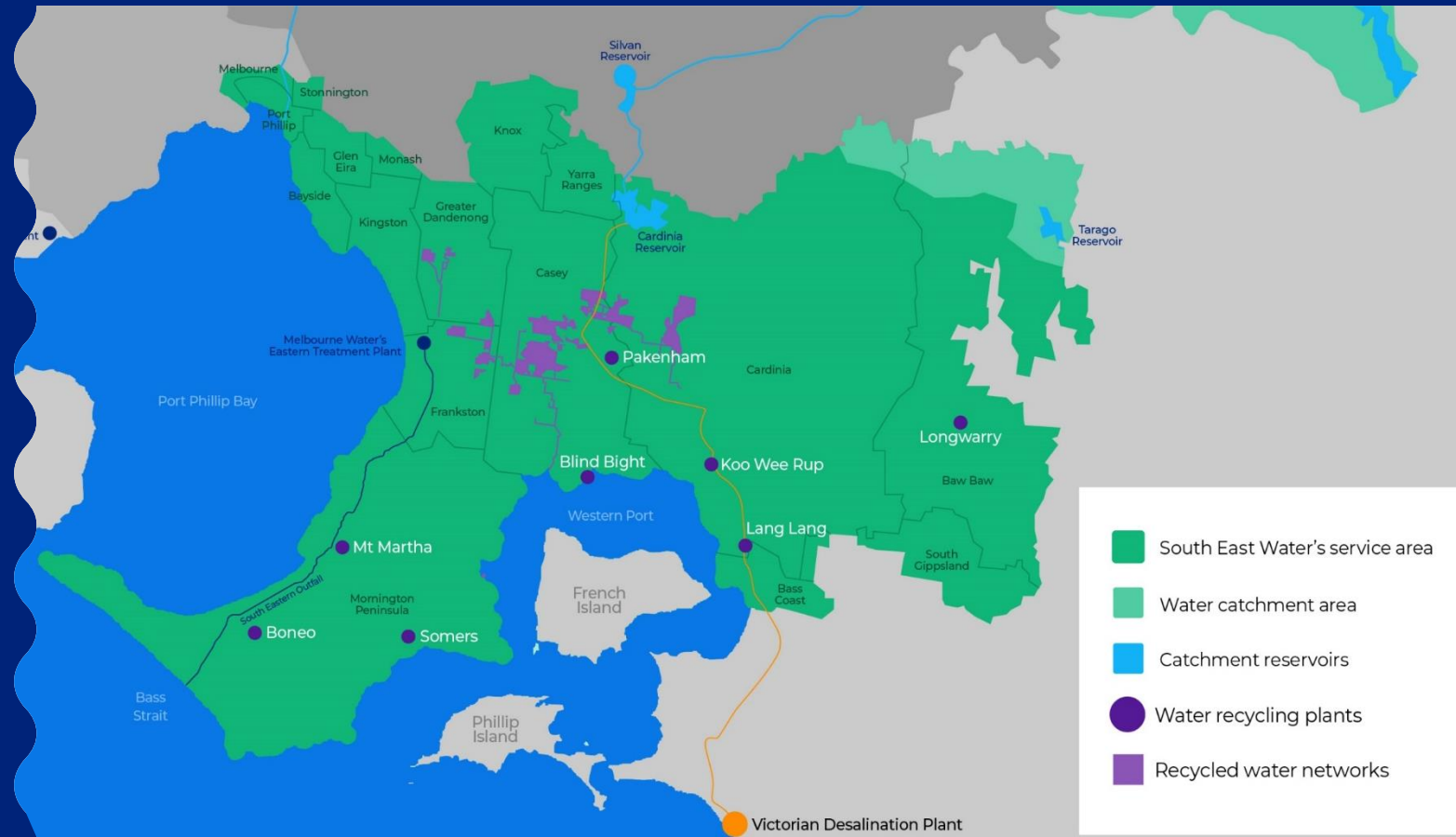
136 billion litres of wastewater



Recycle biosolids for soil improvement and generate renewable energy from biogas and solar.



27,000 km of pipeline



# Our 2023-28 strategy

**INNOVATE WITH PURPOSE.  
ACT WITH CARE.**



## EMPOWER OUR PEOPLE

We're one team that reflects the diversity of our customers. We welcome differences, and everyone's ideas and viewpoints are valued, building a safe space where people find inspiring opportunities in water.



## DELIVER FOR OUR CUSTOMERS

As part of the community, we know how important it is to **get the basics right**, and make our **customers' experience better** every time. In delivering our customer outcomes, all our actions **support a thriving, more liveable community**.



## PROTECT OUR ENVIRONMENT

As we're learning from the Traditional Owners, water is essential for healthy Country. We're driving long-term water security, net zero emissions and repurposing waste to **protect our environment, support our community**.



## OPTIMISE OUR OPERATIONS

Committed to refining our processes, products and service, we strive for continuous improvement. We **warn and inform our customers** at the right time, as we deliver seamless, **fair and affordable services for all**.



## DRIVE INNOVATION AT SCALE

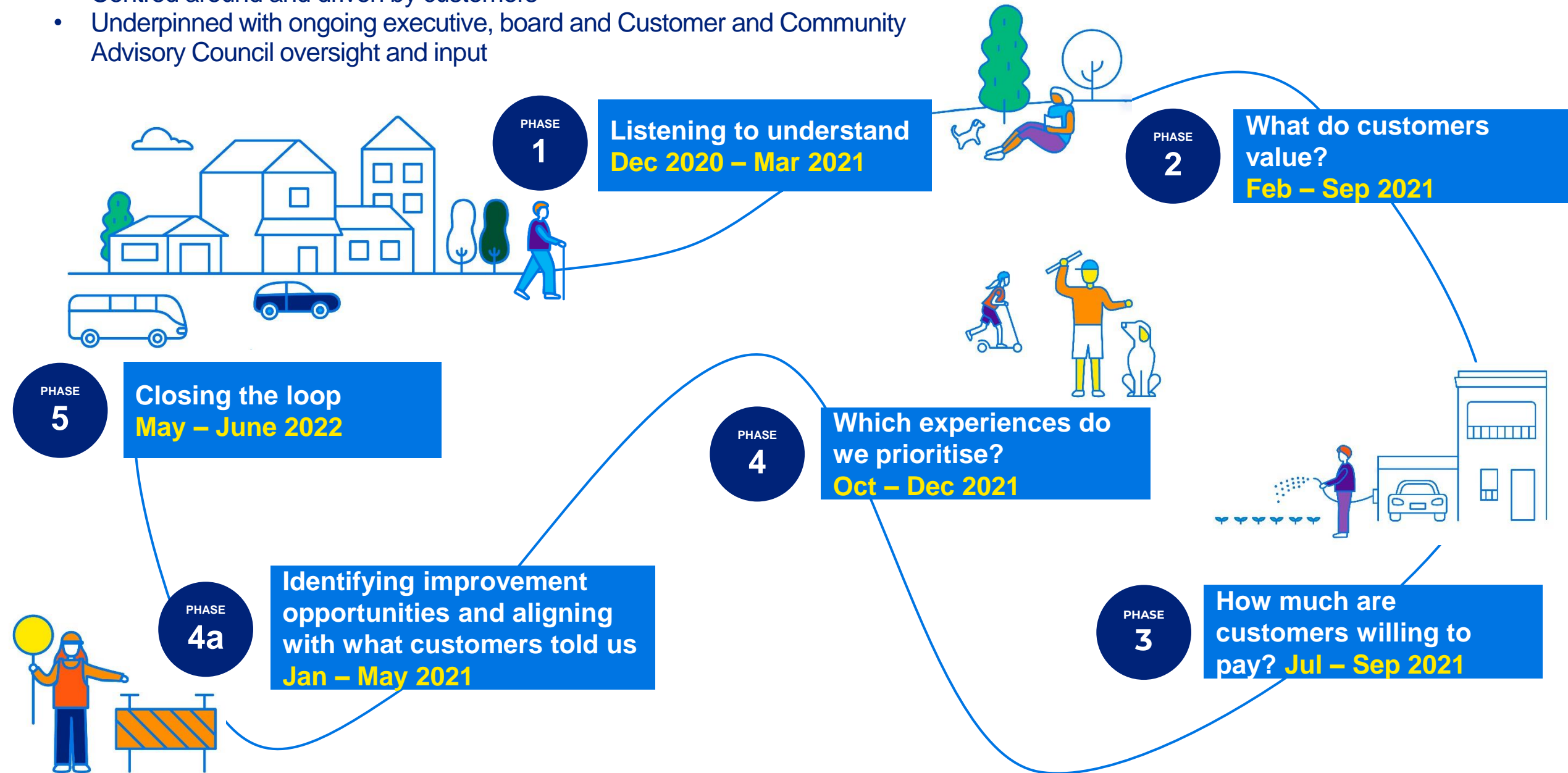
Our innovation stretches beyond basic prototypes and is proven to work at scale in real-life communities. Through partnership and commercialisation, we share out data, expertise and technology to create step-change impact.

Lead in safety	Get the basics right, always	Care for Country	Digital customer and employee experience	Commercialisation and partnership impact
Lead in wellbeing	Increased customer support	Net zero emissions	Fair and affordable services for all	Towards zero bursts and spills
Inspiring opportunities for all	Make our customers' experience better	Enhanced water security	Warn and inform our customers	Towards net zero water recycling plants
Great place to work	Support our community	Towards zero waste	Sustainable, resilient organisation	Adapting through research



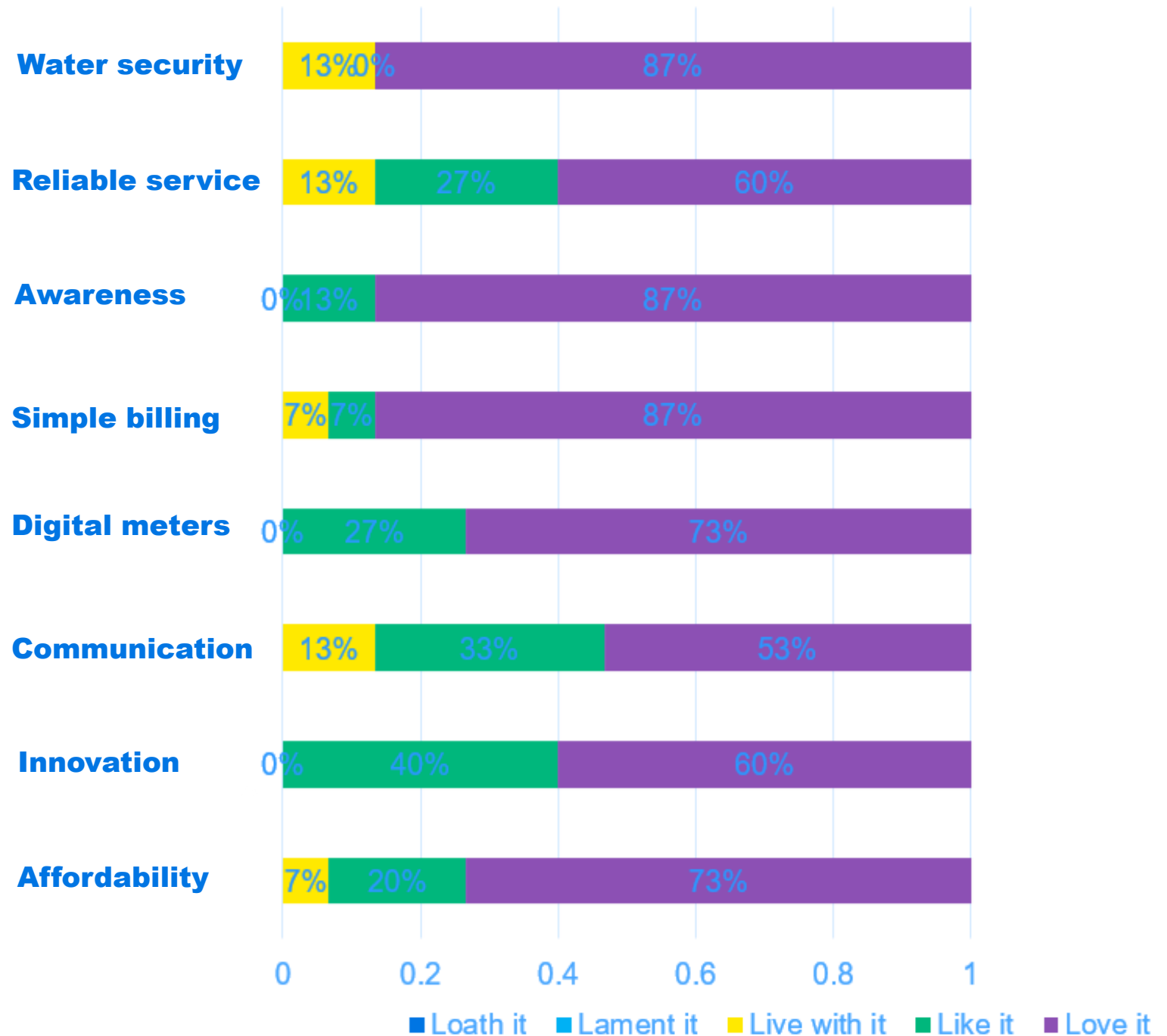
# A comprehensive engagement program

- Centred around and driven by customers
- Underpinned with ongoing executive, board and Customer and Community Advisory Council oversight and input



# Our community panel strongly supported our proposals

Average of 93% score for 'Like it' and 'Love it' across all 8 community panel recommendations

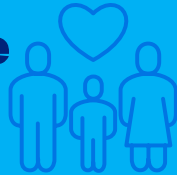


# Improving customer support and experience



## Proactive, targeted and empowering customers to help themselves

### Proactive, inclusive support



More customers eligible for financial support

Easier to identify earlier those who may experience payment difficulties

**\$1.5M**

Additional invested per annum to support vulnerable customers

### Empowering customers to save water and money

Providing more customers access to real-time water usage data through our digital meter rollout

Delivering on sector water-saving actions (from *Water for Life*, Target 150)

Making bills easier-to-understand by removing the residential sewage disposal charge

### Better customer experience, more self service

Enhancing communication and providing more self-service channels so customers have more choice in how they engage with us

Providing more consistency across a wider range of touchpoints to provide a more seamless customer experience

# Investing in our future

## Our \$1.9 billion capital investment, including digital utility

Transforming the way we operate, by acquiring and analysing near real-time data from multiple sources so we can better serve our customers and run networks more efficiently

### Benefits to our customers

- Real-time water use data helps customers manage their usage
- High-usage and leak alerts warn and inform
- Customers' needs are better understood
- Increased self-service
- Better experience

### Benefits to our network

- Easier to predict failure
- Reduced operating costs and increased productivity
- Proactive repairs prolong the life of our assets

### Benefits to our environment

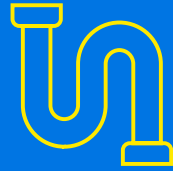
- Minimised water losses
- Advanced sewer network monitoring
- Emissions tracking



# Maintaining downward pressure on operating costs to benefit our customers

Average **efficiency improvement rate of 2%** on controllable operating costs

What the ESC has given preliminary approval for us to invest in (on behalf of customers):



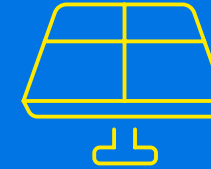
Maintenance of our assets – reliable service with fewer interruptions



Increasing water quality monitoring to ensure safe drinking water 100% of the time



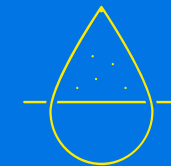
Upgrading our water recycling plants – to service our growing region and work towards net zero



Digital technologies – so we can work and support our customers more efficiently



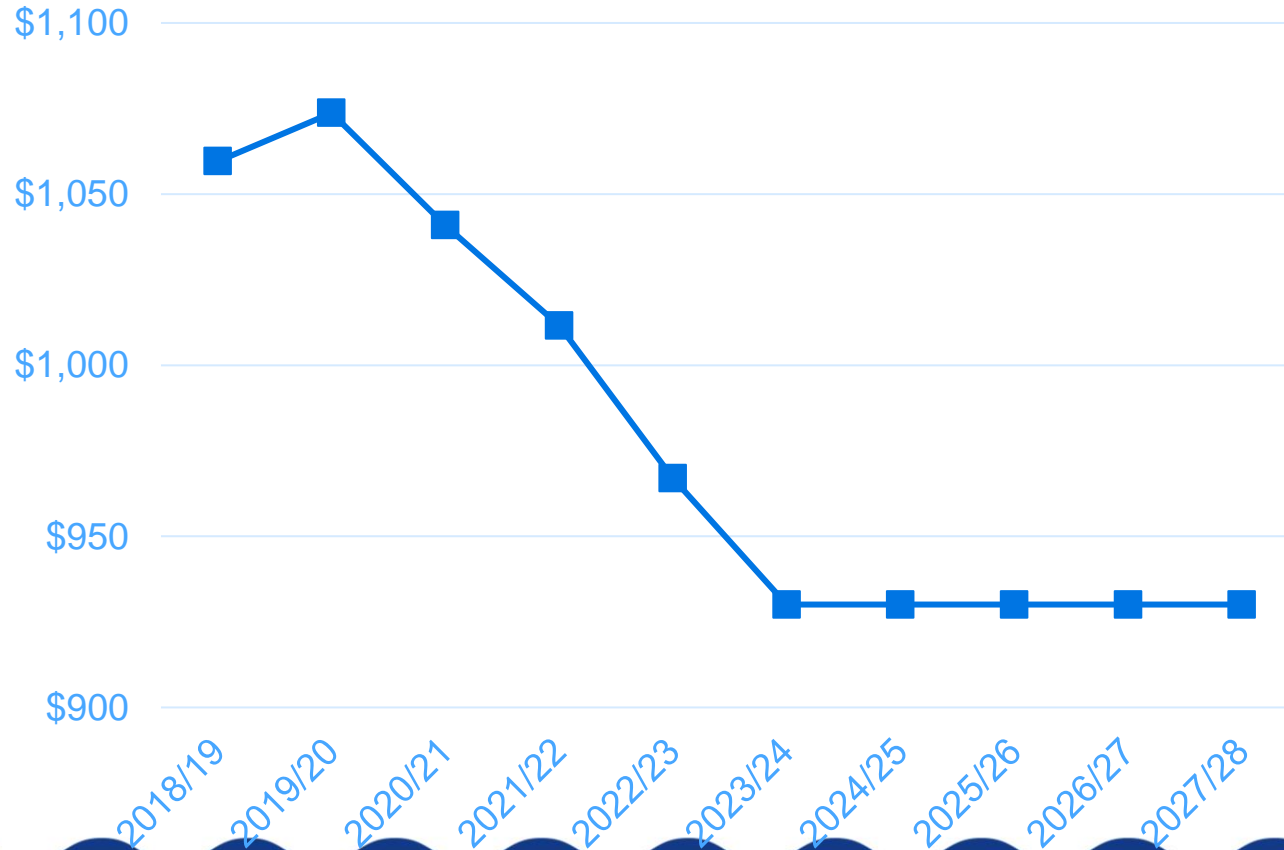
Traditional owner engagement and capacity building



Adapting our assets for climate change impacts, protecting the environment and integrated water management

# Continued focus on affordability for our customers

Our proposed pricing means a bill reduction for the average household, that stays low.



We're reducing our prices for water and sewerage services on an average residential bill by around 3.8% (before inflation) for 2023–2028

# Responding to the Essential Services Commission (ESC) (1 of 3)

	What we proposed	What the ESC said	Our response
Guaranteed Service Levels (GSLs)	<p>Introduce new GSLs:</p> <ol style="list-style-type: none"><li>1. water spills inside house</li><li>2. failure to notify a planned interruption</li><li>3. community rebate for water quality advisories</li></ol>	<ul style="list-style-type: none"><li>• Propose to accept our GSLs, subject to feedback following draft decision</li></ul>	<ul style="list-style-type: none"><li>• We support these GSLs, which have been agreed with customers</li><li>• We also agreed to absorb the GSL costs to drive better incentives for our organisation</li></ul>
New customer contributions	<ul style="list-style-type: none"><li>• Increase by 5% across water, sewerage, recycled water in aggregate for each growth area</li></ul>	<ul style="list-style-type: none"><li>• Propose not to accept our customer contributions</li><li>• ESC doesn't consider our developer contributions are reflective of costs to provide new services</li></ul>	<ul style="list-style-type: none"><li>• We're mindful of the need to minimise price shocks</li><li>• While our methodology has been applied consistently since 2013, we support a holistic review of NCCs</li></ul>



## Responding to the ESC (2 of 3)

	What we proposed	What the ESC said	Our response
Digital meters	<ul style="list-style-type: none"><li>• Deployment of digital meters to deliver benefits to customers</li><li>• We'll absorb any cost overruns</li></ul>	<ul style="list-style-type: none"><li>• Propose to accept our expenditure for the project</li><li>• ESC requests information on how we intend to manage immediate price impacts on customers</li></ul>	<ul style="list-style-type: none"><li>• We'll more-gradually recover the costs of the digital meter program from customers, thereby reducing immediate price impacts</li></ul>
Minor sewer alterations	<ul style="list-style-type: none"><li>• In response to ESC questions, we identified that minor sewer alterations services were incorrectly treated as 'non-prescribed' services in our initial submission</li></ul>	<ul style="list-style-type: none"><li>• Requested us to update the pricing model to include the missing tariff</li></ul>	<ul style="list-style-type: none"><li>• We'll update the pricing model to include this tariff</li><li>• This will result in lower prices to all customers, as the revenues exceed costs for this service</li></ul>

# Responding to the ESC (3 of 3)

	What we proposed	What the ESC said	Our response
Demand forecasts	<ul style="list-style-type: none"><li>Continued use of an econometric model to forecast residential consumption</li><li>Other key forecasts produced using methods consistent with industry best practice</li></ul>	<ul style="list-style-type: none"><li>Propose to accept our demand forecasts</li><li>ESC requires us to demonstrate how we have considered the Victoria In Future (VIF) 2022 forecasts, and if required, justify forecast changes</li></ul>	<ul style="list-style-type: none"><li>Our demand forecasts are consistent over the medium term with the latest information contained in VIF 2022</li></ul>
Treatment of capital and operating expenditure	<ul style="list-style-type: none"><li>Following a review of our regulatory accounts, we identified and advised the ESC of changes to our capitalisation policy</li></ul>	<ul style="list-style-type: none"><li>ESC draft decision includes proposed changes to the treatment of capital and operating expenditure</li><li>ESC requires us to explain changes to our capitalisation policy</li></ul>	<ul style="list-style-type: none"><li>We'll accept the proposed changes to the treatment of capital and operating expenditure, and clarify how the expenditure has been classified previously</li></ul>

# You spoke, we listened, because performance matters

We're making things clear and simple for customers including the value we intend to offer and how we go with delivering it.

- Our community panel helped us make changes to the measures and targets under our 5 customer outcomes to show clear intent
- We'll report our performance to customers via our website twice a year and continue to provide visibility and understanding of good and not-so-good performance
- The ESC have approved our measures and targets with a few minor wording changes that will be included in our response

Safe, high-quality water and fewer disruptions underpin our promise to **get the basics right, always**

**Warn me, inform me** with more digital notifications and detecting water leaks earlier through digital meters and sensors

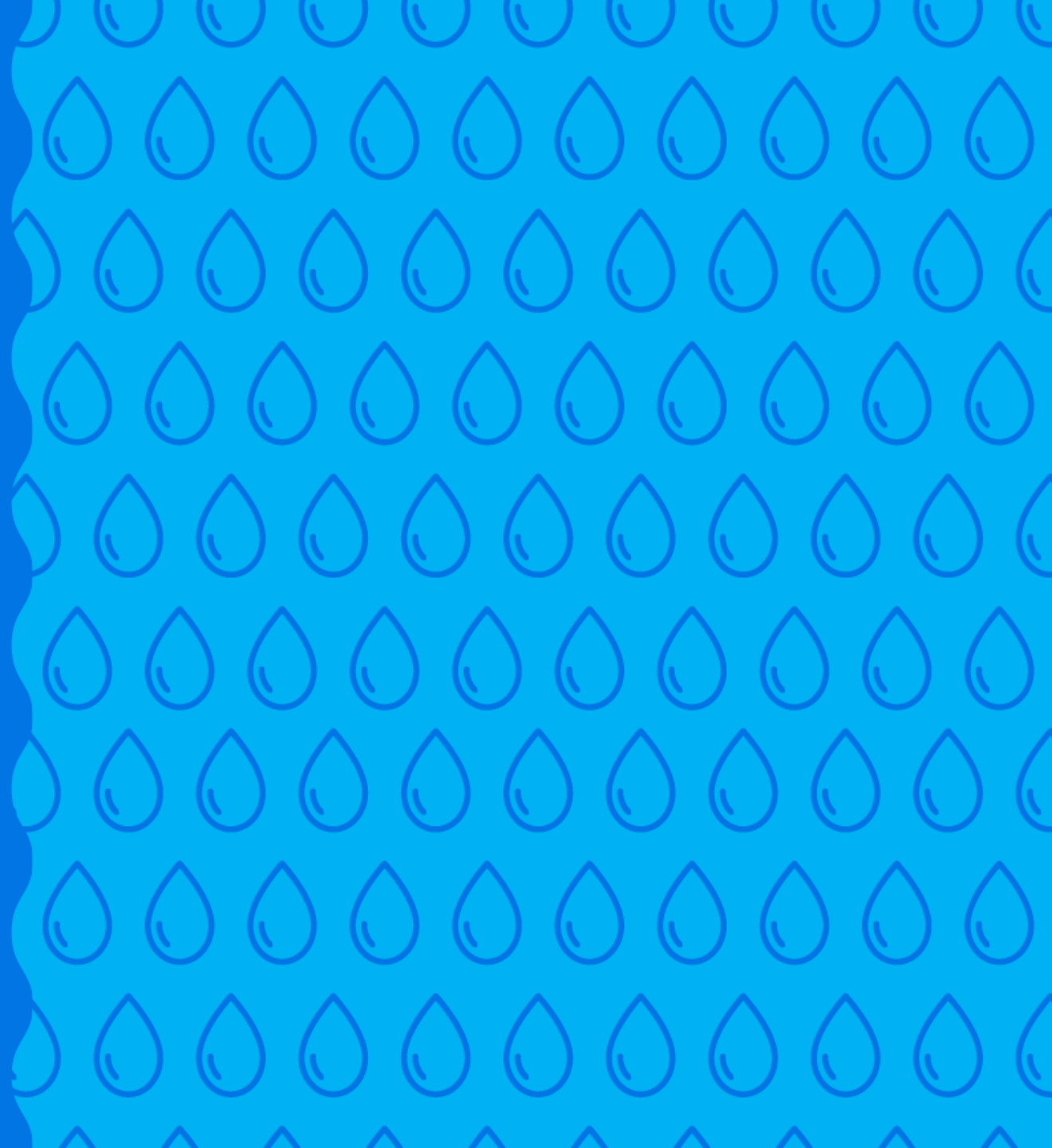
Continue our focus on supporting customers and keeping our services **fair and affordable for all**

Clear measures around customer benefits and value that show a commitment to **make my experience better**

Improving our performance and reducing our footprint, we'll **support the community and protect our environment**

**Questions?**

**Healthy Water.  
For Life.**



# 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](mailto:water@esc.vic.gov.au)

