

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





Essential Services Commission public forum

South Gippsland Water
draft decision 2023

28 April 2023

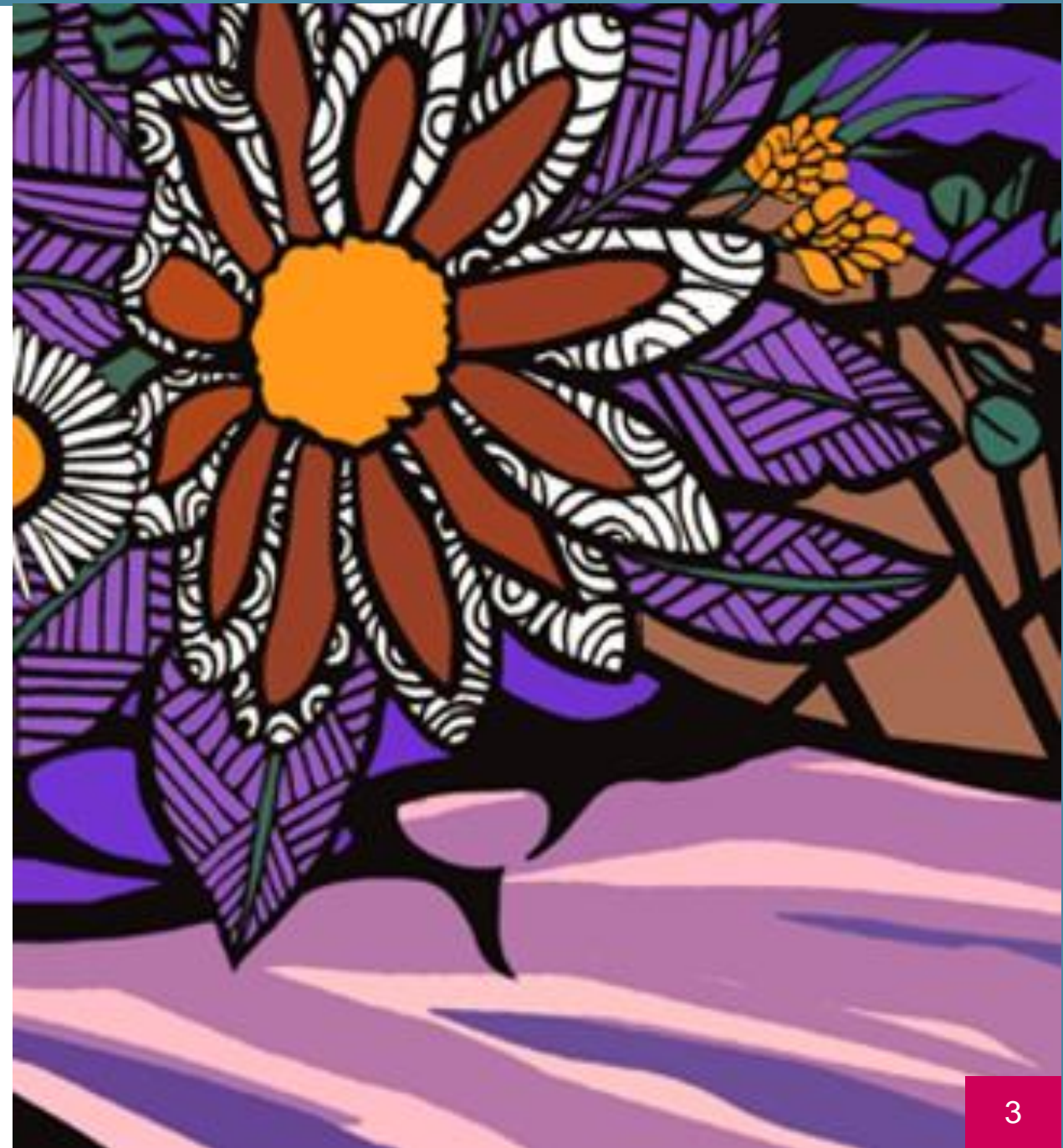


Acknowledgement of country

I would like to acknowledge the traditional owners of all of the lands and waters wherever you are today. I would also like to acknowledge the traditional owners of the land and waters of the service area of South Gippsland Water, the Gunaikurnai and Bunerong.

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

Simon Corden

Commissioner, Essential Services Commission

- How we assessed the price submission and our draft decision

Dean Wickenton

Senior Regulatory Manager, Essential Services Commission

- South Gippsland Water's response to our draft decision

Rob Murphy, **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 Gippsland Water price review process

We assess South Gippsland 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*.

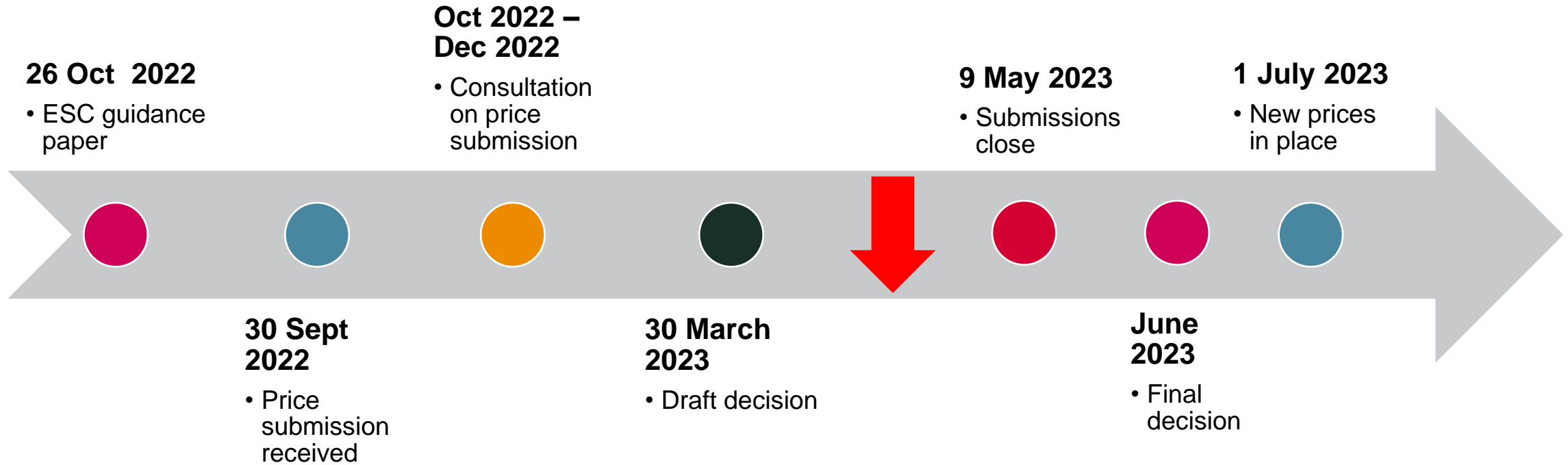
South Gippsland Water price review process

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

South Gippsland Water price review process



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

We did this by:

- looking at engagement and how South Gippsland Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how South Gippsland 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 5-year pricing period (prices increasing in real terms over the 5-year period).
- Proposes to accept many elements of the price submission including:
 - forecast operating expenditure (with minor adjustments) and capital expenditure
 - guaranteed service levels
 - proposed tariff structures and price cap form of price control
- Adopts a revenue requirement of \$198.2 million over a five-year period, slightly lower than proposed by South Gippsland Water.

Summary of our draft decision (continued)

- We asked South Gippsland Water to:
 - respond to our draft decision on its revenue requirement
 - explain how it intends to address the impacts of relatively high inflation on proposed prices and customer bills
 - provide information on / justify how its tariffs reflect costs for Venus Bay Outfall Upgrade project
- We are reviewing whether the sunk costs included in the new customer contributions are reasonable.

Estimated annual water and sewerage bills (proposed)

*Does not include inflation

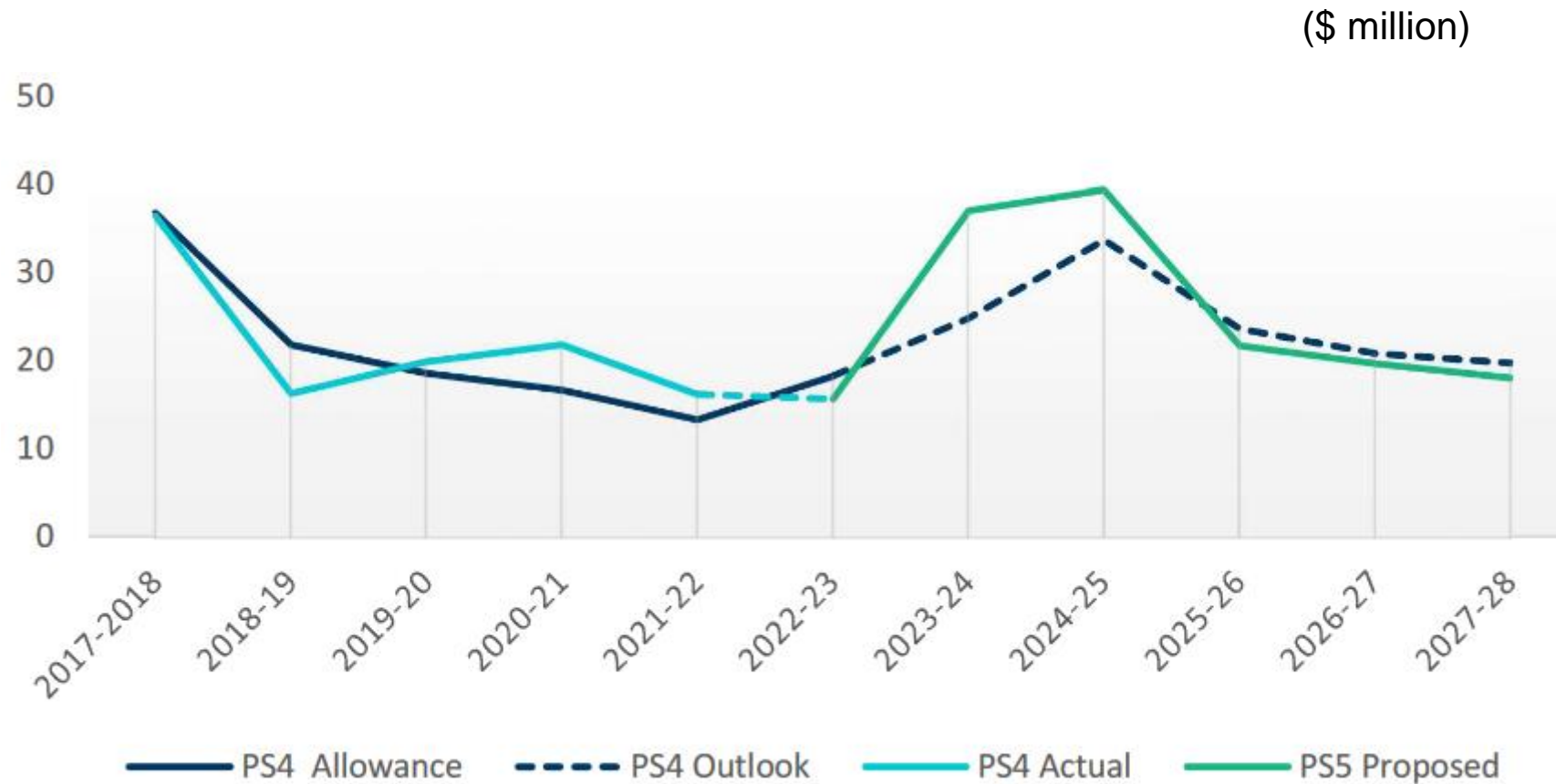
Customer Group	Average consumption (kL p.a.)	2022-23 annual bill	2023-24 annual bill	2027-28 annual bill
Residential (Owner occupier)	121	\$1,154	\$1,177	\$1,312
Residential (Tenant)	200	\$437	\$445	\$497
Non-residential	250	\$1,435	\$1464	\$1,632

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 \$1,259.

South Gippsland Water expenditure forecasts

5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	128.1	-0.3	127.9
Capital expenditure	136.3	0	136.3

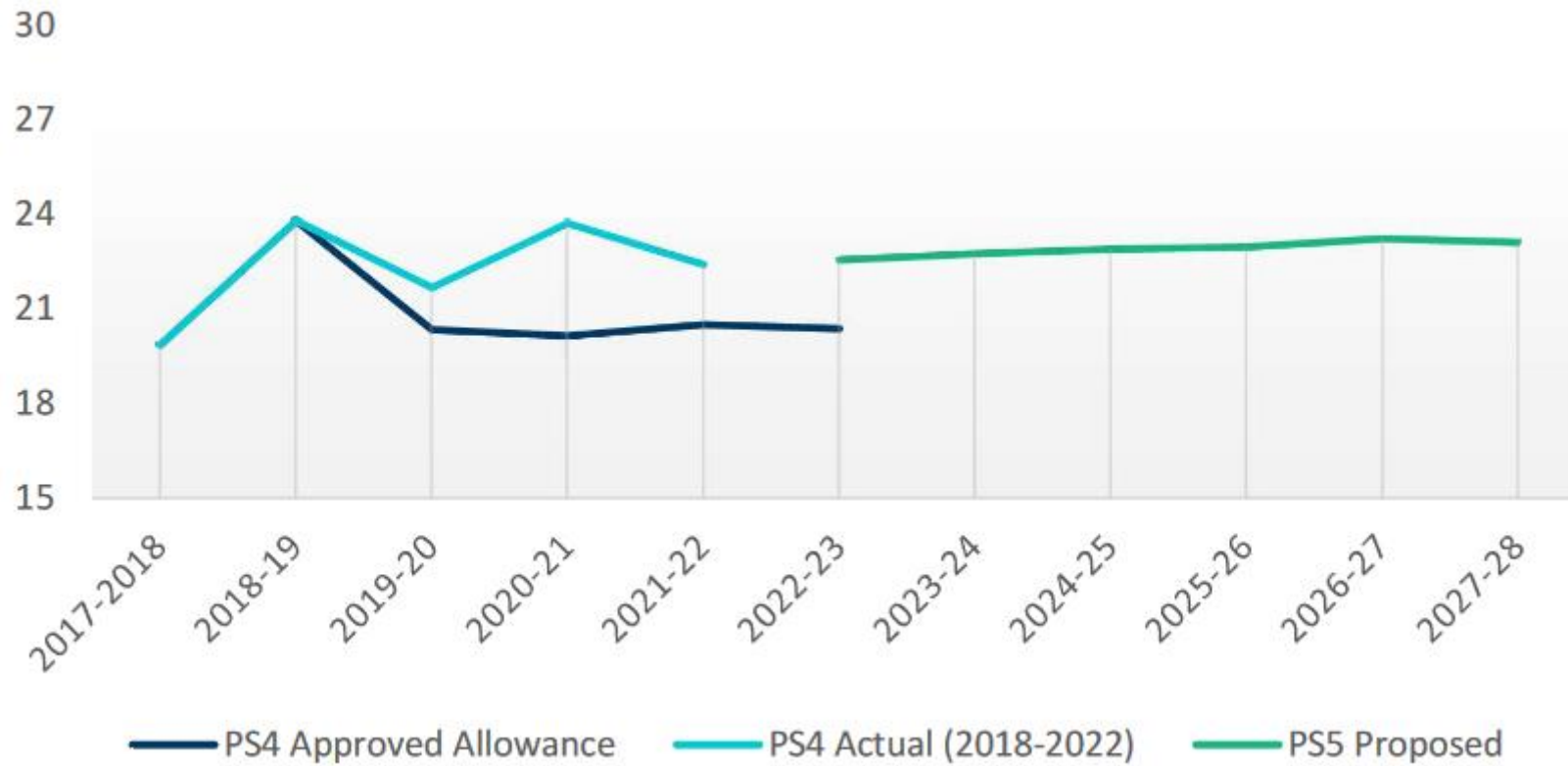
South Gippsland Water forecast capital expenditure



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

South Gippsland Water forecast operating expenditure

(\$ million)



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

We propose to accept a 'Standard' PREMO price submission rating

- We consider that South Gippsland 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. These will maintain customer value, with improvements in some areas.
- It has chosen to accept risk on behalf of customers in some areas. This includes the use of a price cap and its proposal to under-recover its forecast revenue requirement.

Our draft decision means...

- Prices will increase in real terms before inflation (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.
- South Gippsland Water will continue to reduce its environmental footprint and respond to climate change.



2023 – 28 Price Submission | April 2023

Acknowledgement

We proudly acknowledge Aboriginal people as Australia's first peoples and the local Traditional Owners, as the original custodians of the land and water on which we rely.

We pay our deepest respects to their Elders, past, present and emerging.

We are meeting from Bunurong Country today and we also acknowledge the Gunaikurnai people whose Country we also service.

Key messages



We're investing to secure major employers in the region



We're protecting vulnerable customers



We're committing to an ambitious efficiency target



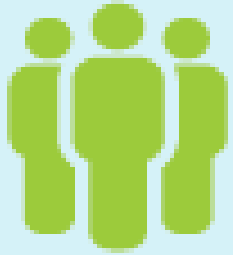
We're continuing on the pathway to carbon neutrality



We're increasing our accountability and transparency to our customers

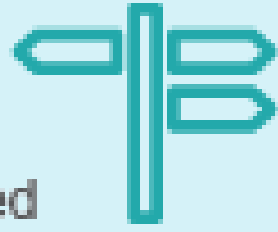
- Cardinia Reservoir or Desal
- Local creeks or rivers
- Groundwater bores





900

Customers & Advocates Engaged



20

of 21 Townships Represented

171

people engaged via deliberative conversations



Key Customer Demographics: Go Deep Engagement



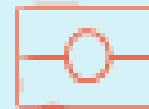
36%

Concession Card Holders



27%

Families



2%

Indigenous



36%

Retiree

39%

Pensioner

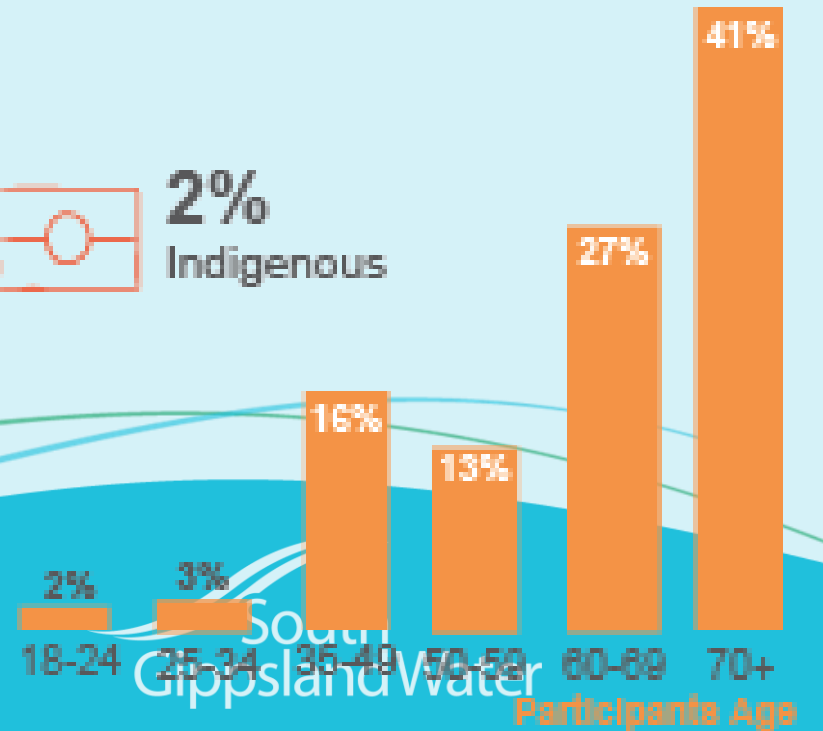


6%

Disability

3%

Carer



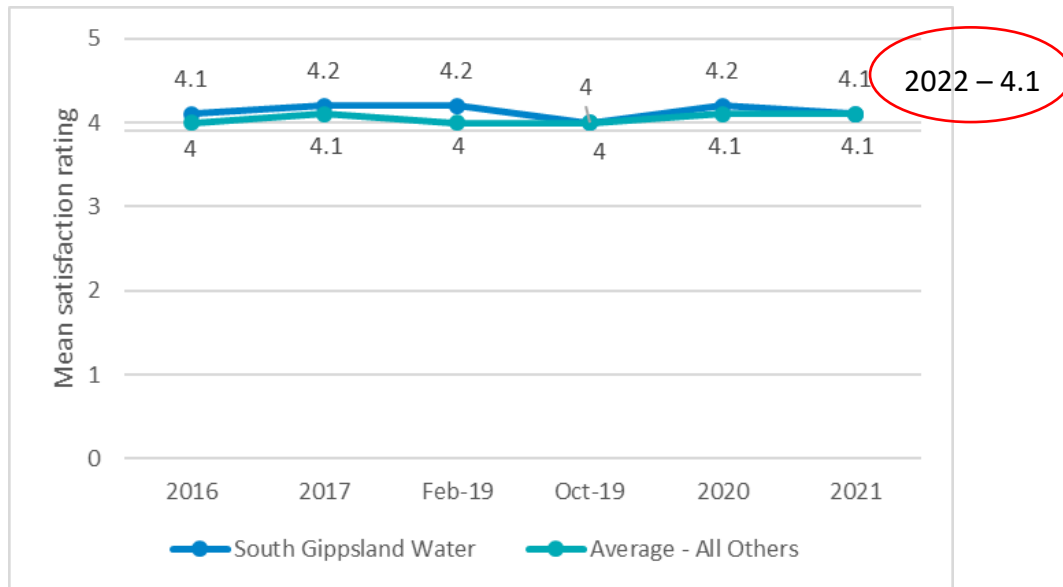
South Gippsland Water

We're
accountable and
transparent –
we learn from
our
performance

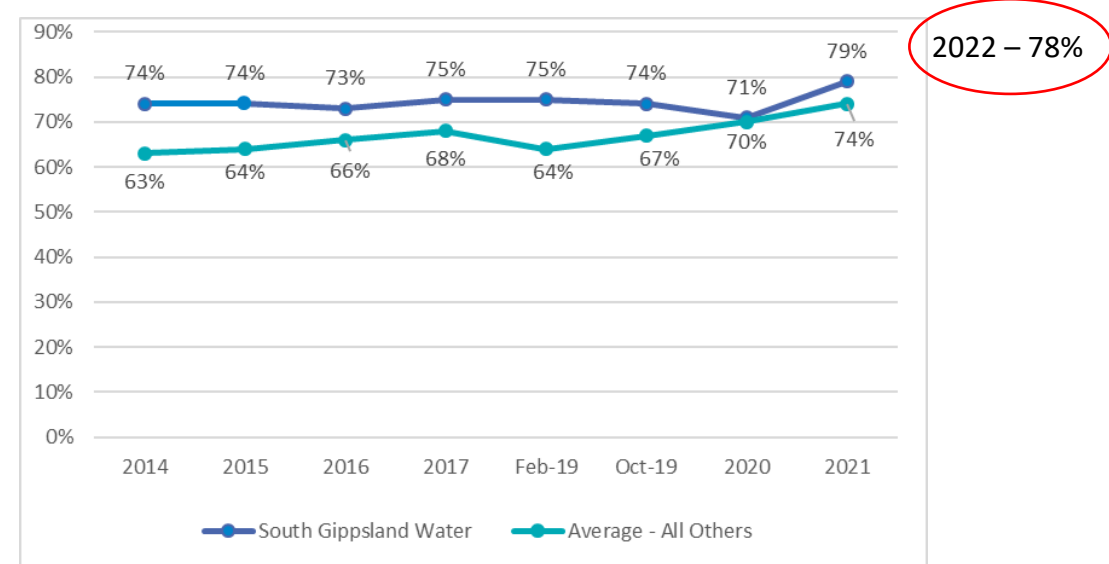
Outcome	2018–19	2019–20	2020–21	2021–22		Forecast 2022–23	Overall
Planning We will partner with community, local government and business to plan for future years			PS2020 customer engagement recommendation to remove				
Reliability 1. We will plan for the future, be reliable, minimise unplanned interruptions to services							
Water 2. Provide safe, clean drinking water for the benefit of our customers and communities							
Wastewater 3. Provide a safe wastewater service that contributes to the health and liveability of our communities and environment							
Environment 4. Be environmentally responsible, sustainable and adapt to a future impacted by climate variability							
Integrity 5. Treat all customers, community with honesty, respect and strive to balance affordability, value-for-money and fairness							
Overall Customer Outcome Performance							

We're proud of our connection with our community and our customers are satisfied with our performance






“Overall, how satisfied are you with South Gippsland Water as a service provider?”



Agreement with statement “Yes” I receive value-for-money from my water provider



Our customers will get higher performance from us

	2020 Outcomes	Proposed Price Submission 2023 Outcomes	Draft determination
	Integrity	Strengthened hardship programs to include support for a wider cohort of customers. Customer Satisfaction target increased from 80% to 85%.	
	Water	Strengthened measure Drinking drink tap water preference - 88% to 91%.	Clarified measure
	Reliability	One activity was removed	Strengthened measures
	Wastewater	Increased transparency and accountability. <ul style="list-style-type: none"> •EPA measure from enforcement actions to EPA compliance activity. •Two new measures – Number of incidents reported and the number of incidents that require EPA notification. 	Clarified new measure
	Environment	Updated to reflect our commitment to achieve net zero emissions by 2035 and environmental obligations.	Clarified new measure

We're protecting our vulnerable customers

Tariffs that will collect less than our revenue requirement

Tariff structure informed by extensive customer engagement

New targeted co-payment scheme

Expanded eligibility for customer support program

Additional funds to Community Rebate Scheme

We welcome the ESC's draft determination



We met our customer outcome commitments



Slightly lower revenue requirement (0.8%) than we proposed – which we accept



Slightly lower operating expenditure – which we accept



Accepted our proposed capital expenditure in full of \$136.3 M – prudent and efficient expenditure



Satisfied that we have tested our proposed price path with customers



Extensive engagement with customers facing vulnerability



Appropriately addressed the interests of low income and vulnerable tenants

There are a few areas that we need to respond to the ESC on

Recovery of investment in Venus Bay Outfall

Changes to Regulatory Asset Base

Approach to calculation of New Customer Contributions (Developer Charges)

Impact of inflation on our tariffs

In summary



Our price submission was developed in partnership with our customers



It continues our long-term plan to secure the future of our services, our region, our environment and the resilience of our communities and businesses



We have our most vulnerable customers front of mind



We welcome the ESC's draft determination

THANK YOU

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 those online, 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

