



# 2020 Price Submission

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## In brief



Price Submission 2020 (PS20) – 3-year proposal (8-year outlook) has provided the opportunity for Western Water to:

- extend our customer and stakeholder consultation on the unique challenges in the region
- balance customer affordability with financial sustainability
- fulfil a 2018 Price Submission (PS18) commitment to review our tariff structure
- enhance our engagement with urban land developers
- submit a submission that we believe achieves a fair sharing of risk and delivers a PREMO 'Standard' rating

# Key Assumptions and Expectations



- High Growth
  - Average of 4.8% per annum
  - Forecasts based on VIF16, aligned to VIF19
  - Connections double over next 15 years
- Impact of Climate Change
  - Transitioning household use to 155 litres/person/day by 2034
  - Inflows to local reservoirs below long-term average
  - Increasing reliance on supply from Melbourne Water's system
- Customer Considerations
  - 2% efficiency
  - 'Smooth' bill path and avoidance of bill 'shocks' – refer to slide on pricing
- Financial Sustainability of Western Water – medium & long term

# Engagement



- Western Water's strategic intent of '*Strong communities, growing together*' aligns with our close relationship with the community and all customers we serve
- More than 4,000 customers and hundreds of community and stakeholders have contributed to our decision making
- Developing PS20 we have focused our customer engagement on:
  - Customer Outcomes
  - Service Standards & GSL's
  - Tariff Structure Review
  - PS20 Pricing
  - New Customer contributions

*We are confident that the voice of our community has strongly informed the proposals presented within the submission*

# Pricing Proposal



- Strong feedback from customers to:
  - provide bill certainty and avoid bill shocks
  - incentivise water savings
  - transparent, easy to understand bills
- Acceptance of a 1% per annum increase to average customer bills applied to fixed service charges
- Three-tier water usage tariff structure retained with an increase to tier three charges by 1.95% per annum
- Smoothing of Cost of Debt adjustment – resulting in the average residential bill remaining unchanged at \$1019 (before inflation) in year 1
- New Customer Contributions – Greenfield to increase by 5% per annum – move towards greater cost recovery (no change to Infill charges)

# Tariff restructure Proposal



Extensive residential customer consultation – informed our proposal to:

- Rebalance residential customer tariffs to reduce the fixed portion of the average owner occupier bill
- Apply the current \$103.25 rebate to reduce residential owner occupier fixed charges – locking in the rebate for the majority of our customers
- Transition the unwind of the \$103.25 rebate to Tenants – from year 2 gradually and uniformly over 7 years (funded by WW outside price submission revenue requirement)
- Transition a uniform reduction to residential landlords & vacant land owner fixed water and sewer charges to reduce fixed service charges by \$103.25 by 2027/28

# Outcomes, Service Standards & GSL's



- Feedback from 1,895 customers responding to our satisfaction survey and a further 135 responding to Water Matters site visits, poll and discussions has informed our proposal to retain:
  - The five current outcomes accepted from PS18
  - The current suite of Service Standards
  - The five current GSL's with addition of a new GSL that addresses the maximum number of water supply interruptions

# Risk Proposal



- In developing the proposal consideration has been given to ensure the risk being borne by customers and the business is fair and reasonable
- Risk framework aligned with ISO 31000
- A new GSL has been introduced in response to customer feedback
- Key assumptions reflect recent trends and market based information – to increase forecasting accuracy
- Risk based prioritisation of investment expenditure, using P50 estimates
- Proposal balances financial sustainability and customer pricing stability – during a period of high growth



# Guidance Requirements



- Western Water is satisfied the proposal meets the material requirements of the ESC guidance however notes:
  - Our proposal is based on an varied, more current 2019/20 cost of debt estimate applied to return on debt that results in a lower Real Rate of Return
  - We are proposing a refinement to the cost of debt adjustment which provides the ability to 'smooth' the cost of debt adjustments within the price determination period
  - With a resulting bring forward in the cost of debt adjustment from years two and three to year one – that allows us to provide the majority of customers with no change to their bill in year one prior to inflation



- PS20 has been developed with input from the Board, senior management, subject matter experts, customer reference groups, stakeholders and broader customer groups through an extensive engagement program
- Key assumptions have been endorsed by the Board and complement the delivery of business strategies
- We are committed to supporting a thriving region
- This proposal enables us to deliver on our vision of *Strong Communities, Growing Together*