Pricing Submission 2018

SUBMITTED TO THE ESSENTIAL SERVICES COMMISSION | SEPTEMBER 2017

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A BOLD PLAN TO DELIVER LONG TERM BILL STABILITY

Statement of Board Assurance

As at 28 September 2017, the directors of Coliban Regional Water Corporation (Coliban Water), having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2018 Water Price Review:

- Information and documentation provided in the Pricing Submission and relied upon to support Coliban Water's Pricing Submission is reasonably based, complete and accurate in all material respects;
- Financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used; and
- The Pricing Submission satisfies the requirements of the 2018 Water Price Review Guidance paper issued by the Essential Services Commission in all material respects.

Signed:

Andrew Cairns
Chairman, Coliban Water

28/ 9. /2017

Jeff Rigby
Managing Director, Coliban Water

28 / 9 /2017

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Executive summary

Our customers expect that clean, safe drinking water will always be available and that they can rely on their wastewater being taken away. Our communities need to have confidence that these services will be provided every day and in the long term, without unduly compromising the natural environment, and that decisions taken today will positively impact and benefit future generations.

Meeting these expectations means that we need to achieve and maintain long-term resilience for our water and wastewater systems and our service provision when we are faced with increasing external stresses, such as environmental pressures resulting from climate variability, projected population growth and ever-changing consumer behaviour. It also highlights the critical importance of:

- Long-term planning and investment, and the use of a range of measures to manage water resources in sustainable ways; and
- Greater efficiency in water use and reducing demand for water to minimise pressure on our water resources.

Our proposal for 2018 to 2028

This document summarises our Value Proposition to customers for the period 2018 to 2028.

Our Pricing Submission has been developed to deliver the outcomes that our customers, and stakeholders, have told us that they want. It has been prepared under the direction and guidance of the Board of Coliban Water. We have conducted a full quality assurance programme, including an independent review by consultant Indec, to ensure the Pricing Submission is robust and backed up by strong evidence to support our self-assessed **Advanced** (14.0) PREMO rating.

Our Value Proposition is supported by an extensive customer engagement program, and it has been endorsed by our Rural Customer Advisory Group and supported through our customer Pricing Forums. Our proposals have also been reviewed by our regulators – the Department of Health and Human Services, the Environment Protection Authority Victoria, and the Department of Environment, Land, Water and Planning – and found to be acceptable. Recent engagement on our Pricing Submission 2018 Community Draft document confirmed that approximately two thirds of our customers find our proposal achieves the right balance between the service they receive and the price they pay.

In line with this positive support, we present our 'best offer' to the Essential Services Commission (ESC).

Main features contained within our Pricing Submission

In preparing our Pricing Submission we have:

- Listened to customers to understand their needs and expectations
- Committed to keeping prices as low as possible to deliver the services customers value with more certainty – a smooth 10-year price path at CPI minus 1%, and cap first year inflation at 2.3% which means a nominal increase in the first year of no more than 1.3%
- Rewarded customers through Coliban Water bearing a greater proportion of significant risks, particularly those that impact on customer bills
- Developed five customer-led outcomes clearly highlighting the outputs and deliverables to be achieved, each with meaningful performance measures, that are supported by customers
- Recommend eight customer-led tariff adjustments based on fairness and ease of doing business
- Extended the guaranteed service levels from 4 to 18 innovative customer and community rebates
- Adopted a new form of price control – a five year plus five year Hybrid Revenue Cap that minimises the impact of demand volatility on customer bills that can lead to bill shocks – with an increased average urban demand estimate of 188 kL per year per residential connection
- Committed to the commencement of a customer-led annual review of all tariffs, prices and outcome performance and implementing an Outcome Delivery Incentive mechanism, which will incentivise us to perform better against key customer-driven targets or risk revenue penalties
- Achieved a lower revenue requirement per customer than in previous periods by ensuring all expenditure is prudent and efficient and minimising uncertainty in forecasting wherever possible
- Examined regulatory depreciation – the return of capital under the 'building block' model – and prudently changed the regulatory depreciation rate to 6.2% to enable both customer preference for long term stable bills and our financial viability
- Included a $1 million revenue adjustment per year on financial viability grounds within price path

More affordable customer bills

In the last four years of the current 2013-18 regulatory period, we will have returned $11.5 million of cost savings to customer through price reductions. This will have saved the average customer approximately $150 since 2014, compared to the prices approved by our regulator in 2013. Our proposal is to retain these savings for customers and to pass on further price reductions where we achieve additional savings over the next 10 years.

Our customer Pricing Forums helped us understand and confirm what customers want and value, and that has informed and shaped our Pricing Submission. Our extensive customer segmentation and engagement confirmed the pricing themes we heard at the Pricing Forums, but also identified issues and opportunities with tariffs that were seen to be inequitable and unfair.

With the exception of the tariffs outlined below, prices for all existing tariffs will be set to follow a price path averaging CPI minus 1%, with the business capping inflation at an assumed 2.3% for the first year. This presents a real decrease in prices amounting to 10% by 2027-28. The following tariffs will see price movements different to this:

- Finalisation by 2020 of the price harmonisation between the central and northern pricing zones to ensure uniform prices for all customers and better reflectivity of marginal costs to all users
- Abolition of Recycled Water Access charges for residential customers to avoid them paying two access fees (water and recycled water)
- Rebate for our rural customers so they will only pay fixed charges on their rural water supply for the proportion of water entitlement that is seasonally allocated to them
- Discount to New Customer Connections (NCCs) in non-growth towns to assist development in these areas, while a further discount on sewer connections ensure our costs reflect the service provided
- Implementation of a new trade waste category ensures each customer’s potential risk to the system is priced efficiently
- Revisions to Land Development charges allowing new fees for the fast-tracking of applications for those customers requiring it, and the increased re-work fees incentivises more accurate work by the customer the first time around for their property development proposals.

Table ES1 *– Proposed average price path for residential customers*

% change	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2025-25	2025-26	2026-27	2027-28
Fixed Charges										
Water Access	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Sewer Access	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Variable Charges										
Central	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Northern	10.58%	10.82%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

We are confident that the current price path tariffs meet the needs of our customers and provides sufficient incentives for water efficiency while also allowing them to use *water to live, grow and enjoy*. It mitigates potential price volatility given the high variability in our costs of sourcing and supplying water, and the potential need for large long-term investment to meet future demand growth and climate uncertainty.

Bill impacts vary across customer segments and from customer to customer depending on water use. The indicative bill impacts for a range of water and sewerage customers are shown below.

Table ES2 – Indicative bill impacts for customers

$ 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Years 6-10	2027-28
Residential bills: Central (owner)								
Low water use - 60kL per year	$1,050	$1,040	$1,030	$1,019	$1,009	$999	-1%	$950
Medium water use - 188kL per year	$1,339	$1,326	$1,312	$1,299	$1,286	$1,273	-1%	$1,211
High water use - 300kL per year	$1,592	$1,576	$1,560	$1,544	$1,529	$1,514	-1%	$1,439
Residential bills: Central (tenant)								
Low water use - 60kL per year	$135	$134	$133	$131	$130	$129	-1%	$122
Medium water use - 188kL per year	$424	$420	$416	$411	$407	$403	-1%	$383
Residential bills: Northern (owner)								
Low water use - 60kL per year	$1,023	$1,026	$1,030	$1,019	$1,009	$999	-1%	$950
Medium water use - 188kL per year	$1,254	$1,281	$1,312	$1,299	$1,286	$1,273	-1%	$1,211
High water use - 300kL per year	$1,456	$1,504	$1,560	$1,544	$1,529	$1,514	-1%	$1,439
Residential bills: Northern (tenant)								
Low water use - 60kL per year	$108	$120	$133	$131	$130	$129	-1%	$122
Medium water use - 188kL per year	$339	$375	$416	$411	$407	$403	-1%	$383
Non-Residential bills: Central*								
Low water use - 60kL per year	$1,050	$1,040	$1,030	$1,019	$1,009	$999	-1%	$950
Medium water use - 188kL per year	$1,339	$1,326	$1,312	$1,299	$1,286	$1,273	-1%	$1,211
Rural bills (unmodernised channel)**								
Low water use - 1ML per year	$908	$899	$890	$881	$873	$864	-1%	$821
Medium water use - 2ML per year	$1,335	$1,322	$1,309	$1,296	$1,283	$1,270	-1%	$1,208
High Water use - 10ML per year	$4,753	$4,705	$4,658	$4,612	$4,566	$4,520	-1%	$4,298

**does not include trade waste customers* ***assumes uses 100% of allocation*

While the above bill levels represent examples for indicative customers and groups, our website has a residential pricing estimator that we have used to explain to customers what their bill changes will be over the next 10 years. The overall price increase for households, businesses and rural customers will be 10% less after 10 years than if prices had increased by inflation over that period. This means the average central pricing zone household bill in 2023 will be $65 lower (with inflation excluded) when compared to today's bill, and $128 lower in 2028. Inflation will add approximately $30 each year to the average household bill each year.

We currently have two pricing zones. Since 2013 we have been bringing variable water pricing for the northern pricing zone (Echuca, Rochester, Cohuna, Leitchville and Gunbower) into line with central pricing zone customers. By 2019-20 all customers will pay the same prices. Average households in the northern zone will see a $27 increase in their average annual bill in 2018-19, and a $32 increase in 2019-20. After this, we will pass on future efficiency savings by lowering prices, and annual bills will have a $43 reduction in 2027-28 compared to 2017-18 (excluding the automatic inflation adjustment).

There are a number of ways our proposals will help customers to better manage their bills.

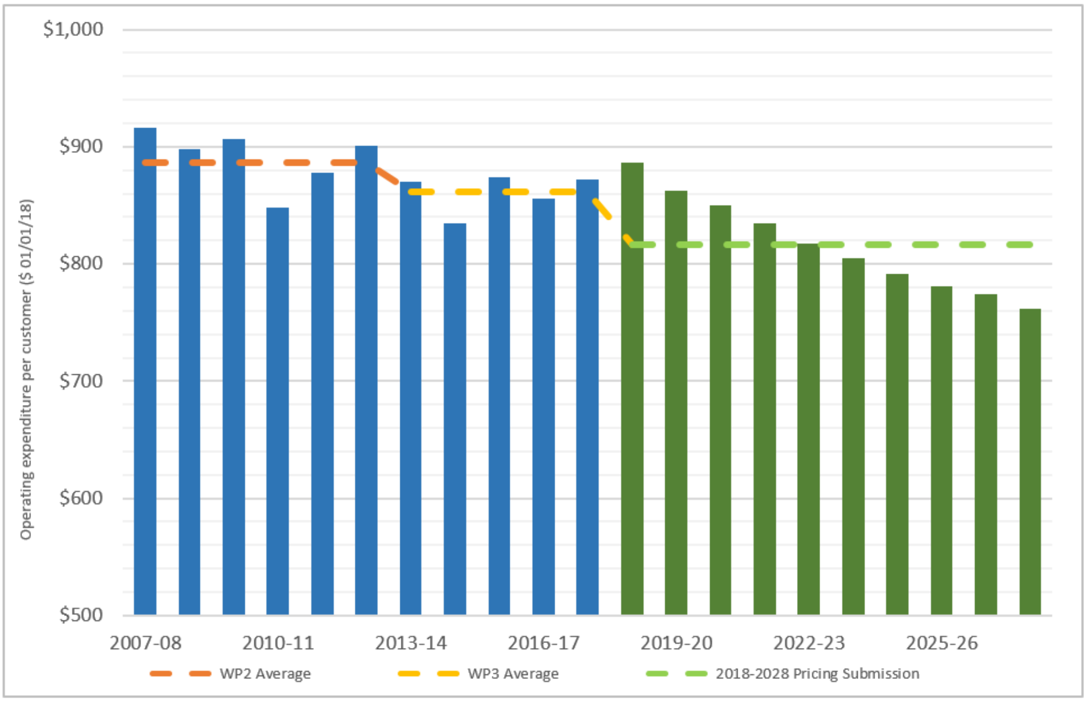
- Provide price certainty with a smooth price path and price stability with the Hybrid Revenue Cap
- Give residential customers greater control over their bills over time by reducing water access charges
- Create fairer tariffs following engagement with each customer segment
- More assistance and support to vulnerable customers that may have difficulty paying bills
- Continue the $300 rebate to customers if we restrict a water supply without all reasonable endeavours, and broaden other rebates to the things that matter most to customers
- Increase customer education programs through the *Target Your Water Use* program
- Implement digital metering with an on-line monitoring option for customers to track water use

Prudent and efficient service delivery

We will continue to focus on keeping operating expenditure at their most efficient level, because lower costs means lower prices for customers.

Our proposed average annual operational spend per customer will be $816. This compares to $861 in the previous regulatory period and $886 in the second regulatory period. This demonstrates our commitment to prudent and efficient operational investment for our customers and focus on lowering bills in the long term.

Figure ES1 – *Historical and proposed operating expenditure per customer, 2007-08 to 2027-28*

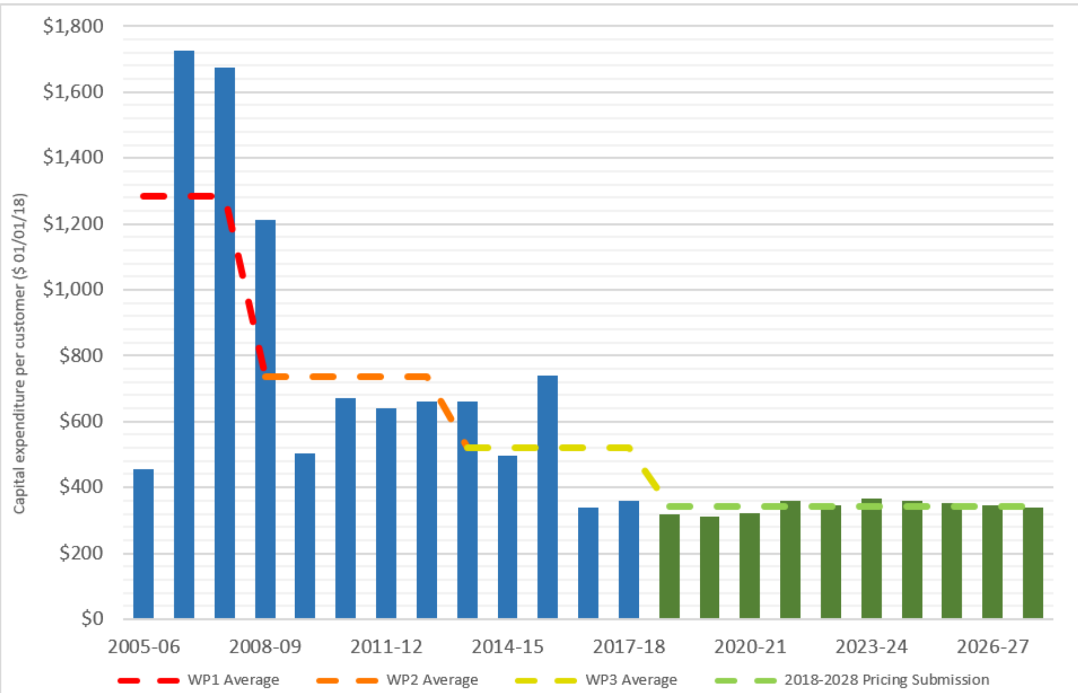


Prudent and efficient investments

We propose to invest $142 million over the first five years of the next regulatory period on capital works for water, sewerage, recycled water and 'business as usual' works programs. Compliance and Growth are the key drivers in the business and account for approximately 75% of the proposed capital expenditure. Renewals will contribute to almost 15% of the proposed expenditure, with the remainder being for Improved Service projects. A similar level of investment is committed for years 6 to 10.

Our proposed average annual capital investment per customer will be $342. This compares to $519 in the previous regulatory period and $1286 in the first regulatory period and demonstrates our commitment to prudent and efficient capital investment for our customers and our focus on lowering bills in the long term.

Figure ES2 – *Historical and proposed capital investment per customer, 2005-06 to 2027-28*



Continue to provide high levels of service to customers

With strong customer support, we are proposing a step-change in new performance measures to ensure transparency and accountability for delivering the service levels and outcomes that matter most to our customers. Our new performance measures are in three levels:

Level 1: Service level performance that impact customers directly (customer rebates)
Level 2: Service level performance that impact communities directly (community rebates)
Level 3: Outcome targets

These specific performance measures and customer and community rebates are associated with each of our five proposed Customer Outcomes. We will use these as the basis for customer reporting over the next regulatory period. We will continue to engage with our customers throughout the regulatory period to ensure that our performance, and measures used to gauge that performance, remain in line with their expectations. Should customer views change, we will alter our data collection and reporting methodology to reflect this.

We have also committed to implementation of an Outcome Delivery Incentive mechanism to further incentivise us to deliver strong service.

In total there are 45 performance measures to report on each year. A total of 20 measures relate to existing ESC KPIs and 25 are new measures that matter most to customers. We will also continue to report to the ESC against all existing Service Standards.

***Table ES3** – Proposed performance measures by customer outcome*

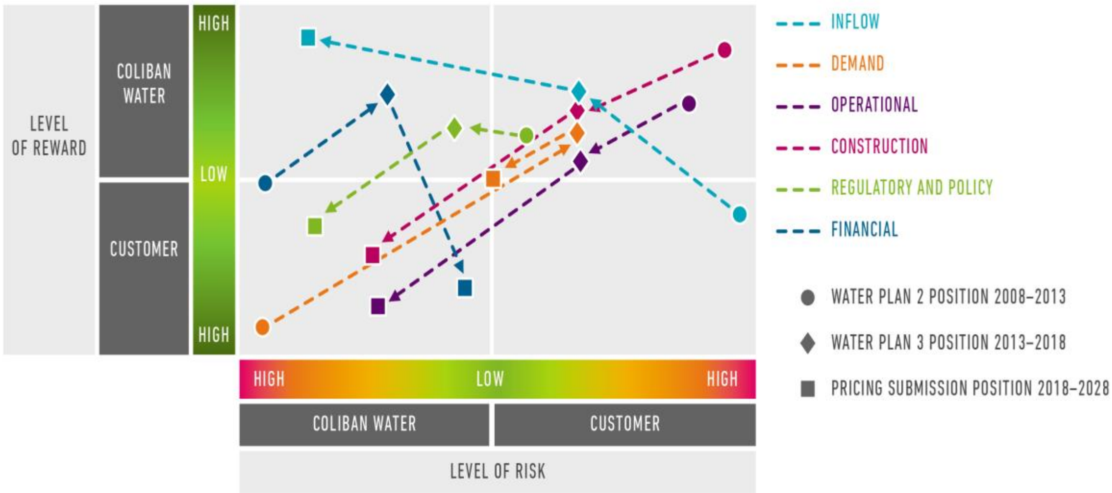
Outcomes	Existing ESC KPI (No.)	New Performance Measure (No.)	Total Performance Measures (No.)
CUSTOMER OUTCOME 1	1	8	9
CUSTOMER OUTCOME 2	1	7	8
CUSTOMER OUTCOME 3	4	1	5
CUSTOMER OUTCOME 4	14	6	20
CUSTOMER OUTCOME 5	0	3	3
Total	**20**	**25**	**45**

Better protecting customers from risk impacts

The identification of significant risks impacting customer prices and services was influenced by our customer engagement program that defined value from our customers' perspective, not our perspective. We acknowledge that customers have supported the business financially over recent years to improve our financial viability. To reward customers for this, we have changed the risk allocation where it is prudent to do so to reduce risk to customers, in terms of what they pay and services they receive, and to ensure the costs we recover from customers are efficient.

Overall, we are proud of our proposal to manage risks currently borne by customers and contend that this integrated risk profile that we propose represents a fundamental shift in risk management for our business. Our risk journey over recent regulatory periods is outlined in figure ES3.

Figure ES3 – *Sharing risk and reward for the past three regulatory periods*



Inflow risk (water system): We are better placed to bear the majority of inflow risk rather than customers due to the large supply side management investments during the Millennium Drought and improved long-term water resource planning, in order to reduce the likelihood of harsh water restrictions in the future in line with customer preferences.

Revenue risk (demand): Over previous regulatory periods, water demand volatility has been the most significant risk for both customers and the business. Its impacts on revenue has led to large price shocks for customers and financial viability concerns for the business. The introduction of the new form of price control – a Hybrid Revenue Cap with side constraints to contain price increases to a maximum of 3.5% nominal in any year– will mitigate customer price shocks and financial viability shocks for the business.

Operational risk: We have gradually borne more risk over time and will reward customers this time through a concerted effort to minimise uncertainty in forecasting and new expenditure, and significantly increase the operational expenditure efficiency to 1.5%.

Construction risk: We have accepted more risk over time and will reward customers this regulatory period by reducing uncertainty in capital expenditure forecasting and contingencies.

Financial risk: Customers have assisted us to improve our financial viability through higher prices in the current 2013-18 regulatory period. For the next regulatory period, customers will be rewarded with a smooth 10-year price path with prices rising at 1% less than inflation. The new Hybrid Revenue Cap price control also better mitigates our financial risk and the impacts of over-recovering revenue from customers when actual demand substantially exceeds our forecasts.

Regulatory & policy risk: With our price proposal, we can financially absorb the cost impacts of any regulatory and policy risk up to 2.5% of revenue. This threshold is in alignment with the threshold endorsed by the ESC in the 2005 Determination. We will only seek a pass-through mechanism for future cost increases above this threshold that are associated with such risks where the significant change was unforeseeable and unexpected, and following consultation with customers.

For further detailed information on our proposal for managing risk, refer to *Supplement B. Our Customer Promise*.

What our customers told us

In developing our value proposition to customers, we have undertaken extensive consultation with our customers. Our customers have told us that they want us to:

1. Supply high quality water they can trust;
2. Provide infrastructure and services to meet customer needs now and in the future;
3. Reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations;
4. Be open and transparent about pricing and service disruptions, and be easy to do business with; and
5. Support the liveability of the region.

Consistent with these five Customer Outcomes, our customers have told us that while they do not want the performance of the services we provide to decline over the next regulatory period – nor for us to act in a way that could jeopardise our ability to continue to provide services beyond 2027-28 – they expect us to do all that we can to keep their bills as low as possible.

We have heard and fully understand these messages, and we have reflected them in our Pricing Submission.

Reading our Pricing Submission

More detailed information on the way we have developed our proposals and our in-depth analysis of specific subjects can be found in our separate supporting documents, which we have included as part of our Pricing Submission. The supporting documents are:

Supplement A. What Customers Value: provides a comprehensive description of our customer engagement and summarises key messages from our customers and stakeholders that have shaped our proposal. This document also explains the process we have used to translate the messages into outcomes and performance measures;

Supplement B. Our Customer Promise: provides detailed information on the promises we will deliver to customers including prices, performance measures, performance stewardship, customer and community rebates, managing risk and our alignment with PREMO; and

Supplement C. Financing the Plan: provides the underlying detail in the development of our revenue requirement including regulatory period length, form of price control, adjusting prices, operating expenditure, capital expenditure, regulatory asset base, prices and tariff structures, demand and customer growth, non-prescribed services and previous regulatory period performance.

We have completed a self-assessment of the level of materiality of any change from the ESC Guidance to determine the level of detail to include in our Pricing Submission. In many instances this document has high-level detail of the matter, with further detail included in the relevant supporting documents or available on request.

1.0 What customers value

Real step-change in customer engagement demonstrating our commitment to increasing our customer centricity by defining value from the customer's perspective, not our perspective. Key features of our engagement:

- ✓ A *Voice of the Customer* program with a focus on listening and learning, including the data mining of more than 500,000 customer interactions since 2013 to identify seven key customer themes
- ✓ Community Engagement strategy based on the International Association for Public Participation spectrum (IAP2) to explore key themes and to listen, learn and understand what customers want and value
- ✓ Further customer segmentation to understand pains and gains for different groups of customers to shape Customer Outcomes
- ✓ Have we heard you correctly campaign to test and validate that our proposal met customer views

1.1 Our customer engagement - how we have listened

What we heard from customers has formed the foundation of our Pricing Submission. Our engagement centered on understanding what customers value the most, what causes them concern (pain), and what they want (gain).

The entire customer engagement journey is detailed in *Supplement A. What Customers Value.*

Who are our customers?

Customer Segment	
Residential - 67,314	Includes tenants, home owners, concessionaires, potable town, non-potable towns, recycled water
Non-residential – 6,849	Includes small businesses which have usage and waste water discharge in line with residential customers. Includes 1,274 minor trade waste customers comprising cafes, restaurants, laboratories, schools, nursing homes, accommodation providers and commercial laundries. Also service 18 major trade customers including some of the largest food manufacturers and the largest regional hospital in the state.
Rural – 1,374	Includes small and large customers who access water via a network of channels and pipelines under Section 51 licences.

How we engaged our customers?

Identifying and understanding what our customers value required a systematic approach. Our customer engagement program was designed to unearth robust insights, and can be summarised in three phases:

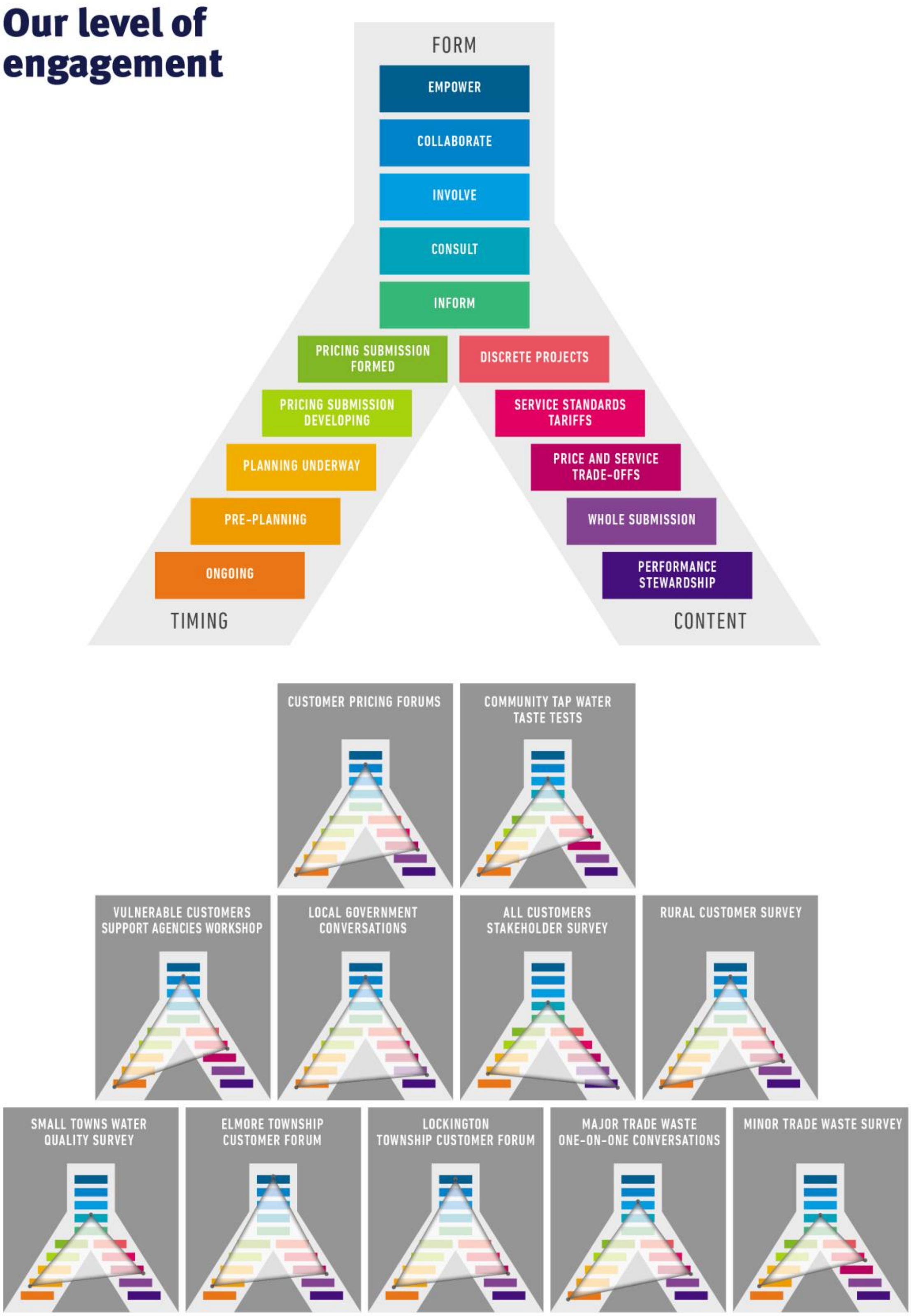
Our customer engagement program considered the diversity of our region, towns and our customers. The program had four key types of activity:

- ✓ **Insight:** Review day-to-day contact with our customers, in the form of calls, face to face conversations and correspondence
- ✓ **Research:** Investigate specific issues using qualitative and / or quantitative methods
- ✓ **Engagement:** Seek customers' and stakeholders' views on our strategies and plans
- ✓ **Involvement:** Direct local engagement with key customer and stakeholder groups on specific issues

Our *Voice of the Customer* program included data mining the views of our customers from more than 500,000 customer interactions since 2013. The interactions were phone calls, emails, research, in person conversations including visits to more than 100 towns for our *Your Town* community visits program. This work identified seven key themes.

The following graphic shows the level of engagement across 11 key customer segments using the Essential Services Commission engagement framework which incorporates the IAP2 levels of engagement.

Figure 1.1 *– Summary of customer engagement activities undertaken*



1.2 Our customer outcomes - what we heard

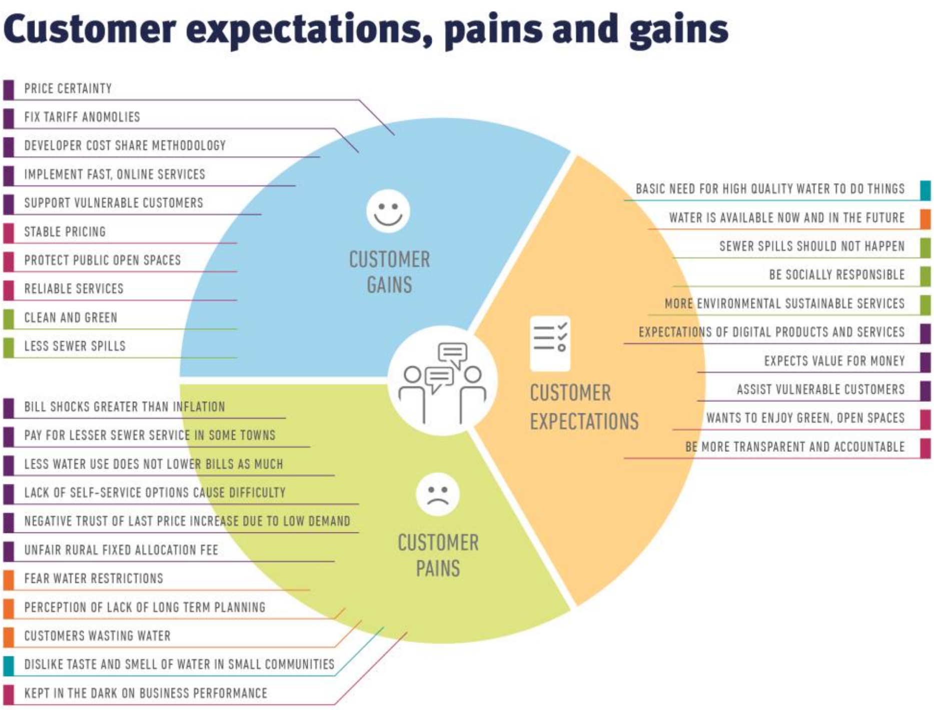
Real step-change in customer outcomes and value for money demonstrating our commitment to the PREMO model. Key features of our Customer Outcomes:

- ✓ Informed through listening and understanding what our customers value and want
- ✓ Demonstrate strong customer linkages to our proposed Value Proposition
- ✓ Coliban Water bearing greater revenue risk and being more transparent and accountable through standards that will require higher performance from us where it matters the most to our customers

What we heard from customers – development of outcomes?

The development of our five Customer Outcomes from our customer engagement has given us a clear view of our longer-term priorities and helped shape our plan.

***Figure 1.2** – Our customer outcomes – what we heard*



Customer outcomes

	What customers want	Our commitment
CUSTOMER OUTCOME 1	• Maintain high water quality • Improve the taste and smell of water supplies in smaller communities	Supply high quality water you can trust
CUSTOMER OUTCOME 2	• Reduce the leaks in our networks and rural channels • Avoid water restrictions • Educate customers on saving water • Ensure water is available now and in the future • Invest in infrastructure to meet the future needs of our growth areas	Provide infrastructure and services to meet customer needs now and in the future
CUSTOMER OUTCOME 3	• Be more socially responsible • Reduce environmental footprint • Less sewer spills • More sustainable services	Reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations
CUSTOMER OUTCOME 4	• Be more affordable • Pricing that enables lower bills by reducing water use • Provide timely information about bills, services and interruptions • Create more online self-service options • Provide reliable water and sewer services	Open and transparent about pricing and service disruptions, and easy to do business with
CUSTOMER OUTCOME 5	• Provide stable prices • Be more transparent and accountable • Help maintain public parks and gardens	Support the liveability of the region

Our Customer Outcomes are effectively a statement that captures the intent of the key themes derived from the *Voice of the Customer* and issues of importance. What customers are telling us they value has become the Customer Outcomes.

What we heard from our customers in every engagement forum and survey informed the development and refinement of our Customer Outcomes. Some engagement forums provided us with feedback across a number of areas, whereas others provided us with deep feedback in only a few. The following table summarises each engagement activity we have undertaken in developing our Pricing Submission, and how each has linked to the development of our final Customer Outcomes.

***Table 1.1** – Summary of customer engagement activities undertaken by customer outcome*

	CUSTOMER OUTCOME 1		CUSTOMER OUTCOME 2		CUSTOMER OUTCOME 3		CUSTOMER OUTCOME 4		CUSTOMER OUTCOME 5		
	Supply high quality water you can trust		Provide infrastructure and services to meet customer needs now and in the future		Reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations		Open and tranparent about pricing and service disruptions, and easy to do business with		Support the liveability of the region		
	Water is safe and palatable	Customers are satisfied with their water quality	Customers have enough water to meet their needs	We will supply more water through fewer leaks and faster repairs	We will reduce CO2 emissions	We will improve the health of waterways	We will deliver genuine engagement on performance	We will increase support for our vulnerable customers	We will increase water supplied to public spaces	We will maintain or improve our credit rating	We will decrease our debt
Pricing Forums			✓		✓		✓	✓	✓	✓	✓
General Survey	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lockington and Elmore STED Forums	✓						✓	✓			
Non palatable towns survey	✓	✓	✓				✓	✓			
Minor TW Survey					✓		✓				
Major TW Interviews		✓	✓		✓		✓				
Council survey			✓		✓	✓	✓	✓	✓	✓	✓
Rural CAG			✓	✓			✓			✓	✓
Rural Survey			✓	✓			✓				
Your Town visits	✓	✓		✓			✓	✓	✓		✓
Complaints data	✓	✓		✓		✓	✓				
Tap Water Taste Testing	✓	✓					✓				
Hardship Forums							✓	✓			
Developer Forums	✓	✓	✓				✓				

The following sections set out our Value Proposition and how we will be Financing our Plan, all created with customer opinion at the centre of our thinking, planning and decision making.

2.0 Our customer promise

Real step-change in our business commitment to demonstrate value for money for our customers – what outcomes that will be delivered to customers in return for the prices they pay, and how our proposal reflects what customers' value. Key features of our Value Proposition are:

- ✓ Advanced PREMO rating, as independently supported by consultant Indec
- ✓ Smooth 10-year price path averaging CPI minus 1% that achieves long term value for money and price stability
- ✓ New form of price control – a five year plus five year Hybrid Revenue Cap to minimise the impacts of water demand variances from forecast and resulting bill shocks, and engaging with customers every year on all tariffs and prices
- ✓ Demonstrate strong customer linkages to our *Voice of the Customer* program
- ✓ Fairer tariffs for customers and a commitment to explore introducing innovative tariff and pricing options over the next three years
- ✓ Rewarding our customers through the business bearing a greater proportion of significant risks
- ✓ Reducing uncertainty in forecasting to ensure efficient costs and prices
- ✓ Empowered small communities to choose changes to their sewer services and prices
- ✓ Innovative customer and community rebates that incentivise us to deliver more reliable and efficient services
- ✓ New performance measures for the next regulatory period
- ✓ Committing to implement innovative Outcome Delivery Incentive mechanism for transparency and accountability
- ✓ Improvement in taste and odour of water for small communities, delivering high quality water you can trust
- ✓ Investing to extend the water grid for long term water security and enable growth in large towns, ensuring water and service services are available now and in the future
- ✓ Investing in water use information and proactive leak identification services and tools
- ✓ Changing the way we do things to be more clean and green and to help the environment
- ✓ Responsibly co-investing in socially beneficial activities with the Dja Dja Wurrung, Catchment Management Authorities and councils
- ✓ Working with local councils to protect high valued community assets, especially in times of drought
- ✓ Investing in digital products and self-service options to meet the expectations of customers

2.1 Our prices

We are pleased to be in a financial position to present this proposal to customers. There are three key components of the pricing side of our Value Proposition:

- **Price changes:** Average CPI minus 1% over 10 years commencing 1 July 2018
- **Hybrid Revenue Cap:** Protecting customers from climate-induced bill variations while reducing business risk
- **Regulatory period:** Five years plus five years

2.2 Our new performance measures

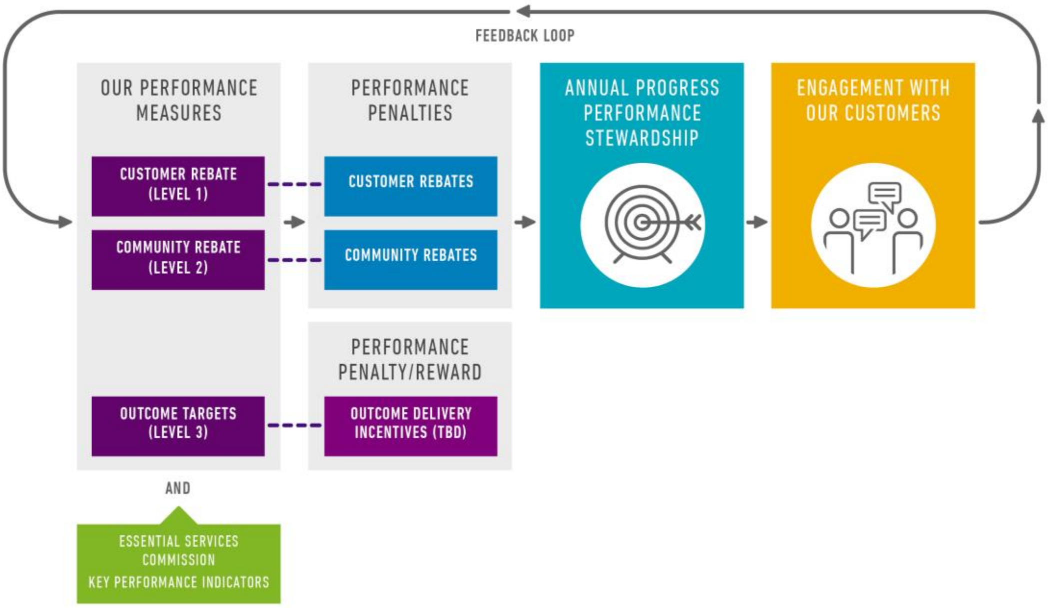
We are proposing a step-change in new performance measures to ensure transparency and accountability for delivering the service levels and outcomes that matter most to our customers.

Customers have told us which service levels or community-wide performance issues matter most to them. We have listened and propose a suite of new performance measures based on three levels of performance.

Figure 2.1 below highlights that a number of these performance measures relate to current ESC KPI's, while others have been added based on direct customer feedback.

For further detailed information on the development of these new performance measure, refer to *Supplement B: Our Customer Promise*.

***Figure 2.1** – Performance measures and stewardship framework*



Level 1: Service levels that impact customers directly (customer rebates)

Customers have told us there are 14 service areas that annoy or frustrate them the most when our performance is not at an acceptable level. To incentivise us to perform, we developed the customer rebates of which a number relate to existing service standards.

Level 2: Service levels that impact communities directly (community rebates)

Direct customer feedback helped inform us on which community-wide performance issues were important, the level of rebate and how we should deliver a community rebate. We have listened and propose four community rebates to incentivise us to avoid these customer-adverse events. To measure our yearly performance against all customer and community rebates starting in 2018-19, we will set a target based on the number of rebates that would have been hypothetically triggered based on 2017-18 performance. Our future year measurable target will then be to maintain or incrementally improve (reduce) the number of rebates paid compared to base year performance.

We will separately collectively assess our performance against all level 1 and level 2 indicators each year, in particular the total dollar figure paid in rebates. We will set a target to reduce the dollar amount paid in customer and community rebates each year to reflect overall improvement in performance.

Level 3: Outcome targets

We have proposed a set of outcomes that our customers will receive during the next regulatory period. There are 27 outcome targets for the next five-year period. For 2023-2028, we will engage with customers during the pricing engagement process in 2021-22. A total of 13 targets relate to existing service standards, with the remaining 14 based on customer feedback for monitoring of performance against outcomes.

Performance stewardship

Customers want value for money for the services they receive which can now be measured against the performance measures of each Customer Outcome. Importantly, we are also establishing a process to ensure we report to customers on our performance each year. Over 2017-18 we will be investigating the customer reporting framework to apply and trialling different approaches in different towns. At the commencement of 2018-19, we will then report to customers on our 2017-18 performance against the indicators, one year ahead of the requirement.

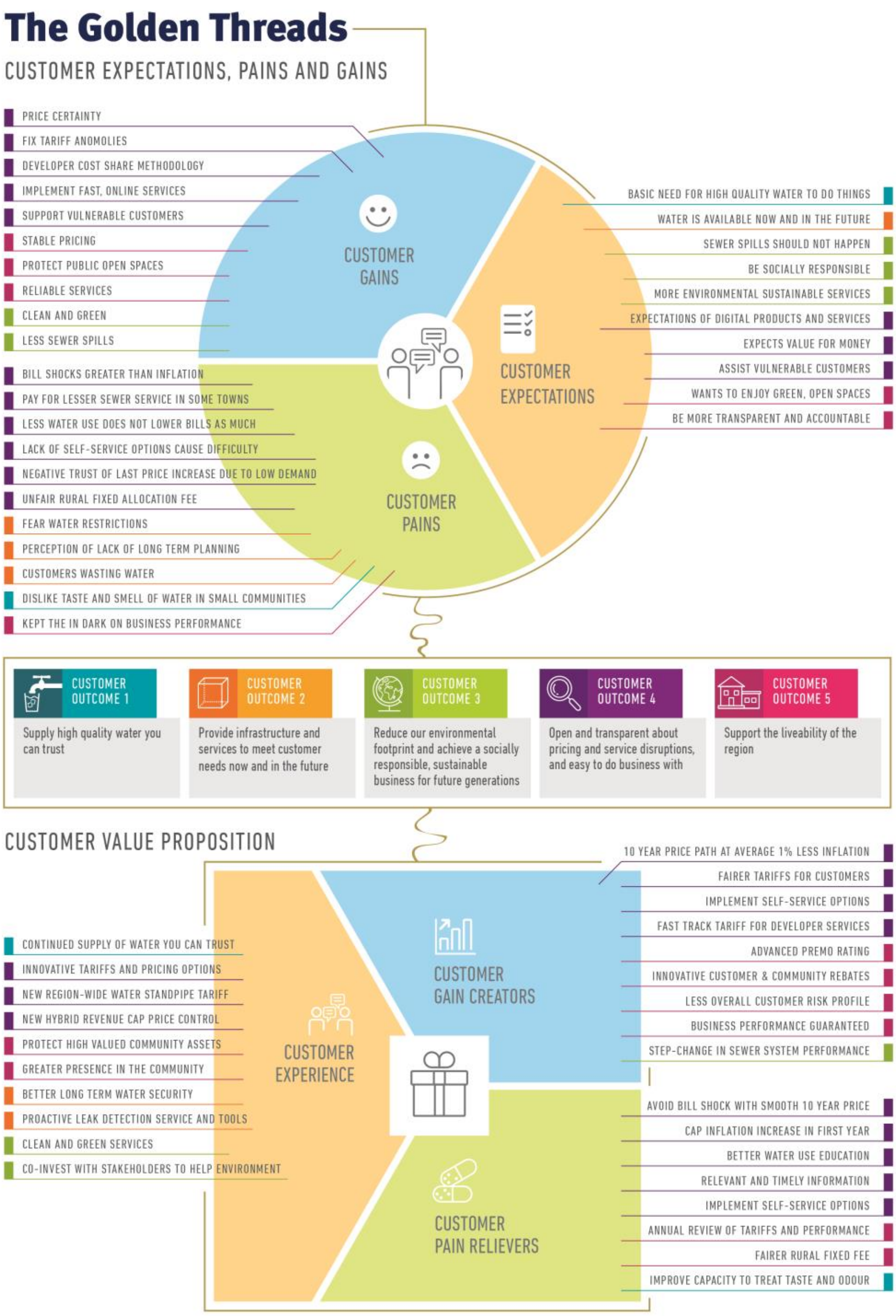
The customer and community rebates will also form part of the performance measures each year. To incentivise us to achieve the Customer Outcomes, we are proposing to develop and implement an Outcome Delivery Incentive mechanism during the first five-year regulatory period. A dollar amount will be nominated as a penalty and reward against the outcome targets that matter most to customers. As is the case for the proposed rebates, the business will be financially penalised for not achieving the

Customer Outcome, but in addition it can also be financially rewarded for exceeding performance. We will work with customers through the annual pricing engagement to identify which outcome targets should be included and what acceptable dollar value should be at risk.

We intend to add all outcome targets to the annual ESC KPI audit scope to ensure our assessment of performance and delivery of outcomes are transparently and independently audited every year. Each performance measure and associated target is included sections 2.5 to 2.9 below.

2.3 Our proposal at a glance

The following diagram outlines our focus on customer-centricity. It defines insights from the customer's perspective, not our perspective – customer expectations, pains and gains. It summarises how we intend to create value for the customer through our proposals via improved customer experiences, pain relievers and gain creators. This is our Value Proposition, and it is through our five outcomes that the *Golden Threads* of our Pricing Submission is formed.



2.4 Customer value proposition

The following table outlines our commitment to customer value and experience against the elements of Risk, Engagement, Management and Outcomes (REMO).

CUSTOMER VALUE AND EXPERIENCE PRIORITIES		RISK	ENGAGEMENT	MANAGEMENT	CUSTOMER OUTCOMES
PREMO RATING	**Advanced PREMO rating as supported by independent external review**	Mitigated customer risk of under performance by trying to achieve as many PREMO elements and engaging an external consultant.	Customer engagement at every turn – before, during and after the development of initiatives.	Pricing submission is compliant to ESC Guidance. Board provided with monthly updates and decision papers regarding the pricing submission development.	Provide stable prices: • Be more affordable • Increase in value for money
MANAGING RISK	**Reduction in overall customer risk profile**	Business bearing greater share of the significant risks to reward customers for improved business resilience.	Customer engagement was used to understand customer segment profile and help develop the Customer Value Proposition.	The new Hybrid Revenue Cap form of price control is needed to support this customer risk profile.	Support the liveability of the region: • Increase in value for money
PRICES	**Price certainty – smooth 10-year price path at an average of 1% less than inflation**	Reward customers for assisting the business to become financial sustainable again – avoid price shocks through 3.5% side constraint in Hybrid Revenue Cap price control.	Number one issue for customers is price certainty and avoiding bill shocks – customers fully support smooth 10 year price path. **Collaborated**	Better long term planning and financial resilience with the ability to repay $5.5 million debt each year, has enabled this price path.	More affordable to households and businesses: • Price certainty • Provide stable prices to avoid bill shocks • Increase in value for money
	Set prices for the first year in nominal terms	Business will bear the financial risk – cap CPI increase for the first year.	Customers get annoyed when bills go up by more than inflation. **Collaborated**	If CPI is higher, we will absorb the increase and if CPI is lower, we'll pass it back to the customer through lower prices.	More affordable to households and businesses: • Price certainty with CPI cap for the first year
TARIFF STRUCTURES	**Annually review variable bill component in line with customer preferences**	Business can bear more revenue risk – higher variable charges and future tariff choice if supported by customers.	At the Price Forums, customers modelled bill impacts for different customer segments and supported this change. **Collaborated**	Implementation of digital meters will provide a customer portal to manage water use. More education programs to save water.	Help customers reduce bills by using less water: • More ability to lower bills by reducing water use
	Innovative tariffs and pricing options for customers	Introduction of the Hybrid Revenue Cap better balances the risk of new innovative tariff and pricing options with customers.	Commitment to future customer engagement to develop a range of pricing options. **Collaborate (in the future)**	Digital meters will provide platform to implement new Time of Use tariffs and pricing options.	More affordable to households: • Trial new tariffs and pricing options with Wedderburn and Trentham customers
	Fairer tariff for Elmore STED system customers	Business will bear more revenue risk – provide equality in services to all customers.	Empowered customers to make decision. **Empowered**	Introduce tariff rebate to customers.	More affordable to households: • Provide a $120 discount on annual bill
	Fairer service for Lockington STED system customers	Business will bear more operational risk – provide equality in services to all customers.	Empowered customers to make decision. **Empowered**	Commence the on-going management of the septic system.	More affordable to households: • Business will pump out customers septic tank once every 3 years

CUSTOMER VALUE AND EXPERIENCE PRIORITIES		RISK	ENGAGEMENT	MANAGEMENT	CUSTOMER OUTCOMES
TARIFF STRUCTURES (CONTINUED)	**New region-wide standpipe tariff**	Business bears more operational and revenue risk.	Support from customers through the Community Draft to provide uniform standpipe tariffs. **Collaborated**	Acquire standpipe assets from councils at agreed asset condition and commence operating at the existing prices charged to councils.	More affordable to households and businesses: • Provide uniform standpipe tariff and services across the region
	Fairer tariffs for towns serviced by non-potable water – 50% of potable price	Business will bear more revenue risk – provide equality in services to all customers.	Customer engagement informed this decision. **Involved**	Maintain level of service but reduce price from 75% of northern potable price to 50% of central potable price.	More affordable to households: • Tariff reduction for same service
	Fairer tariffs for recycled water customers	Business will bear more revenue risk – provide fairness to recycled water customers.	Customer engagement informed this decision. **Informed**	Maintain level of service to customers but abolish recycled water access fee for residential customers.	More affordable to households: • Tariff reduction for same service
	Fairer pricing for rural customers	Business is best placed to manage inflow risk for rural customers and can bear more revenue risk.	Rural Customer Advisory Group and customer engagement informed this decision. **Collaborated**	Maintain level of service but introduce rebate when rural allocations are less than 100%.	More affordable to households and businesses: • Incentivise to manage water resources and deliver 100% rural allocations
	Fairer risk based tariffs for minor trade waste customers	Customer support 'user pay' principle based on their share of operational risks.	During 2018-19, further engagement required to confirm the parameters around a customer's risk assessment. **Consult (in the future)**	Implement an intermediate trade waste risk category for classification and pricing.	More affordable to businesses: • Pricing based on each customer's risk classification
	Fairer pricing for new customer contributions (NCC) to developers and customers in low growth communities	Business is best placed to bear construction risk for some assets and recoup costs through future NCC revenue. Business will bear more revenue risk in lowering NCCs in low growth towns.	Developers engaged to choose the most appropriate cost share model for out of sequence development costs. Supported by local councils. **Collaborate**	Implement fairer construction cost methodology for pump stations and rising mains. Encourage development in low growth communities by lowering NCCs in these communities.	More affordable to households and business: • Tariff reduction for low growth towns • Invest in infrastructure to meet needs of our growth areas
	Fast tracking tariffs for developer services	Minimise developer's financial risk of time delays but increase our revenue risk by introducing new developer rebates if performance is poor.	Developers overwhelmingly supported the introduction of 'user pays' tariffs for a higher level of service. **Empowered**	Land Development team incentivised to deliver a higher level of service at an efficient cost.	More affordable to business: • Tariff increase for higher level of service • Be more transparent and accountable
PRODUCTS AND SERVICES	**Continued supply of water quality you can trust**	The business remains best placed to manage operational risk and continues to reward customers with fit for purpose water.	Customers have a high level of trust in us delivering high quality water to do their everyday jobs. **Consulted**	Maintaining safe high quality water is our main priority and we will make the necessary investments to ensure that continues.	Maintain safe high quality water: • Invest in business solutions to deliver fit for purpose water • Improve the environment
	Improved service capacity to remove taste and odour from our water in small communities	Business is best placed to bear more revenue risk – new non palatability rebate incentivises the business to provide small communities with better tasting water.	Customers in small communities told us they did not drink the water. Our Tap Water Taste Tests completed in Bendigo and Melbourne also confirmed this. **Collaborated**	Incentivised to improve water quality in small communities or provide a customer rebate equivalent to 25% of the Water Access fee.	Improving taste and smell: • Better tasting water in small communities at no additional cost • Rebate will compensate customers for poor level of service

CUSTOMER VALUE AND EXPERIENCE PRIORITIES		RISK	ENGAGEMENT	MANAGEMENT	CUSTOMER OUTCOMES
PRODUCTS AND SERVICES (CONTINUED)	Higher long term water security and availability	The business is best placed to manage inflow risk for customers due to better long term planning, capital investments and access to the water market.	Customers fear water restrictions and expect water is available now and in the future. **Involve (in the future)**	Manage water resources effectively to meet the future needs of our customers. The new rural allocation rebate has incentivised the business to avoid water restrictions.	Avoid water restrictions: • Involve customers with our water resource planning and management initiatives
	Increased information on water use	Share the risk of demand side water management initiatives to ensure efficient costs and prices.	Customers expect more water use education and enforcement. Major trade waste businesses would value our expertise and water and sewer information. **Empowered**	Promote the *Target Your Water Use* campaign and increase education at schools. Launch portal for customers to manage water and trade waste use.	Educate customers on saving water: • Provide innovative self-service products • Provide our expertise to help them make important decisions
	Proactive leak identification services and tools	Share the risk of demand side water management initiatives to ensure efficient costs and prices.	Customers expect leaks are repaired in a timely manner. Major trade waste businesses would value co-investment programs in water efficiency. **Involve (in the future)**	Digital meters will enable proactive leak detection at customer properties. Benefit in co-investing in water efficiency programs with businesses.	Reduce leaks in our network: • Reduce unexplained high water consumption bills for customers
	Clean and green environment	The business is best placed to manage environmental risks to reduce our environmental footprint.	Customers have increasing expectations that we think of the environment in everything we do. **Involved**	Invest in backlog sewer schemes, wastewater and biosolids reuse, renewable energy and our recreational areas.	Reduce environmental footprint: • More environmental sustainable services
	Improved sewer performance	Business is best placed to bear more revenue risk – customer and community rebates for poor environmental performance.	Customers think sewer spills are unacceptable and helped design the type of rebates and penalties to hold the business to account. **Involved**	Improve performance target to State-wide average. Sewer customer rebates incentivise the business to improve performance.	Reduce environmental footprint: • Less customers impacted by sewer spills
	Co-invest in socially responsible activities with Dja Dja Wurrung, Catchment Management Authorities and Councils	The business is best placed to co-invest with key stakeholders to achieve environmental outcomes for the community.	Customers have increasing expectations that stakeholders work together to improve the environment. **Collaborated**	Invest in local procurement activities, integrated water management, river health and water catchment enhancement.	Reduce environmental footprint: • Be socially responsible
	Greater trust in services delivered	Business is best placed to bear more operational and revenue risk – innovative customer and community rebates incentivise us to perform.	Customers expect reliable water and sewer services and are happy with our level of service targets, except sewer blockages. **Involved**	Current service levels and targets remain, except sewer blockages changed to State-wide average. Introduced 18 rebates with broader business focus to raise performance.	Provide reliable services: • Achieve better performance • More value for money
	Self-service and interactive options	Opportunities to reward customers and share business risk by engaging them in the implementation of new technology.	Customers want faster on-line services and have told us their priorities for technology enhancements. **Collaborated**	Invest in new technologies like self-service options, SMS reporting of service faults, water trading platforms and digital meters.	Relevant and timely information and self-service options: • Ease of doing business
	Relevant and timely information	Business is best placed to bear more business risk and be more transparent and accountable with information provided.	Customers expect us to be more transparent and accountable, and assist vulnerable customers to pay their bills. **Collaborated**	Hosted regional vulnerable customer forum to identify opportunities for learning. New website will host our Outcome performance report.	Relevant and timely information and self-service options: • Support vulnerable customers • Be more accountable

CUSTOMER VALUE AND EXPERIENCE PRIORITIES		RISK	ENGAGEMENT	MANAGEMENT	CUSTOMER OUTCOMES
PRODUCTS AND SERVICES (CONTINUED)	**Greater presence in the community to make it a better place to live**	A financially sustainable business provides price certainty and stability for customers and sustainability for the business to play an active role in the community.	Customers supported the business to strengthen financial viability and pay down debt to help current customers and future generations. **Collaborated**	Improvement in credit rating will reduce Financial Accommodation Levy (FAL) and we will pass this benefit onto customers through lower prices.	Provide stable prices: • Play active role in the community • More affordable bills
	Protection of high valued community assets	Customers expect the business to work with councils to protect high valued assets.	Customers want high value public spaces in our region protected, especially in times of drought. **Collaborated**	Work with councils to develop special prices and potential exemptions for watering public open spaces.	Maintain public parks and gardens: • Greener open spaces
GUARANTEED SERVICE LEVELS	**New innovative customer and community rebates**	The inclusion of improved incentives minimises the risk exposure customers have to poor service and incentivises the business to perform.	Customers expect Government Corporations to be more transparent and accountable to performance. **Collaborated**	Introduced 18 rebates with broader business focus to raise performance. Outcome delivery incentives will enhance the focus on value for money.	Provide reliable services: • Achieve better performance • More value for money
FORM OF PRICE CONTROL AND DEMAND	**Better business revenue certainty – new Hybrid Revenue Cap model to manage demand volatility**	Share revenue risk and minimise demand forecasting risk via Hybrid Revenue Cap form of price control.	Through the two Price Forums and feedback from the extensive surveys, customers prefer elements of a Revenue Cap over a Price Cap. **Collaborated**	New Hybrid Revenue Cap ensures efficient costs and prices and allows the repayment of $5.5 million in debt each year to pass FAL savings to customers.	More affordable to households and business: • Price certainty • Provide stable prices to avoid bill shocks
ADJUSTING PRICES	**Better customer informed process for adjusting prices – more open and transparent**	Reward customers with better informed and accepted tariffs that minimise financial and regulatory risk.	Business commitment to an on-going annual customer and developer forum – information sharing to establish future prices and review outcome performance. **Collaborate (in the future)**	Relevant customer groups will be established to inform the process and discuss tariff adjustments that matter most to customers.	More affordable to households and business: • Be more affordable • Be more transparent and accountable
FORECASTING OPERATING EXPENDITURE	**Minimised uncertainty in forecasting operating expenditure to ensure efficient costs and prices**	Minimise operating risk by including 1.5% operating expenditure efficiency and reduced allowances for new expenditure, especially electricity uncertainty.	Prices are currently lower than those approved by the regulator. Following feedback we have locked in these savings over the next 10 years. **Collaborated**	Reduced total operating expenditure per connection this regulatory period. Pass-through mechanism for nominated items.	More affordable to households and business: • Be more affordable • Innovation program
FORECASTING CAPITAL EXPENDITURE	**Reduced uncertainty in forecasting capital expenditure to ensure efficient costs and prices**	Minimise construction risk by excluding uncertain projects and avoiding large contingencies.	Incentivised to use customer engagement to help identify solutions. **Involved**	Reduced total capital expenditure per connection this regulatory period. Pass-through mechanism for future Castlemaine Link/Superpipe projects when commissioned.	More affordable to households and business: • Be more affordable • Innovation program
SERVICE STEWARDSHIP	**Reporting our performance will be more transparent and accountable**	The new performance measures and planned outcome delivery incentives incentivise the business to monitor performance with customers.	Customers expect Government corporations to be more transparent and accountable. **Involved (in the future)**	Business will be report on performance against performance measures through website and other forums.	More transparent and accountable: • Incentivised to deliver • Value for money
FINANCIAL POSITION	**Financially sustainable business in the region**	Independent credit review demonstrates a financial viability concern of high debt. Requires a $1 million per year adjustment, with the business bearing greater risk by increasing regulatory depreciation rate to 6.2 %.	Customers support smooth price path and repayment of debt with the opportunity for lower bills when credit rating improves. **Involved (in the future)**	Safeguards of a Hybrid Revenue Cap combined with the adjustment mean that, if approved, no further adjustments will be required in future regulatory periods from the ESC.	Provide stable prices: • Price certainty for customers and financial viability for the business

2.5 Customer Outcome 1: Supply high quality water you can trust

CUSTOMER OUTCOME 1

"Make the water drinkable all year round"

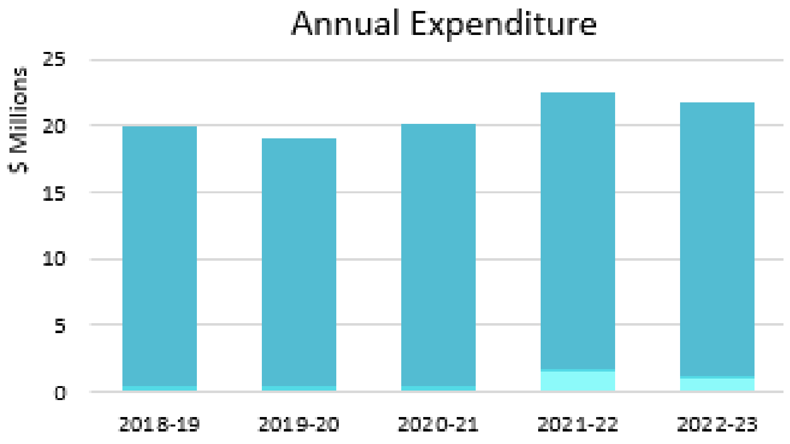
Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
We will contribute to catchment protection and river health including fencing our major storages	15km of fencing completed in the regulatory period	Improve water quality	Maintain high quality water	Water quality improvements without real bill increases
By 2022-23, we will complete Korong Vale WTP upgrade for $0.5 million	100% compliance with ADWG and DHHS requirements	Providing safe drinking water at all times	Improve water security and quality	Improved water quality and security of supply with without real bill increases
Ongoing commitment to our water quality program to proactively identify future works programs	100% compliance with ADWG and DHHS requirements	Continued supply of high quality water through early detection and intervention for potential water quality issues	Maintain high quality water	Deferred capital expenditure is enabling an average price path of CPI minus 1% per year
Ongoing commitment to water mains flushing to remove sediment	500 km of water pipes cleaned over the regulatory period in locations of highest risk	Proactive water quality program to reduce risk of water quality incidents and customer complaints	Maintain high quality water	Water quality improvements without real bill increases
By 2022-23, we will complete the Heathcote WTP Taste & Odour upgrades for $1.6 million	100% compliance with ADWG and DHHS requirements	Improve the ability of the WTP to manage poor raw water events	Improve the taste and smell of our water supply	Increased capacity to manage poor raw water quality events without real bill increases
By July 2019, we will commission a new water supply for Bridgewater and Laanecoorie WTP for $2.7 million	100% compliance with ADWG and DHHS requirements	A second supply source which will improve water quality	Improve the taste and smell of our water supply and security of supply	Water quality improvements without real bill increases

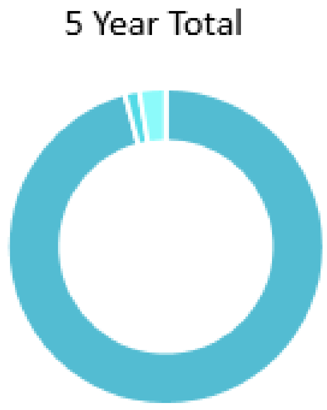
Our commitment is to supply high quality water that you can trust by:

- Monitoring and adjusting our processes to suit the different townships in our region
- Proactively engaging with communities to identify and address taste & odour differences
- Invest in business solutions that deliver water to customers to suit a range of needs

Our challenges in achieving success include:

- ensuring every type of water we supply is fit for purpose
- managing reliability and water quality that is different in all nine supply systems
- proactively managing build-up of sediment in pipes which causes water discolouration and customer complaints





Performance Measures

Customer Rebates (Level 1)	2018-19	2019-20	2020-21	2021-22	2022-23
There is an ongoing adverse water quality issue in your system, for example, poor taste or colour	*As per 2017-18*	*Maintain or incremental improvement*			
Community Rebates (Level 2)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
There is a short-term adverse water quality issue in your system, for example poor taste or colour	*As per 2017-18*	*Maintain or incremental improvement*			
Coliban Water issues a 'boil water' or 'do not consume' notice in your water supply system	*As per 2017-18*	*Maintain or incremental improvement*			
Outcome Targets (Level 3)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Systems meeting all parameters in *Coliban Water System Index* (%)	90.0	90.0	90.0	90.0	90.0
Systems meeting Australian Drinking Water Guidelines (%)	100.0	100.0	100.0	100.0	100.0
Customer satisfaction with water quality (*Customer Satisfaction Survey*) (%)	75	77	79	81	83
Increased customer water quality satisfaction in low palatability towns (%)	na	na	na	+20	na
New fencing around our major storages (km)	3.0	3.0	3.0	3.0	3.0
Clean water mains to remove sediment and improve delivered water quality (km)	100	100	100	100	100

2.6 Customer Outcome 2: Provide infrastructure and services to meet customer needs now and into the future

CUSTOMER OUTCOME 2

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
Ongoing commitment to deliver digital meters, with $5.0 million invested over the regulatory period	Install 5,000 digital meters annually	Installation of digital meters is an enabler for future customer choice regarding tariff options	Provide tariff options in relation to water usage Provide real-time information of water usage to customers	This will provide customers with options in the future regarding Time of Use tariffs and better management of their water usage
Provide opportunities for Trade Waste customers to monitor their water and trade waste usage	Proactively engage with Trade Waste customers and respond to their information needs	Provide infrastructure that will enable us to share near real-time information on usage with our customers	To share usage information To capture usage information more frequently	Improved service without real bill increases
Co-invest in a water efficiency audit program with major customers and councils	Undertake 15 audits over the 5 years	Investing in a water efficiency program has potential to defer future capital works	Work together and share knowledge regarding water efficiency initiatives	Sharing expertise between industry and the water business Assisting councils with Integrated Water Management to support growth areas
Improve reliability and operational efficiency of our ageing rural infrastructure	Renew 3 km of rural channel over the regulatory period	Proactive maintenance of channels supports delivery of services to customers	Provide reliable services to meet our needs now and into the future	Reduced water losses will lower future costs and bill levels
Engage rural customers to help shape future plans of the rural system and revitalise the rural water service	Continue Rural Customer Advisory Group meeting approach for each rural channel	The customer is directly involved in identifying their future needs	Invest in infrastructure to meet their future needs	Ensures future plans for the rural system reflect community needs and minimises costs of transition
Continue to update our Urban Water Strategy (UWS)	Complete a full review of our UWS every five years	Proactively identify infrastructure requirements to meet customer needs	Protect our water security	Proactive planning ensures customers only pay for infrastructure upgrades when they are needed
Educate customers about water reuse planning and management	Include information in our customer newsletter annually	Improved customer literacy in regard to water reuse planning and management	Educate customers on water savings	Reduced water losses will lower future costs and bill levels

"Do something about leaking channels"

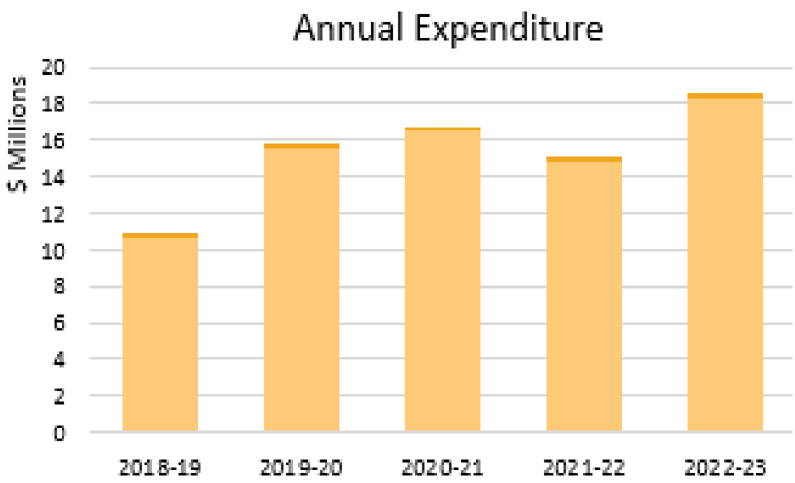
Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
Promote the *Target Your Water Use* campaign	Deliver state-wide water efficiency strategy for the campaign	Improved customer literacy in regard to water efficiency	Educate customers on water savings	Information distributed will inform customers about their bill and improve awareness of their water usage and how to better manage it
Increase targeted schools and community education programs	Minimum 26 schools and community education visits annually	Improved community literacy in regard to water efficiency	Educate customers on water savings	Teachers and community can promote our messages regarding water usage and conservation
By 2019-20, we will commission a new water supply for Bridgewater and Laanecoorie WTPs for $2.7 million	100% compliance with ADWG and DHHS requirements	A second supply source with improved water quality	Improve the taste and smell of our water supply and security of supply	Water quality improvement without real bill increases
By 2021-22, we will deliver the Western Bendigo water network growth and pressure works for $13.3 million	To provide reliable service in accordance with our customer charter	These works will ensure our services standards are maintained in accordance with the growth experienced in this location	Provide reliable services to meet our needs now and into the future	Water pressure improvements without real bill increases
By April 2023, we will deliver improved reliability and operational efficiency of our aging infrastructure in Echuca for $8.36 million	To provide reliable service in accordance with our customer charter	These works will ensure our services standards are still maintained with the growth experienced in this location	Provide reliable services to meet our needs now and into the future	Improved water service without real bill increases
By 2021-22, we will deliver the Kyneton WRP Lagoon Compliance Works for $6.8 million	100% compliance with our EPA licence conditions	These works will ensure the treatment plant can treat current loads to meet our EPA discharge licence obligations	Provide reliable services to meet our needs now and into the future	Improved service without real bill increases
By 2021-22, we will deliver the Strathfieldsaye water network augmentation for $9.1 million	To provide reliable service in accordance with our customer charter	These works will ensure our services standards are maintained in accordance with the growth experienced in this location	Provide reliable services to meet our needs now and into the future	Water pressure improvements without real bill increases
By 2022-23, we will deliver the Epsom- Huntly water main augmentation for $2.6 million	To provide reliable service in accordance with our customer charter	These works will ensure our services standards are maintained in accordance with the growth experienced in this location	Provide reliable services to meet our needs now and into the future	Water pressure improvements without real bill increases

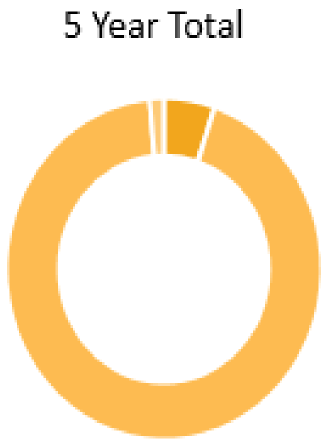
Our commitment is to provide infrastructure and services to meet customer needs now and into the future by:

- Saving water by reducing leaks
- Supporting customers and communities by investing in efficient infrastructure
- Empowering customers to save water by investing in education

Our challenges in achieving success include:

- managing increased climate variability and the impact on water resources
- providing infrastructure to meet population growth and increased demand for water
- ensuring customers have enough water now and into the future
- managing the balance between our customers' water needs and our available water resources





Performance Measures

Customer Rebates (Level 1)	2018-19	2019-20	2020-21	2021-22	2022-23
Rural customers receive less than 100% of water allocation in any given year	*As per 2017-18*	*Maintain or incremental improvement*			
Community Rebates (Level 2)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
There is poor water flowrate / pressure in a supply area over a prolonged period	*As per 2017-18*	*Maintain or incremental improvement*			
Outcome Targets (Level 3)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Access to fit for purpose water measured by:					
rural allocation (%)	100.0	100.0	100.0	100.0	100.0
Number of towns on water restrictions (not including PWSR) (no.)	0	0	0	0	0
Unaccounted for water (%)	15.0	15.0	15.0	15.0	15.0
Deliver new digital meters (no.)	5,000	5,000	5,000	5,000	5,000
Undertake Water Efficiency Audits with major non-residential customers (no.)	3	3	3	3	3
Renew rural channels (km)	0.6	0.6	0.6	0.6	0.6

2.7 Customer Outcome 3: Reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations

CUSTOMER OUTCOME 3

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
By June 2019, we will complete the Heathcote Backlog sewer scheme for $5.6 million	Completion of scheme to meet wastewater management plan	Reducing our environmental footprint	Fewer sewer spills	Improved service at no additional cost
By December 2022, we will deliver wastewater reuse improvement in Heathcote for $4.1 million	100% compliance with our EPA licence conditions	Reducing our environmental footprint	More sustainable services	Improved service at no additional cost
Publish environmental programs and performance on our website	Annual updates on environmental performance measures	Being socially responsible	Be more open and transparent	Shared information on performance – building trust in the business
By December 2023, we will complete Sludge Handling upgrades at Bendigo WRP for $11.1 million	To reduce our carbon emissions footprint by 3,200 Tonnes	Significantly reduce our environmental footprint	More sustainable services	Improved performance and reduced carbon emissions footprint
Ongoing implementation of pump replacement with more efficient pumps	Replace high lift pumps at three major Water Treatment Plants	Reducing our environmental footprint	More sustainable services	Improved performance at no additional cost to customers in real terms
Increased proactive maintenance targeting a reduction in sewer blockages	Reduce sewer blockages per 100 km of sewer main from an average of 42 to 35 over five years	Reducing our environmental footprint	Fewer sewer spills	Improved performance at no additional cost to customers in real terms
By December 2023, we will deliver sludge handling improvements at Castlemaine WRP for $5.6 million	100% compliance with our EPA licence conditions	Reducing our environmental footprint	More sustainable services	Improved performance at no additional cost to customers in real terms
Proactive program of sewer network monitoring	Focus roll-out in high risk and impact areas in Bendigo, Castlemaine and Kyneton	Reducing our environmental footprint	Fewer sewer spills	Potential to defer capital expenditure is enabling an average price path of CPI minus 1% per year

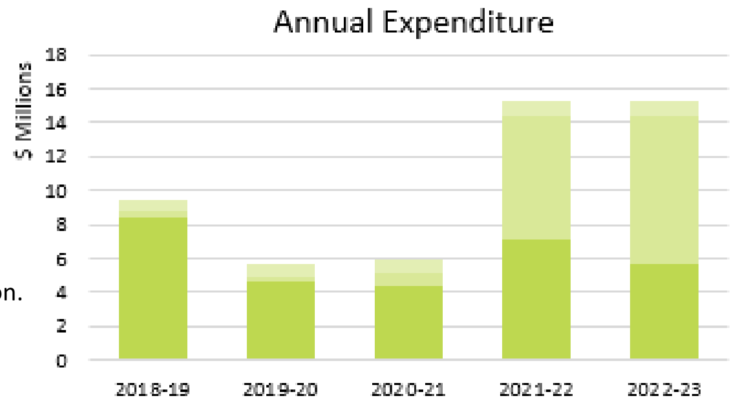
"Assist the environment and community as a whole"

"Mental health is improved by a greener environment"

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
Collaborate with councils on sustainable water use in new subdivisions	Collaboration activates Integrated Water Management discussions	Being socially responsible and a sustainable business for future generations	Be more socially responsible	We will collaborate with councils to ultimately provide improved service levels and enhanced liveability
Collaborate with local councils and Catchment Management Authorities (CMA) on improving environmental outcomes	Explore opportunities with councils and CMA's for the benefit of the environment	Being socially responsible and a sustainable business for future generations	Be more socially responsible	Increased collaboration with councils and CMA's to ultimately provide increased service levels and better environmental outcomes

Our commitment is to reduce our environmental footprint and achieve a socially responsible, sustainable business for future generations by:

- Caring for the environment in reducing sewer spills
- Lowering our carbon emissions footprint
- Improving and maintaining the health of the nature assets in our region.



Our challenges in achieving success include:

- the current high rate of sewer blockages due to ageing sewer network and local soil conditions
- balancing customer and environmental water needs and impact on the environment from population growth
- climate variability and the increasing demand for water

Performance M[illegible]

Community Rebates (Level 2)	2018-19	2019-20	2020-21	2021-22	2022-23
There is a sewer spill to local waterways or the environment that has a significant environmental impact	*As per 2017-18*	*Maintain or incremental improvement*			
Outcome Targets (Level 3)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Annual CO2 emissions (tonnes CO2-eq)	32,505	32,505	32,505	32,505	29,305
Number of EPA reportable sewer spills (no.)	19	18	17	16	15
Reduction in annual chemical consumption (%)	2.0	2.0	2.0	2.0	2.0
Number sewer blockages per 100km sewer main (no.)	42	40	38	36	35

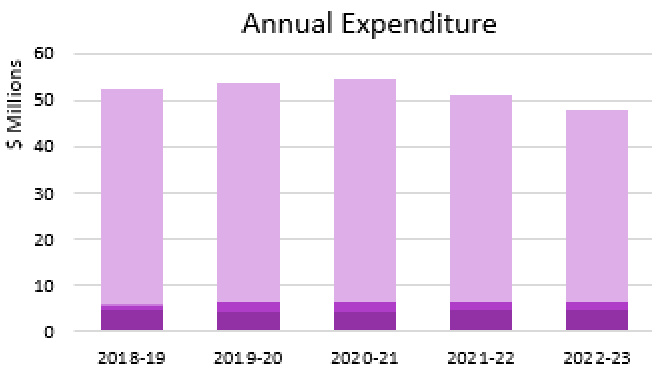
2.8 Customer Outcome 4: Open and transparent about pricing and service disruptions, and easy to do business with

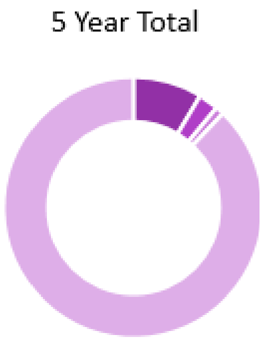
CUSTOMER OUTCOME 4

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
A 10 year price path that is 1% less than inflation on average	CPI minus 1% each year on average [*subject to approval of all price-related elements of the Pricing Submission*]	Supports stable prices with average increases below CPI	Provide stable prices	Stable prices for 10 years with no bill 'shocks' that result from stepped changes to prices
Additional support for vulnerable customers	Additional $0.4 million in direct financial assistance	Supporting vulnerable customers	Be more affordable	More affordable to households
Remove recycled water access charge for residential customers	Implement tariff change 1 July 2018	Price equity	Be more affordable	More affordable to households
Lower the untreated water volume charge	Implement tariff change 1 July 2018	Price equity	Be more affordable	More affordable to households
Provide a rebate to rural customers if the annual water allocation is less than 100%	100% allocation	Supports pricing equity based on rural allocations	Be more affordable	More affordable to households and businesses
Implement new pricing and processes to make developer services fairer and faster	New tariff for fast-track service by July 2018	Easier to do business with	Be more affordable	More affordable to businesses
Take on management of water standpipes in the region and lower the price for water	Provide new service for water standpipes across the region progressively throughout the region	Price equity and service improvement	Be more affordable	More affordable to households and businesses
Introduce a risk-based approach to trade waste pricing to make it fairer	Three tiered tariff based on risk assessment of trade waste quality and volume by July 2019	Price equity based on assessed risk to and impact on our systems	Be fair and equitable	More equitable to businesses that discharge trade waste
Establish engagement processes to empower customers to determine	Formalisation of annual customer engagement process by 2021 including	Rewards customers by reducing bills for the same level of water use	Empowers customers to choose the level of control	More equitable to households and businesses and rewards customers for reducing their water usage

"Help those in financial difficulty"

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
appropriate mix of fixed water and variable water charges	empowering customers to determine fixed and variable tariffs		over their bills and incentivises lower water usage	
Engage with customers to provide a range of tariff and pricing options	At annual pricing engagement in Year 3	Discuss potential Time of Use tariff and pricing options	Be more affordable and empower customers	More affordable to customers by aligning future tariffs to customer preferences and behaviours
Ongoing commitment to deliver digital meters	Install 5,000 digital meters annually, beginning in 2018	Installation of digital meters is an enabler for future customer choice regarding tariff and pricing options	Provide future tariff and pricing options in relation to usage Provide real-time water usage information to customers	This will provide customers options, in the future, regarding Time of Use tariff and prices, and managing their water usage
Make our website more accessible, more interactive and introduce more contact options for customers	Introduction of our new website by December 2018	Easier to do business with	Create more on-line and self-service options	Easier to do business with at no additional cost
Achieve better service performance for water supply availability, quality and flow rates	Targets set and measured across all performance standards	Being open and transparent regarding our performance	Be open and transparent regarding services	Better performance at no additional cost
Targeted water and sewer maintenance programs to reduce breaks, leaks and blockages	Invest $3.9 million in water networks and $3.3 million in sewer networks, proactive network maintenance activities	Being open and transparent about our service performance	Be open and transparent regarding services	Better performance at no additional cost
By December 2023, we will provide improved cyber security for $0.4 million	Zero loss of data or system downtime due to cyber attack	Being open and transparent regarding our performance	Provide reliable services	Improved security around data management and service reliability at no additional cost





Our commitment is to be open and transparent about pricing and service disruptions, and easy to do business with by:

- Making it easier for customers to engage with us
- Get customer input to develop a range of pricing options
- Support vulnerable customers
- Be accountable for our performance

Our challenges in achieving success include:

- getting the right balance between high level of service and affordable customer bills
- ageing network of 2,245km of pipes that is increasingly costly to repair and renew
- variable climate conditions places pressure on our infrastructure and natural assets
- providing customer contact and self-service options that cater for all customers

Performance Measures

Customer Rebates (Level 1)	2018-19	2019-20	2020-21	2021-22	2022-23
Restricting the water supply of, or taking legal action against, residential customer prior to taking 'reasonable endeavours' to contact them	*As per 2017-18*	*Maintain or incremental improvement*			
Your correspondence (letter or email) to Coliban Water is not responded to within 10 business days	*As per 2017-18*	*Maintain or incremental improvement*			
A 'blown seal' sewer intrusion into your house	*As per 2017-18*	*Maintain or incremental improvement*			
Sewer intrusion into your house contained within 1 hour	*As per 2017-18*	*Maintain or incremental improvement*			
Sewer intrusion into your house not contained within 1 hour	*As per 2017-18*	*Maintain or incremental improvement*			
Three or more sewer blockages affecting you in a year	*As per 2017-18*	*Maintain or incremental improvement*			
Four or more water supply outages affecting you in a year	*As per 2017-18*	*Maintain or incremental improvement*			
A water supply outage that is not restored within 5 hours	*As per 2017-18*	*Maintain or incremental improvement*			
You move house and CW doesn't read the meter within 2 business days of scheduled date	*As per 2017-18*	*Maintain or incremental improvement*			
A planned water supply outage during peak periods (6AM-9AM and 6PM-9PM weekdays or on weekends)	*As per 2017-18*	*Maintain or incremental improvement*			
High Priority inspection at 'practical completion' not completed within 2 business days	*As per 2017-18*	*Maintain or incremental improvement*			
High Priority mains extension approval not completed within 10 business days	*As per 2017-18*	*Maintain or incremental improvement*			
Outcome Targets (Level 3)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Average customer minutes water off supply (minutes)	13.0	12.8	12.3	11.8	11.5
Water supply interruptions restored within 5 hours (%)	98	98	98	98	98
Customers experiencing 5 or more water supply interruptions (no.)	5	5	5	5	5
Average time to rectify a sewer blockage (minutes)	80	80	80	80	80
Customers receiving more than 3 sewer blockages in the year (no.)	2	2	2	2	2
Residential customers receiving 1+ water service interruption in year (%)	10.5	10.2	10.0	9.8	9.6
Utility Relief Grants provided (per 1000 residential customers)	8.8	8.8	8.8	8.8	8.8
Total value of Hardship Grants awarded to customers (excluding government schemes) ($)	$165,000	$195,000	$225,000	$255,000	$285,000

2.9 Customer Outcome 5: Support the liveability of the region

CUSTOMER OUTCOME 5

Our Outputs & Deliverables	Our Targets	How these support the Outcome	Customer Preference	What is the customer value proposition?
A 10-year price path that provides certainty and stability for customers and sustainability for our business operations	CPI minus 1% each year on average [*subject to approval of all price related elements of the Pricing Submission*]	Supports regional prosperity by keeping price increases below CPI	Provide stable prices	Certainty and price stability over 10 years
New customer and community rebates to keep our focus on customers and community and on our performance	Various [*See section on Rebates*]	Incentivises us to perform	More transparent and accountable	Accountable level of service
Improve access to water around walking and cycling amenities in the region	Install five drinking water fountains across the region over the period	Increased social benefits improve liveability options in the region	Help maintain public parks and gardens	Increased social benefits leading to improved liveability options in the region
Promote benefits of drinking tap water for health & wellbeing	Promote benefits annually to 2,000 school aged children	Increased health and wellbeing for the community	Support regional prosperity	Healthy people, healthy communities

"Stop surprising me with your bills"

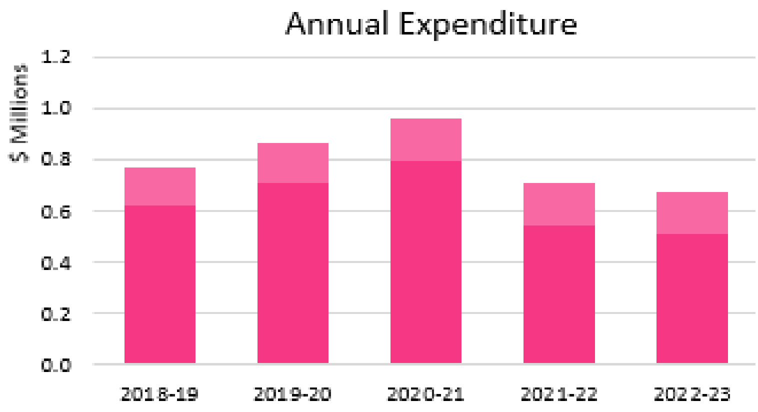
Our commitment is to support the liveability of the region by:

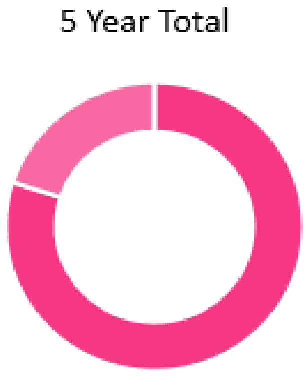
Strengthening our financial viability

Enhance green spaces in our region

Our challenges in achieving success include:

- improving our credit rating
- forecasting the pace of investment that will benefit customers in the future.





Performance Measures

Outcome Targets (Level 3)	2018-19	2019-20	2020-21	2021-22	2022-23
The volume of water delivered through recreational pricing (ML)	0	50	100	200	300
Maintain or improve our credit rating (rating)	BBB	BBB	BBB	BBB+	BBB+
We will pay down our debt ($ million nominal)	$5.50	$5.50	$5.50	$5.50	$5.50

3.0 Financing the plan

3.1 Revenue requirement

Revenue requirement provides for real price decreases for five years and forward planning provides for continued decreases through to 2028:

- ✓ Prudent and efficient service delivery - forecast operating expenditure
- ✓ Prudent and efficient investment - forecast capital investment
- ✓ Fair regulatory adjustments

Total allowable revenue

Our revenue requirement for the next regulatory period meets the WIRO objectives of promoting and providing incentives for efficiency and our forecast expenditure has been developed on a prudent and efficient basis.

Table 3.1 shows our forecast revenue requirement in total revenue terms and on a per customer connection basis. Our required revenue per connection will decrease over the next regulatory period as we continue to focus on keeping costs down and lowering customer bills as much as possible in real terms.

Table 3.1 *- Revenue requirement, 2018-19 to 2027-28*

$ 01/01/18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Operating expenditure ($m)	$ 68.05	$ 67.44	$ 67.65	$ 67.59	$ 67.46	$ 67.56	$ 67.65	$ 67.99	$ 68.62	$ 68.76
Return on assets ($m)	$ 20.85	$ 20.83	$ 20.81	$ 20.85	$ 20.92	$ 20.95	$ 20.95	$ 20.97	$ 20.99	$ 21.01
Regulatory depreciation of assets ($m)	$ 31.53	$ 32.58	$ 33.59	$ 34.66	$ 35.97	$ 36.65	$ 37.14	$ 37.38	$ 37.33	$ 37.78
Adjustments from last period ($m)	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ -	$ -	$ -	$ -	$ -
Total revenue requirement ($m)	**$ 121.42**	**$ 121.85**	**$ 123.05**	**$ 124.10**	**$ 125.35**	**$ 125.15**	**$ 125.74**	**$ 126.33**	**$ 126.94**	**$ 127.55**
Revenue requirement per customer connection ($)	**$ 1,585**	**$ 1,564**	**$ 1,553**	**$ 1,540**	**$ 1,529**	**$ 1,501**	**$ 1,483**	**$ 1,465**	**$ 1,448**	**$ 1,430**

Prudent and efficient service delivery (operational expenditure)

Our proposed annual operating expenditure will average $816 per customer. This compares to $861 in the previous regulatory period and $886 in the second regulatory period. This demonstrates our commitment to prudent and efficient service delivery for customers and our focus on lowering bills long term.

We have achieved significant operating cost efficiencies over the third regulatory period. By the end of that period we will have returned $11.5 million to customers through lower customer bills. This will have saved the average customer approximately $150 since 2014, compared to the prices approved in 2013. Our proposal is to lock in these savings for customers and pass on additional savings over the next 10 years.

Customers have told us they support our efficiencies because they want bill increases lower than inflation. With reference to our recently approved 2016-17 regulatory accounts, operating expenditure in 2016-17 was $62.77 million. Our operating expenditure per customer reduced in 2016-17 due to two abnormal events, which need to be factored in when calculating our baseline controllable operating expenditure.

- Removing a $0.42 million refund to us of operating expenditure by a contractor under a Pain-Share / Gain-Share mechanism; and
- Adding $0.29 million for Goldfields Superpipe pumping costs that were not incurred in 2016-17, due to favourable climatic conditions that resulted in exceptionally high inflows. The electricity costs for pumping are a normally occurring annual expenditure that must be included in the baseline.

We are proposing an operating efficiency of 1.5% per year to drive further efficiencies across our operational programs and incentivise us to proactively identify savings that underpin bill reductions. Our main focus areas for operating efficiency will be:

- *Customer engagement:* We have recently had an organisational restructure to place greater emphasis on customer centricity in our decision making and the customer experience. This is an enabler of the operating efficiency by ensuring expenditure is aligned with the customer experience and values.

- *Digital meters:* This initiative is essential for us achieving the operating efficiency. It will enable reduced expenditure on special meter reads and provide proactive targeted leak detection at customer properties and our network. This will reduce unexplained high water consumption for customers and enable us to optimise bulk raw water supply and treatment expenditure for the business.
- *System models:* Continued investment in our internal Data Science team will underpin additional future operating efficiencies and value captured through 'real time' optimisation of our various infrastructure systems.
- *Quick Connect:* Reviewing the process of registered agents authorised to connect serviced properties to our water network.
- *IT capability:* While our expenditure on IT including cloud based technology is increasing, these important enablers of our operating efficiency are solidly contributing to net reductions in business expenditure. We are well placed to bear this risk owing to our improved financial position.

Table 3.2 outlines a summary of all variations to the baseline operating expenditure stemming from changes in service levels or changes in unique cost items, such as electricity.

Table 3.2 – *Variations to baseline operating expenditure, 2018-19 to 2027-28*

$m 01/01/18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Electricity	$ 1.71	$ 1.23	$ 0.89	$ 0.83	$ 0.85	$ 0.89	$ 0.94	$ 1.00	$ 1.07	$ 1.15
Consequential operational costs	$ 0.01	$ 0.06	$ 0.13	$ 0.14	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Lockington desludging	$ 0.06	$ -	$ -	$ 0.05	$ -	$ -	$ 0.05	$ -	$ -	$ 0.05
Development services	$ 0.07	$ 0.07	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.05
Financial hardship	$ 0.03	$ 0.06	$ 0.09	$ 0.11	$ 0.14	$ 0.16	$ 0.19	$ 0.21	$ 0.23	$ 0.25
Data connectivity	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Trade Waste monitoring	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07
Other variations	$ 0.17	$ (0.00)	$ 0.45	$ 0.33	$ 0.12	$ 0.13	$ 0.11	$ 0.41	$ 0.91	$ 0.88
Total variations	**$ 2.16**	**$ 1.53**	**$ 1.73**	**$ 1.64**	**$ 1.49**	**$ 1.56**	**$ 1.67**	**$ 1.99**	**$ 2.58**	**$ 2.69**

Further detailed information on forecasted operating expenditure can be found in *Supplement C. Financing the Plan*.

Prudent and efficient investments (capital expenditure)

Our proposed average annual capital spend will be $342 per customer. This compares to $519 in the previous regulatory period and $1286 in the second regulatory period. This demonstrates our commitment to prudent and efficient capital investment for our customers and a focus on long term affordability.

To keep prices as low as possible, we will invest only where and when we need to over the next regulatory period. We will also drive further efficiency across our capital delivery program through the continuation of our strong project and contract management processes and capabilities. Our capital expenditure approach over past regulatory periods demonstrates we were prepared to alter our plans when underlying needs changed or where due diligence through Project Peer Reviews showed we can defer projects to save costs without compromising service performance. We call this dynamically managing our capital portfolio.

We also reprioritised capital investment to meet emerging business challenges through our innovative capital prioritisation tool. In addition to considering six different types of risk, we have expanded the capital prioritisation process to also include assessment of customer benefits and financial return. The addition of the benefit assessment focuses on valuing and prioritising the opportunity to support community and stakeholder interests.

Our method for maintaining, upgrading and replacing assets has also been significantly improved through the enhancements we have made to our asset system, particularly asset condition assessments and asset risk assessment. These improvements have been recognised by the Valuer-General Victoria and the Victorian Auditor-General's Office. We will continue to improve our asset management systems and decision-making models during the next regulatory period.

Therefore, we can now propose lower levels of capital expenditure per customer for the next regulatory period while still providing the necessary infrastructure and effectively managing asset risk, while maintaining required levels of service to customers.

Cost uncertainty has historically been managed at the project level by including a risk contingency for additional costs into project budgets. However, with the maturity of our project management, we have bolstered our capital delivery policies by determining and setting cost risk contingencies at portfolio level rather than at individual project level. We have also noted that project delays can lead to under-investing in a given financial year. Often, this is unavoidable as conditions beyond our control can affect delivery schedules. Our approach of applying a Delivery Assurance Margin to capital expenditure ensures that if a project is unavoidably delayed, total expenditure for the period can remain at the target level through dynamic changes to the capital works program.

As the business has accepted more construction cost risk, uncertain projects such as the construction of the Castlemaine Link Interconnector Pipeline, augmentation of the Goldfields Superpipe and any prescribed future groundwater expenditure beyond the current transitional solution for Bendigo will be excluded from pricing until constructed and commissioned.

We propose to invest $142 million over the next regulatory period on capital works for water, sewerage, recycled water and rural programs. Compliance and Growth are the key drivers in the business and account for approximately 75% of proposed capital expenditure. Renewals will contribute to almost 15% of proposed expenditure, with the remainder being for Improved Service projects.

Table 3.3 *– Proposed capital investment*

$m 01/01/18

Top 10 Projects	Completion	Expenditure
1. Western Bendigo water network growth and pressure	2021-22	$ 13.34
2. Bendigo WRP sludge processing upgrades	2023-24	$ 11.10
3. Strathfieldsaye water network augmentation	2021-22	$ 9.11
4. Kyneton WRP lagoon compliance works	2020-21	$ 6.80
5. Castlemaine WRP sludge handling upgrades	2022-23	$ 5.60
6. Digital customer metering	Ongoing	$ 5.00
7. Echuca West tank	2021-22	$ 4.22
8. Heathcote WRP compliance	2021-22	$ 4.04
9. Echuca WTP security of supply	2022-23	$ 2.86
10. Epsom Huntly water main augmentation	2022-23	$ 2.62

Service Category	WP3	PS18
Water - Headworks	$ 2.99	$ 0.63
Water - Pipelines/network	$ 18.94	$ 59.93
Water - Treatment	$ 31.81	$ 13.23
Sewerage - Pipelines/network	$ 37.59	$ 18.14
Sewerage - Treatment	$ 4.81	$ 31.89
Recycled Water	$ 4.27	$ 5.03
Rural Water	$ 52.63	$ 6.54
Corporate	$ 32.60	$ 6.55
Total	**$ 185.63**	**$ 141.93**

The top 10 major capital projects we propose includes investment of:

- $13.3 million for the western Bendigo region water network augmentation to achieve service levels and provide additional flows and pressures by duplication and upsizing of several mains in that rapidly expanding region.
- $11.1 million to upgrade Bendigo Water Reclamation Plant sludge processing to increase the capacity of the sludge handling system, address major operational issues and ensure EPA licence compliance.
- $9.1 million for the Strathfieldsaye region water network augmentation to provide additional flows and pressures and maintain service by constructing a new water main to that growing region.
- $6.8 million for compliance works at the Kyneton Water Reclamation Plant to manage current flows and loads from industrial customers and to ensure ongoing compliance with EPA licence requirements.
- $5.6 million to upgrade the sludge handling at the Castlemaine Water Reclamation Plant to address major operational issues with the existing sludge handling system and ensure EPA licence compliance.

- $5.0 million for the Digital Customer Metering project to improve safety in the workplace, reduce water losses, implement innovative future pricing, enable the achievement of our operating efficiency and assist customers to better manage their water use.
- $4.2 million for the construction of a 6 ML storage tank in Echuca West for security of supply and delivery of service pressure to urban customers in this area.
- $4.0 million for compliance works at Heathcote Water Reclamation Plant to address the long term capacity constraints following completion of the Heathcote backlog sewerage project, and to protect the environment by achieving compliance with EPA licence requirements.
- $2.9 million for an additional clear water storage at the Echuca water treatment plant to improve the security of supply to all Echuca water customers and reduce the risk of the town experiencing a temporary loss of water supply.
- $2.6 million for water mains augmentation in Epsom and Huntly by duplicating and upsizing water mains to facilitate the rapid growth in these areas and to ensure pressures and flows are maintained.

In addition to these large projects, we will continue to invest in asset programs to maintain levels of service for water and sewerage customers.

Our largest investment driver is ensuring the reliability of water services to customers. As well as maintaining the ongoing water main replacement programs, we propose increased investment in renewing large storage tanks to prevent failure of these assets that would otherwise interrupt water supplies. We will prioritise these projects on the age, condition and criticality of water mains and network structures.

For our sewerage service, we propose increased investment to improve the reliability of sewerage infrastructure and reduce risk to the environment. This investment will reduce the number of sewerage main breaks and blockages, which will reduce the occurrence of environmental incidents.

In addition to infrastructure investment, we propose additional investment in Information Technology over the fourth regulatory period. This investment will improve our customers' experience and strongly contribute to reduced operating expenditure, including $2.0 million of technology enabled initiatives to provide customer benefit by implementing self-service options.

Finally, in line with historical regulatory precedent, we are capitalising biosolids expenditure and non-operating components of our two BOOT plants. While this expenditure is not statutory capital expenditure, considering this as regulatory capital expenditure eases the cost burden on customers.

Further detailed information on the revenue requirement, operating and capital expenditure can be found in *Supplement C. Financing the Plan*.

Fair regulatory adjustments

Over the 2005 to 2013 periods, continual under-recovery of target revenue established under the 'building block' model led to us proposing in the 2013-2018 Water Plan a RAB adjustment of +$89 million to recoup historic losses. We were also clear that if this was accepted by the ESC, then no further regulatory adjustments would be needed beyond this.

The ESC rejected this approach, but made an adjustment to the revenue requirement for 2013-18 period to achieve a significant stepped increase in prices that came into effect on 1 July 2013. We are seeking an annual revenue requirement adjustment of $1.0 million for each year of 2018-2023, and then no adjustments will be necessary for 2023-2028.

This adjustment is required due to the fact that our economic gearing (Debt to RAB ratio) exceeds the ESC upper limit of 70%. Applying the adjustment will ensure our real RAB is increasing (rather than decreasing) and will result in our economic gearing improving by reducing to 75% at the commencement of the 2023-2028 period.

The importance of the economic gearing is well understood in regulatory finance and economics:

- It has been a key indicator used by the ESC as far back as 2005
- Credit ratings: This indicator was seen as a key negative indicator for us in our recent Moody's Investor Service credit rating review
- NERA (for the ESC, 2013): Financeability of Regulated Water Service Providers: *"Every regulator and credit rating agency … employs this metric to assess the debt burden of a service provider."*

While we argue the criticality of this adjustment, we note that in this Pricing Submission we are seeking approval of **prices**. Customers have clearly told us they wish for us to repay debt to reduce the burden on future generations. Therefore, if this regulatory adjustment is not supported by the ESC we contend that in order for us to uphold our promise with customers, an offsetting increase to Regulatory Depreciation should be utilised to ensure prices remain as proposed. This would, however, have the adverse impact of reducing our RAB over time and worsening our economic gearing ratio.

3.2 Regulatory Asset Base return

Our Regulatory Asset Base (RAB) remains stable reducing future price risk for customers. In addition:

- ✓ Regulatory rate of return based on an 'Advanced' PREMO assessment
- ✓ Existing assets depreciated at 6.2% in line with external financial advice ensures long term price stability

Rolling forward the RAB

Our forecast is for a stable RAB as regulatory depreciation broadly offsets net capital expenditure and prices can move at an average of CPI minus 1% per year. All historical capital expenditure values (up to and including 2016-17) are as approved by the ESC and our Board via the Regulatory Accounts process.

Table 3.4 *– Forecast Regulatory Asset Base, 2017-18 to 2027-28*

$m 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening asset base	$ 481.42	$ 496.29	$ 496.41	$ 495.58	$ 495.24	$ 497.77	$ 498.51	$ 498.87	$ 498.86	$ 499.54	$ 500.05
plus capital expenditure	$ 38.03	$ 36.78	$ 37.15	$ 38.52	$ 42.52	$ 42.11	$ 42.48	$ 42.67	$ 43.68	$ 43.53	$ 43.81
less customer contributions	$ 4.39	$ 3.59	$ 3.85	$ 3.72	$ 3.79	$ 3.86	$ 3.93	$ 4.00	$ 4.08	$ 4.15	$ 4.23
less government contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
less regulatory depreciation	$ 17.23	$ 31.53	$ 32.58	$ 33.59	$ 34.66	$ 35.97	$ 36.65	$ 37.14	$ 37.38	$ 37.33	$ 37.78
less disposals	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54	$ 1.54
Rolled Forward RAB	**$ 496.29**	**$ 496.41**	**$ 495.58**	**$ 495.24**	**$ 497.77**	**$ 498.51**	**$ 498.87**	**$ 498.86**	**$ 499.54**	**$ 500.05**	**$ 500.31**
Debt:RAB Ratio	**0.93**	**0.90**	**0.87**	**0.84**	**0.81**	**0.78**	**0.75**	**0.72**	**0.70**	**0.67**	**0.65**

Key summary of other elements contributing to the RAB:

- Government contributions: No prescribed government contributions are anticipated
- Customer contributions: In accordance with proposed prices and customer growth rates
- Proceeds from disposal: Includes revenue from water allocations sales and vehicle sales

Further detailed information can be found in *Supplement C. Financing the Plan*.

Regulatory depreciation

As noted throughout this Pricing Submission, customers have expressed a strong preference for long term price stability. Regulatory depreciation impacts prices directly as it is recovered from customers but indirectly it is deducted off the RAB reducing the regulatory return. In future years, revenue is lower as the value of the RAB has reduced. This needs to be balanced – if regulatory depreciation is too low today we are imposing higher prices on future customers through a larger RAB. Any choice of regulatory depreciation is therefore NPV neutral – it does not affect whether customers are paying "more", it affects whether price increases are left for future generations. While we are proud that we have achieved ongoing operating efficiencies, an increasing RAB can lead to long term price levels trending upwards. This would violate a key message we heard from our customers – bills should increase less than inflation over the long term.

Given the ESC has previously approved regulatory depreciation rates ranging between 1.5% and 8%, we commissioned RMCG Consulting to review the long term price impacts of regulatory depreciation. This research found we could have a regulatory depreciation rate of up to 6.8% while maintaining a stable long-term RAB. However, this rate of depreciation leads to a price increase in 2019 and we rejected this for not in being in alignment with customer preferences.

We have also paid careful consideration to the relationship between regulatory depreciation and the financial stability of the business. To balance these issues, we chose a regulatory depreciation of 6.2%.

We intend to transition in the long term to a lower rate of regulatory depreciation, and we have ensured that all new assets entering the RAB have lower rates of regulatory depreciation. This provides the appropriate balance between immediate financial return on our assets and protecting the integrity of our commitment to a CPI minus 1% price path.

We have heard from our customers that a small to moderate price decrease would not lead to improved perceptions of value or trust. Of the 48 customers in attendance at our first Pricing Forum, just one recommended we have a sizeable price decrease in 2018-19, other customers choosing either a CPI or a CPI minus adjustment. Therefore, it is central to our entire Value Proposition that our regulatory depreciation be accepted by the ESC.

In the event that there are other negative adjustments to our revenue requirement, this Pricing Submission contends that Regulatory Depreciation is adjusted upwards (up to 6.8%) to achieve the prices our customers have supported.

Further detailed information can be found below and in *Supplement C. Financing the Plan*.

Regulatory rate of return

As advised by the ESC, the real cost of debt is presently expected to be 3.66%. We acknowledge this will change as the 10-year rolling average substitutes estimated debt figures with actuals prior to the Determination. Our proposed PREMO rating of Advanced implies a 4.9% return on equity. Based on the longstanding 60:40 debt:equity benchmark, this implies a regulatory return of 4.2%.

Further detailed information on the return on the RAB consideration can be found in *Supplement C. Financing the Plan*.

3.3 Form of price control

The business is proposing a Hybrid Revenue Cap regulatory model:

- ✓ The Hybrid Revenue Cap best meets principles by balancing and eliminating risks
- ✓ Precedent exists for the implementation of a Hybrid Revenue Cap following approval by ESCOSA of SA Water's Revenue Cap
- ✓ Enhanced bill stability for customers and revenue stability for the business
- ✓ Modest real bill decreases on average as supported by customers
- ✓ Greater certainty of debt repayment as desired by customers that supports future price decreases
- ✓ Avoids repeating instability of the Price Cap model that has been unsuitable for customers and the business
- ✓ Stress testing of a standard Revenue Cap has shown excessive bill volatility

Preferred price control option

Robust modelling of past and future regulatory periods under a Price Cap, Revenue Cap and Hybrid Revenue Cap has highlighted the risks and rewards to both the customer and the business for each form of price control. For further detail regarding our preferred form of price control and information on the alignment between the WIRO guidance and each price control option, refer to *Supplement C. Financing the Plan.*

We are proposing a Hybrid Revenue Cap because it better meets the principles of cost reflectivity when compared to traditional Price Cap or Revenue Cap for a business like ours. Our proposed Hybrid Revenue Cap is as approved by ESCOSA in the SA Water 2016 Determination, although we are proposing amongst the strongest Customer Safety Net in the industry. Key features of our Hybrid Revenue Cap are:

- Five year period for balancing revenue reduces intra-period variation
- An adjustment in 2023 if 2018-2023 revenues exceed a ±1% materiality threshold
- Customer Safety Net limiting annual price increases to 3.5% nominal in any year
- Inbuilt self-correcting mechanism to incentivise softly modifying prices year-on-year

Under our proposed Hybrid Revenue Cap, a cap on total allowed revenue is set for the five years of the revenue cap period. Annual price movements will be determined following customer engagement and the self-correcting mechanism will incentivise annual bills moving smoothly over the regulatory period. Annual revenue requirements are therefore non-binding but give the business guidance and the ESC confidence regarding how revenue is tracking within the period. Revenue over-collection in one year, due to climatic variations, will be naturally smoothed and balanced with revenue under-collection in another year, subject to the Customer Safety Net of 3.5% nominal in any year.

Smoothing the revenue cap – how it will work each year

Where revenue variation is outside the ±1% threshold, we are incentivised to provide price adjustments as soon as practical. This will limit the potential for future price shocks and allow price movements to remain as smooth as possible. If we are outside the ±1% threshold at the end of the five year revenue cap period, an adjustment will flow into the next period (with interest and inflation).

We will consider demand forecasts and engage with our customers annually before establishing prices to apply in each year. When considering the input of customers, the business will choose to modify tariffs to apply in the following year or hold over adjustments until the next regulatory period.

Services it will cover

Our Hybrid Revenue Cap will apply to all prescribed revenue in the regulatory period that relates to currently incurred operating expenditure. This broad base will best ensure cost reflectivity and allow flexibility to introduce new tariffs desired by customers for existing services.

If we choose to introduce a new prescribed service that is not linked to currently-incurred operating expenditure, the established principles of cost recovery will apply and such revenue will be outside the revenue cap. While there are by definition no services that meet this criteria, we are considering the future insourcing of meter provision services to better meet the needs of customers.

Avoiding bill shocks- rebalancing constraints

The Customer Safety Net will limit individual tariff increases to a maximum +3.5% (nominal) in any year, regardless of the prevailing inflation rate or debt adjustment. The 2016 Final Determination for Goulburn-Murray Water approved a maximum rebalancing of 10% plus the average price increase in that year. Our Customer Safety Net provides much greater price certainty while also significantly mitigates inflation and debt risk for our customers.

There are a number of services for which it is inappropriate to apply the Customer Safety Net:

- *Northern pricing zone volumetric harmonisation:* A cap of 10.8% (real) will apply in 2019-20 to harmonise the Northern volumetric water tariff with the Central zone. After 2019-20 the Customer Safety Net will apply.
- *Trade waste services:* Customer engagement has led to tariff reform with the introduction of new tariffs from 2019-20. These may be transitioned over several years to mitigate customer impacts. Therefore, an annual cap of 10% (real) will apply to all trade waste services.
- *Developer services (project management):* Customers have requested a higher level of service that is supported by greater resourcing. An annual cap of 10% (real) is proposed on any “compulsory” service.
- *Optional services:* Customers have indicated support for options in the future such as off-peak water tariffs and land development fast-tracking / resubmission fees. Prices for these services should be market responsive as long as customers always have the option of reverting to the standard tariff.
- *Pricing by principles:* For prices determined by principles, if underlying costs change then the price would also have to change commensurately.
- *New Customer Contributions:* These services are outside the revenue cap so will not be subject to the Customer Safety Net.

No cap is proposed on annual decreases to any tariff, however any reductions to tariffs would need to be limited as any other increases will be limited by the Customer Safety Net. It is our firm intention not to change well-structured and effective tariffs unless customer support indicates otherwise. Setting tariffs for the following year through engagement with customers will allow customers greater input to how they want us to respond to inevitable future climate impacts and revenue variations.

Price control engagement

When presented with a range of options at the first Pricing Forum, attendees overwhelmingly selected a price path that delivers long-term modest real price decreases. At the second Pricing Forum, the majority of customers supported the fixed / variable tariff split remaining as is, although there was a preference to revisit this in the future. Also, customers were split between preferring a continuation of Price Caps or a “smoothed” Revenue Cap rather than a Revenue Cap with immediate adjustment.

Additionally, our Hybrid Revenue Cap allows us to achieve the following customer gains:

- Reduce business debt by $55 million over 10 years, in line with customer expectations of paying down debt
- Review fixed / variable tariff splits
- Introduce tariff choice
- Introduce higher levels of service for developers, including new fast track services
- Defer and hence reduce capital expenditure by implementing future Time-of-Use pricing
- Ensure that long term bill increases do not exceed CPI
- Reform Trade Waste pricing to introduce a new “intermediate” category into the risk-based framework for categorising trade waste customers

Risk allocation

Our proposed Hybrid Revenue Cap more equitably balances risk between the business and customers. A Revenue Cap for the period rather than individual annual caps alleviates demand forecasting risk and promotes greater bill stability. The Customer Safety Net further protects customers from price shocks. Consulting with customers each year before endorsing prices will reduce the risk of misalignment with expectations and assure customers of our commitment to the customer value proposition.

In addition, financial risks relating to changes in CPI and debt benchmarks affecting prices are materially abated for customers if the aggregate impact of these changes was to exceed 3.5% in any year.

3.4 Adjusting prices

Three adjustments relating to uncertain and unforeseen events and pass throughs within this regulatory period:

- ✓ Cost of debt pass through aligns with ESC guidance
- ✓ Certain major projects have been excluded from revenue requirements and will only be included where new projects must be completed and have been commissioned
- ✓ Costs to the business of future regulatory and policy changes only pass through where they exceed a materiality threshold

We propose that any adjustment for a pass through or uncertain or unforeseen adjustment will result in an adjustment to the Hybrid Revenue Cap figure. While these adjustments may otherwise lead to changes in prices that exceed our Customer Safety Net of 3.5%, we will not breach the safety net for changes in the cost of debt pass through or inflation.

Cost of debt pass through

As required by ESC guidance, we must specify a mechanism for passing through changes in the benchmark cost of debt. We propose an adjustment to our Hybrid Revenue Cap as follows:

$$var_t = (DA_t - DD_t) \times 0.6 \times RAB_t$$

Where:

- **t** represents a given year of the regulatory period (from 2020 to 2023)
- **DA_t** is the actual 10 year trailing average debt benchmark for year t
- **DD_t** is the finally approved 10-year trailing average debt figure for year **t** as specified by the ESC in the Determination
- **RAB_t** is the average Regulatory Asset Base for year **t** as specified by the ESC in the Determination
- **var_t** is variance due to the debt pass through in year **t** that must be reflected in the revenue cap

This formula will lead to four variations which will all be adjusted for the regulatory rate of return and inflation, and used to adjust the Hybrid Revenue Cap figure.

Specific project pass through

We propose only two potential pass through projects this regulatory period:

Castlemaine Link Interconnector Pipeline: We are removing customer risk by excluding this project from the revenue requirement due to uncertainty with its future timing. We intend to only construct the pipeline when needed and propose that actual costs (incremental operating expenditure, regulatory return and regulatory depreciation) of this project be passed through to prices in the form of a higher Hybrid Revenue Cap figure only when the pipeline is commissioned for operation.

Goldfields Superpipe Capacity Upgrade: We have not included this project in our revenue requirement. The same process would apply to this the Castlemaine Link Interconnector Pipeline.

Tax, regulatory and policy changes

It is possible that any of the following taxes or legislative obligations could change during the period:

- Carbon tax
- Land tax
- Environment contribution
- Payroll tax
- Licence fees
- Defined Benefits superannuation contribution
- Other government charges / taxes / fees / licences / laws

We propose that no changes to the revenue requirement would apply unless the net variation in these items compared to the ESC's Final Determination exceeds a threshold of ± 2.5%. Our Hybrid Revenue Cap figure will then be adjusted. Where there is an upwards adjustment, this may necessitate that our Customer Safety Net of 3.5% nominal in a particular year is exceeded.

We contend that the use of a high threshold (2.5%, approximately $3 million) protects our customers significantly from the risk of changes to government policy.

Financial accommodation levy (FAL)

Where our credit rating improves above BBB-, we will also voluntarily reduce our prices to ensure customers are rewarded for their contribution to our improved financial performance. As this will be based on actual debt instead of benchmark debt, it will be calculated annually in arrears based on:

- the FAL difference between BBB- and our actual rating; and
- actual loans for which the revised FAL rating applies

As our credit rating effective 2017-18 is BBB, this means we will first apply the FAL adjustment to 2018-19 prices once we know the actual level of loans to which our new BBB rate will apply.

In the event that our credit rating deteriorates, we will not be increasing prices to cover this shortfall.

Further detailed information on adjusting prices can be found in *Supplement C. Financing the Plan*.

3.5 Regulatory period length

We are seeking a regulatory period of five years plus five years. Key features of our Value Proposition are:

- ✓ Customers strongly support bills increasing less than inflation over 10 years
- ✓ We firmly signal 10 years of prices to maintain good faith with customers
- ✓ Our firm intention is for fast tracking in 2022-23 for the next five year period if revenue, expenditure and the PREMO rating align with expectations

Justification for regulatory period length

A regulatory determination of 10 years has been supported by our customers as evidenced by customer forums, multiple surveys and *Your Town* community visits program. Our residential and business customers have clearly told us that they value long-term price stability. Our business customers value knowing future water and sewer prices to help with their business planning.

However, we acknowledge the practicality of proposing a 10 year period. Our revised approach strikes, we believe, a fair compromise that retains good faith with customers while recognising the regulatory reality this poses. Therefore we are seeking an initial regulatory determination of five years and signalling a firm intention for revenue in the following five years (2023-2028) to also be based on prices moving at CPI minus 1% annually.

We foreshadow seeking to claim fast tracking for 2023-2028 in our next Pricing Submission if we achieve the following:

- **PREMO:** Advanced or Leading rating in 2023, this implies meeting our performance measures
- **Operating expenditure:** In line with (±2%) of our 2018 Pricing Submission forecasts for each of:
  - 2018-2023 period
  - 2021-22 year
  - 2023-2028 period
- **Capital expenditure:** In line with (±5%) our 2018 Pricing Submission forecasts for each of:
  - 2017-2023 period
  - 2023-2028 period
- **Revenue:** In line with (±1%) of our adjusted Hybrid Revenue Cap figure such that no carry-forward to 2023-2028 period is required
- **No water restrictions:** No water supply constraint for us in a major town
- **Outcome Delivery Incentives:** Preparation in conjunction with customers for 2023 implementation

Achievement of these criteria will indicate that we have achieved our objectives and that our forecasting of costs was accurate in hindsight. Therefore, we would be strongly seeking fast tracking for 2023-2028.

3.6 Demand

Forecasting for the next regulatory period will be based around climatic conditions, customer growth and customer demand. Following rigorous scenario modelling and application of industry heuristics, the key parameters were determined:

- ✓ Prevailing climate conditions have demonstrated high variability upon which water consumption is highly dependent
- ✓ Customer growth assumed to be 1.7% in line with recent trends
- ✓ Water demand forecasting has been modelled using a ground-breaking, multi-variable regression of temperature and new BOM soil moisture data
- ✓ Demand elasticity is immaterial given small changes to real prices
- ✓ Residential water consumption estimated at 188 kL per connection on average
- ✓ Non-residential water consumption has been estimated based on a three-tier size classification
- ✓ Rural water consumption forecast at 4,500 ML each year

Justification for demand and customer growth

Further detailed information on demand and customer growth calculations can be found in *Supplement C. Financing the Plan.*

3.7 Tariff changes

The majority of our tariffs are forecast to change at the rate of CPI minus 1%. Exceptions to this will occur to increase customer value, comply with the Hybrid Revenue Cap or following customer engagement.

With the exception of the tariffs outlined below, prices will follow a price path of CPI minus 1%, with the business capping inflation at 2.3% for 2018-19. This presents a guaranteed real decrease in bills amounting to 10% by 2027-28. The following tariffs will see price movements different to this:

- Finalisation of price harmonisation between central and northern pricing zones to ensure uniform variable water prices for all customers and better reflectivity of marginal costs to all users
- Abolition of Recycled Water Access charges for residential customers to avoid them paying two access fees
- Rebate to apply to rural infrastructure charges where we fail to issue a seasonal allocation of 100% to ensure charges only reflect the service received
- Discount to NCCs in non-growth towns to stimulate development in these areas, while a further discount on sewer connections ensure our costs reflect the service provided
- Implementation of new intermediate trade waste category ensures each customers potential risk to the system is priced efficiently and equitably
- Revisions to Land Development charges allows for the fast-tracking of applications for those requiring it and the increased re-work fees incentivises more accurate work the first time around.
- Reducing Elmore's sewer tariff by 20% in 2018-19. This is in recognition that this town receives a lower level of service than other towns and follows an emblem customer engagement exercise where the community was empowered to choose the option that best suited their circumstances.

***Table 3.5** – Proposed tariff changes*

$ 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Years 6-10
Water - Fixed Charge							
Water Access	$228.50	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Sewer Access	$686.64	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Water - Variable Charge							
Central	$2.2554	$2.2328	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Northern	$1.8038	$1.9946	10.82%	-1.00%	-1.00%	-1.00%	-1.00%

$ 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Years 6-10
Rural Water - Outlet Fees (per additional outlet)							
2-5 outlets	$27.51	$27.23	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
6+ outlets	$38.56	$27.23	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

$ 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Years 6-10
Recycled Water Access							
20mm meter or less	$114.25	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

$ 01/01/18	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Years 6-10
Water - New Customer Contributions							
Growth area	$1,596.10	$1,596.10	$1,596.10	$1,596.10	$1,596.10	$1,596.10	$1,596.10
Non-growth area	$1,596.10	$1,276.88	$1,276.88	$1,276.88	$1,276.88	$1,276.88	$1,276.88
Sewerage - New Customer Contributions*							
Growth area	$1,596.10	$1,356.69	$1,356.69	$1,356.69	$1,356.69	$1,356.69	$1,356.69
Non-growth area	$1,596.10	$1,085.35	$1,085.35	$1,085.35	$1,085.35	$1,085.35	$1,085.35
Recycled Water - New Customer Contributions							
All	$798.05	$798.05	$798.05	$798.05	$798.05	$798.05	$798.05

**From 2019-20 the Sewer NCC will include provision for actual cost of pump stations commissioned in previous year*

We believe that the current price path tariffs meet the needs of our customers and provides sufficient incentives for water efficiency while also allowing them to use *water to live, grow and enjoy*. It avoids potential price volatility that would be introduced given the highly variability in our cost for sourcing and supplying water, and the potential need for large long-term investment to meet future demand growth and climate uncertainty.

Further detailed information on the proposed tariff changes can be found in *Supplement C. Financing the Plan.*