



Water
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Delivering long term bill stability

Coliban Water Pricing Submission

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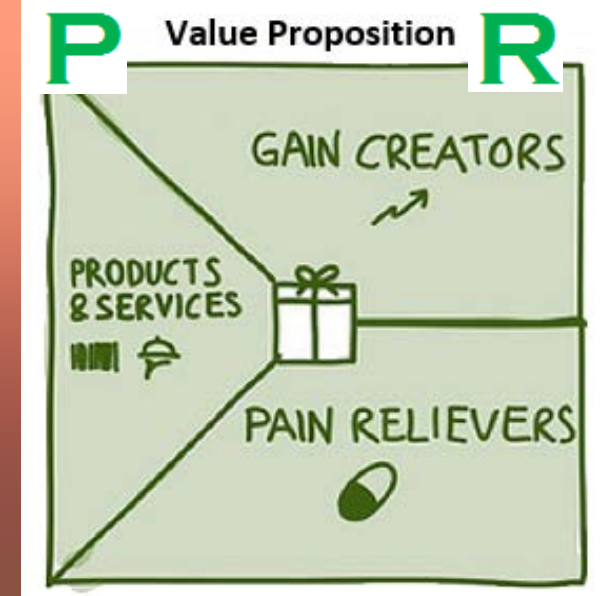
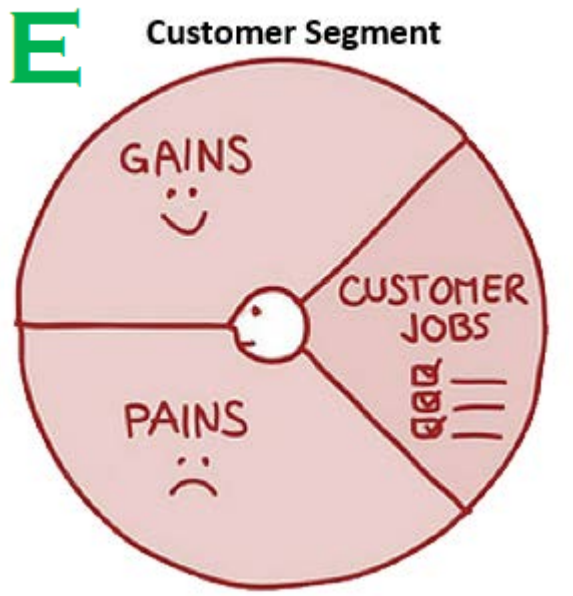
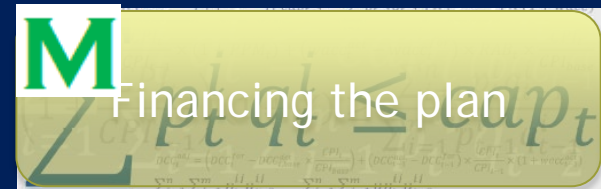


Our framework



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Proven value proposition canvas methodology



Our “best offer”



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Submission is a WIRO-compliant package

Near universal customer support

- **Bill increases less than inflation**
- **Financial viability assured**

Enhances customer value

Confident of Advanced PREMO rating



What customers value

EO

What we heard

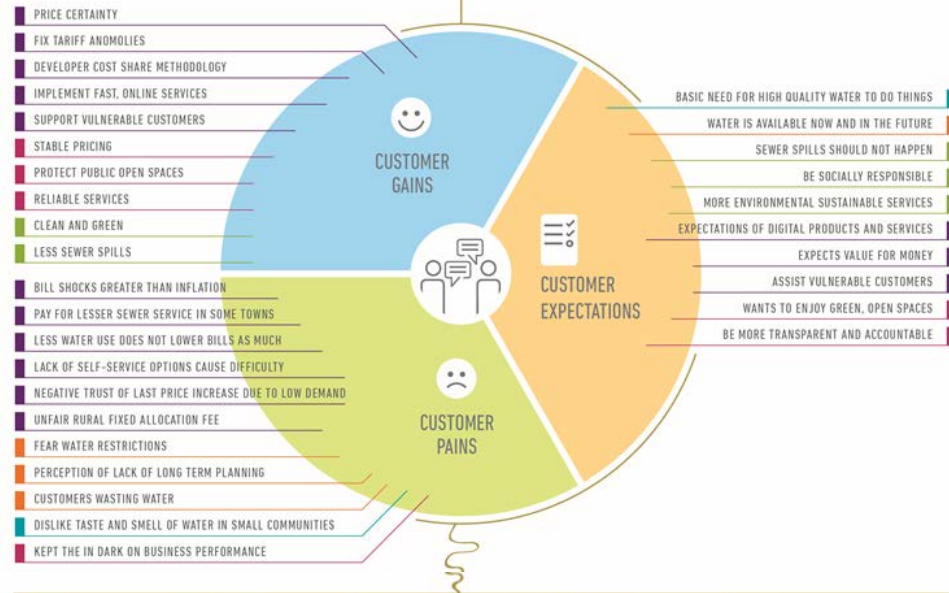
- Voice of customer by “pains”, “gains” and expectations
- Led to creation of 5 customer outcomes
- Refined further as we heard more from segment engagement
- Tested and validated in Community Draft



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The Golden Threads

CUSTOMER EXPECTATIONS, PAINS AND GAINS



Our customer promise

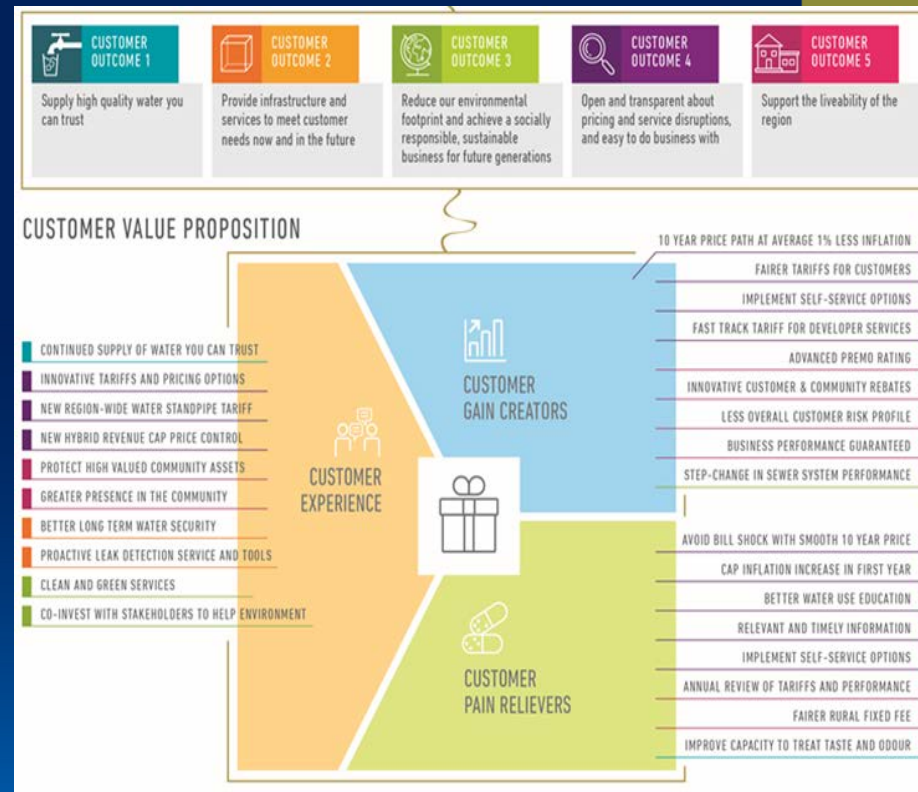


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PRMO

Customer value proposition

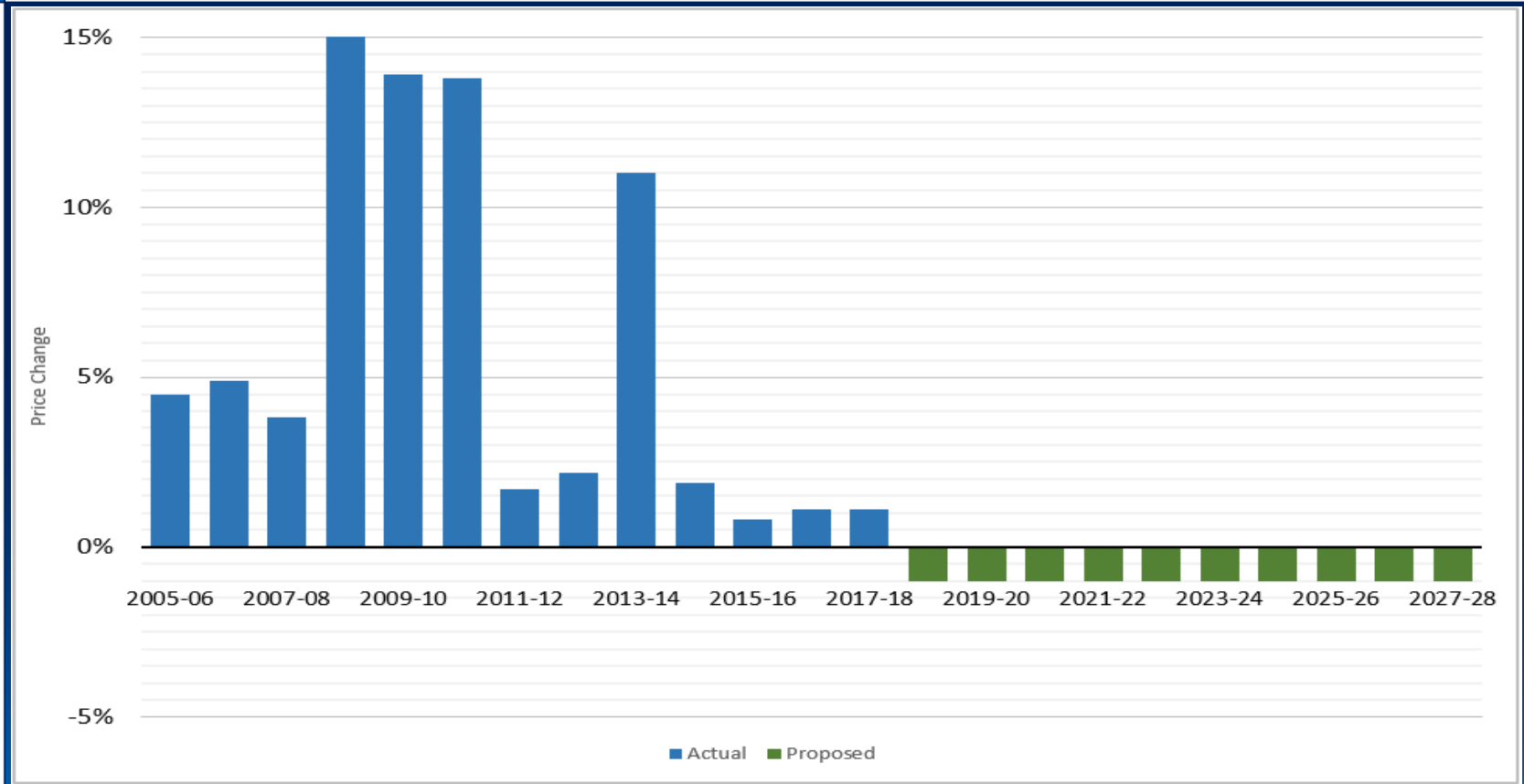
1. Long term bill stability
2. Repayment of debt
3. Protecting customers from risk
4. Skin in the game
5. Fairness and equity
6. Prudent and efficient expenditure



1. Long term bill stability supported by customers



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2. Repayment of debt



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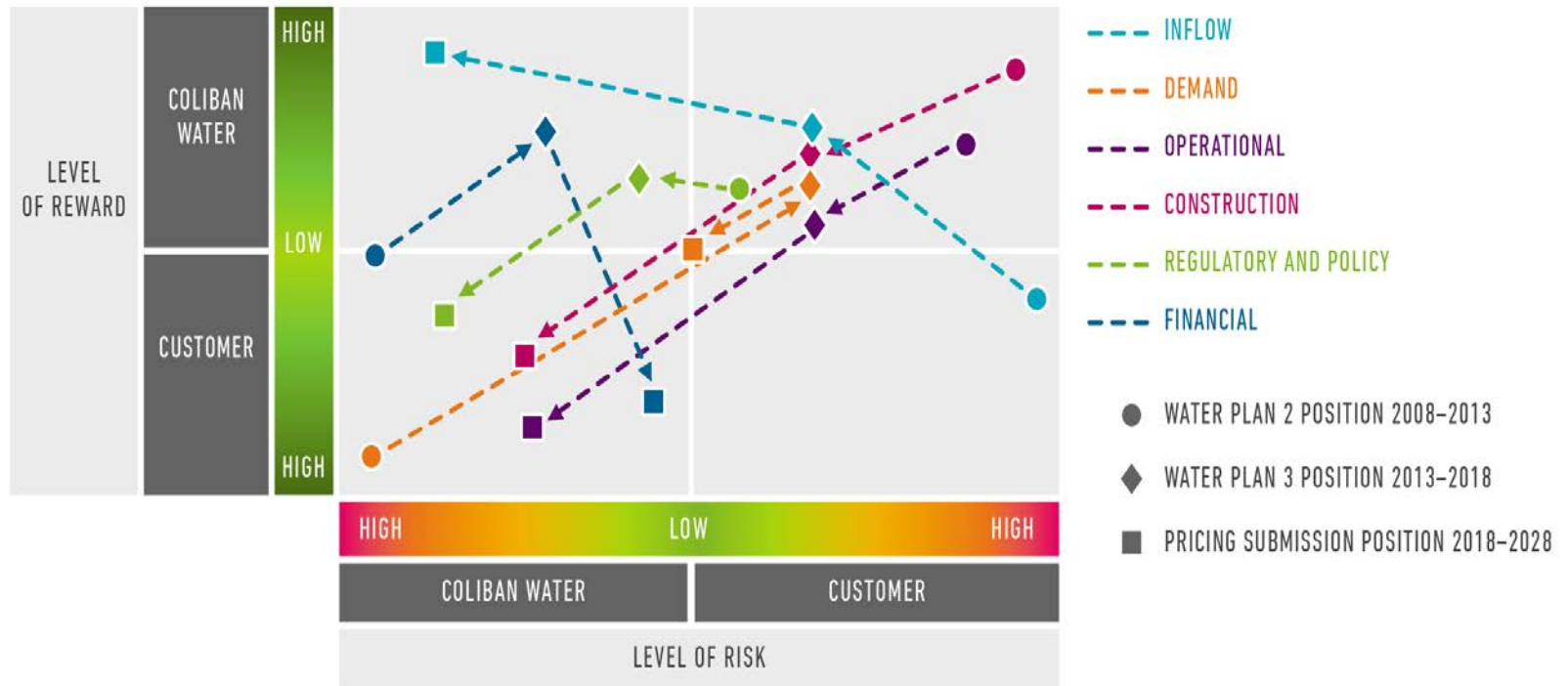
- **High debt levels due to**
 - Insufficient RAB (2005)
 - Necessary infrastructure expenditure (2005-2008)
- **Currently \$7,200 per household**
- **Continued repayment of \$5.5 million per year:**
 - Reduces future interest cost and customer bills
 - Enables credit rating improvement (and customer pass through)
 - Supported by customers
 - Allows us to take on significant risks from customers



3. Managing risk on behalf of customers



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4. Skin in the game



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- **Leading customer and community rebates (GSLs)**
 - Developed from Voice of the Customer and other engagement
- **Real acknowledgement of customers that receive lesser levels of service**
 - Tighter criteria than currently
 - Innovative community rebates
 - Eg: 2016-17: \$64k payable to customers (2013-2018: \$1k/year)
 - Rebate for allocating <100% of water to rural customers
 - **Not** including rebates expenditure in pricing model
- **Development of Outcome Delivery Incentives**



5. Fairness and equity



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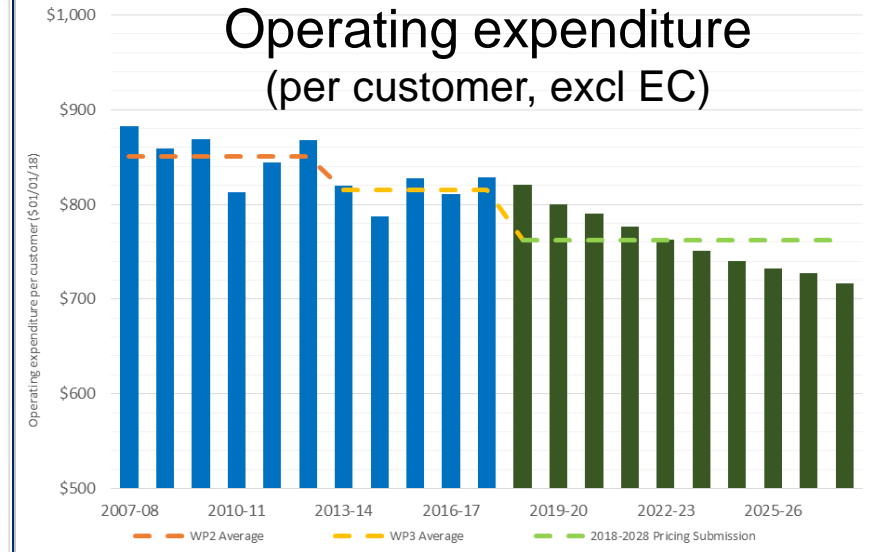
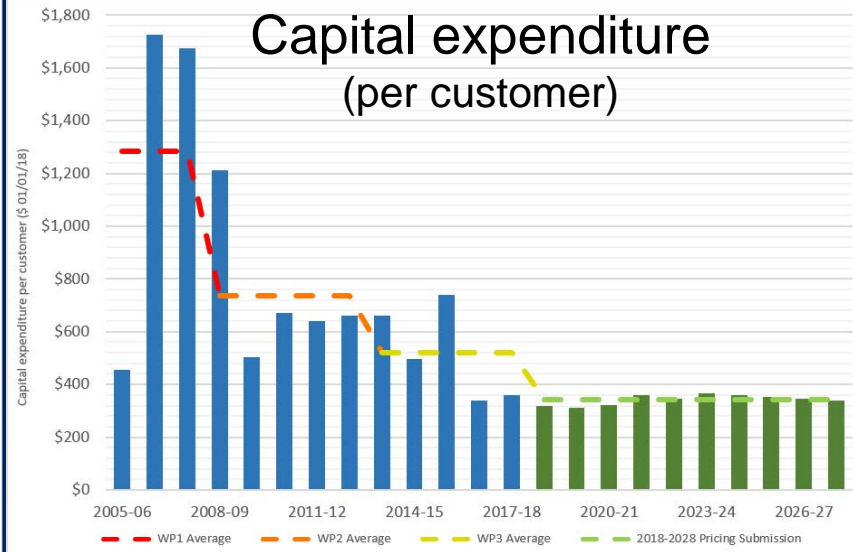
- **Genuine tariff reform to increase fairness & equity**
- **Loads of examples**
 - Residential Recycled fixed charge: reduced to zero
 - Empowered Elmore and Lockington STED customers
 - “User pays” fast tracking based on developer feedback
 - Excluding developer requirement to pay for pump stations
 - Reduced NCC for small towns
- **All supported by customer feedback**



6. Prudent and efficient expenditure



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- **Shielding customers from expenditure risks / increases**
 - Labour (not passing on greater than CPI increases)
 - Excluding uncertain capital projects
 - Many other examples of managing risk



Financing the plan

A. Mechanics



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- **Regulatory period: 5 + 5 years**
 - Fast tracking of 2023-2028
 - **IF** we achieve our six nominated criteria
- **Hybrid revenue cap**
 - Precedent of ESCOSA approval of SA Water
 - Revenue cap figure approved for 5 years
 - Ensures bill stability and cost reflectivity
 - Customer safety net of 3.5% nominal
 - Enables tariff changes
 - Annual customer engagement before submitting tariffs



Financing the plan

B. Revenue requirement



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- **Regulatory depreciation**

- ESC previously endorsed ranges from 2% to 8%
- Proposing 6.2% compared to “maximum” 6.8%
- Ensures bill stability and long term price reductions
- Enables capacity to pay down debt

- **Financial Viability Adjustment**

- Over-gearred regulatory indicator causes financial exposure
- \$1 million per year for 5 years
- Best way to achieve our customer promises



In summary



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- **Our value proposition is integral to the plan**
 - Proposition is what we consulted with customers
 - There are no separable portions – view offer as a whole
 - Consider the consequences to customer expectations & our ability to fund the plan if changes made
- **Submission proposing revenue cap**
 - Regulatory model is a means to an end
- **Identify items for fast tracking & detailed scrutiny**



Questions



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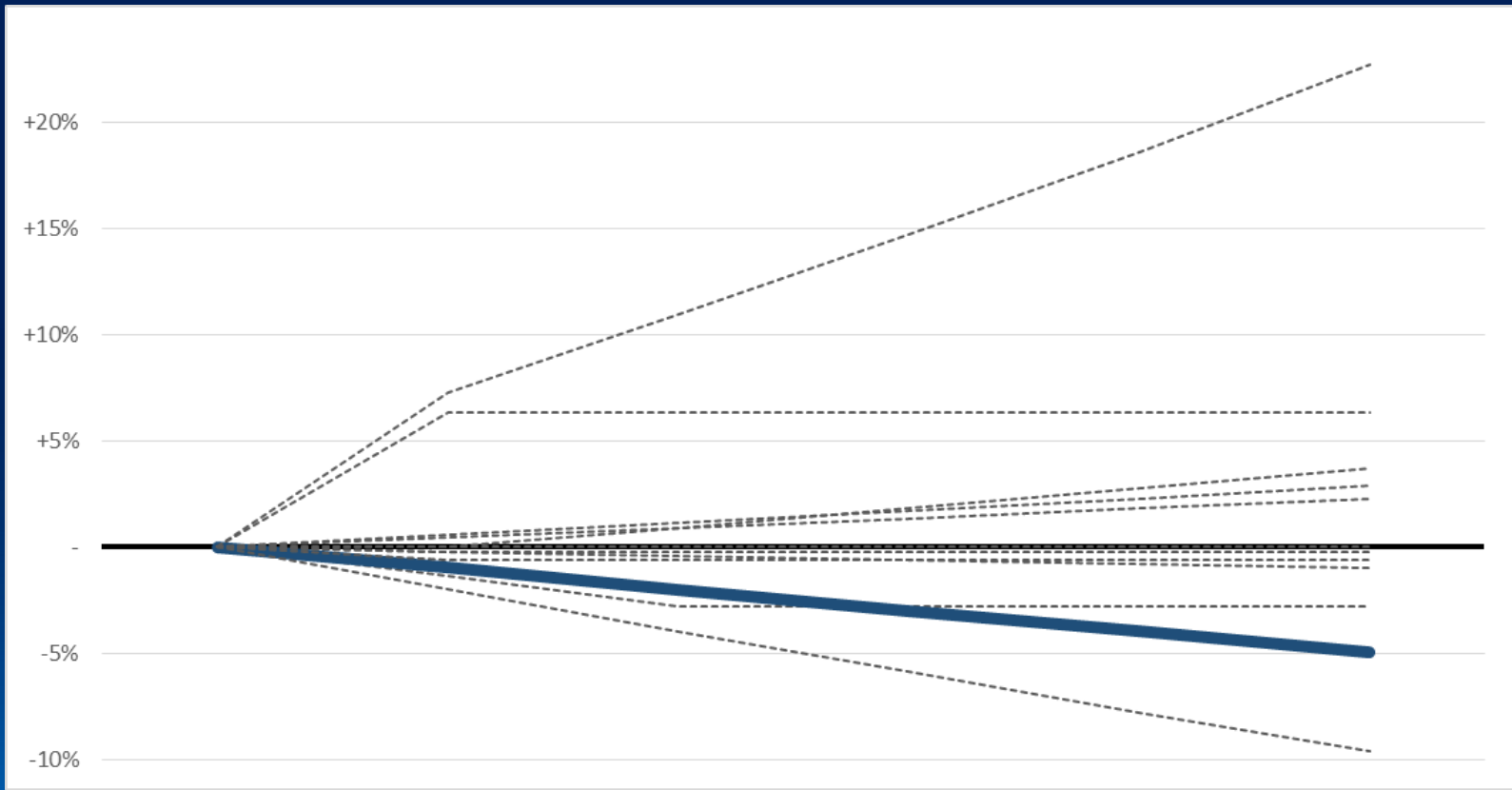


Enhanced real bill reductions after making permanent the voluntary 2013-14 reductions



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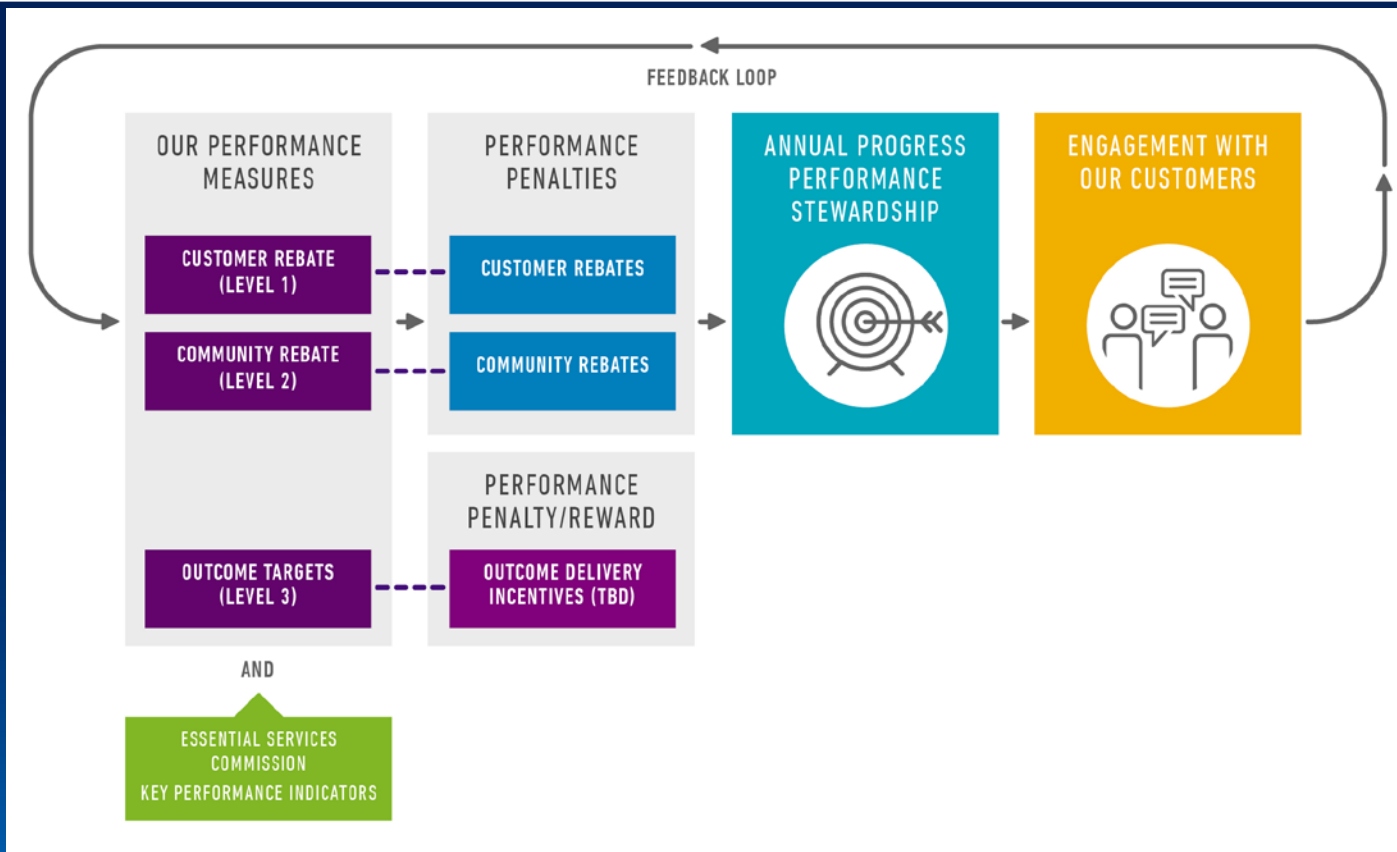
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Delivering performance stewardship to customers

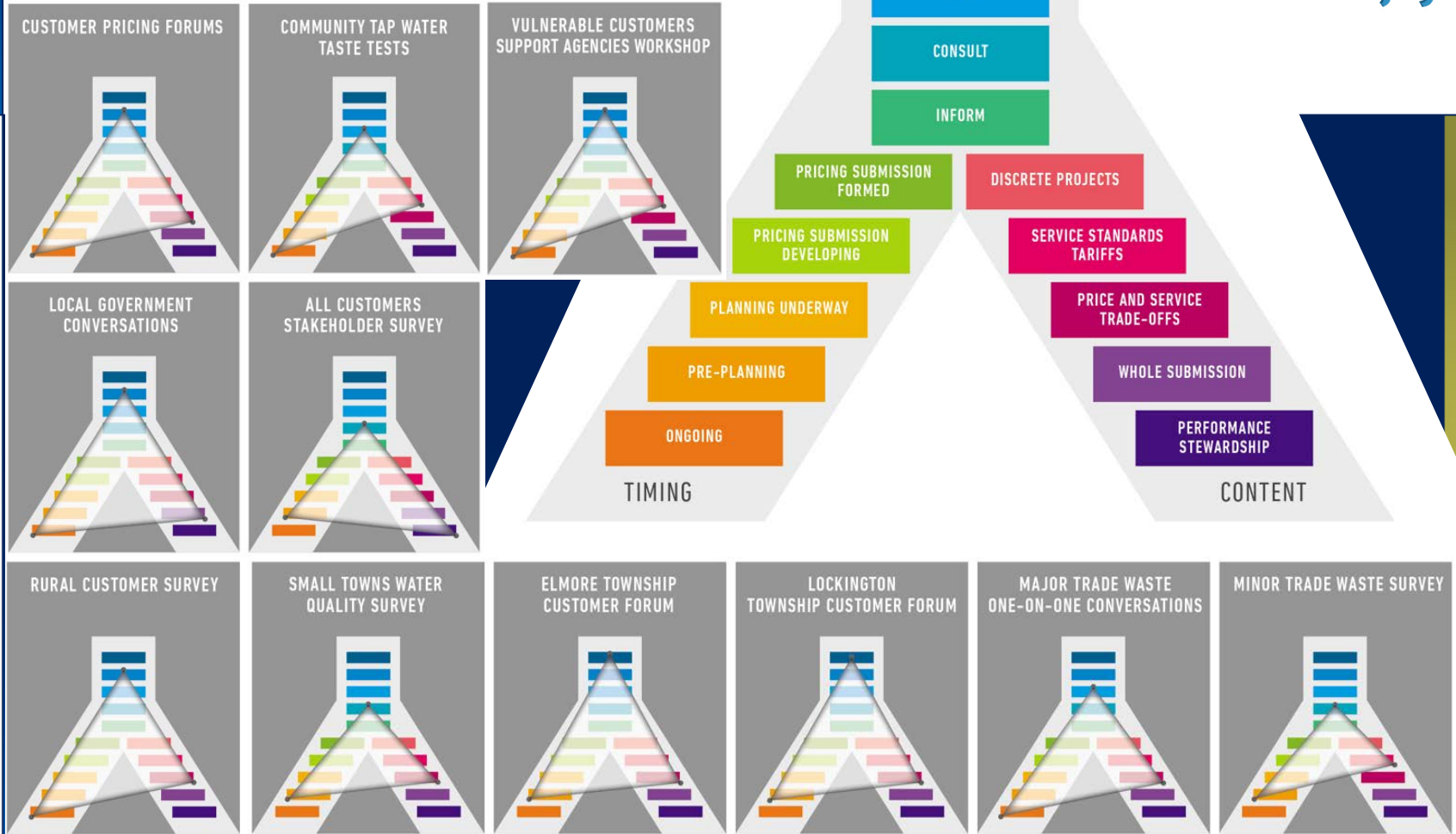


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Targeted engagement level for each customer segment

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Prudent capital investment



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Top 10 Projects	Completion	Expenditure	\$m 01/01/18	Service Category	WP3	PS18
1. Western Bendigo water network growth and pressure	2021-22	\$ 13.34		Water - Headworks	\$ 2.99	\$ 0.63
2. Bendigo WRP sludge processing upgrades	2023-24	\$ 11.10		Water - Pipelines/network	\$ 18.94	\$ 59.93
3. Strathfieldsaye water network augmentation	2021-22	\$ 9.11		Water - Pipelines/network		
4. Kyneton WRP lagoon compliance works	2020-21	\$ 6.80		Water - Pipelines/network		
5. Castlemaine WRP sludge handling upgrades	2022-23	\$ 5.60		Water - Pipelines/network		
6. Digital customer metering	Ongoing	\$ 5.00		Water - Pipelines/network		
7. Echuca West tank	2021-22	\$ 4.22		Water - Pipelines/network		
8. Heathcote WRP compliance	2021-22	\$ 4.04		Water - Treatment	\$ 31.81	\$ 13.23
9. Echuca WTP security of supply	2022-23	\$ 2.86		Sewerage - Pipelines/network	\$ 37.59	\$ 18.14
10. Epsom Huntly water main augmentation	2022-23	\$ 2.62		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	

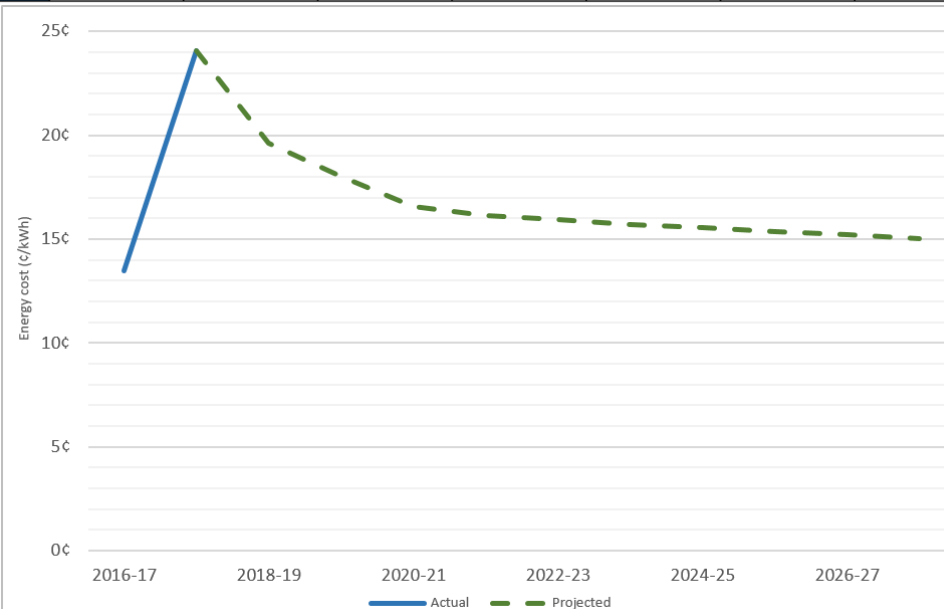


Operating expenditure where contractually bound or desired by customers



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\$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



5 + 5 years:
2023-2028 revenue cap fast
tracking if within tramlines



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- ☺ **PREMO: Advanced/Leading implies performance measures**
- ☺ **Operating expenditure: In line with ($\pm 2\%$) 2018 forecasts**
- ☺ **Capital expenditure: In line with ($\pm 5\%$) 2018**
- ☺ **Revenue: In line with ($\pm 1\%$) of our adjusted revenue cap**
- ☺ **No water restrictions: in a major town**
- ☺ **Outcome Delivery Incentives: Preparation in conjunction with customers for 2023 implementation**

2018 - 2023
\$556.21 m



2018 - 2023
\$570.71 m



Hybrid Revenue Cap Dynamics and mechanics



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Dynamics

- Best meets WIRO
- Precedent ESCOSA & SA Water model
- Enhanced bill stability
- Customer support of debt repayment
- Avoids unstable price caps & volatile revenue caps
- Enables customer centric tariffs

Mechanics

- Single revenue cap figure
- 50% adjustment based on actual demand
- Covers prescribed services
- Annual debt, FAL, CPI passthroughs
- Smooth adjustments are incentivised



Other risk initiatives



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- **Customer safety net of 3.5% nominal**
- **CPI impact capped in 2018-19**
- **Demand forecasting risk eliminated**
- **Leading Customer and Community Rebates**
- **Capital: Excluded uncertain; 10% risk adjustment**
- **Increases excluded from regulatory operating expense:**
 - IT increases, Labour increases, Carbon pledge compliance, Rebates, Groundwater expenditure, Revenue not collected, etc
- **Financial viability: \$1m financial adjustment activates these risk measures and ensures financial viability**
- **Rollover to 2023-2028 if attributes within tramlines**

