



28 September 2017

Marcus Crudden  
Essential Services Commission  
Level 37, 2 Lonsdale St,  
Melbourne VIC 3000

Dear Marcus,

**North East Water's Price Submission.**

On behalf of North East Water and its Board, we are pleased to provide our Price Submission for 2018-2026.

Our Submission has been prepared with a focus on customer outcomes, in particular, a proposed regulatory term of eight years.

Our Submission has been prepared for the Commission to ensure that while it is comprehensive in scope, it is concise in form. North East Water is readily available with a raft of supporting documentation should it be required by the Commission.

We look forward to our meeting and presentation scheduled for Wednesday, 18 October 2017.

Yours sincerely,

A handwritten signature in blue ink that reads "Kevin Freeman".

**Kevin Freeman**  
**Acting Managing Director**  
**North East Water**



# Price Submission 2018 – 2026



## BOARD ASSURANCE

The North East Water Board attests to the quality and accuracy of the information included within this Price Submission. This attestation is supported by a resolution of the Board dated 15 / 09 / 2017.

As at 22 / 09 / 2017, the Directors of North East 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 price submission and relied upon to support North East Water’s price 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 price submission satisfies the requirements of the 2018 Water Price Review Guidance paper issued by the Essential Services Commission in all material respects.



David McKenzie

Chair

Dated: 22 / 09 / 2017

## Strategic Intent

We support the health and prosperity of our region by providing sustainable water solutions to our customers and communities. Our ambitions are:



### People

That our people are aligned with our business direction, are proud of their contribution to the business performance and own a culture that is centred on our values of respect, honesty, teamwork and trust.



### Environment

To make a positive contribution to the regional environment, using science and partnerships to build resilience and adapt to climate change.



### Water Services

To deliver reliable, predictable and fit for purpose services with zero harm to our people, customers and the environment.



### Assets and Infrastructure

To be an innovative industry leader in managing efficient, smart, high performing and integrated water assets that support regional growth and development, liveability and community resilience.



### Customer and Community

To be an engaging and collaborative community leader, recognised for creating mutual value through outstanding customer service and extraordinary partnerships.

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## EXECUTIVE SUMMARY

This Price Submission is an important chapter in the partnership between North East Water and its customers. Consistent with the Corporation's commitment to participatory decision-making, North East Water conducted a lengthy and broad engagement with its customers and this document delivers upon their expectations and ambitions.

North East Water's customers developed proposals and deliberated on trade-offs, priorities and pricing. In response, the Corporation will deliver new initiatives and increase our range of 'Business as Usual' (BAU) programs. Interestingly, the customers' proposals, now referred to as Customer Outcomes, are a reflection of the Customer Values identified during previous customer research. Customer Outcomes the Corporation will deliver during the 2018-2026 period, and proposed within this Submission, are:

- **Reliable Services:** Clean, safe water and more resilient systems
- **Responsive Services:** Timely responses and inclusive decisions
- **Affordable Prices:** Fair prices and increased customer support
- **Efficient Systems:** Improved asset stewardship and continuous improvement
- **Local Focus:** Local people and increased education and awareness
- **Sustainable Region:** Smaller environmental footprint and enhanced liveability.

The Corporation's approach to the delivery of these Outcomes aligns with its ambitions and is articulated within a suite of new strategies addressing 'People', 'Customer and Community', 'Assets and Infrastructure', 'Water Services' and 'Environment'.

The Corporation's commitment to efficiency is demonstrated by its AA credit rating, affordable services and operational and capital efficiency targets of 1.2% and 2% respectively. The Corporation proposes a price increase of 0.45% — less than \$5 (real dollars) per annum for residential customers. Minor and Major Trade Waste customers will experience this small price increase and New Customer Contributions will also rise by 0.45% annually. These are within the 'willingness to pay' scope expressed by North East Water's customers and will enable the Corporation to achieve their stated ambitions and priorities.

Within the broader context of rising utility prices, all customer groups have asked for greater price certainty. This provides a touch point to the Corporation's Strategic Intent, to 'support the prosperity of our region'. With that in mind, the participants of our Deliberative and Major Customer Forums identified that greater price certainty could be achieved by a regulatory term longer than five years. Accordingly, having considered the risks and benefits to customers and the business, the Corporation is proposing an eight year regulatory term.

The Corporation will deliver \$146m in Capital Projects and a responsible Asset Renewals Program over an eight year period. While driving reliability, the highlights also include major investments in renewable energy to reduce carbon emissions and energy costs. Customer revenues will also support the delivery of \$341m of Operational activities.

North East Water's customers have supported changing eight of the Corporation's existing 21 Service Standards. Almost all of the changes relate to increasing response times that involve driving distances in rural areas, and these new timeframes highlight understanding of the Corporation's need to support the health and safety of its people and communities. They have proposed the current Guaranteed Service Levels remain unchanged.

Some of the new activities the Corporation will undertake include delivering an outstanding customer experience using new technologies such as smart water meters and extra digital channels for improved customer interaction. The Corporation will increase its commitment to corporate social responsibility and deliver more environmental education programs.

The Corporation continues to experience strong cash-flows from operations, and low debt levels. This supports our capacity to deliver \$47m of additional projects that are currently ring-fenced from this Price Submission, or to respond to any unforeseen financial risk during the eight year term, without transferring the risk to customers.

In addition to ongoing monitoring and annual reporting back to customers and stakeholders, the Corporation proposes to calibrate its approach through a 'light-touch' review to be conducted in collaboration with the Essential Services Commission (ESC) at year four of this proposed regulatory term.

Using the ESC's PREMO Framework, our self-assessment has identified that this Submission achieves an overall level of 'Advanced'.

With a well-established record of achievement and ambition, the Corporation confidently proposes a customer-focussed pathway throughout this Price Submission.

## INTRODUCTION

**We support the health and prosperity of our region  
by providing sustainable water solutions to our customers and communities.**

North East Water provides services to an estimated population of 107,000 people. Water is provided to 41 communities via 50,000 connections and wastewater services are provided to 24 of these communities through almost 40,000 connections.

In addition, the Corporation provides trade waste services to 854 commercial customers and 26 major industrial customers. North East Water also delivers raw water to one community and re-use water to a number of urban and rural customers.

More than 70% of the Corporation's revenue is recovered from the four regional cities of Wodonga, Wangaratta, Yarrawonga and Benalla. This enables North East Water to provide significant support to the other regional communities.

Some of the \$95m in capital investments during the current regulatory period (2013-2018) that were made to underpin community resilience included 520 ML in off-river water storage at Freeburgh and small town sewerage schemes in Glenrowan, Tungamah, Oxley, Milawa and Moyhu.

Included within North East Water's capital investments over this period, the Corporation's Renewals Program was progressed to ensure long-term asset integrity whilst balancing cost, risk and the levels of service that were appropriate to customer needs. As the population of the broader region is projected to grow to 200,000 by 2051, those investments, along with those proposed within this Submission, demonstrate the Corporation's focus on growth and system reliability.

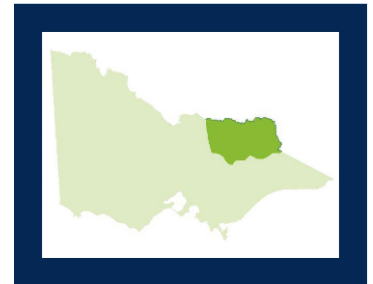
With a steadily increasing customer base, North East Water is preparing for a sustainable future which will deliver upon the Customer Outcomes and provides greater price certainty over a longer than usual – eight year – regulatory term.

This document outlines:

- The process of co-designing the Price Submission with the Corporation's customers
- Details what North East Water will deliver
- Provides a snapshot of the PREMO self-assessment, and
- Identifies the revenue required to fulfil the Customer Outcomes.

The Customer Outcomes align with our Strategic Intent — that we support the health and prosperity of our region by providing sustainable water solutions to our customers and communities — and the Ambition Statements that derive from the Strategic Intent.

In preparation for the new regulatory period, the Corporation has developed a number of new strategies to address those Ambitions. The Strategies have significantly benefited from the Price Submission's Engagement Project, 'Your Water, Your Say', and they outline the high level, functional approach in supporting the Corporation's achievement of the Customer Outcomes.



# PART A – CUSTOMER ENGAGEMENT

## ENGAGEMENT METHODOLOGY

### A Co-designed Approach

North East Water’s engagement for this Price Submission was built from the solid foundations of previous Water Planning iterations which has seen customers influence major decisions, including the development of the Tariff Strategy.

The approach taken for this Submission satisfied the ambitions of customers and stakeholders and enabled the Corporation to achieve best practice. It was fit for purpose as it captured views from across the region, delivered independent facilitation at critical customer decision points, was flexible enough to respond to any emerging risks or opportunities, and provided for both qualitative and quantitative information capture.

We engaged early, broadly and deeply with our customers, to co-design this Price Submission.

In addition, it delivered a feedback loop to participants and evaluation of all stages of the process.

Most importantly, it stretched the Corporation along the IAP2 Engagement Spectrum to the ‘Collaborate’ level.

**Figure 1:** Our Price Submission Journey



### Engagement Goal

The following Goal was developed to enable both the business and customers to be clear about North East Water’s intention for meaningful engagement and the ability of the customers to influence decisions.

*“North East Water will collaborate with our customers and communities in meaningful dialogue, to ensure their voices are heard and their values and preferences for our water and wastewater services are understood. Wherever practicable, this information will be embedded into our future activities, and captured in Price Submission 4.”*

## Engagement Principles

In February 2016, a workshop was held with North East Water's existing Customer Panel and the Board to inform the development of principles to guide the engagement. After considering a Discussion Paper and deliberation about engagement values, standards and approaches, the Panel provided guidance to enable a set of Engagement Principles to be developed. The Principles drew heavily from the IAP2 Core Values.

**Figure 2:** Engagement Principles for the Price Submission

| Engagement Principles  | Descriptors                                                      |
|------------------------|------------------------------------------------------------------|
| Proactive & planned    | We engage people early based on sound planning                   |
| Innovative & inclusive | We build diversity in participation and work together creatively |
| Transparent & trusted  | The process is transparent and builds trusting relationships     |
| Informed & influential | Participants are well informed and can influence decisions       |
| Rigorous & reported    | The engagement is meaningful and has a report back loop          |

In April 2016, the Corporation held a second workshop with the Customer Panel that included a case study of best practice engagement, discussion about the IAP2 Engagement Spectrum, engagement timing and possible topics for the engagement. The Panel then deliberated on the format of the engagement process.

The Panel's position was that the engagement should stretch beyond 'Inform', 'Consult' and 'Involve' to achieve the 'Collaborate' Level as defined in the IAP2 Spectrum. The Panel also recommended that considerable preplanning and earlier engagement than that of previous Price Submissions would be beneficial. It was suggested the engagement should include consideration of the full range of business activities as well as priorities and 'trade-off' considerations of those priorities relative to increased affordability. All the suggestions were accepted and woven into a 4-stage Engagement Project Framework.

### A Staged Approach

#### Stage 1 Build Foundations

This was an internal and external environmental scan that collated relevant North East Water resources and information into a small library of documents. This desktop exercise built a foundation of knowledge from which further engagement activities could be developed. A Document Map is provided in Appendix 11.

#### Stage 2 Explore Key Themes

This stage drew from the knowledge base and delivered preliminary discussions with a broad range of people across the entire service region. The 'Your Water, Your Say' brand was developed and widely publicised to generate interest. During this stage an online survey was developed, social media discussions were initiated, and 23 Pop-up Kiosks were held across the region. In addition to open-ended questions, a key aspect of this consultation was testing the currency of the Corporation's Customer Value Research that was conducted in 2014.

In this stage, five workshops were held with residential customers in different parts of the region. Segment specific Focus Groups were also held with commercial customers, property developers and major industrial customers. Young people (future customers) were engaged through 15 focus groups across the region.

A Stakeholder Reference Group was established, comprised of Councils and government agencies. They met on several occasions and discussed ideas such as servicing population growth, catering for increased liveability and delivering resilience in the face of climate change. Their deliberations and advice informed both the Price Submission and North East Water's *Urban Water Strategy*.

Separate engagements were also held with Traditional Owners. Relationships were established with the Murray Lower Darling Rivers Indigenous Nations (MLDRIN), who represent most of the Aboriginal nations within our service area. Discussions centred on identifying and including the interests of Aboriginal people in the outcomes. North East Water is working collaboratively with MLDRIN in developing an appropriate approach to recognising the Aboriginal values of water and enabling an ongoing partnership to create mutual social, economic and environmental value. This work will continue as a Partnership Project.



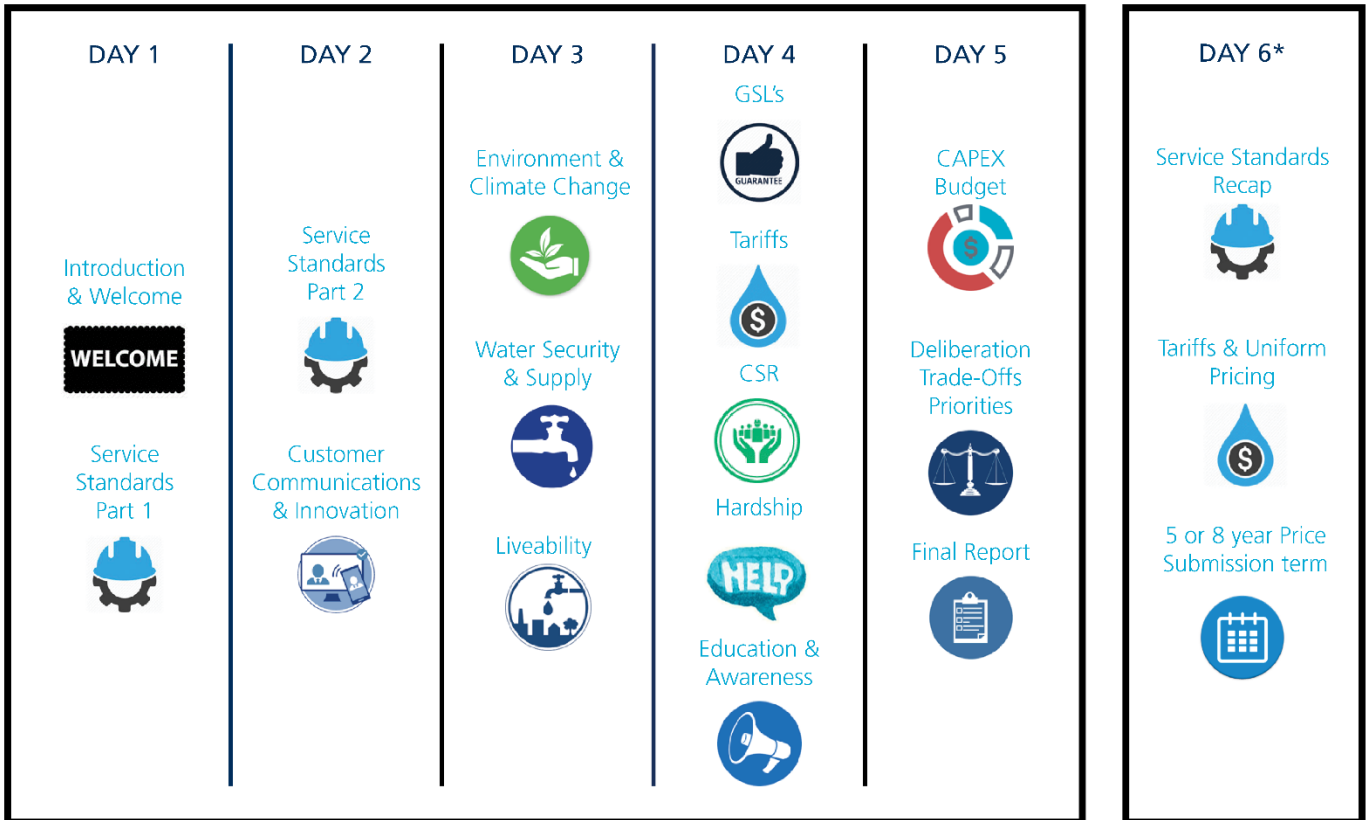
### Stage 3: Develop and Test Scenarios

#### Deliberative Forum

As part of Stage 3, the findings of the previous engagements were consolidated and delivered to an independently facilitated Deliberative Forum. This group was recruited and selected by an independent consultant using a random, stratified sampling methodology to ensure its integrity as a representative group. This ensured the 32 people who participated as members of the Forum appropriately reflected the demographic profile and geographic spread of customers across North East Water’s service region.

The Forum was informed about the statutory requirements, the process to date, background briefing papers and presentations from both internal and external subject matter experts. In addition, independent facilitators were used to ensure the integrity of the deliberative process and the voting procedure.

**Figure 3: The Deliberative Forum Themes**



\*The North East Water Board requested Day 6.

The participants deliberated on the full suite of topics detailed in this Price Submission. The Forum was planned to run for five days but was extended to six days at the request of the Board. The Board felt further deliberation would be beneficial in supporting their decision making regarding Service Standards, pricing and the term of the Price Submission. While several Board members had observed various earlier sessions, the entire Board actively engaged with the Forum on Day 6 and then observed their deliberations and voting on a number of topics.

Information captured from the Forum was used to draft a suite of Customer Proposals.

#### Stage 4: Consider Draft Proposals

Proposals were validated against the information collected during the engagement activities of Stages 1, 2 and 3. The information was subsequently presented to the Board for consideration.

#### Feedback Loop

Following Board consideration, the Proposals were reflected back to participants through another similar round of engagements. This involved reconvening many of the focus groups across the region and presenting customers with the full suite of Proposals and the Board’s responses. The feedback obtained from these engagements was very positive and no changes were requested to the Proposals.

## Evaluation

The engagement process reached over 2,200 people, a significant proportion (4.4%) of the Corporation's customer base, and all activities were evaluated by customer feedback, including, 'To what extent do you believe we are considering community interests as part of our decision making?' The Corporation achieved an average customer engagement satisfaction score of **93%**.

## WHAT WE HEARD

### Customer Proposals

During Pop-up kiosks, Focus Groups and the Reference Group, customers delivered their views on the existing 'Customer Values' that had been developed through previous research.

Our customers still expect "turn of the tap reliability" but had no appetite to trade-off continued affordability for increased responsiveness.

At the Focus Groups, customers discussed a broader range of topics as to what North East Water should be focussing on as priorities into the future. Although slightly tailored to each audience, for consistency the Corporation heard customer's thoughts regarding communications, corporate social responsibility, our services, the environment, water security and supply and community liveability.

The significance of affordability, and even more particularly, the importance of the Corporation making allowances for those customers experiencing financial stress was discussed and a number of groups debated climate change, the essential role that water plays and the need for conservation. Comments were also made concerning our customers lack of knowledge about water in a changing climate.

The key themes that arose from the consultations are summarised as follows:

- Provide a reliable service at an affordable price;
- Move toward increased digital and online customer communications, but provide a choice;
- Continue to invest in programs to increase the community's awareness about water efficiency; environment and climate change – collaborate with local industry to implement initiatives in this area;
- Be a responsible local business – support those in hardship, provide jobs and traineeships for young people and those who are disadvantaged, support local towns through water related sponsorships; and
- Maintain the capability to meet current service levels including a local customer contact centre and water supply reliability; keep customers informed of planned and unplanned supply interruptions.

During the signature piece of the engagement process — the Deliberative Forum, participants were provided both pre-reading on each topic and the outputs from previous engagements. They discussed all topics in much greater detail – as shown previously in Figure 3. Following presentations from both internal and external speakers, deliberations were held and votes were taken on matters relevant to each topic. The trade-offs of higher service levels, such as more rapid response times, were also considered against affordability.

The Forum made it clear that affordability was more important than increased service standards, as long as clear communications were delivered quickly to the people in areas being impacted by service interruptions.

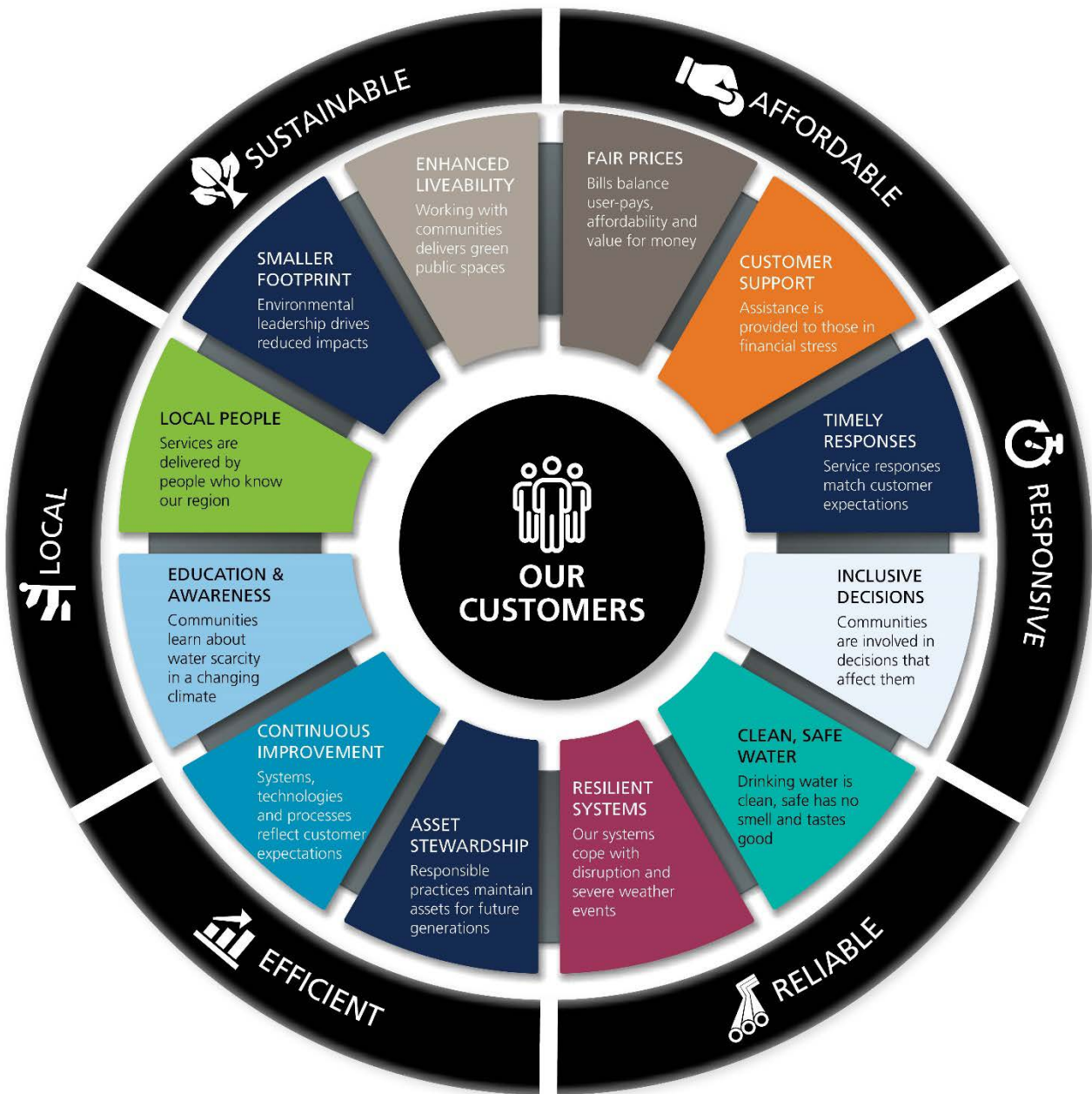
The Forum participants ultimately delivered 88 Customer Proposals addressing the full suite of topics. These ranged from the anticipated to the insightful, and are provided in Appendix 2.

### Customer Values Validated

Unexpectedly, as the full suite of Customer Proposals were collated, it became increasingly clear that the themes emerging from the 2017 Customer Forum matched and validated the Customer Values established by the Corporation in 2014. These Values – affordable, responsive, reliable, efficient, local and sustainable – had been developed following extensive research and remained at the core of the Corporation’s services. The Customer Forum established that the customer values of most importance in 2014, still held true three years later in 2017.

Under the scope of these Values, the Corporation further distilled the Customer Proposals into six key Customer Outcomes. These Outcomes encompassed the core principals of the Corporation’s 12 Outputs. These can be seen in Figure 4 (below).

**Figure 4:** Customer Outcomes Framework



### Customer Outcomes

Of the 88 Customer Proposals, the Board accepted 67 without change, accepted 15 with modification and declined 6 with supporting explanation. The Customer Proposals, as well as the Corporation’s responses, are shown in Appendix 2.

## HOW WE WILL REPORT BACK

Reporting the Corporation’s performance against the Customer Outcomes is a critical component of the engagement process. The Corporation’s commitment to this will not only give customers confidence in North East Water’s activities, it will ensure the Corporation retains the high level of trust earned from its customers and current 91% customer satisfaction rating.

**Figure 5:** The Chair of North East Water responds to the Forum’s vote to propose an 8 Year term.



To ensure it is comprehensive, the Corporation’s reporting back will take several forms. The performance measures proposed reflect customer expectations. It is North East Water’s intention to publish a six monthly ‘Report Card’ on performance against the Customer Outcomes. This will be located on the Corporation’s website and links will be provided through social media and announcements in regional press.

The Report Card will also have links to key strategies, reports and benchmarking studies.

The Corporation intends to reconvene the Deliberative Forum Group as part of a ‘Customer Panel’ at least once per annum. On these occasions North East Water will present a detailed Annual (financial year) Report Card containing the full suite of their (Board accepted) Customer Proposals as Price Submission 4 activities.

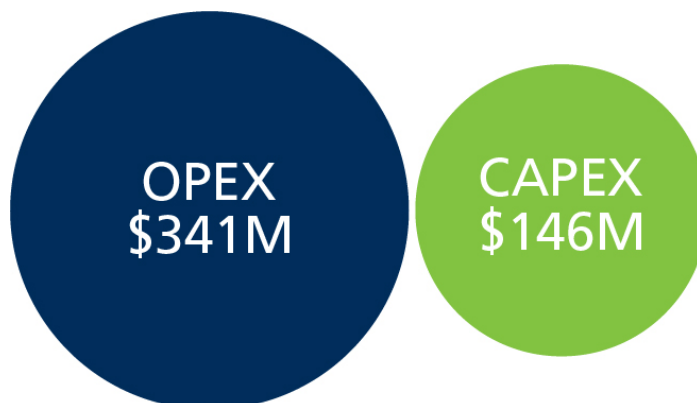
Should unforeseen events require adjustments to any activities or pricing during the regulatory term, this would commence with open dialogue with the Customer Panel as a first step.

The Corporation also intends to meet with major industrial customers, developers, stakeholders and Regulators at least once per annum and will present the Annual Report Card, in person, on those occasions.

A concise Price Submission Performance Reporting Plan is shown in Appendix 10.

Over the period of this Price Submission, North East Water will ensure the delivery of these Customer Outcomes with the following Operational (OPEX) and Capital (CAPEX) investments (Figure 6).

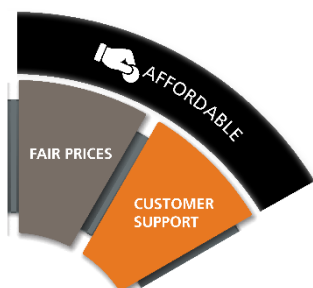
**Figure 6:** Our Expenditure in Delivering Customer Outcomes for the 8 year period



## PART B – WHAT WE WILL DELIVER

### CUSTOMER OUTCOMES

We will deliver outcomes that reflect the needs and aspirations of our customers and we will measure our performance



# Affordable Prices



2 cents of every operational dollar spent goes toward 'affordable' outcomes



Our tariff levels and structure are the key drivers of 'affordable' outcomes

#### What our customers said

- It's really important to keep water and sewerage bills low
- We want prices to provide enough funds to deliver core services and our other priorities, to support community prosperity
- We want those in financial hardship to be supported in retaining access to water services

#### What we will deliver (Our Outputs)

**Fair Prices** – Bills balance user-pays, affordability and value for money

**Customer Support** – Assistance is provided to those in financial stress

| How we will deliver                                                                                | Business strategy / mechanism       |
|----------------------------------------------------------------------------------------------------|-------------------------------------|
| Continuing our customer empowering tariffs that deliver customer cost incentives to conserve water | Tariff Structures                   |
| Driving continued efficiencies and prudent control of expenditure                                  | Financial Sustainability Principles |
| Ensuring sensitive yet effective revenue collection                                                | Customer & Community Strategy       |
| Providing tailored assistance to those requiring our products and services                         | Customer Support Program            |

#### Key activities

- Customer Support Program
- Domestic Violence Assistance Program
- Leak & Water Rebates

#### Key success measures

- |                         |                                                                                                                                                                                                                   |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fair Prices</b>      | <ul style="list-style-type: none"> <li>• &gt;70% of customers pay their water bill within the required 30 days</li> </ul>                                                                                         |
| <b>Customer Support</b> | <ul style="list-style-type: none"> <li>• Continuing reductions in the number of customer connections being restricted, including zero restrictions of people eligible for the Customer Support Program</li> </ul> |

## Regulatory Period

Within the broader context of escalating energy prices, both the Corporation's residential and industrial customers have sought price certainty. With this in mind, customers participating in the Deliberative Forum identified and considered the risks and benefits of a longer regulatory period. They questioned and discussed the tariff structure, their desire for price certainty into the future (opposed to that experienced in relation to other utilities), and the possibility of a 'safety-net' if needed.

Our customers want the price certainty a longer regulatory period would provide.

North East Water has a long-standing commitment to its customers that the Corporation assume a generous level of regulatory risk. This has been reflected strongly in the tariff design with a 50% reliance on the variable (volumetric) component of the customer account. The Corporation recognises that its better placed to assume risk than its customers and proposes to apply this principle throughout the term of the next Price Determination.

In considering a longer period, customers encouraged the Corporation's commitment to conduct a review and to adjust pricing should a material over-recovery occur. Following the deliberation, the representatives of North East Water's customer base expressed 100% support for North East Water to pursue a greater than five year regulatory period. Hence, this Submission proposes an eight year regulatory term.

The Corporation's capital delivery program for eight years is taken from a robust 20 year forward projection plan. This Price Review does not include any high risk (large scale, complex or controversial) projects. The Corporation's proposed Renewals Program is based on sound asset management systems and process and the overall scale of investment is aligned to the Corporation's delivery capacity.

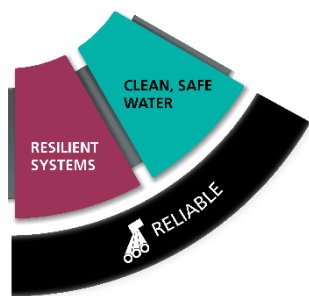
The data shows North East Water under-recovered in six of the first eight years of economic regulation and over-recovered in the years to date of the current regulatory period. For the 12 years to 2016-17, the Corporation has under-recovered 2,310 ML (or 1.4%) of total demand. Given this previous regulatory experience, a number of principles have been embedded in the business to manage deviations from a Price Determination. These include:

- Risk sharing (significant reductions in residential consumption occurred in 2010-11 and 2011-12 where the business under-recovered revenue and in response, short term reductions and deferrals were made in operational expenditure in order to manage cash-flow)
- Ring-fencing of capital expenditure (ring-fenced growth related investments and small town projects where the certainty of delivery is low – for example, since 2013 small town sewerage schemes have been developed in Glenrowan, Tungamah, Oxley, Milawa and Moyhu)
- Capital projects deferred in the event of uncertainty relating to revenue recovery (delayed investment in upgrades to plants subject to uncertainty regarding continuation of any major customers)
- Sharing benefits with customers (Fairer Water Bills Initiative saw a reduction in volumetric charges of 10% and a freeze on fixed charges). This would again be proposed by North East Water should the Corporation materially over-recover its revenue requirement in a succession of years
- Using Balance Sheet capacity to absorb potential short-term risks.

Board support for an extended Price Determination is based on ensuring customer benefit from the current stability of the business, with particular emphasis on being 'Reliable', 'Affordable', 'Sustainable' and 'Efficient'. This is coupled with a commitment to ensure ongoing customer engagement. In addition, there is a willingness to commit to extra opportunities that may emerge, conditional upon the Corporation maintaining its financial position in accordance with the forecasts of this Submission over the eight year period.

In addition to the proposed monitoring and reporting of performance to customers, North East Water proposes to collaborate with the ESC at year four of the regulatory period, to conduct a 'light-touch' regulatory review. The monitoring process would inform both the Corporation and the regulator of any material changes in circumstances.

Without any material changes, the review would consider adherence to the price path that has been articulated in this Submission and also the achievement of KPIs — noting that Customer Satisfaction >90% is one of those KPIs.



# Reliable Services



27 cents of every operational dollar spent goes toward 'reliable' outcomes



20 cents of every dollar spent on capital projects goes toward 'reliable' outcomes

## What our customers said:

- We want clean, safe drinking water and a “flush and forget” sewerage system
- We want our water to taste good and not smell
- I want to be able to turn on the tap and know I have safe water

## What we will deliver (Our Outputs)

**Clean, Safe Water** – Drinking water is clean, safe, has no smell and tastes good

**Resilient Systems** – Our systems cope with disruption and severe weather events

| How we will deliver                           | Business strategy / mechanism                    |
|-----------------------------------------------|--------------------------------------------------|
| Providing safe and reliable drinking water    | Water Services Strategy<br>Urban Water Strategy  |
| Planning for a sustainable urban water future | Assets & Infrastructure Strategy                 |
| Building locally for local resilience         | Environment Strategy<br>Renewable Energy Program |
| Operating water resources sustainably         | Water Services Strategy                          |

## Key Activities

- Early adoption of technologies and processes to better improve treatment and distribution of our services
- Delivery of projects to improve water treatment processes and distribution infrastructure
- Exploration of opportunities to identify and address non-revenue water

## Key Capital Projects

| Resilient Systems                           | Clean, Safe Water                           |
|---------------------------------------------|---------------------------------------------|
| Wodonga Sewerage Transfer Capacity - \$5.4m | Wangaratta Water Distribution - \$2.6m      |
| Region Wide Bulk Water Purchases - \$2.6m   | Benalla Water Distribution Upgrade - \$2.4m |

## Key Success Measures

- |                          |                                                                     |
|--------------------------|---------------------------------------------------------------------|
| <b>Clean, Safe Water</b> | • 100% Compliance with Safe Drinking Water Regulations              |
| <b>Resilient Systems</b> | • Frequency of unplanned water supply interruptions per 100Kms ≤ 14 |

## Service Standards

North East Water is held accountable to its customers for excellent service delivery by a suite of 21 Customer Service Standards. 14 of these Standards relate to water services, five relate to the provision of sewerage services, and two apply to customer service.

Most of North East Water's Service Standards demand significantly higher performance than those applied to other Rural Urban Water Corporations. Even so, the Corporation has consistently performed at a leading level against most Standards.

In late 2016, Management reviewed average performance against each Service Standard metric over the previous three years and related OH&S directives. Subsequently, it was recommended that the metrics should be considered in more detail by the Deliberative Forum. As a result, the recalled Forum again deliberated these when re-convened on Day 6 in March 2017, and considered the Corporation's OH&S responsibilities around safety, travel times and employee fatigue (due to the lengthy distances across our region).

The customers discussed at length the trade-off between the increased operational and cost efficiencies of a small number of depots in key locations and geographically dispersed delivery locations that potentially require greater travel times to respond to issues and carry out maintenance and repairs.

As a result of their deliberations, changes were proposed to nine service standards while all others remained unchanged.

Appendix 9 sets out only those standards proposed to be revised while the full suite of standards is provided overleaf.

Customers proposed changes to Service Standards to deliver better OH&S outcomes for our people.

## Guaranteed Service Levels

Guaranteed Service Levels (GSLs) are a commitment by North East Water to its customers. The current GSLs were scrutinised by our Deliberative Forum in November 2016, with the outcome being to continue support of the current service levels. The Forum also acknowledged that the Corporation continued to focus on timely and tailored support to individual customers directly affected by service-related issues and not simply rely on the blanket approach of GSL payments.

GSLs for the regulatory period 2018-2026 are shown in Appendix 8 and are consistent with those approved by the ESC for the 2013-2018 regulatory period.

Our customers wish to retain our current Guaranteed Service Levels.



**Table 1.** Proposed Service Standards 2018 - 2026

|     | <i>Service Standard</i>                                                                                | <i>Proposed Target</i> | <i>Current (WP3) ESC Approved Targets</i> |
|-----|--------------------------------------------------------------------------------------------------------|------------------------|-------------------------------------------|
| 1   | Unplanned water supply interruptions (per 100km)                                                       | No change              | 14                                        |
| 2   | <b># Average time taken to attend bursts and leaks (priority 1) (minutes)</b>                          | <b>30</b>              | 17                                        |
| 3   | <b># Average time taken to attend bursts and leaks (priority 2) (minutes)</b>                          | <b>30</b>              | 23                                        |
| 4   | <b># Average time taken to attend bursts and leaks (priority 3) (minutes)</b>                          | <b>240</b>             | 27                                        |
| 5   | Unplanned water supply interruptions restored within 5 hours (percent)                                 | No change              | 98.0                                      |
| 6   | Planned water supply interruptions restored within 5 hours (percent)                                   | No change              | 100                                       |
| 7   | <b># Average unplanned customer minutes off water supply (minutes)</b>                                 | <b>9</b>               | 6.2                                       |
| 8   | Average planned customer minutes off water supply (minutes)                                            | No change              | 3.05                                      |
| 9   | <b>Average unplanned frequency of water supply interruptions (number)</b>                              | <b>0.15</b>            | 0.08                                      |
| 10  | <b>Average planned frequency of water supply interruptions (number)</b>                                | <b>0.12</b>            | 0.03                                      |
| 11  | <b># Average duration of unplanned water supply interruptions (minutes)</b>                            | <b>100</b>             | 95                                        |
| 12  | Average duration of planned water supply interruptions (minutes)                                       | No change              | 95                                        |
| 13  | Number of customers experiencing more than 2 unplanned water supply interruptions in the year (number) | No change              | 375                                       |
| 14  | Unaccounted for water (percent)                                                                        | No change              | 10                                        |
| 15  | Sewerage blockages (per 100km)                                                                         | No change              | 12                                        |
| 16  | <b># Average time to attend sewer spills and blockages (minutes)</b>                                   | <b>30</b>              | 24                                        |
| 17  | Average time to rectify a sewer blockage (minutes)                                                     | No change              | 140                                       |
| 18  | Spills contained within 5 hours (percent)                                                              | No change              | 100                                       |
| 19  | Customers receiving more than 2 sewer blockages in the year (number)                                   | No change              | 14                                        |
| 20* | Complaints to EWOV (per 1,000 customers)*                                                              | No change              | 0.4                                       |
| 21  | <b>Telephone calls answered within 30 seconds (percent)</b>                                            | <b>92.5%</b>           | 95.0%                                     |

Proposed changes are highlighted above

# The main driver behind these proposed timing changes is to better reflect the Corporation's requirement to ensure staff safety when responding to issues across all communities (including outlying towns) within our Service Region. The proposed targets still provide for a level of performance not less than the average of similar water utilities.

Please note that North East Water responds to all unplanned water events in the same manner and an event's priority is determined retrospectively once the incident has been assessed onsite.

\* Our customers recognise that achievement of this measure is outside of North East Water's control. As it doesn't reflect business performance, further discussion with ESC is requested regarding the appropriateness of this Service Standard

Please refer to Appendix 9 for explanation of the rationale for any proposed changes.



# Responsive Services



7 cents of every operational dollar spent goes toward 'responsive' outcomes



8 cents of every dollar spent on capital projects goes toward 'responsive' outcomes

## What our customers said

- We want to know promptly about water and sewerage issues in our area
- We want service issues dealt with quickly
- We want to be included in any decisions that affect us

## What we will deliver (Our Outputs)

**Timely Responses** – Service responses match customer expectations

**Inclusive Decisions** – Communities are involved in decisions that affect them

| How we will deliver                                                    | Business strategy / mechanism |
|------------------------------------------------------------------------|-------------------------------|
| Keeping our customers informed through multiple communication channels | Customer & Community Strategy |
| Delivering a great customer experience                                 | Customer & Community Strategy |
| Creating extraordinary partnerships                                    | Customer & Community Strategy |
| Inclusive decision-making                                              | Customer & Community Strategy |

## Key Activities

- Region-wide investments that support operational mobility and safety
- Improvements in customer access and digital experience
- Delivery of community education opportunities

## Key Capital Projects

| Timely Responses                            | Inclusive Decisions                            |
|---------------------------------------------|------------------------------------------------|
| Region Wide Plant & Equipment - \$7.8m      | Region Wide Partnerships in Education - \$0.5m |
| Region Wide GIS System Replacement - \$0.8m |                                                |

## Key Success Measures

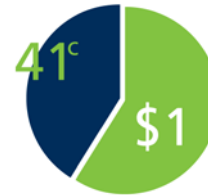
|                            |                                                                                                                                      |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Timely Responses</b>    | <ul style="list-style-type: none"> <li>• Average unplanned minutes off customer water supply ≤ 9 minutes</li> </ul>                  |
| <b>Inclusive Decisions</b> | <ul style="list-style-type: none"> <li>• Customer perception and engagement achieve average customer satisfaction &gt;90%</li> </ul> |



# Efficient Systems



40 cents of every operational dollar spent goes toward 'efficient' outcomes



41 cents of every dollar spent on capital projects goes toward 'efficient' outcomes

## What our customers said

- We want assets to be built and maintained as needed, but not gold plated
- We want to choose from a range of technologies, to interact with you
- We want the capability to monitor and manage our water consumption

## What we will deliver (Our Outputs)

**Asset Stewardship** – Responsible practices maintain assets for future generations

**Continuous Improvement** – Systems, technologies and processes reflect customer expectations

| How we will deliver                                                            | Business strategy / mechanism                                |
|--------------------------------------------------------------------------------|--------------------------------------------------------------|
| Optimising our operational systems and planned maintenance                     | Water Services Strategy                                      |
| Managing our assets for the benefit of current and future customers            | Regional Growth Strategy<br>Assets & Infrastructure Strategy |
| Performing sustainable land management and preserving cultural heritage assets | Environment Strategy                                         |
| Applying smart infrastructure solutions and delivery                           | Assets & Infrastructure Strategy                             |
| Acting locally for global resilience                                           | Environment Strategy                                         |

## Key Activities

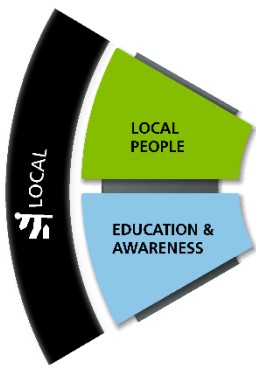
- Ensuring our services and asset plans consider the needs of future generations
- Evolving and adapting our products and services to meet customer expectations
- Maximising our customer accessibility and digital transaction capabilities

## Key Capital Projects

| Continuous Improvement                               | Asset Stewardship                                      |
|------------------------------------------------------|--------------------------------------------------------|
| Region Wide Digital Business Sustainability - \$3.5m | Below Ground Renewals (Water and Wastewater) - \$20.3m |
| Region Wide SCADA System Upgrades - \$3m             | Above Ground Renewals (Water and Wastewater - \$17m    |

## Key Success Measures

- |                               |                                             |
|-------------------------------|---------------------------------------------|
| <b>Asset Stewardship</b>      | • Number of sewer blockages per 100kms < 12 |
| <b>Continuous Improvement</b> | • Unaccounted water losses <10%             |



# Local Focus



9 cents of every operational dollar spent goes toward 'local' outcomes

## What our customers said

- We value dealing with real people not machines
- We want local people who know our region to be employed to respond to our queries
- We are willing to pay for more public education and targeted sponsorships in our community

## What we will deliver (Our Outputs)

**Local People** – Services are delivered by people who know our region

**Education and Awareness** – Communities learn about water scarcity in a changing climate

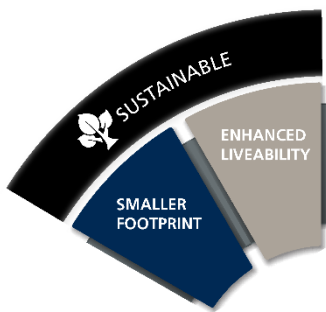
| How we will deliver                                                              | Business strategy / mechanism |
|----------------------------------------------------------------------------------|-------------------------------|
| Providing a great customer experience                                            | Customer & Community Strategy |
| Having our products and services delivered by people who know our region         | Customer & Community Strategy |
| Making positive contributions to our local communities                           | Sponsorship Program           |
| Leadership to build regional resilience to Climate Change                        | Environment Strategy          |
| Providing opportunities for customer education about water and their daily lives | Customer & Community Strategy |

## Key Activities

- Implementation of initiatives for Traditional Owners and Aboriginal Partnerships
- Establishment of partnerships with an educational focus

## Key Success Measures

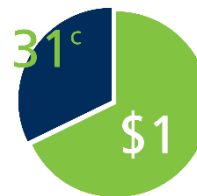
- |                                |                                                                                                                   |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <b>Local People</b>            | <ul style="list-style-type: none"> <li>• &gt;80% of customers believe that NEW is a local organisation</li> </ul> |
| <b>Education and Awareness</b> | <ul style="list-style-type: none"> <li>• Educational programs achieve &gt; 90% satisfaction</li> </ul>            |



# Sustainable Region



15 cents of every operational dollar spent goes toward 'sustainable' outcomes



31 cents of every dollar spent on capital projects goes toward 'sustainable' outcomes

## What our customers said

- We value green parks and public spaces, especially in times of drought
- We want you to be a community leader and pursue better environmental futures for everyone

## What we will deliver (Our Outputs)

**A Smaller Footprint** – Environmental leadership drives reduced impacts

**Enhanced Liveability** – Working with communities delivers green public spaces

| How we will deliver                                                      | Business strategy / mechanism                      |
|--------------------------------------------------------------------------|----------------------------------------------------|
| Ensuring environmentally responsible wastewater and trade waste services | Water Services Strategy<br>Carbon Reduction Pledge |
| Increasing regional catchment health and biodiversity                    | Environment Strategy                               |
| Ensuring Industrial and Commercial Customer compliance                   | Customer and Community Strategy                    |
| Minimising waste                                                         | Environment Strategy                               |
| Enabling growth and development in support of regional prosperity        | Assets & Infrastructure Strategy                   |

## Key Activities

- Delivery of initiatives and programs to reduce environmental harm
- Provision of flexible water service alternatives to customers (where available)
- Support and implement plans and initiatives arising from the Integrated Water Management Forum

## Key Capital Projects

| Smaller Footprint                                     | Enhanced Liveability                              |
|-------------------------------------------------------|---------------------------------------------------|
| Wodonga WWTP Capacity & Emissions Reduction - \$11.7m | Wangaratta Ground Water System Expansion - \$1.3m |
| Wodonga WWTP Major Upgrade - \$8.1m                   | Corryong Reuse Expansion - \$1.2m                 |
| Beechworth Wastewater System Upgrade - \$6m           | Porepunkah Security of Supply - \$0.7m            |

## Key Success Measures

### A Smaller Footprint

- 100% compliance with EPA License
- Achievement of CO<sub>2</sub> reduction targets

### Enhanced Liveability

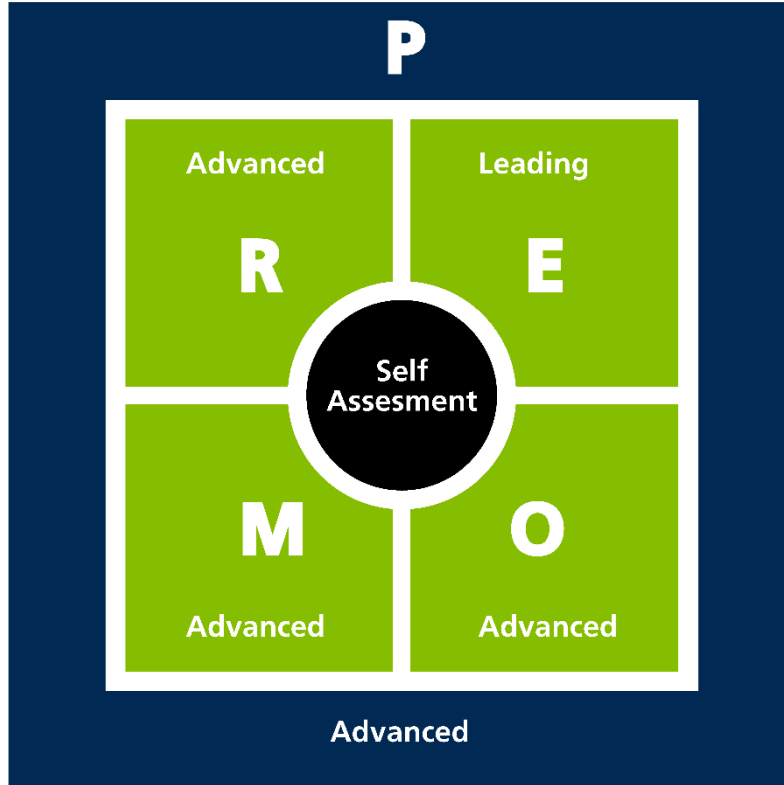
- 100% support for endorsed community priority open space projects

## PART C – THE PREMO RATING

### SELF-ASSESSMENT

Our PREMO rating is self-assessed as being ‘Advanced’.

Figure 7: PREMO self-assessment



### Performance



North East Water’s performance will be determined during the regulatory period as the Corporation demonstrates its ability to achieve the Customer Outcomes articulated in this Submission.

The Corporation has consistently achieved some of the highest service levels in the state. North East Water has delivered innovation in capital solutions and demonstrated meaningful engagement with customers and stakeholders. The Corporation has continuously improved its operational efficiency, enabling it to accept significant risk on behalf of its customers and deliver the most affordable water products and services in Australia.

The Corporation’s record of achievement and continuous improvement over many years enables it to confidently propose the broad suite of activities customers have requested. Similarly, in accordance with their proposal, North East Water are willing to project those activities over an eight year regulatory term to deliver a greater degree of price certainty.

From a strong base, the Corporation proposes its baseline PREMO performance level is ‘**ADVANCED**’.

## Risk



North East Water's approach to regulatory risk is demonstrated through its tariff structures, expenditure control and investment actions in delivering services to small towns across the region. The Corporation's approach to risk is described in more detail in Appendix 6.

The Corporation's tariff structure is weighted towards the variable component of the total bill and accepts the majority of the regulatory risk. The tariff strategy has gradually been implemented over the past eight years and North East Water has led the State in giving customers control over their total bills.

In proposing an eight year regulatory term, the Corporation affirms that the benefits of any sustained over-recovery of revenue would be shared with the customers in subsequent years of the regulatory period. The Corporation also commits that any material under-recovery of revenue would not impact unfavourably on the prices set through this Review.

North East Water has embraced the servicing of smaller towns within its region, delivering valued products and services to accommodate the needs and expectations of regional communities despite the increased risk this has generated for the Corporation. This customer and community focussed approach will be maintained in the coming years.

## Engagement



North East Water's strong history of engagement culminated in the 2015 IAP2 Organisation of the Year (Australasia) Award. The award recognised the Corporation's commitment to public participation and engagement in decision making. North East Water's engagement journey to develop this Price Submission extended that practice and highlights an extraordinary partnership with its customers.

In 2014, the Corporation commissioned market research in order to better understand its customers' values in relation to services. The results of this research have influenced most of the Corporation's major decisions and strategies.

In early 2016, North East Water commenced collaboratively planning the engagement for the Price Submission. The Corporation co-designed the engagement process and principles with the Customer Panel and delivered an approach that included customer views. Throughout 2016-17, the Corporation delivered 'Your Water, Your Say' as a region-wide, comprehensive program of activities that reached the 'collaborate' level of the IAP2 spectrum and included a Deliberative Forum. This engagement project was recently recognised by IAP2 for Australasia Community and Stakeholder Engagement and is presently a finalist for that organisation's Core Value Awards.

The 82 customer proposals derived from that engagement process were approved by the Board and have been summarised for the purpose of this document into 'Customer Outcomes'.

The voices of our customers appear as 'golden threads' woven throughout this Submission.

North East Water are proud of the relationship created and sustained with its customers as demonstrated by an aggregated engagement satisfaction score of 93% from the large body of people who participated in the engagement journey.

## Management



North East Water's long-term focus on the ability to generate strong cash-flows from operations, has delivered a financial position with low debt and the capacity to respond to any unforeseen financial challenges and opportunities. This has been recognised through the Corporation's AA credit rating — one of only a couple awarded throughout the Victorian Water Industry.

Efficiency benchmarking across the industry shows staffing levels are low, relative to peers, yet the Corporation has maintained extremely high performance in its services. North East Water's efficiency planned in this Submission extends the success of recent years and delivers 1.2% operational efficiency and 2% efficiency in capital.

The North East Water Board and Executive Team have driven the development of this Price Submission within the Corporation and the Board has been regularly involved at key decision points. These include working on the co-design of the engagement principles and process, agreeing on the very broad scope of engagement and considering the Customer Proposals. It also includes observing customers deliberating upon prices and ultimately agreeing to a small price increase (within customer acceptance limits) to achieve customer ambitions while ensuring the Corporation continues to accept a high level of regulatory risk.

While this final document reflects the ambitions of our customers, it also reflects a strong involvement and commitment by Management to continue the drive for service excellence and operational efficiency. This is further demonstrated by the Corporation only proposing to apply a 4.1% Return on Equity.

## Outcomes



The Outcomes proposed in this document were derived from customers during 'Your Water, Your Say'. The Outcomes 'Reliable', 'Responsive', 'Efficient', 'Affordable', 'Local' and 'Sustainable' summarise the expansive list of Customer Proposals developed throughout the Deliberative Forum.

Once the proposals were developed, product and service cost estimates were provided, along with the associated indicative customer prices. Following lengthy deliberation, the customers identified what proportion of the budget should be spent on which Outcomes and voted upon their 'willingness to pay' (or not) for the identified priorities. This was conducted on both the operational and capital budgets.

This process with customers later evolved within the Corporation to the identification of specific projects or activities (outputs) with more refined cost estimates and relevant performance measures. The associated budgetary implications for both capital and operational forecasts were captured.

Projects totalling \$47m over the eight year period were 'ring-fenced' to be further developed separately to this Submission.

An engagement and communication plan has been developed to deliver information back to customers on a regular basis and tailored to their needs on the Corporation's performance against each of their Outcomes.

The strong thread of customer aspirations through to Outcomes, Outputs, Projects, Forecasts and Prices places North East Water at the Advanced level for this category of PREMO.

A summary of the self-assessment rating for each category is provided in Appendix 1. The complete list of Customer Proposals are provided in Appendix 2.



## PART D – BALANCING CUSTOMER EXPECTATIONS & BUSINESS RISK

### Real Dollars

This Submission presents the financial data in ‘real dollars’. That is, the figures presented do not include the effects of inflation. When the Submission shows prices or expenditure in 2026, the price customers will actually experience in 2026 will be this amount plus any inflation as measured by the Consumer Price Index (CPI).

Estimated revenue and expenditure is expressed as at 1 January 2018.

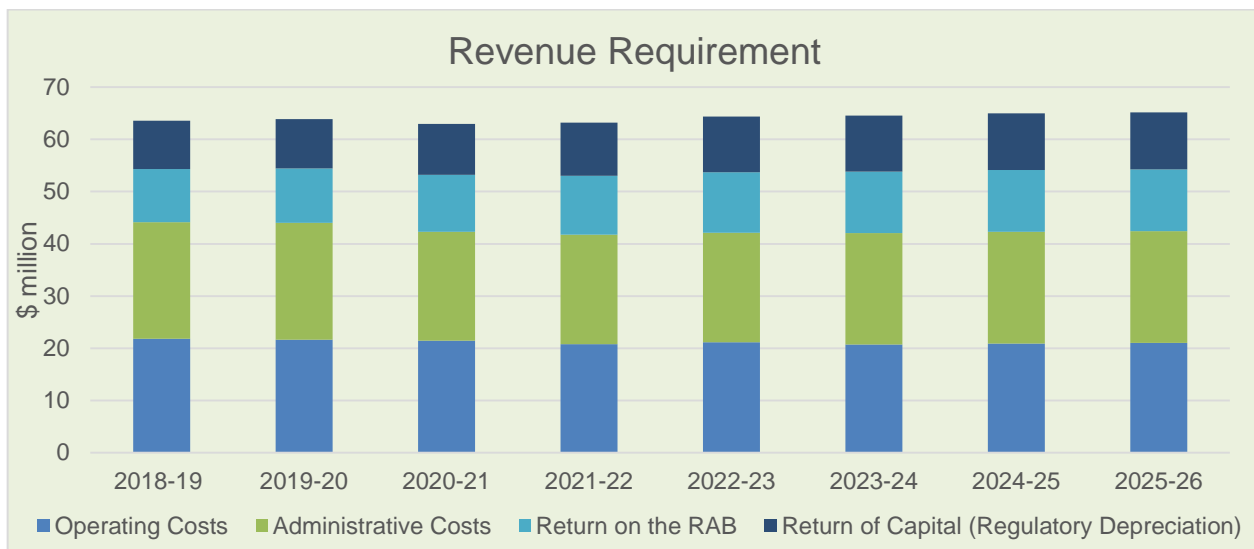
Our Customers expect our assets to deliver for future generations and community outcomes such as environmental, education, liveability and a strong response to Climate Change

### REVENUE REQUIRED TO DELIVER CUSTOMER OUTCOMES

North East Water is pleased to provide the following Revenue Requirement Forecast. It demonstrates the strong financial position of the Corporation and reinforces the impact of the efficiency achievements of recent years.

The revenue requirement is net any additional revenue earned from regulated assets outside of scheduled tariffs such as revenue from the sale of temporary water entitlement allocations. The revenue requirement is also net of any revenue earned from non-prescribed services.

**Figure 8:** Forecast revenue requirement



Consistent with the PREMO Framework, North East Water’s self-assessment of ‘Advanced’ links to a range of applicable Return on Equity percentages from 4.9 should the ESC agree with the rating, or 4.3 should they not. However, consistent with the Corporation’s commitment to deliver the outcomes indicated by its customers, North East Water has proposed to only apply a 4.1 Return on Equity percentage.

**Table 2:** Forecast revenue requirement

|                                                    | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M | TOTAL<br>\$M  |
|----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Operating Costs</b>                             | 21.79          | 21.64          | 21.44          | 20.78          | 21.11          | 20.70          | 20.89          | 21.03          | <b>169.38</b> |
| <b>Administrative Costs</b>                        | 22.35          | 22.36          | 20.89          | 20.94          | 20.98          | 21.35          | 21.38          | 21.42          | <b>171.68</b> |
| <b>Return on the RAB</b>                           | 10.16          | 10.45          | 10.86          | 11.32          | 11.63          | 11.76          | 11.84          | 11.83          | <b>89.86</b>  |
| <b>Return of Capital (Regulatory Depreciation)</b> | 9.27           | 9.45           | 9.80           | 10.20          | 10.65          | 10.77          | 10.88          | 10.93          | <b>81.97</b>  |
| <b>Total Revenue Requirement</b>                   | <b>63.58</b>   | <b>63.92</b>   | <b>62.99</b>   | <b>63.23</b>   | <b>64.36</b>   | <b>64.59</b>   | <b>65.00</b>   | <b>65.21</b>   | <b>512.89</b> |

This forecast sees North East Water carrying a generous share of any revenue risk. In order to protect financial sustainability, the Corporation will continuously monitor its position and take any internal actions required to address short-term variances. The Corporation is also committed to engaging with the ESC and conducting a 'light touch' review in year 4 of the 8 year term.

## TOTAL PRESCRIBED OPERATING EXPENDITURE

Prescribed operating expenditure for 2016-2017 has been calculated as a first step to determine baseline prescribed operating expenditure. Non controllable costs totalling \$3.1 million have been removed (including environmental contribution, bulk water charges and license fees) to calculate a *baseline controllable expenditure* of \$39.77 million for 2016-17.

Non-recurring expenditure items incurred in 2016-17 totalling \$1.82 million (including capital program items expensed in 2016-17) have been removed from *baseline controllable expenditure* to establish an *adjusted baseline controllable expenditure* for 2016-17.

The adjusted baseline controllable expenditure for 2016-17 is then inflated by the difference between the Corporation's growth rates each year for eight years (1.24%) less the Corporation's efficiency target of 1.2% as shown in the table below.

**Table 3:** Adjusted Baseline Controllable expenditure

|                                                   | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M | TOTAL<br>\$M  |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Adjusted Baseline Controllable Expenditure</b> | <b>38.05</b>   | <b>38.06</b>   | <b>38.08</b>   | <b>38.09</b>   | <b>38.10</b>   | <b>38.12</b>   | <b>38.14</b>   | <b>38.15</b>   | <b>304.79</b> |

Forecast variations to the adjusted baseline controllable operating expenditure are added to each year plus other non-controllable operating expenditure items to derive *Total Prescribed Operating Expenditure* for the eight year period shown in table 4 below.

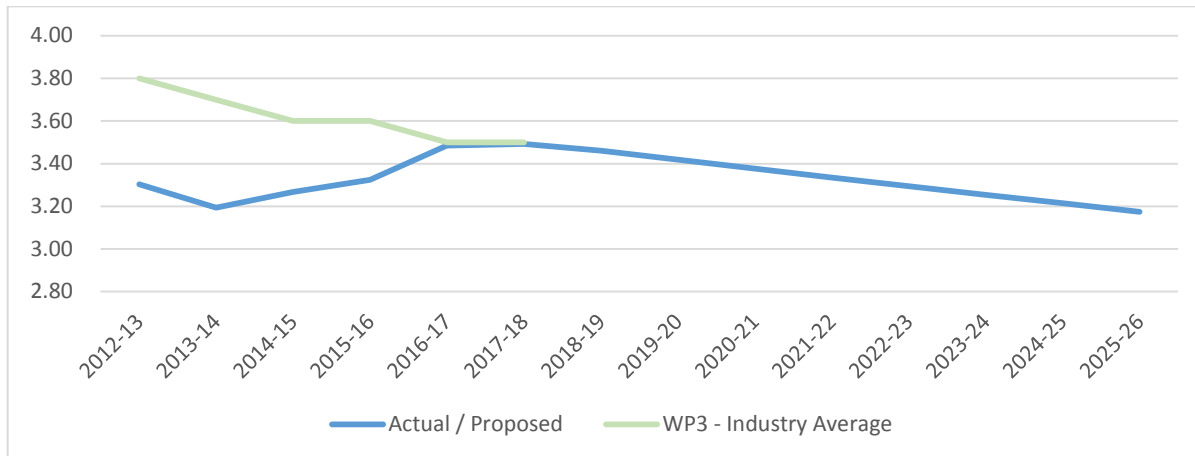
**Table 4:** Total Prescribed Operating Expenditure

|                                                   | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M | TOTAL<br>\$M  |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Adjusted Baseline Controllable Expenditure</b> | <b>38.05</b>   | <b>38.06</b>   | <b>38.08</b>   | <b>38.09</b>   | <b>38.10</b>   | <b>38.12</b>   | <b>38.14</b>   | <b>38.15</b>   | <b>304.79</b> |
| <b>Add Forecast Variations to Baseline</b>        |                |                |                |                |                |                |                |                |               |
| Direct Employee Costs                             | 0.11           | 0.16           | 0.20           | 0.25           | 0.29           | 0.34           | 0.38           | 0.43           | <b>2.16</b>   |
| Direct Water                                      | -0.48          | -0.31          | -0.27          | -0.22          | -0.14          | -0.14          | -0.01          | -0.01          | <b>-1.59</b>  |
| Direct Wastewater                                 | -0.56          | -0.37          | -0.25          | -0.13          | -0.07          | 0.00           | -0.04          | 0.02           | <b>-1.40</b>  |
| Asset Decommissioning                             | 0.20           | 0.20           | 0.20           | 0.20           | 0.20           | 0.20           | 0.20           | 0.20           | <b>1.60</b>   |
| Electricity                                       | 1.37           | 0.76           | 0.30           | -0.62          | -0.50          | -1.10          | -1.13          | -1.20          | <b>-2.11</b>  |
| Administration Employee Costs                     | 0.36           | 0.44           | 0.52           | 0.60           | 0.69           | 0.77           | 0.85           | 0.94           | <b>5.17</b>   |
| Administration Other (Incorporating efficiency)   | 1.54           | 1.52           | 0.01           | 0.03           | 0.02           | 0.02           | 0.01           | 0.01           | <b>3.16</b>   |
| <b>Subtotal</b>                                   | <b>2.55</b>    | <b>2.39</b>    | <b>0.72</b>    | <b>0.11</b>    | <b>0.49</b>    | <b>0.08</b>    | <b>0.26</b>    | <b>0.39</b>    | <b>6.99</b>   |
| <b>Add Non-controllable Operating Expenditure</b> |                |                |                |                |                |                |                |                |               |
| External Bulk Water Charges                       | 0.89           | 0.94           | 0.98           | 1.03           | 1.09           | 1.14           | 1.20           | 1.26           | <b>8.52</b>   |
| License Fees                                      | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | <b>1.50</b>   |
| Environmental Contribution                        | 2.47           | 2.41           | 2.36           | 2.30           | 2.25           | 2.54           | 2.48           | 2.43           | <b>19.24</b>  |
| <b>Subtotal</b>                                   | <b>3.55</b>    | <b>3.54</b>    | <b>3.53</b>    | <b>3.52</b>    | <b>3.52</b>    | <b>3.87</b>    | <b>3.87</b>    | <b>3.87</b>    | <b>29.26</b>  |
| <b>Total Prescribed Operating Expenditure</b>     | <b>44.14</b>   | <b>43.99</b>   | <b>42.33</b>   | <b>41.72</b>   | <b>42.11</b>   | <b>42.07</b>   | <b>42.26</b>   | <b>42.41</b>   | <b>341.03</b> |

## Direct and Administration – Employee Costs

Employee costs are forecast to increase by 0.7% in real terms above CPI, in accordance with our Enterprise Bargaining Agreements. Importantly our Full Time Equivalent (FTE) employee base is forecast to remain consistent with that in place in 2017-18 and decrease in terms of the number of staff per 1,000 customers over the eight years of this submission. Graph 1 demonstrates that although the Corporation has had an increase in FTE's through to 2016-17 as a result of its Workforce Analysis project, North East Water still compares favourably to the industry average determined for 2017-18 in the 2013-18 Price determination.

**Graph 1:** Full Time Equivalent Employees per 1,000 customers



## Direct Water and Wastewater

Total Direct Water and Wastewater Expenses are forecast to reduce in real terms by \$3.5 million over the eight year period. Included in these totals is a 1.2% efficiency on 2017-18 forecast expenditure. Total expenditure for these categories is forecast to be \$86.34 million over the eight year period.

## Asset Decommissioning

The Corporation has a list of sites that will require decommissioning as new plants are built. These projects are outside the capital program and represent the final cost in the whole of asset lifecycle.

## Electricity

The current real increases in electricity prices, are reflecting increases occurring in wholesale electricity price projections to 2018-19. The Corporation engaged Jacobs to undertake spot price and wholesale electricity price projections for the 10 year period commencing 2017-18, for both large market and small market sites.

Our electricity expenditure is forecast to reduce in 2019-20, due to reducing demand at the West Wodonga Wastewater Treatment Plant as capital projects are implemented to deliver on our Carbon Reduction Pledge.

## Administration – Other Expenditure

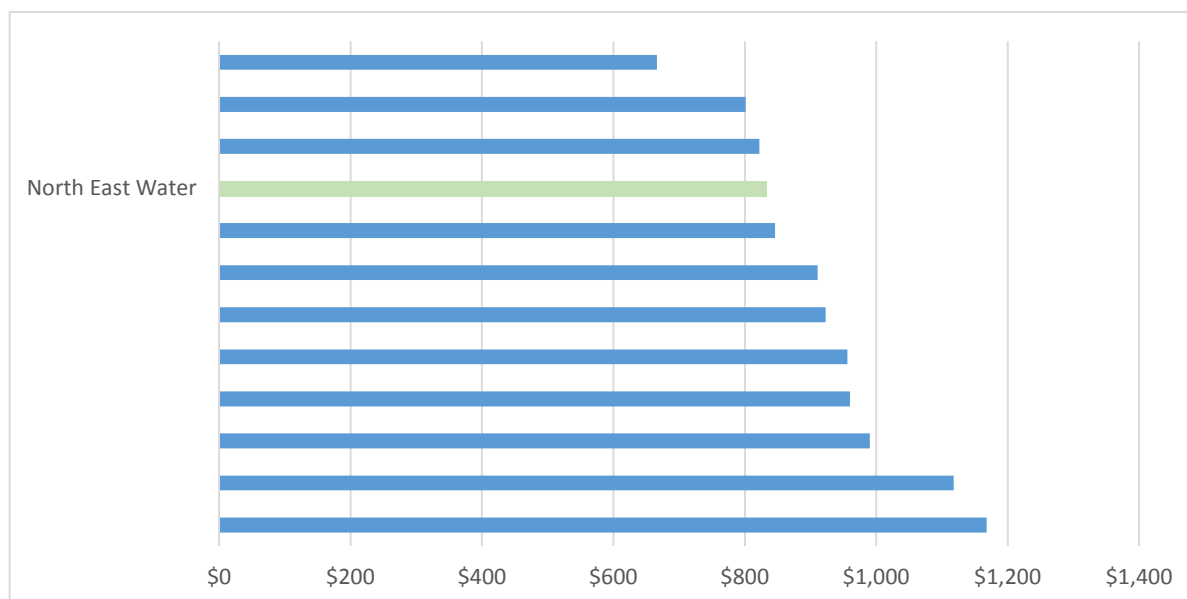
Our customers also requested smart meters to enable them to better monitor and manage their water consumption. During 2018, a pilot will commence and both the 2018-19 and 2019-20 budgets contain \$1.5 million for the purchase and roll-out of this technology.

## FORECAST TOTAL OPERATING EXPENDITURE

Forecast operating expenditure is presented to validate the revenue required to achieve the Outcomes to be delivered by this Submission. This is proposed as the baseline of efficient yet recurring, controllable costs for those activities and services that are expected to be incurred.

Contributing to the Corporation's 'Advanced' rating for Management, a 1.2% global efficiency target has been developed for controllable, operating expenditure. Graph 2 (data sourced from the 2015-16 National Water Performance Report: Urban Utilities) indicated that North East Water's base operating cost per property is favourable compared to the Corporation's Victorian Regional Urban peer businesses.

The Corporation's commitment will drive greater efficiencies than the previous Price Submission and sits well with customers' expressed ambitions.

**Graph 2:** Annual Operating Expenditure 2015-16 for Victorian Urban Water Corporations (\$ per property)**Table 5:** Forecast Total Operating Expenditure 2018-2026

|                                                       | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M | TOTAL<br>\$M  |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Direct Expenditure</b>                             |                |                |                |                |                |                |                |                |               |
| Employee Costs                                        | 6.65           | 6.69           | 6.74           | 6.79           | 6.83           | 6.88           | 6.93           | 6.98           | <b>54.48</b>  |
| Direct Water                                          | 5.86           | 6.01           | 6.05           | 6.10           | 6.16           | 6.21           | 6.27           | 6.33           | <b>48.99</b>  |
| Direct Wastewater                                     | 4.44           | 4.61           | 4.67           | 4.72           | 4.72           | 4.72           | 4.72           | 4.72           | <b>37.35</b>  |
| Electricity                                           | 5.19           | 4.59           | 4.13           | 3.21           | 3.33           | 2.73           | 2.70           | 2.63           | <b>28.49</b>  |
| Re-Use                                                | 0.57           | 0.57           | 0.57           | 0.57           | 0.57           | 0.57           | 0.57           | 0.57           | <b>4.52</b>   |
| New Obligations –<br>Flows from Capital               | 0.10           | 0.18           | 0.29           | 0.41           | 0.54           | 0.62           | 0.70           | 0.78           | <b>3.62</b>   |
| Efficiency                                            | -0.26          | -0.26          | -0.26          | -0.25          | -0.24          | -0.24          | -0.24          | -0.24          | <b>-1.99</b>  |
| <b>Subtotal</b>                                       | <b>22.55</b>   | <b>22.41</b>   | <b>22.21</b>   | <b>21.54</b>   | <b>21.87</b>   | <b>21.47</b>   | <b>21.66</b>   | <b>21.80</b>   | <b>175.47</b> |
| <b>Administration</b>                                 |                |                |                |                |                |                |                |                |               |
| Employee Costs                                        | 12.26          | 12.35          | 12.44          | 12.52          | 12.61          | 12.70          | 12.79          | 12.88          | <b>100.55</b> |
| Other Expenditure                                     | 7.84           | 7.84           | 6.34           | 6.34           | 6.34           | 6.34           | 6.34           | 6.34           | <b>53.72</b>  |
| Environmental<br>Contribution                         | 2.47           | 2.41           | 2.36           | 2.30           | 2.25           | 2.54           | 2.48           | 2.43           | <b>19.24</b>  |
| Efficiency                                            | -0.22          | -0.24          | -0.24          | -0.22          | -0.23          | -0.23          | -0.23          | -0.23          | <b>-1.84</b>  |
| <b>Subtotal</b>                                       | <b>22.35</b>   | <b>22.36</b>   | <b>20.89</b>   | <b>20.94</b>   | <b>20.98</b>   | <b>21.35</b>   | <b>21.38</b>   | <b>21.42</b>   | <b>171.67</b> |
| <b>Total Expenditure</b>                              | <b>44.90</b>   | <b>44.77</b>   | <b>43.10</b>   | <b>42.48</b>   | <b>42.85</b>   | <b>42.82</b>   | <b>43.04</b>   | <b>43.22</b>   | <b>347.14</b> |
| Less: Non-<br>prescribed<br>Expenditure               | 0.76           | 0.76           | 0.76           | 0.77           | 0.77           | 0.77           | 0.77           | 0.77           | <b>6.12</b>   |
| <b>Total Prescribed<br/>Operating<br/>Expenditure</b> | <b>44.14</b>   | <b>43.99</b>   | <b>42.32</b>   | <b>41.72</b>   | <b>42.11</b>   | <b>42.07</b>   | <b>42.26</b>   | <b>42.41</b>   | <b>341.03</b> |

## THE CAPITAL EXPENDITURE PROGRAM

North East Water's Capital Expenditure Program proposes that investments will deliver benefits to the Corporation, its customers and the broader community.

The capital projects will reduce material risk to Corporation's assets, enable compliance with the expectations of the environmental regulator and work towards the targets in the Corporation's Carbon Pledge.

North East Water's program comprises new capital investment in infrastructure, renewals of existing critical infrastructure, as well as corporate capital requirements.

Our Customers informed us of their priorities in the capital program and they include works to prevent harm to the environment and deliver renewable energy to our treatment plants.

### Customer Engagement – Capital Expenditure

Customers expressed strong support for the Corporation to exercise prudent asset stewardship to ensure the sustainability of systems and networks for generations to come (while avoiding 'gold-plating').

They also requested a commitment to continuous improvement in systems and technologies to ensure systems are resilient in the face of disruption and disaster. Their interest in technology included an ambition to have smart water meters to enable them to both monitor and conserve water and better manage their bills. They also requested increased communication and bill payment technologies to increase the customer experience.

Customers also expressed their ambitions for the Corporation to contribute to the enhanced liveability of communities and continue its commitment to social responsibility.

In response, the capital program seeks to strike a balance between cost, risk and functionality to meet the service needs and expectations of present and future customers.

### Capital Estimating

North East Water has identified a *most likely* option for each of the capital investment projects as per the Corporation's standard approach to program management. The identified *most likely* option has been used in the first instance as the basis for estimating a base cost for each project.

The cost values applied within the Corporation's Capital Investment Program have then been further developed, using probabilistic cost estimating techniques including the Monte Carlo Simulation method to generate P50 outrun costs. The P50 cost is the project cost with sufficient contingency to provide 50% likelihood that this cost will not be exceeded. As each investment has been modelled, any P value required is available including the commonly identified P5 and P90 estimates.

These probability estimates are presented as the outrun costs for major projects identifying cash flow and reflecting contingency for P50.

### Benefits Management

The preparation and prioritisation of North East Water's Capital Program has been based on the Victorian Government Department of Treasury and Finance's (DTF) Investment Management Standard (IMS) and principles.

In addition, the Investment Logic Mapping (ILM) tool and preliminary Benefits Mapping, has been completed for the Corporation's 'Top 10 Major Capital Investments' and the Renewals Program, utilising independent DTF Accredited Facilitators. Detailed ILM documentation for the program is available as companion material to this submission.

### Risk Assessment

For each Major Capital Project, a facilitated Risk Assessment workshop has been undertaken and documented. The key findings from these workshops has also contributed to and informed the proposed capital program.

### Project Management Framework

A staged Gateway Review process and Systems Engineering principles underpin the Corporation's Project Management approach. The approach aims to capture the project needs of the various user groups and translate these into clear, concise and verifiable project requirements to achieve the desired capability outcome. This framework is a further adaptation of DTF's IMS and is shown diagrammatically in Appendix 5.

### Procurement

In accordance with the governance practices of North East Water's Procurement Policy, all investments will be procured through an open market process.

### Water Plan 3 Capital Expenditure

In 2016-17, North East Water completed the fourth year of the current five year regulatory period (Water Plan 2013-18) capital expenditure program. Total estimated expenditure for the five year period was set at \$95.5 million.

During the period, a \$3.6 million reduction in the capital program to \$91.9 million was made, reflecting the Victorian Governments' *Fairer Water Bills* initiative. However, North East Water re-committed to funding its capital investment at \$95.5 million by drawing from its capacity to fund the shortfall, without any financial impact to customers.

**Table 6:** Actual capital expenditure for current regulatory period, including a forward estimate for 2017-18

| Portfolio     | 2013-14<br>\$M | 2014-15<br>\$M | 2015-16<br>\$M | 2016-17<br>\$M | 2017-18*<br>\$M | TOTALS<br>\$M |
|---------------|----------------|----------------|----------------|----------------|-----------------|---------------|
| Water         | 8.24           | 4.93           | 5.89           | 6.52           | 8.85            | 34.43         |
| Wastewater    | 7.47           | 2.67           | 1.80           | 1.74           | 6.18            | 19.86         |
| Corporate     | 6.93           | 2.35           | 2.40           | 4.58           | 5.95            | 22.21         |
| Renewals      | 3.61           | 2.24           | 6.83           | 3.40           | 5.37            | 21.45         |
| <b>Total:</b> | <b>26.25</b>   | <b>12.19</b>   | <b>16.92</b>   | <b>16.24</b>   | <b>26.35</b>    | <b>97.95</b>  |

\*2017-18 figures are estimated expenditure. As at 30 June 2017, \$8.79 million is under contract.

### Price Submission 4 Total Capital Expenditure

The total estimated expenditure for North East Water's proposed eight year regulatory period is just over \$146 million. The capital expenditure overrun for the next 8 year period is shown in Tables 7 and 8.

**Table 7:** Proposed capital expenditure for 8 year period 2018 to 2026

| Portfolio     | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M | TOTALS<br>\$M |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| Water         | 2.79           | 2.69           | 3.51           | 0.56           | 2.67           | 1.02           | 3.33           | 0.61           | 17.18         |
| Wastewater    | 3.47           | 10.29          | 10.69          | 11.54          | 3.00           | 7.03           | 3.38           | 2.98           | 52.38         |
| Corporate     | 4.27           | 4.58           | 5.71           | 8.47           | 3.47           | 4.05           | 4.29           | 4.29           | 39.13         |
| Renewals      | 6.22           | 4.07           | 3.49           | 4.89           | 7.35           | 4.10           | 3.77           | 3.50           | 37.39         |
| <b>Total:</b> | <b>16.75</b>   | <b>21.63</b>   | <b>23.40</b>   | <b>25.46</b>   | <b>16.49</b>   | <b>16.20</b>   | <b>14.77</b>   | <b>11.38</b>   | <b>146.08</b> |

**Table 8:** Capital Expenditure by Category Type 2018 to 2026

|                     | \$M           |
|---------------------|---------------|
| Major Projects      | 50.54         |
| Programs            | 69.87         |
| Other Expenditure   | 25.67         |
| <b>Grand Total:</b> | <b>146.08</b> |

## Major Capital Projects

North East Water has identified 10 Major Capital Projects to commence, or be completed, within the next regulatory period. Estimates provided are based upon the option deemed *most likely* to deliver benefits sought.

**Table 9:** Top 10 Capital Investments 2018 to 2026

| Major Capital Summary - Investment Submission Title | Cost Estimate<br>\$M | Customer Outcome<br>Alignment |
|-----------------------------------------------------|----------------------|-------------------------------|
| Wodonga WWTP Capacity & Emissions Reduction         | 11.70                | Sustainable                   |
| Wodonga WWTP Major Upgrade                          | 8.05                 | Sustainable                   |
| Beechworth Wastewater System Upgrade                | 6.03                 | Sustainable                   |
| Wodonga Sewerage Transfer Capacity                  | 5.40                 | Reliable                      |
| Wodonga WWTP Solar Power                            | 4.80                 | Sustainable                   |
| Region-Wide Digital Business Sustainability         | 3.53                 | Efficient                     |
| Benalla WWTP Upgrade                                | 3.39                 | Sustainable                   |
| Region-Wide ICT Infrastructure                      | 2.63                 | Efficient                     |
| Wangaratta Water Distribution                       | 2.57                 | Reliable                      |
| Benalla Water Distribution Upgrade                  | 2.44                 | Reliable                      |
| <b>Total – Major Projects</b>                       | <b>50.54</b>         |                               |

## Capital Programs

Table 10 provides a summary of all reoccurring capital expenditure programs and allocations that will be required throughout the Price Submission 4 regulatory period.

**Table 10:** The Capital Programs of Investments 2018 to 2026 (by sub-category)

| Capital Programs Summary - Investment Submission Title | Cost Estimate<br>\$M | Customer Outcome<br>Alignment |
|--------------------------------------------------------|----------------------|-------------------------------|
| Renewals                                               | 37.40                | Efficient                     |
| Fleet & Major Plant                                    | 8.23                 | Responsive                    |
| Renewable Energy                                       | 5.00                 | Sustainable                   |
| Security/Risk Mitigation                               | 3.58                 | Reliable                      |
| Embracing New & Emerging Technologies                  | 3.00                 | Efficient                     |
| Bulk Water                                             | 2.56                 | Reliable                      |
| Minor Plant & Equipment                                | 2.08                 | Efficient<br>Responsive       |
| Wastewater Distribution Improvements                   | 1.30                 | Reliable                      |
| Strategic Land Purchases                               | 1.50                 | Efficient                     |
| Water Distribution Improvements                        | 1.35                 | Reliable                      |
| Wastewater Trunk Mains                                 | 1.12                 | Efficient                     |
| Water Trunk Mains                                      | 1.01                 | Efficient                     |
| Water & Wastewater System Improvements                 | 0.74                 | Efficient                     |
| Health & Safety Improvements                           | 0.64                 | Efficient                     |
| Waste Storage Facilities                               | 0.36                 | Efficient                     |
| <b>Total – Capital Programs</b>                        | <b>69.87</b>         |                               |

## Other Capital Expenditure

All “*Other Capital Expenditure*” is that not associated with a defined Major Project or within a Capital Program.

**Table 11:** The Other Capital Investments 2018 to 2026

| Other Capital Summary - Investment Submission Title | Cost Estimate<br>\$M | Customer Outcome<br>Alignment |
|-----------------------------------------------------|----------------------|-------------------------------|
| Reuse & Sewer Expansion                             | 4.99                 | Efficient<br>Sustainable      |
| Embracing New & Emerging Technologies               | 3.76                 | Reliable<br>Responsive        |
| Water Securing Supply                               | 3.03                 | Reliable<br>Sustainable       |
| Wastewater Trunk Mains                              | 2.57                 | Reliable                      |
| Water Distribution Improvements                     | 2.00                 | Efficient<br>Reliable         |
| CWS Expansion                                       | 1.94                 | Reliable                      |
| Depot, Buildings & Access Roads                     | 1.87                 | Efficient                     |
| Water Pumping Stations/Offtakes                     | 1.50                 | Efficient<br>Reliable         |
| Water Treatment Plant Upgrades                      | 1.34                 | Efficient                     |
| Wastewater Treatment Plant Upgrades                 | 1.00                 | Sustainable                   |
| Wastewater Distribution Improvements                | 1.00                 | Efficient                     |
| Inlet Screening                                     | 0.40                 | Efficient                     |
| SPS Upgrades                                        | 0.27                 | Efficient                     |
| <b>Total Other – Capital</b>                        | <b>25.67</b>         |                               |

## Ring Fenced Capital Projects

North East Water has determined that the appropriate level of capital investment that our customers should be priced for in this submission period, based on priority and delivery certainty, is just over \$146m. Outside of this priced delivery program is an additional \$47m of projects which the Corporation will continue to pursue.

Consistent with the current price determination, North East Water will only seek to recover a return on any of these additional investments from the commencement of the next regulatory period.



## DEMAND

North East Water engaged KPMG to develop the Corporation's demand forecasts. KPMG took an econometrics approach to forecasting residential, industrial and commercial (including specific large users) volumetric demand profiles for this eight year Price Submission. Ensuring that demand forecasts are as accurate as possible is the primary mechanism for reducing regulatory risk. In order to achieve a high level of accuracy, KPMG adopted a three stage approach to identifying future demand.

Firstly, they identified the variables that are likely to influence demand and tested their statistical significance. Factors considered in this step included:

- Data may come from a number of sources
- Some variables may effect demand in the current period while for other variables, data from previous periods may be relevant. That is, the time period and the time lag may affect demand in the current period.

Secondly, KPMG identified the functional form or the equation in which the variables affect demand, noting that simple linear relationships may not highlight the true nature of demand.

Thirdly, they developed the model and conducted diagnostic testing to establish the model's robustness and predictability to ensure the outputs could be relied upon.

A 'hot and dry' scenario and a 'cool and wet' scenario were modelled. This was seen as necessary due to the fluctuations in demand over the last eight years, in which average residential consumption has ranged from 167kL in 2010-11 to 213kL in 2016-17.

All variables in the regression model have been seasonally adjusted using a 12 month moving average method to account for seasonal factors. For the purposes of this Price Submission the Corporation has adopted the 'hot and dry' scenario, as it was considered more likely to be experienced in the future in accordance with DEWLP's 2016 *Guidelines for Assessing the Impact of Climate Change on Water Supplies in Victoria*.

**Table 12:** Consumption ML's

|                          | 2018-19<br>MLs | 2019-20<br>MLs | 2020-21<br>MLs | 2021-22<br>MLs | 2022-23<br>MLs | 2023-24<br>MLs | 2024-25<br>MLs | 2025-26<br>MLs | TOTAL<br>MLs   |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Residential</b>       | 9,104          | 9,144          | 9,183          | 9,222          | 9,262          | 9,302          | 9,342          | 9,382          | <b>73,941</b>  |
| <b>Major Customers</b>   | 1,682          | 1,687          | 1,692          | 1,696          | 1,701          | 1,706          | 1,711          | 1,716          | <b>13,591</b>  |
| <b>Commercial</b>        | 2,884          | 2,900          | 2,917          | 2,934          | 2,951          | 2,967          | 2,984          | 3,002          | <b>23,539</b>  |
| <b>Industrial</b>        | 454            | 454            | 456            | 457            | 458            | 459            | 460            | 460            | <b>3,658</b>   |
| <b>Total Consumption</b> | <b>14,124</b>  | <b>14,185</b>  | <b>14,247</b>  | <b>14,309</b>  | <b>14,372</b>  | <b>14,434</b>  | <b>14,497</b>  | <b>14,560</b>  | <b>114,728</b> |

**Table 13:** Forecast Average Annual Residential Consumption kLs

|                                        | 2018-19<br>kLs | 2019-20<br>kLs | 2020-21<br>kLs | 2021-22<br>kLs | 2022-23<br>kLs | 2023-24<br>kLs | 2024-25<br>kLs | 2025-26<br>kLs |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Average residential consumption</b> | 195            | 193            | 192            | 190            | 189            | 187            | 186            | 184            |

## Connections

North East Water also engaged KPMG to develop the Corporation's customer connections forecast. KPMG forecast connections based on trend extrapolation using the connections data available to identify historical growth patterns for each of the Corporation's serviced towns. These growth trends were then used to extrapolate the growth in connections over the forecast eight year period. The underlying average annual growth rate is 1.24%.

**Table 14: Water Connections**

|                          | 2018-19       | 2019-20       | 2020-21       | 2021-22       | 2022-23       | 2023-24       | 2024-25       | 2025-26       |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Commercial</b>        | 4,741         | 4,800         | 4,859         | 4,919         | 4,980         | 5,042         | 5,105         | 5,168         |
| <b>Industrial</b>        | 522           | 528           | 535           | 541           | 548           | 555           | 562           | 569           |
| <b>Residential</b>       | 46,469        | 47,044        | 47,627        | 48,217        | 48,815        | 49,421        | 50,034        | 50,656        |
| <b>Vacant</b>            | 277           | 280           | 284           | 287           | 291           | 294           | 298           | 302           |
| <b>Total Connections</b> | <b>52,009</b> | <b>52,652</b> | <b>53,305</b> | <b>53,964</b> | <b>54,634</b> | <b>55,312</b> | <b>55,999</b> | <b>56,695</b> |

**Table 15: Wastewater Connections**

|                          | 2018-19       | 2019-20       | 2020-21       | 2021-22       | 2022-23       | 2023-24       | 2024-25       | 2025-26       |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Commercial</b>        | 3,267         | 3,268         | 3,269         | 3,271         | 3,273         | 3,275         | 3,277         | 3,279         |
| <b>Industrial</b>        | 423           | 424           | 425           | 427           | 428           | 430           | 432           | 433           |
| <b>Residential</b>       | 43,029        | 43,668        | 44,319        | 44,983        | 45,659        | 46,349        | 47,052        | 47,768        |
| <b>Vacant</b>            | 43            | 43            | 43            | 43            | 43            | 42            | 42            | 42            |
| <b>Total Connections</b> | <b>46,762</b> | <b>47,403</b> | <b>48,057</b> | <b>48,723</b> | <b>49,403</b> | <b>50,096</b> | <b>50,802</b> | <b>51,523</b> |

## TARIFF STRUCTURE AND PRICES

The Corporation proposes in this submission to be consistent with the tariff strategy and principles embedded in previous regulatory periods.

North East Water's Tariffs represent the Corporation's long held vision for the pricing of its regulated services. It has been developed over the last two price submission periods to communicate our commitment to the gradual implementation of cost-reflective pricing through:

- The reduction in levels of cross-subsidy
- Balancing revenue risk with the need to provide customers with price incentives to conserve water
- Transparent reporting of cross-subsidies where their removal would have significant negative social implications
- Ensuring communities are fully informed about the costs of providing a new service
- Providing appropriate cost signals to customers.

To fully inform the Board's thinking on tariffs (and other matters) an additional day was held of the Deliberative Forum to enable participants to further deliberate on the various available options.

In order to guide discussions, the cost per town (including return on capital investment) was shown graphically against the current revenue recovered. Once this additional financial information was shown the participants were better able to understand the sensitivities of the current tariff approach and the implications of applying uniform pricing across the service region.

Following a further exploration of the trade-off between uniform pricing across the region and applying the user pays principle to all locations, the Deliberative Forum expressed 77% support for the current model of tariff loadings. This is seen to be a reasonable balance between the two approaches.

Following this feedback on cost-reflective pricing North East Water proposes to maintain the cost recovery loadings for both water and wastewater fixed tariffs at their existing levels and not pursue a higher rate of cost-reflectivity.

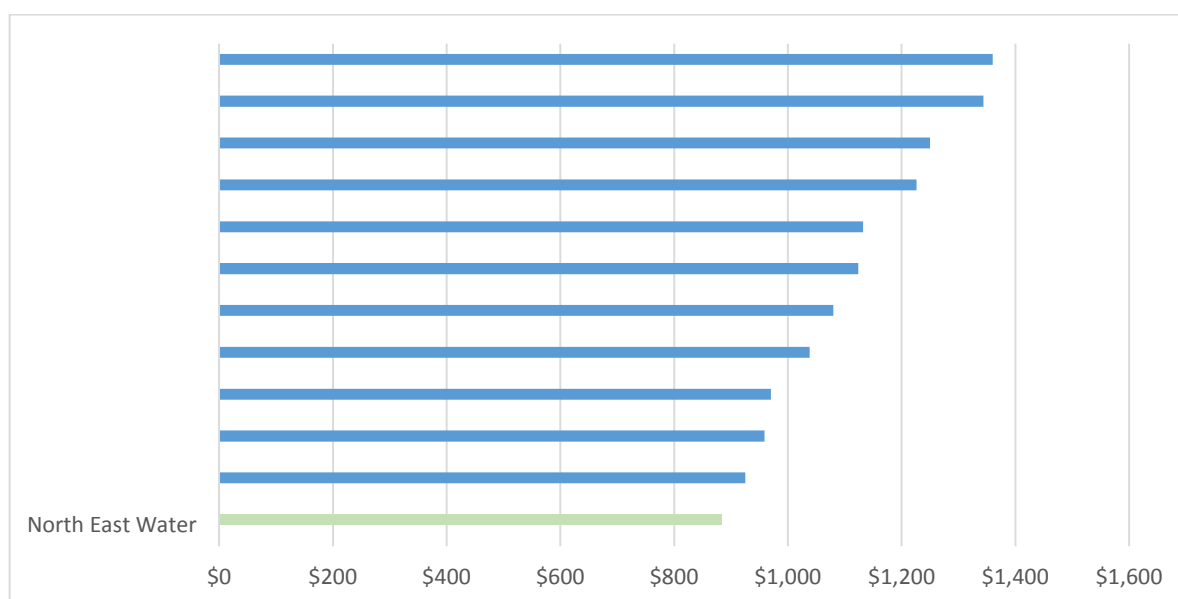
North East Water is proposing to smooth the price impacts on customers over the eight year period. This will see the following real price increases applied to all components of the Corporation's tariff structures.

**Table 16:** Annual Price Increase for 2018-19 to 2025-26

|                              | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Annual Price Increase</b> | 0.45%   | 0.45%   | 0.45%   | 0.45%   | 0.45%   | 0.45%   | 0.45%   | 0.45%   |

Graph 3 (data sourced from the 2015-16 National Water Performance Report: Urban Utilities) indicated that North East Water's typical annual bill per property is favourable compared to all of the Corporation's Victorian Regional Urban peer businesses and indicates that North East Water has the most affordable typical annual bill in the Nation.

**Graph 3:** Typical Residential Annual Bill 2015-16 for Victorian Urban Water Corporations (\$ per property)

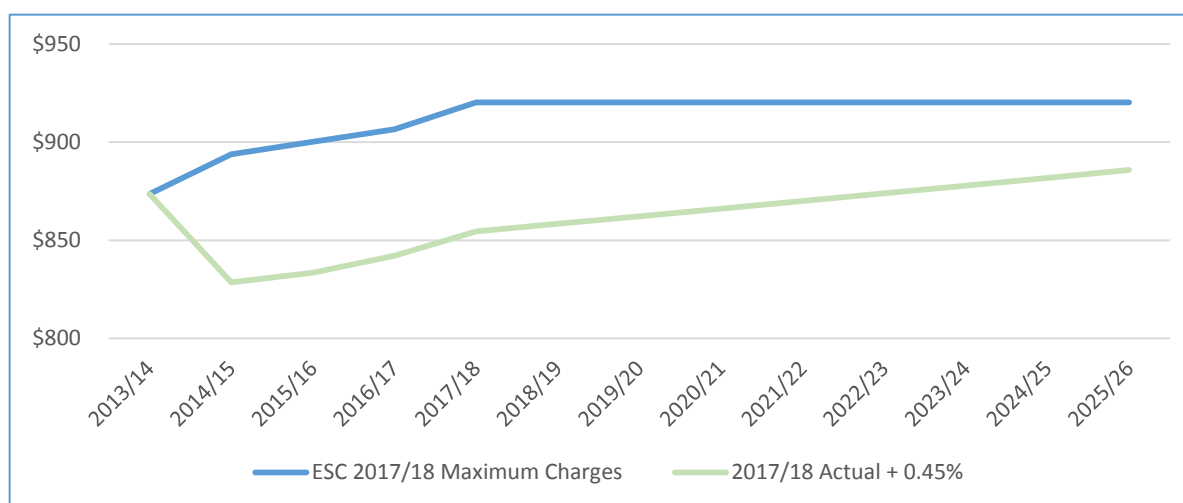


**Table 17:** Base level annual residential bill (190kL – constant demand to demonstrate the impact of price)

|                                 | 2017-18         | 2018-19         | 2019-20         | 2020-21         | 2021-22         | 2022-23         | 2023-24         | 2024-25         | 2025-26         |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Volumetric tariff per kL</b> | \$2.20          | \$2.21          | \$2.22          | \$2.23          | \$2.24          | \$2.25          | \$2.26          | \$2.27          | \$2.28          |
| <b>Volumetric Charge</b>        | \$418.00        | \$419.88        | \$421.77        | \$423.67        | \$425.57        | \$427.49        | \$429.41        | \$431.35        | \$433.29        |
| <b>Fixed Sewer</b>              | \$233.65        | \$234.70        | \$235.76        | \$236.82        | \$237.88        | \$238.95        | \$240.03        | \$241.11        | \$242.20        |
| <b>Fixed Water</b>              | \$202.35        | \$203.26        | \$204.18        | \$205.09        | \$206.02        | \$206.94        | \$207.88        | \$208.81        | \$209.75        |
| <b>Total Bill</b>               | <b>\$854.00</b> | <b>\$857.84</b> | <b>\$861.70</b> | <b>\$865.58</b> | <b>\$869.48</b> | <b>\$873.39</b> | <b>\$877.32</b> | <b>\$881.27</b> | <b>\$885.23</b> |
| <b>Total Annual Increase</b>    |                 | \$3.84          | \$3.86          | \$3.88          | \$3.90          | \$3.91          | \$3.93          | \$3.95          | \$3.97          |
| <b>% Annual Increase</b>        |                 | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           |

Graph 4 indicates that while North East Water is proposing a real annual price increase of 0.45% the total customer bill remains below the ESC maximum charge applicable for 2017-18 across all eight years of this submission. The actual charge line (green) highlights the impact of the 2014 reduction in tariffs of 10% on the volumetric price with fixed charges frozen for the 2014-15 financial year.

**Graph 4:** Average Annual Residential Account - Price Increase Analysis



The detailed tariff strategy and price path data is set out in Appendix 3.

## PRICE CONTROL AND ADJUSTMENTS

North East Water will continue with the existing price control structure — that being price caps. Customers have expressed their preference for the price certainty made possible by an eight year Price Determination and recognise the confidence it creates for communities and investors. Notwithstanding this, it is possible there may be events (entity threatening), currently unknown, that would require adjustment to the Price Determination.

## FORECAST REGULATORY ASSET BASE

The Regulatory Asset Base (RAB) calculated for the purposes of determining the required revenue must reflect capital expenditure (less regulatory depreciation, contributions and/or asset disposals) which would be incurred by a prudent service provider acting efficiently to achieve the lowest cost of delivering on service outcomes, taking into account a long-term planning horizon (prudency criteria).

The value of the initial RAB (at 1 July 2004) was set by the Minister for Water, Environment and Climate Change at a value of \$80 million. Since then the RAB has been adjusted annually in the following manner:

**Table 18:** Regulatory Asset Base 2013-2018

|                                                                     | 2012-13<br>\$M | 2013-14<br>\$M | 2014-15<br>\$M | 2015-16<br>\$M | 2016-17<br>\$M | 2017-18*<br>\$M |
|---------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| <b>Opening RAB</b>                                                  | <b>204.24</b>  | <b>238.75</b>  | <b>255.17</b>  | <b>256.88</b>  | <b>263.20</b>  | <b>264.79</b>   |
| <b>Plus: Actual Capital expenditure (gross)</b>                     | 47.20          | 28.52          | 13.25          | 17.29          | 13.60          | 12.11**         |
| <b>Less: Actual capital contributions (customer and government)</b> | 2.41           | 3.19           | 3.34           | 2.23           | 2.92           | 2.00            |
| <b>Less: Actual Proceeds from Disposal of Assets</b>                | 1.54           | 1.49           | 0.38           | 0.47           | 0.35           | 0.50            |
| <b>Less: Regulatory Depreciation</b>                                | 8.74           | 7.42           | 7.82           | 8.26           | 8.74           | 9.54            |
| <b>Total Regulatory Asset Base</b>                                  | <b>238.75</b>  | <b>255.17</b>  | <b>256.88</b>  | <b>263.20</b>  | <b>264.79</b>  | <b>264.86</b>   |

\*denotes the latest available forecast for 2017-18

\*\*denotes the forecast used in the 2013 Price Determination

**Table 19:** Roll Forward Regulatory Asset Base 2018-2026

|                                                                       | 2018-19<br>\$M | 2019-20<br>\$M | 2020-21<br>\$M | 2021-22<br>\$M | 2022-23<br>\$M | 2023-24<br>\$M | 2024-25<br>\$M | 2025-26<br>\$M |
|-----------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Opening RAB</b>                                                    | <b>264.86</b>  | <b>270.12</b>  | <b>280.06</b>  | <b>291.38</b>  | <b>304.34</b>  | <b>307.84</b>  | <b>310.90</b>  | <b>312.39</b>  |
| <b>Plus: Forecast Capital expenditure (gross)</b>                     | 16.75          | 21.63          | 23.40          | 25.46          | 16.49          | 16.21          | 14.77          | 11.37          |
| <b>Less: Forecast capital contributions (customer and government)</b> | 1.71           | 1.75           | 1.78           | 1.81           | 1.84           | 1.87           | 1.90           | 1.94           |
| <b>Less: Forecast Proceeds from Disposal of Assets</b>                | 0.50           | 0.50           | 0.50           | 0.50           | 0.50           | 0.50           | 0.50           | 0.50           |
| <b>Less: Forecast Regulatory Depreciation</b>                         | 9.27           | 9.45           | 9.80           | 10.20          | 10.65          | 10.77          | 10.88          | 10.93          |
| <b>Total Regulatory Asset Base</b>                                    | <b>270.12</b>  | <b>280.06</b>  | <b>291.38</b>  | <b>304.34</b>  | <b>307.84</b>  | <b>310.90</b>  | <b>312.39</b>  | <b>310.39</b>  |

## NEW CUSTOMER CONTRIBUTION

Extensive modelling conducted in 2013 determined the appropriate incremental contributions required by each new customer to enable North East Water to deliver its water and wastewater services. Over this period developers have acknowledged the benefits of price certainty in progressing with their individual development opportunities.

This desire for continued price certainty was tested and validated again at our Developer Forum conducted as part of the broader engagement program for this price submission.

Table 20 outlines the forecast New Customer Contributions (NCCs) price path for this regulatory period in 1 January 2018 dollars.

**Table 20:** New Customer Contributions (per lot)

|                   | 2018-19    | 2019-20    | 2020-21    | 2021-22    | 2022-23    | 2023-24    | 2024-25    | 2025-26    |
|-------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Water</b>      | \$809.63   | \$813.27   | \$816.93   | \$820.61   | \$824.30   | \$828.01   | \$831.73   | \$835.48   |
| <b>Wastewater</b> | \$1,889.06 | \$1,897.56 | \$1,906.10 | \$1,914.68 | \$1,923.30 | \$1,931.95 | \$1,940.64 | \$1,949.38 |

These NCCs reflect economic factors associated with new developments within the Corporation's service region, including materials, bulk water purchases, required capital projects and CPI. They will be applied as a standard charge across all communities.

Should a developer, or North East Water, feel the standard charge is not applicable in any individual circumstance then there may be the need to negotiate a charge.

Standard and Negotiated NCC charges will continue to:

- Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection
- Have regard to the incremental future revenues that will be earned from customers at that connection
- Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

The recently published *North East Water's Regional Growth Strategy 2017* has strengthened North East Water's ability to produce accurate development servicing plans, that show the Corporation's forecast timing and sequencing of infrastructure required to service new customers. This strategy spatially identifies key urban growth locations as well as the nature of investment needed in water supply and wastewater treatment systems.

## FINANCIAL POSITION

Appendix 7 details the forward financial projections for a nine year period commencing 2017-18.

From an Operating Statement perspective, the Corporation is forecast to have an operating deficit before tax for the first two years of the Price Submission period, driven by an increase in electricity for 2018-19 and 2019-20. From 2020-21 the Corporation will return to surplus as the wholesale price of electricity eases and the Corporation supplements electricity from the grid with its own renewable sources, as outlined in the Capital Program and consistent with North East Water's Carbon Reduction Pledge.

From a cash-flow perspective, the Corporation continues to generate strong cash-flows from operations which largely fund the capital works program of \$146m. Total borrowings are forecast to decrease from \$24m in 2017-18 to zero by 2025-26. This supports the Corporation's capacity to commit to the additional projects currently ring-fenced from this Price Submission. The ring-fenced projects are estimated to be approximately \$47m.

## CONCLUSION

Price certainty, sound asset management and an overall investment scale which is aligned to our service capacity are the core pillars of North East Water's Price Submission.

The Deliberative Forum validated our established Customer Values and explored the broader outcomes expected by our communities. The Corporation's 2018-2026 Price Submission delivers upon those outcomes.

Whilst customer price certainty was the impetus for an eight year regulatory term, the process has revealed significant advantages, including a generous approach to shouldering regulatory risk and a longer period for demand recovery.

North East Water remains committed to conducting a mid-term review and has demonstrated the agility to adjust its pricing should a material over-recovery occur.

Appendices support the information presented in this Price Submission.

A Price Determination reflecting this Submission will position North East Water to achieve significant and sustainable outcomes in accordance with customer expectations well into the next decade.

The Corporation confidently presents this Price Submission.

Our Customers collaborated  
with us to co-design this  
Price Submission.

Its 'Their Water'

This is 'Their Say'

# APPENDICES

- Appendix 1: PREMO - Summary of the self-assessment rating for each category
- Appendix 2: Customer Proposals
- Appendix 3: Tariff Strategy
- Appendix 4: Customer Pricing Impacts
- Appendix 5: Capital Expenditure
- Appendix 6: Risk Management
- Appendix 7: Detailed Budget Forecasts 2017-18 to 2025-26
- Appendix 8: Guaranteed Service Levels
- Appendix 9: Proposed changes to Service Standards
- Appendix 10: Performance Reporting Plan
- Appendix 11: Supporting Information

Price Submission  
2018 – 2026





## APPENDIX 1: PREMO - SUMMARY OF THE SELF-ASSESSMENT RATING FOR EACH CATEGORY

## OUTCOMES – Scored as 3/5

North East Water is satisfied the element is 'Advanced'.

| Guiding Questions                                                                                                                             | Standard                                                                                                                                                                                                                                                                                  | Advanced                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Leading | Basic |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------|
| <b>Has the business provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?</b> | <p>North East Water customers continue to expect the delivery of water and wastewater services to a high standard.</p> <p>North East Water's proposed Service Standards will be broadly consistent with other high Service Standards of Rural Urban Corporations across the industry.</p> | <p>North East Water's Customer Outcomes reflect 82 of the 88 Proposals delivered by the Deliberative Forum. The Proposals have been summarised for the purposes of this document.</p> <p>Our customers did not want further investments to increase Service Standards, particularly in light of our strong position as shown by benchmarking. Rather, their focus was on greater use of digital communications to keep customers promptly informed of any issues. This was agreed.</p> |         |       |
| <b>Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?</b>      |                                                                                                                                                                                                                                                                                           | <p>All Outcomes have been built into the capital and operational expenditure forecasts provided and can be traced back through supporting documentation.</p>                                                                                                                                                                                                                                                                                                                           |         |       |
| <b>Has the business proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?</b>                       |                                                                                                                                                                                                                                                                                           | <p>The activities and projects identified in Part B 'Customer Outcomes' are supported by challenging Key Performance Measures.</p>                                                                                                                                                                                                                                                                                                                                                     |         |       |

| Guiding Questions                                                                                                                                 | Standard | Advanced                                                                                                                                                                                                                                                           | Leading | Basic |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------|
| <p><b>Has the business provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?</b></p> |          | <p>The measures all have an obvious connection to the Outcomes and many are derived from customer perceptions of the Outcomes.</p>                                                                                                                                 |         |       |
| <p><b>Has the business demonstrated a process to measure performance against each outcome and to inform customers?</b></p>                        |          | <p>Top 16 Capital projects have external and internal KPIs fully developed. This process is extended to broader programs and renewals. North East Water has committed to a process for monitoring and reporting to customers, on performance against Outcomes.</p> |         |       |

## MANAGEMENT – Scored as 3/5

North East Water is very confident the element is 'Advanced'.

| Guiding Questions                                                                                                                            | Standard | Advanced                                                                                                                                                                                                                                                                                                                                                                                                     | Leading | Basic |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------|
| <b>To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?</b>                  |          | <p>North East Water has a AA credit rating and currently delivers the most affordable water in Australia.</p> <p>We are continuing this tariff structure and price path and have committed to an efficiency target for recurrent expenditure of 1.2% and 2% for the Capital Delivery Program. The small projected price increases reflect the increased products and services proposed by our customers.</p> |         |       |
| <b>To what extent has the business justified its commitment to cost efficiency or productivity improvements?</b>                             |          | <p>North East Water proposes an efficiency target for recurrent expenditure of 1.2% and for the Capital Delivery Program 2%.</p> <p>Business cases, ILM and justification for all major projects and capital programs is available, including evidence that a range of options have been considered.</p>                                                                                                     |         |       |
| <b>To what extent have senior management, including the Board, demonstrated ownership and commitment to the proposals in its submission?</b> |          | <p>The Key Success Measures are linked to Corporate KPIs and individual Executive KPIs.</p>                                                                                                                                                                                                                                                                                                                  |         |       |

| Guiding Questions                                                                                                                                                                                 | Standard | Advanced                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Leading | Basic |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------|
| <p><b>To what extent has the business justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?</b></p> |          | <p>North East Water has incorporated a number of external processes and resources to ensure accuracy. This has included the use of the Investment Management Standard, professional community engagement expertise and the use of highly credentialed consultants advising on demand and electricity.</p>                                                                                                                                                                  |         |       |
| <p><b>To what extent has the business provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?</b></p>                   |          | <p>The engagement program, 'Your Water, Your Say', was led at Executive level. Executives and Directors demonstrated ownership and commitment by participating in planning workshops with the Customer Panel, attending some of the Customer Focus Groups and later, directly engaging with our Deliberative Forum on several occasions. The Board reviewed an early draft of this document and several Directors have provided guidance to Executive on later drafts.</p> |         |       |

## ENGAGEMENT- Scored as 4/5

North East Water is very confident the element is 'Leading'

| Guiding Questions                                                                                                                                                                         | Standard | Advanced | Leading                                                                                                                                                                                                                                                                                                                                                | Basic |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>To what extent has the business justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers?</b>             |          |          | <p>The methodology of 'Your Water, Your Say' reflects the ESC guidance regarding early, broad and deep consultation and has its foundation in the IAP2 Core Values.</p> <p>Unbiased Feedback – customers were given appropriate information and time to learn.</p> <p>Strong alignment between proposals and preferences.</p>                          |       |
| <b>To what extent has the business demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement?</b> |          |          | <p>Briefing papers and external experts were provided to the Deliberative Forum.</p> <p>The collated feedback confirmed a rating of 93% satisfaction from the aggregated engagement participants, with the level of information provided, our responses to their questions and that we are considering community interests in our decision making.</p> |       |
| <b>To what extent has the business demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?</b>   |          |          | <p>We engaged on the full suite of topics in the Price Submission and enabled deliberation on trade-offs of services against affordability and also enabled deliberation on customers' 'willingness to pay'.</p> <p>The proposed prices are within the acceptable 'bandwidth' of increase proposed by the Deliberative Forum.</p>                      |       |

| Guiding Questions                                                                                                           | Standard | Advanced | Leading                                                                                                                                                                                 | Basic |
|-----------------------------------------------------------------------------------------------------------------------------|----------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <p><b>To what extent has the business explained how it decided when to carry out its engagement?</b></p>                    |          |          | <p>'Your Water, Your Say' was comprehensively planned in collaboration with our Customer Panel from February 2016, and the full methodology is provided in Part A of this document.</p> |       |
| <p><b>To what extent has the business demonstrated how its engagement with customers has influenced its submission?</b></p> |          |          | <p>88 Customer proposals were considered by Board and 82 of those were accepted and incorporated into this Submission.</p>                                                              |       |

## RISK – Scored as 3.5/5

North East Water is very confident the element is 'Advanced'

| Guiding Questions                                                                                                                                                                                                                                | Standard | Advanced                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Leading | Basic |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------|
| <p><b>To what extent has the business demonstrated a robust process for identifying risk, and how it has decided who should bear these risks?</b></p>                                                                                            |          | <p>North East Water's position is that the Corporation is better placed to accept risk than are our customers. We have given significant attention to the identification of risk throughout the development of the Submission to ensure that is applied.</p> <p>In addition to overtly testing customers' willingness to pay, our approach has ensured the following risk controls will be maintained throughout the regulatory term:</p> <ul style="list-style-type: none"> <li>• Explicit price control</li> <li>• Benefit sharing of revenue under/over recovery</li> <li>• Tariff design</li> <li>• Ring-fenced projects</li> <li>• Catchment to tap risk approach to regulatory requirements – EPA and DH, (Environmental Risk Assessments)</li> <li>• Risk based renewals forecasting</li> <li>• Length of regulatory period</li> </ul> |         |       |
| <p><b>To what extent does the proposed guaranteed service level (GSL) scheme provide incentives for the business to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?</b></p> |          | <p>There are no changes proposed to our existing GSL scheme as our customers believe it already provides appropriate incentives for accountability and service quality. They proposed the existing GSL is retained.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |         |       |

## APPENDIX 2: CUSTOMER PROPOSALS

**Table A2.1:** Customer Proposals

| <b>CUSTOMER PROPOSALS</b>    |                                                                                                                                                                                                                           | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                                                                                                                             |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>- RELIABLE SERVICES</b>   |                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                              |
| 1                            | <i>Deliver a reliable supply of good tasting, safe, clean, drinking water.</i>                                                                                                                                            | We support this proposal. North East Water is committed in its delivery of excellent, safe drinking water that meets the Australian Drinking Water Quality Guidelines (2011) and satisfies customer expectations.                                                                                                                                            |
| 2                            | <i>Incentivise customers to conserve water.</i>                                                                                                                                                                           | We support the concept of promoting water conservation. Our existing tariff structure provides this incentive through a low fixed charge and variable charging which directly relates to the volume of water that customers use.                                                                                                                             |
| 3                            | <i>Apply water restrictions if and when they are really needed but preferably not more than 1 in 10 years and Levels 1 and 2 are much preferable to watching our gardens die.</i>                                         | We will only activate water restrictions as a last resort and certainly not more than 1 in 10 years. We prefer to focus on building the resilience of our communities and infrastructure through sound planning, including Drought Preparedness Plans. Our ongoing educational activities in water conservation also support the need for less restrictions. |
| 4                            | <i>Deliver a reliable, environmentally safe, 'flush and forget' sewerage system.</i>                                                                                                                                      | We support this proposal. We will continue to manage our systems in ways that achieve both reliability and environmental improvements.                                                                                                                                                                                                                       |
| 5                            | <i>Maintain current GSLs (and clarify wording).</i>                                                                                                                                                                       | We support this proposal. Clearly worded information about GSL's will become part of our ongoing communications program.                                                                                                                                                                                                                                     |
| 6                            | <i>Provide customers with the choice of cash rebate or credit to account.</i>                                                                                                                                             | We support this proposal. Our customers will be provided with choice concerning the payment of any GSL amounts.                                                                                                                                                                                                                                              |
| <b>CUSTOMER PROPOSALS</b>    |                                                                                                                                                                                                                           | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                                                                                                                             |
| <b>- RESPONSIVE SERVICES</b> |                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                              |
| 7                            | <p>SS1: (Maximum) Unplanned water supply interruptions (per 100km). Present Standard = 14 per 100 kms</p> <p><i>No change proposed but suggest an annual review of the standard to lessen time wherever possible.</i></p> | We support this proposal. North East Water is currently performing better than the average performance of similar Regional Urban water utilities (20.56 minutes). Our ongoing performance is reviewed annually by our business and our State-Government Regulators.                                                                                          |



|    |                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8  | <p>SS2: Average time (minutes) taken to attend bursts and leaks (Priority 1). Present Standard = 17 mins</p> <p><i>After Day 2, the Standard was thought to be good – to be retained</i></p>                | <p>Whilst our customers originally deemed our present standard to be good, following a review of its datasets, the Corporation proposed a change from the current standard of <b>17 minutes to 30 minutes</b>. At the request of the Board, this topic was further explored on Day 6 of the Deliberative Forum - 27 March 2017.</p> <p>Members of the Deliberative Forum were informed that the proposed change in timing better reflected the Corporation's requirements to ensure the safety of staff when responding to these issues across all communities (including outlying towns) within our Service Region. The Forum was also advised that the proposed timing reflected the average performance of similar Regional Urban water utilities (30.5 minutes).</p> <p>The Forum of Day 6 supported the proposed amendment to this Service Standard.</p> <p>A Priority 1 event is a burst or leak which causes, or has the potential to cause, substantial damage or harm to customers, water quality, flow rate, property or the environment.</p>                                                                                                                                         |
| 9  | <p>SS3: Average time (minutes) taken to attend bursts and leaks (Priority 2). Present Standard = 23 minutes.</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p>     | <p>Although our customers stated that the present standard was acceptable, after reviewing its datasets, the Corporation proposed a change from the current response standard of <b>23 minutes to 30 minutes</b>. At the request of the Board, this topic was further explored on Day 6 of the Deliberative Forum - 27 March 2017.</p> <p>Members of the Deliberative Forum were informed that the proposed change in timing better reflected our requirements to ensure staff safety when responding to address these issues across all communities (including outlying towns) within our Service Region. This is still a higher level of performance than the average of similar Regional Urban water utilities (60.64 minutes).</p> <p>The Forum of Day 6 supported the proposed amendment to this Service Standard.</p> <p>Please note that North East Water responds to all unplanned water events in the same manner. An event's priority is then determined once the incident has been assessed onsite. A Priority 2 event is a burst or leak which causes, or has the potential to cause, minor damage or harm to customers, water quality, flow rate, property or the environment.</p> |
| 10 | <p>SS4: Average time (minutes) taken to attend bursts and leaks (Priority 3) (Current Standard: 27)</p> <p><i>After Day 2, the Standard was thought to be good but might be increased to 35 minutes</i></p> | <p>Although our customers originally saw that the present standard could be increased to 35 minutes, following a review of its datasets, the Corporation proposed a change from the current standard of <b>27 minutes to 240 minutes</b>. At the request of the Board, this topic was further explored on Day 6 of the Deliberative Forum - 27 March 2017.</p> <p>As a Priority 3 event is defined as a burst or leak which is causing no discernible impacts on customers, property or the environment, members of the Deliberative Forum were informed that the proposed increase would enable greater flexibility for staff when responding to incidents with higher priority (such as water treatment issues). They were advised that the additional time would also support better processes for assessing urgency of works and prevent (OH&amp;S) fatigue related issues. The Corporation's proposal was still well below the current average performance of similar Regional Urban water utilities (579 minutes) for such incidents and this amendment was supported by the Forum of Day 6.</p>                                                                                          |

|    |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11 | <p>SS5: (Minimum) Unplanned water supply interruptions restored within 5 hours (%) (Current Standard: 98%)</p> <p><i>Standard of 98% to remain unchanged - but note commercial and industrial customers propose the time might be reduced.</i></p> | <p>We support the proposal to retain the existing standard. North East Water expects its commercial and industrial customers to mitigate their risk exposures (through on-site emergency water supplies etc.) should they be unable to continue operating for this length of interruption.</p>                                                                                                                                                                                                                                                                                                                                         |
| 12 | <p>SS6: (Minimum) Planned water supply interruptions restored within 5 hours (%) (Current Standard: 100% )</p> <p><i>Standard to remain unchanged</i></p>                                                                                          | <p>We support this proposal and our average over the last 3 years indicates this target is achievable.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 13 | <p>SS7: Average unplanned customer minutes off water supply (minutes) (Current Standard: 6.2)</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p>                                                           | <p>Although our customers originally stated their acceptance of the present standard, the Corporation proposed a change from our current standard of <b>6.2 minutes to 9 minutes</b> following a review of its datasets. The Forum was forwarded this proposal after Day 5 and the modification was accepted as proposed by North East Water.</p> <p>This timing change better reflects our performance against this measurement over the last 3 years and the time still falls well below the average performance of similar Regional Urban water utilities (16.91 minutes).</p>                                                      |
| 14 | <p><i>Use SMS notification for unplanned disruptions.</i></p>                                                                                                                                                                                      | <p>We support the proposal to increase use of SMS messaging in providing notifications of unplanned interruptions</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 15 | <p>SS8: Average planned customer minutes off water supply (minutes) (Current Standard: 3.05 minutes)</p> <p><i>Standard doesn't need changing - retain.</i></p>                                                                                    | <p>We support the proposal to retain this current standard. North East Water is currently performing better than the state-based average performance of Regional Urban water utilities (31.80 minutes).</p>                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 16 | <p>SS9: Average unplanned frequency of water supply interruptions per customer (No.) (Current Standard: 0.08)</p> <p><i>Performance is very good – standard to be retained.</i></p>                                                                | <p>Although our customers originally stated their acceptance of the present standard, the Corporation proposed a change from our current target from <b>0.08 to 0.15</b> water supply interruptions per customer (on average) following a review of its datasets. The Forum was forwarded this proposal after Day 5 and the modification was accepted as proposed by North East Water.</p> <p>Although North East Water's current average performance over the past 3 years closely resembles the present standard, this change will better reflect the state-based performance of similar Regional Urban water utilities (0.178).</p> |

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|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17 | <p><i>Notification is more important than a number. (service standard target)</i></p>                                                                                                                   | <p>We acknowledge and accept this observation and will be incorporating methods to better improve the timeliness of our notifications to customers for such interruptions. This includes SMS and the proactive use of social media.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 18 | <p>SS10: Average planned frequency of water supply interruptions per customer (No.) (Current Standard: 0.03)</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p> | <p>Whilst our customers originally stated their acceptance of the present standard, the Corporation proposed a change from our current target from <b>0.03 to 0.12</b> water supply interruptions per customer (on average) following a review of its datasets. The Forum was forwarded this proposal after Day 5 and the modification was accepted as proposed by North East Water.</p> <p>The Regional Urban water utilities average is currently 0.18. With a significant investment in increasing future planned maintenance activities, North East Water recognises that it will be unable to achieve its present target into the future. The increase to this target will be beneficial to our customers by enabling increased planned maintenance activities such as scouring and ice pigging, which will significantly improve the taste and odour characteristics of water supplies.</p> |
| 19 | <p>SS11: Average duration of unplanned water supply interruptions (minutes) (Current Standard: 95 minutes)</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p>   | <p>Although our customers originally stated their acceptance of the present standard, the Corporation proposed a change in this metric from <b>95 to 100 minutes</b> following a review of its datasets. The Forum was forwarded this proposal after Day 5 and the modification was accepted as proposed.</p> <p>This will ensure a closer alignment with North East Water’s performance average against this measure over the last 3 years. The proposed timing change also better reflects our requirements to ensure staff safety when responding to fix these issues across all communities (including outlying towns) within our Service Region. This target still provides for a higher level of service than the state-based averages of similar Rural Urban water utilities (101.78 minutes).</p>                                                                                         |
| 20 | <p><i>Use SMS Notifications to residential customers, and a phone call to affected industrial customers, for unplanned disruptions</i></p>                                                              | <p>We support the proposal to increase use of SMS messaging in providing notifications of unplanned interruptions</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 21 | <p>SS12: Average duration of planned water supply interruptions (minutes) (Current Standard: 95 minutes )</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p>    | <p>We support this proposal. Planning for site safety is included within this timeframe.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

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| 22 | <p>SS13: (Maximum) Number of customers experiencing more than two unplanned water supply interruptions in the year (No.) (Current Standard: 375)</p> <p><i>Standardise the maximum number of customers to experience unplanned water interruptions per year across all regional urban water corporations (ie. some use metric of &gt;2, others have &gt;5).</i></p> | <p>We support this proposal. North East Water currently measures customers that are impacted 1, 2, 3, 4 or 5 times as part of its GSL requirements.</p> <p>We support the view that there should be a shared (and equivalent) performance metric used across the state and will raise that with the regulator.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 23 | <p>SS14: (Maximum) Unaccounted for water (losses from the system) (Current Standard: 10%)</p> <p><i>No change to standard.</i></p>                                                                                                                                                                                                                                  | <p>We support this proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 24 | <p>SS15: (Maximum) Sewerage blockages (per 100km) (Current Standard: 12 per 100 kms)</p> <p><i>Standard is acceptable – to be retained.</i></p>                                                                                                                                                                                                                     | <p>We support the proposal to retain this standard. Our current average performance over the last 3 years is better than this proposed target.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 25 | <p><i>Increase education on non-flushable items.</i></p>                                                                                                                                                                                                                                                                                                            | <p>We support the proposal in principle and will increase public awareness and education regarding non-flushable wipes, although this will not form part of this particular Service Standard (SS15).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 26 | <p>SS16: Average time to attend sewer spills and blockages (minutes) (Current Standard: 24 minutes)</p> <p><i>After Day 2, the Standard was thought to be acceptable – to be retained.</i></p>                                                                                                                                                                      | <p>Although our customers originally stated their acceptance of the present standard, the Corporation proposed a change in the current response standard of <b>24 minutes to 30 minutes</b> following a review of its datasets. The Forum was forwarded this proposal after Day 5 and the modification was accepted as proposed.</p> <p>This change will better reflect North East Water's requirements to ensure staff safety when responding to fix these types of issues across all communities (including outlying towns) within our Service Region. This target still provides for a higher level of service than the state-based averages of similar Regional Urban water utilities (44.22 minutes).</p> <p>Please note that North East Water responds to all unplanned events in the same manner and an event's priority is then determined once the incident has been assessed onsite.</p> |
| 27 | <p><i>Advertise widely for customers to 'ring a plumber first'.</i></p>                                                                                                                                                                                                                                                                                             | <p>This proposal is supported. We will include this messaging within our future business practices.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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| 28 | <p>SS17: Average time to rectify a sewer blockage (minutes) (Current Standard: 140 minutes)</p> <p><i>Standard is acceptable – to be retained.</i></p>                         | <p>We support this proposal.</p>                                                                                                                                                                                                   |
| 29 | <p>SS18: (Minimum) Spills contained within 5 hours (per cent) (Current Standard: 100%)</p> <p><i>Standard is acceptable – to be retained.</i></p>                              | <p>We support this proposal as our average over the last 3 years supports our achievement of this target.</p>                                                                                                                      |
| 30 | <p>SS19: (Maximum) Customers receiving more than 2 sewer blockages in the year (Current Standard: 14 customers)</p> <p><i>Standard is acceptable – to be retained.</i></p>     | <p>We support this proposal.</p>                                                                                                                                                                                                   |
| 31 | <p>SS21: Telephone calls answered within 30 seconds (% of Calls) (Current Standard: 95%)</p> <p><i>Change standard to 92.5% of calls to be answered within 40 seconds.</i></p> | <p>We accept the proposal to lower the performance target to 92.5%, but we will retain a 30 second timeframe to answer calls. This better reflects our organisational appetite to have calls answered within 30 seconds.</p>       |
| 32 | <p><i>Maintain a local Customer Contact Centre with real people answering phone calls and providing knowledgeable, respectful customer service.</i></p>                        | <p>This proposal is supported. Currently a local call centre is an important pillar of our normal business practices.</p>                                                                                                          |
| 33 | <p><i>Employ local people with local knowledge of the region to answer our enquiries.</i></p>                                                                                  | <p>We support this proposal in principle, however please note that North East Water is committed to merit-based appointments.</p>                                                                                                  |
| 34 | <p><i>Add new SS: 100% compliance with training for all Call Centre staff.</i></p>                                                                                             | <p>We support the intent of this proposal, however North East Water already incorporates this within its normal and ongoing business operations. The establishment of a new Service Standard for this aspect is not supported.</p> |

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| 35 | <i>Add new SS: Provide 7 days' notice for any planned event (rather than 14 because 14 is too long people and would forget).</i>                                                                                                                                                    | <p>The establishment of a new Service Standard for this item is not supported.</p> <p>A notification requirement to customers ahead of any planned event is already mandated to North East Water by its government regulators. However, in addition to our current 14 days of advance notice, we will provide our customers with a second notification reminder 7 days out from the planned interruption.</p> |
| 36 | <i>Add new SS: North East Water apologise if customer details are not changed when requested.</i>                                                                                                                                                                                   | We support the intent of this proposal but will not be seeking the establishment of a new Service Standard to measure this.                                                                                                                                                                                                                                                                                   |
| 37 | <i>Embrace technological change including on-line and mobile choices for how people interact with North East Water but retain other options for people who prefer existing methods.</i>                                                                                             | We support this proposal. Into the future, our customers will be provided with a wide choice around how they will interact with us to achieve their expected levels of customer service.                                                                                                                                                                                                                      |
| 38 | <i>Develop and maintain a CRM database for commercial and industrial customers that contains individual contact details of key personnel and GIS information of locations to enable fast, accurate and succinct communication of any service issues, to the affected customers.</i> | This proposal is supported. North East Water is committed to this outcome and has provided internal resourcing to ensure the delivery of this in the near future.                                                                                                                                                                                                                                             |
| 39 | <i>Maintain water usage information on invoices.</i>                                                                                                                                                                                                                                | We support this proposal and will continue to make this information available on customer bills.                                                                                                                                                                                                                                                                                                              |
| 40 | <i>Provide Smart Meters to all new connections from 2020 and upgrade all others to smart meters by 2026</i>                                                                                                                                                                         | We support this proposal and North East Water is now developing a program to implement this technology for our customers over the next few years.                                                                                                                                                                                                                                                             |
| 41 | <i>Upgrade and simplify the website.</i>                                                                                                                                                                                                                                            | This proposal is supported. North East Water is committed to this outcome and we have provided internal resourcing to ensure the delivery of this in the near future.                                                                                                                                                                                                                                         |
| 42 | <i>Provide real time map views of current works and supply interruptions.</i>                                                                                                                                                                                                       | This proposal is supported. North East Water is committed to this outcome and we have provided internal resourcing to ensure the delivery of this in the future as our technology upgrades make this information available for dissemination through customer communication channels.                                                                                                                         |
| 43 | <i>Provide an email option for bills as soon as possible and allow customers to opt out of paper bills.</i>                                                                                                                                                                         | This proposal is supported and will be made possible with planned future improvements to North East Water's information management systems.                                                                                                                                                                                                                                                                   |
| 44 | <i>Deliver an advertising campaign around the benefits of electronic communication.</i>                                                                                                                                                                                             | We support this proposal and will be incorporating this messaging in our future communications strategies and plans.                                                                                                                                                                                                                                                                                          |

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| 45                         | <i>Increase social media for advertising.</i>                                                                                                                             | We acknowledge and support this proposal. North East Water will implement this where possible, in accordance with our obligations, policies and procedures at the time.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 46                         | <i>Invest in further digital communications such as live chat on the website and mobile apps for tracking water usage, lodging service requests and reporting faults.</i> | This proposal is supported and will be made possible with planned future improvements to North East Water's information management systems. The implementation of Smart Metering technology for North East Water customers also influences our timeframes for delivering this proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 47                         | <i>Include water related tips on 'hold' music.</i>                                                                                                                        | We support this proposal and will incorporate this messaging within our future communication strategies and plans.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 48                         | <i>Include a 'NEW Idea' (ideas generator) on website.</i>                                                                                                                 | We support this proposal. North East Water will seek to implement this within future upgrades of our website                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 49                         | <i>Communicate information about GSLs.</i>                                                                                                                                | We support this proposal and will incorporate this messaging within our future customer charter, communication strategies and plans.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 50                         | <i>Continue to involve us, (the customers) in decisions that affect us.</i>                                                                                               | We support this proposal. It aligns with our Strategic Ambition for Customers and Community and is embedded in our practice.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>CUSTOMER PROPOSALS</b>  |                                                                                                                                                                           | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>- AFFORDABLE PRICES</b> |                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 51                         | <i>Maintain the current mix of fixed and variable pricing.</i>                                                                                                            | This proposal is supported. Our mix of fixed and variable pricing will be reflected within our future tariff framework.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 52                         | <i>Include a reasonable amount of water usage within fixed charges.</i>                                                                                                   | This proposal is not supported. By their nature, 'fixed charges' exclude water usage and are essentially minimum cost recovery requirements to ensure the operation of our networks and systems. Customer water usage will continue to be paid through a variable charging mechanism.                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 53                         | <i>Apply uniform pricing gradually across the service region during the term of this Price Submission.</i>                                                                | <p>At the request of the Board, this topic was further explored on Day 6 of the Deliberative Forum - 27 March 2017. Forum members were asked to consider the benefits and consequences of the proposal and after significant consideration, the Corporation does not support this proposal.</p> <p>North East Water believes it already provides a pricing model which offers our customers the most optimal mix of benefits and minimised costs within the country.</p> <p>Already our more remote communities are subsidised by our larger communities, and any move to a more uniform pricing will increase this level of cross-subsidy.</p> <p>This is also not consistent with North East Water's commitment to 'user pays' principles.</p> |

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| 54                                                      | <i>Provide incentives for paying on time.</i>                                                                                                     | This proposal is not supported. We do not penalise late payments by applying interest penalties to residential customers and prefer to not provide incentives either. By providing a range of simple payment methods for customers to pay bills on time, we already achieve very good rates of revenue collection.                                                     |
| 55                                                      | <i>Provide more information about how our money is spent.</i>                                                                                     | We support this proposal and will incorporate this messaging within our future communications, strategies and plans.                                                                                                                                                                                                                                                   |
| 56                                                      | <i>Provide smooth pricing for industrial customers, to avoid peaks and troughs.</i>                                                               | We support the proposal in principle, noting this will be limited to negotiations with major industrial customers that experience significant peaks in pricing.                                                                                                                                                                                                        |
| 57                                                      | <i>Provide discounted water rates for community groups who are managing green open spaces and sporting or recreation grounds.</i>                 | We hesitate to support this proposal as almost all community managed recreational grounds are owned by Councils. Our Customer Forum has recommended discounts should not be applied to Councils. We will, however, work with community groups and councils to identify opportunities to apply lower cost options such as raw water or re-use water where possible.     |
| 58                                                      | <i>People in genuine hardship must be supported to retain their services.</i>                                                                     | We support the proposal and will continue to enhance our Customer Support Programs.                                                                                                                                                                                                                                                                                    |
| 59                                                      | <i>Deliver \$1 per customer per quarter into a hardship fund.</i>                                                                                 | We support the proposal in principle but will deliver an increase to \$50k per annum (25c per customer per quarter). The requirement for this level of expenditure is to be verified by a data review (underway) to better identify the actual community need, prior to confirming an amount. The amount will be reviewed annually through the Corporate Plan process. |
| 60                                                      | <i>Be transparent about eligibility for hardship – include low income earners, not just concession card holders</i>                               | We support the proposal. Eligibility criteria will be made available on our website.                                                                                                                                                                                                                                                                                   |
| 61                                                      | <i>The average annual water bill should be kept as low as possible -but may be increased by a minimal amount to deliver service improvements.</i> | We support the proposal (further development of the capital and operations budgets in accordance with Customer Outcomes, will enable any required price increases to be identified).                                                                                                                                                                                   |
| <b>CUSTOMER PROPOSALS</b><br><b>- EFFICIENT SYSTEMS</b> |                                                                                                                                                   | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                                                                                                                                       |
| 62                                                      | <i>Enable a significant increase in investment to facilitate and support regional growth.</i>                                                     | Management supports the proposal in principle and growth related investments will be implemented in accordance with the growth projections and related infrastructure requirements identified in our Urban Water Strategy.                                                                                                                                             |



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| 63 | <p><b>(NB: Proposals 63-66 relate to the Operational Budget)</b></p> <p><i>Use local contractors and purchase Australian made products where possible.</i></p>                                                                                                 | <p>We support the proposal in principle, bearing in mind NEW's commitment to 'value for money' through transparent procurement processes.</p>                                                               |
| 64 | <p><i>Maintain water and wastewater infrastructure to a reasonable level for future generations, ensuring a good balance between the expected, good service levels and affordability.</i></p>                                                                  | <p>We support the proposal to maintain assets through allocations to the operational budget. We will base our Renewals Program on the ISO 55000 suite of International Standards for Asset Management.</p>  |
| 65 | <p><i>Use evaluation and analysis.</i></p>                                                                                                                                                                                                                     | <p>We support the proposal. A significant amount of analysis guides decision making within the business and programs and practices are regularly evaluated and audited to drive continuous improvement.</p> |
| 66 | <p><i>Increase total operational expenditures for projects aiming to deliver service improvements in: Targeted water based sponsorships, Communications (digital), Education, Hardship program, climate change response, Liveability.</i></p>                  | <p>We support in principle the proposed service improvements. Further work will be done to demonstrate the real \$ value of those improvements aligned to Price Submission 4 Budget.</p>                    |
| 67 | <p><b>(NB: Proposals 67-70 relate to the Capital Budget)</b></p> <p><i>Maintain water and wastewater infrastructure to a reasonable level for future generations, ensuring a good balance between the expected, good service levels and affordability.</i></p> | <p>We support the proposal to maintain assets through allocations to the capital budget. We will base our Renewals Program on the ISO 55000 suite of International Standards for Asset Management.</p>      |
| 68 | <p><i>Use local contractors and purchase Australian made products where possible.</i></p>                                                                                                                                                                      | <p>We support the proposal in principle, bearing in mind NEW's commitment to 'value for money' through transparent procurement processes.</p>                                                               |
| 69 | <p><i>Maintain trade waste capacity at a scale to enable future growth of industry in the region.</i></p>                                                                                                                                                      | <p>We supports the proposal and recognise the need to enable regional prosperity through available capacity at our treatment plants, aligned to valid growth projections.</p>                               |
| 70 | <p><i>Increase total capital expenditures for projects aiming to deliver service improvements in: Targeted water based sponsorships, Communications (digital), Education, Hardship program, Climate change response, Liveability.</i></p>                      | <p>We support in principle the proposed service improvements. Further work will be done to demonstrate the real \$ value of those improvements aligned to Price Submission 4 Budget.</p>                    |

| <b>CUSTOMER PROPOSALS</b><br><b>- LOCAL FOCUS</b>        |                                                                                                                                                                                                                                | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                   |
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| 71                                                       | <i>Provide a demonstration house and / or portable, digital education displays.</i>                                                                                                                                            | We support the proposal and will explore a variety of options in partnership with other organisations, including Councils, other government agencies and our renewable energy partners.                                                            |
| 72                                                       | <i>Increase public education – about water and wastewater (particularly non-flushable items) and water security in a changing climate. We need to know much more about how we can conserve water - and retain our gardens.</i> | We support the proposal and will explore a variety of options in partnership with other organisations, including Councils, other government agencies and our renewable energy partners.                                                            |
| 73                                                       | <i>Provide (volunteer) North East Water Ambassadors to schools for education purposes.</i>                                                                                                                                     | We support the proposal in principle. We currently employ a staff member with a teaching background to work in schools. We will explore opportunities for utilising a bank of volunteers to support community education and engagement activities. |
| 74                                                       | <i>Collaborate with other utilities to teach young people how to budget for their essential services when they leave home.</i>                                                                                                 | We support the proposal and will seek out other utilities and relevant communication channels, to provide shared information about how young people can be proactive in paying their utility bills.                                                |
| 75                                                       | <i>Provide annual traineeships, apprenticeships and job opportunities that focus on aboriginal people, disadvantaged people and local young people.</i>                                                                        | We support the proposal and will provide opportunities for increasing the inclusion and diversity of our workforce.                                                                                                                                |
| 76                                                       | <i>Recognise the Traditional Owners of our lands and water and the aboriginal values of land and water.</i>                                                                                                                    | We support the proposal and will formalise our recognition actions and seek to strengthen our aboriginal partnerships.                                                                                                                             |
| 77                                                       | <i>Provide water related sponsorships for community groups and local events, including provision of the water trailer and Drink Tap water bottles.</i>                                                                         | We support the proposal and will maintain our commitment to the existing sponsorships program in the budget.                                                                                                                                       |
| <b>CUSTOMER PROPOSALS</b><br><b>- SUSTAINABLE REGION</b> |                                                                                                                                                                                                                                | <b>NORTH EAST WATER RESPONSE</b>                                                                                                                                                                                                                   |
| 78                                                       | <i>Invest wisely to respond proactively to Climate Change.</i>                                                                                                                                                                 | We support the proposal and reducing carbon emissions and increasing our use of renewable energy will become the key planks of our Carbon Reduction Pledge.                                                                                        |

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| 79 | <i>Show in the Annual Report how the 'green charge' is spent.</i>                                                        | We support the proposal to communicate our investments in environmental activities, however we do not intend to establish a 'green charge'. North East Water delivers approx. \$2.4m annually to government through an environmental levy and we will invest further, to pursue our carbon reduction targets. These actions will form part of our responses to climate change to be highlighted in Annual Reports.             |
| 80 | <i>Partner with Councils in water wise developments.</i>                                                                 | We support the proposal and this will be achieved through the development of an Integrated Water Management Forum, with a focus on water sensitive urban design, building community resilience to climate change through education and adaptation and mitigation activities.                                                                                                                                                   |
| 81 | <i>Partner with Councils to install water bubblers (free) in public spaces.</i>                                          | We partially support the proposal. We will continue our current approach of supporting Councils to install bubblers by waiving both application and connection fees. The cost of purchase and installation of bubblers and of water delivery, will continue to be met by Councils. North East Water is also keen to provide 'Drink Tap' signage to bubblers, to further support community use of tap water over bottled water. |
| 82 | <i>Focus on keeping parks and gardens green and provide raw or re-use water for parks and gardens wherever possible.</i> | We will collaborate with other organisations to seek out opportunities to utilise raw or re-use water to build resilience and support community purposes where possible and financially viable.                                                                                                                                                                                                                                |
| 83 | <i>Partner with industry to provide re-use / recycled water for community parks and public spaces where possible</i>     | We will collaborate with other organisations to seek out opportunities to utilise raw or re-use water to build resilience and support community purposes where possible and financially viable.                                                                                                                                                                                                                                |
| 84 | <i>Partner with industry to develop renewable energy initiatives.</i>                                                    | We support the proposal and will seek out viable, sustainable opportunities and partnerships to harness by-products to generate power and / or develop renewable energy initiatives, in accordance with our climate change pledge.                                                                                                                                                                                             |
| 85 | <i>Sell bio-solids for re-use as 'NEWSoil' and use the initiative to generate revenue.</i>                               | We support the proposal and a project is underway to achieve this.                                                                                                                                                                                                                                                                                                                                                             |
| 86 | <i>Harness by-products and generate power from operations where possible.</i>                                            | We support the proposal and will seek out viable, sustainable opportunities and partnerships to harness by-products to generate power and / or develop renewable energy initiatives (such as the solar project at West Wodonga Treatment Plant), in accordance with our climate change pledge.                                                                                                                                 |
| 87 | <i>Combine wetlands with water storages.</i>                                                                             | Management supports the proposal and will explore opportunities where this may be achieved without incurring additional cost to customers.                                                                                                                                                                                                                                                                                     |
| 88 | <i>Increase regulatory period to 8 years</i>                                                                             | Management supports this proposal and will endeavour to submit an 8 year Price Submission to the regulator.                                                                                                                                                                                                                                                                                                                    |



## APPENDIX 3: TARIFF STRATEGY

### Background and Context

Throughout Water Plan 2 and 3, the Corporation redeveloped its pricing structures away from the historical reliance on fixed charges to enable greater customer control over the size of their total bills.

Some of the major aspects include a higher volumetric charge, minimal increases in the water fixed charge and wastewater fixed charge for the period. The proposed tariff structure for Price Submission 4 reflects that historic 'customer-built' approach.

Two major considerations have been the increased exposure to the financial risks of reliance on a highly variable revenue stream and the conscious decision to combine the costs of recovery of water and wastewater across a new tariff mix.

North East Water's Tariffs represent the Corporation's vision for the pricing of its regulated services. It demonstrates the Corporation's commitment to the gradual implementation of cost-reflective pricing through:

- The reduction in levels of cross-subsidy
- Balancing revenue risk with the need to provide customers with price incentives to conserve water
- Transparent reporting of cross-subsidies where their removal would have significant negative social implications
- Ensuring communities are fully informed about the costs of providing a new service; and
- Providing appropriate cost signals to customers.

North East Water is committed to tariff structure reform as a key part of ensuring water businesses can continue to sustainably supply essential services.

### Pricing Principles for the Water Volumetric Tariff

- A single water volumetric tariff is to be adopted and be applicable to all Corporation customers except those very large industrial customers who also maintain a major trade-waste agreement and are charged a separate volumetric tariff relating to their discharges
- The tariff mix of fixed and variable revenue remains consistent across the regulatory period
- The water volumetric tariff reform acknowledged that the recovery of costs from water tariffs and wastewater tariffs would no longer be individually linked to the cost associated with the service provision.

The following table outlines the forecast water volumetric price path for this regulatory period in 1 January 2018 dollars.

**Table A3.1:** Volumetric tariff structure by year 2018 to 2026

|                                                  | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|--------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Water Volumetric Tariff</b>                   | \$2.21  | \$2.22  | \$2.23  | \$2.24  | \$2.25  | \$2.26  | \$2.27  | \$2.28  |
| <b>Water Volumetric Tariff - Major Customers</b> | \$0.88  | \$0.89  | \$0.89  | \$0.90  | \$0.90  | \$0.90  | \$0.91  | \$0.91  |

### Pricing Principles for the Water Fixed Service Tariff

In setting the water fixed service tariffs for Price Submission 4 the Corporation proposes to continue to differentiate pricing in smaller systems to improve the cost reflective price signals. This will see one of three tariff categories applied to each individual town based on that town's ability to recover the cost of providing that service.

Recognising the increasing interconnectedness of infrastructure serving communities across the region, the cost recovery tariff loading categories will be reviewed for each price submission. These reviews consider the capital invested, operating costs and growth in customer numbers to inform and initiate changes to the tariff loading.

The Corporation will continue to apply the following Tariff Loading categories as part of the commitment to cost-reflective pricing.

**Table A3.2.** Proposed tariff loadings - water

| Town                                                                                                                                                                                                                                                                 | Cost Recovery Tariff Loading |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| Benalla, Baranduda, Wangaratta, Wodonga, Yarrowonga                                                                                                                                                                                                                  | Base Level Tariff            |
| Beechworth, Bright , Myrtleford, Porepunkah, Rutherglen, Wahgunyah                                                                                                                                                                                                   | Base Level Tariff plus 10%   |
| Chiltern, Corryong, Tallangatta, Yackandandah, Mt Beauty, Tawonga, Tawonga South, Barnawartha, Bundalong, Kiewa, Tangambalanga, Devenish, Oxley, Moyhu, Tungamah, Harrietville, Glenrowan, Springhurst, Dartmouth, St James, Goorambat, Whitfield, Walwa, Bellbridge | Base Level Tariff plus 20%   |

The following table outlines the forecast water fixed service tariff price path for this regulatory period in 1 January 2018 dollars.

**Table A3.3.** Proposed forecast water fixed service tariff pricing 2018 to 2026

|               | 2018-19  | 2019-20  | 2020-21  | 2021-22  | 2022-23  | 2023-24  | 2024-25  | 2025-26  |
|---------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Base          | \$203.26 | \$204.18 | \$205.09 | \$206.02 | \$206.94 | \$207.88 | \$208.81 | \$209.75 |
| Base plus 10% | \$223.59 | \$224.59 | \$225.60 | \$226.62 | \$227.64 | \$228.66 | \$229.69 | \$230.73 |
| Base plus 20% | \$243.91 | \$245.01 | \$246.11 | \$247.22 | \$248.33 | \$249.45 | \$250.57 | \$251.70 |

### Pricing Principles for the Wastewater Fixed Service Tariff

In setting the wastewater fixed service tariffs for Price Submission 4 the Corporation proposes to continue to differentiate pricing in smaller systems to improve the cost reflective price signals. This will see one of three tariff categories applied to each individual town based on that town's ability to recover the cost of providing that service.

Recognising the increasing interconnectedness of infrastructure serving communities across the region the cost recovery tariff loading categories will be reviewed for each price submission. These reviews consider the capital invested, operating costs and growth in customer numbers to inform and change to the tariff loading.

The Corporation will continue to apply the following Tariff Loading categories as part of the commitment to cost-reflective pricing.

**Table A3.4.** Proposed tariff loadings – wastewater

| Town                                                                                          | Cost Recovery Tariff Loading                              |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Benalla, Baranduda, Wangaratta, Wodonga, Yarrowonga                                           | Base Level Tariff                                         |
| Beechworth, Bundalong , Bright, Chiltern, Myrtleford, Porepunkah, Rutherglen, , Wahgunyah     | Base Level Tariff plus 20%                                |
| Bellbridge, Corryong, Dartmouth, Mt Beauty, Tawonga, Tawonga South, Tallangatta, Yackandandah | Base Level Tariff plus 40%                                |
| Walwa, Oxley, Milawa, Glenrowan, Tungamah, Moyhu*                                             | New Small Town Schemes - Higher Base Level plus up to 50% |

\* Non connected properties attract a 50% rate

The following table outlines the forecast wastewater fixed service tariff price path for this regulatory period in 1 January 2018 dollars.

**Table A3.5.** Proposed Forecast Wastewater Fixed Service Tariff Pricing 2018 to 2026

|                                             | 2018-19  | 2019-20  | 2020-21  | 2021-22  | 2022-23  | 2023-24  | 2024-25  | 2025-26  |
|---------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Base                                        | \$234.70 | \$235.76 | \$236.82 | \$237.88 | \$238.95 | \$240.03 | \$241.11 | \$242.20 |
| Base plus 20%                               | \$281.61 | \$282.88 | \$284.15 | \$285.43 | \$286.71 | \$288.01 | \$289.30 | \$290.60 |
| Base plus 40%                               | \$328.57 | \$330.05 | \$331.54 | \$333.03 | \$334.53 | \$336.03 | \$337.54 | \$339.06 |
| Walwa                                       | \$434.40 | \$436.35 | \$438.32 | \$440.29 | \$442.27 | \$444.26 | \$446.26 | \$448.27 |
| Oxley, Milawa, Glenrowan, Tungamah, Moyhu * | \$575.23 | \$577.82 | \$580.42 | \$583.03 | \$585.65 | \$588.29 | \$590.93 | \$593.59 |

\* Non connected properties attract a 50% rate

## Pricing Principles for Trade Waste Charges

North East Water currently has two categories of trade waste customers being **commercial** (such as takeaway shops, service stations and other service operations), and **industrial** (entities including but not limited to abattoirs, pet food manufacturing and timber processing).

Commercial customers receive a fixed charge for each device on their site and industrial customers pay volume and load-based fees for all trade waste discharged from their site.

The following tables outlines the forecast trade waste charges price path for this regulatory period in 1 January 2018 dollars.

**Table A3.6.** Proposed commercial trade waste charges price path 2018 to 2026

|                   | 2018-19  | 2019-20  | 2020-21  | 2021-22  | 2022-23  | 2023-24  | 2024-25  | 2025-26  |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Category 2</b> | \$465.64 | \$467.73 | \$469.84 | \$471.95 | \$474.07 | \$476.21 | \$478.35 | \$480.50 |
| <b>Category 3</b> | \$306.62 | \$308.00 | \$309.39 | \$310.78 | \$312.18 | \$313.59 | \$315.00 | \$316.41 |
| <b>Category 4</b> | \$144.60 | \$145.25 | \$145.90 | \$146.56 | \$147.22 | \$147.88 | \$148.55 | \$149.21 |

**Table A3.7.** Proposed industrial trade waste charges price path 2018 to 2026

|                                                         | 2018-19   | 2019-20   | 2020-21   | 2021-22   | 2022-23   | 2023-24   | 2024-25   | 2025-26   |
|---------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Trade Waste per unit (per kg)</b>                    |           |           |           |           |           |           |           |           |
| <b>Volume</b>                                           | \$1.410   | \$1.416   | \$1.423   | \$1.429   | \$1.435   | \$1.442   | \$1.448   | \$1.455   |
| <b>Chemical Oxygen Demand</b>                           | \$0.403   | \$0.405   | \$0.406   | \$0.408   | \$0.410   | \$0.412   | \$0.414   | \$0.416   |
| <b>Suspended Solids</b>                                 | \$0.109   | \$0.110   | \$0.110   | \$0.111   | \$0.111   | \$0.112   | \$0.112   | \$0.113   |
| <b>Total Kjeldahi Nitrogen</b>                          | \$1.314   | \$1.320   | \$1.326   | \$1.332   | \$1.338   | \$1.344   | \$1.350   | \$1.356   |
| <b>Total Phosphorus</b>                                 | \$15.987  | \$16.059  | \$16.131  | \$16.204  | \$16.277  | \$16.350  | \$16.423  | \$16.497  |
| <b>Trade Waste charges when limit exceeded (per kg)</b> |           |           |           |           |           |           |           |           |
| <b>Total Dissolved Solids</b>                           | \$0.109   | \$0.110   | \$0.110   | \$0.111   | \$0.111   | \$0.112   | \$0.112   | \$0.113   |
| <b>Oil and Grease</b>                                   | \$0.109   | \$0.110   | \$0.110   | \$0.111   | \$0.111   | \$0.112   | \$0.112   | \$0.113   |
| <b>Ammonia</b>                                          | \$0.109   | \$0.110   | \$0.110   | \$0.111   | \$0.111   | \$0.112   | \$0.112   | \$0.113   |
| <b>Sodium</b>                                           | \$0.109   | \$0.110   | \$0.110   | \$0.111   | \$0.111   | \$0.112   | \$0.112   | \$0.113   |
| <b>Total Oxidised Sulphur</b>                           | \$0.742   | \$0.745   | \$0.749   | \$0.752   | \$0.756   | \$0.759   | \$0.762   | \$0.766   |
| <b>pH</b>                                               | \$151.537 | \$152.219 | \$152.904 | \$153.592 | \$154.284 | \$154.978 | \$155.675 | \$156.376 |

The Corporation seeks to reserve the option to either add additional trade waste parameter charges or vary existing charges, where the impact of an individual customer's waste composition materially affects the operational performance or the cost to operate the plant, to which the waste is being discharged.

### **Pricing Principles for Miscellaneous Fees and Charges**

Miscellaneous charges cover a wide spectrum of services ranging from water tapping fees to connect a new house to the reticulation network through to charges for the Corporation to receive trucked waste from septic tanks into our wastewater treatment plants.

The ESCs approach to regulating these charges is to determine the number of fees and charges that contribute 80% of miscellaneous revenue. It is North East Water's view that all other charges should be based on cost recovery principles.

### **Pricing Principles for Non-Serviced Towns**

The pricing for new towns requires a flexible approach that acknowledges the full cost of service delivery and places the appropriate value on the social and environmental benefits involved in such projects.

The Corporation will implement pricing for these towns on a system-by-system basis, as part of the community's choice regarding service level options. A modified building block model is used to communicate the full cost recovery pricing. This information is then considered against the avoidable incremental operating costs, affordability considerations and the scale of environmental or public health gains.

This acknowledges that in most cases the size of the system proposed, where there is insufficient economy of scale, would exclude it from proceeding on a purely commercial basis.

Each individual scheme will be assessed on its merits and the following pricing principles will apply unless this formula fails to recover at least the direct operating costs of any new scheme. The minimum tariffs will be set to at least recover the direct operating costs of a new scheme and to derive a positive cash flow, inclusive of borrowing costs, within a 15-20 year timeframe.

All such new schemes will be reviewed after 10 years of operation to assess the financial performance of the scheme. The review will give consideration to the appropriateness of the removal of charges on vacant land, and opportunities to reduce the (loading applicable to) fixed charge. Subsequent reviews will form part of each regulatory submission.

### **Water fixed charges**

Water fixed charges will be levied at a minimum of the higher standard annual charge plus 50% (e.g. \$211.59 plus 50% = \$317.38 per annum).

### **Water volumetric charge**

Water volumetric charge will be levied using the uniform tariff.

### **Wastewater fixed charges**

Wastewater fixed charges will be levied at a minimum of the highest standard annual charge (recent new schemes) plus 50% (e.g. \$386.31 plus 50% = \$579.46 per annum).

### **Vacant land charges**

Vacant land will be levied at 50% of the applicable fixed charge.



## APPENDIX 4: CUSTOMER PRICING IMPACTS

The following three tables outline the annual account impacts, in 1 January 2018 dollars, for residential customers consuming an annual water volume of 190 kilolitres (demand is forecast constant to demonstrate the impact of price). The analysis has been conducted across the three water and wastewater fixed charge cost recovery loading categories.

**Table A4.1.** Base level annual residential account

|                                 | 2017-18  | 2018-19  | 2019-20  | 2020-21  | 2021-22  | 2022-23  | 2023-24  | 2024-25  | 2025-26  |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Volumetric tariff per kL</b> | \$2.20   | \$2.21   | \$2.22   | \$2.23   | \$2.24   | \$2.25   | \$2.26   | \$2.27   | \$2.28   |
| <b>Volumetric Charge</b>        | \$418.00 | \$419.88 | \$421.77 | \$423.67 | \$425.57 | \$427.49 | \$429.41 | \$431.35 | \$433.29 |
| <b>Fixed Sewer</b>              | \$233.65 | \$234.70 | \$235.76 | \$236.82 | \$237.88 | \$238.95 | \$240.03 | \$241.11 | \$242.20 |
| <b>Fixed Water</b>              | \$202.35 | \$203.26 | \$204.18 | \$205.09 | \$206.02 | \$206.94 | \$207.88 | \$208.81 | \$209.75 |
| <b>Total Bill</b>               | \$854.00 | \$857.84 | \$861.70 | \$865.58 | \$869.48 | \$873.39 | \$877.32 | \$881.27 | \$885.23 |
| <b>Total Annual Increase</b>    |          | \$3.84   | \$3.86   | \$3.88   | \$3.90   | \$3.91   | \$3.93   | \$3.95   | \$3.97   |
| <b>% Annual Increase</b>        |          | 0.45%    | 0.45%    | 0.45%    | 0.45%    | 0.45%    | 0.45%    | 0.45%    | 0.45%    |

**Table A4.2.** Base level annual residential account plus 10% water and 20% wastewater

|                                 | 2017-18  | 2018-19         | 2019-20         | 2020-21         | 2021-22         | 2022-23         | 2023-24         | 2024-25         | 2025-26         |
|---------------------------------|----------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Volumetric tariff per kL</b> | \$2.20   | \$2.21          | \$2.22          | \$2.23          | \$2.24          | \$2.25          | \$2.26          | \$2.27          | \$2.28          |
| <b>Volumetric Charge</b>        | \$418.00 | \$419.88        | \$421.77        | \$423.67        | \$425.57        | \$427.49        | \$429.41        | \$431.35        | \$433.29        |
| <b>Fixed Sewer</b>              | \$280.35 | \$281.61        | \$282.88        | \$284.15        | \$285.43        | \$286.71        | \$288.01        | \$289.30        | \$290.60        |
| <b>Fixed Water</b>              | \$225.55 | \$223.59        | \$224.59        | \$225.60        | \$226.62        | \$227.64        | \$228.66        | \$229.69        | \$230.73        |
| <b>Total Bill</b>               | \$923.90 | <b>\$925.08</b> | <b>\$929.24</b> | <b>\$933.42</b> | <b>\$937.62</b> | <b>\$941.84</b> | <b>\$946.08</b> | <b>\$950.34</b> | <b>\$954.62</b> |
| <b>Total Annual Increase</b>    |          | \$4.18          | \$4.16          | \$4.18          | \$4.20          | \$4.22          | \$4.24          | \$4.26          | \$4.28          |
| <b>% Annual Increase</b>        |          | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           | 0.45%           |

**Table A4.3.** Base level annual residential account plus 20% water and 40% wastewater

|                                 | 2017-18  | 2018-19         | 2019-20         | 2020-21           | 2021-22           | 2022-23           | 2023-24           | 2024-25           | 2025-26           |
|---------------------------------|----------|-----------------|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Volumetric tariff per kL</b> | \$2.20   | \$2.21          | \$2.22          | \$2.23            | \$2.24            | \$2.25            | \$2.26            | \$2.27            | \$2.28            |
| <b>Volumetric Charge</b>        | \$418.00 | \$419.88        | \$421.77        | \$423.67          | \$425.57          | \$427.49          | \$429.41          | \$431.35          | \$433.29          |
| <b>Fixed Sewer</b>              | \$327.10 | \$328.57        | \$330.05        | \$331.54          | \$333.03          | \$334.53          | \$336.03          | \$337.54          | \$339.06          |
| <b>Fixed Water</b>              | \$242.80 | \$243.91        | \$245.01        | \$246.11          | \$247.22          | \$248.33          | \$249.45          | \$250.57          | \$251.70          |
| <b>Total Bill</b>               | \$987.90 | <b>\$992.37</b> | <b>\$996.83</b> | <b>\$1,001.32</b> | <b>\$1,005.82</b> | <b>\$1,010.35</b> | <b>\$1,014.90</b> | <b>\$1,019.46</b> | <b>\$1,024.05</b> |
| <b>Total Annual Increase</b>    |          | \$4.47          | \$4.47          | \$4.49            | \$4.51            | \$4.53            | \$4.55            | \$4.57            | \$4.59            |
| <b>% Annual Increase</b>        |          | 0.45%           | 0.45%           | 0.45%             | 0.45%             | 0.45%             | 0.45%             | 0.45%             | 0.45%             |

**Table A4.4.** Indicative trade waste annual customer account

|                                                        | 2017-18          | 2018-19          | 2019-20          | 2020-21          | 2021-22          | 2022-23          | 2023-24          | 2024-25          | 2025-26          |
|--------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Trade Waste Charge Parameters</b>                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Volume</b>                                          | \$193,523        | \$194,394        | \$195,268        | \$196,147        | \$197,030        | \$197,916        | \$198,807        | \$199,702        | \$200,600        |
| <b>Chemical Oxygen Demand</b>                          | \$245,376        | \$246,480        | \$247,589        | \$248,703        | \$249,822        | \$250,946        | \$252,076        | \$253,210        | \$254,349        |
| <b>Suspended Solids</b>                                | \$10,281         | \$10,327         | \$10,374         | \$10,420         | \$10,467         | \$10,514         | \$10,562         | \$10,609         | \$10,657         |
| <b>Total Kjeldahi Nitrogen</b>                         | \$21,862         | \$21,960         | \$22,059         | \$22,158         | \$22,258         | \$22,358         | \$22,459         | \$22,560         | \$22,661         |
| <b>Total Phosphorus</b>                                | \$52,604         | \$52,841         | \$53,079         | \$53,318         | \$53,558         | \$53,799         | \$54,041         | \$54,284         | \$54,528         |
| <b>Trade Waste Charge Parameters – Limits exceeded</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Total Dissolved Solids</b>                          | \$39,932         | \$40,112         | \$40,292         | \$40,473         | \$40,656         | \$40,839         | \$41,022         | \$41,207         | \$41,392         |
| <b>Oil and Grease</b>                                  | \$100            | \$100            | \$101            | \$101            | \$102            | \$102            | \$103            | \$103            | \$104            |
| <b>Ammonia</b>                                         | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              |
| <b>Sodium</b>                                          | \$4,432          | \$4,452          | \$4,472          | \$4,492          | \$4,512          | \$4,532          | \$4,553          | \$4,573          | \$4,594          |
| <b>Total Oxidised Sulphur</b>                          | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              |
| <b>pH</b>                                              | \$13,276         | \$13,335         | \$13,395         | \$13,456         | \$13,516         | \$13,577         | \$13,638         | \$13,699         | \$13,761         |
| <b>Total Bill</b>                                      | <b>\$581,384</b> | <b>\$584,001</b> | <b>\$586,629</b> | <b>\$589,268</b> | <b>\$591,920</b> | <b>\$594,584</b> | <b>\$597,259</b> | <b>\$599,947</b> | <b>\$602,647</b> |
| <b>Total Annual Increase</b>                           |                  | \$2,617          | \$2,628          | \$2,639          | \$2,652          | \$2,664          | \$2,675          | \$2,688          | \$2,700          |
| <b>% Annual Increase</b>                               |                  | 0.45%            | 0.45%            | 0.45%            | 0.45%            | 0.45%            | 0.45%            | 0.45%            | 0.45%            |

## APPENDIX 5: CAPITAL EXPENDITURE

North East Water has adapted the Department of Treasury and Finance’s Investment Management Standard (IMS) model to structuring our capital investment and project management. The benefit of harnessing the IMS is that it enables the Corporation to apply a systems engineering methodology to the Capital Program.

Further, our renewals forecasting and expenditure planning supports the Victorian Government’s Asset Management Policy Statement and its supporting Asset Management Accountability Framework (AMAF) and having regard for the ISO 55000 international standard.

The harnessing of IMS and ISO 55000 is the foundation that underpins the appropriate management of our assets to balance cost, risk and the right level of service, seeking to maximise the value they provide and the levels of service delivered is appropriate for customer service outcomes.

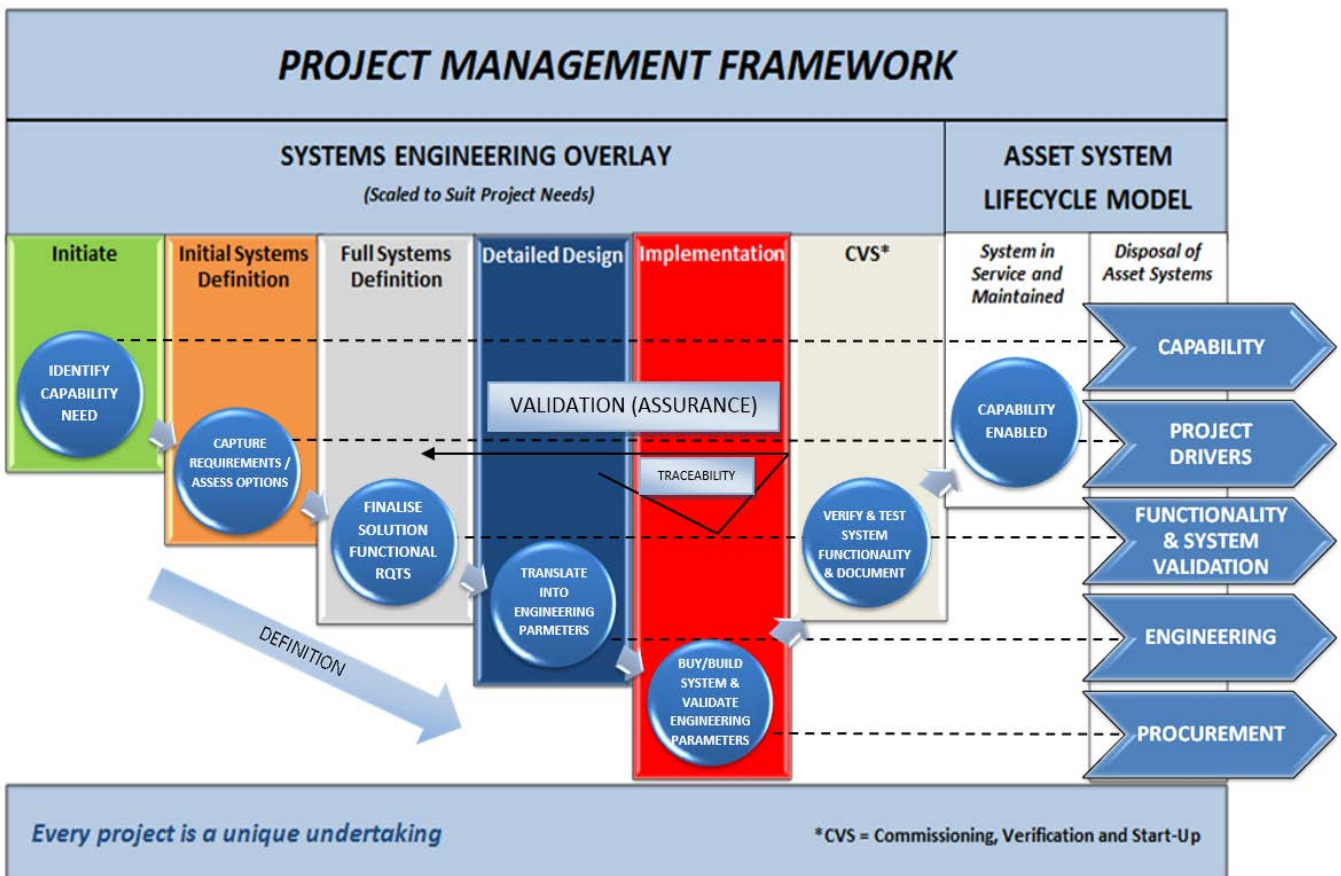
Building new assets to support growth and change, as well as proactively renewing assets prior to failure, whilst accommodating unplanned projects where there is technical merit, benefits the Corporation’s target of ‘zero harm to our people, the environment and our customers’, sound financial management and continued intergenerational equity.

Further, by capturing a ‘User’s’ needs into a clear, concise and verifiable project requirements document enables the assembly of a Functional Requirements Specification. Requirements capture, definition, analysis and management is recognised as a necessary step in the delivery of successful projects.

The Functional Requirements Specification evolves into a key part of any specification used in the procurement stages and in its final form will be the basis of any Commissioning, Verification and Start-Up (CVS) Plans required to complete a project.

For each capital project identified within this submission a Capital Investment Scoping Document has been developed to the Gate 0 – Submission stage. This system provides North East Water with an internationally recognised best practice model for program development, investment prioritisation and project delivery.

**Figure A5.1:** North East Water’s Project Management Framework



## Capital Expenditure

An outline of the Corporation's proposed Capital Expenditure over this Price Submission period is described at Table A5.1.

**Table A5.1:** Capital Expenditure by Category Type 2018 to 2026

|                     | \$M           |
|---------------------|---------------|
| Major Projects      | 50.54         |
| Programs            | 69.87         |
| Other Expenditure   | 25.67         |
| <b>Grand Total:</b> | <b>146.08</b> |

## Major Capital Projects

Table A5.2 provides an extrapolation of the Corporation's 'Top 10' discrete capital projects and shows the alignment of these projects with the Customer Outcomes and the Corporation's Outputs.

**Table A5.2:** Top 10 Capital Investments 2018 to 2026.

| Major Capital Summary - Investment Submission Title | Cost Estimate \$M | Alignment to Customer Outcome | Alignment to Output    |
|-----------------------------------------------------|-------------------|-------------------------------|------------------------|
| Wodonga WWTP Capacity & Emissions Reduction         | 11.70             | Sustainable                   | Smaller Footprint      |
| Wodonga WWTP Major Upgrade                          | 8.05              | Sustainable                   | Smaller Footprint      |
| Beechworth Wastewater System Upgrade                | 6.03              | Sustainable                   | Smaller Footprint      |
| Wodonga Sewerage Transfer Capacity                  | 5.40              | Reliable                      | Resilient Systems      |
| Wodonga WWTP Solar Power                            | 4.80              | Sustainable                   | Smaller Footprint      |
| Region-Wide Digital Business Sustainability         | 3.53              | Efficient                     | Continuous Improvement |
| Benalla WWTP Upgrade                                | 3.39              | Sustainable                   | Smaller Footprint      |
| Region-Wide ICT Infrastructure                      | 2.63              | Efficient                     | Continuous Improvement |
| Wangaratta Water Distribution                       | 2.57              | Reliable                      | Clean, Safe Water      |
| Benalla Water Distribution Upgrade                  | 2.44              | Reliable                      | Clean, Safe Water      |
| <b>Total – Major Capital Programs</b>               | <b>50.54</b>      |                               |                        |

## Capital Programs

Table A5.3 extrapolates the Corporation's proposed capital programs to illustrate their alignment with the Customer Outcomes and the Corporation's Outputs.

**Table A5.3:** The Capital Programs of Investments 2018 to 2026

| Capital Programs Summary - Investment Submission Title     | Cost Estimate \$M | Alignment to Customer Outcome | Alignment to Output    |
|------------------------------------------------------------|-------------------|-------------------------------|------------------------|
| Region-Wide Below Ground Asset Renewals Wastewater         | 10.23             | Efficient                     | Asset Stewardship      |
| Region-Wide Below Ground Asset Renewals Water              | 10.09             | Efficient                     | Asset Stewardship      |
| Region-Wide Above Ground Asset Renewals Water              | 9.33              | Efficient                     | Asset Stewardship      |
| Region-Wide Fleet                                          | 8.23              | Responsiveness                | Timely Responses       |
| Region-Wide Above Ground Asset Renewals Wastewater         | 7.73              | Efficient                     | Asset Stewardship      |
| Region-Wide Emissions Reduction                            | 5.00              | Sustainable                   | Smaller Footprint      |
| Region-Wide SCADA System Upgrades                          | 3.00              | Efficient                     | Continuous Improvement |
| Region-Wide Bulk Water Purchases                           | 2.56              | Reliable                      | Resilient Systems      |
| Region-Wide Secondary Level Climate Change Adaption        | 2.18              | Reliable                      | Resilient Systems      |
| Region-Wide Minor Works, Equipment & Tools                 | 2.00              | Responsive                    | Timely Responses       |
| Region-Wide Strategic Land Acquisitions                    | 1.50              | Efficient                     | Asset Stewardship      |
| Wastewater Distribution Improvements                       | 1.30              | Reliable                      | Clean, Safe Water      |
| Region-Wide Securing the Integrity of Our Services         | 1.40              | Reliable                      | Resilient Systems      |
| Region-Wide Water Distribution Improvements                | 1.35              | Reliable                      | Clean, Safe Water      |
| Region-Wide Wastewater Trunk Mains Construction            | 1.12              | Efficient                     | Continuous Improvement |
| Region-Wide Water Trunk Mains Construction                 | 1.01              | Efficient                     | Continuous Improvement |
| Region-Wide Water & Wastewater Optimisation                | 0.74              | Efficient                     | Continuous Improvement |
| Region-Wide Health & Safety Improvements                   | 0.64              | Efficient                     | Continuous Improvement |
| Region-Wide Waste Storage Facilities                       | 0.36              | Efficient                     | Asset Stewardship      |
| Region-Wide Corporate Office Furniture and Minor Equipment | 0.10              | Efficient                     | Continuous Improvement |
| <b>Total – Capital Programs</b>                            | <b>69.87</b>      |                               |                        |

## Other Capital Expenditure

Capital expenditures not associated with a defined Major Project or within a Capital Program are described below.

**Table A5.4:** The Other Capital Investments 2018 to 2026

| Other Capital Summary - Investment Submission Title | Cost Estimate \$M | Alignment to Customer Outcome | Alignment to Output    |
|-----------------------------------------------------|-------------------|-------------------------------|------------------------|
| Bellbridge Water System Upgrade                     | 1.94              | Reliable                      | Clean, Safe Water      |
| Bellbridge Wastewater System Upgrade                | 1.84              | Sustainable                   | Smaller Footprint      |
| Region Wide Information Security Compliance         | 1.76              | Reliable                      | Resilient Systems      |
| Yackandandah Water Distribution Upgrade             | 1.58              | Reliable                      | Clean, Safe Water      |
| Benalla Wastewater System Transfer Expansion        | 1.57              | Reliable                      | Resilient Systems      |
| Wangaratta Depot Relocation                         | 1.50              | Efficient                     | Asset Stewardship      |
| Wangaratta Ground Water System Expansion            | 1.33              | Sustainable                   | Enhanced Liveability   |
| Corryong Reuse Expansion                            | 1.20              | Sustainable                   | Enhanced Liveability   |
| Tallangatta WWTP Upgrade                            | 1.00              | Sustainable                   | Smaller Footprint      |
| Yackandandah Ground Water Resource Augmentation     | 1.00              | Reliable                      | Resilient Systems      |
| Wodonga Creek Pump Station Upgrade                  | 1.00              | Reliable                      | Resilient Systems      |
| Benalla Sewer Trunk Main - Stage 2                  | 1.00              | Reliable                      | Resilient Systems      |
| Wangaratta Nth West Wastewater Expansion            | 1.00              | Efficient                     | Continuous Improvement |
| Rutherglen Reuse Expansion                          | 1.20              | Efficient                     | Continuous Improvement |
| Region Wide GIS System Replacement                  | 0.80              | Responsive                    | Timely Responses       |
| Chiltern Reuse Expansion                            | 0.75              | Efficient                     | Continuous Improvement |
| Yarrowonga WTP Upgrade                              | 0.74              | Efficient                     | Continuous Improvement |
| Porepunkah Security of Supply                       | 0.70              | Sustainable                   | Enhanced Liveability   |
| Wangaratta WTP Minor Upgrade                        | 0.60              | Efficient                     | Asset Stewardship      |
| Region Wide Customer Online Applications            | 0.50              | Responsive                    | Timely Responses       |
| Region Wide Partnerships in Education               | 0.50              | Responsive                    | Inclusive Decisions    |
| Corryong Water Distribution Optimisation            | 0.42              | Efficient                     | Continuous Improvement |
| Region Wide Installation of WWTP Inlet Screens      | 0.40              | Efficient                     | Continuous Improvement |
| Mount Beauty Raw Water Security                     | 0.38              | Reliable                      | Clean, Safe Water      |
| Beechworth Dingle Road Facility Upgrade             | 0.36              | Efficient                     | Asset Stewardship      |
| Yarrowonga South Rd SPS Upgrade                     | 0.27              | Efficient                     | Continuous Improvement |
| Online Monitoring Industrial Customers              | 0.20              | Reliable                      | Resilient Systems      |
| Yarrowonga Raw Water Offtake Upgrade                | 0.13              | Efficient                     | Continuous Improvement |
| <b>Total – Other Capital</b>                        | <b>25.67</b>      |                               |                        |

## APPENDIX 6: RISK MANAGEMENT

The success of North East Water is a result of effectively managing the business to deliver its objectives expressed in the Strategic Intent, which is not without some level of risk exposure. An essential element of sound corporate governance is building an understanding of, and accepting, an appropriate risk profile. It is also accepted that further business opportunities also necessarily contain risk and return trade-offs.

Risk is embedded in Corporation management and formally communicated through the *Risk Appetite Statement* and the *Risk Management Framework*. Both these documents are available for review as required.

The Risk Management Framework is based on the Standard AS/NZS ISO 31000:2009 Risk Management Principles and Guidelines. The Corporation accepts a degree of commercial, legal, reputational and other risk as a natural consequence of a commercial trading enterprise. In most cases the degree of risk is limited by government policy limits and robust internal controls.

The majority of operational risks are managed through the following structured systems: Health and Safety, Environmental, Drinking Water Quality, Financial Management and Asset Management. Providing further confidence, each system is referenced to the appropriate ISO standard to provide for the highest possible quality oversight and scrutiny.

A summary of key regulatory risks is provided below:

- Revenue Recovery – potential under-recovery of revenue due to mismatch between demand projections and climate and or customer behaviour.
- Capital Program Delivery – impact on delivery profile should technology and/or customer preference change materially from that submitted.
- Service Standards not Appropriate – customer expectations or preferences change during the regulatory cycle.
- External Disruption – change in the administrative environment as a result of changes in policy, government direction or regulation.
- Commitment to Delivery – a longer regulatory period better reflects the planning time scales the Corporation is typically working with; the trade-off being that any incoming Board may not feel ownership of the regulatory outcomes to which the previous Board had committed.

Summary of key regulatory opportunities:

- Customer Certainty – all aspects including price and service.
- Corporation Efficiency – longer periods between submissions will reduce the costs of regulation and result in less regulatory intervention.
- Industry Leadership – recognition and reward with a longer regulatory period.
- More consultative regulation – opportunities for better conversations with the Regulator, as removed from the regulatory cycle of other Corporations.
- Customer Engagement – greater opportunities to enhance and broaden our customer communications and education programs.
- Customer Security – utilising our strong financial position to negate any operating fluctuations impacting on customer accounts.

## APPENDIX 7: DETAILED BUDGET FORECASTS 2017-18 TO 2025-26

Table A7.1: Operating Statement (inclusive of annual CPI estimate of 2.3%)

|                                                   | 2017/18<br>\$'000 | 2018/19<br>\$'000 | 2019/20<br>\$'000 | 2020/21<br>\$'000 | 2021/22<br>\$'000 | 2022/23<br>\$'000 | 2023/24<br>\$'000 | 2024/25<br>\$'000 | 2025/26<br>\$'000 |
|---------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Water Revenue</b>                              |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Volume Charges                                    | 29,482            | 29,760            | 30,718            | 31,706            | 32,726            | 33,778            | 34,865            | 35,987            | 37,144            |
| Fixed Charges                                     | 12,578            | 13,139            | 13,638            | 14,210            | 14,774            | 15,351            | 15,950            | 16,571            | 17,287            |
| <b>Wastewater Revenue</b>                         |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Fixed Charges                                     | 11,848            | 12,342            | 12,847            | 13,374            | 13,924            | 14,498            | 15,097            | 15,721            | 16,373            |
| Tradewaste Charges                                | 4,801             | 4,923             | 5,000             | 5,136             | 5,277             | 5,421             | 5,575             | 5,733             | 5,895             |
| <b>Non-Operating Revenue</b>                      |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Interest on Investments                           | 45                | 30                | 29                | 29                | 27                | 25                | 25                | 25                | 25                |
| Developer Contributions - Cash                    | 1,500             | 1,747             | 1,810             | 1,876             | 1,944             | 2,014             | 2,087             | 2,163             | 2,241             |
| Developer Contributions - Non Cash                | 3,000             | 3,000             | 3,000             | 3,000             | 3,000             | 3,000             | 3,000             | 3,000             | 3,000             |
| Reuse                                             | 854               | 874               | 894               | 914               | 935               | 957               | 979               | 1,001             | 1,024             |
| Other                                             | 1,351             | 1,382             | 1,414             | 1,446             | 1,480             | 1,514             | 1,548             | 1,584             | 1,621             |
| Grants                                            | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| Contributions                                     | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| Net gain/(loss) on disposal of Assets Sold        | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| <b>Total Revenue</b>                              | <b>65,459</b>     | <b>67,196</b>     | <b>69,348</b>     | <b>71,691</b>     | <b>74,086</b>     | <b>76,558</b>     | <b>79,126</b>     | <b>81,785</b>     | <b>84,611</b>     |
| <b>Direct Expenses</b>                            |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Employees                                         | 6,599             | 6,798             | 7,003             | 7,214             | 7,432             | 7,656             | 7,887             | 8,125             | 8,370             |
| Direct - Water                                    | 5,721             | 5,998             | 6,288             | 6,482             | 6,685             | 6,897             | 7,118             | 7,348             | 7,589             |
| Direct - Wastewater                               | 5,075             | 4,479             | 4,760             | 4,933             | 5,102             | 5,219             | 5,339             | 5,462             | 5,587             |
| Electricity                                       | 4,784             | 5,308             | 4,798             | 4,418             | 3,512             | 3,730             | 3,124             | 3,164             | 3,156             |
| Contracts                                         | 66                | 68                | 69                | 71                | 72                | 74                | 76                | 77                | 79                |
| Reuse                                             | 565               | 578               | 591               | 605               | 619               | 633               | 648               | 662               | 678               |
| Flow on from Capital and Efficiency               | 0                 | -164              | -78               | 40                | 173               | 331               | 431               | 544               | 644               |
| <b>Sub Total</b>                                  | <b>22,810</b>     | <b>23,065</b>     | <b>23,431</b>     | <b>23,764</b>     | <b>23,596</b>     | <b>24,540</b>     | <b>24,622</b>     | <b>25,382</b>     | <b>26,104</b>     |
| <b>Administration</b>                             |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Employees                                         | 12,179            | 12,546            | 12,925            | 13,315            | 13,716            | 14,130            | 14,556            | 14,995            | 15,447            |
| Other (inclusive of 1.2% Efficiency)              | 6,340             | 7,794             | 7,953             | 6,529             | 6,698             | 6,851             | 7,007             | 7,167             | 7,330             |
| Environmental Contribution                        | 2,083             | 2,524             | 2,524             | 2,524             | 2,524             | 2,524             | 2,913             | 2,913             | 2,913             |
| <b>Sub Total</b>                                  | <b>20,602</b>     | <b>22,864</b>     | <b>23,402</b>     | <b>22,367</b>     | <b>22,938</b>     | <b>23,504</b>     | <b>24,476</b>     | <b>25,075</b>     | <b>25,691</b>     |
| <b>Financing</b>                                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Interest on Borrowings                            | 1,129             | 1,110             | 1,151             | 1,332             | 1,455             | 1,462             | 1,610             | 1,231             | 658               |
| FAL                                               | 278               | 267               | 316               | 341               | 385               | 346               | 269               | 198               | 66                |
| Dividend                                          | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| <b>Sub Total</b>                                  | <b>1,406</b>      | <b>1,376</b>      | <b>1,467</b>      | <b>1,673</b>      | <b>1,840</b>      | <b>1,809</b>      | <b>1,880</b>      | <b>1,429</b>      | <b>724</b>        |
| <b>Total Expenses</b>                             | <b>44,818</b>     | <b>47,306</b>     | <b>48,300</b>     | <b>47,804</b>     | <b>48,373</b>     | <b>49,853</b>     | <b>50,978</b>     | <b>51,886</b>     | <b>52,518</b>     |
| <b>Operating Result Before Depreciation</b>       | <b>20,641</b>     | <b>19,891</b>     | <b>21,048</b>     | <b>23,887</b>     | <b>25,713</b>     | <b>26,705</b>     | <b>28,148</b>     | <b>29,899</b>     | <b>32,094</b>     |
| <b>Depreciation and Amortisation</b>              | <b>21,836</b>     | <b>22,396</b>     | <b>22,987</b>     | <b>23,673</b>     | <b>23,673</b>     | <b>24,366</b>     | <b>25,350</b>     | <b>25,891</b>     | <b>26,668</b>     |
| <b>Operating Result before Income Tax Expense</b> | <b>-1,196</b>     | <b>-2,506</b>     | <b>-1,939</b>     | <b>214</b>        | <b>2,040</b>      | <b>2,339</b>      | <b>2,797</b>      | <b>4,008</b>      | <b>5,426</b>      |
| <b>Income Tax Expense/Income</b>                  | <b>-359</b>       | <b>-752</b>       | <b>-582</b>       | <b>64</b>         | <b>612</b>        | <b>702</b>        | <b>839</b>        | <b>1,202</b>      | <b>1,628</b>      |
| <b>Operating Result</b>                           | <b>-837</b>       | <b>-1,754</b>     | <b>-1,357</b>     | <b>150</b>        | <b>1,428</b>      | <b>1,637</b>      | <b>1,958</b>      | <b>2,806</b>      | <b>3,798</b>      |



**Table A7.2:** Balance Sheet (inclusive of annual CPI estimate of 2.3%)

|                                      | 2017/18<br>\$'000 | 2018/19<br>\$'000 | 2019/20<br>\$'000 | 2020/21<br>\$'000 | 2021/22<br>\$'000 | 2022/23<br>\$'000 | 2023/24<br>\$'000 | 2024/25<br>\$'000 | 2025/26<br>\$'000 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Current Assets</b>                |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Cash                                 | 543               | 225               | 564               | 576               | 332               | 489               | 484               | 492               | 2,374             |
| Debtors                              | 5,949             | 5,949             | 5,949             | 5,949             | 5,949             | 5,949             | 5,949             | 5,949             | 5,949             |
| Accrued Income                       | 6,074             | 6,074             | 6,074             | 6,074             | 6,074             | 6,074             | 6,074             | 6,074             | 6,074             |
| Inventory/SGARA                      | 574               | 574               | 574               | 574               | 574               | 574               | 574               | 574               | 574               |
| Prepayments                          | 320               | 320               | 320               | 320               | 320               | 320               | 320               | 320               | 320               |
| <b>Total Current Assets</b>          | <b>13,460</b>     | <b>13,142</b>     | <b>13,481</b>     | <b>13,493</b>     | <b>13,249</b>     | <b>13,406</b>     | <b>13,401</b>     | <b>13,409</b>     | <b>15,291</b>     |
| <b>Non-Current Assets</b>            |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Receivables                          | 259               | 232               | 205               | 177               | 149               | 120               | 120               | 120               | 120               |
| Land and Buildings                   | 39,258            | 39,326            | 39,469            | 41,485            | 41,216            | 40,996            | 40,727            | 40,479            | 40,552            |
| Plant and Equipment                  | 5,580             | 6,556             | 7,324             | 7,779             | 11,350            | 11,073            | 11,165            | 10,465            | 9,409             |
| Infrastructure Assets                | 677,104           | 673,544           | 674,414           | 674,816           | 675,660           | 670,339           | 663,972           | 656,287           | 644,238           |
| Intangible Assets                    | 5,392             | 5,260             | 5,328             | 5,182             | 5,036             | 4,890             | 4,748             | 4,617             | 4,949             |
| Work in Progress                     | 8,353             | 8,353             | 8,353             | 8,353             | 8,353             | 8,353             | 8,353             | 8,353             | 8,353             |
| <b>Total Non-Current Assets</b>      | <b>735,946</b>    | <b>733,272</b>    | <b>735,093</b>    | <b>737,793</b>    | <b>741,764</b>    | <b>735,770</b>    | <b>729,085</b>    | <b>720,321</b>    | <b>707,622</b>    |
| <b>Total Assets</b>                  | <b>749,406</b>    | <b>746,414</b>    | <b>748,574</b>    | <b>751,286</b>    | <b>755,012</b>    | <b>749,175</b>    | <b>742,485</b>    | <b>733,729</b>    | <b>722,911</b>    |
| <b>Current Liabilities</b>           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Creditors                            | 2,812             | 2,812             | 2,812             | 2,812             | 2,812             | 2,812             | 2,812             | 2,812             | 2,812             |
| Accruals                             | 806               | 806               | 806               | 806               | 806               | 806               | 806               | 806               | 806               |
| Lease Liability                      | 63                | 63                | 63                | 63                | 63                | 63                | 63                | 63                | 63                |
| Borrowings                           | 0                 | 5,500             | 8,750             | 10,500            | 13,000            | 3,500             | 3,000             | 0                 | 0                 |
| Employee Provisions                  | 3,789             | 3,884             | 3,981             | 4,081             | 4,081             | 4,081             | 4,081             | 4,081             | 4,081             |
| Retention Monies and Deposits        | 328               | 328               | 328               | 328               | 328               | 328               | 328               | 328               | 328               |
| <b>Total Current Liabilities</b>     | <b>7,798</b>      | <b>13,393</b>     | <b>16,740</b>     | <b>18,590</b>     | <b>21,090</b>     | <b>11,590</b>     | <b>11,090</b>     | <b>8,090</b>      | <b>8,090</b>      |
| <b>Non-Current Liabilities</b>       |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Borrowings                           | 24,250            | 18,250            | 19,500            | 21,500            | 23,500            | 27,500            | 21,000            | 14,000            | 0                 |
| Lease Liability                      | 80                | 80                | 80                | 80                | 80                | 80                | 80                | 80                | 80                |
| Employee Provisions                  | 345               | 354               | 363               | 372               | 372               | 372               | 372               | 372               | 372               |
| Net Deferred Tax Liability           | 114,197           | 113,355           | 112,267           | 110,970           | 108,769           | 106,794           | 105,147           | 103,584           | 102,969           |
| Retention Monies and Deposits        | 566               | 566               | 566               | 566               | 566               | 566               | 566               | 566               | 566               |
| <b>Total Non-Current Liabilities</b> | <b>139,438</b>    | <b>132,605</b>    | <b>132,776</b>    | <b>133,488</b>    | <b>133,287</b>    | <b>135,312</b>    | <b>127,165</b>    | <b>118,602</b>    | <b>103,987</b>    |
| <b>Total Liabilities</b>             | <b>147,237</b>    | <b>145,998</b>    | <b>149,516</b>    | <b>152,078</b>    | <b>154,377</b>    | <b>146,902</b>    | <b>138,255</b>    | <b>126,692</b>    | <b>112,077</b>    |
| <b>Net Assets</b>                    | <b>602,169</b>    | <b>600,415</b>    | <b>599,058</b>    | <b>599,208</b>    | <b>600,636</b>    | <b>602,273</b>    | <b>604,231</b>    | <b>607,037</b>    | <b>610,835</b>    |
| <b>Equity</b>                        |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Contributed Capital                  | 264,716           | 264,716           | 264,716           | 264,716           | 264,716           | 264,716           | 264,716           | 264,716           | 264,716           |
| Asset Revaluation Reserve            | 191,874           | 191,874           | 191,874           | 191,874           | 191,874           | 191,874           | 191,874           | 191,874           | 191,874           |
| Retained Earnings                    | 145,579           | 143,825           | 142,468           | 142,618           | 144,046           | 145,683           | 147,641           | 150,447           | 154,245           |
| <b>Total Equity</b>                  | <b>602,169</b>    | <b>600,415</b>    | <b>599,058</b>    | <b>599,208</b>    | <b>600,636</b>    | <b>602,273</b>    | <b>604,231</b>    | <b>607,037</b>    | <b>610,835</b>    |

**Table A7.3:** Statement of Cashflows (inclusive of annual CPI estimate of 2.3%)

|                                                      | 2017/18<br>\$'000 | 2018/19<br>\$'000 | 2019/20<br>\$'000 | 2020/21<br>\$'000 | 2021/22<br>\$'000 | 2022/23<br>\$'000 | 2023/24<br>\$'000 | 2024/25<br>\$'000 | 2025/26<br>\$'000 |
|------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b><u>Cashflows from Operating Activities</u></b>    |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Receipts from Customers                              | 60,914            | 62,420            | 64,510            | 66,787            | 69,116            | 71,519            | 74,013            | 76,597            | 79,345            |
| Customer Cash Contributions                          | 1,500             | 1,747             | 1,810             | 1,876             | 1,944             | 2,014             | 2,087             | 2,163             | 2,241             |
| Government Cash Contributions                        | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| Payments to Suppliers & Employees                    | -41,329           | -43,405           | -44,309           | -43,607           | -44,010           | -45,520           | -46,185           | -47,544           | -48,881           |
| Payments to Government                               | -2,361            | -2,791            | -2,840            | -2,865            | -2,909            | -2,870            | -3,182            | -3,111            | -2,979            |
| Interest Received                                    | 45                | 30                | 29                | 29                | 27                | 25                | 25                | 25                | 25                |
| Interest Paid                                        | -1,129            | -1,110            | -1,151            | -1,332            | -1,455            | -1,462            | -1,610            | -1,231            | -658              |
| <b>Net Cash Inflows from Operating Activities</b>    | <b>17,641</b>     | <b>16,891</b>     | <b>18,048</b>     | <b>20,887</b>     | <b>22,713</b>     | <b>23,705</b>     | <b>25,148</b>     | <b>26,899</b>     | <b>29,094</b>     |
| <b><u>Cashflows from Investing Activities</u></b>    |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Payments for Property, Plant & Equipment             | -20,336           | -17,136           | -22,637           | -25,052           | -27,884           | -18,476           | -18,580           | -17,318           | -13,638           |
| Proceeds from sale of non-current assets             | 500               | 500               | 500               | 500               | 500               | 500               | 500               | 500               | 500               |
| <b>Net Cash Outflows from Investing Activities</b>   | <b>-19,836</b>    | <b>-16,636</b>    | <b>-22,137</b>    | <b>-24,552</b>    | <b>-27,384</b>    | <b>-17,976</b>    | <b>-18,080</b>    | <b>-16,818</b>    | <b>-13,138</b>    |
| <b><u>Cashflows from Financing Activities</u></b>    |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Proceeds from Borrowings                             | 3,000             | 0                 | 10,000            | 10,500            | 8,000             | 4,000             | 0                 | 0                 | 0                 |
| Repayment of Borrowings                              | -2,500            | -500              | -5,500            | -6,750            | -3,500            | -9,500            | -7,000            | -10,000           | -14,000           |
| Repayment of Finance Lease                           | -73               | -73               | -73               | -73               | -73               | -73               | -73               | -73               | -73               |
| Government Capital Contributions                     | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 | 0                 |
| <b>Net Cash (Outflows) from Financing Activities</b> | <b>427</b>        | <b>-573</b>       | <b>4,427</b>      | <b>3,677</b>      | <b>4,427</b>      | <b>-5,573</b>     | <b>-7,073</b>     | <b>-10,073</b>    | <b>-14,073</b>    |
| <b>Net Increase (Decrease) in Cash Held</b>          | <b>-1,768</b>     | <b>-319</b>       | <b>340</b>        | <b>12</b>         | <b>-244</b>       | <b>157</b>        | <b>-5</b>         | <b>8</b>          | <b>1,882</b>      |
| <b>Cash at the Beginning of the Financial Year</b>   | <b>2,311</b>      | <b>544</b>        | <b>226</b>        | <b>565</b>        | <b>576</b>        | <b>332</b>        | <b>489</b>        | <b>484</b>        | <b>492</b>        |
| <b>Cash at the End of the Financial Year</b>         | <b>543</b>        | <b>225</b>        | <b>564</b>        | <b>576</b>        | <b>332</b>        | <b>489</b>        | <b>484</b>        | <b>492</b>        | <b>2,374</b>      |

## APPENDIX 8: GUARANTEED SERVICE LEVELS

**Table A8.1:** Guaranteed Service Levels

| Service Level Obligation                                                                                                                                                                                                                                       | Level of Service | Current Rebate for Breach (\$) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------------------|
| Unplanned water interruption within any 12 month period                                                                                                                                                                                                        | No more than 5   | 50                             |
| Sewage spill in a house caused by the business or a failure of the business' system(s) contained within 1 hour of notification                                                                                                                                 | All              | 1,000                          |
| Restricting the water supply of, or taking legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying | Zero             | 300                            |

## APPENDIX 9: PROPOSED CHANGES TO SERVICE STANDARDS

| Proposal | Service Standard                                                                | Current (WP3) ESC Approved Target | Proposed Target >July 2018 | Rationale for change                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------|---------------------------------------------------------------------------------|-----------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8        | SS2<br>RESPONSIVE<br>Average time taken to attend bursts and leaks (priority 1) | 17<br>Minutes                     | <b>30<br/>Minutes</b>      | <p>This proposed timing change better reflects our requirement to ensure staff safety when responding to these issues across all communities (including outlying towns) within our Service Region.</p> <p>The timing proposed also reflects the average performance of similar water utilities (30.5 minutes).</p>                                                                                                                                                                                                                                                                                                    |
| 9        | SS3<br>RESPONSIVE<br>Average time taken to attend bursts and leaks (priority 2) | 23<br>Minutes                     | <b>30<br/>Minutes</b>      | <p>This proposed timing change better reflects our requirement to ensure staff safety when responding to address these issues across all communities (including outlying towns) within our Service Region.</p> <p>The proposed target still provides for a higher level of performance than the average of similar water utilities (60.64 minutes).</p> <p>Please note that North East Water responds to all unplanned water events in the same manner and an event's priority is determined retrospectively once the incident has been assessed onsite.</p>                                                          |
| 10       | SS4<br>Average time taken to attend bursts and leaks (priority 3)               | 27<br>Minutes                     | <b>240<br/>Minutes</b>     | <p>As a Priority 3 event is defined as a burst or leak which is causing no discernible impacts on customers, property or the environment, the proposed increase will enable greater flexibility for staff when responding to incidents with higher priority (such as water treatment issues).</p> <p>The additional time proposed also supports better processes for assessing the required urgency of works and prevents (OH&amp;S) fatigue related issues.</p> <p>This proposal is still well above the current average performance of similar Regional Urban water utilities (579 minutes) for such incidents.</p> |
| 13       | SS7<br>Average unplanned customer minutes off water supply                      | 6.2<br>Minutes                    | <b>9.0<br/>Minutes</b>     | <p>This timing change better reflects our performance against this measurement over the last 3 years and the time still falls well below the average performance of similar Regional Urban water utilities (16.91 minutes).</p>                                                                                                                                                                                                                                                                                                                                                                                       |

| Proposal | Service Standard                                                 | Current (WP3) ESC Approved Target | Proposed Target >July 2018 | Rationale for change                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------|------------------------------------------------------------------|-----------------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16       | SS9<br>Average unplanned frequency of water supply interruptions | 0.08 Per Customer                 | <b>0.15 Per Customer</b>   | Although North East Water's current average performance over the past 3 years closely resembles the present standard, we have proposed a change to better reflect the state-based performance of similar Regional Urban water utilities (0.178).                                                                                                                                                                                                                                                                                |
| 18       | SS10<br>Average planned frequency of water supply interruptions  | 0.03 Per Customer                 | <b>0.12 Per Customer</b>   | The Regional Urban water utilities average is currently 0.18. With future investments towards significantly increasing planned maintenance activities, North East Water will be unable to achieve its present target into the future. Instead, our proposed increase in this target will be beneficial to our customers by facilitating a capability for increased maintenance through activities such as scouring and ice pigging. This will significantly improve the taste and odour characteristics of water supplies also. |
| 19       | SS11<br>Average duration of unplanned water supply interruptions | 95 Minutes                        | <b>100 Minutes</b>         | <p>The proposed measure ensures closer alignment to our average performance against this measure over the last 3 years. It also better reflects our requirement to ensure staff safety when responding to address these issues across all communities (including outlying towns) within our Service Region.</p> <p>Our proposed target still exceeds than the state-based averages of similar Rural Urban water utilities (101.78 minutes).</p>                                                                                 |
| 26       | SS16<br>Average time to attend sewer spills and blockages        | 24 Minutes                        | <b>30 Minutes</b>          | <p>This proposed timing change better reflects our requirement to ensure staff safety when responding to address these issues across all communities (including outlying towns) within our Service Region and it is still below that of similar Regional Urban water utilities (44.22 minutes).</p> <p>Please note that North East Water responds to all unplanned water events in the same manner and an event's priority is determined retrospectively once the incident has been assessed onsite</p>                         |
| 31       | SS21<br>Telephone calls answered within 30 seconds               | 95% of calls                      | <b>92.5% of calls</b>      | We have accepted the proposal of our customers to lower the performance target to 92.5%. To reflect our organisational appetite for local responsiveness, we will retain our present 30 second timeframe for call answering.                                                                                                                                                                                                                                                                                                    |

## APPENDIX 10: PERFORMANCE REPORTING PLAN

|                                                 | Regulators | Stakeholders | Residential Customers | Industrial Customers | Commercial Customers | Developers | Customer Forum |
|-------------------------------------------------|------------|--------------|-----------------------|----------------------|----------------------|------------|----------------|
| <b>Six Monthly Report Card</b>                  | ✓          | ✓            | ✓                     | ✓                    | ✓                    | ✓          | ✓              |
| <b>Annual Report Card Presentation - July</b>   |            |              |                       | ✓                    |                      | ✓          | ✓              |
| <b>Annual Report Card Presentation - August</b> | ✓          | ✓            |                       |                      |                      |            |                |
| <b>Annual Report</b>                            | ✓          | ✓            | ✓                     | ✓                    | ✓                    | ✓          | ✓              |
| <b>ESC Performance Reporting</b>                | ✓          |              |                       |                      |                      |            |                |
| <b>Corporate Plan</b>                           | ✓          | ✓            | ✓                     | ✓                    | ✓                    | ✓          | ✓              |

## APPENDIX 11: SUPPORTING INFORMATION

Beyond this Submission, North East Water has available for review, supporting background documentation that can provide granular detail on every aspect of the Submission. This Document Map provides a summary and the location of the information available.

**Figure A11.1:** Price Submission Document Map

### Price Submission Document Map

