



Pricing Submission

October 2017



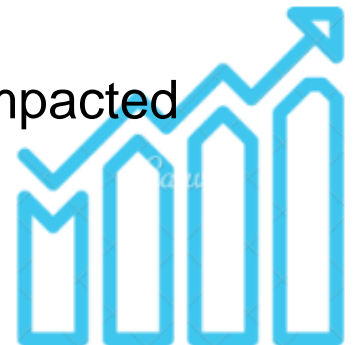
Submission Process

- Customers and community at the forefront;
- Focus on customer outcomes, outputs, activities and measures
- PREMO assessed as 'Standard'
- Robust risk identification, assessment and allocation
- Pricing and tariff structure to meet customer expectations
- Provides for a sustainable South Gippsland Water
- Expenditure linked to customer outcomes



Prices and Tariff Structure

- Developed in consultation with customers
- Changes in line with customer preference for a user pays rationale
 - Volumetric water rate
- Provide a more equitable tariff structure and alignment with the wider water industry – revision of cistern and minor trade waste rates
- Tariff correction in year 1 with a smoothed increase thereafter
- Penalty fees introduced for trade waste
- Customer assistance programs developed to support impacted customers



Tariff impact (residential)

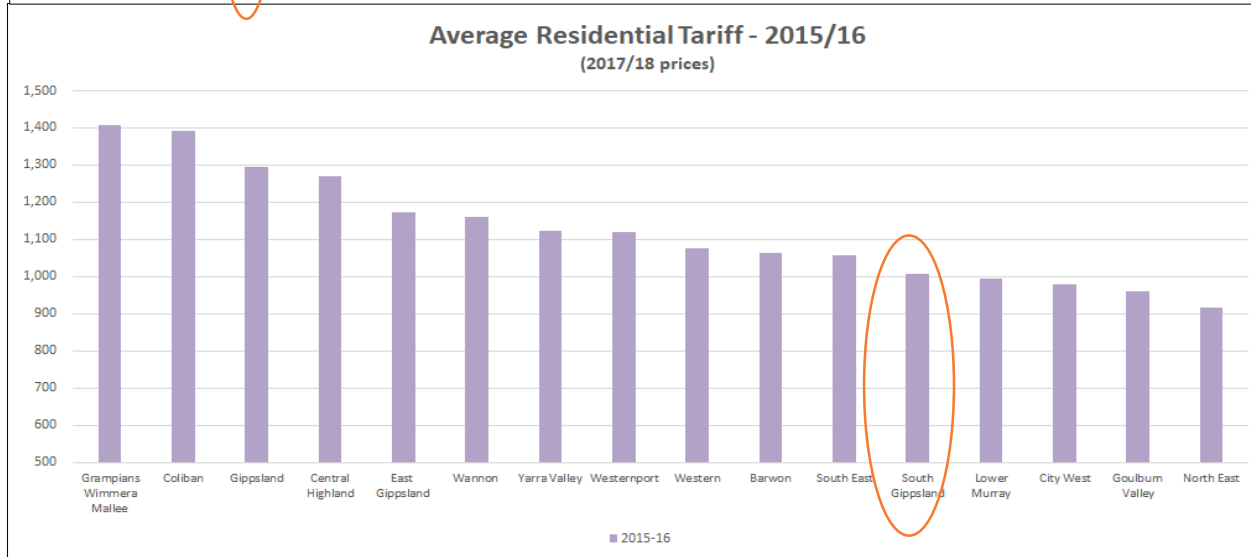
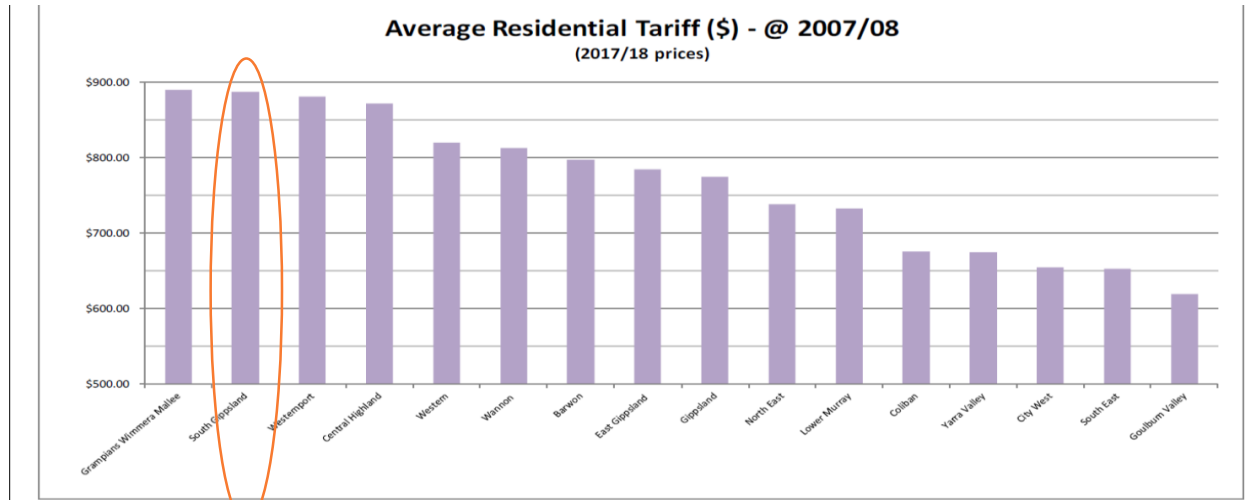
- Average bill for residential customers in FY17/18 is \$978 (assuming average consumption 118kL)
- Price increase in Year 1 represents an increase of \$23 per bill
- Tenants will incur a price increase in Year 1 of \$19 per bill.

Options	Average residential customer price (118 kL)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Nominal price	\$1,073	\$1,135	\$1,201	\$1,271	\$1,344
Real Price	\$1,049	\$1,085	\$1,122	\$1,160	\$1,200
% increase (real)	7.3%	3.4%	3.4%	3.4%	3.4%
\$ increase per annum (real)	\$71	\$36	\$37	\$38	\$40
\$ increase per bill (real)	\$23	\$12	\$12	\$13	\$13



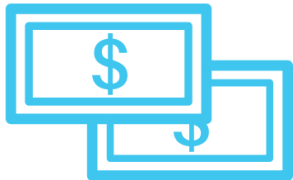
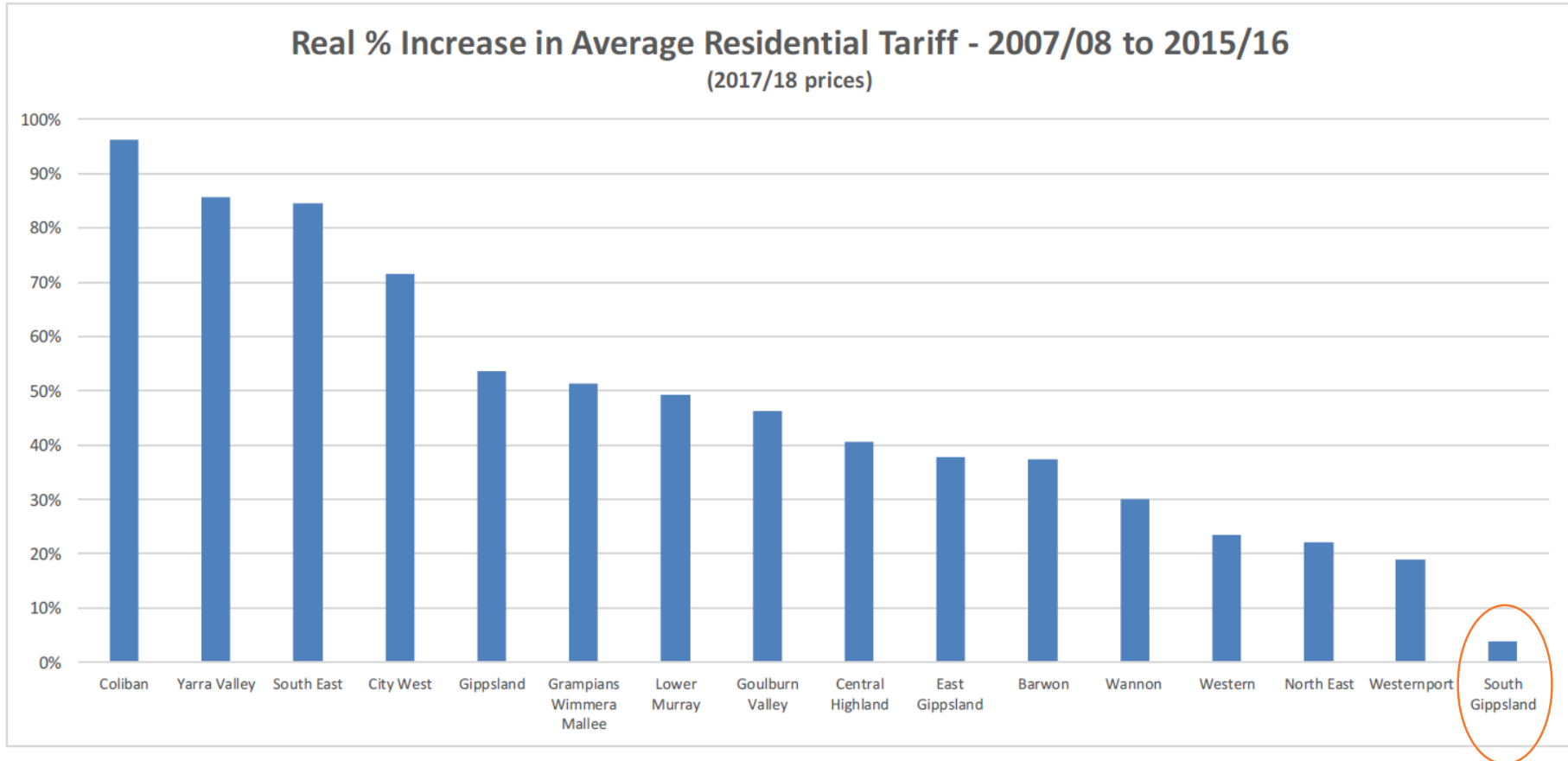
Pricing History

(Source for following 2 graphs is ESC Pricing Determination WP2 and WP3 – assumes constant average consumption)



Pricing History

(Source for following graph is the ESC Annual Performance Reports)



Tariff impact (businesses)

- Year 1 price increase to the majority of businesses will range from \$36 to \$90 per bill
 - The impact to businesses of the waste water volumetric model are vastly different e.g. a small motel could be better off by \$2,000 whilst a large hotel could be worse off by \$30,000 per annum
 - Major customers will pay more due to the combined impact of a higher volumetric rate and price increase
 - The two largest major customers will pay an additional \$186,000 over the pricing period with no change to trade waste
- * *Subject to a separate customer engagement process*



Customer impacts and actions

Understanding customers will be impacted;

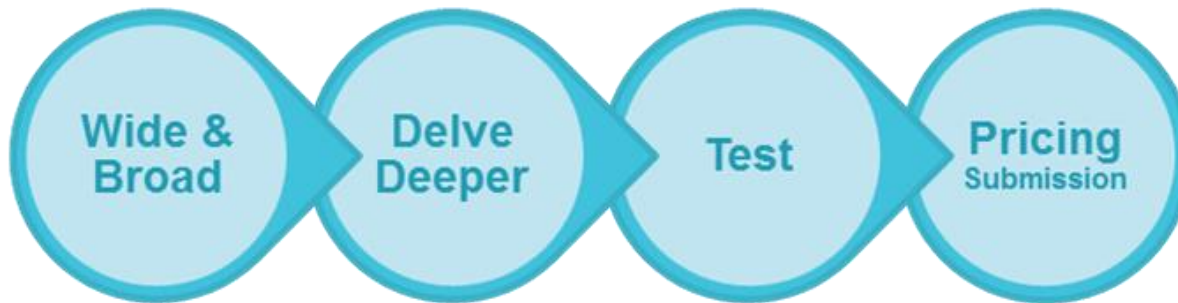
1. Increased tariff structure
2. Focus on volumetric water rate
3. Focus on wastewater user pay principle

South Gippsland Water propose to;

1. Undertake further analysis to identify vulnerable customers
2. Undertake further engagement prior to implementation of change
3. Enhance programs to assist vulnerable domestic and business customers



Engagement



Customer Conclusions

PREMO

Planning for the future is **key** and planning for medium level of climate change was accepted

South Gippsland Water should go **'above and beyond'** to avoid leaks and interruptions

Customers support increased **investment into ageing infrastructure**



It is **expected** South Gippsland Water will **maintain service standards**

Support for **contributing to social hardship programs**

Calls for **control over their bills**. Customers believe a **higher volumetric component** would facilitate this, however there is a concern about the extent of the shift

Customer Expectations

OUTCOMES

INPUTS

OUTPUTS

ACTIVITIES

MEASURES



Water

"We will provide safe, clean drinking water for the benefit of our customers & communities"



Wastewater

"We will provide a safe wastewater service that contributes to the health & liveability of our communities & environment"



Integrity & Customers

"We will treat all customers/community with honesty & respect & will strive to balance affordability, value for money & fairness"



Environment

"We will be environmentally responsible, sustainable & adapt to a future impacted by climate variability"



Planning

"We will partner with community, business & government to facilitate integrated planning for future years, considering efficiency, affordability & growth"



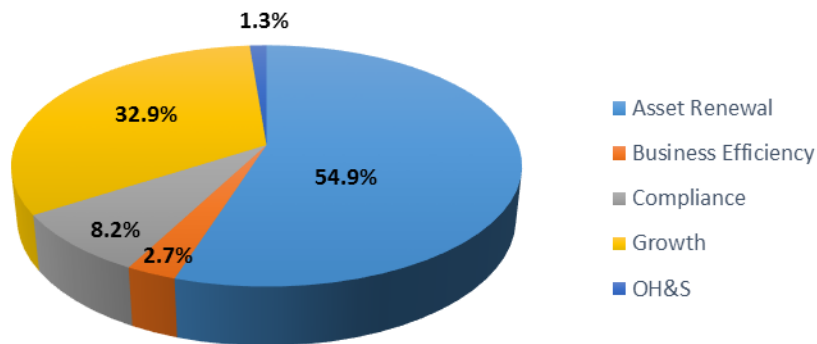
Reliability

"We will minimise unplanned interruptions to services & commit to quality communications with our customers"

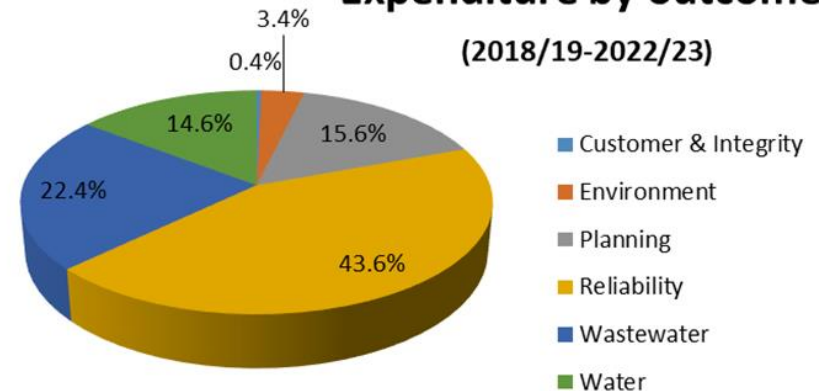
Capital Expenditure

- Customer expectations and levels of service aligned
- Shift of focus from growth to renewal and reliability
- \$88.2M of planned capital expenditure
- Customer expectations & regulatory requirements have impacted planned expenditure.

Expenditure by driver
(2018/19 - 2022/23)



Expenditure by outcome
(2018/19-2022/23)

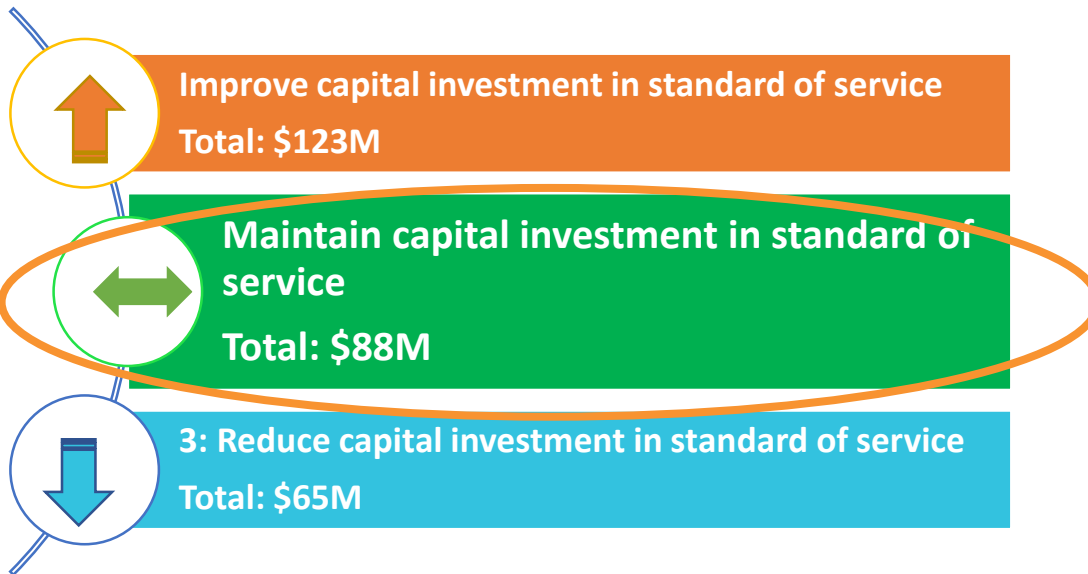


Infrastructure Investment



Reliability

Standard of service/investment options



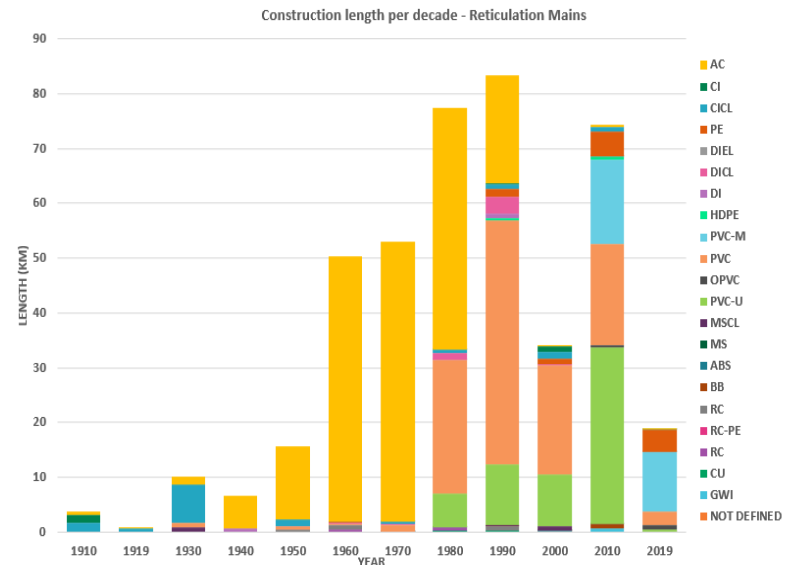
Infrastructure Investment : An Asset Story



Reliability

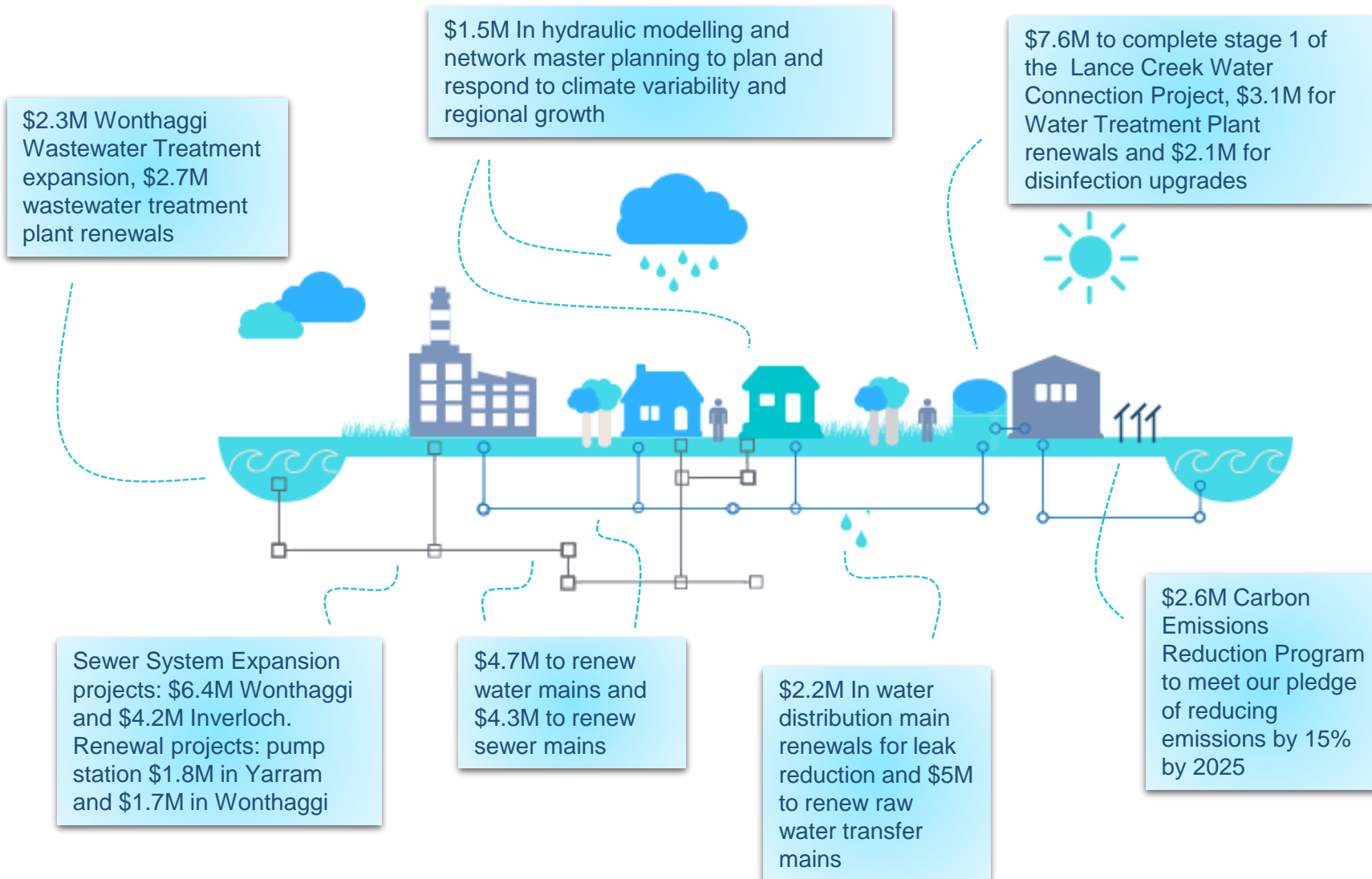
Current Approach

- Run to failure – common industry approach
- Service levels will suffer if current rate of renewal continues
- Need to further understand asset condition & performance



Asset/Facility Type	Replacement Asset Value	Current Budget	Proportion %	Asset Life – Renewal Rate (Years)
Water Reticulation	\$138,000,000	\$595,000	0.43%	231
Sewer Reticulation	\$127,000,000	\$600,000	0.47%	211

\$88M Infrastructure Investment over 5 Years



Operating expenditure

- Customers emphasised maintaining service standards
- Balancing strategic asset planning and preventative maintenance with aged infrastructure is critical
- Expenditure reflects 2016/17 baseline operating costs with additional components following
- Linked to regulatory and customer outcomes
- \$1.4M p.a. existing efficiency target sustained with a further 1.5% p.a. efficiency target



Reliability

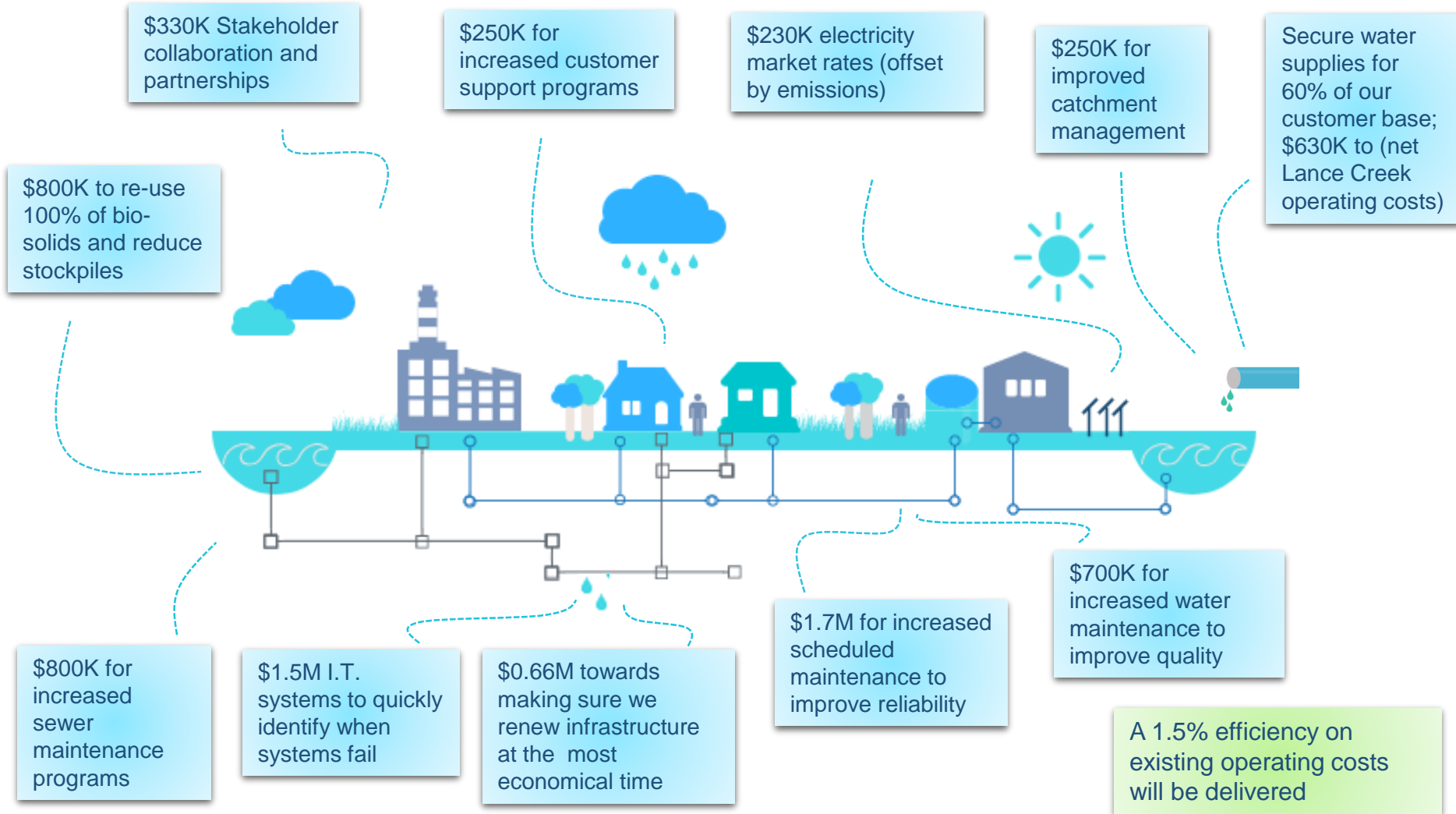
Operating expenditure

Controllable operating expense item \$'000	2018/19	2019/20	2020/21	2021/22	2022/23
Maintenance / Reliability (incl Sewer Sidelines)	590	670	590	660	650
Information Technology	200	280	320	360	390
Biosolids Management	160	160	160	160	160
Strategic Asset Management	80	80	330	80	80
Lance Creek Net Operating Costs	30	150	150	150	150
Stakeholder collaboration & partnerships	110	110	40	40	40
Secure Water Supply (leakage reduction, planning)	50	100	100	50	50
Catchment Management	50	50	50	50	50
Ecological Risk Assessments	50	50	50	50	50
Customer Support Programs	50	50	50	50	50
Electricity rate (emissions offset)	150	140	20	-40	-40
Wages above CPI	50	70	0	0	0
Total additional operating expenditure	1,560	1,900	1,850	1,600	1,620



Reliability

\$92M Controllable Opex over 5 Years



Review

Board Attestation

28th September 2017

PREMO Rating

9.9 – Standard

New Customer Contribution

Uniform NCC for water and sewer

Guaranteed Service Levels

Increase \$75 to \$100 unplanned water and sewer interruptions not restored/rectified within 5 hours



Review

Demand

Moderate residential growth (1.5%), Major Customer demand to increase by approx 0.5% p.a.

Form of Price Control

Individual price caps with revenue cap for service know as cistern and minor trade waste

Revenue Requirement

Five year regulatory period, 10 years forecast



Customer Programs

88% of customers were supportive of assisting customers struggling to pay their bill

Suite of Programs to Support Customers

- Flexible payment options
- URGS Grants
- Dedicated 'Customer Support' officer
- Training & greater support for customers impacted by family violence
- Water Efficiency Audits
- WET Loan Scheme: Assist business customers to reduce bills through water efficiency projects
- Debt Elimination Scheme
- \$ for \$ Payback Scheme



Customer Programs

Delivered with no additional cost to customers

Re-distribute to fund programs - \$120K

Remove discounts for;

- Water by Agreement customers
- Not for profit charge (i.e. Halls, Scouts etc)

**Note: Government water concessions & rebates still apply*



South Gippsland Water

2018/19
2022/23

PRICING
SUBMISSION



*Planning for the future:
Delivering on Reliability,
Services, Environment & Integrity*