

Price Submission 2018



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Key Information



Industry Customers



Our Employees

- ~210 employees



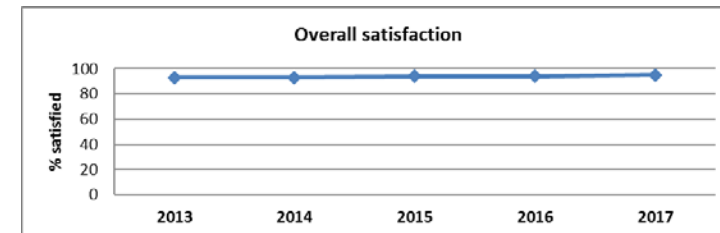
Our Assets

- 42,000 customers
- 3,800 kilometres of pipelines
- \$1.4B asset value (\$776M wdv)
- 29 water treatment plants (11 full filtration plants)
- 18 water reclamation plants (sewerage treatment)
- 11 reservoirs
- \$245M capital investment over 10 years (2008 to 2018)



Customer Satisfaction

- 84% rated value for money satisfactory or excellent
- 95% satisfied or very satisfied with the overall service



Strategic Direction



Our Vision

Beyond water for strong communities

Our Mission

To provide safe, reliable, innovative and sustainable water services and strengthen communities in south-west Victoria

Our Strategic Objectives

- Business Excellence
- Value for our Customers
- Organisation Capability
- Stronger Communities

VISION2023

We are passionate about people

- Our people love working at Wannon Water
 - Our customers consider us great value
 - Our community partnerships help this region flourish
 - We are proud of our business excellence
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Performance



Historic performance has been strong:

- 2005/08: Period of consolidating three authorities.
- 2008/13: Intensive capital works, escalating debt & higher price rises.
- 2013/18: Operating efficiently with cash surpluses used to reduce debt and lower prices (minus 5.9% + CPI).
- 2016/17: a further 2% price reduction

Environmental Performance – 95 to 100% EPA licence compliance

Drinking Water Performance – 100% Safe Drinking Water compliance

Customer Surveys:

- Consistently around ~95% satisfaction rating
- Management of water and sewerage systems very high
- Helpful and friendly staff very high
- Clarity of water very high
- Taste of water – groundwater towns

Innovative:

- Maintenance excellence
 - Roof water harvesting
-

Performance



WATER PERFORMANCE REPORT

Performance of Victorian urban water and sewerage businesses 2015-16

- Strong customer performance
 - Call centre performance
 - Hardship (relief grants, payment arrangements, hardship payments)
- Reliable water and sewer infrastructure
- Low water consumption

FIGURE 5.6 SEWER BLOCKAGES
(per 100 kilometres of sewer main)

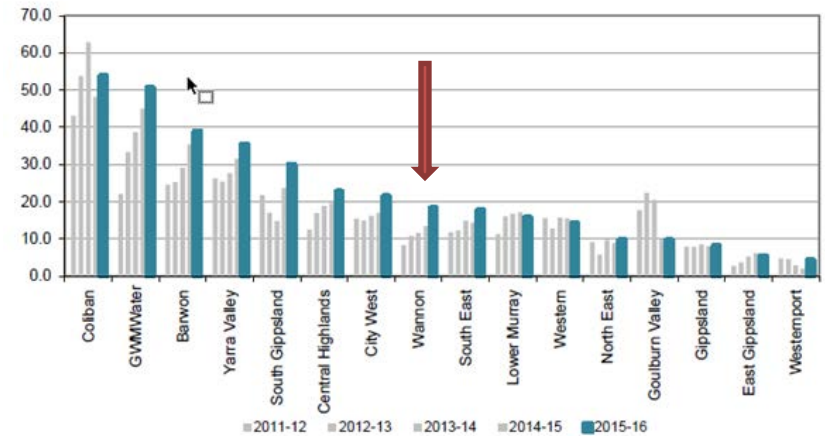


FIGURE 3.1 AVERAGE ANNUAL HOUSEHOLD CONSUMPTION
(kilolitres per household)

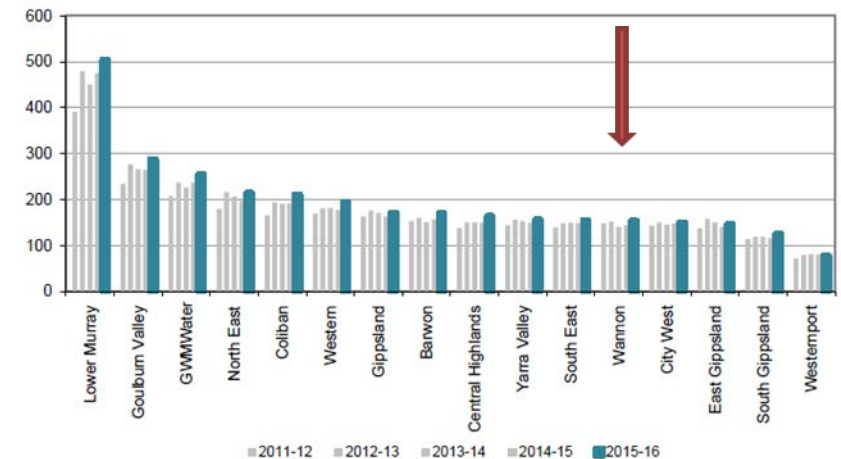
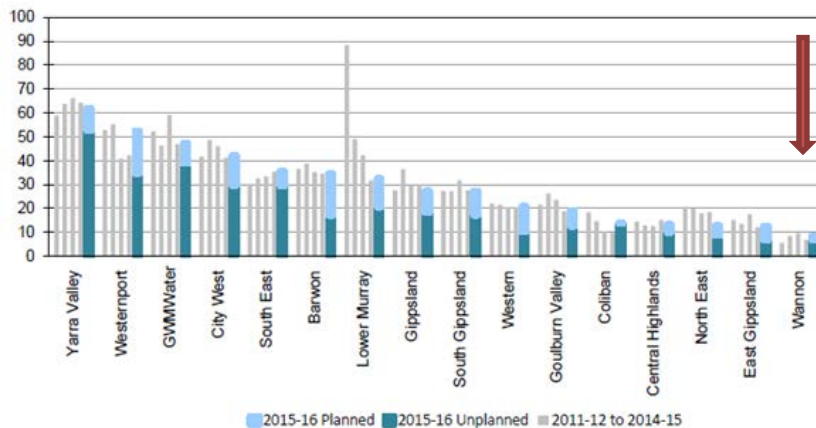


FIGURE 5.1 WATER SUPPLY INTERRUPTIONS (PLANNED AND UNPLANNED)
(per 100 kilometres of water main)



Price Submission 2018 - Summary



•Engagement

WW had over **3,000** instances of engagement over **22 months** and **five** engagement rounds

3. Targets

To ensure the delivery of outcomes, WW has set targets to **increase customer satisfaction** for:

- Taste, smell, clarity and hardness of **drinking water**
- Management of **water supply interruptions** and **sewer spills**
- Our performance **partnering with communities**
- Value for money**

6. Bills

Residential customers' water and sewer tariffs will increase by **CPI only** per annum. A **\$35 rebate for tenant customers** will be provided in 2018/19.

2. Outcomes

Customers told WW that they:

- Are satisfied with our **existing service levels**
- Value our work to **protect the environment** and support doing more
- Value our **support of local communities** and think we should do more
- Would like more **contemporary modes** to interact with us
- Value our technical expertise and **trust** us to make the right decisions
- Value **stable pricing paths**

These informed the design of a set of outcomes.

4. Capital Investment

WW plans to invest **\$156M** in capital projects, including a **\$38M** upgrade at the Warrnambool Water Reclamation Plant.

By excluding more than **\$8M** in uncertain projects, customers save about **\$6 p.a.** on their bill.

5. Operating expenditure

WW has committed to efficiency savings of **\$2.6M**, saving customers about **\$8 p.a.** on their bill.

7. Reporting

We will report to customers **annually** our performance against targets.

Engagement

- Earlier, broader, deeper
- Started Dec 2015
- Evidence of all levels of engagement, except empowerment
- Engaged on specific projects, trade-offs, tariffs and the whole submission

ESC Guideline

FIGURE 3.1 CUSTOMER ENGAGEMENT DIAGRAM



Wannon Water's Engagement



What we heard from customers

- Our customers are satisfied with most of our existing approaches and service levels
 - Our customer told us they value the speedy restoration of their services when there is an interruption
 - Our customers value Wannon Water working to protect the natural environment
 - Our customers value support of local communities and think we should do more
 - Our customers value our existing modes of interaction and would like additional contemporary options
 - Our customer value being able to further influence their bills and value equity across our customer base
 - Our customers value understanding more about their local water sources and treatment
 - Our developers value stable and fair new customer contribution charges, simple fee structures, flexible mechanisms to ensure the costs associated with shared reticulation assets are fairly allocated to benefitting developers and our engagement with them
 - Our major customers value the level of service, technical support and expertise we provide them and they have individual and complex needs
 - Our major customers told us they would value investment in sewage/trade waste treatment infrastructure, water quality improvements and easier entry processes for new business to promote regional prosperity
-

Outcomes

						
Provide safe and reliable water supplies	Provide sewerage services that protect public health and the environment	Ensure the long-term resilience of our services	Be responsive and willing to adapt as their needs change	Protect and enhance the environment in line with community expectations	Partner with their communities and help our region flourish	Ensure we provide great value

- Aligned with customer feedback/insights
- Initiatives (incl. new capex and opex) for each outcome
- Indicators of success

Outcomes



- 15 Indicators

7	Customer satisfaction levels
3	Customer interactions
3	Compliance with obligations
1	Level of service
1	Carbon emissions
1	Benchmarking results

- 16 Measures

10	Improvement in performance
6	Maintain current performance

OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
Provide safe and reliable water supplies	Provision of safe drinking water	Mandatory notifications to customers of non-compliance with ADWG and Safe Drinking Water Regulations <small>* Note this excludes regulated supplies</small>	No notifications	No notifications
	Customer satisfaction with taste, smell, clarity and hardness of	Percentage of customers satisfied with water	88%	Improving trend
OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
Provide sewerage services protect public health and the environment	Ensure the long-term resilience of our services	Demonstrate clear, efficient, effective and consistent asset management work processes	Asset Management Customer Value benchmarking result	In top quartile of benchmark group Maintain top quartile ranking within benchmark group
	Our customers experience no water restrictions	Number of water restrictions placed on customers	Nil	Nil
OUR CUSTOMERS EXPECT US TO:	INDICATOR	MEASURE	CURRENT PERFORMANCE	2023 TARGET
Be responsive and willing to adapt as their needs change	Reduce Scope 1 and 2 Greenhouse Gas Emissions by 40% by 2025	Percentage emissions reduction compared to baseline ³	8.8%	24.5%
	Customer satisfaction with our performance partnering with communities to help our region flourish	Percentage of customers satisfied with our performance partnering with communities to help our region flourish	NA ⁴	Improving trend
Protect and enhance the environment in line with community expectations	Partner with their communities and helping our region flourish	Regional stakeholder satisfaction with our performance partnering on areas of regional priority	NA ⁴	Improving trend
	There is ongoing engagement with our customers and community to build capacity, strengthen relationships and inform decision making	Number of customers engaged to inform the development of each annual corporate plan	Varies year on year	At least 500 instances of two-way engagement per annum
		Percentage of customers who engaged with Wannon Water satisfied with the engagement process	NA ⁴	Improving trend
Ensure we provide great value	Customer overall satisfaction	Customer satisfaction with value for money	84% satisfied or very satisfied	An increasing trend

Building blocks

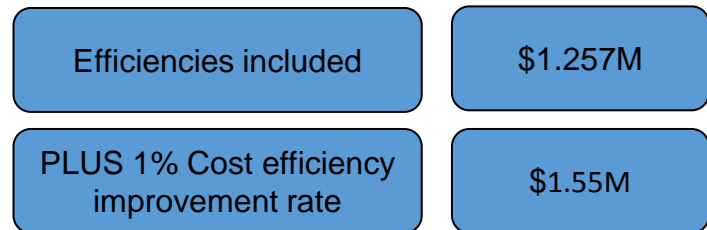


- Revenue Requirement = \$355 million

- Opex stable, with increases from baseline for:
 - New initiatives
 - Electricity
 - Labour costs above CPI
 - New opex from newly constructed capital works
 - etc

	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expenditure	44.05	44.82	44.03	43.68	43.68
Return on assets	13.45	14.33	15.65	16.59	16.83
Regulatory depreciation of assets	9.90	10.48	11.26	12.53	12.93
Adjustments from last period	0.14	0.14	0.14	0.13	0.13
Total Revenue Requirement	67.54	69.77	71.08	72.93	73.57

- Large capital investment plan impacts Return on Assets and Regulatory Depreciation



Capital investment plan



- **\$156 million**
 - Warrnambool WRP - \$38 million
 - 24% of total program
 - GHD assistance for business case
 - External assessment of cost estimate (P80)
 - Renewals program - \$70 million (mix of specified and unspecified)
 - Independent review of business case
 - All projects & programs over \$250,000 have business cases
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Tariff & bill impact



AVERAGE RESIDENTIAL CUSTOMER - OWNER

WARRNAMBOOL (Projected Average Water Consumption 2013 - 2028: 146kL per annum)							
Financial Year	Sewer Fixed	Water Fixed	Water Variable	% Change	Government Rebate	TOTAL BILL	% Change
2013/ 14	\$786	\$171	\$280			\$1,238	
2014/ 15	\$777	\$171	\$280	-0.8%	-\$70	\$1,158	-6.5%
2015/ 16	\$768	\$170	\$279	-0.9%	-\$70	\$1,146	-1.0%
2016/ 17	\$744	\$166	\$272	-2.8%	-\$70	\$1,112	-3.0%
2017/ 18	\$734	\$165	\$271	-1.0%	-\$70	\$1,100	-1.1%
2018/ 19	\$734	\$165	\$271	0.0%		\$1,170	6.4%
2019/ 20	\$734	\$165	\$271	0.0%		\$1,170	0.0%
2020/ 21	\$734	\$165	\$271	0.0%		\$1,170	0.0%
2021/ 22	\$734	\$165	\$271	0.0%		\$1,170	0.0%
2022/ 23	\$734	\$165	\$271	0.0%		\$1,170	0.0%

All amounts are stated in 1/1/18\$

Tariff impact

AVERAGE RESIDENTIAL CUSTOMER - TENANT

WARRNAMBOOL (Projected Average Water Consumption 2013 - 2028: 146kL per annum)							
Financial Year	Sewer Fixed	Water Fixed	Water Variable	% Change	Government Rebate	TOTAL BILL	% Change
2013/ 14			\$280			\$280	
2014/ 15			\$280	-0.3%	-\$70	\$209	-25.3%
2015/ 16			\$279	-0.3%	-\$70	\$209	-0.4%
2016/ 17			\$272	-2.3%	-\$70	\$202	-3.1%
2017/ 18			\$271	-0.5%	-\$70	\$201	-0.6%
2018/ 19			\$271	0.0%	-\$35	\$236	14.4%
2019/ 20			\$271	0.0%		\$271	14.8%
2020/ 21			\$271	0.0%		\$271	0.0%
2021/ 22			\$271	0.0%		\$271	0.0%
2022/ 23			\$271	0.0%		\$271	0.0%

All amounts are stated in 1/1/18\$

Bill impact

Tariff & bill impact



-
- Water usage & service – no ‘real’ increase, CPI only
 - Sewer service – no ‘real’ increase, CPI only
 - Minor Trade Waste
 - Fixed – no ‘real’ increase, CPI only
 - Volume
 - Grp 1 – 3.8% real plus CPI
 - Grp 2 – no ‘real’ increase, CPI only
 - Grp 3, 4 & 5 – minus CPI plus CPI (i.e. no change to 2017/18 tariff)
 - Review in 2018
 - Major Trade Waste – 2% real plus CPI
 - Rural Water Usage Surcharge
 - minus CPI plus CPI (i.e. no change to 2017/18 tariff)
 - Review in 2018
 - Fire Service Charges – no ‘real’ increase, CPI only
 - New Customer Contributions
 - no ‘real’ increase, CPI only
 - Sewer in Hton & Ptld decrease by 50% in 2018/19
 - Miscellaneous charges – no ‘real’ increase, CPI only
-

Engagement (Advanced 3.25)

- Commenced engagement process as soon as practically possible (Dec 2015)
- 3,000 instances of engagement reaching about 7% of customer base
- Engagement tailored with a wide range of customers
- Engagement was an iterative process, with development and testing of customer priorities and proposed activities to achieve these, including price impacts to deliver requested services
- Feedback that engagement was genuine and considered

Outcomes (Standard 2.5)

- Linked to customer insights to deliver on customers' highest priorities
- Consistent with customer feedback, propose to maintain current levels of service
- Justification provided for the one case where feedback was not acted upon
- Expenditure profile didn't require material change as it is currently consistent with customer feedback
- Outputs measure customer perceptions as well as our performance
- Proposed improvement in performance for 63% of KPI's

Standard

Management (Standard 2.25)

- Board and senior management have demonstrated ownership and commitment to the development and proposals
- Business cases developed for projects over \$250,000 to justify capital investment
- In addition to the 1% rate of operating efficiency improvement, an additional \$1.2 million in operating efficiencies is proposed
- Strong level of supporting documentation and justification
- Forecasts are based on sound methodologies and assumptions
- Independent advisors have been utilised where appropriate

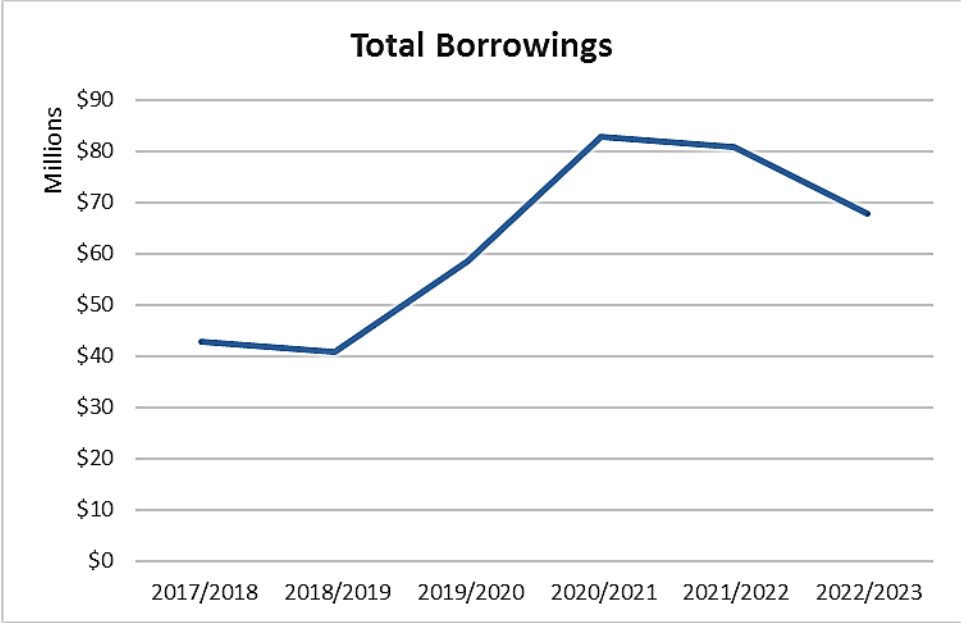
Risk (Standard 2.0)

- Our management systems are certified
- Forecasting demand, operating costs & savings and our capital investment program are consistent and undertaken with customer tariff outcomes in mind
- Uncertain projects are not included in the capital investment plan
- Forecasts are based on latest available information and P80 for our largest capital project
- Maintaining current price control and tariff structures
- Current GSLs have been refined to provide greater service and accountability

Financial Sustainability



- As at 2023
 - Borrowings expected to increase to \$70 million
 - Gearing ratio @ <11%
 - Capital Replacement Ratio (5 years) = 137%



Beyond 2023



- Assumptions
 - Tariffs – CPI only increase
 - Capital investment plan = \$94 million (\$112 million nominal)
 - Operating costs = \$44.5 million p.a.
 - Cost efficiency improvement rate of 1.9%
 - Revenue requirement = \$75 million p.a.

	2023/24	2024/25	2025/26	2026/27	2027/28
Operating expenditure	44.87	44.69	44.53	44.38	44.31
Return on assets	16.93	17.26	17.63	17.77	17.77
Regulatory depreciation of assets	12.90	12.80	12.70	12.81	12.96
Total revenue requirement	74.70	74.75	74.87	74.95	75.03

Conclusion – Our story

- Long term tariff stability
- Significant capital investment program
- Community
 - deliver better outcomes for customers
 - engage with our community
 - contribute to regional prosperity
- Enhance
 - customer satisfaction levels
 - environmental outcomes
- Maintain
 - strong financial position
 - high levels of service
 - regulatory performance

