

27 April 2023

Chairperson and Commissioners
Essential Services Commission
Level 8, 570 Bourke Street
MELBOURNE VIC 3000

Via email: [REDACTED]

Dear Chairperson and Commissioners,

Coliban Water Price Submission draft decision

Summary

We welcome the Essential Services Commission's (ESC) draft decision on Coliban Water's 2023-2028 Price Submission. The draft decision accepted the strength and robustness of the engagement process by affirming our self-assessment of Advanced for the Engagement element of PREMO. Similarly, we are very encouraged that the draft decision is supportive of our proposed *Big Water Build* capital program, operating expenditure and associated revenue requirement. As you know, these elements of the decision will ensure that we support our communities by responding to three major drivers of climate change, aging assets and population growth.

We are however concerned that if adopted, the draft decision will result in the following implications that will generate poor outcomes for Coliban Water customers:

- Projected significant financial losses
- Higher debt levels
- Expected credit rating downgrade, leading to higher borrowing costs and possibly dropping below investment grade in the medium term
- Weakened position against financial sustainability indicators
- Reduced financial capacity to respond to major disruptive events (including major drought)
- Higher future customer bills
- A decision that effectively ignores the recommendations of the Community Deliberative Panel

We note that the draft decision does not support the *New Customer Contributions* approach nor the *Regulatory Depreciation* approach. Regarding New Customer Contributions, we will review our approach and engage further with key stakeholders in pursuit of responding to your concerns.

Regulatory Depreciation and Reset of Regulatory Asset Base (RAB)

Regulatory Depreciation is easily the matter of greatest materiality in your draft decision. In considering the draft decision, it is clear that it is timely to consider a reset of Coliban Water's Regulatory Asset Base (RAB) in order to provide a structural and enduring remedy for the inadequate opening RAB set nearly 20 years ago.

While the current approach to regulatory depreciation was approved by the ESC for the 2018-2023 pricing period, we agree that this approach results in the business being an outlier among its peers. While the ESC engaged with us on many other elements of our Price Submission the ESC did not signal to Coliban Water any discomfort with the continuation of the current approach to regulatory depreciation for the 2023-2028 period but we are happy to explore a changed approach.

As confirmed by the ESC in our recent discussions, the need for the aggressive approach to regulatory depreciation is effectively a 'work-around' in the regulatory model, the necessity of which can largely be traced back to the inadequate opening RAB. The draft decision expressed a strong preference for a regulatory depreciation of 30 years (as opposed to the 'work-around' 16 years) to be adopted. We agree with the ESC assessment that the decoupling of regulatory asset life from actual asset life is not desirable or sustainable.

Customer Recommendations and Financial Risks

We engaged deeply with our Deliberative Panel in relation to the financing of Coliban Water over the coming five years. Specifically, the Panel grappled with questions of intergenerational equity which resulted in recommendations for debt funding and a modest increase in customer bills above inflation (1.9% in years one and two and 2.5% in the final three years). Our proposal also includes a major focus on supporting customers experiencing vulnerability, underpinned by a more than doubling of investment in our current hardship programs.

As you know, Coliban Water's debt is an 'outlier' relative to its regional peers by a large margin. Prima facie, if adopted, the result of implementing 30 year regulatory depreciation in the absence of a RAB reset would require Coliban Water to take on an estimated \$80 million additional debt (above the already planned \$350 million additional debt articulated in our Price Submission). The model would also see customer prices reduced. Both of these potential outcomes act against the recommendations of our customers as resolved through our Deliberative Panel and broader customer and community engagement including Traditional Owners, Councils and Business Groups.

Fiduciary Responsibility of Directors

Our Directors fully embraced the Commission's expectation that the Price Submission reflects the 'best offer' to customers. With the highest debt loading in regional Victoria, we accepted the consequential increase in debt that will result from our *Big Water Build*. Financial indicators were pushed to the limit of Director tolerance as we sought to mitigate customer bill increases as much as possible. The final submission carefully balances

Directors fiduciary duties with the need for financial efficiencies and supporting customers. If the draft decision is adopted in full, the Board is concerned that it may be pushed beyond its financial risk appetite as we trend toward 'red' ratings against financial health indicators and potentially become a budget risk for government in the medium term.

Next steps

We will continue to engage with the relevant government stakeholders in relation to pursuing a reset of the Coliban Water RAB while concurrently working with your staff in exploring solutions within the regulatory model to address the issues raised in your draft decision.

In summary, it is our goal to maintain the integrity of the price and debt elements articulated in our Price Submission in order to avoid realising the risks described in this letter. We look forward to seeing you next week at the customer engagement session and always feel free to call me at any stage.

Yours sincerely,



Bob Cameron
Chair

Cc Damian Wells, Managing Director