

Monday 1 June 2020

Marcus Crudden  
Director, Price Monitoring and Regulation  
Essential Service Commission  
Via email: [Marcus.Crudden@esc.vic.gov.au](mailto:Marcus.Crudden@esc.vic.gov.au)

Dear Marcus,

**Re: Implementation of South Gippsland Water Price Path**

Thank you for various correspondences with respect to South Gippsland Water's Price Determination including, deferral of the Final Decision, the impact of a reduced inflation forecasts on the Corporation's revenue requirement, and whether we are likely to pass on maximum prices to customers from 1 July 2020 in the context of the current coronavirus (COVID-19) pandemic.

I advise that the South Gippsland Water Board met yesterday and has considered the various matters above and the following is noted:

- In the interests of customer affordability, South Gippsland Water previously resolved not to take up an approximate 8% real tariff increase from 1 July 2018 (2 years of deferral);
- South Gippsland Water has amongst the lowest average residential tariffs in the state, and for its size, nationally;
- The Corporation elected to take on significant risk in a number of areas of its Price Submission, including operating expenditure pressures, demand and an under recovery of the revenue requirement of approximately \$1.7M; and
- The Price Path proposed in response to the Draft Decision is supported by robust assessment through the Commission's price determination processes and is consistent with South Gippsland Water meeting service expectations and in line with customer preference for price escalation

However, in the last few months the region, Australia and the world have been impacted by the emergence, spread and response to coronavirus (COVID-19).

South Gippsland Water is clear that altering its proposed price path, for example a price freeze, or even a back ended price path, would be problematic. The Corporation considered a smoothed price path, but this would still result in a moderate increase (3.5% real) from 1 July 2020 and in higher prices at the end of the regulatory period. While a back ended price path would result in a significant increase from 1 July 2021 and again from 1 July 2022, and in higher prices at the end of the regulatory period.

A price freeze in the form of lower tariffs for all would smear smaller benefits to all, many of whom have not have experienced significant impacts to their household incomes/costs. The Corporation believes it is imperative to get more significant assistance to those who need it most now, that is, residential customers faced with reduced incomes and/or higher household costs, and businesses that have had to close or downsize their operations with little ability to reduce expenditure.

It is in this context that South Gippsland Water has resolved to:

- Not seek to recover additional revenue as a result of reduced inflation forecasts, resulting in a total revenue foregone of \$3.3M (an approximate 3% real price impact) over the regulatory period;
- Propose flat prices (plus CPI) from 1 July 2020 to all customers, followed by a 5% real increase from 1 November 2020 (will first be seen by customers in the January 2021 billing cycle), recognising this will result in further revenue foregone. A pricing schedule and assessment of bill impacts are attached demonstrating the Corporation's proposal; and
- Ramp up targeted support for those who need it most, i.e. continue to understand those in our communities who are feeling the pinch, and work with them to tailor a range of vulnerability initiatives (refer attached for details). This will result in further costs to the Corporation over and above those identified in the Price Submission.

South Gippsland Water believes the above is a measured and prudent response to achieving the balance between delivering on customer expectations, the prices we charge and being sustainable into the future. Should you have any queries, please contact me on 0429 002 219.

Yours Sincerely

A handwritten signature in black ink, appearing to read "PDP", with a long horizontal flourish extending to the right.

Philippe du Plessis

**Managing Director**