

Welcome to the Essential Services Commission's public forum on our draft decision





Essential Services Commission online public forum

Yarra Valley Water
draft decision 2023

23 February 2023

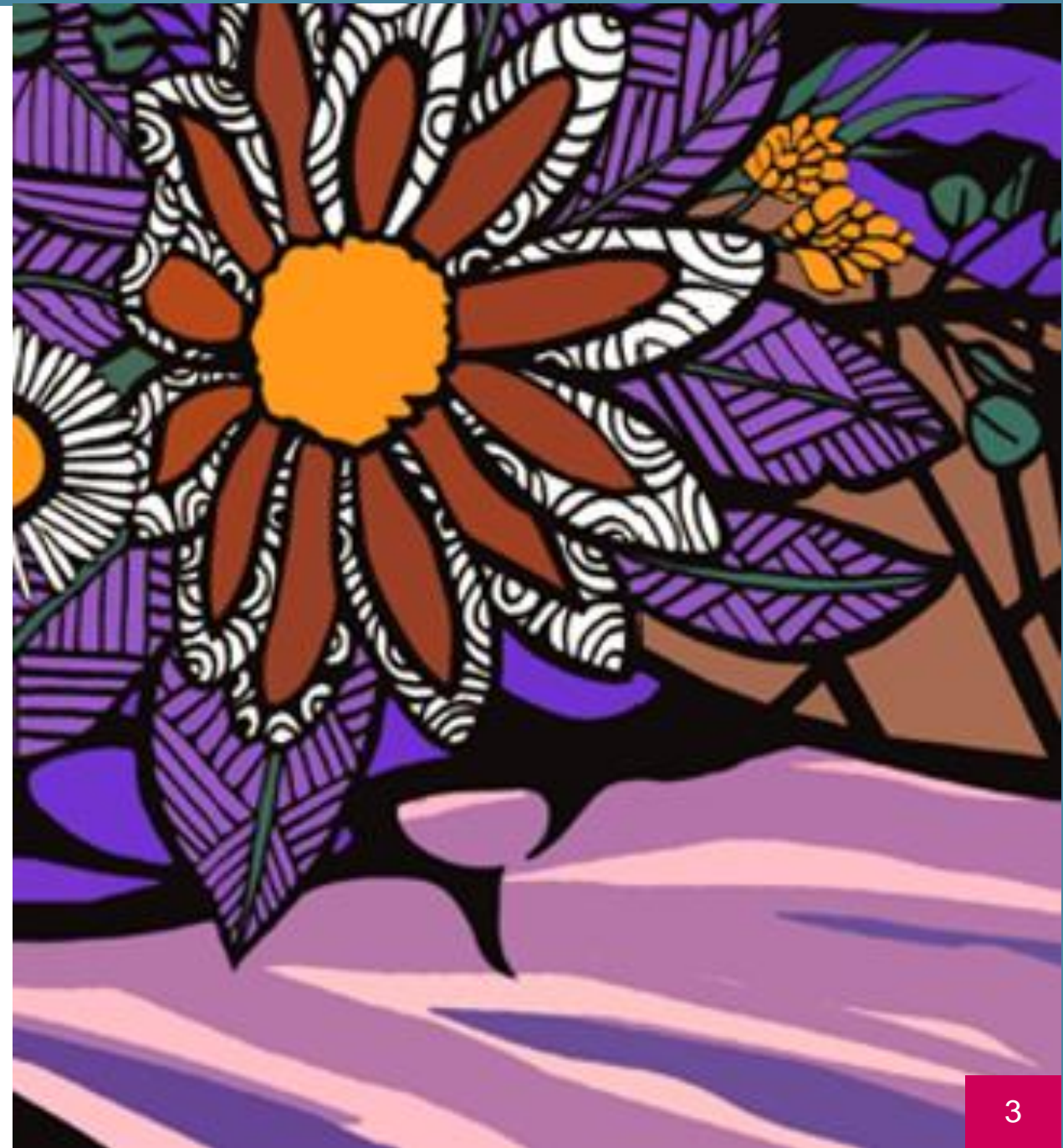


Acknowledgement of country

I would like to acknowledge the Traditional Owners of all of the lands wherever you are today. I would also like to acknowledge the traditional owners of the land of the service area of Yarra Valley Water.

I would also like to pay my respects to their Elders, past and present, and extend that respect to all Aboriginal people here today.

Barring Djinang artwork by Jade Kennedy.
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Agenda

- Summary of our role in water price regulation

Rebecca Billings
Commissioner, Essential Services Commission

- How we assessed the price submission and our draft decision

Dean Wickenton
Senior Regulatory Manager, Essential Services Commission

- Yarra Valley Water's response to our draft decision

Pat McCafferty
Managing Director, Yarra Valley Water

- Questions from attendees

About the Essential Services Commission

Our purpose is to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate Victoria's energy, water and transport sectors, and oversee the Fair Go Rates system. We also administer the Victorian Energy Upgrades program.

We have been regulating water prices more than 20 years.

For the water sector we:

- approve prices and service standards
- monitor and report on performance
- administer customer service codes.

Yarra Valley Water price review process

We assess Yarra Valley Water's price submission to ensure it:

- complies with the requirements of the Water Industry Regulatory Order
- meets the requirements in our guidance, including:
 - our expectations on the overall approach
 - application of our incentive (PREMO) framework, where the returns earned are linked to the level of ambition in the price submission
- complies with relevant criteria in the *Water Industry Act 1994* and the *Essential Services Commission Act 2001*.

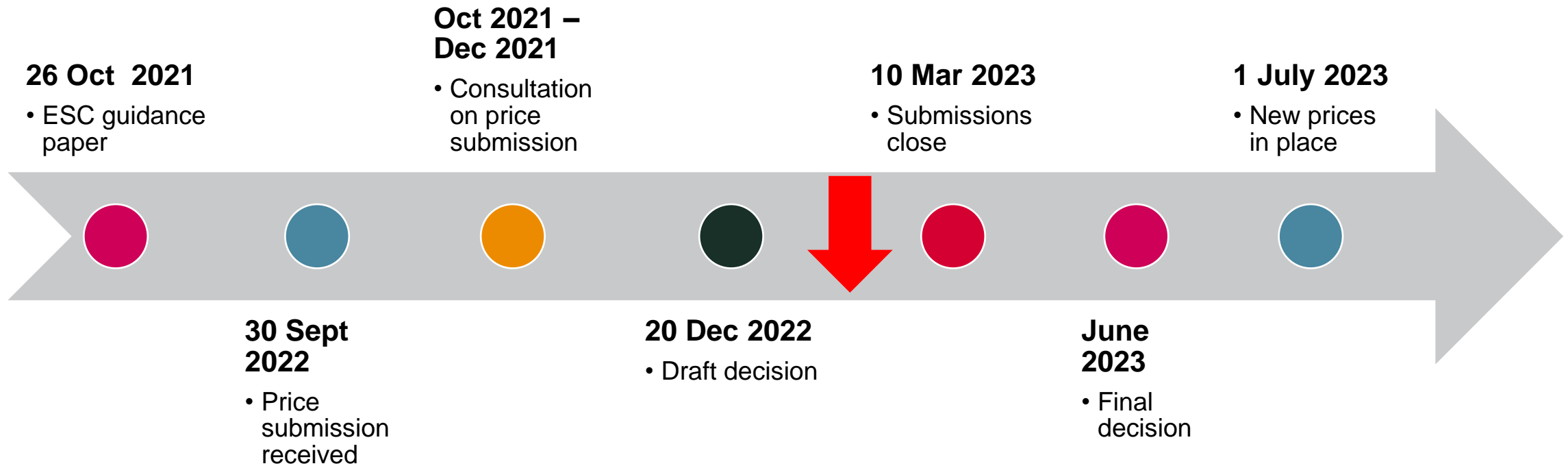
Yarra Valley Water price review process

It is up to Yarra Valley Water to propose prices and services consistent with the order, guidance and relevant legislation.

Essential Services Commission's draft decision

Our draft decision indicates what we propose to approve (or not approve), and allows Yarra Valley Water – and other stakeholders – to respond before we make our final decision and price determination.

Yarra Valley Water price review process



We assessed Yarra Valley Water's proposals and the reasons for them

We did this by:

- looking at engagement and how Yarra Valley Water used feedback
- testing expenditure and demand forecasts
- verifying the supporting assumptions and data
- evaluating how Yarra Valley Water managed risk and its performance
- reviewing opex and capex costing and timing assumptions to ensure they were reasonable.

We also obtained advice from expert consultants where appropriate.

Summary of our draft decision

- Accepts 5-year pricing period (prices decreasing in real terms over the 5-year period).
- Proposes to accept many elements of the price submission including:
 - key customer outcomes, including embedding Caring for Country in all decisions
 - the tariff structure (including a new higher variable charge that incorporates the costs of disposing sewage for residential customers receiving both water and sewerage services and to remove the sewage disposal tariff)
 - price path including caps on nominal prices
 - revenue cap form of price control
 - investment in alternate water supplies and to reduce its environmental impact.
- Adopts a revenue requirement of \$4,891.0 million over a five-year period.

<https://engage.vic.gov.au/water-price-review-2023>

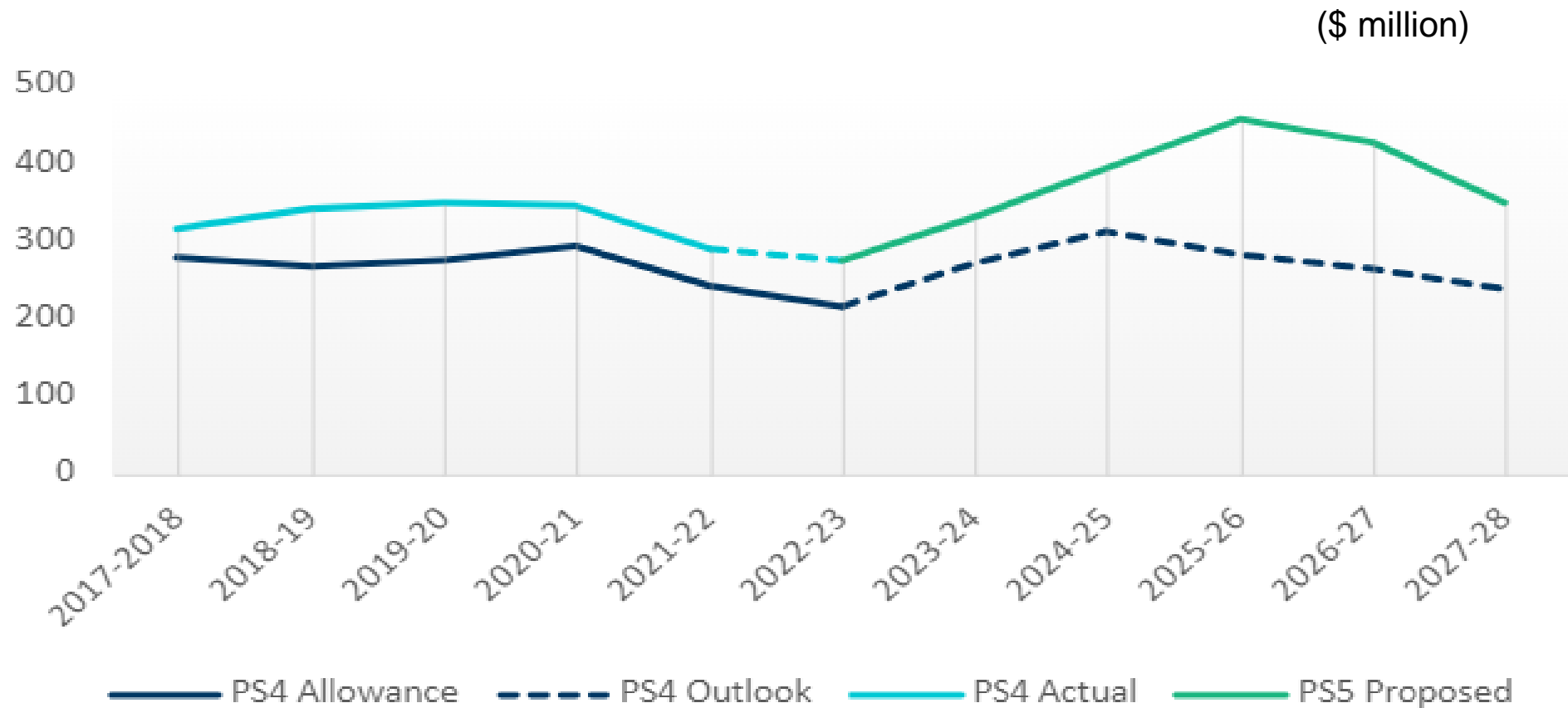
Estimated annual water and sewerage bills

	Average consumption (kL p.a.)	2022-23 (current)	2023-24	2027-28
Residential – owner occupier	150	1,034	986	956
Residential – tenant	150	504	480	466
Non-residential (small)	150	1,575	1,503	1,457
Non-residential (medium)	1,000	5,644	5,386	5,222
Non-residential (large)	10,000	48,732	46,505	45,090

Yarra Valley Water expenditure forecasts 2022–23

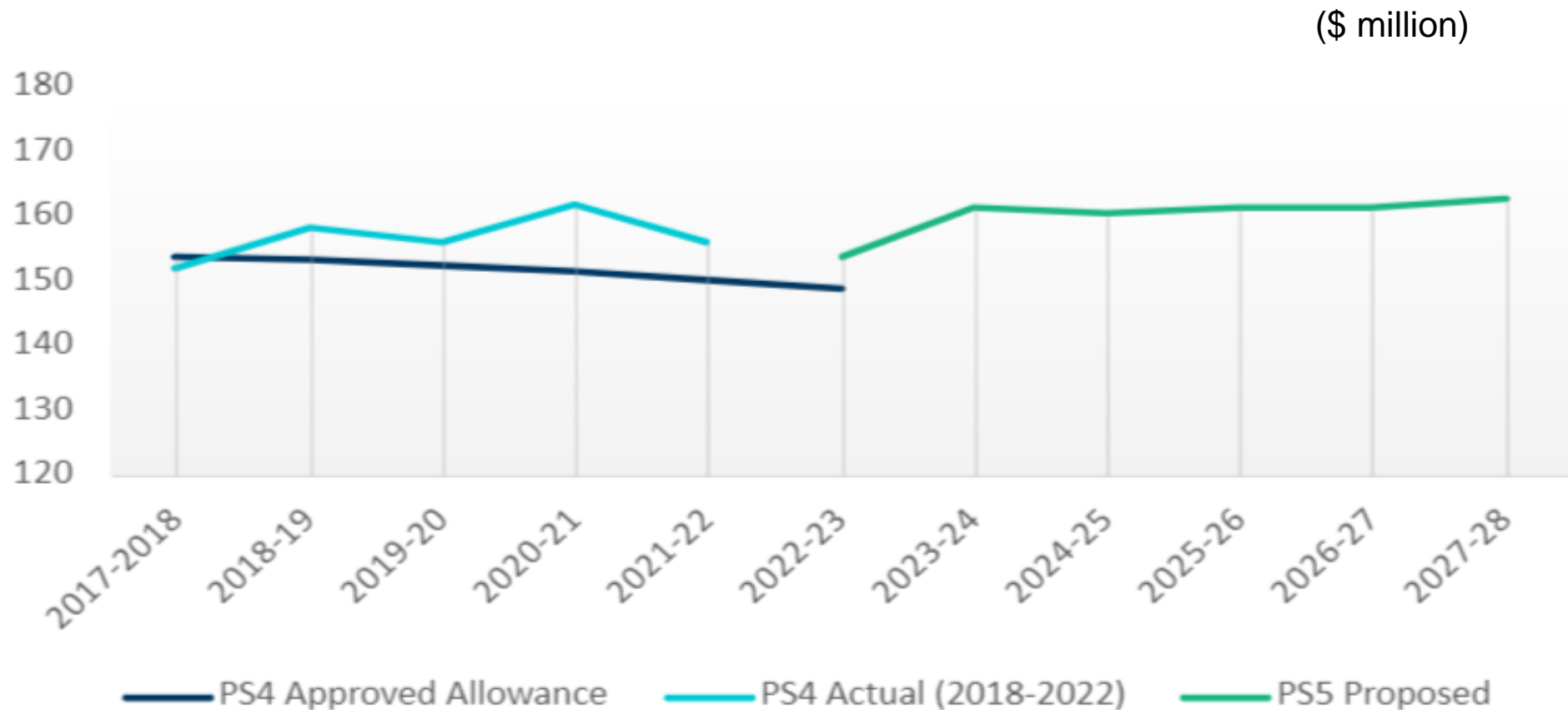
5-year total	Proposed	Our proposed adjustments	Draft decision (\$ million)
Operating expenditure	3487.1	0	3487.1
Capital expenditure	1962.0	0	1962.0

Yarra Valley Water forecast capital expenditure 2022–23



Source: FTI Consulting, Yarra Valley Water 2023 Price Review Model

Yarra Valley Water forecast operating expenditure 2022–23



Source: FTI Consulting, Yarra Valley Water 2023 Price Review Model

We propose to accept a 'Advanced' PREMO price submission rating

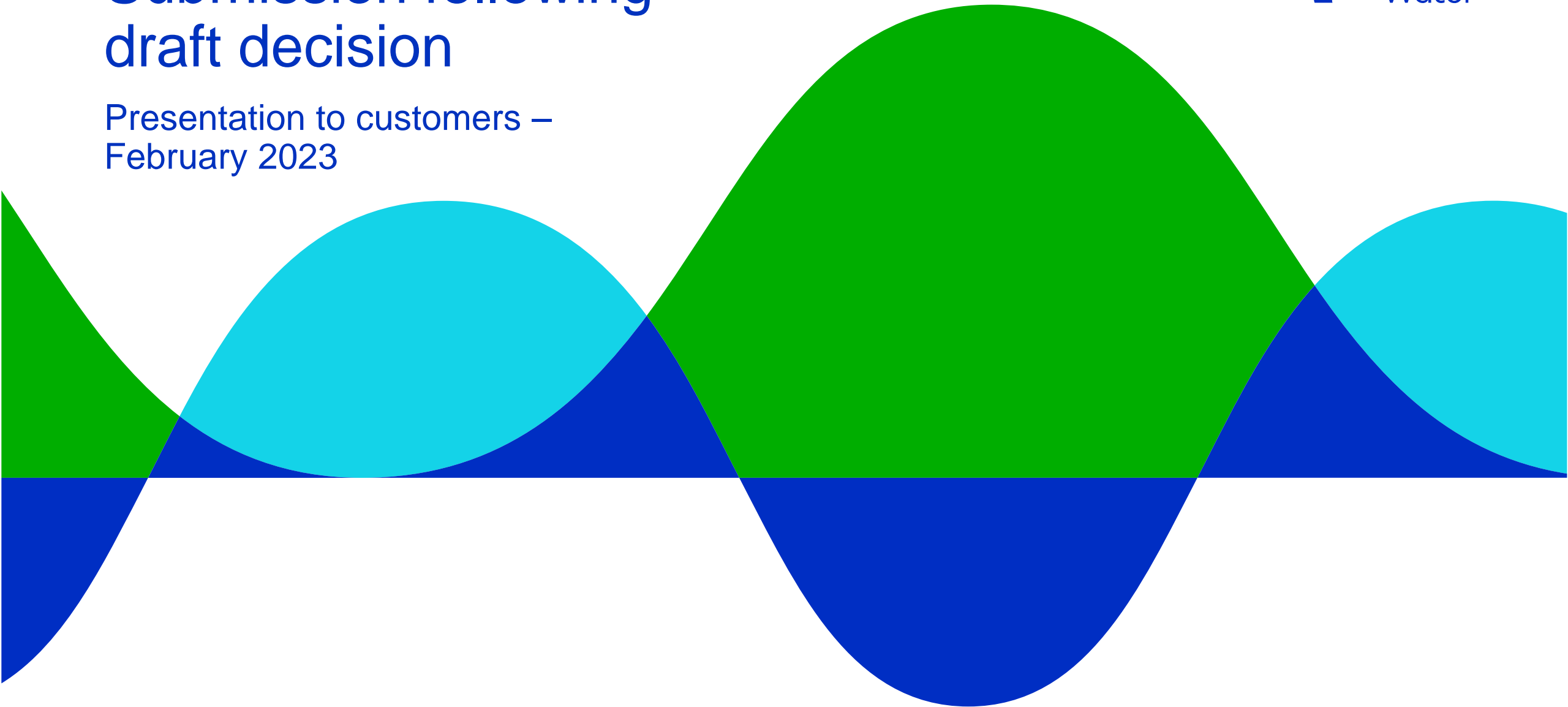
- The price submission provided clear justification for its proposals.
- We consider that Yarra Valley Water met expectations for delivery against its outcome commitments for the current regulatory period.
- Its engagement program gave customers an opportunity to participate and to provide feedback on the prices and services that affect them. Its engagement was inclusive and diverse.
- Its proposed outcome measures and targets were developed in consultation with its customers and are supported by customers. They provide overall improvement in customer value.
- It has chosen to accept risk on behalf of customers in some areas. This includes capping nominal price increases at 5 per cent in 2023-24 and 2024-25.

Our draft decision means...

- Prices will decrease in real terms before inflation (noting inflation will be added to 2023-24 prices and bills, subject to the price cap in 2023-24 and 2024-25).
- Customers will continue to receive high-quality drinking water, safe treatment and disposal of sewage, and new investment in waterways and drainage.
- Yarra Valley Water will continue to reduce its environmental footprint and respond to climate change.

2023-28 Price Submission following draft decision

Presentation to customers –
February 2023





Acknowledgement of Country

Yarra Valley Water proudly acknowledges the Traditional Custodians and Owners of the land and water on which we rely and operate.

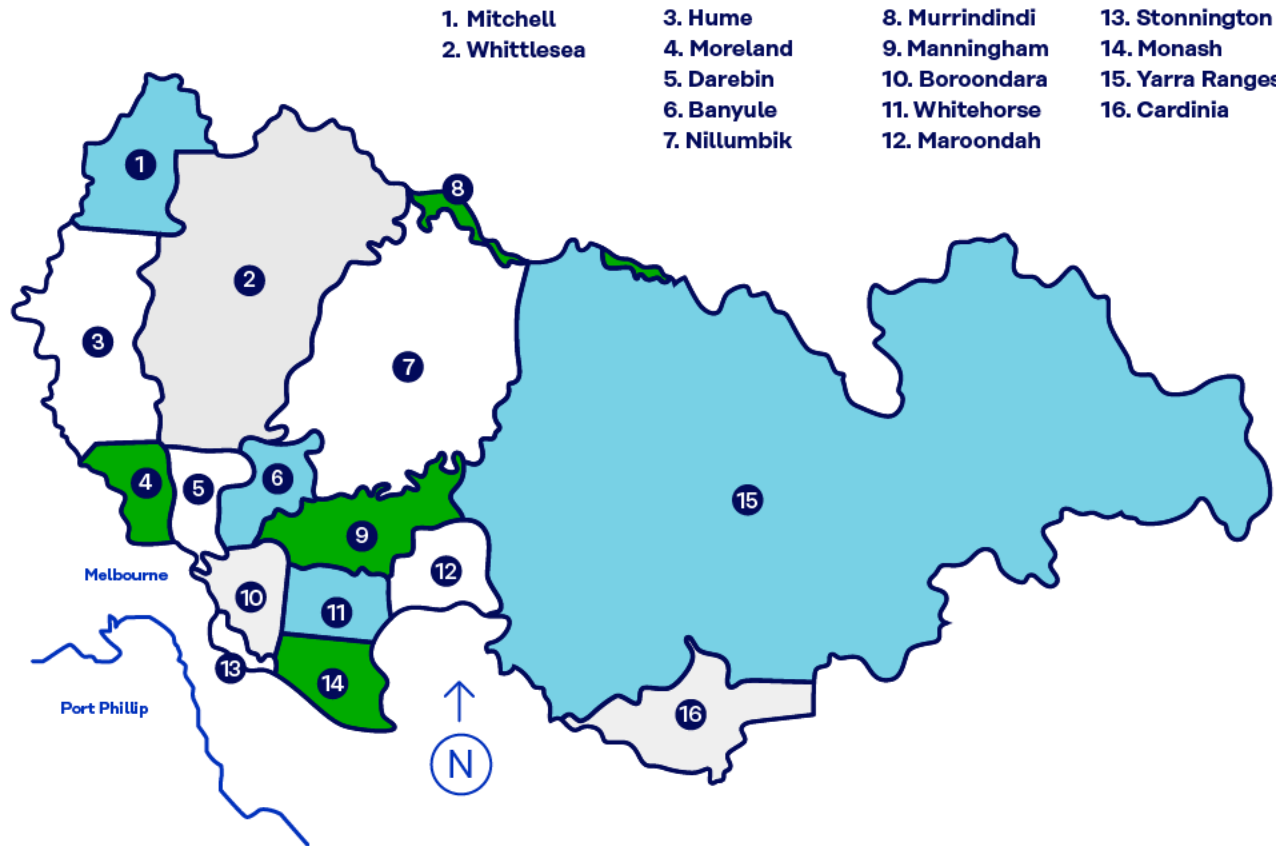
We pay our deepest respects to their Elders past, present and emerging. We acknowledge the continued cultural, social and spiritual connections that Aboriginal and Torres Strait Islander peoples have with the lands and waterways, and recognise and value their care and protection for thousands of generations.

Key Messages

- Customers insights and views are at the centre of what we've proposed
 - Greater diversity of voices
 - Ongoing real decrease in bills
 - Major investments in maintaining and growing infrastructure
 - Outcomes reflecting customers expectations and values
- ESC's draft decision seeks clarification in 4 areas



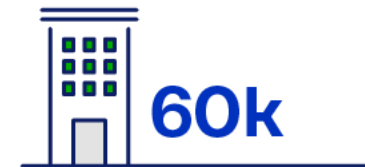
YVW overview



Residential properties



Infrastructure asset base



Business customers



Population served

10,301km
kms water supply mains

68
Water pumping stations

44
Water service reservoirs

413
Water pressure reducing stations

10,131km
kms sewer mains

103
Sewage pumping stations

9
Sewage treatment plants

696km
kms recycled water supply mains

YVW Purpose and 2030 Strategy

We support the health and wellbeing of our customers, and create a brighter future for communities and the natural environment

Transforming around the customer

Care for Customers

Seamless Service

Affordability

Helping communities thrive

Water for Life

Inclusion and Connection

Resilience and Prosperity

Leading for our environmental future

Beyond Zero Carbon

Circular Economics

Healthy Ecosystem

Our strategy is enabled through people, process, systems and technology

People and Culture

Safe and Well

Always Efficient

Digital Enablement

Strong performance underpins our proposals

Customer Outcomes

- 75% achieved
- Returned \$10.5M to customers if we didn't meet target

Year	✓	✗	\$
18-19	5	2	\$3M
19-20	5	2	\$3M
20-21	6	1	\$1.5M
21-22	6	1	\$1.5M
22-23	6	1	\$1.5M

- Extensive GSL scheme
- Open, transparent reporting
- Mid-point check with customers to confirm priorities

Customer perceptions

- Improved scores

Year	Sep 18	Aug 22
Satisfaction	6.5	7.1
Value	5.8	6.5
Reputation	6.4	7.1
Trust	6.3	7.1

- Improved comparative position

Year	Sep 18	Aug 22
Satisfaction	8	3
Value	10	3
Reputation	5	3
Trust	7	3

Service Code indicators

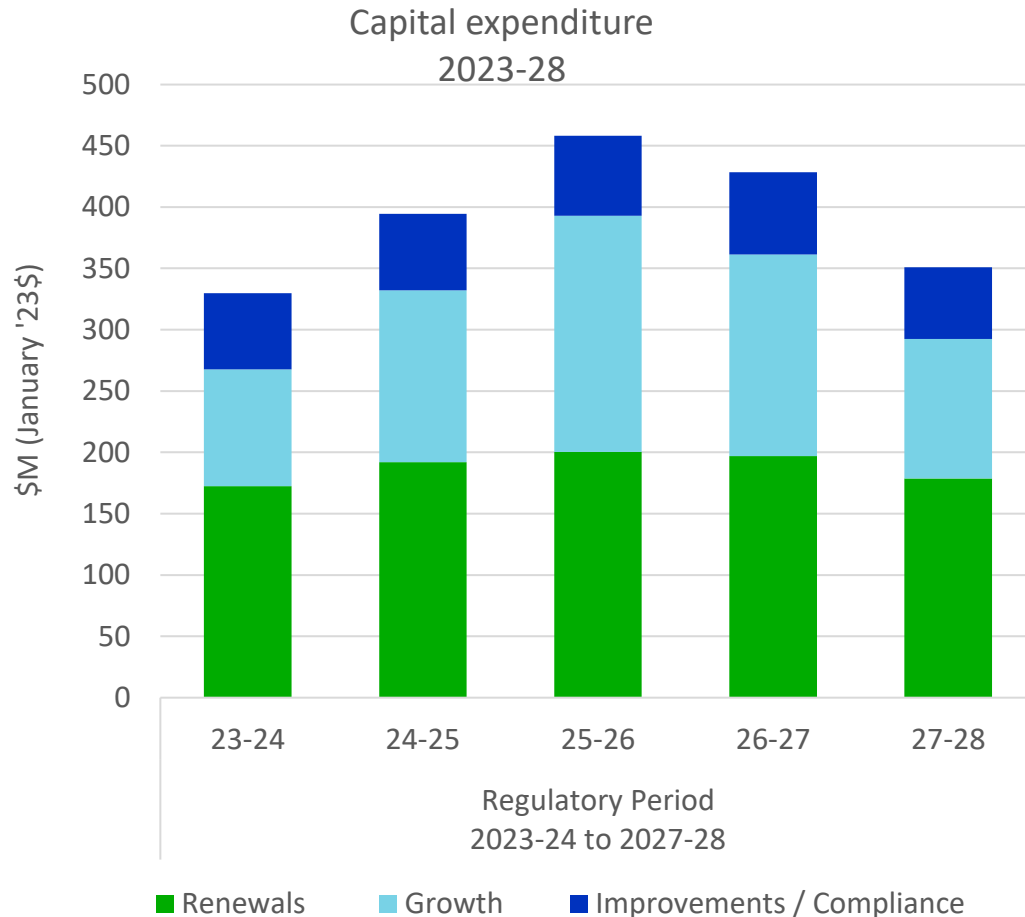
- Met or exceeded 80%
- Substantial improvement in five indicators:

Indicator	Target	Actual
Average time to attend bursts and leaks (minutes)		
Priority 1	43.7	24
Priority 2	87.9	35.6
Priority 3	801.7	285.5
Average time to attend sewer spills and blockages (minutes)		
	82.3	47.4
Average time to rectify a sewer blockage (minutes)		
	242.6	139

Benchmark allowance

- OPEX productivity
 - 2.5% proposed
 - 2.36% after adjusting for cloud costs.
- CAPEX
 - 5.9% after adjusting for 'at risk' expenditure.
 - 9 of 10 major projects
 - 4000 more connections
 - 250 more community sewage properties
 - Lowest-ever NRW – reduction of 3% to 7.8%
 - 5km distribution mains renewed
 - Modern and flexible technology foundation

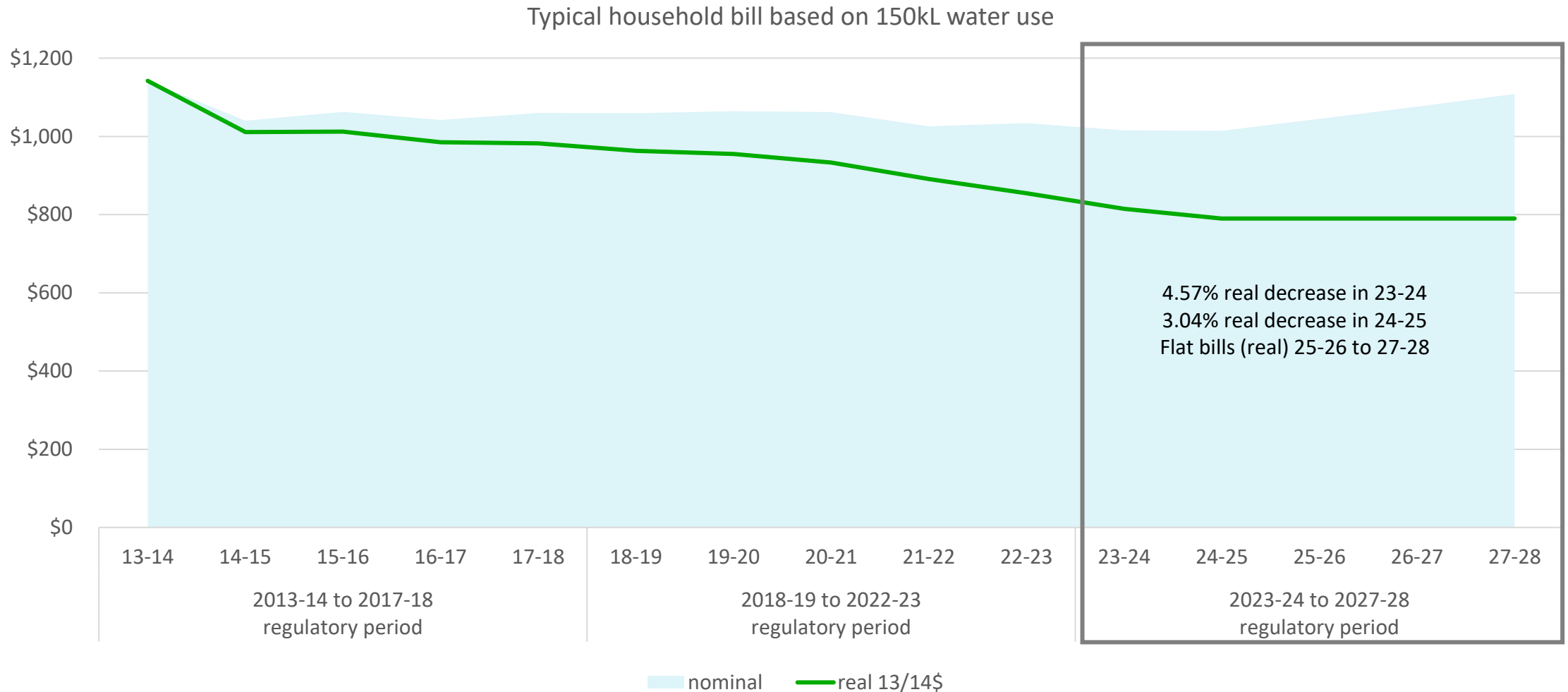
\$1.96 billion of capital investments



Value we'll deliver:

- Provide services to 66,000 new customers
- Renew 500km of water and sewerage mains
- Replace ~ 15,000 property connections ensuring a more reliable service
- Provide sewerage services to 3,000 properties currently on septic tanks
- Deliver renewable energy projects to meet 100% of our energy needs by 2025
- Sustain best practice in network water losses
- Replace 12km of distribution mains reducing the risk of major failures with widespread impacts
- Clean 1,300 km of water mains, upgrade 20 chlorinators and install 6 new ones to protect water quality and install 130 sensors to improve monitoring
- Actively manage 47ha of land preserving and restoring biodiversity and natural habitats
- A modern, flexible and resilient technology with increased protection against cybersecurity threats

Customers bills will continue to fall in real terms ...





Caring for Country philosophy

2018-23 Outcomes

2023-28 Outcomes

Expect

Safe drinking water

Reliable water and sewerage services

Timely response and restoration

Value

Fair access and assistance for all

Modern flexible service

Water availability and conservation

Care for and protect the environment



Safe and pleasant drinking water



Reliable water and sewerage services



Timely response and repair



Service that meets everyone's needs



Saving water for the future



Looking after our natural environment

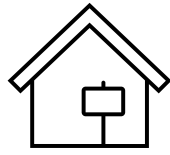
Now

Future

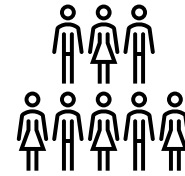
We've been asked to respond to the following matters raised in our draft decision



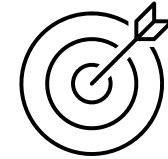
New guaranteed service level focused on water quality and associated protocols



Our proposals in relation to contributions payable by developers to cover the costs of providing new infrastructure



Consider whether our forecasts should be updated to reflect latest information about how and when Melbourne is predicted to grow



Clarifying our promises to customers in terms of proposed measures

We propose a new Community Rebate if we issue a water quality advisory notice

What we proposed

In conjunction with other Melbourne water utilities, a community rebate

- \$5000 for an advisory impacting <50 customers
- \$10000 for an advisory impacting >50 customers

Claim process for customers bottled water purchases

What the ESC said

Final guaranteed service levels and rebates will be subject to consideration of:

- feedback following release of our draft decision
- further information on Yarra Valley Water's proposal for a new guaranteed service level focused on water quality and protocols for when rebates would apply

Our response

Payable for any advisory

We'll work with Councils, to identify water related community projects

We'll report annually on rebates paid and projects generated

We'll design an easy claim process accessible for all customer circumstances

As part of Melbourne Water's 2026 price review, we'll jointly engage customers on this rebate

We propose a balanced approach to increasing developer contributions

Modelling shows contributions are not reflective of costs to provide new services

What we proposed

To increase contribution rates annually to transition towards more cost reflective prices

Annual increase of 5% (real) and capped at 10% (nominal)

What the ESC said

- ESC will undertake a further review of YVW's proposed developer contributions
- The review will assess the reasonableness of proposed inclusion of certain costs (e.g. renewals in infill areas)

Our response

Methodology has been applied consistently since 2013 price review

We continue to consult with developers and there is broad appreciation of the issues associated with contributions, including overarching customer sentiment regarding cross-subsidies

Our proposal seeks to strike a balance and way forward that gradually unwinds cross subsidies

The government has released new growth projections since our submission

What we proposed

Population, customer and water demand consistent with Victoria In Future (VIF2021) forecasts

What the ESC said

- We'll need to demonstrate how we've considered these updated estimates and if required, identify and justify any changes to demand forecasts
- Include updates in the pricing model submitted in response to the draft decision

Our response

Our revenue cap adjusts to cater for small movements in customers and demands from year to year

The increased customer growth forecast in VIF2022 results in an additional 0.4% P0 reduction in prices.

We propose to resubmit an updated financial template with lower prices due to revised forecast for:

- Customer numbers and associated incremental operating costs to service new customers
- Customer demand and associated bulk charges from Melbourne Water
- Miscellaneous items (e.g. bad debts, developer contributions)

Clarification of measures

What we proposed

We've proposed 6 outcomes based on what we heard from customers. They are underpinned by 17 measures and annual targets

We'll measure and report annually on our performance and continue with our Community Rebate if we fail to achieve an outcome in any year

What the ESC said

- Some of the measures are ambiguous or unclearly defined
- They'll work with us on the final set of measures

Our response

Our response will outline changes that provide greater clarity as discussed with the ESC

We're also going to modify one target. The change will not impact our investments or actions.



Safe and pleasant drinking water

Compliance with safe drinking water regulations (2015)

Target: 100% compliance



Safe and pleasant drinking water

Compliance with safe drinking water regulations (2015)

Target: 0 non-compliances



Questions?



Thank you



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We pay our deepest respects to their Elders past, present and emerging. We acknowledge the continued cultural, social and spiritual connections that Aboriginal and Torres Strait Islander peoples have with the lands and waterways, and recognise and value their care and protection for thousands of generations.

At Yarra Valley Water we are also proud to celebrate, value and include people of all backgrounds, genders, sexualities, cultures and abilities.

Q & A

Housekeeping

- A reminder this public forum is being recorded. This means:
 - any statement or comment you make or question you ask will be [included in the recording](#)
 - any question you ask using the ‘[chat](#)’ function, will be [read out along with your name](#) and will be included in the recording.
- For verbal comments, please use the ‘[raise your hand](#)’ function and you will be invited to unmute your microphone, turn on your camera, say your name and organisation.
- If you are calling in via phone, please say your name and location prior to speaking.
- Staff from the commission include Marcus Crudden, Director Pricing, Rebecca Billings, Commissioner and Dean Wickenton, Senior Regulatory Manager.
- From Yarra Valley Water we are joined by Pat McCafferty, Managing Director.
- If you want to make a written public statement, please submit via engage.vic.gov.au

Thank you for joining us today

Submissions on our draft decision are due by 10 March 2023

- You can provide written submissions or feedback via the Engage Victoria website:
<https://engage.vic.gov.au/water-price-review-2023>
- You can also contact us by email: water@esc.vic.gov.au

