

30 April 2020

Our Ref: 641/005/004

Marcus Crudden
Director, Pricing Monitoring and Regulation
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000



Dear Marcus,

RE: Response to Price Review 2020: South Gippsland Water Draft Decision

I write in response to the South Gippsland Water Draft Decision, 2020 Price Review released by the Essential Services Commission (ESC) 25 February 2020 (the Draft Decision).

South Gippsland Water propose to accept the direction provided within the Draft Decision. In addition, and as a result of the current coronavirus COVID-19 pandemic, the Corporation will further extend its existing customer support programs for vulnerable customers, both residential and non-residential. This may result in increased operating expenditure and loss of revenue. South Gippsland Water proposes to absorb any adverse impacts.

Since the Draft Decision, the South Gippsland Region, Australia, and the world has been impacted by the emergence, spread and response to coronavirus (COVID-19). Stage Three restrictions were put in place across Victoria on 30 March 2020, limiting social contact across the state. This action has resulted in wide ranging impacts across the South Gippsland Region.

The full extent of these impacts are yet to be understood and will continue to evolve throughout the current regulatory period and beyond. South Gippsland Water, along with the rest of the water industry, has been assessing the significant challenges around customer hardship, affects to revenues, ability to meet capital and operational plans, potential service disruptions and service quality.

South Gippsland Water believes that the Draft Decision will provide an appropriate price path necessary to meet our customer's expectations, and start to provide for a more financially sustainable business. The Draft Decision will result in a customer price rise of approximately 9% above CPI over the next three years. The price path was tested with customers as part of our Price Submission, who have been consistent in confirming a preference for investment into infrastructure in order to maintain levels of service and to ensure a sound financial position for the organisation.

South Gippsland Water recognises that this price path may be particularly difficult for customers experiencing hardship, especially as a result of the current COVID-19 pandemic. South Gippsland Water is developing a hardship response that will be generally consistent with the Victorian water industry and government expectations. Activities with respect to this work have not been finalised at the time of writing, but will include a range of proactive higher level responses and will be extended to the non-residential customer cohort.

South Gippsland Water commits to the projects, services and prices provided in the Draft Decision and to absorbing the impacts of the COVID-19 pandemic. The Corporation notes that the Price Review process sets the maximum prices necessary to support services for our customers in a financially sustainable manner.

The application of prices will reflect the current environment and include consideration of WIRO Clause 11(d)(iii) which requires SGW's prices to "take into account the interests of customers of the regulated entity, including low income and vulnerable customers".

The attached outlines South Gippsland Water's response to key elements of the Essential Services Commission Draft Decision. The Corporation has revised the appropriate financial models to support this response.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'PDP', with a horizontal line extending to the right.

Philippe du Plessis
Managing Director

**Essential Services Commission Draft Decision
Detailed Response**

Topic	Draft Decision Comment	South Gippsland Water (SGW)Response
Customer Outcomes	<i>“Overall, we consider that South Gippsland Water’s proposed outcomes are consistent with the guidance”</i>	SGW notes the requirement to communicate changes to the outcomes and commitments when reporting back to customers for the 2019/20 year.
Revenue requirement	<i>“Our draft decision proposes to approve a forecast revenue requirement of \$97.0 million, 0.1 per cent lower than proposed by South Gippsland Water”</i>	The Corporation notes and accepts the amendments to the revenue requirement. SGW has updated the revenue requirement (now \$96.6M) based on latest estimates of non-controllable expenditure and cost of debt. The Financial Model has been adjusted.
Prescribed revenue	<i>“the price path and prices proposed by South Gippsland Water will produce a forecast revenue collection of \$95.3 million, which is lower than the revenue requirement... our Draft Decision therefore proposes to adopt South Gippsland Water’s proposed revenue allowance of \$95.3M”</i>	The Financial Model has been adjusted as above: <ul style="list-style-type: none"> • The prescribed revenue remains unchanged at \$95.3M • The price schedule remains unchanged and is provided below as appendix A.
Operating Expenditure	<i>“We propose to accept the controllable operating expenditure forecast of \$56.3M”</i>	SGW proposes to maintain controllable operating expenditure of \$56.3M and will consider Deloitte’s review recommendations when considering operating efficiencies.
	<i>“We have decreased South Gippsland Water’s forecast non - controllable operating expenditure by \$0.02M across the 2020-23 period”</i>	SGW accept the non-controllable operating expenditure of \$5.7M, a reduction of \$0.02M.

Capital Expenditure	<i>“We have proposed no adjustments to South Gippsland Water’s gross capital expenditure of \$41.0M”</i>	SGW proposes to maintain gross capital expenditure of \$41.0M.
Price Path	<i>“South Gippsland Water proposed a price increase of five percent in 2020/21, two percent in 2021/22 and two percent again in 2022/23. Through its engagement process, South Gippsland Water found it was the preferred price pathway and that there was a strong leaning amongst customers towards maintaining current service levels with acknowledging the need for future price increases”</i>	SGW proposes to accept the price path outlined in the draft decision. The Corporation is undertaking further analysis and implementing programs to identify and support hardship impacts for SGW residential and non-residential customers.
	<i>“There may be changes in laws or government policy before we make a price determination.....”</i>	<p>In the period following the Draft Decision, the emergence, spread and response to coronavirus (COVID-19) has resulted in wide ranging impacts to the South Gippsland region, including changes to federal and state laws and policies.</p> <p>Careful consideration is being given to understanding the many potential impacts for South Gippsland Water, particularly in relation to vulnerable and low income customers.</p> <p>South Gippsland Water has not sought to alter the proposed price path and intends to extend its existing customer support programs for vulnerable customers, both residential and non-residential. This may result in increased operating expenditure and loss of revenue. South Gippsland Water proposes to absorb any adverse impacts.</p> <p>The Corporation will continue to monitor further changes to federal and state government laws and policies.</p>

<p>Adjusting prices</p>	<p><i>“Further, South Gippsland Water must submit to the ESC updated prices to reflect the Draft Determination and inflation estimates and changes to the bulk water charged arising from changes to Melbourne Water’s prices”</i></p>	<p>SGW has considered changes to bulk water charges in consultation with the ESC. The process has noted that costs incurred by the Melbourne Water bulk entitlement and usage charges are associated with ensuring water security to the South Gippsland Region.</p> <p>Consistent with customer sentiment expressed during customer engagement processes that support a “user pays” rationale. The proposed adjustment is structured to pass cost variations on to customers in the form of variable water charges.</p>
<p>Areas of the Draft Determination accepted without comment</p>	<ul style="list-style-type: none"> • Delivery of services over the regulatory period to reflect the identified customer priorities • Regulatory Period of 1 July 2020 to 30 Jun 2020 • An efficiency improvement rate of 1% per annum • Guaranteed Service Levels • Standard PREMO rating resulting in a return on equity at 4.5 per cent per annum • Closing regulatory asset base as at 30 June 2019 of \$161.9M • Cost of debt • Return on equity • Regulatory depreciation • Tax allowance • Demand forecasts • Form of price control • Tariff structures • New Customer Contributions continuing as standard water and wastewater charges 	

Appendix A: Proposed tariffs 2020/21 – 2022/23

Tariffs are expressed in 2019/20 \$	Frequency of charge	Approved	Proposed	Proposed	Proposed
		1 July 2019	1 July 2020	1 July 2021	1 July 2022
1.1 Water access fees (per annum)					
Access fee – Developed	Tri-annual	305.78	321.07	327.49	334.04
Access fee – Undeveloped	Tri-annual	305.78	321.07	327.49	334.04
Access fee – Agreements	Tri-annual	275.23	288.99	294.77	300.67
Access fee – Concessional	Tri-annual	245.29	257.55	262.71	267.96
1.2 Water usage charges (per kL)					
Volumetric fee – Saputo	Monthly	2.24	2.35	2.40	2.45
Volumetric fee – Other Majors	Monthly	1.85	1.94	1.98	2.02
Volumetric fee – All others	Tri-annual	1.85	1.94	1.98	2.02
1.3 Sewerage access fees (per annum)					
Residential and non-residential					
Access fee – Developed	Tri-annual	474.56	498.29	508.25	518.42
Access fee – Undeveloped	Tri-annual	268.51	281.94	287.57	293.33
1.4 Cistern access fees (per annum)					
1-2 Cisterns	Tri-annual	161.59	169.67	173.06	176.52
3-5 Cisterns	Tri-annual	425.07	446.32	455.25	464.35
6-10 Cisterns	Tri-annual	823.12	864.28	881.56	899.19
11-15 Cisterns	Tri-annual	1,317.99	1,383.89	1,411.57	1,439.80
16-20 Cisterns	Tri-annual	2,197.63	2,307.51	2,353.66	2,400.73
21-26 Cisterns	Tri-annual	3,145.40	3,302.67	3,368.72	3,436.10
27-35 Cisterns	Tri-annual	3,855.34	4,048.11	4,129.07	4,211.65
36–Greater Cisterns	Tri-annual	4,405.36	4,625.63	4,718.14	4,812.50
Volume Charge – (per kL)					
Volume Charge	Tri-annual	1.85	1.94	1.98	2.02
1.6 Minor trade waste fees					
Application fees (per application)					
Category 1	Tri-annual	128.65	128.65	128.65	128.65
Category 2	Tri-annual	205.10	205.10	205.10	205.10
Category 3	Tri-annual	375.93	375.93	375.93	375.93
Access fees (per annum)					
Access fee – Category 1	Tri-annual	655.87	688.66	702.44	716.49
Access fee – Category 2	Tri-annual	871.23	914.79	933.09	951.75
Access fee – Category 3	Tri-annual	1,080.79	1,134.83	1,157.53	1,180.68
Volumetric fees (per kL)					
All Categories	Tri-annual	0.883	0.927	0.946	0.965
Quality fees (per kg)					
BOD	Tri-annual	0.713	0.713	0.713	0.713
SS	Tri-annual	0.673	0.673	0.673	0.673
Nitrogen	Tri-annual	3.011	3.011	3.011	3.011
Phosphorus	Tri-annual	17.156	17.156	17.156	17.156

Tariffs are expressed in 2019/20 \$	Frequency of charge	Approved	Proposed	Proposed	Proposed
		1 July 2019	1 July 2020	1 July 2021	1 July 2022
Additional sampling (per sample)					
All Categories	Per occasion	At cost	At cost	At cost	At cost
Exceedence fees (per kg)					
Oil & Grease	Per occasion	0.107	0.107	0.107	0.107
Sodium	Per occasion	0.107	0.107	0.107	0.107
TOS	Per occasion	0.769	0.769	0.769	0.769
Asset protection fee					
<i>Alternate annual fee available to customers that do not elect to install a grease trap (cost prohibitive).</i>	Per annum	1,508.52	1,508.52	1,508.52	1,508.52
Treatment violation fee					
<i>Fee imposed for customers that do not fill in a trade waste application; or do not maintain their pre-treatment apparatus (e.g. do not pump out their grease trap.)</i>	Per occasion	309.26	309.26	309.26	309.26
1.7 New customer contributions (per lot)					
Water & Sewer (all customers)	Per occasion	2,318.47	2,318.47	2,318.47	2,318.47
1.8 Miscellaneous fees and charges					
Property information statements	Per occasion	57.75	57.75	57.75	57.75
<i>Fee imposed for providing a certificate issued in accordance with Section 158 of the, Water Act 1989.</i>					
Special meter readings	Per occasion	44.39	44.39	44.39	44.39
<i>Fee imposed for providing a certificate which indicates water usage charges up to a specified date. Generally provided, on application, for property sales.</i>					
As constructed charge	Per occasion	72.45	72.45	72.45	72.45
<i>As constructed charge</i>					
20mm Tapping Fee	Per occasion	399.08	399.08	399.08	399.08
<i>Fee imposed for meter and labour associated in providing a tapping to the water main.</i>					
Plumbing Industry Commission (PIC) Fee	Per occasion	224.06	224.06	224.06	224.06
<i>Fee imposed for providing sewer plans and processing applications to connect or modify plumbing.</i>					
Standpipe Water Sales (per kL)					
<i>Fee imposed for the sale of water via a metered standpipe.</i>	Per occasion				
- Registered Users		5.97	6.27	6.39	6.52
- Unregistered Users		7.96	8.36	8.53	8.70
Septic Tank Waste Reveal (per kL)	Per occasion	27.31	27.31	27.31	27.31
<i>Fee imposed on septic tank waste carters, for the disposing of sewage and/ or other acceptable waste.</i>					
Non Core Miscellaneous Services					
<i>Non core miscellaneous services</i>	Per occasion	At cost	At cost	At cost	At cost