12 May 2023

Kate Symonds
Chairperson, Essential Services Commission
Level 8, 570 Bourke Street
Melbourne
VIC 3000

By email: water@esc.vic.gov.au
Vic Engage Website

Dear Commissioners,

Submission: Essential Services Commission Water Price Review 2023-2028 – Draft Decision for Coliban Water

The Urban Development Institute of Australia appreciates the opportunity to provide comment on the Essential Services Commission's (ESC) draft decision for Coliban Water.

UDIA Victoria, Northern Committee made a submission on Coliban Water's proposed Water Price Review and have since read the ESC's draft Decision and attended Coliban Water's developer interviews and ESC's public forum event at Bendigo Library.

UDIA Victoria members are not just customers of water authorities but are partners providing infrastructure to required standards and handing over assets for ongoing management. The position expressed by Coliban Water's CEO that 'any saving from an NCC is straight to the bottom line of the developer' was astonishing to our membership. It indicates a fundamental lack of understanding about the important role the development industry plays in providing future revenue-raising assets, and a the industry's responsibility to scrutinise costs to provide affordable products for future building owners.

Public forum

UDIA Victoria acknowledges that Coliban Water (CW) conducted extensive community consultations in preparation for their Pricing Submission 2023 (PS23), however we maintain that engagement with industry was, by contrast, limited and late. Our members remain uncertain about how CW has arrived at the more than 100 per cent increase in NCCs, compared to a 7 per cent increase for existing customers. Information provided at the public forum was also largely focused on CW's intentions without clarifying the detail of their underlying assumptions, plans or calculations behind the proposed pricing strategy. We also note that:

- CW acknowledged it had not spent appropriately on headworks upgrades over previous decades and is now required to upgrade many headworks assets;
- CW is in significant debt in comparison to other water authorities per capita;
- CW acknowledged that its charges to existing customers have been in a period of decline, resulting in less revenue but a higher level of customer satisfaction;
- CW was adamant it does not want the existing customer base to pay for growth area development. Given this, should the opposite also be true i.e., new customers should not subsidise the existing customer base by paying for neglected maintenance;

- CW claimed that the proposed NCCs (resulting in a 76 per cent water increase and 149 per cent sewerage increase) are to accommodate the triggered headworks caused by growth. However, we have not been provided calculations or examples of how the growth is apportioned in comparison with maintenance costs.

The forum has also raised a number of serious questions, including but not limited to:

1. It is not clear what happened to the previous decades of NCCs (circa $3000-$4000/per Lot at 1000 lots/pa for 10 years equaling $30M-$40M)? Shouldn't this be available for growth considering CW have acknowledged investment into the headworks has been minimal?
2. Why has this not been saved for the headworks upgrades now required? If it is not enough for required maintenance, should existing customers wear some of this cost since their NCCs were not adequate?
3. It is not clear where the previous NCCs/headworks funds were allocated? Has it been used to subsidise existing customers' decline in charges?
4. Why is it that CW NCCs need to ramp so significantly when other water authorities can maintain an increase in line with their existing customer increase circa South East Water or Yarra Valley Water?
5. Has CW's planning for growth been inadequate over the past decades?

Our members must answer these questions for their clients/purchasers/stakeholders and consultation to date has not provided us with details to address these.

CW Developer interviews - further detail required.

At the most recent CW developer interviews, industry was shown comparative modelling not seen before. It is our view that such modelling and comparative analysis should have been provided far earlier in the consultation process, with an opportunity for industry to stress test and query the underlying assumptions.

We continue to seek from CW details of the inputs, assumptions and methodology adopted, and the calculations made in arriving at:

- The maximum prices sought for the sewer and water NCCs respectively;
- The concession of up to $1,500 per lot in the sewer NCC proposed to compensate for the installation of pumping stations;
- An explanation of where and which assets are included/covered, and the rationale for decisions to include some assets but not others (pump stations included, but rising mains are excluded);
- The apportionment and justification of the breakdown of obligation between maintenance compared with new growth.

UDIA Victoria accepts the importance of funding relevant defined NCC projects in the catchment. However, we have significant reservations about nominating or agreeing to any of the NCC structural options, due to the low level of confidence in transparency and a lack of information on the basis and calculation of the charges to be levied. The development industry has an expectation of accountability for the determination of the NCC charges it is expected to pay on behalf of future property owners.

PREMO Assessment – further CW engagement post-forum

UDIA Victoria does not agree with CW's adopted PREMO ratings for Engagement and Management components in relation to industry consultation.

Following the ESC public forum, CW has undertaken a 30-minute interview with individual developers and development consultants, at which large-scale information on comparative modelling was presented. Information was not provided ahead of time to allow parties to digest the significant volume of information and formulate questions. A further survey was undertaken with two closed answers sought, neither of which was possible to choose based on the limited information provided. Industry is being asked to make decisions based on theory, rather than practical analysis. Industry is particularly good at practical analysis and in fact would have been a useful source of advice and cross-examination for CW in preparing their pricing structure.

We could discern no apparent parity with base pricing principles in the modelling; there were some assumptions around $25 million sunk cost from a previous period being recovered in some models, and not in others.

Industry is now under unreasonable pressure to consider CW's position and the proposed pricing structure, in order to meet a deadline.

Long Term Sustainability

Information provided by Coliban Water during the ESC forum highlighted that CW has chosen to lower prices in the current pricing period in full knowledge of the cost demand of its aging infrastructure. It now seeks in the new pricing period to maintain prices at well below inflationary levels. By comparison, future clients over time will be burdened with the responsibility of new infrastructure to cater for growth and will also carry the obligation of debt and interest on aging infrastructure investment. We struggle to see the nexus between maintaining lower prices for clients well below inflation and substantial borrowings, which raises concern for the sovereign risk for an essential service to the community.

This is evidenced by the high ratio of debt to the client that currently exists and is proposed to be grown to $10,000 per client, well beyond the average of the other corporations in the sector. The long-term sustainability of the organisation should be underwritten by sequentially complementary and well-planned pricing periods, which would ensure that long-term infrastructure is planned for prior to its failure requiring a spike in investment in one pricing period that affects the balance of long-term financial viability for all customers to the essential service. This pricing plan should not be predominated by an accounting measure of depreciation at 16 years to ensure its viability.

The other concern this raises for industry is the independent review of NCC expenditure to ensure that it is spent on identified and agreed growth-related charges and that the funds contributed by industry on behalf of future customers are protected for that purpose amongst broader issues with long-term sustainability.

Development Contributions Plan comparison

As discussed at the forum, industry expectation is that CW should provide a level of detail like that involved in Development Contributions Plan (DCP) preparation, at a comparative level of transparency, consultation, and consideration in the calculation and apportionment of the NCC charges. In a DCP, all projects within the estimated budget are listed, justified, estimated, and a percentage contribution weighted according to its demands resulting from the growth of the catchment. This cost is distributed across the catchment or developable area (just like an NCC).

However, industry has only been presented with high-level summary figures and modelling, without a documented list of projects, augmentation plans, costs, estimated timing/triggers, or their nominated contribution weighting to growth.

UDIA position – ESC intervention

It is UDIA Victoria's view that the proposed NCCs are untenable.

We ask that the ESC direct CW to reassess their NCCs, with open and transparent industry consultation as a primary input to design and decision-making. Consultation should provide parity and a nexus for new customers based on a pricing principle that can be accepted by industry. New growth pricing should not include calculations that repay previous periods or depreciate pipe networks in 16 years.

For the purposes of the current Pricing Structure, industry recommends that standard NCC prices as of 30 June 2023 are continued for the next five years (plus inflation), in addition to negotiated NCCs as is currently occurring.

Industry also recommends that the ESC direct Coliban Water to use the next pricing period to review other water corporations' NCC frameworks and work with industry to reach consultative and cooperative outcomes for the NCC component of the 2028 Water Pricing Structure.

Contact

If you would like to discuss any of the matters raised in this letter, please don't hesitate to contact me at [redacted] or UDIA Victoria's Director of Policy, Jack Vaughan, at [redacted]

Regards,

[redacted]

Matthew Kandelaars, CEO,

UDIA Victoria

UDIA Northern Committee membership list:

[redacted]

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